15. (6 points)

An insurance company has prospective reinsurance with one authorized company. Using the company's following year-end balance information, calculate the company's year-end statutory policyholders' surplus. All figures are in thousands of dollars.

Agents' balances less than 90 days past due	1,000	Agents' balances more than 90 days past due	200
Bonds (NAIC 1 & 2), amortized cost	45,000	Bonds (NAIC 1 & 2), fair value	40,000
Bonds (NAIC 3 and above), amortized cost	15,000	Bonds (NAIC 3 and above), fair value	10,000
Cash and cash equivalents	500	Deferred acquisition costs	1,500
Goodwill on acquisitions occurring 10+ years ago	3,000	High-deductible unpaid losses underneath the deductible	5,000
Direct & assumed unearned premium	12,000	Ceded unearned premium	2,000
Admitted Deferred tax asset	1,900	Deferred tax liability	650

Schedule P, Part 1 direct & assumed loss payments	90,000	Schedule P, Part 1 direct & assumed DCC payments	8,000
Schedule P, Part 1 direct & assumed losses unpaid: case basis	19,000	Schedule P, Part 1 direct & assumed DCC unpaid: case basis	3,500
Schedule P, Part 1 direct & assumed losses unpaid: bulk & IBNR	20,000	Schedule P, Part 1 direct & assumed DCC unpaid: bulk & IBNR	4,000
Schedule P, Part 1 direct & assumed adjusting & other payments	11,000	Schedule P, Part 1 direct & assumed adjusting & other unpaid	2,500

<u>Additional year-end information for the authorized reinsurance contract:</u>

Reinsurance recoverable on paid loss & LAE		
Less than 90 days past due	Not in dispute	3,700
	In dispute	150
Greater than 90 days past due	Not in dispute	250
	In dispute	50
Amounts received Prior 90 days		0

Reinsurance recoverable on unpaid loss	7,500
Reinsurance recoverable on unpaid LAE	0
Funds held by company under reinsurance treaties	180
Letters of credit	0
Ceded balances payable	0

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QUESTION 15	
TOTAL POINT VALUE: 6	**LEARNING OBJECTIVE: C1**

SAMPLE ANSWERS

Surplus (000s)

Admitted Assets – Liabilities = 61,900 – 51,740 = 10,160

Admitted Assets (000s)

Agents' Balances	1,000	Only less than 90 days past due admitted
Bonds 1 & 2	45,000	Amortized cost
Bonds 3+	10,000	Fair value
Cash	500	
Goodwill	0	Fully amortized
Deferred acquisition cost	0	Non-admitted asset
Reinsurance Recoverable	4,150	Paid loss recoverable (3,700 + 150 + 250 + 50)
Net Deferred Tax Asset (DTA)	1,250	DTA less Deferred Tax Liability (DTL) (1,900 – 650)
Total Assets	61,900	

Liabilities (000s)

Loss Reserves	31,500	Schedule P unpaid less unpaid recoverable (19K + 20K – 7.5K)
LAE Reserves	10,000	Schedule P unpaid less unpaid recoverable (3.5K + 4K + 2.5K)
High Deductible Unpaid	0	Recorded net of the deductible
Unearned Premium	10,000	Gross unearned less ceded (12K – 2K)
Funds Held	180	
Provision for Reinsurance	60	
Total Liabilities	51,740	

Provision for Reinsurance

Identify as non-slow-paying reinsurer: 250/(3,700 + 250 + 0) = 6.3% which is less than 20%

Provision for authorized non-slow-paying reinsurer = 20% × Amounts greater than 90 days past due
= 20% × (250 + 50) = 60

EXAMINER'S REPORT

This question focused on connecting Schedule P and Schedule F to the balance sheet as well as grasping GAAP vs. SAP concepts. In general, candidates displayed an understanding of the majority of topics. However, there was a clear distinction between those who fully understood the balance sheet and those who only knew the basics.

Common errors for the authorized reinsurance contract: ignoring the provision for reinsurance (or not getting the correct formula), ignoring the funds held (or considering it an addition to surplus), and not including the paid loss recoverable as an addition to surplus. Some candidates incorrectly claimed a portion of the paid loss recoverable as a non-admitted asset, but that duplicates the purpose of the provision for reinsurance.

Common errors for the unpaid loss & LAE material: including the payments for loss, DCC, and/or A&O as part of the reserve for unpaid losses and LAE, not tying schedule P losses with the reinsurance contract to obtain the ceded loss reserves, or struggling with the treatment of the unpaid losses beneath high dollar deductible, which has no impact on the surplus. Some candidates accrued a non-admitted asset, however this asset should only be considered for paid losses that have not been recovered.