

20. (3.5 points)

a. (0.5 point)

Briefly describe two items included in the Actuarial Opinion Summary (AOS) not included in the Statement of Actuarial Opinion (SAO).

b. (1 point)

Identify the four required sections of the SAO.

c. (2 points)

For each section from part b. above, briefly describe two disclosures required in SAOs.

SAMPLE ANSWERS AND EXAMINER'S REPORT

EXAMINER'S REPORT
<p>Candidates were expected to demonstrate knowledge of the general philosophy of SAP accounting, as well as similarities and differences between SAP and GAAP, including:</p> <ul style="list-style-type: none">• Deferred acquisition costs• Provision for reinsurance• Gross & ceded loss & LAE reserves• Invested assets (bonds and stocks)
<p>Part a</p> <p>Candidates were expected to identify which of the listed balance sheet items impacted surplus differently between SAP and GAAP and to calculate GAAP equity.</p> <p>Common mistakes included applying the wrong sign to the provision for reinsurance or DAC, and adjusting surplus for loss & LAE reserves or UPR from SAP to GAAP.</p>
<p>Part b</p> <p>Candidates were expected to identify the balance sheet carrying value, or income statement treatment, of various classifications of bonds and stocks between SAP and GAAP.</p> <p>Common mistakes included identifying an incorrect carrying value for a particular category, or answering "book value" or "asset". Book value is synonymous with carrying value, with methodology that differs by accounting standard, and is what the question is asking the candidate to describe. Bonds and stocks are indeed assets, however the question is asking for the accounting treatment of these assets.</p>
<p>Part c</p> <p>Candidates were expected to identify the general philosophy of SAP accounting, and explain an example where the accounting treatment of bonds could be considered to differ from this philosophy.</p> <p>A common mistake was to describe a situation where the fair value of a bond is greater than the carrying value, however in such a case, SAP's treatment would be conservative relative to fair value.</p>

QUESTION: SPRING 2018 EXAM 6U, QUESTION 20	
TOTAL POINT VALUE: 3.5	LEARNING OBJECTIVE: D
SAMPLE ANSWERS	
<p>Part a: 0.5 point</p> <ul style="list-style-type: none">• The actuary's range of reasonable estimation of loss and LAE reserve• Point estimate for loss & LAE reserves• Difference between carried reserve and both range points and point estimate• AOS also includes if 3 or more years had 1-yr adverse development of 5% or greater of prior year surplus. <p><u>OR</u> Discussion on adverse development witnessed in the past 5 years and the cause of it.</p>	

SAMPLE ANSWERS AND EXAMINER'S REPORT

OR

1 year development/Prior Surplus over the past 5 yrs.

- Statement that the AOS is to remain confidential (not a public document)

Part b: 1 point

- Identification
- Scope
- Opinion
- Relevant Comments

Part c: 2 points

Identification

- Name of Appointed Actuary
- Appointed Actuary's Title
- Appointed Actuary's Qualifications
- The relationship of the Appointed Actuary to the company
- Appointed Actuary's date of appointment
- That the appointment was made by the board of directors

Scope

- Items that are included in the opinion by the actuary/any amounts excluded from the opinion
- Basis of the presentation of reserves (e.g. net or gross of discounting, net or gross of salvage and subrogation, whether or not there is an explicit risk margin, etc.)
- Who provided the data [Name, Title]
- Evaluation of data for reasonableness and consistency
- Reconciliation to Schedule P
- Review Date
- Evaluation Date
- That the Appointed Actuary has examined the assumptions and methods used in determining the reserves
- Description of Intercompany Pooling arrangements
- Exhibit A listing all the RSV on loss, LAE, UEP, gross and net

Opinion

- Type of Opinion for loss and LAE reserves
- Whether the unpaid loss and LAE is computed accordance with accepted actuarial standards and practices/principles
- Whether the unpaid loss and LAE reserve meets the requirements of [insurance] laws of domiciliary state
- If issuing a qualified opinion, disclose what items are qualified and the reason.
- If redundant/deficient then maximum/minimum amount the Appointed Actuary believes

