

EXAMINATIONS

April 1997

Subject G — General Insurance

Paper One

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

1. *You have 15 minutes at the start of the examination in which to read the questions. You are strongly encouraged to use this time for reading only but notes may be made.*
2. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*
3. *Write your surname in full, the initials of your other names and your Candidate's Number on the front of the answer booklet.*
4. *Mark allocations are shown in brackets.*
5. *Attempt all 29 questions, beginning your answer to each question on a separate sheet.*

AT THE END OF THE EXAMINATION

Hand in BOTH your answer booklet and this question paper.

In addition to this paper you should have available Actuarial Tables and an electronic calculator.

- 1** Outline the characteristics of property damage claims for the following classes of business:
- (a) Motor
 - (b) Marine & Aviation
 - (c) Household
- [4]
- 2** Define the term latent claim and give three examples which have come to light in recent years. [2]
- 3** List the reasons why a large UK company might consider establishing a captive insurance company. [3]
- 4** Define the following terms and phrases used in the UK General Insurance market:
- (a) Bordereau
 - (b) Cover Note
 - (c) Escalation Clause
- [3]
- 5** State the claims reserves to be included in the outstanding claims reserves as directed in Guidance Note GN12. [2]
- 6** In a development triangle of paid claims a disturbance is noted common to one diagonal. List possible reasons for this disturbance. [2]
- 7** A general insurance company writes only one class of business for which the ultimate loss ratio is 80%. Claims, which are paid at the end of each of the development years 0, 1 and 2, are 50%, 30% and 20% respectively of the ultimate payments. The company discounts its reserves at a rate of 5% per annum for its accounts. If earned premiums have been increasing at a rate of 10% per annum over the last three years, calculate the incurred claim cost in the accounts for the year ended 31 December 1996 if the earned premium in 1996 was P . [4]
- 8** List the main features of the following types of Reinsurance:
- (a) Quota Share
 - (b) Surplus
 - (c) Risk Excess of Loss
- [6]
- 9** State the purpose of functional costing and list the steps involved. [2]

- 10** Define the term risk premium. [1]
- 11** State the relationship between the Underwriting Result, the Insurance Result and the Retained Profit in the context of a general insurer's Companies Act accounts. [2]
- 12** List the rating factors for Mortgage Indemnity business. [2]
- 13** Outline the effects of a company using discounted reserves for its published accounts. [3]
- 14** Define the following Reinsurance terms: [4]
- (a) Stability Clause
 - (b) Working Layer
 - (c) Financial Risk Reinsurance
- 15** List eight reasons why claims experience may be at a level which is different from that expected. [4]
- 16** Briefly explain the difference between a stochastic and deterministic approach in modelling claim uncertainty. [3]
- 17** (i) State the key aspects of the asset value regulations applying to UK general insurance companies.
- (ii) List four additional controls that could be used by non UK systems of supervision. [4]
- 18** Discuss briefly how the sizes of the following may influence the investment policy of a proprietary general insurance company. (Details of types of investments are not required.) [6]
- (a) Free Reserves
 - (b) Catastrophe Reserves
 - (c) Outstanding Claims Reserves (including IBNR)

- 19** Outline why a company should analyse the persistency and profitability of its business by source. [2]
- 20** List the main items of income and expenditure you would expect to see in a general insurance company's revenue account. [2]
- 21** Explain what is meant by a Portfolio Transfer, and give two examples of when it is usually used. [2]
- 22** Discuss briefly whether the accounting basis adopted by a general insurance company can affect the true underlying profitability. [2]
- 23** List the factors which should be considered by an insurer when considering the type and amount of reinsurance for a particular class of business. [4]
- 24** List five parties whose failure may have a financial impact on an insurer, and in each case give reasons for the impact. [3]
- 25** State the level of payments which may be made by the Policyholders' Protection Board in the event of the wind-up of insurance companies authorised in the UK and those not authorised in the UK and state how the payments are funded. [2]
- 26** List the major risk factors in Aviation insurance. [3]
- 27** List four regular publications of interest to the general insurance market which are published by the ABI. [2]
- 28** An established insurer is revising its premium rates for an existing line of business. List possible problems associated with data collection for this premium rating exercise. [3]

29 You are the actuary with a UK insurer which is considering establishing a separate class for Classic Motor vehicles (i.e. collector's items). You have been asked to comment on the features and viability of such a decision. The company has experience of writing motor insurance through garage outlets over a number of years.

- (i) Discuss how the risk factors of this new class might differ from standard Motor Insurance. [6]
 - (ii) Point out how the company's approach to new business acquisition may have to change. [3]
 - (iii) Discuss how the claims experience may vary from the company's past experience. [5]
 - (iv) Outline the sources of information from which you might get data upon which to base your report. [4]
- [Total 18]