6. (3.5 points)

   a. (0.25 point)

      Briefly describe the primary goal of the NAIC Analyst Team System.

   b. (2 points)

      Identify the four dimensions of the statistical phase of IRIS and give an example of a financial ratio for each.

   c. (0.5 point)

      Briefly describe one similarity and one difference between IRIS and the Financial and Solvency Tracking System (FAST).

   d. (0.75 point)

      Briefly describe three limitations of the NAIC Analyst Team System.

CONTINUED ON NEXT PAGE

explanation as to how both of those things could occur).

- Not relating their response to credit scoring or to the economic downturn. For example, some candidates argued "premium levels won't change", but did not mention the impact of the economic downturn on credit scores and/or price levels.

QUESTION 6	
TOTAL POINT VALUE: 3.50	**LEARNING OBJECTIVE: A2**
SAMPLE/ACCEPTED ANSWERS	

Part a: 0.25 point

- Identify financially troubled firms based on various monitoring tools and prioritize examination schedules
- To monitor and examine insurer's financial health/solvency and ensure that regulators are alerted if there are signs of financial distress so that they can intervene as soon as possible
- Prioritize insurer for review based on solvency metric results
- The primary goal of the Analyst Team is to identify insurers that appear to require immediate regulatory attention
- Creates a national prioritization system using statistical analysis, a scoring system, and RBC to assign review levels for insurers
- Goal of NAIC Analyst Team System is to assess the solvency of insurers
- To identify insurers that may be in financial trouble before they are insolvent
- Identify at risk/troubled insurers

Part b: 2 points

- Overall Financial Condition (or Financial, Overall, or General) - one of the following:
  - Gross Premium to Surplus
  - Net Premium to Surplus
  - Change in Net Writings
  - Surplus Aid to Surplus
- Profitability Ratios - one of the following:
  - Two-Year Overall Operating Ratio
  - Investment Yield
  - Change in Gross Surplus
  - Change in Adjusted Surplus
- Liquidity Ratios - one of the following:
  - Liabilities to Liquid Assets
  - Agents' Balances to Surplus
- Reserve Ratios - one of the following
  - One-Year Reserve Development to Surplus
  - Two-Year Reserve Development to Surplus
  - Estimated Current Reserve Deficiency to Surplus

Part c: 0.5 point

- Similarities:

- Both contain a series of calculated ratios
    - FAST contains many of the same ratios as IRIS
    - FAST covers many of the same dimensions as IRIS (Overall, Reserves, Profitability, Liquidity)
    - Both are measures used in determining insurer financial health
    - Both attempt to prevent insurer insolvencies by identifying weaknesses
    - Both attempt to detect areas of concern of company using financial statements
    - Both attempt to identify and prioritize companies for further examination
    - Both sets of ratios can be calculated from publically available information.
- Differences:
    - FAST contains more ratios than IRIS
    - FAST measures relationships that IRIS doesn't
    - FAST has more dimensions of measurement than IRIS (asset quality, affiliate investments, reinsurance, cash flows)
    - FAST incorporates measures that IRIS does not (RBC Trend Test, Loss Reserve Projection Tools, Analyst Team System)
    - FAST produces an overall score while IRIS doesn't
    - Some IRIS ratios are displayed in the Statement of Actuarial Opinion/Annual Statement or are commented upon in the while the FAST ratios are not

Part d: 0.75 points

- Analyst team does not have regulatory authority to take necessary action
- Analyst team may not have sufficient time or resources to perform adequate review
- No state can rely on one tools' results as state's only form of surveillance
- Financial indicators cannot by themselves and without experienced interpretation, consistently identify insurers in need of regulatory intervention
- Valid interpretation of tools' results depends on judgment of financial analysts & examiners
- Cannot be intimately familiar with the unique risks of every insurer
- Ratios may be outside the usual range due to unusual accounting methods, changes in corporate structure, restatement of prior periods, correction of errors, or other circumstances.
- Doesn't incorporate certain risks not contemplated in the ratios and tools (CAT risk, Legal Risk, etc.)
- Focuses on formulaic quantitative measures and does not focus on qualitative criteria
- Results of tests can be manipulated by insurers to some extent by modifying reserves
- Ratios & trends are valuable for identification but are not indicative, themselves, of adverse financial condition.
- Analyst Team reports are intended only for analysis & are confidential.
- Criteria for determining usual range values and usefulness of IRIS Ratios may not be valid for future experience in different economic periods.
- Information contained in IRIS reports is not guaranteed to be accurate.
- Do not have access to internal company data, only information made available to regulatory authorities and the public
- Does not supplant the audit of an insurance company

