

21. (2.75 points)

John Doe, Chief Information Officer, provided the data for the Appointed Actuary's analysis as well as the December 31, 2017 statutory Annual Statement excerpted below. The insurer writes no long-duration contracts and has no extended reporting endorsements (all figures are in millions of dollars):

LIABILITIES, SURPLUS AND OTHER FUNDS	
Losses	799
Reinsurance payable on paid losses and loss adjustment expenses	160
Loss adjustment expenses	194
Unearned Premiums	475
STATEMENT OF INCOME	
Losses incurred	595
Loss adjustment expenses incurred	130
SCHEDULE P	
Unpaid Losses - Direct and Assumed	862
Unpaid Loss Adjustment Expenses - Direct and Assumed	200

a. (1 point)

Identify four items in the tables above that must be included in Exhibit A of the Statement of Actuarial Opinion (SAO).

b. (0.75 point)

Propose language for the SCOPE section of the SAO related to the data relied upon by the Appointed Actuary.

c. (1 point)

Contrast the SAO disclosure requirements for the following insurers:

- i. Company A, an insurer with a 0% share in an intercompany pooling arrangement
- ii. Company B, an insurer that cedes 100% in a quota share reinsurance agreement

SAMPLE ANSWERS AND EXAMINER'S REPORT

SPRING 2019 EXAM 6US, QUESTION 21		
TOTAL POINT VALUE: 2.75		LEARNING OBJECTIVE: D
SAMPLE ANSWERS		
Part a: 1 point		
<u>Sample 1</u>		
<ul style="list-style-type: none"> • Page 3 loss reserve (\$799M) • Page 3 loss adjustment expenses reserve (\$194M) • Schedule P Unpaid Losses - D&A (\$862M) • Schedule P Unpaid Loss Adjustment Expenses - D&A (\$200M) 		
<u>Sample 2</u>		
<ul style="list-style-type: none"> • Loss reserves net • LAE reserves net • Loss reserves gross – schedule P • Loss reserves gross – schedule P 		
Part b: 0.75 point		
<p>The wording of the Scope section needed to include the following information:</p> <ul style="list-style-type: none"> • Name/title of the person providing the data • Statement that the data was reconciled to Schedule P • Statement that the data was evaluated for reasonableness / consistency • Review data through which material information known to the actuary is included in forming the opinion <p>A sample of the Scope wording follows:</p> <p>In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data evaluated as of 12/31/2017 prepared by John Doe, Chief Information Officer, and other information provide to me through the date of this opinion. I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P, Part 1 of the Company's current Annual Statement.</p>		
Part c: 1 point		
Any two of the following:		
Difference in:	0% retainer of intercompany pooling	100% Quota Share reinsurance
SAO	Submit an Actuarial Opinion that reads similarly to the Lead company of the pool.	Produce a normal Actuarial Opinion for its company.
Attach Other Company's Statement of Actuarial Opinion	Yes, would need to attach the Actuarial Opinion of the Lead company of the Pool.	No, the reinsurer's Actuarial Opinion would not be attached to the Insurer's actuarial opinion.
SCOPE	Intercompany pooling	No disclosure of agreement

SAMPLE ANSWERS AND EXAMINER'S REPORT

	disclosure needed	needed in SCOPE
Collectability	No disclosure of collectability required since all experience is pooled	Disclose the potential uncollectability of losses from the reinsurer
Materiality Standard / RMAD	Disclose a materiality standard of \$0 or an RMAD of NA	If commenting on the gross reserves materiality standard or RMAD, should disclose that fact

EXAMINER'S REPORT

The question required candidates to demonstrate an understanding of components of the Statement of Actuarial Opinion (SAO), including Exhibit A, the SCOPE section, and disclosure requirements.

Part a

Candidates were expected to identify the 4 items from the table provided that must be included in Exhibit A of the Statement of Actuarial Opinion (SAO).

A common mistake was Identifying incurred values as being included in the exhibit (rather than reserves).

Part b

Candidates were expected to propose language for the SCOPE section of the SAO related to the data relied upon by the appointed actuary.

A common mistake was not providing all of the required information (such as just identifying the name but not the title of the person who provided data).

Part c

Candidates were expected to contrast the disclosure requirements for two different insurers.

A common mistake was stating "no disclosure" without additional commentary on the rationale.

Notes: Candidates were not marked incorrect if they interpreted Company A's intercompany pooling percentage of 0% as not participating in a pooling agreement.