

**EXAM 6 – CANADA, SPRING 2018**

25. (2.25 points)

The AA has valued the policy liabilities as at December 31, 2017. The report date is February 21, 2018.

For each of the following material events, justify whether it is a subsequent event as defined by the Canadian Institute of Actuaries (CIA), and explain the actions the AA should take.

- i. There was a significant increase in fixed income yields on January 20, 2018, decreasing the value of the insurance company's investments by 20%.
- ii. A catastrophic winter storm took place on February 2, 2018. The catastrophe is expected to impact up to 10% of the insurance company's customers.
- iii. On February 28, 2018, it was discovered that the incorrect loss development factors were used in the estimation of claim liabilities. The total policy liabilities are underestimated by 5%.

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EXAM 6C SPRING 2018 SAMPLE ANSWERS AND EXAMINER'S REPORT

<b>QUESTION 25</b>	
<b>TOTAL POINT VALUE: 2.25</b>	<b>LEARNING OBJECTIVE(S): D1</b>
<b>SAMPLE ANSWERS</b>	
<i>Sample Responses for i</i>	
<ul style="list-style-type: none"><li>• Since the event happened between the calculation and report date, it is a subsequent event. The appropriate course of action is to disclose the effect of the decline in fair value of the investments but not to take account of the event in the calculation of the insurance contract liabilities as at December 31.</li><li>• Since the event happened between the calculation and report date, it is a subsequent event. This is not a data defect or calculation error. It is a non-adjusting event that are indicative of the conditions arising after the reporting period. The appropriate course of action is to disclose the effect of the decline in fair value of the investments but not to take account of the event in the calculation of the insurance contract liabilities as at December 31.</li></ul>	
<i>Sample Responses for ii</i>	
<ul style="list-style-type: none"><li>• Since the event happened between the calculation and report date, it is a subsequent event. The appropriate course of action is to report the event but not make adjustments to the report.</li><li>• Since the event happened between the calculation and report date, it is a subsequent event. This is not a data defect or calculation error. Even though this is a catastrophic event, it does not retroactively make the entity different. As the purpose of the work is to report the entity as at December 31, the appropriate course of action is to report the event but not make adjustments to the report.</li></ul>	
<i>Sample Response for iii</i>	
<ul style="list-style-type: none"><li>• Since this event happened after the report date, it is not a subsequent event. However, this would have been reflected if were a subsequent event as it is a calculation error. The appropriate course of action is to withdraw or amend the report to reflect the correct estimate.</li></ul>	
<b>EXAMINER'S REPORT</b>	
Candidates were expected to identify whether or not the event is a subsequent event and determine the appropriate actions.	
A common error was:	
<ul style="list-style-type: none"><li>• Not being able to determine the appropriate course of action per the decision tree detailed in the educational note.</li></ul>	