

22. (4.75 points)

An Appointed Actuary analyzed the loss and loss adjustment expense (L&LAE) reserves as of December 31, 2016 for an insurance company domiciled in State X. The following information is given (all figures are in millions of dollars):

Company Booked Net L&LAE Reserves	340
Company Booked Gross L&LAE Reserves	600
Actuary's Point Estimate of Net L&LAE Reserves	350
Actuary's Low End of Reasonable Range for Net L&LAE Reserves	320
Actuary's High End of Reasonable Range for Net L&LAE Reserves	380
Actuary's Point Estimate of Gross L&LAE Reserves	650
Actuary's Low End of Reasonable Range for Gross L&LAE Reserves	620
Actuary's High End of Reasonable Range for Gross L&LAE Reserves	700

- The scope of the Statement of Actuarial Opinion (SAO) does not include any Unearned Premium Reserves for Long Duration Contracts or Other Loss Reserve items.

a. (2.25 points)

Propose language for the OPINION section of the SAO.

b. (0.5 point)

Identify the appropriate entry on Exhibit B, item 4 "Type of Opinion" for this SAO, and briefly explain the rationale.

c. (2 points)

Construct the Actuarial Opinion Summary, items A through D.

- Using 30% rather than 20% in the formula for the amount of dividends taxed for affiliated companies
- Not including the proration adjustment for 15% remaining 80% in the formula for the amount of dividends taxed
- Not performing the Alternative Minimum Tax calculation

**QUESTION 22**

**TOTAL POINT VALUE: 4.75**

**LEARNING OBJECTIVE: D**

**SAMPLE ANSWERS**

**Part a: 2.25 points**

Sample 1

In my opinion, the amounts carried on Exhibit A on account of the items listed.

- A. Meet the insurance law requirements of state X.
- B. Are computed in accordance w/ accepted actuarial standards and principles
- C. Make a reasonable provision of the net unpaid loss and loss adjustment expense obligations of the company under the terms of its current contracts. The Gross loss and loss adjustment expense reserves are deficient. The carried reserves on a gross basis are 600 million, which is 20 million below the low end of my reasonable estimate.

Sample 2

In my opinion, the items listed in Exhibit A:

- A. Meet the requirements and laws of state X.
- B. Are computed in accordance with accepted actuarial standards and methods
- C. Make a reasonable provision for all net unpaid loss and LAE reserves and a deficient provision for all gross unpaid loss and LAE reserves under the terms of its contracts and obligations. The minimum gross reserves I believe to be reasonable is 620.

Sample 3

*[The following includes examples of the items that were considered when evaluating candidate responses]*

- Reference to Exhibit A when identifying what items are opined upon
- Mentioning the reserves meet the [insurance] laws or regulations of State X.
- Mentioning the reserves are computed in accordance with [accepted] actuarial standards and principles

- Identifying and including language that net reserves are reasonable and gross reserves are deficient. In addition, identifying and including language on either the deficiency amount (\$20 [million]) or the minimum amount required (\$620 [million]).

**Part b:** 0.5 point

Sample 1

Provision should be Reasonable, since if the gross provision and net provision differ, Exhibit B should show the net provision. This makes sense since the net view is more realistic for the company.

Sample 2

“R” for reasonable. Exhibit B should list the net opinion.

**Part c:** 2 points

Sample 1

	Net			Gross		
	Low	Selected	High	Low	Selected	High
A. Actuary's Range	320		380	620		700
B. Actuary's point estimate		350			650	
C. Company Booked Estimate		340			600	
D. Difference	20	-10	-40	-20	-50	-100

Sample 2

Gross

	Low	Point	High
Booked		600	
Actuarial range	620		700
Actuarial point		650	
Diff in range	20		100
Diff in point		50	

Net

	Low	Point	High
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Booked		340	
Actuarial range	320		380
Actuarial point		350	
Diff in range	-20		40
Diff in point		10	

### Sample 3

*[The following includes examples of the items that were considered when evaluating candidate responses]*

- Actuary's low, point, and high estimated reserves, both gross and net
- Company's carried (point) reserves, both gross and net
- Difference between actuary's low, point, and high estimated reserves and company's carried reserves, both gross and net

### **EXAMINER'S REPORT**

Candidates were expected to use the information provided in the question to construct the various pieces of the SAO and AOS.

#### **Part a**

Candidates were expected to write the full opinion paragraph given the scenario described in the question.

Common errors included:

- Excluding commentary on either net or gross reserves. The scope of the Statement of Actuarial Opinion includes both net and gross reserves.
- Excluding the statement that the opinion paragraph relates to the reserves listed in Exhibit A.
- Issuing a Qualified opinion because the actuary did not have an opinion on Unearned Premium Reserves for long duration contracts. The question clearly stated that UEPR on long duration contracts was not included in the scope of the opinion.
- Some candidates used incorrect terminology on the opinion type. If the company carried reserve is within the actuary's reasonable range, a "Reasonable" opinion should be issued. "Adequate" is not an accepted response by the NAIC.
- Selecting the type of opinion by comparing the company carried value to the actuary's point estimate.

#### **Part b**

Candidates were expected to select “R” or “Reasonable”, along with a brief explanation. Per opinion guidance, if the net and gross opinions differ, the net opinion should be entered into Exhibit B.

Common errors included:

- Listing both “Reasonable” and “Deficient” to represent the opinions on net and gross reserves, respectively. Only the net opinion should be entered.
- Listing “Qualified” because the opinions on net and gross reserves differ. A qualified opinion should be issued when the reserves in question cannot be reasonably estimated or when the Appointed Actuary is unable to render an opinion on those items.
- Providing the proper entry without any explanation.

**Part c**

Candidates were expected to construct a table to include in the Actuarial Opinion Summary.

Common errors included:

- Only including the difference between the actuary’s point estimate and the company carried reserve. The AOS should include the differences between the company carried estimates and each of the actuary’s estimates (low, point, and high)
- Only including the values on net reserves.

<b>QUESTION 23</b>	
<b>TOTAL POINT VALUE: 1.75</b>	<b>LEARNING OBJECTIVE: D</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a:</b> 0.25 point	
<ul style="list-style-type: none"> <li>• SCOPE</li> <li>• SCOPE Paragraph</li> <li>• RELEVANT COMMENTS</li> <li>• RELEVANT COMMENTS – Intercompany Pooling</li> <li>• RELEVANT COMMENTS – Section on Pooling</li> <li>• RELEVANT COMMENTS – Other Disclosures</li> <li>• COMMENTS/RELEVANT COMMENTS SECTION</li> </ul>	
<b>Part b:</b> 1 point	
<b>Error #1</b>	