26. (3.25 points)

a. (1 point)

According to the Standard of Practice, define claim liabilities and premium liabilities.

b. (1 point)

Briefly describe four considerations that an actuary should contemplate when estimating the best estimate of claim liabilities or premium liabilities.

c. (0.5 point)

Claims should be subdivided into reasonably homogeneous groups for the selection of payment patterns. Briefly describe two considerations when dividing the portfolio into groups.

d. (0.75 point)

Identify three considerations in determining the concentration risk of an insurance company.

QUESTION 26	
TOTAL POINT VALUE: 3.25	**LEARNING OBJECTIVE(S): D1**
SAMPLE ANSWERS	

Part a: 1 point

Claim Liability
- The amount of the claim liabilities should be equal to the present value, at a specific date, of cash flow on account of claims (and of related expenses and taxes) incurred before that date.
- Claim liabilities are the portion of insurance contract liabilities in respect of claims incurred on or before the balance sheet date.

Premium Liability
- The amount of the premium liabilities (after deducting any deferred policy acquisition expense asset) should be equal to the present value, at a specific date, of cash flow on account of premium development and of the claims, expenses, and taxes to be incurred after the specific date on account of policies in force at that date or an earlier date.
- Premium liabilities are the portions of insurance contract liabilities that are not claim liabilities.

Part b: 0.75 point

Any four of the following:
- Instability in the guidelines for setting and reviewing case estimates, possibly resulting in inconsistent development among accident years
- The credibility of the company's experience being too low to be the primary source of data
- Future experience being difficult to estimate
- Lack of homogeneity in the cohort of risks
- Operational risks adversely affecting the likelihood of obtaining the best estimate assumption
- Past experience not being representative of the future experience and the experience possibly deteriorating
- The derivation of the best estimate assumption being unrefined
- Loss trends
- Reinsurance
- Tail factors
- Going concern vs. run-off
- Mix of business
- Reforms
- Catastrophic and large losses
- Data quality
- Payment pattern
- Investment yield/interest rate/discount rate
- Expected loss ratio
- MFAD
- Level of materiality
- Type of claims

Part c: 0.5 point
Any two of the following: • Groupings used for the valuation of the liabilities on an undiscounted basis (type of business, data credibility/homogeneity etc.) • Payout period (i.e., the length of time over which payments are expected to be made for a group of claims) • Existence of a predetermined schedule of payments for a group of claims
Part d: 0.75 point
• Diversification • Underwriting limit • Reinsurance Other reasonable answers, such as geographic concentration, line of business concentration, etc. were also accepted.

EXAMINER'S REPORT
The candidates were expected to demonstrate knowledge of considerations for determining claim liabilities and premium liabilities.
Part a
Candidates were expected define claim liability and premium liability based on any definition provided in the SOP. Common mistakes included: • Some candidates answered that claim liabilities are related to the expired portion of contracts and premium liabilities are related to the unexpired portion of contracts; this answer was incomplete and lacked the additional details required (e.g. present value) to receive full marks • Candidates did not mention the valuation or balance sheet date
Part b
Candidates were expected to demonstrate the considerations for estimating claim liabilities and premium liabilities. There were no common mistakes for this question.
Part c
Candidates were expected to demonstrate understanding of considerations for grouping claims the purpose of determining payment patterns. Common mistakes were the following: o Mentioning "similar payment pattern" as an answer o Listing fewer than two considerations
Part d
Candidates were expected to list considerations in determining the concentration risk. A common mistake was providing multiple examples of the considerations, as opposed to identifying the three considerations.