

23. (1.75 points)

Company A is an insurance company domiciled in State X. The following is a complete section from its 2017 Statement of Actuarial Opinion (SAO):

I have examined the actuarial assumptions and methods used in determining the reserves listed in Exhibit A, as shown in the Annual Statement of Company A as prepared for filing with the United States Department of Commerce as of December 31, 2017.

I have reviewed the December 31, 2017 loss and loss adjustment expense reserve recorded under U.S. Statutory Accounting Principles. My review considered information provided to me through the date of this opinion.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by Joe Doe, Reserving Manager at Company A. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary.

a. (0.25 point)

Identify the section of the SAO that would contain the paragraphs above.

b. (1 point)

Briefly describe four errors or omissions in the paragraphs above.

c. (0.5 point)

Assume that there is insufficient data for the Appointed Actuary to opine on a portion of the reserves. Justify the type of opinion that the Appointed Actuary should issue in this situation.

SAMPLE ANSWERS AND EXAMINER'S REPORT

<p>Part b</p> <p>Candidates were expected to provide language for the paragraphs related to the risk of material adverse deviation (RMAD) and materiality standard in the RELEVANT COMMENTS section of the SAO, including all the necessary components identified in the NAIC SAO instructions.</p> <p>Common errors include:</p> <ul style="list-style-type: none"> • Excluding either the amount of the materiality standard (\$3,500) or the basis for it (50% of net carried reserves). • Excluding the risk factor contributing to RMAD (asbestos exposure). • Incorrectly identifying that RMAD does not exist for this company and not providing sufficient explanation as to why there isn't RMAD.
<p>Part c</p> <p>Candidates were expected to identify an alternative materiality standard than the one given in the question and provide a reason why it is preferable.</p> <p>Common errors include:</p> <ul style="list-style-type: none"> • Providing an insufficient reason why the other standard is preferable (for example, stating that the standard is more reasonable without explaining why or explaining that it is an amount that would concern company management). • Incorrectly interpreting a larger materiality standard as more conservative. • Incorrectly stating that a percentage of surplus is preferable because it can't be manipulated by company management, unlike carried reserves. The amount of carried reserves has an impact on the company's surplus.

FALL 2018 EXAM 6US, QUESTION 23	
TOTAL POINT VALUE: 1.75	LEARNING OBJECTIVE: D
SAMPLE ANSWERS	
Part a: 0.25 point	
SCOPE	
Part b: 1 point	
<p>Any four of the following:</p> <ul style="list-style-type: none"> • Filing is not with US Department of Commerce. It is with State DOI. • Missing statement whether the actuary reconciled data to Schedule P Part 1. • Actuary should disclose that he/she reviewed the data for reasonableness and consistency. • The provider of the data should be an officer of the company. • Missing statement that the SCOPE items included in the SAO reflected disclosures in Exhibit B. 	
Part c: 0.5 point	
<p>One of the following</p> <ul style="list-style-type: none"> • If the portion of the reserves is material, I would issue a qualified opinion. • If the portion of reserves is immaterial, then a reasonable/deficient/excessive opinion, depending on position of reserves within the reasonable range. 	

SAMPLE ANSWERS AND EXAMINER'S REPORT

EXAMINER'S REPORT
Candidates were expected to understand the NAIC P&C SAO Instructions: the information required in the Opinion, when it has to be filed, etc.
Part a
Candidates were expected to know which information was required in the various sections of the opinion. The information given comes from the SCOPE section of the opinion.
A common error was misidentifying the section as "The Opinion" or "introductory"
Part b
Candidates were expected to know the information which should be included in the SCOPE section.
Common errors include: <ul style="list-style-type: none">• Listing only one reason.• Saying that the annual statement is filed 3/1 not 12/31. The filing date is not listed in the Scope.• Suggesting corrections that are incorrect or do not need to be made:<ul style="list-style-type: none">○ Need John Doe's credentials.○ Paragraph two should state the actual date through which information is known not just say "date of this opinion."○ Pointing out that Exhibit A is in the SAO and not the annual statement. This is a correct statement, but not an error in the paragraphs. The wording in the question is an exact replica of the wording in the reading. It is referring to the reserves in Exhibit, which are as shown in the Annual Statement.○ Need to comment on any discounting.○ State the basis of reserves, such as Gross/Net/S&S.○ Stating that loss and loss adjustment expense reserves are recorded under state rules & regulations.○ Stating that claims made policies do not develop after 12 months.○ Stating that claims made policies are not impacted by trend.
Part c
Candidates were expected to know what type of opinion to issue if there was insufficient data.
Common errors include: <ul style="list-style-type: none">• Selecting No Opinion because AA can't form an opinion for the reason due to insufficient data. The question states that there is insufficient data for the Appointed Actuary to opine on a portion of the reserves. In this circumstance, the NAIC P&C SAO Instructions state that the Appointed Actuary should issue a qualified opinion.• Stating that if the portion of reserves that cannot be estimated is small, the Appointed Actuary should issue a qualified opinion. According to the NAIC P&C SAO Instructions, the Appointed Actuary is not required to issue a qualified opinion when the item in question is not likely to be material.

SAMPLE ANSWERS AND EXAMINER'S REPORT

- Stating “qualified opinion” without a justification.

FALL 2018 EXAM 6US, QUESTION 24

TOTAL POINT VALUE: 2

LEARNING OBJECTIVE: D

SAMPLE ANSWERS

Example 1:

- (i) Required in both SAO and AOS
- (ii) Not required in either SAO or AOS
- (iii) Required in AOS only OR Not required in either SAO or AOS if a point estimate was not calculated
- (iv) Required in SAO only
- (v) Not required in either SAO or AOS
- (vi) Required in SAO only
- (vii) Required in both SAO and AOS
- (viii) Required in SAO only

Example 2:

- (i) Both
- (ii) Neither
- (iii) AOS
- (iv) SAO
- (v) Neither
- (vi) SAO
- (vii) Both
- (viii) SAO

EXAMINER'S REPORT

The candidates were expected to demonstrate knowledge of disclosures required in the Statement of Actuarial Opinion (SAO) and Actuarial Opinion Summary (AOS).

Candidates were expected to indicate whether the identified item should be disclosed in the SAO, AOS, Both or Neither.

Common errors include:

Part ii: Stating that the amount of reinsurance recoverables on paid losses is a required disclosure in the SAO. Reinsurance recoverable on paid losses is a consideration in assessing overall reinsurance collectability and what should be disclosed in the Relevant Comments section of the SAO. The amount, however, is not a required disclosure.

Part v: Stating that the one-year reserve development is a required disclosure in the SAO or AOS, since it is used in calculating certain IRIS ratios which require comment in the SAO. While the one year reserve development is used in the calculating the IRIS ratios and the relationship of reserve development to surplus, its disclosure is not required.