

EXAM 6 – CANADA, FALL 2015

28. (2 points)

a. (0.5 point)

Describe the concept of materiality according to the Canadian Institute of Actuaries' Standards of Practice.

b. (1.5 points)

Identify and briefly describe three characteristics of a company that could affect its materiality standard.

END OF EXAMINATION

EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 28	
TOTAL POINT VALUE: 2	LEARNING OBJECTIVE: D1
SAMPLE ANSWERS	
Part a: 0.5 point	
<p>Sample #1 Materiality is a defined threshold that is the minimum deviation required to change the decision of the individual considering the work.</p> <p>Sample #2 An omission, understatement or overstatement is material if in the opinion of the actuary, it could materially impact the user's decision making process or its expectations.</p>	
Part b: 1.5 point	
<p>Size of the company: The bigger the company, the less impact a small variation will have on the estimate and its interpretation/ For a small company 10 million might be very large as materiality standard but for a large company it is not high enough/ Small company less access to capital</p> <p>Type of business: The materiality level is going to change depending on the type of business</p> <p>Maturity of a company: A mature company has a better understanding of what is material. A new company may choose to be more conservative at first in selecting a materiality standard.</p> <p>Net retention: Material standard will vary depending on reinsurance arrangements and the portion the insurer keeps.</p>	
EXAMINER'S REPORT	
Part a	
Candidates did well on this part. Some candidates lost credit due to putting an incomplete definition.	
Part b	
<p>Candidates were able to identify the 3 characteristics but had difficulty describing them. They often had the answer reversed, e.g. a higher dollar materiality standard was more conservative, rather than less conservative. Candidates often made the error of assuming a company's financial condition impacted their materiality.</p>	