

21. (2.5 points)

Company management booked net loss and loss adjustment expense (L&LAE) reserves of \$125 million and gross L&LAE reserves of \$205 million as of December 31, 2016.

Identify whether the Appointed Actuary should disclose each of the items below in the Statement of Actuarial Opinion, and briefly describe the reason.

- i. The Appointed Actuary works at the insurance company for which the analysis was performed.
- ii. The Appointed Actuary reviewed the reserves both gross and net of reinsurance.
- iii. The Appointed Actuary's range of reasonable net L&LAE reserve estimates is \$100 million to \$165 million.
- iv. Discussions with company management and a review of reinsurer financial strength ratings indicate that there are no collectability concerns for any of the company's reinsurance.
- v. There is a pending lawsuit against the company for \$500,000 that is not reflected in the company's carried reserves or the Appointed Actuary's estimate. The event triggering the lawsuit occurred in 2015, and there is a high probability that the company will lose the lawsuit.

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).
--

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 	

SAMPLE ANSWERS AND EXAMINER'S REPORT

section.

- The Scope section identifies the basis of the reserves that the actuary reviewed/opined on.
- The actuary's range of reasonable reserves is not disclosed since the carried reserve falls within the range (i.e. are reasonable).
- Reinsurance collectability is a required disclosure in the Relevant Comments section, even if there are no collectability concerns.
- Only material items should be disclosed; items not affecting reserves do not relate to a risk of material adverse deviation.
- The actuary should disclose relevant items so that the Opinion is not misleading.

Common mistakes included:

- Indicating that the item needed to be disclosed when it didn't and vice versa.
- Not providing a reason for the item's disclosure/non-disclosure.
- Providing a reason that wasn't related to the item, like shows the actuary judged reasonableness of ceded reserves or reserves are reconciled to Schedule P.
- (Part i) Stating the disclosure was required to review whether the relationship to company results in any potential conflicts of interest. Just stating the relationship does not imply the presence or absence of a conflict of interest. It is possible for conflicts of interest to exist (or not exist) regardless of whether the appointed actuary is internal or external to the company.
- (Part iii) Stating that the range of reserve was not disclosed in the Statement of Actuarial Opinion because it was already being disclosed in the Actuarial Opinion Summary.
- (Part v) Stating that the lawsuit needed to be disclosed because it was material to the company. A \$0.5 million lawsuit on \$125 million of net reserves is not material.
- (Part v) Stating that the lawsuit needed to be disclosed because it could impact profitability. Profitability is not within the scope of the actuarial opinion.
- (Part v) Stating that the lawsuit needed to be disclosed to prevent the actuarial opinion or financial statements from being misleading. These are not misleading since lawsuit is not material.
- (Part v) Stating that the lawsuit needed to be disclosed because it was a subsequent event. Unless the subsequent event was material and could impact the actuary's opinion, it would not need to be disclosed in the opinion.