

22. (2 points)

Given the following information for an insurance company as of December 31, 2017 (all figures in millions of dollars):

<u>Line of Business</u>	<u>Unpaid Loss and LAE Reserves</u>	
	<u>Point Estimate</u>	<u>Carried Reserve</u>
Auto Liability	10	8
Workers' Compensation	63	76
General Liability	34	42
Homeowners	21	18
Total	128	144

<u>Total Reserve Estimate</u>	
Low Reasonable	117
Point	128
High Reasonable	154

The Appointed Actuary has set a materiality standard of 10% of indicated loss and LAE reserves.

a. (0.5 point)

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

b. (0.5 point)

Evaluate whether there are significant risks and uncertainties that could result in material adverse deviation.

c. (1 point)

On November 1, 2018, the company begins writing a new line of business for which limited internal historical data is available. Briefly describe four considerations for the Appointed Actuary with regard to the new line of business when preparing the year-end 2018 opinion.

SAMPLE ANSWERS AND EXAMINER'S REPORT

SPRING 2019 EXAM 6US, QUESTION 22	
TOTAL POINT VALUE: 2	LEARNING OBJECTIVE: D
SAMPLE ANSWERS	
Part a: 0.5 point	
<u>Sample 1</u> <ul style="list-style-type: none">• Since opinions are formed on total reserves the carried value of 144 is within the actuary's reasonable range of (117 , 154) → Reasonable Provision	
<u>Sample 2</u> <ul style="list-style-type: none">• The actuary should issue a reasonable opinion. Since the SAO is focused on aggregate reserves and the company booked reserve of 144 is within range of 117 to 154.	
<u>Sample 3</u> <ul style="list-style-type: none">• The actuary should issue a "Reasonable" opinion as the amounts carried as reserves are within the actuary's reasonable range of estimate.	
Part b: 0.5 point	
<u>Sample 1</u> $10\% * 128 = 12.8$ $144 + 12.8 = 156.8$ This is not within the actuary's estimates so there is not a risk of material adverse deviation	
<u>Sample 2</u> Carried plus materiality standard = $144 + 12.8 = 156.8$ 156.8 is above the high end of reasonable estimates → no significant risk of material deviation	
<u>Sample 3</u> No significant risk and uncertainty that could result on RMAD because the carried reserve + materiality standard is outside the range of estimates.	
<u>Sample 4</u> The materiality standard of 10% loss + LAE reserves plus the carried reserve is greater than the highest range of the estimate of 154 so there is not a significant risk of material adverse deviation.	
<u>Sample 5</u> I assume that "indicated reserves" in the materiality standard refers to the company's carried reserves. The sum of the carried reserve (144) and the materiality standard (10% of 144 = 14.4) is above the high end of the appointed actuary's range ($158.4 > 154$), so there is no risk of material adverse deviation.	
<u>Sample 6</u> Materiality standard = $10\% * 128 = 12.8$ Possible deviation = $154 - 144 = 10.0$	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Since $10 < 12.8$, there is no significant risks and uncertainties that would result in material adverse deviation.

Sample 7

Without more information about company risk factors or reserve variability, it is not possible to determine this.

Part c: 1 point

Any four of the following:

- Enough data to make opinion on?
- What is the nature/exposure of the coverage?
- Tail length of new line of business (short vs long)
- Exposure to Cat
- Any benchmark data available
- Any reinsurance purchased + levels
- How much is written in new line
- Is the actuary qualified to opine on new LOB
- Will the amount be material in portion to total reserves
- What does management have to say about this business
- The data used to determine reserves (industry)
- Not reviewing the new business and issue qualified opinion
- The loss development pattern
- The expertise of the company (or lack of) in setting reserves
- Are there any claims as of 12/31/2018?
- Are there industry data available to come up with reserves as of 12/31/2018
- Is the inclusion of this new LOB going to make a material difference in my opinion? Or the book as a whole?
- Should I disclose this under relevant comments

EXAMINER'S REPORT

Candidates were expected to identify and explain the type of OPINION for a Statement of Actuarial Opinion (SAO), evaluate the Risk of Material Adverse Deviation, and provide considerations for a new line of business as it pertains to the SAO.

Part a

Candidates were expected to identify and explain the type of OPINION for a Statement of Actuarial Opinion (SAO).

A common mistakes was using the term "adequate" or "sufficient" to describe the type of opinion. The NAIC uses the term "Reasonable".

Part b

Candidates were expected to evaluate the Risk of Material Adverse Deviation and provide language for the paragraphs related to the risk of material adverse deviation (RMAD).

SAMPLE ANSWERS AND EXAMINER'S REPORT

Common mistakes include:

- Incorrectly applying the materiality standard to the carried reserves rather than the indicated point estimate reserves without clearly stating assumptions as to why materiality standard used deviates from 10% of the indicated point estimate
- Incorrectly identifying that RMAD exists for this company and not providing sufficient explanation as to why there is RMAD
- Stating reasons for possible RMAD without applying materiality standard

Part c

Candidates were expected to provide considerations for a new line of business as it pertains to the Statement of Actuarial Opinion (SAO).

A common mistake was providing considerations that were too similar and not distinct. For example, "company provides no loss data" and "there were no claims as of evaluation date".

SPRING 2019 EXAM 6US, QUESTION 23

TOTAL POINT VALUE: 2.5

LEARNING OBJECTIVE: E

SAMPLE ANSWERS

Part a: 2 points

Sample responses for part (i)

- No, it is not a cash flow between insurer and reinsurer

Sample responses for part (ii)

- Yes, it represents a cash flow between insurer and reinsurer
- Depends, profit commissions should be excluded but commissions as a part of original premium transactions are included

Sample responses for part (iii)

- No, currency risk is not an aspect of insurance risk
- No, interest rate risk and exchange rate risk should not be considered or parametrized in risk transfer

Sample responses for part (iv)

- No, credit risk is not an aspect of insurance risk
- No, default risk is not considered in this determination; underwriting risk and timing risk is the main consideration

Part b: 0.5 point

Sample responses for part (i)

- As an asset line item in the Balance Sheet