23. (1.75 points)

Company A is an insurance company domiciled in State X. Company A participates as the lead company in an intercompany pooling arrangement with Company B and Company C, both also domiciled in State X. The following is an excerpt from the 2016 Statement of Actuarial Opinion (SAO) for Company A:

> Company A, Company B, and Company C participate in an intercompany pooling arrangement. Premiums and losses are allocated to Company A based on its assigned percentage to the total pool, 80%. Analysis of the reserve items identified in Exhibit A has been performed for all pool companies combined and allocated to the pool companies based on their pooling percentages. Any favorable or adverse development will affect pool members in a manner commensurate with their pool participation. The following is a listing of all companies in the pool and their respective pooling percentages:
>
> Company A, 80%
> Company B, 20%
> Company C, 0%

a. (0.25 point)

Identify the section of the SAO that would contain the paragraph above.

b. (1 point)

Identify and correct two errors or omissions related to intercompany pooling arrangements in the excerpt above.

c. (0.5 point)

Describe the concept of an intercompany pooling arrangement.

CONTINUED ON NEXT PAGE

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.

QUESTION 23	
TOTAL POINT VALUE: 1.75	**LEARNING OBJECTIVE: D**
SAMPLE ANSWERS	
Part a: 0.25 point	

- SCOPE
- SCOPE Paragraph
- RELEVANT COMMENTS
- RELEVANT COMMENTS – Intercompany Pooling
- RELEVANT COMMENTS – Section on Pooling
- RELEVANT COMMENTS – Other Disclosures
- COMMENTS/RELEVANT COMMENTS SECTION

Part b: 1 point

Error #1

Error: Didn't identify lead insurer in pooling agreement.

Possible Correction: "Company A participates as the lead company in the pooling arrangement"

Possible Correction: The paragraph should include a statement indicating that Company A is the lead company.

Error #2

Error: Didn't list the states in which the participants are domiciled

Possible Correction: "Company A, Company B, and Company C are all domiciled in State X"

Possible Correction:

Company A, State X, 80%
Company B, State X, 20%
Company C, State X, 0%

Possible Correction: The paragraph should include a statement that each company in state X. This could also be included in the listing of each company and their pooling percentage rather than in the paragraph.

Correction for Both Errors Combined:

	Pooling %,	Domiciliary State
Company A, Lead,	80% ,	X
Company B, ,	20% ,	X
Company C, ,	0% ,	X

Part c: 0.5 point

Sample Answer #1:
In an intercompany pooling arrangement, there is risk pooling rather than risk sharing. The premiums and losses of each member are all ceded to the lead member of the arrangement who then ceded premiums and losses from the total pool back to each participant based on its respective pooling percentages.

Sample Answer #2:
The companies each write own business and then ceded all to the lead company. The lead company then cedes back a portion to participating companies based on participation %.

Sample Answer #3:
Premiums and Losses are all ceded to the lead company, and then retroceded to the participant companies based on their pooling %

Sample Answer #4:
An intercompany pooling arrangement is when all of the pool members cede all business to the lead member who retrocedes a portion back based on fixed percentages.

Sample Answer #5:
Intercompany pooling is where subsidiary companies pool the losses/premiums together and then redistribute them based on stated percentages.

EXAMINER'S REPORT

Candidates were expected to understand the components of the SAO and identify what sections information is usually in and understand how intercompany pooling works and is displayed in the SAO. Note that this question tested knowledge on intercompany pooling, which is a separate and distinct concept from voluntary/involuntary pools.

Part a

Candidates were expected to understand the components of the SAO to identify what sections information is usually in.

Common mistakes included identifying a wrong section such as Opinion, Identification, Notes, and Exhibit B (where voluntary/involuntary pools are disclosed).

Part b

Candidates were expected to understand the disclosures are needed in the paragraph on intercompany pooling and be able to identify and correct errors.

Common mistakes included:

- Stating the error, but not providing the corrected wording.
- Stating it is an error that Company C's Pooling Percentage is zero. This is not an error and is an acceptable participation % for a company part of an intercompany pooling arrangement.
- Stating it was an error to state the Reserve items identified in Exhibit A should be Exhibit B. Exhibit A is correct as worded in the question.

- Stating there is a need to identify the appointed actuary. While this is required in the SAO, it is not included in the section on intercompany pooling.
- Discussing disclosures related to voluntary/involuntary pools and associations. Intercompany pooling is a separate disclosure from the voluntary/involuntary pools and associations.

Part c

Candidates were expected to understand and describe the concept of intercompany pooling.

Common mistakes included:

- Not mentioning both premium and loss are shared in intercompany pooling, or using a general term like business, risk, or exposure.
- Not mentioning business being ceded to the lead.
- Not mentioning predetermined/fixed participation percentages for allocation back to companies.
- Description is not distinct from the concept of voluntary/involuntary pools & associations
- Describing the purpose of intercompany pools.
- Defining the concept of reinsurance (as opposed to intercompany pooling)

QUESTION 24	
TOTAL POINT VALUE: 3	**LEARNING OBJECTIVE: D**
SAMPLE ANSWERS	

Part a: 1 point

<u>Sample Responses for the amount of the reserves covered by another's analyses or opinions in comparison to the total reserves subject to the actuary's opinion (ASOP 36 3.7.2a)</u>

- How relevant is the analysis to the goal the appointed actuary tries to achieve
- How much (what proportion) is the amount of reserves covered by the analysis compared to the total reserves being opined on?
- The materiality of the analysis. How much would it impact the actuary's decision?
- Whether amounts included in analysis are material?
- The amount relied on that actuary relative to total of reserve
- Materiality of proportion to overall reserves
- Materiality of reserves under the analysis

<u>Sample Responses for the nature of the exposure and coverage (ASOP 36 3.7.2b)</u>

- The type of business the other actuary is opining on
- The nature of the line of business
- Is the analysis done on a LOB for which the appointed actuary has no experience
- Nature of exposures and losses other is analyzing
- Nature of the business
- Reserves being opined on (type, line)