- Does not provide insight as to whether the company's management has good internal management, systems, and controls in place
- Tools will not identify fraud, which can be difficult to uncover
- Regulatory Fallibility - Analyst Team may make mistake or use poor judgment in application of tools
- Regulatory Forbearance – Analyst Team or regulators may fail to take prompt and stringent action
- Regulatory Capture – Analyst team or regulators may have tendency to side with an interest group
- Decisions, such as licensing, should not be based on tools' results without further analysis or examination of the insurer
- May not have same access to information for non-US domiciled companies (particularly re-insurers who US domiciled companies may have ceded business to)
- Many tools only have visibility to financial results through past reporting dates and do not have visibility to real time risks as they emerge
- Analyst team does not have access to company management (ability to interview, ask questions, evaluate professional ability, etc.)

EXAMINER'S REPORT

This question focuses on several programs used by the National Association of Insurance Commissioners, namely the Analyst Team System (ATS), Insurance Regulatory Information System (IRIS), and Financial Analysis Solvency Tools (FAST). Candidates are expected to have substantial knowledge of the IRIS system, especially the IRIS ratios which are discussed by name several times on the syllabus and covered in detail in multiple syllabus reading. Candidates are also expected to be familiar at a higher level with the other NAIC programs and be able to demonstrate an understanding of the goals and overall approach of these other programs. Finally, candidates should be familiar with the general limitations of such programs.

Candidates could receive credit for most parts by simply restating information directly from the syllabus readings. This is particularly true of parts A, B, and C. On Part D, however, the candidate was asked to provide limitations of the ATS program. This part required candidates to apply discussion of limitations of regulatory programs in general to this specific program.

On the question as a whole, most candidates did not receive full credit. The primary reason is that many candidates skipped one or more parts of the question, especially parts C and D. Further, many candidates provided only partial answers for parts C and D. For example, part D asked for 3 limitations, and many candidates listed only 1 or 2. Additionally, this question asked for a large number of items about multiple NAIC programs, and many candidates answered the question well but made one or more small mistakes on an individual part. This was especially true on parts C and D which asked for lists of items on some NAIC programs that are likely less familiar to candidates.

A commonly noted mistake throughout the question is that some candidates seemed to confuse the details of various NAIC programs. For example, several candidates mentioned that the FAST program applies to nationally significant insurers only, but the program that focuses on nationally significant insurers is the Financial Analyst Working Group (FAWG), which is not asked about in this question.

For more detail, please see the commentary by part below.

Part a

This part asks for the primary goal of the Analyst Team System. Candidates are expected to be able to describe in general terms the overall purpose of this program, which is discussed in several syllabus readings.

Candidates were expected to respond with a brief description that mentioned the identification and prioritization of insurers that required regulatory attention due to potential solvency concerns. As seen in the list of solutions above, not all of these elements needed to be discussed, but candidates needed to give some indication that a primary goal of the Analyst team was the identification of insurers potentially having financial problems.

Generally candidates performed well on this part.

Common errors included:

- Implying that the scope of the Analyst Team was restricted solely to "nationally significant" insurers
- Implying that the primary focus of the Analyst Team was market conduct related (adherence to filed rates, policy forms, claim handling procedures, agency licensing, etc.)
- Implying that the focus of the Analyst Team was the development and promulgation of accounting rules and standards
- Implying that the primary focus of the Analyst Team was the auditing of the work of state regulators

Part b

This part requires the candidate to demonstrate familiarity with the IRIS system including the dimensions of risks they intend to monitor and descriptions of the various IRIS ratios. These dimensions and ratios are discussed in several areas of the syllabus and are generally well known by actuaries. The candidate is expected to be able to describe the various dimensions of risks monitored and be able to provide an IRIS ratio example from each dimension.

Candidates receiving full credit were able to correctly identify all four dimensions and provide a specific example IRIS ratio for each. If a dimension was incorrectly identified, credit was still given for correct IRIS ratio example as long as another ratio for that dimension had not also been given credit.

Generally candidates performed well on this part.

