

# INSTITUTE AND FACULTY OF ACTUARIES



## EXAMINATION

1 October 2019 (pm)

### Subject SA2 – Life Insurance Specialist Advanced

*Time allowed: Three hours and fifteen minutes*

#### ***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. *Mark allocations are shown in brackets.*
4. *Attempt all questions, begin your answer to each question on a new page.*
5. *Candidates should show calculations where this is appropriate.*

***Graph paper is NOT required for this paper.***

*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** (i) Outline the factors a life insurance company should consider when deciding whether to launch a new product. [9]

A small life insurance company has sold only term assurance policies for a number of years and is looking to expand its product range.

It has designed two additional products, an accelerated critical illness product, and a standalone critical illness product. Premiums for both products will be reviewed every five years. The design has been agreed but premium rates have not yet been decided.

The products will be sold through independent financial advisers, alongside the company's existing term assurance product.

- (ii) Describe the risks to the company from launching these new products. [21]

To reduce risk, the company management have put in place a "three lines of defence" model.

- (iii) Describe the "three lines of defence" model. [3]

- (iv) Describe other actions the company could take to reduce or manage the risks the company faces. [12]

- (v) Discuss possible areas relating to the new products where "treating customers fairly" could be a concern for the company. [8]

[Total 53]

- 2** A life insurance company has its head office situated in the UK but operates internationally via several overseas subsidiaries. Prior to 2014, the IFRS profits from the company's UK individual immediate annuity business had been steady from year to year. Since 2014, the IFRS profits from this business have been volatile from year to year and have been trending downwards.

- (i) Suggest possible reasons for the change in profits since 2014. [12]

The company is considering launching a new product through one of its overseas subsidiaries.

- (ii) Suggest the regulatory issues the company will need to consider in launching its product in a different territory to the UK. [12]

The company has decided to launch the new product in territory X, an overseas territory where the insurance market is relatively new. The insurance market in territory X has experienced significantly higher growth than the UK, partly due to the government of territory X considering the insurance industry to be an important area for growth.

- (iii) Discuss how the regulatory approach to insurance in territory X might compare to that of the UK regulators. [5]

The company has decided to undertake some simple market research in territory X. As part of this research the company plans to survey potential customers to determine what prevents individuals from buying insurance products. For each question, customers will be required to answer by choosing one or more options. The first question starts as follows:

*'What would stop you from taking out a life insurance contract?'*

- (iv) Set out six options that could be supplied as answers to this question. [3]

The market research showed that protection business (for example, term assurance, critical illness) is popular with consumers. However, it identified that customers wanted more flexibility to reflect their changing personal circumstances.

- (v) Suggest how the company could achieve flexibility in its protection policies. [3]

The company uses data science to help determine what products to offer in territory X, and how they are priced.

- (vi) Discuss why the company might use data science for this purpose. [6]

The company has assumed that the subsidiary in territory X will be taxed in a similar way to the UK.

- (vii) Describe how the protection products are likely to be taxed. [5]

The company is considering the tax implications on group own funds of launching a new protection product in territory X.

- (viii) Suggest factors that the company may have to consider. [1]  
[Total 47]

**END OF PAPER**