21. (1.5 points)

Given the following information:

Accident Year	Ultimate Claim Estimates ($000) as of December 31, 2015		Ultimate Claim Estimates ($000) as of December 31, 2016	
	Paid Claim Development Technique	Reported Claim Development Technique	Paid Claim Development Technique	Reported Claim Development Technique
2013	109	107	108	110
2014	107	108	105	117
2015	107	108	102	122
2016	---	---	100	150

- The actuary selects age-to-age factors for each development technique using a five-year volume-weighted average.

a. (0.5 point)

Describe one scenario that could explain the change in estimates from the December 31, 2015 evaluation to the December 31, 2016 evaluation for accident years 2015 and prior.

b. (0.5 point)

Describe one scenario impacting only accident year 2016 that could explain the difference between the two development techniques.

c. (0.25 point)

Briefly describe an adjustment or an alternate technique for estimating ultimate claims that is appropriate for the scenario identified in part a. above.

d. (0.25 point)

Briefly describe an adjustment or an alternate technique for estimating ultimate claims that is appropriate for the scenario identified in part b. above.

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EXAM 5 SPRING 2017 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 21	
TOTAL POINT VALUE: 1.5	**LEARNING OBJECTIVE(S): B4, B8**
SAMPLE ANSWERS	
Part a: 0.5 point	
Sample 1 There could have been an increase in case reserve adequacy in CY 2016 → this would increase rep. development estimates while keeping paid estimates steady. *Sample 2* A speed up in claim reporting with no change to the speed of claim settlement would increase reported estimates but not change paid estimates.	
Part b: 0.5 point	
There could be a large unpaid claim in AY 2016 which causes reported development to be higher than past years while paid dev estimate remains steady.	
Part c: 0.25 point	
Sample 1 The B-S reported adj. technique could be used to adj previous years case reserve adequacy to current levels. The rep dev technique could then be used on the adj rep triangle. *Sample 2* Use Expected Claims Method, it will not be affected by operational changes.	
Part d: 0.25 point	
Sample 1 Use reported Bornhuetter Ferguson method if large rep loss is expected to be paid. This will recognize the large loss but estimate IBNR based on expected claims estimate that is not overstated by large loss. *Sample 2* Remove the large loss, run the reported development method on all other losses, and then add back the claim department's estimate of ultimate on the large loss.	
EXAMINER'S REPORT	
Candidates were expected to understand both the paid and reported claim development techniques, their inherent weaknesses, and appropriate alternatives for those weaknesses.	
Part a	
Candidates were expected to understand the differences between the paid and reported claim development techniques in the context of multiple calendar, accident, and evaluation years. A common error was only discussing the changes in paid claim development technique and missing the more material change in estimates under the reported claim development technique.	
Part b	
Candidates were expected to understand the differences between the paid and reported claim development techniques for a single accident year. A common error was describing scenarios that impact more accident years than just 2016, such as "case reserve strengthening" or "slow down in payments".	

Part c

Candidates were expected to understand the weaknesses of the reported claim development technique and provide a brief description of an appropriate alternative technique.

A common error was simply identifying an alternative technique without describing why the technique would be appropriate in this scenario.

Part d

Candidates were expected to understand the weaknesses of the reported claim development technique and provide a brief description of an appropriate alternative technique.

Common errors included:

- Simply identifying an alternative technique without describing why the technique would be appropriate in this scenario.
- Treating the issue of a large claim as if in a pricing context instead of estimating ultimate claim liabilities. For example, replacing case incurred with an average load representing future expected large claims is not appropriate.