SAMPLE ANSWERS AND EXAMINER'S REPORT

to be reasonable

- Type of Opinion for Unearned Premium Reserves for long duration contracts
- Reliance on the work of another actuary

Relevant Comments

- Whether the actuary thinks there is a risk of material adverse deviation
- Company specific risk factors
- Materiality Standard and its basis
- Reinsurance collectability
- Retroactive or financial reinsurance assumed
- If IRIS 11-13 are unusual, disclose the unusual value and a discussion on what lead to the unusual value
- Discussion of material changes in methodology and assumptions
- Exposure to environmental and/or asbestos liabilities
- Anticipated salvage and subrogation
- Discounting of Reserves (whether discounting is used, what's the amount)
- Voluntary and/or Involuntary underwriting pools and associations agreements
- Extended Reporting Endorsements
- Long Duration Contracts

EXAMINER'S REPORT

The candidate was expected to identify the contents of the Statement of Actuarial Opinion and the Actuarial Opinion Summary.

Part a

Candidates were expected to list two items that are found in the Actuarial Opinion Summary ("AOS") and not in the Statement of Actuarial Opinion ("SAO").

Common mistakes include listing items that are found in the SAO and not in the AOS (such as the Risk of Material Adverse Deviation) and items that are found in both the SAO and the AOS (such as the company carried reserves).

Part b

Candidates were expected to identify the four required sections of the Statement of Actuarial Opinion.

Common mistakes include incorrectly defining a particular section (such as Introduction instead of Identification), listing incorrect sections (such as Methodology or Exhibits), or listing specific disclosures within the SAO (such as RMAD, or IRIS Ratios).

Part c

Candidates were expected to identify two disclosures from each of the four required sections of the Statement of Actuarial Opinion.

Common mistakes include:

- Including a disclosure in the incorrect section (such as including the Reliance on Another

SAMPLE ANSWERS AND EXAMINER'S REPORT

<p>Actuary's Work in the Scope section instead of the Opinion section)</p> <ul style="list-style-type: none"> • Not understanding a disclosure item (for example, the Scope section generally does not include a description of the lines of business reviewed. This is not the same as the reserve items being opined upon, which is the loss and allocated loss adjustment expense reserves, and/or unearned premium reserves for long duration contracts, and/or other reserves) • Inadequately identifying the disclosure item (such as "net or gross" without labeling net or gross of what, or "Reinsurance" without any mention of why it is disclosed like collectability concerns or complexity of terms such as using retroactive or financial reinsurance).
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QUESTION: SPRING 2018 EXAM 6U, QUESTION 21	
TOTAL POINT VALUE: 2.5	LEARNING OBJECTIVE: D
SAMPLE ANSWERS	
<p>part i</p> <ul style="list-style-type: none"> • Disclose; Identification needs Appointed Actuary's affiliation. • Disclose; Provides context of the actuary's access to Company. <p>part ii</p> <ul style="list-style-type: none"> • Disclose; Stated basis of reserves in the Scope section. • Disclose; Identify the reserve items upon which the actuary is providing an opinion. • Disclose; Opinion section needs to indicate whether the reviewed reserves are net/gross. <p>part iii</p> <ul style="list-style-type: none"> • Do not disclose; Carried reserves are in the actuary's range. • Do not disclose; the actuary only needs to say that the reserves are reasonable. • Do not disclose; Information is proprietary/confidential. <p>part iv</p> <ul style="list-style-type: none"> • Disclose; Reinsurance collectability is a required disclosure in Relevant Comments. • Disclose; Relevant to the solvency of the Company. • Disclose; Company's ceded business is substantial. • Disclose; Collectability of reinsurance recoverables can have a direct impact on surplus. • Disclose; To avoid collectability concerns. <p>part v</p> <ul style="list-style-type: none"> • Do not disclose; \$500K is not material compared to the reserves of the Company. • Do not disclose; Lawsuit is not related to a line of business, could be for a slip and fall. 	
EXAMINER'S REPORT	
<p>Candidates were expected to know what items should be included/disclosed in the Statement of Actuarial Opinion (SAO). Specifically, candidates were expected to know the following:</p> <ul style="list-style-type: none"> • The actuary's relationship to the Company is a required disclosure in the Identification 	