

## **EXAM 6 – CANADA, SPRING 2017**

27. (2.25 points)

a. (0.75 point)

Briefly describe the three circumstances under which a subsequent event needs to be accounted for.

b. (1.5 points)

The Appointed Actuary of a property and casualty insurance company is valuing policy liabilities as at December 31, 2016. The report date is February 19, 2017. For each of the following scenarios, briefly discuss the actions that the Appointed Actuary should take.

- i. On March 7, 2017, it was discovered that due to a system issue, all automobile physical damage claims reported in December were reported at the opening case reserve instead of at their actual claim amounts.
- ii. A major winter storm occurred on February 12, 2017.
- iii. Automobile insurance reforms were announced on February 26, 2017, where the threshold on minor injury claims was lowered from \$5,000 to \$2,500 in a province. The insurance company writes 50% of its automobile business in that province.

**END OF EXAMINATION**

**EXAM 6C SPRING 2017 SAMPLE ANSWERS AND EXAMINER'S REPORT**

<b>QUESTION 27</b>	
<b>TOTAL POINT VALUE: 2.25</b>	<b>LEARNING OBJECTIVE(S): D1</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 0.75 point</b>	
<p>Any three of the following:</p> <ul style="list-style-type: none"> <li>• Event provides information related to the entity as it was at calculation date</li> <li>• Event retroactively makes the entity different at calculation date</li> <li>• Event makes entity different after calculation date and purpose of work is to report entity as it was after event</li> <li>• Event happened before the calculation date</li> <li>• It's an adjusting event that reflects a situation at the end of the reporting period.</li> <li>• Adjusting event that changes entity as it was prior to valuation date (discovered between valuation date and report date)</li> </ul>	
<b>Part b: 1.5 points</b>	
<p>Sample response for Scenario i.</p> <ul style="list-style-type: none"> <li>• This is not a subsequent event since the actuary first became aware of it after the report date. This event is data defect and system error. Therefore the actuary should reflect this event into the work, withdraw or amend the report.</li> </ul> <p>Sample responses for Scenario ii.</p> <ul style="list-style-type: none"> <li>• The occurrence of the winter storm and actuary's acknowledge both are between the calculation date and report date. Therefore it is a subsequent event. However, the event made the entity different after the calculation date and the purpose of the work is to report it on the entity as it was. Also this event may have an impact on premium liabilities, but is not material. Therefore the actuary needs to disclose this event in the note of the report, but not reflect event in the work.</li> <li>• If material, disclose in annual statement. Not an adjusting event, will be reported for next report. If not material, no action needed (recommend disclosing to auditor)</li> </ul> <p>Sample response for Scenario iii.</p> <ul style="list-style-type: none"> <li>• This event is not a subsequent event. But if it were a subsequent event, it would be reflected in the report because it has materially affected on unpaid claims due to the high proportion of auto business in that province. This event invalidated the report. So the actuary needs to withdraw or amend the report.</li> <li>• Made aware after the report date. However, as it fundamentally changes the underlying business, the AA should assess the materiality of the change to determine whether an amendment is necessary</li> <li>• It is an adjusting event and 50% of business will be affected. (Assume the reform will impact all claims, future &amp; inforce claims) so modify the report.</li> </ul>	
<b>EXAMINER'S REPORT</b>	
<p>Candidates were expected to understand what a subsequent event is, when it needs to be account for, and apply the understanding to a real life situation.</p>	

## EXAM 6C SPRING 2017 SAMPLE ANSWERS AND EXAMINER'S REPORT

### Part a

Candidates were expected to understand what a subsequent event is and know when a subsequent event needs to be accounted for. Candidates were expected to distinguish whether the event will impact the entity before or after the calculation date.

Common errors include:

- Stating the action the Appointed Actuary should take. This was not asked in this part.
- Providing a definition of subsequent event. This was not asked.
- Stating the event will make the entity different without mentioning whether it will impact the entity before or after the calculation date.
- Stating the event is material without mentioning whether the impact is before or after calculation date.
- Simply stating data error. This does not demonstrate an understanding of subsequent event.

### Part b

Candidates were expected to apply the understanding of subsequent events to a real life situations. Candidates needed to identify an action the Appointed Actuary should take and justify the action.

A common error for scenario i. was not mentioning in the justification that it is a data defect.

A common error for scenario ii. was not mentioning whether the impact is before or after the calculation date in the justification.

A common error for scenario iii. was not stating there is material impact on the entity but not mentioning that the impact was retroactive.