23. (2.5 points)

    a.  (0.5 point)

       Describe the concept of materiality.

    b.  (1 point)

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

    c.  (0.5 point)

       Identify two considerations regarding the disclosure of the materiality level within the actuarial work product.

    d.  (0.5 point)

       Describe the difference between the materiality level for DCAT work and the materiality level for valuation work.

| QUESTION 23 | |
|---|---|
| **TOTAL POINT VALUE: 2.5** | **LEARNING OBJECTIVE(S): C1** |
| **SAMPLE ANSWERS** | |

**Part a:** 0.5 point

*Sample 1*

An omission/over-statement or understatement will materially affect user's decision making or expectations

Sample 2

When understatement/overstatement/omission materially impacts user's decision

Sample 3

Materiality is an omission, understatement, overstatement that will impact the course of action of the user either changing a conclusion or reviewing a method

**Part b:** 1 point

*Sample 1*

- Financial strength
- Size of insurer
- Type of business
- Net retention

*Sample 2*

- Ease of access to capital
- Type of business
- Stage of organizational life cycle
- Have multiple reinsurance

| |
|---|
| **Part c:** 0.5 point |

*Sample 1*

- Complexity of the concept
- Sophistication of the user

*Sample 2*

- Need to consider the significance to the user
- Need to consider the complexity of the subject to the user

| |
|---|
| **Part d:** 0.5 point |

*Sample 1*

Materiality level for DCAT work is less rigorous than material level for valuation work, since valuation work is related to financial statements. DCAT materiality level for DCAT is used in scenario testing.

*Sample 2*

DCAT's materiality level can be higher because all of the values in the DCAT are projections or assumptions which will not flow through into the actual financial results, but the valuation results are reported and reflected in the financials so they need to be more precise.

| |
|---|
| **EXAMINER'S REPORT** |

Candidates were expected to understand the concept of materiality and know the considerations with respect to the disclosure of materiality.

| |
|---|
| **Part a** |

Candidates were expected to know about the concept of materiality

Common errors included:

- Not providing an answer in enough detail, such as "concept of materiality is that of which would impact decision making".

**Part b**

Candidates were expected to know characteristics of an insurance company that may affect the materiality level.

One common error included:

- Listing fewer items than the four required

**Part c**

Candidates were expected to identify considerations regarding the disclosure of the materiality level.

A common error included:

- Listing considerations for determining whether something was material rather than listing considerations specific to the disclosure of the materiality standard. Examples included: "purpose of the work and use" and "user's intention of the work".

**Part d**

Candidates were expected to contrast how the materiality standards varied for valuation compared to DCAT work.

Common errors included:

- Incorrectly stating that the DCAT materiality standard was more rigorous than the valuation materiality standard.
- Correctly stating that the materiality standard was more rigorous for valuation, but then not providing any support to describe the difference between DCAT and valuation work, such as "Materiality for DCAT is less rigorous than for valuation work".