

23. (2.5 points)

The following excerpt is from the 2013 Statement of Actuarial Opinion (SAO) for an insurance company:

“IRIS Ratios

I note no exceptional values in the NAIC IRIS tests for One-Year Reserve Development to Surplus or Two-Year Reserve Development to Surplus. However, the Estimated Current Reserve Deficiency to Surplus IRIS ratio produced an exceptional value of 27%, which is in excess of the 20% threshold.

Long-duration contracts

Excluding financial guaranty contracts, mortgage guaranty policies, and surety contracts, the Company’s management has informed me that the Company does not write policies with coverage periods of 12 months or greater that are non-cancelable and not subject to premium increase.”

a. (0.25 point)

Identify the section of the SAO that would contain the paragraphs above.

b. (0.75 point)

Identify the other three sections of the SAO.

c. (1.5 points)

Identify and correct three errors or omissions in the paragraphs above.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 23	
TOTAL POINT VALUE: 2.5	LEARNING OBJECTIVE: D1
SAMPLE ANSWERS (BY PART, AS APPLICABLE)	
Part a: 0.25 point	
Relevant Comments	
Part b: 0.75 point	
Identification, Scope, Opinion	
Part c: 1.5 point	
IRIS ratio 13 threshold is 25%, not 20%. Definition of long duration contract is incorrect. Should be "13 months or greater" The appointed actuary should provide commentary as to what factors are causing the exceptional IRIS ratio 13 value.	
EXAMINER'S REPORT (BY PART, AS APPLICABLE)	
{Candidates generally performed well on this question. Candidates were expected to know the four sections of the SAO as well as specific items included in the Relevant Comments section. Most candidates scored well on parts a and b with many candidates getting full credit. Many candidates had trouble identifying all three errors/omissions in part c with most candidates getting partial credit on this part. The omission from the paragraph was generally harder for candidates to catch than the two errors were.	
Part a	
<ul style="list-style-type: none"> • Candidate expected to correctly identify the section of the SAO (Relevant Comments) • Candidate expected to state "Relevant Comments" for full credit • Most candidates received full credit on this subpart. • Common errors that did not receive credit included "Comments" instead of "Relevant Comments" or identifying one of the other three SAO sections (Identification, Scope, Opinion) 	
Part b	
<ul style="list-style-type: none"> • Candidate expected to correctly identify the remaining three sections of the SAO for full credit (Identification, Scope, Opinion) • Candidates did receive credit for listing "Relevant Comments" in part b. if they incorrectly identified the section in part a. (that is, they did not respond to part a. with "Relevant Comments") • Common errors included: <ul style="list-style-type: none"> ○ "Introduction" instead of "Identification" ○ Listing "Exhibit B" as a section of the SAO ○ Listing three items included in the Relevant Comment section (e.g. risk of material adverse deviation, reinsurance, methods & assumptions, etc.) rather than listing the other three sections of the SAO 	
Part c	
<ul style="list-style-type: none"> • Candidates were generally able to identify and correct the two errors (IRIS threshold (25% instead of 20%) and long duration contract length (13 months instead of 12 months)) but many candidates struggled with identifying the omission and instead tried to find a third error. • Common incorrect "errors" that were identified included: <ul style="list-style-type: none"> ○ Confusing the three types of policies excluded from long duration contracts 	

SAMPLE ANSWERS AND EXAMINER'S REPORT

(financial guaranty contracts, mortgage guaranty policies, surety contracts) with types of insurers that are exempt from the RBC procedure (title insurance companies, monoline financial guaranty insurance companies, monoline mortgage guaranty insurance companies). Specifically saying the "surety contracts should be title insurance".

- Saying the three types of policies excluded from long duration contracts should not be excluded
- Saying the values of IRIS 11 and 12 must be disclosed as well
- Thinking that "exceptional value" is incorrect wording and "unusual value" should be used instead for the IRIS tests
- Saying that the error was not specifying one year development to "prior" surplus and two year development to "second prior" surplus (candidate assumes the surplus mentioned in the question is current surplus)
- Saying you need to specify that long duration contracts are not subject to premium increases "during the policy term"
- Identifying "non-cancellable" and "not subject to premium increases" as errors that should not be negative and correcting with "cancellable" and "subject to premium increases"
- Common incorrect omission that was identified:
 - Saying the actuary needs to disclose the name of the member of company management who said the company does not write long duration contracts as well as their role at the company. This does not need to be included in the Relevant Comments section.