

16. (1.5 points)

a. (0.75 point)

List three components of an unpaid claims estimate.

b. (0.75 point)

Briefly describe how an inadequate unpaid claims estimate can impact the decision-making of each of the following parties:

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

FALL 2019 EXAM 5 – SAMPLE ANSWERS AND EXAMINER’S REPORT

QUESTION 16	
TOTAL POINT VALUE: 1.5	LEARNING OBJECTIVE(S): B1
SAMPLE ANSWERS	
Part a: 0.75 point	
<p><u>Sample 1</u></p> <ul style="list-style-type: none"> • Case reserves • Incurred but not yet reported (IBNYR) • Incurred but not enough reported (IBNER) <p><u>Sample 2</u></p> <p>Unpaid case, development on known claims, reopened claims</p> <p><u>Sample 3</u></p> <ul style="list-style-type: none"> • Case outstanding • Claims in transit • IBNR <p><u>Sample 4</u></p> <ul style="list-style-type: none"> • Future development on reported claims • Claims incurred but not recorded • Pure IBNR <p><u>Sample 5</u></p> <p>Unpaid = Case + IBNER + IBNYR</p>	
Part b: 0.75 point	
<p><u>Sample responses for i. Internal Management</u></p> <ul style="list-style-type: none"> • Internal management might decide to lower rates • Might make a wrong decision to expand business that is unprofitable • They could loosen underwriting guidelines • Internal management might spend capital on large projects • If unpaid is overstated, they may make wrong decision to raise price or exit a business <p><u>Sample responses for ii. Investors</u></p> <ul style="list-style-type: none"> • Investors might think profit is larger than it is • Company will be overvalued and attract investors • Company will look better than it is and investors will want to invest more • If the unpaid claims are overstated, investors may think the investment is very poor and the company will lose potential investors. <p><u>Sample responses for iii. Regulators</u></p> <ul style="list-style-type: none"> • Regulators would not intervene until it is too late • Regulators may not catch potential insolvency in time to help company • Regulators will think the company is doing fine and not take any action • Regulators might not approve a needed rate increase 	

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- If the unpaid claims are overstated, the regulators may restrict the company from underwriting new business.

EXAMINER’S REPORT

Candidates were expected to know the components of unpaid claims estimates and understand the importance of accurate unpaid claims estimates from the perspective of various stakeholders.

Part a

Candidates were expected to list three distinct parts of an unpaid claims estimate.

Common mistakes included:

- Listing claims-related expenses (such as ULAE, ALAE or LAE) or recoveries without describing them as unpaid.
- Describing the methods or considerations for selecting an unpaid claims estimate without stating the components of the unpaid claims estimate.

Part b

Candidates were expected to explain how inadequate unpaid claims estimates can impact various stakeholders.

Common mistakes included:

- Listing general considerations such as pricing or underwriting without an analysis of how inadequacy might impact the stakeholder’s decision.