14. (2.5 points)

The following are excerpts from an insurance company's 2017 Underwriting and Investment Exhibit (U&IE). All figures are in thousands of dollars.

Part 2 - Losses Paid and Incurred				
	Losses Paid Less Salvage			Net Losses Unpaid Prior Year
	Direct Business	Reinsurance Assumed	Reinsurance Recovered	
Totals	55,500	3,850	42,000	67,500

Part 2A - Unpaid Losses and Loss Adjustment Expenses							
	Reported Losses			Incurred But Not Reported			Net Unpaid Loss Adjustment Expenses
	Direct Business	Reinsurance Assumed	Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	Direct	Reinsurance Assumed	Reinsurance Ceded	
Totals	61,350	5,000	44,000	99,000	6,000	73,000	6,300

Part 3 - Expenses				
	Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
Total expenses incurred	6,500	2,500	298	9,298
Less unpaid expenses - current year	6,300	145	0	6,445
Add unpaid expenses - prior year	5,800	90	0	5,890

- Net Earned Premium in 2017 is 17,000.
- Both net income of protected cells and aggregate write-ins for underwriting deductions are 0.

a. (0.75 point)

Calculate the 2017 net losses unpaid.

b. (0.75 point)

Calculate the 2017 net losses incurred.

c. (1 point)

Calculate the 2017 calendar year net underwriting gain (loss).

- Calculating an appropriate metric, but not making an assessment.
- Calculating and assessing an appropriate metric, but not relating it back to how there is impact on reserve adequacy. Simply stating that "this implies reserves are inadequate" does not demonstrate why they are inadequate.
- In the assessment, candidates compared trends across development periods for a single accident year instead of trends across accident years. For example, mentioning that average case outstanding increases each development period for accident year 2015 does not demonstrate that reserves are inadequate. As small/easy claims are closed early, one would expect average case reserves to increase over time.

Part b

Candidates were expected to provide three changes in a company's business that should be considered when using Schedule P to assess reserve adequacy.

Common errors include:
- Listing a similar change more than once. For example, a change in claims staffing levels and a change in claims settlement rate are both related to claims settlement practices. Another example is a change in geography mix and a change between Property and Liability are both related to a change in mix of business.
- Listing a change in whether salvage and subrogation is included in Schedule P. Schedule P Parts 2 - 4 are always net of salvage and subrogation.

FALL 2018 EXAM 6US, QUESTION 14	
TOTAL POINT VALUE: 2.5	**LEARNING OBJECTIVE: C1**
SAMPLE ANSWERS	

Part a: 0.75 point

From part 2A – Unpaid Losses and Loss Adjustment Expenses
Net losses unpaid = (Direct Reported + Assumed Reported – Recoverable Reported)+(Direct IBNR + Assumed IBNR – Ceded IBNR)
Net losses unpaid = (61,350 + 5,000 - 44,000) + (99,000 + 6,000 – 73,000) = 54,350

Part b: 0.75 point

Net losses incurred = paid + change in reserve
55,500 +3,850 – 42,000 + (54,350 – 67,500) = 4,200

Part c: 1 point

UW gain/loss = Earned Premium – Incurred Losses & LAE – Other UW Expenses
= 17,000 – 4,200 – 6,500 – 2,500 = 3,800

EXAMINER'S REPORT
Candidates were expected to be familiar with the information in the Underwriting and Investment Exhibit and be able to calculate summary loss statistics using data from the exhibit.
Part a
Candidates were expected to know that the formula for current year net losses unpaid is net reported losses unpaid + net IBNR from Part 2A of the table (direct + assumed – ceded). Common errors include: • Subtracting paid losses in Part 2 of the table from the unpaid losses in Part 2A • Adding unpaid LAE to the total • Subtracting unpaid LAE from the total of the unpaid reported and IBNR
Part b
Candidates were expected to know that the formula for current year net incurred losses is net paid losses from Part 2 of the table + current year net losses unpaid (from subpart a) – prior year net losses unpaid from Part 2 of the table. A common error was not subtracting the prior year loss unpaid.
Part c
Candidates were expected to know that the formula for net underwriting gain/loss is net earned premium (given) – net incurred loss (subpart b) – net incurred LAE (Part 3 of table) – incurred other underwriting expenses (Part 3 of table). Common errors include: • Making an adjustment to the Incurred LAE and Other UW Expenses using the current year and prior year unpaid expense information given. • Including the Investment Expenses in the loss part of the formula.