# EXAMINATION

17 October 2025 (am)

# Subject F203 — General Insurance Fellowship Applications

*Examination writing time:* *Three hours and fifteen minutes (includes reading time)*

*Upload time:* *Five minutes*

*[Total time on examination countdown timer: Three hours and twenty minutes]*

*Total marks:* *100*

## *INSTRUCTIONS TO THE CANDIDATE*

***Failure to adhere to any of these instructions could incur examination sanctions including disqualification from the examination.***

1. *The question paper is only available on the ASSA Exam Platform as a PDF download and may not be printed. Copy/paste of questions or parts thereof is allowed from the question paper to your Word answer document only.*

2. *Download the Word answer document template from the ASSA Exam Platform. Save this Word answer document on your desktop using your **full Candidate Number**, which starts with "F203-exa-2025-…", as filename. **Do not name your answer script with your name or member number.***

3. *Ensure that your **full Candidate Number** appears in the "header" of your Word answer document. [Double-click on the header at the top of the Word document, input your Candidate Number only in the header, then press "Esc" to close the header.] **Do not use your name or member number anywhere in your Word answer document.***

4. *You are required to submit your answers in Word format ONLY using the answer document template from the ASSA Exam Platform. No answers in any other format (e.g. handwritten) will be accepted. Save work regularly.*

5. *You may not access any file from your computer, open or use any other computer software (e.g., Email or Excel), or open or use any other browser, collaboration tools or AI tools, including those embedded in MS Word and Adobe AI assistant (e.g. Copilot, ChatGPT etc.) during the examination. Embedded AI tools must be disabled. You may not use Grammarly, Grammarly Premium or similar built-in language and grammar tools which must also be disabled. Microsoft Word spellcheck is allowed.*

6. *You must save your answer template to your local machine's desktop and have 'Autosave' switched off (top-left button in Word). You must not save your answer template to OneDrive or any other cloud storage device.*

7. *You are not permitted to bring any other material into the examination (e.g. a Formulae and Tables book). Any such information/material that may be required will be provided to you in the examination.*

8. *You are strongly encouraged to use the first 15 minutes as reading time only, however, you may start answering the paper whenever you are ready.*

9. *Mark allocations are shown in brackets.*

10. *Attempt all questions, starting each on a new page (as provided for in the Word answer document).*

11. *Show calculations where appropriate. You may not use other materials except blank paper for calculations. You may use a calculator from the ASSA-approved list only.*

12. *Your examination countdown timer reflects your TOTAL examination time. Reading and writing time is 3 hours and 15 minutes. Audio prompts will remind you of the remaining writing time and when you should stop writing to start saving and uploading.* ***You may NOT continue to write during the 5 minutes upload time as this could lead to disqualification from the examination.***

13. *Upload one version of your Word answer document only onto the ASSA Exam Platform. Once you have uploaded your document, you must click on* ***Finish Attempt*** *to save your document. You will still be allowed to go back and check that you have uploaded the correct version of your answer script (****Review Attempt****) if you have time. Remember that you may not type answers in the last 5 minutes of upload time.*

14. *Once you are satisfied with your uploaded document, click* ***Finish Attempt*** *and* ***Finish all and Submit****. Candidates are responsible for the content they upload as their examination attempt, which must be presented in the format, size and location as communicated by ASSA. Once your answer file is submitted, it cannot be changed or retracted and must be done within the scheduled examination time.*

15. ***You must submit your Word answer document onto the ASSA Exam Platform BEFORE the time on your examination countdown timer runs out.***

**Note: 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. The onus remains on you to read and implement all examination instructions.**

***END OF INSTRUCTIONS***

 

## QUESTION 1

i. Define and describe the reinsurance cycle.

[3]

You are a consulting Actuary newly engaged at Escape Re, a medium sized reinsurance company operating in South Africa, writing a large variety of property and casualty proportional and non-proportional contracts in South Africa and across other geographies.

