

C16 THE BUSINESS OF INSURANCE

IMPORTANT

The time allowed for this exam is 3 hours.

Total marks: 200

You must hand in this paper and any paper used for rough work to the supervisor when you leave the examination room. Failure to do so may result in disqualification.

Section A: Narrative Questions

- Question 1. (a) Discuss the purpose of insurance in society. (13 marks)
- (b) "The value of insurance is measured by the manner in which it is delivered." Identify the services that should be included in this delivery. (12 marks)
- Question 2. (a) Identify the major stakeholders in the insurance industry and discuss the function of each. (15 marks)
- (b) Within the organizational structure of an insurer, what are the roles and responsibilities of the
- (i) Finance and Accounting department? (5 marks)
 - (ii) Actuarial department? (5 marks)

- Question 3. (a) Contrast selling with marketing. (10 marks)
- (b) Discuss the distribution issue that must be considered by an insurance company when developing its overall marketing plan. (15 marks)
- Question 4. (a) Define **ratemaking**. (5 marks)
- (b) Contrast class rating with schedule rating. (10 marks)
- (c) Discuss, in general terms, the following factors that prevent insurers from charging a premium commensurate with the risk:
- (i) Competition in the marketplace (5 marks)
 - (ii) Government interference (5 marks)
- Question 5. (a) What TWO (2) factors determine the supply of capacity to the insurance marketplace? Why is one of these factors more difficult to measure? (6 marks)
- (b) What is the **cash flow underwriting theory**? What are the arguments against this theory? (13 marks)
- (c) In the context of the cost of insurance claims, what is meant by the term **social inflation** and in what particular sectors of the business is this of particular concern? (6 marks)
- Question 6. Effective management of an insurance company includes strategic planning.
- (a) Discuss the purpose of a strategic plan and the types of information used in the analysis process of the plan development. (15 marks)
- (b) What problems may occur to prevent the company from reaching the desired results of a strategic plan and how might these problems be overcome? (10 marks)
- Question 7. The Canadian insurance industry cannot afford to live by anything less than the highest standards of professionalism in all areas of its operations. Discuss the actions and behaviours expected of professionals at all levels of the insurance industry and in all aspects of insurance related businesses. (25 marks)

Section B: Application Question

- Question 8. (a) You are the chief executive officer of an insurance company. You are analysing the following report. What do you observe? What might be the reasons for this activity? (5 marks)

Claims Incurred Ratio by Class

	2001	2000	1999
Property	86%	81%	78%

- (b) You request an analysis of the claims incurred by year of occurrence.
- (i) Why is it important to study claims development statistics by occurrence year? (3 marks)
 - (ii) What observations do you make while reviewing the Incurred Claims Split by Occurrence Year report below? (10 marks)
 - (iii) What reasons might explain this activity? (5 marks)
 - (iv) What action do you intend to take? (2 marks)

Incurred Claims (2001)
Split by Occurrence Year – Property

(All figures to nearest thousand)

Occurrence Year	Outstanding Claims January 1	Claims Paid	Outstanding Claims December 31	Incurred in 2001
1995	\$ 250	\$ 6,799	\$ 1,300	\$ 7,849
1996	2,000	1,970	0	(30)
1997	1,453	960	927	434
1998	730	2,440	5,468	7,178
1999	530	517	557	544
2000	12,978	14,270	102	1,394
2001	0	9,056	18,743	27,799
Totals	\$17,941	\$36,012	\$27,097	\$45,168

