

14. (1.5 points)

For each of the following stakeholders, describe the importance of having accurate unpaid claim estimates:

- i. Internal Management
- ii. Investors
- iii. Regulators

## EXAM 5 FALL 2018 SAMPLE ANSWERS AND EXAMINER'S REPORT

|   |                               |
|---|-------------------------------|
| <b>QUESTION 14</b>  |                               |
| <b>TOTAL POINT VALUE: 1.5</b>   | <b>LEARNING OBJECTIVE: B1</b> |
| <b>SAMPLE ANSWERS</b>   |                               |
| <b>Part a:</b> 0.5 point  |                               |
| <ul style="list-style-type: none"> <li>• The estimates are used to make business decisions in pricing, underwriting, and strategy</li> <li>• Low reserve estimates could lead to management increasing prices until it is too late.</li> <li>• Inaccurately high estimates could lead to decisions such as raising rates or tightening underwriting guidelines</li> <li>• Accurate reserve estimates help make appropriate reinsurance decisions</li> </ul> |                               |
| <b>Part b:</b> 0.5 point  |                               |
| <ul style="list-style-type: none"> <li>• Inaccurate reserve estimates could distort the financial reports that are relied on by investors.</li> <li>• Inaccurate reserve could lead investors to believe that the company is stronger or weaker than it really is</li> <li>• An accurate reserve is needed to form an accurate estimate of the dividend that will be paid</li> </ul>  |                               |
| <b>Part c:</b> 0.5 point  |                               |
| <ul style="list-style-type: none"> <li>• If the reserves are understated, the regulator may not get involved until too late to prevent the insurer from entering insolvency</li> <li>• Accurate reserve estimates are important for assessing the insolvency risk by regulator.</li> <li>• Accurate reserve estimates help to assess rate level.</li> </ul>   |                               |
| <b>EXAMINER'S REPORT</b>  |                               |
| <p>Candidates were expected to know the importance of accurate estimates of unpaid claims and how under-reserving or over-reserving could impact different aspects of a company.</p> <p>In some cases, candidates did not receive full credit based upon the amount of description provided. Full credit was awarded for situation where two briefly describe items were provided.</p>  |                               |
| <b>Part a</b>   |                               |
| <p>Candidates were expected to know how under-reserving or over-reserving could impact internal management.</p> <p>Common mistakes include:</p> <ul style="list-style-type: none"> <li>• Providing one brief point when the question prompt specified describe</li> </ul>   |                               |
| <b>Part b</b>   |                               |
| <p>Candidates were expected to know how under-reserving or over-reserving could impact investors.</p> <p>A common mistake was providing one brief point when the question prompt specified describe.</p>  |                               |
| <b>Part c</b>   |                               |

## EXAM 5 FALL 2018 SAMPLE ANSWERS AND EXAMINER'S REPORT

Candidates were expected to know how under-reserving or over-reserving could impact regulators.

Common mistakes include:

- Providing one brief point when the question prompt specified describe
- Specifying that regulators would use the information to determine the appropriate reserve level