INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

24 April 2017 (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 must not start writing your answers in the booklet until instructed to do so by the supervisor.*

3. *You have 15 minutes of planning and reading time before the start of this examination. You may make separate notes or write on the exam paper but not in your answer booklet. Calculators are not to be used during the reading time. You will then have three hours to complete the paper.*

4. *Mark allocations are shown in brackets.*

5. *Attempt all three 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 In a particular country emergency ambulance services are currently funded by the government, and provided free to citizens. The government is introducing charges to be levied on citizens who use ambulances in an emergency. The charge will be $10 per km, with a minimum charge of $100 and a maximum charge of $500.

An insurance company is considering introducing an emergency ambulance insurance product, which will cover all ambulance fees charged to the policyholders or their immediate family in the event of an emergency.

(i) Suggest six possible rating factors for the product, stating, for each, why it is appropriate. [6]

The population of the country is 10 million, 10% of which are resident in City C, the country's capital city. The government has estimated annual emergency ambulance fees for the country will total $500 million.

The mayor of City C wants to provide free emergency ambulance travel within the city, for its residents. He is looking to insure these costs.

The mayor's office will administer the arrangements, reimbursing ambulance costs for people who live in the city. It will then claim for these costs under the policy on a monthly basis.

The mayor is prepared to pay up to $65 million for one year of cover.

(ii) Discuss whether this premium is likely to be acceptable to an insurer. [9]

The government hopes a number of insurers will offer emergency ambulance insurance policies to individuals or families, but is keen for the premium not to exceed $300 per person per year.

(iii) Discuss how the government might ensure that all individuals or families are able to obtain insurance for less than $300 per person per year. [10]
[Total 25]

2 An insurance company writing both insurance and reinsurance business in personal and commercial lines is located in a country that has developed a new conduct risk framework with a focus on helping to ensure that insurance companies treat their policyholders fairly. “Conduct risk” is defined as the risk that insurance company behaviour will result in poor outcomes for customers.

One of the key principles of the new conduct risk regime is that the company should have careful regard to the financial sophistication and expertise of the customer to whom each intended product is to be sold.

(i) Identify six different types of buyers of insurance, commenting for each on the extent to which the new conduct risk regulations are likely to apply to them. [9]

Household (buildings and contents) has been identified by the insurance company as a class of business that is likely to have a high level of conduct risk.

(ii) Identify issues that the insurance company should consider in each of the following areas to reduce its risk of treating policyholders unfairly in the household portfolio:

(a) product design
(b) pricing
(c) policy wording

[12]

A further requirement of the new regulation is for companies to provide evidence to both internal and external stakeholders to demonstrate that the conduct risk standards have been implemented.

(iii) Describe reports and data that the insurance company might be expected to be monitoring to ensure that conduct risk standards are being met. [8]

As part of its implementation of the new regulations, the local regulator has carried out a review of the insurance company’s approach to treating its household insurance policyholders. While the results were favourable for direct business, the regulator noted a number of concerns with policies sold through delegated authorities.

(iv) Suggest possible concerns that the regulator might have identified about treatment of policyholders accessed through delegated authority arrangements. [4]

(v) Suggest controls that the insurance company can implement to ensure that policyholders accessed through delegated authority arrangements are treated fairly. [4]

[Total 37]

3 (i) State the typical risks of launching a new insurance product. [6]

A small general insurance company is thinking of introducing a new type of product to protect celebrities against reputational risk. The policy will insure celebrities against any financial losses that arise due to reputational damage arising from negative publicity.

(ii) Suggest with reasons any specific risks to the company of launching this particular product. [8]

The insurance company decides to amend its proposed design for this product. They will offer the product instead to businesses who use celebrities to endorse their products. If the reputation of the celebrity is tarnished during a particular marketing campaign the policy will:

- provide or fund a public relations expert to minimise damage to the business from the scandal.
- reimburse the costs of the marketing campaign and endorsements.
- cover or reimburse the costs of any products recall.

The policy will be on a claims made basis.

(iii) Discuss the factors the insurance company should consider when designing this revised product, including:

(a) risk and rating factors.
(b) information requested on the proposal form.
(c) policy wording.

[12]

(iv) Discuss the likely claims characteristics of this revised product. [6]

(v) Describe the factors that should be taken into account when establishing reserves for this product at the end of its first year of underwriting, under the following headings:

(a) Data

(b) Reserving methodology

(c) Likely balance of reserves between outstanding claims, incurred but not reported losses and unexpired risk

[6]
[Total 38]

END OF PAPER