23. (1.75 points)

a. (0.75 point)

Fully describe the disclosure related to IRIS ratios that the Appointed Actuary must include in the Statement of Actuarial Opinion.

b. (1 point)

Given the following information from an insurance company's 2014 Annual Statement:

All information is shown in (000's)					
	2014	2013	2012	2011	2010
Surplus as regards policyholders	1,000	900	850	750	700
Development in estimated losses and loss expenses incurred prior to current year	100	85	50	-10	5

Describe the disclosure requirements related to reserve development that should be included in the Actuarial Opinion Summary for this company.

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QUESTION 23	
TOTAL POINT VALUE: 1.75	LEARNING OBJECTIVE: D1
SAMPLE ANSWERS	
Part a: 0.75 point	

- The actuary must state whether:
  - IRIS 11: One-year Dev to PHS
  - IRIS 12: Two-year Dev to PHS
  - IRIS 13: Est. Res. Deficiency to PHS

  are within the usual range. If any of the ratios fall outside of the usual range, the actuary must disclose this and provide reasoning.
- The actuary must disclose whether there were any exceptional values for IRIS Ratios 11, 12, and 13 (1 year Dev:Surplus, 2 year Dev:Surplus, Current Reserve deficiency to surplus). If there are exceptional values the actuary must comment on the risk factors or company actions that contributed to the exceptional values.
- The Appointed Actuary should comment on IRIS Ratios #11, #12, and #13 in the Relevant Comments of the SAO. He/she must comment on any unusual values for these ratios and provide comments regarding the causes of these unusual values. If the values are in the usual ranges, the actuary should state that.
- Actuary should calculate IRIS Ratio 11, 12, 13 for current year, if any values are in unusual range, state why those unusual values happened, what reasons are behind of it.

Part b: 1 point

One-year adverse development as a percent of (prior-year) surplus

	2014	2013	2012	2011
Development	100	85	50	-10
Prior Surplus	900	850	750	700
Ratio	11.11%	10.00%	6.67%	-1.43%

- Need to disclose that the actuary has examined the one-year adverse reserves development as a percentage of prior year's surplus and there are 3 out of 4 years (although should look at 5 years) where the ratios have exceeded 5%. These years are 2014, 2013, and 2012. Disclose the reason for such observation for e.g. there are ___, ___, ___ risks that could lead to material adverse deviation.
- In three out of the last 5 years development has been greater than 5% of surplus, so Appointed Actuary will need to disclose what is causing the development such as line of business, AY or exposure type.
- Because there has been adverse development greater than 5% of surplus in at least 3 of the last 5 years, the Actuary needs to disclose this. He/she should list the years in which this happened (2014, 2013, 2012) and provide an explanation of the significant factors that caused this adverse development.
- Because the company experienced one year adverse development to surplus greater than 5% in 3 of the past 5 years, the actuary must comment on the factors or company actions that contributed to the adverse development.

EXAMINER'S REPORT
• The candidate was expected to know the disclosure in the Statement of Actuarial Opinion related to the IRIS ratios as well as the disclosure in the Actuarial Opinion Summary related to the loss development • Candidates generally scored fairly well on the question as a whole.
Part a
• The candidate was expected to know that the disclosure in the Statement of Actuarial Opinion related to the IRIS Ratios involved reviewing ratios 11, 12 and 13 to determine if they produced exceptional values, and if they did produce exceptional values the actuary needs to disclose reasons why. • The most common error made by candidates was not stating that the actuary needs to disclose reasons for the exceptional values. Some other common errors included stating the incorrect IRIS ratios, or confusing this disclosure with the disclosure in the Notes in the Annual Statement.
Part b
• The candidate was expected to know that the disclosure in the Actuarial Opinion Summary related to the loss development involved disclosing whether or not the ratio of one-year development to prior year's surplus exceeded 5% in at least 3 of the last 5 years, and if so, discussing the cause(s) of the adverse development. • Candidates were expected to properly calculate the ratios and provide commentary on the additional required disclosures. • Common errors included calculating the ratios based on the current year's surplus instead of the prior year's surplus, and neglecting to state that the actuary needs to disclose the cause(s) of the adverse development