

EXAM 6 – UNITED STATES, FALL 2016

12. (2.5 points)

The following are excerpts from an insurance company's 2014 Schedule P (all figures are in thousands of dollars):

Part 2K - Fidelity/Surety			
Incurred Net Losses & Defense and Cost Containment Expenses (DCC) at Year End			
Years in Which Losses Were Incurred	2012	2013	2014
Prior	250	500	550
2013	XXX	800	1,300
2014	XXX	XXX	1,000

Part 3K - Fidelity/Surety			
Cumulative Paid Loss & Defense and Cost Containment Expenses (DCC) at Year End			
Years in Which Losses Were Incurred	2012	2013	2014
Prior	0	450	475
2013	XXX	600	700
2014	XXX	XXX	400

The following 2015 paid and reserve information is provided for Fidelity/Surety (all figures are in thousands of dollars):

Years in Which Losses Were Incurred	Calendar Year 2015 Net Paid Loss & DCC	Unpaid Loss & DCC as of December 31, 2015
Prior	10	15
2013	30	35
2014	150	75
2015	625	300

Calculate the Prior Years row for the 2015 Schedule P, Part 2K.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 12

TOTAL POINT VALUE: 2.5

LEARNING OBJECTIVE: C1

SAMPLE ANSWERS

Sample 1

Unpaid at 12/31/2014 = Incurred Loss Part 2K - Cumulative Paid Losses Part 3K

Year	2013	2014
Prior	50	75
2013	200	600

Year	2013	2014
Prior	= 500 - 450 = 550 - 475	
2013	= 800 - 600 = 1,300 - 700	

Unpaid at 12/31/2015 = Unpaid at 12/31/2014 + Unpaid at 12/31/2015

Year	2013	2014	2015
Prior	250	675	50

Year	2013	2014	2015
Prior	= 50 + 200 = 75 + 600 = 15 + 35		

Paid at 12/31/2015 - Paid at 12/31/14 (excluding 2013 paid) + CY Paid in 2015

Year	2013	2014	2015
Prior	0	125	165

Year	2013	2014	2015
Prior	= 0	= (475 - 450) + (700 - 600)	= (475 - 450) + (700 - 600) + 10 + 30

Part 2 Incurred at 12/31/15 = Paid at 12/31/15 + Unpaid at 12/31/15

Year	2013	2014	2015
Prior	250	800	215

Year	2013	2014	2015
Prior	= 250 + 0	= 675 + 125	= 50 + 165

Sample 2

Unpaid at 12/31/2014 = Incurred Loss Part 2K - Cumulative Paid Losses Part 3K

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Year	2013	2014
Prior	50	75
2013	200	600

Year	2013	2014
Prior	$= 500 - 450 = 550 - 475$	
2013	$= 800 - 600 = 1,300 - 700$	

Unpaid at 12/31/2015 = Unpaid at 12/31/2014 + Unpaid at 12/31/2015

Year	2013	2014	2015
Prior	250	675	725*

Year	2013	2014	2015
Prior	$= 50 + 200$	$= 75 + 600$	$= 75 + 675 + 15 + 35$

*Assuming the provided 15 and 35 unpaid loss and DCC amounts represent the change in unpaid and not the unpaid amounts at year end.

Paid at 12/31/2015 - Paid at 12/31/14 (excluding 2013 paid) + CY Paid in 2015

Year	2013	2014	2015
Prior	0	125	165

Year	2013	2014	2015
Prior	$= 0$	$= (475 - 450) + (700 - 600)$	$= (475 - 450) + (700 - 600) + 10 + 30$

Part 2 Incurred at 12/31/15 = Paid at 12/31/15 + Unpaid at 12/31/15

Year	2013	2014	2015
Prior	250	800	890

Year	2013	2014	2015
Prior	$= 250 + 0$	$= 675 + 125$	$= 725 + 165$

Sample 3

Incurred @ 12/31/2013 for a 2015 statement

$$250 = (500 - 450) + (800 - 600) + 0$$

Incurred @ 12/31/2014 for a 2015 statement

$$800 = (550 - 475) + (1300 - 700) + (475 - 450) + (700 - 600)$$

SAMPLE ANSWERS AND EXAMINER'S REPORT

Incurred @ 12/31/2015 for a 2015 statement

$$215 = (15 + 35) + (125 + 10 + 30)$$

Sample 4

Incurred @ 12/31/2013 for a 2015 statement

$$250 = (500 - 450) + (800 - 600) + 0$$

Incurred @ 12/31/2014 for a 2015 statement

$$800 = (550 - 475) + (1300 - 700) + (475 - 450) + (700 - 600)$$

Incurred @ 12/31/2015 for a 2015 statement

$$890 = (550 - 475) + (1300 - 700) + (15 + 35) + (125 + 10 + 30)$$

*Assuming the provided 15 and 35 unpaid loss and DCC amounts represent the change in unpaid and not the unpaid amounts at year end.

Sample 5

Incurred @ 12/31/2013 for a 2015 statement

$$250 = (500 - 450) + (800 - 600) + 0$$

Incurred @ 12/31/2014 for a 2015 statement

$$800 = 250 + (550 - 500) + (1300 - 800)$$

Incurred @ 12/31/2015 for a 2015 statement

$$215 = 800 - (600 + 75) + (15 + 35) + (10 + 30)$$

Sample 6

Incurred @ 12/31/2013 for a 2015 statement

$$250 = (500 - 450) + (800 - 600) + 0$$

Incurred @ 12/31/2014 for a 2015 statement

$$800 = 250 + (550 - 500) + (1300 - 800)$$

Incurred @ 12/31/2015 for a 2015 statement

$$890 = 800 + (15 + 35) + (10 + 30)$$

*Assuming the provided 15 and 35 unpaid loss and DCC amounts represent the change in unpaid

SAMPLE ANSWERS AND EXAMINER'S REPORT

and not the unpaid amounts at year end.

EXAMINER'S REPORT

The candidates were expected to know how to calculate the prior year in Schedule P.

The question provided Unpaid Loss & DCC information for 2015 as of December 31, 2015. Some candidates misinterpreted the information to be the change in unpaid. If a candidate provided an assumption stating the data represented the change in unpaid and the answers calculated match Sample 2, 4, or 6 above, the candidate received full credit.

Common mistakes included:

- Candidates did not add the prior and 2013 rows from the 2014 Schedule P
- Candidates did not add both the prior and 2013 paid (10 + 30) and unpaid (15 + 35) amounts together when calculating the prior year row as of 2015
- Candidates relied on the 2015 paid (625) and unpaid (300) amounts provided in question when calculating the prior year row as of 2015