

EXAM 6 – UNITED STATES, SPRING 2016

21. (2.25 points)

a. (0.5 point)

Comment on the appropriateness of the actions taken in the following scenario:

In order to satisfy the data testing requirements included in the NAIC Annual Statement Instructions, the Appointed Actuary for an insurance company retained an auditor to subject the data used in the actuary's analysis to testing procedures. After reviewing the Appointed Actuary's report, the auditor concluded that a list of data items used in the Appointed Actuary's analysis were significant and should be subject to testing.

b. (0.75 point)

An Appointed Actuary used net paid losses in the analysis in support of a Statement of Actuarial Opinion. Fully describe the reconciliation of this data as provided in discussion and guidance around the NAIC Annual Statement Instructions.

c. (1 point)

An auditor's data testing indicated significant errors and discrepancies in the data. The auditor notified the Appointed Actuary. At the time of notification, the Appointed Actuary had already issued the Statement of Actuarial Opinion (SAO) and the Actuarial Report. A review of the data discrepancies by the Appointed Actuary concluded that the issued SAO was in error.

Identify the steps the Appointed Actuary should take in this situation and the timeframe in which they must be completed.

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SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 21	
TOTAL POINT VALUE: 2.25	LEARNING OBJECTIVE: D1
SAMPLE ANSWERS	
Part a: 0.5 point	
<p>The actions taken are <u>not appropriate</u> for two reasons</p> <ul style="list-style-type: none"> • The auditor should be retained by the insurance company, not the appointed actuary • It is the appointed actuary's responsibility to provide the list of significant data items to the auditor and should therefore be considered within the scope of the auditor's audit 	
Part b: 0.75 point	
<ul style="list-style-type: none"> • The net paid losses must be reconciled to Schedule P (Part 1) • Should be reconciled by accident year and line of business (similar responses noting that minimal necessary aggregation is appropriate were accepted) • Cumulative or incremental calendar year paid losses should be reconciled • Net paid losses should be calculated by subtracting ceded paid losses from gross paid losses in Part 1 since net paid losses are not directly provided • If the analysis is gross of salvage and subrogation (S&S), then S&S should be considered in the reconciliation (e.g. if a separate anticipated S&S analysis is performed) • If reconciliation differences are identified and cannot be explained, the appointed actuary should do one or more of the following: disclose it in the Statement of Actuarial Opinion, disclose it in the actuarial report, conclude that a Statement of Actuarial Opinion cannot be rendered, or recommend that the company inform its external auditors of the unreconciled/unexplained differences • The actuary should disclose whether he/she relied on a Schedule P reconciliation performed by someone else 	
Part c: 1 point	
<ul style="list-style-type: none"> • The actuary should notify the company (board of directors, internal audit committee, etc.) within 5 days of determining that the Statement of Actuarial Opinion was submitted in error • The notification should include a summary of the reason for the error and an amended Statement of Actuarial Opinion • An insurer who is notified pursuant to the preceding paragraphs shall forward a copy of the summary and the amended Statement of Actuarial Opinion to the domiciliary commissioner within 5 days and shall cc: the Appointed Actuary. <u>If the Appointed Actuary is not made aware that the domiciliary commissioner has been notified, the Appointed Actuary shall notify the domiciliary commissioner within the next 5 days that the submitted Statement of Actuarial Opinion should no longer be relied upon.</u> 	
EXAMINER'S REPORT	
Part a	
<p>Candidates were expected to demonstrate their understanding of the relationship between the insurer, appointed actuary, and auditor. In addition, candidates should have known that the actuary is responsible for identifying the data items significant to the actuary's analysis, not the auditor. A common error included not identifying that the auditor should be retained by the insurer, not the appointed actuary.</p>	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Part b

This part required that the candidates demonstrate knowledge on the Schedule P reconciliation process. Candidates should have been able to point out what (cumulative or incremental net paid losses), where (Schedule P Part 1) and the level of granularity (line of business and accident year, where possible) should be reconciled. While most candidates identified that the reconciliation should be performed against Schedule P, many omitted one or more dimensions of the reconciliation.

Part c

Candidates performed well on this part and many were able to identify the required actions of the appointed actuary in the event that a Statement of Actuarial Opinion was issued in error. One common error seen in papers was identifying actions of the insurer, without following up on what the Appointed Actuary needs to do in the event of possible "inaction" on the part of the insurer.