

EXAMINATIONS

15 September 2000 (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. *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.*

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** You are the actuary for a rapidly expanding United Kingdom-based insurance company writing a full range of lines of business. Gross written premium in 1999 was approximately £2,000 million, while net written premium was £1,500 million.

The finance director recently read a brief article about alternative risk transfer (“ART”). He has asked you to prepare a report to the Board on the threats and opportunities posed to the company by the possible use of ART. The finance director has twenty years’ experience in a wide variety of insurance roles but he has not had any experience of ART.

Draft your report. The report should cover:

- brief explanations of the following forms of ART:
 - Self-insurance
 - Captives
 - Event-triggered bond issues (A loan whose yield depends on whether or not a defined catastrophic event happens)
 - Securitisation
 - Financial Reinsurance/Finite Risk Reinsurance
 - Catastrophe Exchanges
 - CBOT Exchange Cat Options
 - Weather Derivatives
- the advantages and disadvantages of each form from both the policyholder’s and company’s points of view, each as a potential user of ART,
- the potential threats to the company of ART. [50]

- 2** You are an actuary working for a composite insurance company in a country with regulatory controls and insurance market similar to those of the United Kingdom. The government of the country has stated that all providers of mortgage loans have to provide mortgage payment protection insurance (MPPI) for the mortgages they sell.

Your company currently writes a wide selection of life and non-life business and also transacts mortgage lending.

You have been asked, along with colleagues in other departments in the company, to develop a product to meet the Government’s requirements. Draft report to the Non-Life General Manager of the company, who is also an actuary, regarding this product development with reference to the issues involved in relation to:

- authorisation,
- the market for the product,
- product features,
- administration,
- selling issues,
- pricing issues,
- claims issues,
- general matters. [50]