

EXAMINATIONS

September 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 31 questions, beginning your answers to each question on a separate sheet.*

AT THE END OF THE EXAMINATION

Hand in BOTH your answer booklet and this question paper.

<p><i>In addition to this paper you should have available Actuarial Tables and an electronic calculator.</i></p>
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- 1** List the items you would expect to find in the revenue account of a general insurer. [2]
- 2** State the differences between the ways expenses may be allowed for in the calculation of unearned premiums on the following bases:
- (a) going-concern basis
 - (b) a break-up basis
- State the adjustment which could be made to the break-up basis so that it could be used for a going-concern basis. [3]
- 3** Explain why the true underlying profitability of a general insurance company may differ from that shown in its published accounts. [3]
- 4** Explain the purpose of the limitation of admissibility of assets within the DTI returns of a United Kingdom general insurance company. [3]
- 5** An insurance regulator in a particular territory is considering how it might supervise the investment policy of general insurance companies under its control. State four methods of direct control it might choose to take. [2]
- 6** State the basic investment principle of a general insurance company. [1]
- 7** Explain briefly how the investment policy of a general insurance company writing private medical insurance might differ from a company writing employer's liability business. [2]
- 8** Explain why a United Kingdom proprietary general insurance company might adopt a different investment policy from a mutual company transacting similar business. [4]
- 9** You are the actuary to a non-United Kingdom general insurance company which transacts private motor insurance business. A major rival has just introduced a no claims discount system based on number of claims. No other company in the country operates any form of experience rating. Your managing director has asked for a report outlining the advantages and disadvantages of a no claims discount system. List the points you would make in your reply. [5]

- 10** Describe briefly how stochastic modelling can be performed when estimating potential claims costs. [3]
- 11** List eight data items which would be captured by a direct insurer for any facultative reinsurance contract. [2]
- 12** State the main reasons why an explicit IBNR reserve might be calculated. [2]
- 13** Describe how the delay table method may be used to estimate IBNR reserves. [5]
- 14** List non-monetary items normally found in the parts of a treaty document relating to the cover on a reinsurance contract. [2]
- 15** (i) List the main disadvantages of facultative reinsurance from the direct writer's point of view. [3]
(ii) For what types of risk is facultative reinsurance normally used? [1]
[Total 4]
- 16** Explain what a time and distance policy is, and discuss how it may be used. [4]
- 17** List the disadvantages of estimating claims on a case by case basis. [5]
- 18** Explain the term discovery period. [1]
- 19** List five reasons why actual claims experience may differ from that expected for a private motor account and give an example for each item. [5]
- 20** Explain the term bonus-malus. [2]
- 21** Explain what is meant by a first loss policy. [1]
- 22** Outline the specific guidance given in GN12 relating to uncertainty when reporting on reserves. [3]
- 23** Explain what is meant by signing down. [1]

- 24** Describe fund accounting and the circumstances in which its use is appropriate. [3]
- 25** Explain what is meant by EML and the purposes for which it is used. [2]
- 26** Explain what is meant by a knock-for-knock agreement. [1]
- 27** Outline the reasons why the 24ths method may not provide an appropriate assessment of unearned premium reserve for a company writing reinsurance business. [2]
- 28** State the main benefits of analysing movement rates. [2]
- 29** Discuss the implications of underinsurance for an insurance company. [2]
- 30** State for each main class of marine insurance the expected length of tail of claims development. [2]
- 31** You are the actuary of a medium-sized company which writes all types of property and motor insurance. The company's reinsurance arrangements consist only of quota share treaties. The management are reviewing the reinsurance arrangements and you have been asked to evaluate the effectiveness of the past reinsurance.
- (i) State with reasons the data you would collect in order to evaluate the financial effect on the company of the reinsurance treaties over the last five years. [5]
 - (ii) Discuss the factors to be considered when assessing the effectiveness of the past reinsurance. [7]
 - (iii) Discuss with reasons the nature of the alternative types of reinsurance which may be appropriate for each class. [9]
- [Total 21]