

25. (3 points)

a. (1 point)

Identify four potential disclosures in the SCOPE section of the Statement of Actuarial Opinion (SAO) addressing the basis on which the reserves are stated.

b. (1 point)

Other than the stated basis of the reserves, identify four potential disclosures found in the SCOPE section of a SAO.

c. (1 point)

Assume a data inconsistency that cannot be resolved was discovered in the data underlying the SAO before it is issued. Apart from the line of business impacted by this data inconsistency, the Appointed Actuary found the reserves to be reasonable. Identify and briefly justify two types of opinions that might be issued.

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*

SAMPLE ANSWERS AND EXAMINER'S REPORT

If the opinion is only for a portion of a reserve, the claims exposure to be covered by the opinion should be stated

- *Whether any portion of insurer's book of business excluded from opinion*
- *If the reserve the actuary is opining on excludes anything particular*
- *Any material reserves outside the scope of the review*

Needs to state any other items that, in the actuary's professional judgment, are needed to describe the reserves sufficiently for the actuary's evaluation of the reserves

- *Any other info necessary to disclose about the reserve*
- *Anything else so reserves aren't misleading*

Needs to state the accounting basis

- *Accounting basis of the reserves*
- *Accounting basis: SAP or GAAP*
- *Based on SAP accounting*

Part b: 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.

The Appointed Actuary should state that the items in the SCOPE, on which he or she is expressing an opinion, reflect Disclosure items 8 through 13.2 in Exhibit B.

- *That the opinion reflects the disclosures in Exhibit B*
- *Relative to subjects on Exhibit B*
- *Reference to disclosure items provided in Exhibit B*

The Review date or Accounting Date

- *That all information provided up to date of opinion was considered*
- *Date in which information was incorporated into opinion*
- *Review date of the analysis*
- *Accounting date*

Inter-company pooling arrangements

- *Disclosures on intercompany pooling arrangements*
- *Identify whether part of pooling arrangement*
- *Whether pooling is involved*

A statement regarding reconciliation to Schedule P

- *Data was reconciled to Schedule P Part 1*
- *Data was reconciled to the annual statement*
- *Reconciliation to Schedule P*

The provider of data relied upon by the Actuary

- *Who provided the data which the actuary used*
- *Who provided the data – name of the office of the company along with designations*
- *Relied upon data provided by officer of the company*

The evaluation of data for reasonableness and consistency

SAMPLE ANSWERS AND EXAMINER'S REPORT

- *Evaluation of data for reasonableness & consistency*
- *Whether data was reasonable and consistent or have any issues*
- *Statement that data was evaluated for reasonableness and consistency*

The AA has examined the actuarial assumptions and methods used in determining reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials

- *Statement that AA reviewed company's reserve setting methods & assumptions*
- *Whether assessing the company's methods and assumptions that were used to compute reserves*
- *Review the method and assumptions in estimating the reserves*

Part c: 1 point

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

Sample Responses for Data inconsistency immaterial --> reasonable opinion

- *A reasonable opinion may be issued if the amount of data impacted by the error is considered to be not material*
- *If the reserves impacted by data issue was not a material portion of overall reserves*
- *If the line of business is not material to the total reserves, then a reasonable provision can be made (no need to qualify if immaterial)*

Sample Responses for Data inconsistency material but only impacts a portion of reserves --> qualified opinion

- *A qualified opinion may be issued if the data impacted by the error is considered material*
- *If the reserves impacted by the data issue are a material portion of overall reserves*
- *If the line of business is material to the reserves, a qualified opinion can be issued stating that the line is not included.*

Sample Responses for Data inconsistency material but impacts nearly all reserves --> no opinion

- *If the inconsistency cannot be resolved and causes the actuary not to be able to opine or analyze any of the data then issue a no opinion*
- *No Opinion – The data inconsistency may cover too large an amount of the entire book of business and an opinion cannot be reached on the material portion of the business*
- *No opinion – perhaps the LOB containing the affected data is so large that it is best not to opine on the reserves at all*

EXAMINER'S REPORT

Candidates were expected to demonstrate their knowledge of the SCOPE section of an SAO This includes the stated basis of reserves disclosures along with others that aren't related to the stated basis. Candidates were also expected to understand how data errors can lead to different types of opinions depending upon the materiality of the error.

Part a

Candidates were expected to identify four disclosures in the SCOPE section of the SAO related to the basis on which reserves are stated. Stated basis of the reserves per ASOP 36 is a description of the nature of reserves.

SAMPLE ANSWERS AND EXAMINER'S REPORT

Common errors include:

- Redundant answers with respect to recoverables and discounting
- The word "Reinsurance" alone did not receive credit, a description was needed
- "Is the data including LAE" was not accepted; needed to specify the type of LAE that was included
- Disclosures listed that were not related to "stated basis of reserves"

Part b

Candidates were expected to identify four disclosures in the SCOPE section of the SAO not related to the basis on which reserves are stated.

Common errors include:

- Mentioning disclosures related to basis of which reserves are stated
- Loss evaluation data is not required in SCOPE
- Appointed Actuary's role in stated reserves is not in the scope
- Intended user and audience are not disclosures required in the scope
- Identifying the reserves instead of disclosures related to the reserves or data
- Data testing is not disclosed in the SAO

Part c

Candidates were expected to identify and justify two types of opinion that may be issued.

Common errors include:

- Defining the opinion type but not providing justification
- Not using materiality (or describing materiality) when deciding which type of opinion to issue

FALL 2019 EXAM 6U, QUESTION 26

TOTAL POINT VALUE: 2.75

LEARNING OBJECTIVE: E1

SAMPLE ANSWERS

Part a: 0.5 point

A commutation is an agreement between a ceding insurer and the reinsurer that provides for the valuation, payment, and complete discharge of all obligations between the parties under a particular reinsurance contract.

Part b: 1 point

Sample 1

- i. The ceded reserve recoverables are set to zero, so the net reserves are set to gross reserves;
- ii. The commutation payment is booked as an increase in paid loss;

Sample 2

- i. The reserve net loss reserve will increase since there are no expected recoverables;
- ii. The paid loss will increase due to the commutation price being recorded as a loss