

22. (2.25 points)

Given the following information for an insurance company (all figures in millions of dollars):

	Actuary's Range of Central Estimates			
	<u>Carried</u>	<u>Low</u>	<u>Point</u>	<u>High</u>
Net Loss & LAE Reserve	\$590	\$600	\$650	\$700
Materiality Standard	\$100			

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Year-End Surplus	\$500	\$450	\$400	\$350	\$300
1-Year Development	\$27	\$29	\$17	\$19	-\$15

The Appointed Actuary has prepared a Statement of Actuarial Opinion (SAO) that includes the following OPINION section:

OPINION

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

- A. Meet the requirements of the applicable insurance laws
- B. Are computed in accordance with accepted actuarial standards and principles
- C. Are less than the minimum amount I consider necessary to be within a range of reasonable estimates of the unpaid loss obligations of the Company under the terms of its contracts and agreements

a. (0.75 point)

Identify three errors in the wording of the OPINION section of the SAO.

b. (0.5 point)

Based only on the information above, evaluate whether risk of material adverse deviation (RMAD) exists.

c. (1 point)

Calculate the one-year reserve development results for each year and propose language for the one-year reserve development disclosure in the Actuarial Opinion Summary.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 22				
TOTAL POINT VALUE: 2.25			LEARNING OBJECTIVE: D1	
SAMPLE ANSWERS				
Part a: 0.75 point				
<div>1. Need to specify the insurance laws of (State of Domicile) OR missing the State</div> <div>2. The actuary should disclose the minimum amount that the actuary believes is reasonable OR The amount by which the recorded reserve differs from the minimum amount the actuary believes is reasonable should be disclosed</div> <div>3. Need specify the opinion is on “loss and loss adjustment expense” as opposed to just “loss”</div>				
Part b: 0.5 point				
<div>Yes, the carried reserves with the materiality standard are within the range of estimates. \$600<(\$590+\$100)=\$690< \$700 OR Yes, because the difference between the high estimate and the recorded reserve (\$110M) is greater than the materiality standard (\$100M)</div>				
Part c: 1 point				
Calculation	2014	2013	2012	2011
Ratio	27/450	29/400	17/350	19/300
Percentage	6.0%	7.3%	4.9%	6.3%
	Yes	Yes	No	Yes
<p>Since the calculation results in values above 5% in at least three years, the actuary needs to discuss what caused the adverse development.</p> <p>For proposed language, anything that tied the adverse development back to a cause received credit, such as:</p> <ul style="list-style-type: none">• Due to WC Tail• Asbestos/Environmental changes• Unanticipated loss trends• Company knowingly booking below the range of reasonableness• Change in statutes• CAT losses developing adversely				
EXAMINER’S REPORT				
<p>The question expected candidates to be aware of necessary language that is contained within a statement of actuarial opinion and to calculate standard IRIS ratios of One-Year Reserve Development to Surplus.</p>				
Part a				

SAMPLE ANSWERS AND EXAMINER'S REPORT

Candidates were expected to identify errors in the statement. Common candidate errors included not explicitly referencing that the Statement of Actuarial Opinion needs to include the specific domiciliary state laws that apply, stating "applicable" should be replaced with "State", or not referencing either the minimum reasonable reserve level or the dollar amount by which the booked numbers are deficient. Some candidates thought that the statement explicitly had to say deficient.

Part b

Candidates were expected to know how to determine whether RMAD exists. The most common error was failing to identify that potential reasonable development on carried reserves (110M) exceeded the materiality threshold (100M). Other errors included using IRIS ratios as justification for RMAD or using historical development relative to the materiality threshold.

Part c

Candidates were expected to be able to calculate the Actuarial Opinion Summary test values and provide sample language to be included in the disclosure related to these values. Common errors included: Calculating 1 yr. reserve development with current surplus, stating that 4 years were in excess of the 5% threshold, forgetting to include explanation for exceptional values, and stating that adverse development is caused by adverse development or reserve development (rather than a specific reason).