

13. (3.75 points)

Company A (Lead) and Company B (Non-Lead) are the only members of an intercompany pooling arrangement. No other reinsurance or pooling exists. Both companies began operations in 2015. Given the following information for 2015 (all figures are in thousands of dollars):

	Pool Percentage	Direct Written Premium	Direct Paid Loss & Loss Expenses	Direct Loss & Loss Expenses Reserves
Company A	80%	\$6,350	\$1,200	\$3,400
Company B	20%	\$1,000	\$350	\$1,175

a. (1.25 points)

Calculate the following amounts that would appear in each company's Schedule P, Part 1:

- i. Direct and Assumed Total Losses and Loss Expenses Incurred
- ii. Ceded Total Losses and Loss Expenses Incurred

b. (1.5 points)

Calculate the following amounts that would appear in each company's Annual Statement Exhibits and Schedules other than Schedule P:

- i. Direct and Assumed Written Premium
- ii. Ceded Written Premium
- iii. Net Written Premium

c. (1 point)

Briefly describe four disclosures regarding intercompany pools that should be included in a Statement of Actuarial Opinion.

## SPRING 2017 EXAM 6U SAMPLE ANSWERS AND EXAMINER'S REPORT

<b>QUESTION 13</b>	
<b>TOTAL POINT VALUE: 3.75</b>	<b>LEARNING OBJECTIVE(S): C1, D</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 1.25 points</b>	
<p>Total Pooled Incurred Loss &amp; LAE = 1,200 + 3,400 + 350 + 1,175 = 6,125</p> <p>Company A share = 6,125 * 80% = 4,900 = Company A Direct/Assumed</p> <p>Company B share = 6,125 * 20% = 1,225 = Company B Direct/Assumed</p> <p>Company A Ceded = 0</p> <p>Company B Ceded = 0</p>	
<b>Part b: 1.5 points</b>	
<p>Company A Direct/Assumed = 6,350 + 1,000 (assumes all Company B) = 7,350</p> <p>Company B Ceded = 1,000 (cedes all direct)</p> <p>Company A Ceded = (6,350 + 1,000) * 20% = 1,470 (cedes 20% to Company B)</p> <p>Company B Direct/Assumed = 1,000 + 1,470 = 2,470</p> <p>Company A Net = 6,350 + 1,000 – 1,470 = 5,880</p> <p>Company B Net = 1,000 + 1,470 – 1,000 = 1,470</p>	
<b>Part c: 1 point</b>	
<p>Any four of the following:</p> <ul style="list-style-type: none"> <li>• A description of the pool</li> <li>• Identification of the lead pool member</li> <li>• The names of all pool participants</li> <li>• State of domicile of each member</li> <li>• Each member's pooling percentage</li> </ul>	
<b>EXAMINER'S REPORT</b>	
<p>Candidates were expected to know financial reporting rules regarding intercompany pools, and to demonstrate understanding by performing detailed calculations.</p>	
<b>Part a</b>	
<p>Candidates were expected to apply rules for reporting loss and LAE in Schedule P when intercompany pooling exists, and to perform calculations in the given hypothetical situation.</p> <p>A common error included the application of rules related to “non-Schedule P” sections of the Annual Statement.</p>	
<b>Part b</b>	
<p>Candidates were expected to apply rules for reporting written premium in the Annual Statement, and to perform calculations in the given hypothetical situation.</p> <p>Common errors include:</p> <ul style="list-style-type: none"> <li>• Application of rules related to Schedule P</li> </ul>	

## SPRING 2017 EXAM 6U SAMPLE ANSWERS AND EXAMINER'S REPORT

- Performing calculations on incurred losses rather than written premium

### Part c

Candidates were expected to recall specific guidance on SAO disclosures regarding intercompany pools.

Common errors include:

- Use of general terms such as “structure”, “arrangement”, or “nature” in place of more specific wording as contained in the reading Responses such as “Description of the pool” or “Description of the pooling arrangement” were acceptable.
- Reference to “Parent” or “Subsidiaries” reflecting the company’s financial structure rather than the pooling arrangement
- Use of other general disclosures, such as the amount of the reserve
- Listing provisions related to “Pools and Associations” instead of “Intercompany Poling”