

EXAM 6 – UNITED STATES, FALL 2016

23. (3.5 points)

a. (0.5 point)

Briefly describe a primary purpose of the Statement of Actuarial Opinion (SAO), and identify an intended audience.

b. (3 points)

Other than disclosures related to the materiality standard and risk of material adverse deviation, identify four items on which the Appointed Actuary must provide commentary in the RELEVANT COMMENTS section of the SAO, and explain the reason for their inclusion.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 23	
TOTAL POINT VALUE: 3.5	LEARNING OBJECTIVE: D1
SAMPLE ANSWERS	
Part a: 0.5 point	
<p><u>Purpose</u></p> <ul style="list-style-type: none"> • Assess the reserve reasonableness • Provide actuary's opinion to the regulator regarding the reserve adequacy • Opine on the reserves of the Company • Inform readers of specific risk factors to those reserves • Advise on risks and uncertainties leading to adverse deviation in reserves <p><u>Audience</u></p> <ul style="list-style-type: none"> • Regulator is the audience • Investors • Public • Stakeholders • Board of Directors • Management 	
Part b: 3 points	
<p>Long Term Duration Contracts Unearned Premium Reserves - Include and disclose risks around contracts 13+ months that can't be cancelled (how many, associated risks, etc.)</p> <p>Environmental & Asbestos - Any material exposure to environmental/asbestos losses, LOBs affected, reserves held, methods used to calculate reserves and degree of uncertainty. Asbestos losses contain a large degree of uncertainty.</p> <p>Anticipated salvage & subrogation - want to inform regulator of potential understatement of reserves due to collectibility concerns related to anticipated salvage & subrogation</p> <p>Changes in Methods and Assumptions - This could help explain any differences between current reserves and reserves held in prior years from prior actuarial report</p> <p>Reinsurance (Collectability, Financial, Retroactive) - Provides insight into Insurers' Reinsurance situation, if they are correct on recoverables or if have risk in future of not being able to collect and how much is uncollected. Also, shows how much securities in Reinsurance the insurer has to protect themselves</p>	

SAMPLE ANSWERS AND EXAMINER'S REPORT

IRIS Ratios 11, 12 and 13 - Actuary must note whether any of those ratios are out of range and if so provide reasons why. This is included so now can understand the causes of reserve development.

Net reserves for the company's share in pools/associations - pool reserves are often analyzed by another party and may be subject to booking lag so regulator needs to understand their materiality and how they are calculated

Claims-made extended loss and LAE reserve - this item is subject to similar risks as the reserves in many cases but is generally opined on separately, makes regulator aware of this additional item

Discounting - Actuary must disclose if tabular and/or non-tabular discounting was used. If so, the actuary must state the basis and assumptions of the discount. Included because in order for regulators to fully understand a company's financials and to be able to compare it to its peers, the regulator needs to know about the existence of discounting.

EXAMINER'S REPORT

The candidates were expected to understand the purpose of a Statement of Actuarial Opinion, the intended audience, and understand disclosures of the RELEVANT COMMENTS section other than materiality standard and risk of material adverse deviation, and reasons for the inclusion.

Part a

The candidates were expected to know the primary purpose of the Statement of Actuarial Opinion - to provide an opinion and evaluate the reasonability of loss reserves. The primary intended audience is regulators, but additional audiences were acceptable, including Board of Directors, management, and the public.

A common mistake was stating that the primary purpose of the SAO was to evaluate "risks" to the company without tying the risks back to reserves

Part b

The candidates were expected to understand the reasons for including certain disclosures in the RELEVANT COMMENTS section.

Common mistakes included:

- Listing items for disclosure without providing the rationale for the disclosure, or providing an incorrect rationale
- Including items that are not required to be disclosed, such as "subsequent events",

SAMPLE ANSWERS AND EXAMINER'S REPORT

“changes in accounting policies”, or “commutations”

- Stating that “Methods and Assumptions” need to be disclosed as opposed to “Changes in Methods and Assumptions”
- Reinsurance was often discussed without mentioning “uncollectible” or “financial/retroactive”
- Being too broad in explanation and not specific enough with respect to reasons for inclusion