

24. (2 points)

For each of the following items, identify whether it is among the required disclosures in the Statement of Actuarial Opinion (SAO), Actuarial Opinion Summary (AOS), both, or neither.

- i. Booked net loss and loss adjustment expense reserves
- ii. Amount of reinsurance recoverables on paid losses
- iii. Appointed Actuary's point estimate of loss and loss adjustment reserves
- iv. Anticipated salvage and subrogation included as a reduction to loss reserves
- v. One-year reserve development
- vi. Policyholders' surplus
- vii. Name of the Appointed Actuary
- viii. Amount of asbestos and environmental loss and loss adjustment expense reserves

## 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.

## SAMPLE ANSWERS AND EXAMINER'S REPORT

There were no common errors in the remaining parts.

### FALL 2018 EXAM 6US, QUESTION 25

TOTAL POINT VALUE: 3.25

LEARNING OBJECTIVE: E

#### SAMPLE ANSWERS

##### Part a: 2 points

- i.
  - Only 5% chance reinsurer will incur a loss, does not pass 10-10 rule
- ii.
  - $ERD = .05 * (16/1.05^2 - 5 - 5/1.05^{0.5}) = 0.23$  million
  - $0.23/(5 - 5/1.05^{0.5}) = 2.34\%$
  - Since ERD % > 1% qualifies for risk transfer

##### Part b: 0.5 point

- If candidate determined in part a that the contract does not qualify as risk transfer:
  - Deposit accounting as no underwriting risk is transferred
  - Deposit accounting since there is no risk transfer
- If candidate determined in part a that the contract qualifies as risk transfer:
  - Deposit accounting as no timing risk exists due exact payment date in contract
  - Payment is made a specified date, no timing risk
  - Deposit accounting, no timing risk

##### Part c: 0.5 point

Any one of the following:

- Considers time value of money
- Allows for discounting
- Based on distribution of losses which can be modeled
- Identify risk transfer when very small chance of catastrophic loss
- Allows for recognition of parameter risk
- Allows for simulation
- Ability to vary the threshold
- More flexibility to model additional contract terms

##### Part d: 0.25 point

Any one of the following:

- Easier to calculate
- Easier to understand