

25. (2.25 points)

A qualified actuary has been appointed to complete a Statement of Actuarial Opinion (SAO) for an insurance company, for the year ending December 31, 2012. The actuary's selected materiality standard is 10% of carried reserves and carried reserves are \$100 million.

In the following situations, determine what the actuary is required to disclose and where this disclosure is required.

a. (0.75 point)

The booked reserves are presented on a present value basis and the actuary believes that such discounting is likely to have a material effect on the results of the actuary's reserve evaluation.

b. (0.5 point)

The company participated in an underwriting pool. Another actuary reviewed the reserves for the pool, which is a significant portion of the company's reserves. The company's appointed actuary has reviewed the actuarial report for the pool and concluded that the pool's reserves are reasonable without performing independent projections for the pooled business.

c. (0.5 point)

The actuary received data from the insurance company's CFO. After conversations with the CFO, the actuary felt there were still issues with the data for general liability, which comprised \$30 million of the company's reserves. The actuary chose not to rely on this data.

d. (0.5 point)

The actuary decided to change from a chain-ladder approach to a predictive modeling approach to estimate the unpaid claim liabilities. The impact of this change was estimated to be \$25 million.

## SAMPLE ANSWERS AND EXAMINER'S REPORT

<b>QUESTION 25</b>	
<b>TOTAL POINT VALUE: 2.25</b>	<b>LEARNING OBJECTIVE: D1</b>
<b>SAMPLE/ACCEPTED ANSWERS</b>	
<b>Part a: 0.75 point</b>	
<ul style="list-style-type: none"> <li>• What: discount rate used, tabular discount amount, non-tabular discount amount Where: Exhibit B, Relevant Comments</li> <li>• Need to disclose the discounting rate used, basis, and discount amount. Disclose in SAO – Relevant Comments</li> <li>• In Relevant Comments, should disclose amount of discount, rate, and basis of rate. Also in Exhibit B, show discounted reserves.</li> </ul>	
<b>Part b: 0.5 point</b>	
<ul style="list-style-type: none"> <li>• This must be disclosed in the Scope Section of the SAO. It must be disclosed that the review was performed and the results were found reasonable by another actuary and that an independent review was not performed.</li> <li>• In the SAO opinion section, disclose reliance on other actuary's opinion. Also disclose name, affiliation, and qualifications of other actuary.</li> <li>• In the Scope Section, actuary should disclose that the review of the other actuary's work took place and the extent of the review.</li> </ul>	
<b>Part c: 0.5 point</b>	
<ul style="list-style-type: none"> <li>• Disclose in the Opinion Section, providing a qualified opinion due to unreliable GL data.</li> <li>• Qualify opinion, disclose portion of excluded reserve data and why. Disclose in Opinion Section, RMAD, Scope.</li> <li>• In Opinion Section, a qualified opinion would be given for a disclosed amount (30M) and why (data issues)</li> </ul>	
<b>Part d: 0.5 point</b>	
<ul style="list-style-type: none"> <li>• Disclose in Relevant Comments section under Methods and Assumptions explaining change in method, reason for change, and would quantify the impact of the change in method.</li> <li>• Yes the actuary should include a disclosure describing the change in methodology. This should be disclosed in the Opinion Paragraph.</li> <li>• Yes, since change is material must describe change and effect in Relevant Comments in section: changes in methods and assumptions.</li> </ul>	
<b>EXAMINER'S REPORT</b>	
<ul style="list-style-type: none"> <li>• Most candidates got at least some credit on each sub part. Candidates scored better on parts a and d, and not as well on parts b and c.</li> <li>• In each section candidates were told to provide where the disclosure was needed and what was needed to be disclosed. However, many candidates only provided one or the</li> </ul>	

## SAMPLE ANSWERS AND EXAMINER'S REPORT

<p>other (what but not where, or vice versa). Credit was not given if candidates neglected to provide both items.</p> <ul style="list-style-type: none"><li>• Many candidates did not receive full credit because they gave answers that were too general. For example, saying “this needs to be disclosed” rather than exactly what “this” is. Or “disclose in SAO” rather than “SAO Opinion Section” or “SAO Scope Section”</li></ul>
<b>Part a</b>
<ul style="list-style-type: none"><li>• Candidates received full credit by stating 2 items to disclose, and where the disclosure was required.</li><li>• Many candidates listed only one item to disclose, or failed to state where disclosure was required.</li></ul>
<b>Part b</b>
<ul style="list-style-type: none"><li>• Candidates received full credit by stating what to disclose and where the disclosure was required.</li><li>• Many candidates stated only what to disclose, or where the disclosure was required, but not both.</li></ul>
<b>Part c</b>
<ul style="list-style-type: none"><li>• Candidates received full credit by stating what to disclose, and where the disclosure was required.</li><li>• Many candidates stated only what to disclose, or where the disclosure was required, but not both.</li></ul>
<b>Part d</b>
<ul style="list-style-type: none"><li>• Candidates received full credit by stating what to disclose, and where the disclosure was required.</li><li>• Many candidates stated only what to disclose, or where the disclosure was required, but not both.</li></ul>