

EXAM 6 – CANADA, FALL 2017

30. (2.25 points)

a. (0.5 point)

Describe the concept of materiality.

b. (0.75 point)

For each of the following, identify a financial metric on which the materiality level could be based:

- i. Regulatory or solvency related work
- ii. Appraisal
- iii. General purpose financial statement

c. (1 point)

Identify four characteristics of an insurance company that may affect the materiality level.

EXAM 6C FALL 2017 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 30	
TOTAL POINT VALUE: 2.25	LEARNING OBJECTIVE(S): D1
SAMPLE ANSWERS	
Part a: 0.5 point	
<p><u>Sample 1</u></p> <p>An omission, understatement or overstatement is material if it could materially impact the user's decision making or expectations.</p> <p><u>Sample 2</u></p> <p>Materiality is a defined threshold that is the minimum deviation required to change the decision of the individual considering the work.</p>	
Part b: 0.75 point	
<ul style="list-style-type: none"> i. Any one of the following: statutory surplus, the solvency benchmark ratio, MCT ratio, regulatory capital ii. Any one of the following: net worth, net income, earning per share iii. Any once of the following: net income, net capital, net surplus 	
Part c: 1 point	
<p>Any four of the following:</p> <ul style="list-style-type: none"> • Size of the company or scale • Entity's access to capital • Stage of organizational life cycle • Type of business/ risk exposure • Net retention • Financial strength of the entity or capital available 	
EXAMINER'S REPORT	
<p>Candidates were expected to understand the definition of materiality, identify the financial metrics that the materiality level could be based on dependent on the purpose of the report and to identify characteristic of an entity that may affect the materiality level.</p>	
Part a	
<p>Candidates were expected to be able to describe the concept of materiality.</p> <p>A common mistake was:</p> <ul style="list-style-type: none"> • Providing an incomplete definition. 	
Part b	
<p>Candidates were expected to identify financial metrics that could be used to set the materiality level under the following three intended uses: regulatory or solvency, appraisal work and general financial statement work.</p>	

EXAM 6C FALL 2017 SAMPLE ANSWERS AND EXAMINER'S REPORT

Common errors include:

- Part i: answering asset or liability
- Part ii: answering asset
- Part iii: answering GWP, asset or liability

Part c

Candidates were expected to identify characteristics of the entity that affects materiality level.

Common errors include answering the following:

- Location
- Diversification
- Current reserve level
- Investment portfolio characteristics
- Underwriting cycle