

24. (3 points)

a. (1 point)

Briefly describe four considerations for an Appointed Actuary in the determination of whether to make use of an analysis by an individual not within the Appointed Actuary's control.

b. (1 point)

An Appointed Actuary may be required to make disclosures in the Statement of Actuarial Opinion (SAO) when making use of an analysis conducted by a non-actuary.

For each of the following scenarios, justify whether such disclosures are required:

- i. A catastrophe modeler estimates \$10 million in reserves for the company's commercial property line of business. The company carries a total of \$2 billion in reserves. The Appointed Actuary did not review the analysis.
- ii. A claims litigation specialist uses statistical models to estimate reserves of \$300 million for the company's liability lines of business. The company carries a total of \$1 billion in reserves. The Appointed Actuary reviewed the analysis and confirmed that the general methodology was reasonable.

c. (1 point)

For each scenario in part b. above, identify any additional required SAO disclosures.

- 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

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)

- 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

Sample Responses for the nature of the exposure and coverage (ASOP 36 3.7.2b)

- 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)

- LOB and/or segment of the business analyzed
- Should consider other person's expertise on the subject matter

Sample Responses for the way in which reasonably likely variations in estimates covered by another's analyses or opinions may affect the actuary's opinion on the total reserves subject to the actuary's opinion (ASOP 36 3.7.2c)

- To what extent would the variability and uncertainty in these reserves covered by the analysis impact the opinion given on the company's reserves
- Would a different result change opinion
- The way that uncertainty of other's estimates impact the appointed actuary
- How deviations in the analysis would impact the reserves
- How would uncertainties in the analysis potentially impact the actuary's decision

Sample Responses for the credentials of the individual(s) that prepared the analyses or opinions (ASOP 36 3.7.2.d)

- The credential of the individual
- Credentials and qualifications of the individual
- Other person's credentials and experience with regard to topic of analysis
- Credentials of the other actuary; prior experience qualifications of other individual
- Qualification of individual; Expertise of other actuary performing a separate piece of the analysis
- Whether other actuary is qualified
- The individual's qualifications

Sample Response for Intended purpose of analysis (ASOP 36 3.7.2)

- What was the intended purpose of analysis
- The purpose of the analysis. Is it internal or external?
- The scope and purpose of the analysis
- Purpose of analysis. Does it fit my purpose?

Part b: 1 point

Sample Responses for Scenario i

- None it's not so material compared to total reserves
- Do not need to disclose as the 10 million reserve is only 0.5% of total reserves, so it is not material enough
- No disclosures needed, the \$10M reserves only 0.005 (0.5%) of the already carried reserves, these seem immaterial
- No disclosure required since represents 0.5% of reserves, is not material

Sample Responses for Scenario ii

- Yes required, 30% of reserves so material, must disclose
- This is material (30% of reserves) and therefore the disclosure is required
- Required as the estimate is material and the methodology is sound
- Yes, this is a large portion of reserves

Part c: 1 point

Sample Responses for Scenario i

- No additional disclosures
- No more additional disclosures
- It is immaterial so no disclosures required
- None

Sample Responses for Scenario ii (name/affiliation)

- Name, affiliation of the specialist
- The Claims Specialist who calculated the reserve
- Should disclose the name and credentials of the claims specialist
- Persons name

Sample Responses for Scenario ii (extent of review)

- The AA's extent of the review
- The fact that the Appointed Actuary confirmed the methods were reasonable
- She reviewed the analysis and methods and felt it was reasonable
- Actuary review analysis, extent of review, confirm reasonable

Sample Responses for Scenario ii (type of analysis performed by non-actuary)

- Disclosure of methodology used
- Type of Analysis: claim litigation specialist's model to estimate reserves of liability lines
- Methods used to come up with estimate
- Description of the claims litigation specialist's methods and assumptions

EXAMINER'S REPORT

This question tested a candidate's knowledge of relying on another's unpaid claim estimate analysis or opinion in the course of conducting a reserve analyses.

Part a

Candidates were expected to list four considerations in determining whether or not to make use of another's analysis or opinion.

Common mistakes include:

- Providing a discussion of the Appointed Actuary's qualifications
- Providing two similar responses, such as
 - "Qualification of individual" and "Expertise of other actuary performing a separate piece of the analysis"
 - "Magnitude of the items in the other actuary's analysis to the total" and "Materiality of the items covered by the other actuary"

Part b

For both scenarios, candidates were expected to determine the materiality of the reserves and whether or not disclosures were required in the Statement of Actuarial Opinion.

For scenario i, a common error was to state that disclosures were required because the Appointed Actuary did not review the analysis. For scenario ii, a common error was to state that disclosures were not required because the Actuary reviewed the analysis and found it reasonable.

Part c

For both scenarios, candidates were expected to list Statement of Actuarial Opinion disclosures required when relying on another's unpaid claim estimate analysis or opinion in the course of conducting a reserve analyses.

Common errors including listing general disclosures not relating to relying on another's unpaid claim estimate analysis or opinion in the course of conducting a reserve analyses (such as the name of the Appointed Actuary). Another common error was to list disclosures for Scenario i when none were required. A common error for Scenario ii include omitting description of the type of analysis performed by the claims specialist

QUESTION: 25

TOTAL POINT VALUE: 2.25

LEARNING OBJECTIVE: D

SAMPLE ANSWERS

Part a: 1 point

Any four of the following:

- Is amount potentially uncollectible material/immaterial OR similar, such as:
 - amount or reinsurance is material
 - amount in dispute
 - recoverable in dispute
 - total uncollectible recoveries
- Is reinsurance concentrated OR similar, such as:
 - small number of reinsurers
 - heavy concentration
 - uncollectible amounts concentrated
 - reinsurer has exposure to catastrophic event
- Is reinsurer financially sound OR similar, such as:
 - reinsurer's financial strength rating
 - reinsurer's financially troubled
 - reinsurer insolvent
 - reinsurer unable to pay due to event