

# INSTITUTE AND FACULTY OF ACTUARIES

## EXAMINATION

16 April 2024 (am)

### **Subject SA3 – General Insurance Specialist Advanced**

Time allowed: Three hours and twenty minutes

In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator.

If you encounter any issues during the examination please contact the Assessment Team on T. 0044 (0) 1865 268 873.

- 1** (i) Explain why an insurance company may have a risk management function. [3]

The Chief Risk Officer (CRO) of an insurance company believes that the company's current approach to dealing with emerging risks is inadequate. The CRO proposes that the company develops a new emerging risk framework to improve the management and governance of emerging risks.

- (ii) Define, in your own words and with examples, 'emerging risk'. [2]
- (iii) Outline three key steps that should be included in the new emerging risk framework. [3]
- (iv) Describe the potential key challenges in implementing the new framework within the company. [6]
- (v) List the sources of information that could be used to identify emerging risks. [2]
- (vi) Outline reasons why emerging risks may not have been previously prioritised. [3]
- (vii) Suggest possible ways that emerging risks can be communicated to the board. [4]
- [Total 23]

- 2** (i) List four reasons why insurers hold solvency capital. [2]

Country A has a developed insurance industry. A prominent politician has recently stated:

'The existing solvency calculations are too conservative, resulting in a significant amount of capital being tied up, so solvency capital requirements for insurers should be made less onerous'.

- (ii) Comment on the politician's statement. [8]

The politician also said that the country's existing insurance regulatory regime needs to change. They claim that the current regulatory regime is too restrictive and that it outweighs the economic benefit, putting the country at a significant disadvantage relative to its neighbours. The politician suggests that the country move away from the current strict rules-based regulatory regime to a higher degree of self-regulation.

- (iii) State the principal aims of regulations in insurance markets. [2]
- (iv) Comment on the suggestion made by the politician. [6]
- [Total 18]

- 3** Company A is a large personal lines insurance company that operates in many countries. Company A currently sells general insurance products that are designed for middle- and high-income households, distributed mainly through direct sales, individual agents and tied agents, such as banks and building societies.

Company A is considering selling insurance policies to low-income populations in developing countries.

- (i) Outline possible reasons why Company A is considering this new target market. [4]

A consultant to Company A has suggested that the company sell insurance products such as crop insurance to agriculture communities in developing countries. The consultant also suggested that a different approach, relative to its existing products and customers, will be required on the product design and distribution for this new target market.

- (ii) Outline insurance product features that would be suitable for low-income populations. [3]
- (iii) Outline possible reasons why Company A's existing distribution channels may not be appropriate for the new target market. [3]
- (iv) Suggest, with reasons, suitable distribution methods for the new target market. [3]
- (v) Suggest, with reasons, suitable approaches to claims management for crop insurance for the new target market. [3]
- (vi) Outline, with reasons, two general insurance products, other than crop insurance, that could be suitable for this new target market. [2]
- (vii) Describe the key challenges that may be faced by the insurer in ensuring that the new target market is profitable and sustainable over the long term. [6]

There are concerns that recent trends in extreme weather, which have significantly affected agricultural communities in emerging markets, may make this product unviable.

- (viii) Outline, with consideration of the new target market, how extreme weather events may affect the following areas:

- capital modelling
- reserving
- pricing.

[9]

[Total 33]

- 4** Company B is an established commercial insurance company that focuses on providing cover to small- and medium-sized businesses across various industries, including manufacturing and technology.

Company B recently started selling a standalone insurance product that covers an organisation's intellectual property such as copyrights, patents, trademarks and trade secrets.

- (i) Give examples of types of cover that may be provided by the product. [2]
- (ii) Suggest, with a reason for each, rating factors that may be used in the pricing of this product. [5]
- (iii) Discuss the potential challenges in assessing the claims arising from this product. [6]

Company B calculates its solvency capital using an internal model. The Managing Director stated that the intellectual property insurance product is a non-traditional insurance product and will provide good diversification benefit to the existing business.

- (iv) Outline the principles of diversification in assessing solvency capital. [3]
- (v) Discuss whether this product is likely to provide diversification benefits to the existing business. [4]

The Managing Director would like to better understand the performance of the different component parts of the business relative to the capital required.

- (vi) Describe two methods to allocate capital. [2]
  - (vii) Outline practical challenges associated with capital allocation techniques. [4]
- [Total 26]

**END OF PAPER**