



CASE STUDY – APS X2 – Life Assurance

The Situation

You are working in a life insurance company, in the pricing/product area. You have students available to you, a boss who is an actuary and another actuary who is a colleague working on a different group of products. The Actuarial Function Holder is not part of your reporting line, but has a team in a separate line. The insurer sometimes uses consultants to assist in difficult areas.

How, in the following situations, might you apply APS X2?

There is not necessarily a unique appropriate answer.

1. A one-off

You are asked to quote for a “special case”:

- a) For a single premium which is about 0.1% of monthly new business, with standard features but it falls outside the usual parameters but by a lot
- b) For a single premium which is about 10% of monthly new business but is otherwise as in (a)
- c) How might your answers change if the “special case” included features which changed the risk profile materially (such as a material option or additional benefit)

In all cases, to simplify the situation, assume there is no commercial or administrative reason to refuse the request, and Sales Department regard it as “really important”! The issue is the need to exercise actuarial judgement to a greater or lesser extent.

2. Re-pricing

You are asked to review the pricing and present a report to the AFH on an existing product. You would expect the AFH to rely on materials in the report, though to read it critically.

- a) The product is expected to account for 25% of typical new business after revision
- b) The product is expected to account for 1% of typical new business after revision
- c) What would change if a completely new risk, never previously offered by the company, were to be included (such as introducing a new rider benefit never underwritten before)?
- d) Would any answer vary if the recipient was not the AFH but the report was going directly to the Board?