21. (4.75 points)

Given the following information for an insurance company (all figures are in thousands of dollars):

Excerpt from Schedule P - Analysis of Losses and Loss Expenses
Schedule P - Part 1 - Summary

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid	
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR			
	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded
Total	14,000	2,000	5,000	500	3,000	500	1,000	20	200	-

Range of Reasonable Loss and Loss Adjustment Expense Reserve Estimates		
	Low	High
Net	13,000	22,000
Direct and Assumed	16,000	24,000

- The company does not have any retroactive reinsurance contracts.

a. (2.5 points)

Construct the Loss and Loss Adjustment Expense Reserves section of Exhibit A of the Statement of Actuarial Opinion.

b. (1.75 points)

Construct items A through D of the Actuarial Opinion Summary.

c. (0.5 point)

Identify and briefly justify the type of opinion that the Appointed Actuary should issue.

• Model validated by a third party

FALL 2018 EXAM 6US, QUESTION 21	
TOTAL POINT VALUE: 4.75	**LEARNING OBJECTIVE: D**
SAMPLE ANSWERS	

Part a: 2.5 points

Exhibit A:
- Unpaid Losses: 16,500
- Unpaid Loss Adjustment Expense: 3,680
- Unpaid Losses, Direct & Assumed: 19,000
- Unpaid Loss Adjustment Expense, Direct & Assumed: 4,200
- Retroactive Reinsurance Reserves: 0
- Other Items Actuary is Opining On: 0

Part b: 1.75 points

	Net Reserves		
	Low	point	high
A. Actuary's Range of Reserve	13,000		22,000
B. Actuary's point estimate		N/A	
C. Company Carried Reserves		20,180	
D. Difference	7,180		(1,820)

	Gross Reserves		
	Low	point	high
A. Actuary's Range of Reserve	16,000		24,000
B. Actuary's point estimate		N/A	
C. Company Carried Reserves		23,200	
D. Difference	7,200		(800)

Part c: 0.5 point

The actuary should issue a reasonable provision, because the carried reserves fall within the actuary's range of reserves.

EXAMINER'S REPORT

Candidates were expected to demonstrate knowledge of exhibit A of the Statement of Actuarial Opinion and the Actuarial Opinion Summary. Candidates were expected to use the information provided to construct a portion of the SAO and the AOS.

Part a

Candidates were expected to identify all six items of the loss section of Exhibit A. While there was no retroactive reinsurance, and other loss reserve items were not included in the question, it was expected that the candidate knew that the Loss and LAE Reserves section of Exhibit A included those items.

Common errors include:
• Not including adjusting and other unpaid costs in the LAE calculation
• Calculating case and bulk IBNR reserves as opposed to loss and LAE reserves.

Part b

Candidates were expected to set up the reserve tables, showing columns for low, point estimate, and high end of range. Format and order of the rows was not critical. Candidates were expected to show both gross and net tables.

Since the actuary's point estimate was not included, candidates were not expected to fill in this number.

Common errors include:
- Calculating a point estimate difference, rather than the range difference. It is expected that the estimates in the AOS must follow the Appointed Actuary's analysis, so because the data was provided as a range it was expected that the difference was a range as well.
- Mis-calculating the reserve; sometimes by not including adjusting and other.

Part c

Candidates were expected to identify that the opinion should be reasonable, because it falls within the range of reasonable estimates. If the reserve falls outside of the range provided in part b because of an error in part b, candidates were expected to identified a deficient or redundant reserve, consistent with the range provided in b.

A common error was providing only the type of opinion without a justification.

FALL 2018 EXAM 6US, QUESTION 22	
TOTAL POINT VALUE: 2.75	**LEARNING OBJECTIVE: D**
SAMPLE ANSWERS	
Part a: 1.25 points	

Sample 1

In my opinion, the amounts carried in Exhibit A on account of the items identified:
[A.] Meet the requirements of the insurance laws of State X.
[B.] Are computed in accordance with accepted actuarial standards and principles.
[C.] Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

Sample 2

The reserves shown in Exhibit A:
1. Are in accordance with the laws of State X
2. Are in accordance with accepted actuarial standards and practices
3. Are reasonable on a gross and net basis as they fall within the range of reasonable estimates.

Part b: 1 point
Sample 1