

# **INSTITUTE OF ACTUARIES OF INDIA**

## **EXAMINATIONS**

**3<sup>rd</sup> December 2022**

**Subject CP3 – Communication Practice**

**Time allowed: 3 Hours 15 Minutes (10.15 – 13.30 Hours)**

**Total Marks: 100**

### **INSTRUCTIONS TO THE CANDIDATES**

- 1. Mark allocations are shown in brackets.*
- 2. Attempt all questions beginning your answer to each question on a new page.*
- 3. Attempt all sub-parts of the question in one document only, unless otherwise instructed to do so.*
- 4. Do save your work in solution template on a regular basis.*
- 5. All the detailed guidelines are available on exam screen.*
- 6. Please check if you have received complete Question Paper and no page is missing. If so, kindly get new set of Question Paper from the Invigilator.*

#### **AT THE END OF THE EXAMINATION**

**Please return your answer book and this question paper to the supervisor separately. You are not allowed to carry the question paper in any form with you.**

- Q. 1)** You are the Head Actuary (Business Planning) at a general insurance company. The Company has witnessed a 20% growth during the period (April to September 2022) in Gross premium over the planned/budgeted gross premium.

However, the CEO of your Company though he is fine with the 20% growth number but expressed his displeasure over the overall performance parameters such as profitability and solvency of company during the period.

The CEO asked the heads of Departments to ensure that the situation improves immediately.

Your Chief Distribution Officer (CDO) approaches you with a request to help him to explain the possible rationale of the CEO's concern about the overall position of the company. He was expecting a performance bonus for exceeding the gross premium budget number.

You are required to draft an explanation to the CDO the reasons and rationale of the CEO Concerns.

While preparing the email, an actuarial student in your team has provided you with below details as at 30<sup>th</sup> September 2022 to explain the issue to the CDO, along with his suggestions as below:

*“From the following shared information, I think we could point the impact of our Company's risk mitigation methods, impact of premium accruals, impact of cashflow methods and impact of a financial position on the capital requirement.”*

	Amount in 000s	
Account Head	Expected position	Actual Position
Gross Premium	100,000	120,000
Reinsurance Premium	(40,000)	(48,000)
Net Premium	60,000	72,000
Excess of Loss Reinsurance Premium	(6,000)	(6,600)
Unearned Premium Reserve (UPR)	(18,000)	(24,420)
Net Earned Premium	36,000	40,980
UPR %	30%	34%
Gross Paid claims	(23,400)	(18,646)
IBNR	(3,000)	(2,391)
Total Gross claims	(26,400)	(21,036)
Reinsurance Claims	10,560	8,415
Net Claims	(15,840)	(12,622)
Loss Ratio	44%	31%
Gross Commission	(20,000)	(31,200)
Reinsurance Commission	2,000	2,400
Net Commission	(18,000)	(28,800)
Net Commission Ratio	30%	40%
Expenses	(2,500)	(2,500)
Investment Income	3,500	4,468
Profit Before Tax	3,160	1,527
Tax	(948)	(458)
Profit After Tax	2,212	1,069
Available assets for solvency	23,212	27,879
Solvency Ratio	3.02	3.01

- Actual vs Budget growth is 20%.
- Proportional Reinsurance cessions remains same.
- Proportional reinsurance is inuring within excess of loss treaty, hence with same rate on line higher premium gets paid.
- UPR% is higher due to lack of uniformity in written business (UPR% = UPR / Net Premium).
- Loss Ratio has increased on earned basis.

- Net commission ratio has worsened but Company doesn't enjoy benefit of Deferred Acquisition Cost as per Regulatory policy (Net commission ratio = Net commission / Net Premium).
- Expenses are fixed and hence remain constant.
- Investment income is higher due to higher corpus of reserves by the Company (Corpus = Sum of all reserves).
- Solvency Ratio has reduced (Solvency Ratio = Required assets / Available assets; Required assets = Max(70% of GWP, 10% of Net claims); Available assets = Sum of all reserves + Profit).

[95]

Q. 2) List the jargons that you have explained and which you have skipped?

[3]

Q. 3) Explain what is Loss Ratio?

[2]

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