

25. (2.25 points)

a. (1 point)

Briefly describe four considerations with respect to the reinsurance collectibility disclosure in the RELEVANT COMMENTS section of the Statement of Actuarial Opinion.

b. (0.5 point)

Briefly describe two reasons reinsurance may be considered uncollectible.

c. (0.75 point)

Briefly describe three ways in which an actuary might assess reinsurance collectibility.

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

- Collateral or other reserves held (or not) to provide offset to uncollectibility issues, such as:
  - Secured/unsecured
  - Letters of credit
- Public information on collectibility
- Reliance on work of others

Note: answers must be sufficiently different. Only one answer from each section (Amount of uncollectible, Is reinsurance concentrated) was accepted

**Part b: 0.5 point**

Any two of the following:

- Default risk OR similar words meaning “unable to pay”, such as:
  - Insolvency
  - Bankrupt
  - Liquidation
  - Receivership
  - Financially troubled
  - Belly up
- Dispute risk OR similar words meaning “unwilling to pay”, such as:
  - Disputed claims
  - Disagreement with reinsurer
  - In argument about contract terms
  - NOTE: “slow paying” alone was viewed as an insufficient response
- Aggressive estimates of ceded loss potential or aggressive billing of the reinsurer by the cedant or similar words.

Note: answers must be sufficiently different. Only one answer from each section (Default risk, dispute risk) was accepted

**Part c: 0.75 point**

Any three of the following:

1. Get input from insurer’s management
2. Examine financial strength ratings OR financial strength from rating agency
  - Answers reflecting the actuary obtaining a view of financial strength from these agencies were given credit.
  - Answers that described assessing financial strength – especially those that suggested the actuary would review the reinsurer’s statements herself were not given credit.
3. Examine Schedule F for late payments or regulatory action – including phrases such as:

- Reinsurer payment history
- overdue amounts
- provision for reinsurance
- amounts in dispute
- NOTES:
  - i. Notes to the Financial Statement on Reinsurance was considered a reasonable substitute for “Schedule F”.
  - ii. Answers that clearly used Schedule F terms such as “Provision for Reinsurance” were considered to be references to these items in Schedule F

Note: answers must be sufficiently different. Only one answer from each section (Examine financial strength, examine schedule F) was accepted

## **EXAMINER’S REPORT**

Candidates were expected to demonstrate knowledge of the responsibilities of the actuary as defined by standards of practice, regulators, and insurance laws for financial reporting.

### **Part a**

Candidates were expected to list four potential subjects for the reinsurance collectibility disclosure in the Relevant Comments section of the SAO.

Common errors include:

- Giving the same issue twice, using different wording
- Providing characteristics of related reinsurance topics that would not normally be included in the RELEVANT COMMENTS section. Examples include Schedule F items (“authorized or not”, “where domiciled”).
- Describing ‘how’ the review might be performed rather than what would be listed in the RELEVANT COMMENTS section. Examples include items like (“talked to claim staff”, “calculate the Schedule F provision”)

### **Part b**

Candidates were expected to list the two main reasons that reinsurance could be considered uncollectible.

A common error was noting that the reinsurance was ‘slow to pay’ without mentioning that the amounts were in “dispute”. This was viewed as an incomplete answer. ‘Slow to pay’ is relevant to how Schedule F estimates values that MAY be in dispute. The Statement language is about amounts viewed by the actuary to be “unwilling to be paid” based on knowledge of the relationship between the insurer and reinsurer.

### **Part c**

Candidates were expected to list three ways and actuary might assess reinsurance collectibility. Correct responses described resources easily available to the actuary, such

as company management, Schedule F, Notes to Financials, and ratings from rating agencies.

A common error was listing other incorrect sources, such as talking to the reinsurer's claim staff, interviewing regulators, or reviewing the reinsurer's Schedule F, etc.

## QUESTION 26

**TOTAL POINT VALUE: 2.25**

**LEARNING OBJECTIVE: D**

### SAMPLE ANSWERS

#### Part a: 1 point

##### Sample 1 Proposals

- 1% of surplus = \$6M
- 5% of surplus = \$30M
- 10% of surplus = \$60M
- 20% of surplus = \$120M

##### Sample 2 Proposals

- 1% of reserves = \$4.5M
- 5% of reserves = \$22.5M
- 10% of reserves = \$45M
- 20% of reserves = \$90M

##### Sample Justifications

- Maintain adequate surplus to cover risks and maintain solvency
- Avoid regulatory concerns around solvency
- Avoid triggering RBC action level
- Could have an impact on management/regulator/investor's decision-making
- Could cause a change to the opinion
- Avoid triggering an unusual IRIS ratio

#### Part b: 0.25 point

- No communication needed, since a \$10M error is not material. (Accurate for candidates using 5% or more of surplus or reserves in Part a)
- The error must be communicated, since \$10M is above the materiality standards in Part a. (Accurate for candidates using 1% of surplus = \$6M or 1% of reserves = \$4.5M in Part a)
- No communication needed, since the actuarial opinion would not change, as the booked reserve is still within the new range of reasonable estimates

#### Part c: 0.5 point

- % of surplus (if not used in Part a)
- % of reserves (if not used in Part a)
- Amount that would trigger the next RBC action level