Faculty of Actuaries **Institute of Actuaries**

EXAMINATIONS

April 1999

Subject 402 — UK Fellowship Life Insurance

Paper Two

You must answer this subject only,
you may not attempt another subject in the 400 series.

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. You then have three hours to complete the paper.*

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 both 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 A UK mutual life insurance company only writes individual pensions business on a with profits and unit-linked basis. At retirement benefits must be taken in the form of a non-linked or RPI-linked annuity, or transferred to another provider using an open market option. Protection benefits, in the form of waiver of premium and term assurance, are written on a without profits basis. The unit-linked contracts have expense guarantees, but no investment guarantees.

The annuity liabilities are currently well-matched on a cash flow basis at market rates of interest by an earmarked set of UK government and corporate fixed interest and index-linked securities.

Key figures from the company's latest statutory returns are:

		£m	£m
A	Admissible Assets		3607.9
B	Liabilities		
	With profit deferred annuities	1806.1	
	Term assurance	12.2	
	Waiver of premium	1.6	
	Unit-linked deferred annuities	1230.7	
	Non-linked annuity in payment	290.2	
	RPI-linked annuity in payment	22.8	
		_____	3363.6
C	Solvency Margin		101.3
A–B–C	Free assets		143.0
	as a percentage of liabilities		4.25%

Business is only written through independent financial advisers (IFAs). The company's market share of IFA pensions business has declined in the last two years. This decline is attributed to the relatively low figures for free assets which have existed for that period.

It has been suggested that by transferring the annuities in payment to a new subsidiary company the free asset ratio could be increased.

The Appointed Actuary has been asked to prepare a report to the chief executive and senior management on this proposal.

(i) Calculate the numerical effects of the proposal. [8]

(ii) Discuss the advantages and disadvantages of organising the transfer, either by a reassurance agreement or by a transfer of business under Schedule 2C of the Insurance Companies Act. This should include a recommendation as to the more appropriate method. [14]

(iii) Describe the administrative and taxation consequences of the proposal which would need to be considered in coming to a decision whether or not to proceed. [10]

(iv) Describe how the assets to be transferred from the mutual parent to the annuity subsidiary would be determined, both for the initial transfer and ongoing for vesting policies. [17]

(v) Outline other approaches that might improve the company's market share within the chosen IFA market. [8]

[Total 57]

2 A proprietary UK life insurance company, quoted on the Stock Exchange, has hitherto issued only individual unit-linked personal pensions business, sold mainly through a direct sales force.

The company's directors wish to increase the level of new business significantly. Consequently, they propose to introduce the following new products, to be sold both through the existing direct sales force and through independent financial advisers:

(a) immediate annuities issued as pensions business
(b) unitised with profits personal pensions
(c) without profit pensions term assurances

Draft a report to the directors, setting out the issues that arise and the possible solutions, in respect of:

(i) the risks of the proposal [8]
(ii) the capital requirements and sources of capital [10]
(iii) the investment strategy [9]
(iv) underwriting and reinsurance [12]

Four marks are available for drafting. [4]

[Total 43]