

EXAM 6 – UNITED STATES, FALL 2019

22. (2.75 points)

A company domiciled in State X writes Private Passenger Auto (PPA) and Workers Compensation (WC) business. The Appointed Actuary developed a range of estimates for PPA reserves but was unable to analyze WC reserves due to material inconsistencies in the WC data. The following information is given (all figures are in millions of dollars):

	Carried Reserves	Appointed Actuary's Range of Reasonable Estimates	
		Low End	High End
Unpaid loss and LAE (direct and assumed) - PPA	100	88	98
Unpaid loss and LAE (net) - PPA	90	80	92
Unpaid loss and LAE (direct and assumed) - WC	60		
Unpaid loss and LAE (net) - WC	50		

a. (2.5 points)

Propose language for the OPINION section of the Statement of Actuarial Opinion (SAO).

b. (0.25 point)

Identify the opinion type to be recorded in Exhibit B of the SAO.

SAMPLE ANSWERS AND EXAMINER'S REPORT

Candidates were expected to know what items appear on the income statement, understand how purchase price, surplus and goodwill affect the income statement and state the impact to income.

Common errors included:

- Discussing balance sheet items.
- Missing the fact that the goodwill asset for B offsets the excess paid and stating an income decrease.
- Linking positive goodwill to an income increase and vice versa.

Part c

Candidates were expected to know the differences in how SAP and GAAP accounting treat goodwill over time.

Common errors included:

- Stating that SAP was amortized over 10 years but not recognizing this is a maximum timeframe.
- Using the word depreciation rather than amortization.
- Only including that GAAP goodwill is tested for impairment.

FALL 2019 EXAM 6U, Question 22

TOTAL POINT VALUE: 2.75

LEARNING OBJECTIVE: D

SAMPLE ANSWERS

Part a: 2.5 points

Sample 1

I believe it is necessary to issue a qualified opinion of Company's reserves, due to material inconsistencies in the data preventing a review of the reasonability of the WC reserves. These reserves account for 36% of net carried reserves, or \$50M. In regards to the remaining reserves, in my opinion the items listed in Exhibit A:

- A: Meet the requirements of insurance laws in State X
- B: Are computed in accordance with actuarial standards & practices.
- C: Make a reasonable provision for all net unpaid loss and LAE obligations under company's contracts and agreements. However, the company makes an excessive provision for gross unpaid loss and LAE obligations. The carried amount is \$2M higher than the maximum reserves I deem to be reasonable.

Sample 2

In my opinion, the amounts carried in Exhibit A for loss & LAE Reserves are:

- a) Computed using methods and assumption accepted by actuarial standards
- b) Follow the laws and regulation of state X.
- c) Make for a reasonable amount on a net basis. The amounts on a gross basis are redundant as my high end is 98M. With this, the difference is 2M. I was not able to analyze WC reserves due to material inconsistencies in the data. The amount carried

SAMPLE ANSWERS AND EXAMINER'S REPORT

which are excluded from my opinion are 50M on a net basis and 60M on a gross basis. This is therefore a qualified statement.

Sample 3

In my opinion, with the qualification that it doesn't include reserve for workers compensation business, the amounts carried in Exhibit A on account of items identified:

- A. Meet requirements of insurance laws of State X
- B. Are computed in accordance with accepted actuarial standards and principles
- C. Make a reasonable provision for net unpaid loss and LAE obligations of the company under the terms of its contracts and agreements. However it makes an excessive provision for gross unpaid loss and LAE obligation which is \$2M greater than the maximum amount which I believe necessary to be within the range of reasonable estimates.

I am informed that amounts carried in Exhibit A include reserve for unpaid loss and LAE of workers compensation business, which is recorded as \$50M (30%) on net of reinsurance basis and \$60M (38%) on gross basis. However, I have found material inconsistency in the WC data when analyzing WC business and after I informed data provider of the insurer, data issue still remained unresolved. Considering that there is no reliable data for me to analyze and the portion of WC reserve is material, I gave qualification opinion for the insurer.

Part b: 0.25 point

One of the following:

- Qualified
- No Opinion given the candidate has a consistent response in part a.

EXAMINER'S REPORT

Candidates were expected to recall what should be included in the Opinion section in the Statement of Actuarial Opinion.

Part a

Candidates were expected to identify that it was a qualified opinion and why. They were expected to know they are referring to amounts in exhibit A, and they need to state the reserves are in accordance with the state laws and accepted actuarial practices. They were expected to know they should comment on both net and gross reserves.

Common errors included:

- Failing to comment on gross reserves
- Failing to list the amount gross reserves were redundant
- Failing to list the WC reserves were not analyzed
- Failing to list the amount of the WC reserves (\$50M) to which the qualification applies
- Indicating that WC is a qualified opinion, instead of the total company reserves are qualified because of WC

Part b

Candidates were expected to know the different types of opinions and correctly determine the type of opinion.

Common errors included:

SAMPLE ANSWERS AND EXAMINER'S REPORT

- Reasonable opinion
- Listing a different opinion for PPA Gross, PPA Net, and WC.

FALL 2019 EXAM 6U, QUESTION 23

TOTAL POINT VALUE: 3

LEARNING OBJECTIVE: D1

SAMPLE ANSWERS

Part a: 0.75 point

Any three of the following:

- 10% of Unpaid Reserves = $10\% * 100M = 10M$
- 10% of Surplus = $10\% * 200M = 20M$
- Distance to RBC Action Level = $200M - 187M = 13M$

Note: other selected standards based on different percentages followed the same logic as above.

Part b: 0.25 point

One of the following:

- I select 10% of Unpaid Reserves because \$10M is the lowest and therefore most conservative value of the three options.
- I select 10% of Surplus because surplus erosion of that magnitude is sufficient cause for concern.
- I select the distance to the next RBC action level (13M) because this level of risk will have practical regulatory ramifications for the company.

Note: other selected standards based on different percentages followed the same logic as above.

Part c: 0.75 point

Sample 1

Using a materiality standard of 10% of Unpaid Reserves, there is RMAD because carried plus 10M is within the actuarial range ($100M + 10M < 115M$).

Sample 2

Using a standard of 10% of Surplus, there is not RMAD because carried plus 20M is outside the actuarial range ($100M + 20M > 115M$).

Sample 3

Using a materiality standard of the distance to the next RBC action level, there is RMAD because carried plus 13M is within the actuarial range ($100M + 13M < 115M$).

Sample 4

Alternative expressions of the same concept received full credit, for example: "there is RMAD because the range indicates 15M of possible adverse development which is greater than my materiality standard of 13M."

Note: other selected standards based on different percentages followed the same logic as above.