22. (2.5 points)

    a. (1 point)

        Fully describe data quality as an underlying factor of A.M. Best's Capital Adequacy Ratio (BCAR) assessment of a property and casualty insurance company's catastrophe risk management capabilities.

    b. (0.5 point)

        Explain the rationale for testing for a second catastrophic event in the BCAR model for the natural catastrophe stress test.

    c. (1 point)

        Identify and briefly describe two key factors influencing A.M. Best's level of tolerance regarding the decline in the stress-tested BCAR score.

QUESTION 22	
TOTAL POINT VALUE: 2.5	**LEARNING OBJECTIVE(S): C2**
SAMPLE ANSWERS	

Part a: 1 point

Four of the following points were required:
- Proper coding of loss exposure/accurately mapped locations/property coding/building attributes
- Models used to assess property value/insurance-to-value
- The information capture must be as timely as possible/ensuring data is complete and up-to-date
- Conducting site reviews
- Safeguards must be implemented to prevent an underwriter or an agent from manipulating the system by miscoding business to get a more favorable classification/Controls in place to prevent data manipulation
- Auditing of underwriting information to ensure errors and/or bulk coding are not occurring/Conducting data verification and validation

Part b: 0.5 point

Sample 1
- After a catastrophic event, the insurer retains its exposures. Testing a second catastrophe is to better assess the stressed profile of an insurer.

Sample 2
- Companies are not expected to be able to survive a second catastrophe, however, it shows the company ability to get in a good financial condition after the first one and how at risk it is after a catastrophe.

Part c: 1 point

Sample answers (2 points required):
- Financial Flexibility: Companies willing and capable of bringing capital back up quickly in the aftermaths of an event will be granted more tolerance for its ability to respond and recover in a timely manner.
- Historical Volatility: Company with a history of strong, consistent and stable performance will be granted higher tolerance. Companies with volatile results or new companies will be granted less tolerance.
- Exposure to multiple cat events in the same period. For example, if hurricane is the main risk of the company, it is more likely to have 2 hurricanes in same year than 2 earthquakes in the same year. Thus, less tolerance will be granted to company exposed to multiple events in same period.

EXAMINER'S REPORT

The candidates were expected to understand and demonstrate knowledge of catastrophe analysis in A.M. Best ratings.

Part a
Candidates were expected to explain in detail the concept of data quality as explained under A.M. Best approach to analyzing catastrophe risk. Common errors included: • Failing to accurately describe data quality for catastrophe risk. • Incorrectly describing data quality as requirement for obtaining an adequate BCAR score instead of as a factor in the rating assessment.

Part b
Candidates were expected to understand the rationale behind A.M Best methods for their rating assessment. A common error included: • Incorrectly stating that the purpose of the test for an additional catastrophe event was to see whether the company was able to survive two events. A.M. Best does not require the company to withstand two major events.

Part c
Candidates were expected to know the key factors impacting A.M. Best tolerance of the stress-tested BCAR score. Common errors included: • Failing to provide an accurate description of the named factor • Naming incorrect factors that have no link with the A.M. Best assessment