

EXAM 6 – UNITED STATES, SPRING 2016

16. (2.5 points)

Given the following for an insurer:

	2012	2013	2014
One-Year Development			-2,000
Two-Year Development			-4,000
Earned Premium	15,000	16,800	14,000
Loss Reserves as of Year-End	30,000	33,000	34,000
LAE Reserves as of Year-End	10,000	11,000	11,500
Policyholders' Surplus as of Year-End	45,000	47,000	48,000

a. (2 points)

Determine whether the insurer's IRIS ratio 13 falls within the range of usual values.

b. (0.5 point)

Calculate the insurer's IRIS ratios 11 and 12.

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SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 16	
TOTAL POINT VALUE: 2.5	LEARNING OBJECTIVE: C2c
SAMPLE ANSWERS	
Part a: 2 points	
<p>Restated Loss & LAE Reserves: 2012: $30000 + 10000 - 4000 = 36000$ 2013: $33000 + 11000 - 2000 = 42000$</p> <p>Restated Outstanding Loss Ratios: 2012: $36000/15000=2.4$ 2013: $42000/16800=2.5$</p> <p>Average Outstanding Loss Ratio: $(2.4+2.5)/2 = 2.45$</p> <p>Implied Loss & LAE Reserves: $2.45*14000 = 34300$</p> <p>Actual Loss & LAE Reserves: $34000+11500 = 45500$</p> <p>Deficiency/(Redundancy): Implied Loss & LAE Reserves - Actual Loss & LAE Reserves = $34300 - 45500 = -11200$</p> <p>IRIS 13: Ratio of Deficiency/(Redundancy) to PHS = $-11200/48000 = -23.3\%$</p> <p>Determination: Falls within the range of usual values: Less than 25%</p>	
Part b: 0.5 point	
<p>IRIS 11: Ratio of One-Year Development to Prior-Year PHS = $-2000/47000 = -4.26\%$</p> <p>IRIS 12: Ratio of Two-Year Development to Second Prior-Year PHS = $-4000/45000 = -8.89\%$</p>	
EXAMINER'S REPORT	
<p>Candidates were expected to know how to calculate the IRIS ratios and know the thresholds for usual values. In general, candidates scored well on this question. All of the information necessary to calculate the IRIS ratios was given in a table.</p>	
Part a	
<p>Candidates were expected to know how to calculate IRIS ratio 13 and know that the threshold for usual values is 25%. Candidates needed to show they could calculate the ratio correctly and make the correct determination about the whether the ratio is in the range of usual values or not.</p> <p>Common errors for this part included reversing the redundancy/deficiency by subtracting the Implied Loss & LAE Reserves from the Actual Loss & LAE Reserves, not including LAE when calculating the restated reserves and actual reserves, and using an incorrect threshold value for range determination.</p>	
Part b	
<p>Candidates were expected to know how to calculate IRIS ratios 11 & 12.</p>	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Common errors for this part included removing the negative sign on the one and two year development and using the current PHS for the denominators instead of the prior and second prior year's PHS.