

INSTITUTE AND FACULTY OF ACTUARIES

PAST EXAM

Subject CA3 – Communications

(Presentation)

Scenario: XYZ Pet Insurance

Time allowed: 2 hours to prepare slides

Scenario: XYZ Pet Insurance

You have recently joined an insurance company as their actuarial adviser, replacing their previous actuary. Your employer writes a number of classes of business for personal customers including household buildings and contents insurance and motor insurance. For the last four years your employer has been writing a new class of pet insurance business for exotic pets.

You have just received the following memo from a member of the marketing team.

Dear James

Welcome to XYZ. I have been in discussions with your predecessor, Bob, about a plan I have to simplify the way we charge premiums for our pet insurance. I am sure that a simpler structure with fewer questions to answer on the application form is going to attract a lot more business for us. I am particularly concerned about the rates we charge for exotic pets. We ask our policyholders to verify each year the specific classification of exotic pet and the rates we charge vary a lot depending on the classification. I don't want this to put off customers as I see this as a business into which we could expand and become the market leader. I would therefore like to remove the need to ask policyholders about their exotic pet's classification.

When I proposed this to Bob he told me that "profits could be adversely affected by anti-selection". What does this mean? It does not make any sense to me. I presume selection means policyholders will select our policies, which means more business for XYZ, so how can this possibly affect profits adversely?

My team is working with the IT department to produce an online form so that we can offer instant cover to potential policyholders and I would like to keep the form as simple as possible.

I'd be grateful if you could explain what the problem is with removing one question on the application form. If this results in attracting a lot of additional business for us, I fail to see the problem.

As you have just joined the company I would like to invite you to give my team a brief presentation to respond to my concerns.

Regards

Jason

Draft a presentation to last 8–10 minutes.

A student in your team has provided you with the following details of premium rates charged by XYZ:

<i>Class of Exotic Pet</i>	<i>Year</i>			
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
A	458.33	490.91	533.33	551.25
B	156.67	183.64	200.00	208.95
C	295.00	329.09	324.76	366.45
D	126.67	133.64	153.33	164.85
E	519.17	568.18	580.95	628.95

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