20. (3 points)

Consider the following situations:

- Situation 1: The actuary has determined a reasonable range of reserves of $42 million to $57 million, with a point estimate of $52 million. Company management booked reserves of $43 million.

- Situation 2: The actuary was appointed in November 2013. The insurance company experienced a major fire in its datacenter in January 2014. The company has not provided the actuary with the requested loss data by the end of February 2014.

- Situation 3: An insurance company writes both property and workers compensation insurance. The actuary has determined a reasonable range of reserves of $140 million to $175 million, with a point estimate of $160 million, for the company's property exposures. The actuary did not include workers compensation in the scope of his work as it is outside his area of expertise. Company management booked total reserves of $200 million, of which $160 million is attributable to property coverage.

- Situation 4: The actuary has determined a reasonable range of reserves of $255 million to $315 million, with a point estimate of $295 million. Company management booked reserves of $325 million.

a. (1 point)

Identify the type of opinion the Appointed Actuary should issue in each situation.

b. (1 point)

Briefly describe the rationale for issuing each type of opinion identified in part a. above.

c. (1 point)

Briefly describe any necessary disclosures the actuary must make related to the type of opinion identified in part a. above.

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SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 20	
TOTAL POINT VALUE: 3	**LEARNING OBJECTIVE: D**
SAMPLE ANSWERS	
Part a: 1 point	
Situation 1 – reasonable opinion Situation 2 – (i) no opinion; OR (ii) qualified opinion Situation 3 – qualified opinion Situation 4 – excessive opinion; redundant opinion	
Part b: 1 point	
Situation 1 – booked reserves are within the actuary's reasonable range Situation 2 – (i) no opinion: lack of data OR actuary could not assess reasonableness, perform analysis; OR (ii) qualified opinion: a piece can't be estimated due to lack of data Situation 3 – actuary is only able to opine on a portion of reserves (property) OR workers compensation is excluded from the analysis Situation 4 – booked reserves are above the high end of the actuary's reasonable range	
Part c: 1 point	
Situation 1 – no additional disclosures OR none OR omitted Situation 2 – (i) if no opinion, disclose the reason for no opinion is the lack of data due to the fire; OR (ii) if qualified opinion, disclose the amount of qualified reserves and the reason for the qualification Situation 3 – disclose the amount of the qualified reserves ($40M) and the reason for the qualification Situation 4 – disclose the amount of the redundancy OR disclose the maximum amount the actuary believes is reasonable	
EXAMINER'S REPORT	
Candidates generally performed very well on this question. Candidates had the most difficulty on part c by not listing the appropriate disclosures for a qualified opinion.	
Part a	
Common errors included listing an unacceptable type of opinion like adequate opinion, unqualified opinion, none, or over-reserved.	
Part b	
Common errors: • Situation 2 – identifying the fire as a subsequent type II event; no (claim) data on the fire loss (misunderstanding it was a fire claim rather than a fire in the data center) • Situation 3 – not indicating workers compensation was excluded; mentioning relied on another actuary's work	
Part c	
Common errors: • All Situations – listing general disclosures; some candidates listed disclosures but did not indicate to which situation they applied • Situation 1 – risk of material adverse deviation • Situation 2 – identifying the fire as a subsequent type II event • Situation 3 – not providing the amount of the qualified reserves; not providing the reason for the qualification; disclosing the actuary relied upon the work of another actuary for workers compensation	

- Situation 4 – not providing the amount of the redundancy; providing the wrong amount of redundancy (i.e., difference between carried and point estimate instead of difference between carried and high end of range)