

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

23 September 2014 (pm)

Subject SA2 – Life Insurance Specialist Applications

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 new page.*
6. *Candidates should show calculations where this is appropriate.*

AT THE END OF THE EXAMINATION

Hand in BOTH your answer booklet, with any additional sheets firmly attached, and this question paper.

<p><i>In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator from the approved list.</i></p>
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- 1** (i) Discuss how asset shares are used in the management of a with profits fund.
[You are not required to describe how asset shares are calculated.] [15]
- (ii) Describe the uses of the inherited estate within a with profits fund. [9]

A UK proprietary company has a large with profits fund. Without profits business is written in a separate fund.

The with profits fund has mainly written:

- conventional with profits endowment assurances.
- accumulating with profits single premium bonds.

The only with profits product now being sold is the single premium bond.

The company has recently carried out a significant de-risking exercise. As a result, there has been a considerable increase in the available capital of the with profits fund. The Board has, therefore, decided to distribute some of that surplus to the existing with profits policyholders in order to bring the surplus of the fund into the company's preferred range.

- (iii) Discuss how the company might distribute this surplus. [18]

In recent years, the volume of new with profits business has steadily declined. Whilst the with profits fund could easily continue to fund the writing of new business, the low level of sales has caused the Board to decide to focus on the without profits business and to close the with profits fund to new business.

- (iv) Discuss the issues that the company would have to consider as a result of this decision. [24]
- [Total 66]

- 2** Company X is a relatively recently established UK life insurance company that has sold protection business and unit-linked life assurance products, but has been closed to new business since 31 December 2012.

In 2013 the company was bought by Company Y, a proprietary UK life insurance company. Company Y is now considering a transfer of the long term business from Company X to itself, under Part VII of the Financial Services and Markets Act 2000.

- (i) Describe the process that Company Y would need to follow in order to complete a Part VII transfer. [5]
- (ii) Discuss the possible advantages and disadvantages for Company Y of undertaking a Part VII transfer. [15]

In assessing the potential impact of the Part VII transfer, Company Y has now looked at the tax implications. Following a Part VII transfer, Company Y would expect to move to an excess E tax position in future years.

- (iii) Explain what might be the cause of this shift in tax position. [6]
 - (iv) Discuss the options available to Company Y if it does not wish to be in an excess E tax position. [8]
- [Total 34]

END OF PAPER