

EXAM 6 – UNITED STATES, SPRING 2014

23. (2.75 points)

An insurance company began writing business in 2009. Given the following information from the company's 2012 Annual Statement:

Schedule P - Part 2 - Summary

Years in Which Losses Were Incurred	Incurred Net Losses and Defense Cost Containment Expenses Reported at Year End (\$000 omitted)			
	2009	2010	2011	2012
2009	16,500	15,000	13,500	13,000
2010		14,500	17,000	19,000
2011			16,000	14,750
2012				16,000

Schedule P - Part 3 - Summary

Years in Which Losses Were Incurred	Cumulative Paid Net Losses and Defense Cost Containment Expenses Reported at Year End (\$000 omitted)			
	2009	2010	2011	2012
2009	4,125	6,750	10,100	11,700
2010		3,300	8,200	14,800
2011			4,250	6,300
2012				7,400

a. (2 points)

Calculate the 10-year loss development table that would be included in the insurer's 2012 10-K.

b. (0.75 point)

Discuss the historical accuracy of the company's recorded loss and DCC reserves since inception.

SAMPLE ANSWERS AND EXAMINER'S REPORT

justification was needed to support the response.				
QUESTION 23				
TOTAL POINT VALUE: 2.75		LEARNING OBJECTIVE: C3		
SAMPLE/ACCEPTED ANSWERS				
Part a: 2 points				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Initial	12,375	19,450	23,950	22,550
Cum Paid as of				
1-yr Later	2,625	8,250	10,250	
2-Yr Later	5,975	16,450		
3-Yr Later	7,575			
Cum Inc Re-Stated as of				
1-yr Later	10,875	20,450	24,200	
2-Yr Later	9,375	21,950		
3-Yr Later	8,875			
Adv Dev	-3,500	2,500	250	
Part b: 0.75 point				
<ul style="list-style-type: none"> • In 2009 reserves went each subsequent year, meaning the company was overly conservative. In 2010, they over corrected as loss reserves crept upwards yearly. Since 2011, once they probably started to get a better handle on their book of business, reserves have stabilized. • They were originally reserving too high, as seen by the -3,500 deficiency. Since then, reserves have increased as original years age (2,500, 250). Likely company changed reserving methods as it gained experience. • For year 2009 and 2011, company experienced significant favorable reserve development. However, in 2010 company experienced significant adverse development. It seems that company's reserving adequacy is not very consistent. • Overall recorded Loss & LAE reserve have been very accurate. There has been some development from year to year such as calendar year 2011, but as the company has matured, reserves show little long term development. • The first year (2009), with no historical data, they booked a conservative estimate and then have brought it down over time. For the second AY (2010), they reacted to lower paid losses that last year and booked a low estimate. That was premature, and they have had to increase reserves over time. For 2011-2012, they've booked a more stable number similar to 2009, which is likely also conservative. However, with limited data it is better to error on the side of conservatism. 				
EXAMINER'S REPORT				
Part a				
The candidate was expected to know how to put together the 10-year development exhibit found in the 10-K based upon Schedule P data that was provided within the question.				

SAMPLE ANSWERS AND EXAMINER'S REPORT

Candidates performed poorly on this question. The large majority of candidates were unable to reproduce the exhibits as they are presented in the 10-K. Given the responses observed, it was clear to us that the candidates were not prepared to answer this type of question. One possible reason is that it may not be clear from the learning objectives stated in the syllabus that the candidate should know this material. Considering this, the MQC score was set at 0 for this question, so as not to penalize candidates for this misunderstanding.

Part b

The candidate was expected to be able to analyze the resulting 10-K data and be able to comment on the inconsistencies of the reserving practices between years. If the candidates did not populate the 10-K exhibit correctly in Part a, the expectation would be for the candidate to use the Schedule P data provided to answer the question in a very similar manner.

Candidates performed slightly better on Part b. There were still a number of candidates that failed to answer the question or gave answers that received 0 points. Even though most candidates were not able to answer Part a, there were a good amount of candidates that were able to use the data that was provided to generate a sensible solution that differed from the original model answer.