

EXAMINATIONS

7 April 2003 (pm)

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. *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 A UK life insurance company markets a wide range of products through insurance intermediaries. There has recently been a reduction in the volume of new business of its without profits non-linked term assurance product under which the sum assured is paid on the diagnosis of one of a specified number of critical illnesses.

(i) Discuss possible reasons for the reduction in new business volumes. [10]

(ii) Discuss the following separate proposals for increasing the new business volumes, including, where appropriate, the factors which would impact on the terms which could be offered, and the risks to the company from making the change:

(a) Initial commission is currently paid at the outset of the policy, with a proportion reclaimed by the company if the policy lapses during an initial commission period at the start of the policy. A lower level of renewal commission is paid from the end of the initial commission period.

It is proposed that intermediaries are given a choice between the standard commission terms and an alternative under which the initial commission would be lower, but the period during which commission is reclaimed on lapse is reduced. Under the alternative, renewal commission would start from the end of the reduced initial commission period. This option has proved popular when offered by other companies. [8]

(b) It is proposed that the product will be priced with overhead expenses excluded from the expense loadings. [6]

(c) The company currently guarantees that premiums will remain unaltered during the term of the policy. It is proposed to introduce an alternative, under which premiums can be reviewed at the company's discretion in line with actual critical illness experience. [12]

(d) It is proposed to introduce an option that allows the policyholder to increase the sum assured at any policy anniversary in line with price inflation over the previous year, with premiums increasing by the same proportion. No further evidence of health would be asked for. [7]

(e) It is proposed to reduce the risk discount rate being used when pricing the product. [7]

[Total 50]

- 2** A well-established UK life insurance company sells a mixture of unit-linked and conventional contracts (both with profits and without profits).

It is considering setting up a new life insurance company in an under-developed overseas market.

- (i) Describe the investigations and actions that the company would take to determine whether it should proceed. You are not required to consider alternative strategies. [25]

It is also proposing to enter the impaired life annuity market in the UK. The intention is to offer enhanced without profits non-linked annuities, purchased from the proceeds of pension plans, to individuals who are in poor health. The individuals will be underwritten when they commence drawing benefits from their pension plans.

- (ii) Discuss the areas the company will need to consider in developing this proposal. [25]
[Total 50]