

26. (2.5 points)

a. (1 point)

Identify two non-confidential pieces of information that appear in an Actuarial Opinion Summary, and identify another place where each piece of information could be found.

b. (1.5 points)

Provide two arguments against the statement: “The Actuarial Opinion Summary is unnecessary, because everything needed to assess the financial well-being of an insurance company can be found in the Annual Statement or in the Statement of Actuarial Opinion.” For each argument, provide a specific example that highlights the utility of the Actuarial Opinion Summary.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 26	
TOTAL POINT VALUE: 2.50	LEARNING OBJECTIVE: D
SAMPLE/ACCEPTED ANSWERS	
Part a: 1 point	
<ul style="list-style-type: none"> Insurer's Net Reserves, Gross Reserves, Net Loss & LAE Reserves, Gross Loss & LAE Reserves, Management Carried or Booked Reserves. <p>Also found in Schedule P, Annual Statement, Schedule F – Part 8, IEE, UW Investment Exhibit, Statement of Actuarial Opinion, Balance Sheet, among other places.</p> <ul style="list-style-type: none"> One year development for each of the past 5 years; whether the insurer experienced adverse development in excess of 5% of surplus (multiple variation of this wording accepted) <p>Also found in Schedule P, 5 Year Historical Data, Annual Statement, among other places.</p> <ul style="list-style-type: none"> Name of Opining Actuary, Name of Appointed Actuary <p>Also found in General Interrogatories, Statement of Actuarial Opinion, among other places.</p>	
Part b: 1.5 points	
<p>Individual Arguments Listed below. Part B required 2 different arguments with examples.</p> <ul style="list-style-type: none"> It is valuable for regulators to know the position of an insurer's reserves relative to the actuary's range of reasonable values. For example, say Insurer A's carried reserves are at the bottom end of the actuary's range, while Insurer B's carried reserves are at the high end of the actuary's range. If you only look at the Statement of Actuarial Opinion for the two insurers, you will simply see that both insurers have reasonable reserves. However, regulators may want to focus more attention on Insurer A. The Actuarial Opinion Summary provides the range of reasonable reserves which isn't provided in the Statement of Actuarial Opinion. This can be helpful for regulator's evaluating the financial health of the company. A wide range of reserves may highlight a higher risk of material adverse deviation. If an insurer experience adverse development in excess of 5% of surplus for three or more of the past five years, it is valuable for regulator's to read the actuary's opinion on the reason for that adverse development. For example, if an insurer experienced significant adverse development due to an unexpected influx of asbestos related claims, the insurer's solvency may be in question. The AOS provides the opining actuary's range which is not found elsewhere. It needs to be confidential so regulators, but not the general public, are aware of how wide the 	

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reasonable range is. If the range is wide, with the material standard it would show MAD but a tighter range supports the idea that RMAD is less likely.

- If the booked loss reserves fall into the range provided by the actuary, the difference between the two isn't in the SAO, but is in the summary. This is useful in case the booked loss reserves are near the low end of the reasonable range and there might be more risk of material adverse deviation.
- Actuary range: this is unavailable in AS, and is a professional measure of where the booked reserve should reasonably fall according to Actuarial methods & standards. For a company switching from all short tail to all long tail lines, they would need to reserve additional \$\$ to account for larger/more long term IBNR. Without the actuary opinion on range and accompanying analysis, the company might be unaware and just retain same reserve.

Several other specific examples could include legal environment, environmental claims, high layer excess policies, storm losses, change in lines, etc.

EXAMINER'S REPORT

This question highlights whether Candidates can identify items contained within the Actuarial Opinion Summary and understand which items are proprietary and those that can be found elsewhere. Candidates generally did not score well, particularly on Part (b). Many candidates mixed up the Statement of Actuarial Opinion and the Actuarial Opinion Summary and generally provided vague answers with no specific examples.

Part a

Candidates performed better on part (a) than (b). Common errors included:

- Getting the Statement of Actuarial Opinion and Actuarial Opinion Summary mixed up (e.g. central and range of estimates is not provided in the Statement of Actuarial Opinion particularly for a reasonable opinion, UEPR reserve for long duration contracts, materiality standard, etc.)
- Providing "Loss" and "LAE" reserves as two separate items with the AOS
- Providing vague responses ("actuary name" – which actuary?; "booked number" – of what?)
- Many candidates listed items in the Notes to the Financial Statement that are not part of the AOS (e.g. Uncollectible reinsurance, discounting, asbestos/environmental reserves)

SAMPLE ANSWERS AND EXAMINER'S REPORT

Part b

Candidates generally performed very poorly on this question and full credit was rarely awarded.

Common mistakes included:

- Very few candidates provided a specific example as the question requires. When examples were given, they were often provided without any specific explanation on why it is important to have. Examples:
 - just showing the range of reasonable reserves and the carried point estimate with no explanation
 - The AOS is the only place where the causes of adverse deviation are discussed (if >5% of surplus in 3 of 5 years).
 - Not everything can be found in the Annual Statement or SAO. Neither include the Actuary's estimate (point or range). Can use this to assess how actuary's estimate different from booked.
- Providing vague answers or key words without sufficient reasoning (e.g. "The AOS is helpful because it provides the actuary's range." "It helps us evaluate the company." "Insight into actuarial process", "highlights more info than AS".).
- Many candidates mentioned adverse development in excess of 5% of surplus for three or more of the five years, but several failed to explain that it is the actuary's commentary on this development that is helpful for regulators. Other exhibits (as demonstrated in part (a)) can help us identify whether the insurer did experience this adverse development
- Many candidates mentioned IRIS ratios 11, but this does not have the same threshold as the test in the AOS
- Comments on amounts excluded from reserve opinion (qualified opinion)
- Schedule P reconciliation
- Candidates often provided the same example for both arguments
- Candidates mentioned collectability of reinsurance as something the AOS can highlight without any explanation; other exhibits exist that can highlight this