

EXAMINATIONS

April 1999

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 all three questions, beginning your answer to each question on a separate sheet.*

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 an actuary working for a general insurer with a large household account which currently uses only location as a rating factor on both buildings and contents. You have been asked to carry out a rating exercise for this business. Explain how you would go about this with particular reference to the following:

- collection and checking of data
- adjustments you would make to the data
- the modelling approaches available
- calculation of the theoretical office premium
- appropriate rating factors, and
- establishing the market premium [50]

2 You are the actuary of a United Kingdom general insurance company which writes many classes of insurance business through a broker network. A new director has recently joined the Board of Directors. Before his appointment, the director had little experience of the general insurance market, but did have some accounting experience. You have been asked to explain certain aspects of general insurance business.

Draft a report to the director explaining the concept of accumulations of risk, illustrating your answer by reference to the following three classes of business written by the company:

- (a) Mortgage Indemnity Guarantee
 - (b) Domestic Household
 - (c) Employers' Liability [15]
- [Includes 2 for drafting]

3 It is January 2001, and you are the actuary in charge of reserving for an insurance company that writes commercial insurance of all types, originating mainly in the United Kingdom and the United States of America. Business is written directly rather than as reinsurance, and, when coinsured, the company has normally acted as the lead underwriter.

During 2000, the company received a large number of claims arising out of the widespread failure of computer systems which occurred at the start of the year. The claims that have been received generally fall into one of the following categories.

Companies that have found themselves unable to operate because of the failure of their computer systems have claimed the costs of rectifying the systems under their fire policies (which are all-risk covers).

These companies have often also claimed compensation under the business interruption section of their fire policies for loss of profit and other expenses.

Companies that have been unable to fulfil their obligations to customers have claimed the cost of compensating them under their general liability policies.

Companies that sold products that failed at the start of 2000 have claimed the cost of replacement, modification, or compensation for consequential loss, including compensation for personal injury, under their products liability policies.

Companies whose equipment has failed, injuring employees as a result, have claimed the costs of compensating them from their employers' liability policies.

Companies whose systems have failed have sued their external software suppliers, who have notified claims on their professional indemnity policies.

Companies whose systems have failed have received suits against directors and officers from aggrieved shareholders, and these have been notified as claims on their Directors and Officers cover.

Companies which have suffered because of the failure of systems at their customers or suppliers have received suits against directors and officers from aggrieved shareholders, alleging that their oversight of these problems was inadequate, and these have been notified as claims on their Directors and Officers cover.

- (i) Discuss the possible defences that the Company may have against these claims, irrespective of any specific exclusions. [17]

Almost all policies renewed with commencement dates in 1999 had a specific clause included preventing any claims from causes associated with this problem. This was continued with renewals during 2000. Any claim on a policy with this exclusion has been rejected. A number of the claimants concerned have commenced lawsuits against the Company alleging that this exclusion is invalid. You anticipate that more will be launched if any of these is successful. Your legal advice is that the exclusion will probably be deemed to be valid in the United Kingdom, but that the position is far less clear in the United States. The Claims Department has left all these claims open, but has set a nil reserve.

- (ii) Discuss your approach to setting reserves as at 31 December 2000 for claims arising from this problem. [18]
[Total 35]