

21. (2.5 points)

The following was included in the 2013 Statement of Actuarial Opinion for an insurance company:

“OPINION

In my opinion, the reserves carried in Exhibit A on account of the items identified:

- Meet the requirements of the NAIC.
- Are computed in accordance with accepted actuarial standards and principles.
- Make a reasonable provision for all unpaid loss obligations under current terms of the contracts and agreements.

The company participates in a pool and I make use of the analysis of another actuary for that portion of the company’s reserves.”

a. (0.75 point)

Briefly describe three errors and/or omissions in the OPINION paragraph above.

b. (0.75 point)

Briefly describe three items that an actuary should consider in determining whether it is reasonable to make use of the work of another actuary.

c. (1 point)

Assuming the reserves for the pool are material, identify four items that should be disclosed in the RELEVANT COMMENTS section of the opinion.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 21	
TOTAL POINT VALUE: 2.5	LEARNING OBJECTIVE: D
SAMPLE ANSWERS	
Part a: 0.75 point	
<p>Any three of the following answers were accepted:</p> <ul style="list-style-type: none"> • The SAO needs to meet state regulations, not NAIC • The opinion paragraph does not mention LAE reserve adequacy • The Appointed Actuary is required to list the name and affiliation of the other actuary whose analysis the Appointed Actuary made use of • The third bullet should say "... obligations of the Company under the terms of its contracts and agreements" • "In my opinion, the amounts carried..." 	
Part b: 0.75 point	
<p>Any three of the following answers were accepted:</p> <ul style="list-style-type: none"> • The amount of the reserves covered by another's analysis or opinions in comparison to the total reserves subject to the actuary's opinion (i.e., materiality of the pool reserves) • The nature of the exposures and coverage • The way in which reasonably likely variations in estimates covered by another's analyses or opinions may affect the actuary's opinion on the total reserves subject to the actuary's opinion • The credentials of the individual(s) that prepared the analyses or opinion. • Whether the other actuary has used reasonable methods and assumptions • How recently the analysis was done; is it still relevant to the current opinion • The other actuary's affiliation/relationship to the pool/company • Whether the opining actuary has the expertise and resources to do an independent analysis himself 	
Part c: 1 point	
<p>Any four of the following:</p> <ul style="list-style-type: none"> • Pool reserves are material to total reserves • How the Company records reserves for the pool (e.g., based on what is reported by the pool with no independent projection, based on independent projection of the pool, or some combination) • Whether the actuary reviewed the other actuary's analysis and if so, the extent of such review • If there is a lag in reporting from the pool, should disclose how the Company accrues for the lag. • Collectability of assessments • Mechanism for recovering any pool deficits • Nature of member's liability as part of the pool 	
EXAMINER'S REPORT	
Part a	
<p>There are three easily identifiable errors/omissions and several other acceptable answers. Candidates generally performed well.</p>	
Part b	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Four considerations come straight from the readings – those items were listed in both ASOP 36 and the COPFLR paper. There were also several other acceptable answers that were not necessarily included within the readings for this section of the syllabus. Candidates generally performed well.

Part c

This part was more challenging since the topic of Relevant Comments specifically related to pools was less familiar. Common incorrect answers included Relevant Comments related to materiality standard, exposure to asbestos & environmental, reinsurance, or IRIS ratios, or listing general pool information (pool lead, pooling percentages, other companies in the pool, etc.).