

23. (2.5 points)

A personal lines insurance company had \$30 million of policyholders' surplus as of December 31, 2014. In preparation for the 2015 Statement of Actuarial Opinion (SAO), the Appointed Actuary reviews the 2014 Actuarial Report and schedules meetings with the following individuals:

- i. Head of the Reinsurance Department
- ii. Head of Data Systems Department
- iii. Involuntary Pool Actuary

a. (0.75 point)

Briefly describe how the information gathered from each individual could support a required SAO disclosure.

b. (0.75 point)

Briefly describe three items the Appointed Actuary should consider in determining whether it is reasonable to use the work of the Involuntary Pool Actuary in forming the 2015 SAO.

c. (1 point)

When reading the 2014 Actuarial Report, the Appointed Actuary discovers the following:

- i. The auto physical damage loss development patterns were being applied to the liability losses. If the liability pattern had been used, the Company's recorded loss reserves at December 31, 2014 would have been \$8 million higher.
- ii. With hindsight, the selected homeowners loss development patterns appear too low. The Appointed Actuary estimates the revised patterns would result in an increase to the December 31, 2014 reserves of \$3 million.

For each of the above situations, explain whether the 2014 SAO was issued in error.

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

<b>QUESTION 23</b>	
<b>TOTAL POINT VALUE: 2.5</b>	<b>LEARNING OBJECTIVE: D</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 0.75 point</b>	
<p>Any one bullet related to each individual:</p> <p>Sample Responses for Head of Reinsurance Department</p> <ul style="list-style-type: none"> <li>• SAO needs to comment on the reinsurance collectability. The reinsurance department mgmt. can help on any collectability problems as well as things like overdue, disputes, etc. in addition to the Schedule F</li> <li>• Better understand and assess reinsurance uncollectibility risk</li> <li>• The existence of retroactive, financial, or finite reinsurance</li> </ul> <p>Sample Responses for Head of Data Systems Department</p> <ul style="list-style-type: none"> <li>• Head of data system would be responsible for providing data details for the SAO. Also, would be helpful if the Actuary has any data reconciliation problems. We need to disclose the name of the person who provides the data.</li> <li>• Assess quality of the data to be used</li> </ul> <p>Sample Responses for Involuntary Pool Actuary</p> <ul style="list-style-type: none"> <li>• If the reporting company participates in an involuntary pool, then the reserves of the pool may not need the Appointed Actuary's opinion or may just need the Appointed Actuary's review. Involuntary (pool) actuary can provide the opinion on this part of the reserve.</li> <li>• To decide whether to rely on reserves analyzed by other actuary or understand his/her analysis</li> </ul>	
<b>Part b: 0.75 point</b>	
<p>Any three of the following:</p> <ul style="list-style-type: none"> <li>• Size of estimate by actuary (materiality)</li> <li>• Credentials of actuary</li> <li>• Assumptions and methods used by actuary</li> <li>• The amount of the company's pooling reserves in comparison with the whole reserves of the company</li> <li>• The nature of the pooling exposure</li> <li>• The pooling Actuary's qualifications and relationship with the pooling</li> </ul>	
<b>Part c: 1 point</b>	
<p>Sample Responses for APD</p> <ul style="list-style-type: none"> <li>• Because the wrong loss development patterns were used for the wrong benefit and it would result in a material change (assume 3M, 10% of surplus is material) the SAO was issued in error</li> <li>• Yes, this mistake would have cause a material difference in the reserves which the 2014 SAO commented on. The liability pattern was known at the time the 2014 SAO was issued.</li> </ul> <p>Sample Responses for HO</p>	

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- The SAO was not issued in error. The loss development patterns are subjective, not objective like in part i. A simple change in selections would not mean it was issued in error.
- No, although the revised pattern would have caused a material change in reserves, the opinion at the time did not have the additional time to see how the pattern developed. Opinion could have been reasonable at the time.

### EXAMINER'S REPORT

Candidates were expected to understand how the Appointed Actuary's conversations with key departments, and the information gathered from them, is used for required (not optional) disclosures and in determining the reasonableness of results. Candidates are also expected to know when an SAO needs to be revised (was issued in error) based on the receipt of information subsequent to the release of the SAO.

#### Part a

Candidates were expected to understand how information derived from key departments will assist the Appointed Actuary with required disclosures.

Common errors include providing information that could be gathered from each individual that does not support a SAO disclosure. Examples include:

- Head of Reinsurance –using words like recoverables, disputes or financial strength when not in a clear context of an issue with collectability
- Head of Data Systems Department – stating changes in data (values) or how data is collected
- Involuntary Pool Actuary – the extent of participation in the pool, and the name of the lead company. This is information the company actuary would already have before meeting with the Involuntary Pool Actuary.

#### Part b

Candidates were expected to know the types of information provided by the Involuntary Pool Actuary that could assist the Appointed Actuary with determining the reasonableness of the overall reserves.

Common errors include:

- Referring only to the experience of the involuntary pool actuary without discussing the actuary's credentials or accreditation.
- Nature of reserves (rather than nature of exposures and coverage)
- Proportion of pool to total (without mentioning reserves)

#### Part c

Candidates were expected to understand the events that would cause the Appointed Actuary to conclude that the prior SAO was issued in error.

Common errors include:

- Not being firm with a YES or NO, but rather "hedging the bet" – e.g., "may be an error," or "may not be an error" without further explanation

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- Focusing only on materiality for both subparts – the error associated with the scenario in the second subpart was due to subjectivity, regardless of whether the error was considered material or not
- Not writing an explanation for each scenario, but rather using them in conjunction to arrive at one answer