

24. (3.5 points)

a. (0.5 point)

For each of the following, identify a distinct intended user:

- i. Statement of Actuarial Opinion (SAO)
- ii. Actuarial Opinion Summary (AOS)

b. (1.5 points)

For each of the following, describe the purpose:

- i. SAO
- ii. AOS
- iii. Actuarial Report

c. (1.5 points)

For each of the following, identify whether it is public or confidential, and briefly describe how this aligns with its purpose:

- i. SAO
- ii. AOS
- iii. Actuarial Report

SAMPLE ANSWERS AND EXAMINER'S REPORT

- Disavowing the actuary of obligations due to two months having passed since the opinion was issued

FALL 2019 EXAM 6U, QUESTION 24

TOTAL POINT VALUE: 3.5

LEARNING OBJECTIVE: D1

SAMPLE ANSWERS

Part a: .5 point

Any one of the following for i. SAO and any one of the following for ii. AOS:

i. SAO

- *Regulator*
- *Board of Directors*
- *Investors*
- *Management*
- *General public*

ii. AOS

- *Regulator*
- *Board of Directors*

Part b: 1.5 points

i. SAO

Sample 1

To communicate actuary's opinion of carried reserves to stakeholders informing them of risks/uncertainties and if RMAD exists.

Sample 2

Provide Appointed Actuary's opinion on the carried reserves, comment on materiality standard, risk of material adverse deviation, etc.

ii. AOS

Sample 1

Show how booked reserves compare to actuarial estimates (gross and net) and disclose historical adverse development if necessary.

Sample 2

Provide actuary's range of reserves and/or point estimate, the company carried reserves, as well as comment on if the insurer's one year reserve development to prior year's surplus has exceeded 5% in 3 of the last 5 years.

iii. Actuarial Report

Sample 1

SAMPLE ANSWERS AND EXAMINER'S REPORT

Provide a more lengthy and detailed report including the items in the SAO & AOS as well as an explanation on Actuary's analysis, data reconciliation to schedule P, change in ultimate loss estimate from prior year, etc.

Sample 2

To fully describe the work so another actuary practicing in the field can understand and replicate. From data, methods, and assumptions to results.

Part c: 1.5 points

i. SAO

Sample 1

Public – Investors, policyholders, and reinsurers are concerned with adequacy of reserves and the risks/uncertainties therein

Sample 2

Public – Users from the public want to know the major risks facing the company before investing in it.

ii. AOS

Sample 1

Confidential – Actuary's estimates are proprietary and useful for management and regulators when assessing solvency

Sample 2

Confidential – It is meant to provide sensitive information to the regulator.

iii. Actuarial Report

Sample 1

Confidential – Significant proprietary work is included to inform management and will be provided to regulators upon request

Sample 2

Confidential – Provides further reasoning, data, and methods that competitors shouldn't know.

EXAMINER'S REPORT

Candidates must know the intended audience, purpose, and confidentiality of the SAO, AOS and Actuarial Report.

Part a

Candidates were expected to identify a distinct intended users of the SAO and AOS.

Common errors included:

- Listing investors as an intended user of the AOS
- Listing possible (but not intended users)
- Duplicating answers for i and ii (i.e. not listing distinct users).

Part b

SAMPLE ANSWERS AND EXAMINER'S REPORT

Candidates were expected to describe the purpose of the SAO, AOS and the Actuarial Report.

Common error included not fully describing the purpose.

Part c

Candidates were expected to identify the confidentiality of the three documents and connect that to their purposes.

Common errors included identifying but not relating that back to its purpose.

FALL 2019 EXAM 6U, QUESTION 25

TOTAL POINT VALUE: 3

LEARNING OBJECTIVE: D1

SAMPLE ANSWERS

Part a: 1 point

Bolded sample answers indicate unique subject responses, any four of which were required. Italicized sample answers are common variations on the unique response.

Needs to state whether the reserves are nominal or discounted and, if discounted, the basis of the interest rate

- *Discounted or not, along with the assumptions used*
- *If discounting is used and basis of discount factor*
- *Whether the company discounts the reserves; amount of discounts*

Needs to state whether the reserves include an explicit risk margin and its basis

- *Do reserves include a risk margin? If so on what basis was it established*
- *Is there an explicit risk margin added to the reserves*
- *Is there a risk provision*

Needs to state whether the reserves are gross or net of specified recoverables

- *If the reserves are gross or net of S&S*
- *Net or gross of recoverables*
- *If reserves gross/net of recoverables (S&S, deductibles)*
- *Gross or net of ceded reinsurance*

Needs to state whether the potential for uncollectable reinsurance is considered

- *Disclose if any uncollectible reinsurance risk is there that will impact the reserves*
- *Does it include a provision for uncollectable reinsurance*
- *Uncollectible amounts – How were these accounted for in analysis*

Needs to state the types of unpaid loss adjustment expense covered by the reserve

- *What types of expenses are included in reserves (DCC, A&O, Etc.)*
- *Which types of loss expense are included*
- *What type of expenses are included in LAE*