12. (2.75 points)

The following information is provided from a company's 2018 Annual Statement (all figures are in thousands of dollars):

	Current Year	Prior Year
Surplus		4,000
Total liabilities	2,000	2,400
Total non-admitted assets	290	230
Provision for reinsurance	30	20
Finance and service charges not included in premiums	200	220
Dividends to stockholders	5	10
Dividends to policyholders	2	1
Surplus notes	135	133
Net unrealized capital gains	60	50
Net income	-120	300
Net investment income earned	50	80

Assume no taxes.

a. (2.25 points)

Calculate the current year Total Assets.

b. (0.5 point)

Identify one non-admitted asset, and briefly describe why it is non-admitted.

CONTINUED ON NEXT PAGE

Sample 2
By using monthly pro rata method, the policy is assumed to be effective on middle of April

UEPR = WP – EP = 200,000 – 141,667 = 58,333

Loss reserve = loss incurred – loss paid = 25,000 – 5,000 = 20,000

By using similar formula:
LAE reserve = 4,000 – 500 = 3,500
Other expenses = 3,200 – 3,000 = 200

Total liabilities = 58,333 + 20,000 + 3,500 + 200 = **82,033**

EXAMINER'S REPORT

For this question candidates were expected to demonstrate basic understanding of Balance Sheet and Income Statement concepts.

Part a

Candidates were expected to be able to correctly calculate the underwriting income given the information provided.

Common errors included:
- Not earning the premium correctly – calculating too few or too many months
- Not subtracting the Other Expenses
- Not realizing the premium needed to be earned

Part b

Candidates were expected to be able to correctly calculate the year-end total liabilities given the information provided.

Common errors included:
- Not including the Unearned Premium Reserves
- Using Incurred Liabilities and not Change in Liabilities
- Not including Other Expenses

FALL 2019 EXAM 6U, QUESTION 12	
TOTAL POINT VALUE: 2.75	**LEARNING OBJECTIVE: C1**

SAMPLE ANSWERS

Part a: 2.25 points

Sample 1
Total Assets = Total Liabilities + Surplus + Non-admitted Assets
Surplus = Prior year surplus + Net Income + Direct charges to Surplus
= 4000 -120 – (290 – 230) – (30 – 20) – 5 + (135 – 132) + (60 – 50)
= 3817

Total Assets = 2000 + 3817 + 290 = 6107

Sample 2

CY Surplus = PY Surplus (4000) + Net Income (-120) + Δ in unrealized capital gains (60-50) +Δ in surplus notes (135-133) + Dividends to stockholders (-5) + Δ in provision for reinsurance (20-30) + Δ in non-admitted assets (230-290)
= 3817

Surplus = Admitted Assets – Liabilities
3817 = Admitted Assets – 2000
Admitted Assets = 5817
Total Assets = Admitted Assets + Non-Admitted Assets
= 5817 + 290 = 6107

Part b: 0.5 point

Sample 1

Furniture – cannot be easily sold to pay policyholder claims in event of liquidation (i.e. illiquid asset – not easily converted to cash)

Sample 2

Agent's balances more than 90 days overdue – non admitted because it is more likely that these will not be recovered, and since SAP is concerned with solvency these would not be readily available in liquidation.

Sample 3

Electronic Equipment – this asset is not very liquid and would not be available to pay claims.

Sample 4

Deferred tax assets – not an asset that can generally be used to pay claims and may not ever be convertible to cash

Sample 5

10% of deductible recoverable over collateral – risk that policy will not pay their share

Sample 6

Real Estate – full amount will not be realized/not readily available to pay claims

EXAMINER'S REPORT

Candidates were expected to demonstrate knowledge and understanding of the Annual Statement, including Income Statement and Balance Sheet, and statutory accounting principles.

Part a

Candidates were expected to demonstrate an understanding of the relationship between assets, liabilities, surplus and net income in the Annual Statement.

Common errors include:

- Mistakenly calculating Admitted Assets as Surplus minus Liabilities rather than Surplus plus Liabilities.
- Failing to recognize that Liabilities plus Surplus equals Admitted Assets, not Total Assets, and consequently failing to add non-admitted assets to Liabilities plus Surplus to get Total Assets.
- Failing to recognize that in the derivation of direct charges to surplus, the changes in non-admitted assets and provision for reinsurance should be prior less current, not current minus prior.
- Inclusion of extraneous items (such as policyholder dividends, finance/service fees or investment income) in the calculation of Total Assets.
- Treating the information as being GAAP and/or adjusting for taxes

The question asked for Total Assets; exam instructions dictate that unless specifically stated otherwise, all responses should be answered according to US statutory accounting principles and policies.

Part b

Candidates were expected to identify a specific example of a non-admitted asset and explain why it was treated as non-admitted for statutory reporting purposes.

Common errors include:

- Providing illiquidity as the reason for the asset being non-admitted when in fact it is because of concerns with collectability.
- Answers too vague, i.e. "the asset not being available in the event of insolvency" rather than giving collectability or illiquidity as the specific reason for it being treated as non-admitted.

FALL 2019 EXAM 6U, QUESTION 13	
TOTAL POINT VALUE: 2.5	**LEARNING OBJECTIVE: C1**
SAMPLE ANSWERS	
Part a: 1.5 points	

Sample Responses for subpart i.

- This may be a concern as insurance is growing a lot, they may not have understanding of exposure risk and without reinsurance protection underwriting gain (loss) may be lower, due to more losses.
- This would decrease the net underwriting gain (loss), lower profit/higher loss, as this likely means they have lower underwriting standards.
- As insurer writes more business, depending on quality of new business it can be a gain or loss.

Sample Responses for subpart ii.

- With more growth and not ceding any premium away, the insurer can invest more which will likely increase the net investment gain if the investment performance is not negative.