

EXAMINATIONS

7 April 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** You are an Actuary working as an underwriter for a non-life reinsurance company. You have received the following e-mail from broker XYZ:

“We have been engaged by a London Market company (Company A) to arrange an Adverse Development Cover of their existing book of business. They are planning to cease underwriting reinsurance business on the 30 September 2003.

They are seeking cover for a layer of £100m xs £100m, incepting 1 January 2004.

Company A is the UK subsidiary of a large international company and has been operating since the late Eighties in London. It has a wide-ranging account of reinsurance business almost entirely broker produced.

The total net of reinsurance claims reserve as at 30 March 2003 was £150m.

The classes of business that have been written in the past for which there are still claims reserves attached are:

Extended warranty
Bankers Blanket Bond
Facultative
Property XL
Liability XL
Motor XL
Professional Indemnity

Company A does not expect any firm commitment from reinsurers but would appreciate an indication that subject to the data being available, satisfactory due diligence and terms being agreed, you would consider underwriting a transaction of this kind.

If this is the case, please provide details of information you will require to produce a preliminary indication of terms.”

- (i) Draft your reply to the broker, setting out your data request and a preliminary list of questions for company A and the underwriters for each class. [40]
 - (ii) Outline the analysis you would undertake to price the transaction. [10]
- [Total 50]

- 2 The Government of a country is concerned with the quality of workmanship and consumer protection regarding major home improvement works including extensions, loft conversions and conservatories. In order to avoid the introduction of potentially costly legislation an industry group has been formed by the largest companies operating nationally in this sector to consider establishing an independent standard setting / monitoring organisation. The proposal is to establish a non-profit-distributing general insurance company, limited by guarantee, governed by a wide-ranging council of representatives from professional bodies with relevant interests in improving standards within the sector.

In addition to setting building standards, vetting builders and inspecting the projects undertaken, the newly created company will provide homeowners with a 10-year warranty on completed works. This will provide cover against defects resulting in damage as defined in the policy, for a single premium to be paid by the builder before works begin. There is no cover against builder insolvency whilst the works are in progress. Also, all forms of liability cover are specifically excluded from the policy. The industry group has agreed to provide sufficient capital to enable this new company to set-up operationally. However, the new company has no initial source of capital to back the warranties it plans to provide, other than the minimum required for initial authorisation, nor will it have recourse to any new capital once up and running. As prospective Chief Actuary for the insurance company you have been posed with a number of issues.

- (i) Describe how you would assess the risk premium to be charged. [8]
 - (ii) Describe the issues you would have to consider in determining the allowance that should be made for future inflation and investment returns when deciding upon the office premium. [15]
 - (iii) Discuss what, if any, experience rating system you would operate in pricing this business. [10]
 - (iv) Explain how insurance legislation requirements might impact on the proposal. [9]
 - (v) State the reinsurance arrangements you would recommend for this company, giving reasons why they are the most suitable. [8]
- [Total 50]