

EXAM 6 – CANADA, FALL 2014

32. (1.75 points)

a. (0.25 point)

Define the term “subsequent event.”

b. (1.5 points)

The Appointed Actuary (AA) of a property and casualty insurance company is valuing policy liabilities as at December 31, 2013. The report date is February 20, 2014. For each of the following scenarios, identify and briefly explain the actions that the AA should take.

- i. The stock market drops by 30% between January 2, 2014 and January 31, 2014. Common shares make up 50% of the company’s investment portfolio as at December 31, 2013.
- ii. The company receives a general liability claim notice from a policyholder on February 1, 2014. The claim occurred on December 8, 2013 and the initial case reserve is set at \$500,000.
- iii. On March 15, 2014, the AA is notified that the claims from the last two weeks of December 2013 were missing in the database that the actuary used for the reserve analysis. The error has been corrected as of March 14, 2014.

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EXAM 6C FALL 2014 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION: 32

TOTAL POINT VALUE: 1.75

LEARNING OBJECTIVE(S): D1

SAMPLE/ACCEPTED ANSWERS:

Part a: 0.25 point

Sample 1 :

A subsequent event is an event that the actuary becomes aware of after the calculation date but before the report date.

Part b: 1.5 points

Sample 1 :

- i. This would not be an adjusting subsequent event since it does not provide information on the entity as it was at the calculation date. The actuary would report on the event in a note to the financial statements.
- ii. Given that the claim materially affects the results, it would have to be included in the report.
- iii. Since this is a data defect, the actuary would have to retire his previous report and produce a new, corrected report.

Sample 2 :

- i. Since valuation is to reflect company at Dec 31st, 2013, this event is a subsequent as it occurs after calculation date (12/31/2013) and before report date (02/20/2014). It should not be taken into account. However, since common shares do make up 50% of the portfolio, disclose in notes the impact.
- ii. Reflect this since general liability claim occurred before calculation date. So, it is not a subsequent event but it provides info before calculation date. It has to be reflected in the work. Also, the GL claim has a big reserve so it will materially impact the results hence cannot ignore this event. Reflect it.
- iii. Since it's an error, it has to be reflected in data. Reflect it in report. Redo reserve analysis with correct data.

Sample 3 :

- i. It is a subsequent event but because impact held after calculation date it should be categorized as a non-adjusting subsequent event. Because company is different after calculation date, disclose but don't change in report.

EXAM 6C FALL 2014 SAMPLE ANSWERS AND EXAMINER'S REPORT

ii. It is a subsequent event. It does make the entity different at the calculation date. It is an adjusting subsequent event and should be considered in the report and valuation.

iii. It is not a subsequent event because notified after report date. But because this could invalidate the report depending on the size and nature of the claims, the appointed actuary should withdraw report and amend because it could be material and invalidate report.

EXAMINER'S REPORT:

General Commentary

- Most of the candidates got partial credit on that question.

Part a

- Candidates are expected to be able to define what a subsequent event is.
- Candidates did not perform so well on that part.
- The important point in the definition is the timing when the actuary becomes aware of the event and not only when the event occurred. Therefore, an answer such as "A subsequent event is one that has occurred between the valuation date but prior to the report date" was not given credit. The reason for this is that the event can occur between the valuation date and report date, but if the actuary becomes aware of it **after** the report date, by definition, this is not a subsequent event (which is stated in the CIA Ed note). Thus, the timing of the actuary to become aware of it is important.

Part b

- Candidates are expected to be able, given an event, to determine whether or not that event is a subsequent event and what actions are required in each situation.
- Most candidates got partial credits. Candidates lost credits for not correctly identifying the proper action for one or more of the situations.
- Many answers were accepted for part b) ii.