

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) What are the TWO (2) basic principles of insurance? What are the effects if an appropriate balance is not maintained in the application of these principles? (15 marks)
- (b) Discuss why it is said that, "the purchase of insurance requires a high level of trust on the part of the customer." (10 marks)
- Question 2. Describe the SEVEN (7) core functions of an insurer that has no branch offices. (25 marks)
- Question 3. (a) Define **rating**. (5 marks)
- (b) Discuss, in general terms, the TWO (2) factors that prevent insurers from charging a premium that is commensurate with the risk. (10 marks)
- (c) Discuss the relationship between the supply of and demand for insurance capacity. How does a misunderstanding, or failure to appreciate the power of the marketplace, affect consumer beliefs regarding the pricing process? (10 marks)

- Question 4. The Office of the Superintendent of Financial Institutions (OSFI) is responsible for monitoring and regulating the solvency of federally chartered insurance companies.
- (a) What TWO (2) questions about an insurance company's business are the regulators particularly interested in answering? (4 marks)
 - (b) In seeking answers to these questions, briefly explain what regulators pay particular attention to on an insurer's balance sheet and the standards or guidelines that have been established in regard to
 - (i) assets and liabilities. (6 marks)
 - (ii) capital. (6 marks)
 - (c) What is the standard that exists regarding acceptable investments for insurance companies and who bears the responsibility for ensuring the standard is met? (4 marks)
 - (d) Explain how reinsurance may be used to relieve the strain on an insurer's premium-to-surplus ratio. (5 marks)
- Question 5. (a) Explain the concept of **unearned premiums**. Describe the methods of calculating unearned premiums and the complexities an insurer may encounter in calculating them. (16 marks)
- (b) Provide the formula used for the calculation of Premiums Earned during an annual period. (4 marks)
- (c) Provide the formula used for the calculation of the Incurred Losses during an annual period. (5 marks)
- Question 6. (a) A deteriorating claims incurred ratio might reveal fundamental weaknesses in what FIVE (5) areas? (5 marks)
- (b) Discuss the valuable management information that may be revealed by an analysis of claims by occurrence year. What further action might this analysis necessitate? (20 marks)
- Question 7. "The public holds the insurance industry in very low esteem". Discuss the reasons that one might agree with this statement and how we, working within the industry, might correct this. What role does ethics, education and professionalism play? (25 marks)

Section B: Application Question

Question 8. As an insurance company CEO intending to set up business in Canada, you understand that the selection of a distribution system or a combination of distribution systems is a vital marketing decision for an insurance company.

Prepare a written presentation addressing the importance of a good distribution system and the options available for a start-up company for the next management group meeting. Part of your presentation should include identifying the different distribution systems, as well as, the advantages and disadvantages of each option.

(25 marks)

