24. (3 points)

a. (1 point)

Briefly describe one figure that may be disclosed in each of the following items of the Actuarial Opinion Summary (AOS):

i. Item A
ii. Item B
iii. Item C
iv. Item D

b. (0.75 point)

Fully describe how a regulator may use item E of the AOS.

c. (1.25 points)

The following is an excerpt from an insurance company's 2016 five-year historical data.

Data from 2016 Five Year Historical Data (000s)					
	2016	2015	2014	2013	2012
26. Surplus as regards policyholders (Page 3, Line 37)	30,510	31,550	39,400	39,950	44,520
74. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)	(500)	1,600	2,400	2,050	(1,860)

Fully explain whether the Appointed Actuary must include an explanatory statement in item E of the AOS based on this information.

CONTINUED ON NEXT PAGE

company reserves.
- Providing a separate opinion for each line of business (example PPA is redundant and the homeowners is inadequate). This is incorrect since only one opinion is given and is on the total company reserves.
- Providing a correct opinion without expressing the rationale for the conclusion.

QUESTION: SPRING 2018 EXAM 6U, QUESTION 24	
TOTAL POINT VALUE: 3	LEARNING OBJECTIVE: D

SAMPLE ANSWERS

Part a: 1 point

Sample 1

A. Range of actuary's estimate, net and/or gross
B. Point estimate, net and/or gross
C. Company carried reserve, net and/or gross
D. Difference between company's carried reserve to A and B

Sample 2

A. Actuary's low end of reasonable range for net L&LAE reserves
B. Actuary's point estimate for L&LAE reserves (net)
C. Company carried L&LAE reserves (net)
D. Difference between carried and actuary point estimate or C-B

Part b: 0.75 point

Sample 1

A regulator can see if development has been excessive in determining if the company has been adequately setting reserves. If there has been consistent under reserving as shown by adverse development >5% in at least 3 of 5 years they may be concerned with solvency strength.

Sample 2

Regulators may use item E to see if the company may be under reserving (indicated by having 3 or more years with 1 year development > 5% of prior surplus). Can also use to see what is driving the adverse development (e.g. asbestos reserves)

Part c: 1.25 points

Sample 1

- 2015: 1600 / 39,400 = 4.1%
- 2014: 2400 / 39,950 = 6.0%
- 2013: 2050 / 44,520 = 4.6%

Since there were not at least 3 years out of the past 5 where development was more than 5% of prior year surplus explanation is not necessary

Sample 2

	2016	2015	2014	2013	2012
Development	-1.6%	4.1%	6%	4.6%	?

The actuary does not need to include an explanatory statement because the 2012 development is negative and there were not 3 or more years where development was >5%, so the actuary does not need to comment.

EXAMINER’S REPORT

The candidates were expected to understand the primary components of the Actuarial Opinion Summary.

Part a

Candidates were expected to understand the information that is include in items A through D of the actuarial opinion summary.

A common mistake included providing two examples of the same part of the AOS (e.g. saying both difference between carried and range, gross, and then difference between carried and range, net)

Part b

Candidates were expected to understanding how a regulator would review Item E when evaluating the financial health of a company.

The most common mistake was not providing enough detail to fully describe the regulator’s review. For example, just stating “review the adverse development” is not a full description.

Part c

Candidates were expected to understand the actuarial disclosure required in item E of the actuarial opinion summary including the ratios to test and the threshold for disclosure.

Common mistakes included:

- Dividing the development by current year surplus instead of prior year surplus.
- Incorrectly identifying the triggers (e.g. saying “>” 3 out of 5 years, or “>=” 5% of prior year surplus)