34. (3 points)

The Appointed Actuary of a primary insurance company is valuing policy liabilities as at December 31, 2011. The report date for the year-end 2011 financial statements is February 22, 2012.

For each scenario below identify if the event is a subsequent event or not, and support your conclusion. Fully explain how the Appointed Actuary should take the event into account.

a. (1 point)

A material catastrophic event occurs on January 10, 2012.

b. (1 point)

The Appointed Actuary receives notice on January 5 that the December 31 database being used to perform the year-end policy liabilities valuation does not include data for a material amount of claims that occurred on December 29.

c. (1 point)

The company cedes a material level of policy liabilities to a particular reinsurance company. Due to a gradual deterioration in financial condition this reinsurance company fails on January 10. The Appointed Actuary becomes aware of the failure on January 11.

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Question 34

Answer key:

a.

- Subsequent event. Happened after the account date, so Actuary could not have been aware of it at the account date.
- Since the event is before the report date actuary should take into account. Event makes entity different after the account date, so this is Type B event. Report this event (disclose in the notes to the financial statement), but do not take into account in the calculations.

b.

- Errors that are material need to be fixed therefore needs to be taken into account. (deduction will be made to those candidates that only identify the event as subsequent or not but do not explain it – this is because both answers are accepted if supported).
- Event occurred before the calculation date. Incorporate into analysis – not treated as subsequent event. Treat as if knowledge obtain before calculation date.

c.

- Subsequent event. Both the failure and actuaries knowledge occurred after the account date. (deduction will be made to those candidates that only identify the event as subsequent or not).
- Based on the Standards of Practice this is a Type A event, which is an event that provides further evidence of conditions that existed at the financial statement date. The failure of the reinsurer is classified as a Type A event, and is taken into account in the policy liabilities valuation.

Actual candidate answer for full marks:

a. it occurs before the report date, but after the calculation date, so it is a subsequent event. It is a type B event since it materially affects the company only after the calculation date. the event is not included in liabilities, but is fully disclosed.

b. the appointed actuary is made aware between the calculation date and report date so it is a subsequent event. Since it is due to an error, it must be corrected and directors should be made aware.

c. both awareness of the actuary and occurence of event are between calculation date and report date, so it is a subsequent event. It retroactively makes entity different at calculation date. make corrections and advise directors

Examiner's report:

Section a) and c) were well answered by most candidates. The most common error was to mention "subsequent event" without a proper justification. Some candidates have also said that since event occurred after the calculation date, it was not a subsequent event.

For section b), we have accepted both "yes" and "no" as a valid answer if the justification was correct. One of the most common errors was to not mention that the error was "material".