12. (2 points)

a. (1 point)

For each type of policy below, identify the yearly reporting convention by which losses are shown in Schedule P, Part 1:

i. Medical Professional Liability – Claims-Made

ii. Commercial Auto Liability/Medical – Occurrence

iii. Products Liability – Tail Coverage

iv. Surety

b. (1 point)

An insurance company writes only Homeowners insurance and has historically purchased non-proportional reinsurance. Using the excerpt below from Schedule P - Part 1A, Homeowners/Farmowners, provide one argument for and one argument against the continued purchase of non-proportional reinsurance.

	Premiums Earned			Loss and Loss Expense Percentage (Incurred / Premiums Earned)		
	1 Direct and Assumed	2 Ceded	3 Net	29 Direct and Assumed	30 Ceded	31 Net
1. Prior	XXX	XXX	XXX	XXX	XXX	XXX
2. 2008	12,000	5,600	6,400	33.8	21.4	44.5
3. 2009	13,100	6,000	7,100	45.8	45.0	46.5
4. 2010	13,000	6,200	6,800	40.2	36.3	43.8
5. 2011	15,000	7,300	7,700	58.0	56.2	59.7
6. 2012	17,500	7,900	9,600	94.3	138.6	57.8
7. 2013	20,000	11,000	9,000	44.0	40.0	48.9
8. 2014	25,000	12,400	12,600	38.0	37.5	38.5
9. 2015	35,000	14,600	20,400	37.4	34.2	39.7
10. 2016	38,000	15,200	22,800	35.3	33.7	36.3
11. 2017	42,000	19,000	23,000	90.5	118.4	67.4
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX

CONTINUED ON NEXT PAGE

Candidates were expected to solve for underwriting income given other items from the balance sheet and Capital and Surplus section.

Common errors include:
- Including or excluding needed items from the table of information.
- Adding deferred tax savings from the change in net unrealized capital gains. This isn't necessary. Net unrealized capital gains is already net of deferred taxes.
- Subtracting taxes from net realized capital gains. The notes in line 10 provide the capital gains taxes where "net" means net of taxes. Capital gains gross of taxes is found in the Exhibit of Capital Gains (Losses).

Part c.e

Candidates were expected to provide the specifics of when a premium deficiency reserve (PDR) needs to be recorded as a liability on the balance sheet. Specifics based on either statutory or GAAP guidance were accepted.

Common errors include:
- Timing of premiums or losses/expenses unclear or imprecise. For example, an insurer should record a PDR if it expects that collected premiums will not be enough to cover losses and expenses. Premiums could have been collected years ago and associated losses and expense may have already occurred. The point of the PDR is to recognize an anticipated deficiency in future earnings which the insurer can do nothing to address (either through rate increases or non-renewal).
- Timing of premiums or losses/expenses is in the past. For example, an insurer should record a PDR when premium earned is less than incurred losses and incurred expenses. This deficiency would impact surplus through the income statement without the existence of a PDR through an underwriting loss.

FALL 2018 EXAM 6US, QUESTION 12	
TOTAL POINT VALUE: 2	**LEARNING OBJECTIVE: C1**
SAMPLE ANSWERS	
Part a: 1 point	

Sample Responses for Medical Professional Liability – Claims-Made
- Report Year
- By date claim was reported to insurer

Sample Responses for Commercial Auto Liability/Medical - Occurrence
- Accident Year
- Calendar/Accident Year
- By date the loss occurred
- Occurrence Year

Sample Responses for Products Liability – Tail Coverage
- Policy Year
- Accident Year

- Underwriting Year
- Date corresponding to when the policy was issued (when the product was sold)
- Occurrence Year
- Reported in the year when insurer writes the risk

Sample Responses for Surety

- Discovery Year
- Loss Discovery Year
- Investigation Year/Calendar Year where we find out the claim

Part b: 1 point

Sample Responses for Argument for Continued Purchase of Non-Proportional Reinsurance

- The use of non proportional reinsurance has stabilized results.
- The insurer has been able to continue to grow their NWP while maintaining a profitable LR (<60%) outside of 2017 which is too immature for a proper ultimate view.
- Based on the D&A EP, the insurer has been growing rapidly. Rapid premium growth has been the cause of many insurer insolvencies. As the insurer does not know as much about the new business, reinsurance protection makes sense to provide the insurer protection from this risk.
- In year 2012 and 2017, the ceded loss and LAE ratio are much worse than the net, so without reinsurance, the company would have suffered big loss. The company won't know which year a big loss like this will occur so purchasing reinsurance is safe.

Sample Responses for Argument against Continued Purchase of Non-Proportional Reinsurance

- The use of non proportional reinsurance has only resulted in a lower loss ratio two out of the past ten years. Therefore the company is losing money from the arrangement more often than gaining.
- For all but 2 years (2012 & 2017) where a CAT likely occurred, the net ratio is worse than the ceded ratio. Perhaps they would be better off with a proportional Q-S structure where they can share equally in losses so the ceded ratio is the same as the net.
- Purchasing too much reinsurance exposes insurer to more credit risk, due to collectability concerns. In the last 3 yrs, an avg of 42.3% premium was ceded, which is a lot.
- Reinsurance is expensive so they could reduce that cost by foregoing coverage and expose themselves to higher loss ratios – the highest gross is 94.3 but most are very lower, could price for this.

EXAMINER'S REPORT

Candidates were expected to understand how Schedule P data is organized for various lines of business. Candidates were also expected to interpret Direct & Assumed vs. Ceded and Net Loss and LAE ratios.

Part a

Candidates were expected to identify how Schedule P data are organized for four different types of insurance.

Common errors include:

- Stating Calendar Year without further description
- For Claims Made: stating Policy Year or Accident Year or Calendar Year
- For Occurrence: stating Report Year or Calendar Year
- For Tail Coverage: stating Report Year or Discovery Year
- For Surety: stating Accident Year or Report Year or Policy Year

Part b

Candidates were expected to interpret a set of Direct & Assumed vs. Ceded vs. Net Loss and LAE ratios where non-proportional reinsurance applied, and provide one reason for and one reason against continued use of non-proportional reinsurance, based on the sample Schedule P provided.

Common errors include:

- Stating that proportional reinsurance would provide more stable loss ratios than non-proportional
- Stating that proportional reinsurance made net loss ratios more predictable.
- Stating that non proportional reinsurance provided surplus relief

FALL 2018 EXAM 6US, QUESTION 13

TOTAL POINT VALUE: 2.75 | **LEARNING OBJECTIVE: C1**

SAMPLE ANSWERS

Part a: 2 points

Sample 1

Average Case Outstanding

(Part 2D - Part 3D - Part 4D) / (Part 5D, Section 2)

	2015	2016	2017
2015	10.25	12.35	26.57
2016		8.14	7.80
2017			6.85

The average case outstanding is decreasing along the diagonal when comparing the past 3 accidents years at the same maturity (10.25 -> 8.14 -> 6.85).

Use of an unadjusted reported loss development method to project unpaid losses may understate the reserve need.

Sample 2

Average Unpaid Outstanding

(Part 2D - Part 3D) / (Part 5D, Section 2)