

EXAMINATIONS

11 September 2003 (pm)

Subject 403 — UK Fellowship General 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. *Enter all the candidate and examination details as requested on the front of your answer booklet.*
2. *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.*
3. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*
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, with any additional sheets firmly attached, and this question paper.

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

1 General Insurance company A is looking to sell one of its subsidiary general insurance companies (Sub 1) to Company B. Sub 1 writes a number of classes of business, with none of its business reinsured.

- (i) Describe the information that you would expect Company B to request in respect of this purchase in order for it to assess the profitability of business written over the last 3 years. [23]

All items in the sale process have been agreed apart from the value of the claims reserves. (To cover both reported and IBNR claims.) Company A believes the reserves should be X whilst Company B thinks they should be Y . (Y is $> X$).

- (ii) Explain why the two claims reserve values are not the same. [7]
- (iii) Consider what options the two companies have in such a situation, considering the advantages and disadvantages of each and the factors that need to be taken into consideration. Both sides want the sale to go ahead. [20]
- [Total 50]

2 It has been suggested that the European Union (EU) should review the methodology that is used to calculate the minimum solvency requirement for general insurance companies. You are a consulting actuary who has been asked by the EU to draft a report on this issue.

Draft your report which includes the following sections.

- (i) A brief description of the current approach, its rationale and its effectiveness. [9]
- (ii) The key risks faced by general insurance companies, including the importance of each risk for the various types of companies that operate in the United Kingdom. [14]
- (iii) Potential refinements to the current approach to include more factors and differentiation between companies. [10]
- (iv) A potential new approach where each company calculates its own solvency requirement by using an internal dynamic financial analysis model. [10]
- (v) A description of the risk measures, in respect of the approach in part (iv) that companies may use in assessing their solvency requirement and their relative advantages and disadvantages. [5]
- (vi) Your recommendation. [2]
- [Total 50]