

EXAMINATION

19 October 2020

Subject F202 — Life Insurance Specialist Applications

Time allowed: Three hours and fifteen minutes

Total marks: 100

INSTRUCTIONS TO THE CANDIDATE

1. *Ensure that you are logged into your ProctorU account before attempting the examination.*
2. *Questions are only available in this ASSA Examination platform and may not be printed.*
3. *You are required to submit all of your answers in the ASSA Examination platform only. No uploads of answers (handwritten or otherwise) to the ASSA Examination platform will be accepted.*
4. *You may not use any other computer program (e.g. Email, MS Word or Excel), files or open any other browsers during the examination.*
5. *You are strongly encouraged to use the first 15 minutes as reading time only, however, you may commence answering the paper whenever you are ready.*
6. *Mark allocations are shown in brackets.*
7. *Attempt all questions.*
8. *Show calculations where this is appropriate. You may use blank paper to carry out rough work calculations. You may use a calculator from the approved list only.*
9. *You may return to your answers to review and amend during the allotted examination time. Once you are happy with your answers you need to **Finish all and Submit** your work. Once you have submitted you will not be able to make any more changes to your answers.*
10. *It is the candidate's responsibility to ensure that all work is submitted BEFORE the end of the allotted examination time. Take this into account when planning your review and submission. There will be no time announcements.*

Note: Answers will be saved automatically during the examination. However, the Actuarial Society of South Africa will not be held responsible for loss of data where candidates have not followed instructions as set out above.

END OF INSTRUCTIONS

QUESTION 1

A South African life assurer sells a range of risk products including a basic low-priced critical illness product. The company is looking to enhance the critical illness product with additional payout levels and conditions.

The current product pays 100% of the sum assured for the two most severe of the four SCIDEP severity levels. It does not pay out for the other two severity levels. It also covers a few other conditions in addition to the four conditions covered by SCIDEP. These additional conditions pay 25% of the sum assured.

The company has decided to implement the following changes:

- Introduce a 50% benefit level for the other two SCIDEP severity levels.
 - Add 5 new conditions to the list of conditions covered. These will also pay out 25% of the sum assured.
 - Introduce a survival benefit payable after certain claim events. The benefit is 20% of the sum assured and will be paid out on survival to the end of each future five-year period. This benefit only pays out if the original claim was at the 100% SCIDEP payout level.
- i. State the advantages and disadvantages of the suggested product changes and outline any other factors that the life assurer should consider in the development process. [15]
 - ii. Outline the additional risks introduced to the company through the suggested changes to the product. [15]
 - iii. Describe how you would approach the pricing of the suggested changes and suggest risk mitigation strategies for the main risks introduced by these changes. [15]

The company is also reviewing the reinsurance arrangement that is in place for its critical illness book. There is currently a quota share arrangement where 80% of the risk up to R10 million sum assured is retained, with everything thereafter being ceded to the reinsurer. The company is considering changing the arrangement to retaining 50% of the risk up to R5 million sum assured, ceding everything thereafter to the reinsurer.

- iv. Discuss the reasons the company may have for considering this change in reinsurance cover. [5]

[Total 50]

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QUESTION 2

An established South African life assurer is considering purchasing a newly established small unlisted life assurer. An appraisal value is being used as the starting point for the purchase price negotiations.

The new business component of the appraisal value makes up more than half of the appraisal value.

- i. State the possible reasons for this. [5]

The purchaser has asked you to assess the appropriateness of the appraisal value calculation.

- ii. Discuss the factors that you would investigate.
(You need not discuss the formulae in the actual model.) [12]

The company purchases the new insurer at a discount to the calculated appraisal value.

- iii. Describe how you would analyse the return on the purchase price one year later. [16]
- iv. Explain how the acquisition of the small insurer will change the purchaser's Solvency Capital Requirement (SCR) cover. [7]

[Total 40]

QUESTION 3

Outline the purpose of both the statutory (SAM) valuation and the ORSA.

[Total 10]

[Grand Total 100]

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END OF PAPER