Common errors included:

- Failing to correctly identify the four dimensions; in particular, failure to identify the "overall" dimension correctly
- "Leverage" was a common incorrect answer given a dimension. The examples of IRIS ratios given for this incorrect dimension included both ratios from the "overall" dimension such as GWP / PHS and ratios from the "liquidity" dimension such as "Adjusted

<table>
<tr><td>
Liabilities to Liquid Assets."
• Providing multiple valid ratios from a single dimension without providing examples that covered all four dimensions. Only one ratio per dimension was given credit.
</td></tr>
<tr><td>Part c</td></tr>
<tr><td>
This part asks candidates to identify similarities and differences between the IRIS and FAST systems. Candidates are expected to be able to describe similarities and differences in the two programs that illustrate an understanding of the tools and processes underlying each system.

There is less specific coverage of the FAST system (and particularly the FAST ratios) on the syllabus than the IRIS system. While candidates are not expected to know all of the specific FAST ratios, they are expected to understand general similarities and differences between the two programs.

Candidates struggled with this part when compared to earlier parts of the question. Candidates performed very well in identifying a similarity between the two programs, but they generally had more difficulty in identifying a correct difference. A number of candidates left this answer blank when compared to parts a and b.

Common errors included:
• Indicating that one system was solely for Nationally Significant Insurers
• Indicating that either of the ratios incorporated Catastrophe Risk while another did not.
• Indicating that either system focused on qualitative issues such as quality and experience of management or business strategy.
• Indicating that either set of ratios could only be calculated using non-publically available financial information
• Indicating that either of the set of ratios were calculated continuously in real time.
• Indicating that either system incorporated mandatory regulatory intervention
• Indicating differences in the party responsible for preparation of ratios
</td></tr>
<tr><td>Part d</td></tr>
<tr><td>
This part asks candidates to identify limitations of the NAIC Analyst Team System. The candidate is expected to be able to describe limitations that demonstrate a familiarity and understanding of the tools and processes underlying the Analyst Team System and their potential shortcomings.

Generally speaking candidates receiving full credit needed to demonstrate an understanding of the shortcomings of the tools and processes underlying the Analyst Team System or regulatory systems in general.

Candidates seemed to have the most difficulty with this part of the question. A number of candidates left this part blank, and many of those candidates that responded provided only a partial answer (i.e. only one or two limitations were provided). Given the wide range of acceptable answers, candidates performed well on the portions of the question that they did answer.

Common errors included
• Indicating that the scope of the NAIC Analyst team was restricted to Nationally Significant Insurers or only to insurers of a certain size (apparently confusing the Analyst Team with
</td></tr>
</table>

the FAWG group)

- Providing responses that were constructively re-statements or re-wordings of previous responses

QUESTION 7

TOTAL POINT VALUE: 2.25	**LEARNING OBJECTIVE: A5**

SAMPLE/ACCEPTED ANSWERS

Part a: 0.5 point

1. Bring suit in plaintiff friendly jurisdictions
2. Combining claimants in a class action lawsuit
3. Inclusion of many defendants in a suit – many of the defendants are "peripheral" and were not direct manufacturers of asbestos

Part b: 0.5 point

1. Inactive dockets: allow claimants who do not meet medical criteria now to still make claim later
2. Venue reform – stricter requirements for where claims can go to court
3. More strict medical criteria need to be met in order to place a suit
4. Laws limiting punitive damages
5. Restrict the extent to which lawsuits can be combined

Part c: 0.5 point

1. Its [evidence] potential rate of error
2. Whether the evidence can be tested
3. Whether it has been subject to peer review/published
4. It is generally accepted by the scientific community
5. Relevance – is it relevant to the case
6. What rules are in place to ensure proper application of expert method

Part d: 0.25 point

1. Scientific evidence was scrutinized more leading to more of it being dismissed
2. Judges became "gatekeepers" of admitting evidence
3. At first it resulted in less admitted evidence due to stricter standards. Over time lawyers adjusted strategies and admittance has leveled off

Part e: 0.5 point

1. Higher burden of proof following Daubert decision probably reduced asbestos claims settlement because there was higher scrutiny of fraudulent/unreliable evidence making it harder for evidence showing asbestos claim validity to be proven
2. Decrease frequency of cases as stronger expert evidence is needed. Increase claim expenses in each case as stronger evidence may cost more
3. May reduce claim settlements if fewer plaintiffs are allowed (fewer medically meet criteria) and as medical evidence submitted is subject to more strict review

EXAMINER'S REPORT

Part a