

EXAM 6 – UNITED STATES, SPRING 2016

22. (1.75 points)

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

Authorized Control Level	\$10
Surplus	\$22
Calendar Year Net Incurred Loss and LAE	\$160
Range of Reasonable Net Unpaid Loss and LAE Estimates	\$158 to 164
Booked Loss and LAE Reserves	\$156
Aggregate Write-Ins for Underwriting Deductions	\$5
Net Written Premium	\$200
Net Earned Premium	\$180
Other Underwriting Expenses Incurred	\$55

a. (1 point)

Determine whether the company is currently subject to the Company Action Level RBC requirements.

b. (0.75 point)

Identify and briefly describe the type of Statement of Actuarial Opinion the Appointed Actuary should issue, and briefly describe any disclosures required in the OPINION section related to the type of opinion.

CONTINUED ON NEXT PAGE

## SAMPLE ANSWERS AND EXAMINER'S REPORT

<b>QUESTION 22</b>	
<b>TOTAL POINT VALUE: 1.75</b>	<b>LEARNING OBJECTIVE: C2, D1</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 1 point(s)</b>	
<p>RBC Ratio: <math>22 / (10) = 220\% \Rightarrow</math> Between 200% - 300%, perform Trend Test on Combined Ratio</p> <p>Combined Ratio = <math>160/180 + (55+5)/200 = 118.9\%</math> and this is <math>&lt; 120\%</math></p> <p>No trigger</p>	
<b>Part b: 0.75 point(s)</b>	
<p>Deficient <b>or</b> Inadequate</p> <p>Booked loss reserves are less than reasonable/minimum range <b>or</b> <math>\\$156 &lt; \\$158</math>.</p> <p>Disclose the minimum amount the actuary believe is reasonable <b>or</b> the amount by which the actuary believes the carried reserves are deficient</p>	
<b>EXAMINER'S REPORT</b>	
<p>This question required a candidate to demonstrate a basic understanding of how to calculate the RBC ratio and additional calculation when the RBC ratio is close to but above Company Action Level. This question also required candidates to evaluate what type of opinion should be issued based on the information contained in the question, the rationale behind the type of opinion selected, and the appropriate disclosure for this type of opinion.</p>	
<b>Part a</b>	
<p>The candidate was expected to know how to calculate the RBC ratio and evaluate that it was not less than 200% based on the information provided in the question. The candidate was also expected to know that an additional test, the Trend Test, is required when the RBC ratio is between 200%-300%.</p> <p>Most of the errors committed by candidates concerned the calculation of the combined ratio for the Trend Test or not knowing that the Trend Test needed to be calculated given the RBC ratio. Candidates often divided expenses by earned premium instead of written premium or failed to add the aggregate write-ins as part of the expense portion of the combined ratio.</p>	
<b>Part b</b>	
<p>The candidate was expected to know and answer all three parts of this question. Understanding the types of Statement of Actuarial Opinion, the rationale behind issuing the opinion based on the individual facts, and the disclosures required within the OPINION section for the type of opinion were considered core knowledge.</p> <p>In order to receive credit, the candidate needed to successfully identify the type of Statement of</p>	

## **SAMPLE ANSWERS AND EXAMINER'S REPORT**

Actuarial Opinion the actuary should issue and that the rationale for issuing a deficient or inadequate opinion is due to the booked reserves are less than the actuary's reasonable range of reserves.

Common errors include simply not including the rationale for the type of opinion or saying that the actuary's entire range needed to be disclosed.