17. (1 point)

The following is an excerpt from the actuarial opinion required by the Office of the Superintendent of Financial Institutions (OSFI), as part of the Annual Return.

	Carried in Annual Return ($000s)	Actuary's Estimate ($000s)
Gross policy liabilities in connection with unearned premium		$150,000
Net policy liabilities in connection with unearned premiums		$134,000
Gross unearned premium	$176,000	
Net unearned premium	$155,000	
Premium deficiency	X	
Other net liabilities	0	
Deferred policy acquisition expenses	Y	
Maximum policy acquisition expenses deferrable		Z
Unearned commissions	$1,000	

The accounting department's initial estimate of deferrable expenses is $22,500.

Determine X, Y and Z in the table above.

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- Benefits must be paid out within 2 weeks
- Premium reduction to be returned directly or indirectly to employees

b)

- Additional Benefits
- Direct $ refund
- No candidate got full marks on this subpart

c)

- Employee is fired for misconduct
- Employee quit voluntarily
- Employee on strike as part of a union

Examiner's report:
Most of the candidates poorly answered the question as it is not an important part of the syllabus. We graded this question quite generously for parts a and b accepting all answers close to the model solution. For part c) it was generally quite well answered as it had already been asked in the past and is also considered general knowledge even to those who have not read the paper.

Question 17

Answer key:
Max policy acquisition expenses deferrable = Net UEP + Premium Deficiency + unearned commission – net policy liabilities in connection with UEP
= 155,000 + 0 + 1,000 – 134,000 = 22,000 breakdown properly

The company has recorded 22,500 but the maximum is 22,000 so the amount of acquisition expenses deferred much be reduced by $500. However since there is enough unearned premium to cover the expected policy liabilities there is no need for a premium deficiency.

X: 0
Y: 22,000
Z: 22,000

Actual candidate answer for full marks:
EQUP = 155 000 – 134 000 + 1 000 = 22 000
Like DPAE is greater than EQUP, it should be reduced to the level of EQUP

Y=22 000 Z = 22 000 like DPAE = EQUP
X=0 because EQUP is positive

Examiner's report:
Candidates performed well on this question in general. Some candidates did not input the unearned commission into the Max policy acquisition expense deferrable formula. A few candidates had calculation errors while the underlying formula was correct.

Question 18

Answer key:
a.