

# INSTITUTE AND FACULTY OF ACTUARIES



## EXAMINATION

30 April 2015 (am)

### **Subject SA3 – General 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.*

*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.*

- 1** Roland Rich is one of the wealthiest men in the world. He has decided to enter the insurance industry and underwrite large commercial property risks. Mr Rich has no previous experience in insurance.

Mr Rich will run his operations through a company Rich Insurance Limited (RIL), of which he is the sole shareholder.

Two options are being considered:

A: RIL becoming a corporate name on a Lloyd's syndicate underwriting commercial property business.

B: RIL underwriting this business in the London market.

(i) Define the following terms:

- (a) Lloyd's
- (b) London Market

[2]

Mr Rich is concerned about the ease of starting operations, potential access to business and control of his investment.

(ii) Describe the key differences between the proposed options for Mr Rich, considering the above issues and any other material differences. [15]

Mr Rich subsequently decides to underwrite in the London market. Based on its business plan, the regulatory minimum capital requirements have been estimated at £100 million at the end of the first year of operations.

(iii) Describe the factors that should be considered when deciding on the initial capital of RIL. [12]

RIL's business plan assumed the company would purchase reinsurance. However, Mr Rich is reluctant for RIL to purchase any reinsurance.

(iv) Discuss the matters that Mr Rich should consider in deciding whether RIL should buy reinsurance. [13]

After 12 months of underwriting, Mr Rich decides to leave the insurance industry and pursue other business activities. He wishes to eliminate his exposure to potential claims as soon as possible, while maximising the proceeds from his investment in RIL.

(v) Describe the possible exit strategies available to Mr Rich, discussing whether the exit strategy is likely to be attractive to Mr Rich. [23]  
[Total 65]

**2** Insurance Company A has recently acquired Insurance Company B.

- (i) Discuss issues and challenges (and possible related solutions) that Company A should consider when determining appropriate groupings for reserving analysis of Company B, considering the following issues:
- (a) Materiality
  - (b) Alignment to current business
  - (c) Market practice
  - (d) Data

[20]

Company C is one of the oldest insurers in the UK. It specialises in providing companies with packaged insurance policies covering core classes such as motor insurance, employers' liability, commercial property, product liability and public liability. Insurance is sold primarily through brokers but makes extensive use of affinity relationships with trade associations and specialist trade press.

Company C recently started advertising in Social Housing Weekly having won a number of large contracts with housing associations that provide low-cost social-housing, worth £10m in written premium last year.

They have also withdrawn an insurance product targeted at beauty salons after a rise in claims involving employee skin conditions. Written premium for these policies was £0.5m per annum in the last three years.

An excess of loss reinsurance programme is in place offering unlimited coverage in excess of £3m per claim.

You are also provided with the following information from the 2014 year end accounts

<i>Class</i>	<i>2014 Gross Written Premium £m</i>	<i>Outstanding Claims Reserves £m</i>
Employers' liability	20	40
Motor	70	150
Commercial property	80	80
Business interruption	10	30
Product liability	5	10
Public liability	3	9

Company C is considering the appropriate groupings of business to use for reserving purposes.

- (ii) Suggest with reasons, what groupings you would recommend.

[15]

[Total 35]

**END OF PAPER**