The company has been operating for 10 years, and the reinsurance market has just reached the peak of the hard cycle. The CEO informed you that he does not expect the market to soften significantly in future, due to climate change considerations.

You are currently advising them on their reserving methodology and IFRS 17 implementation.

ii. Discuss whether you agree with the CEO's statement, paying particular attention to reinsurance pricing.

[5]

iii. Outline specific considerations that need to be made when reserving for inwards reinsurance.

[8]

You are analysing the claims and premium triangles for a **single large cedant** in the Proportional USD Treaty segment in preparation for the upcoming reserving exercise. These are prepared by underwriting (UW) year.

iv. Outline the questions you would ask based on your analysis, detailing how you would use the information that you receive.

[5]

You receive the following cumulative written premium and paid claims for the last four underwriting years for this cedant:

| **Cumulative Written Premium** | | | |
|---|---|---|---|
| | Reporting Year | | |
| UW Year | 0 | 1 | 2 |
| 2021 | 100 | 150 | 160 |
| 2022 | 110 | 170 | 160 |
| 2023 | 120 | 180 | |
| 2024 | 100 | | |

| **Cumulative Paid Claims** | | | |
|---|---|---|---|
| | Reporting Year | | |
| UW Year | 0 | 1 | 2 |
| 2021 | 20 | 60 | 100 |
| 2022 | 20 | 70 | 80 |
| 2023 | 30 | 120 | |
| 2024 | 50 | | |

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The outstanding claims per underwriting year are summarised in the table below.

| OS Claims 31 December 2024 | |
|---|---|
| UW Year | OCR |
| 2021 | 0 |
| 2022 | 5 |
| 2023 | 10 |
| 2024 | 10 |

Sliding scale profit commission is paid based on the minimum rate, until the end of Reporting Year 2, when the final commission is calculated and due. The commission per loss ratio (LR) band is provided in the table below.

| Sliding Scale Commission | |
|---|---|
| Loss Ratio | Commission |
| < 55% | 30% |
| 55% < LR < 80% | 85% minus LR |
| > 80% | 5% |

In addition, the following information is relevant:

- The underwriting department indicates that in 2023 a new commercial policy was written by the cedant with a premium of 20 which is currently at a loss ratio of 100%, that was not renewed in 2024.
- Notwithstanding the above, 2024 business written and rates are consistent with 2023.
- A large loss of 30 has been paid with respect to the 2024 UW Year.

v. Calculate the Ultimate Premiums, Claims, Commissions and IBNR at 31 December 2024 for Escape Re's Proportional USD Treaty Segment for this cedant. Show all calculations and state any assumptions that you make.

[11]

vi. Describe the accounting policy and methodology decisions that need to be made in applying IFRS17 for the first time, with specific focus on Escape Re's business.

[8]

Escape Re is looking to expand their business and has identified a potential acquisition opportunity, a small reinsurer currently licensed to operate in Mauritius, Target Re. Target Re has relationships with several insurance companies and deals directly with insurers, without reinsurance brokers. Mauritius is **not an equivalent jurisdiction** to the Solvency Assessment and Management (SAM) regime.

vii. List the advantages and disadvantages of Target Re's operating model.

[4]

Management would like to acquire and capitalise Target Re, growing their direct reinsurance business and in particular retroceding significant amounts of business written by Escape Re to Target Re to benefit from the attractive Mauritian tax regime.

viii. Discuss potential challenges that you see with this proposed business model.

[6]

[Total 50]

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## QUESTION 2

A key principle of the Treating Customers Fairly (TCF) Framework is that insurers must design products ensuring that they meet the needs of customers with extra consideration for vulnerable customers.

i. Identify five different types of insurance buyers and comment on how the framework impacts interactions with each type of buyer.

[5]

ii. State three key interactions that insurers have with policyholders, giving an example for each interaction of why fair treatment is critical.

[3]

A major insurer has flagged personal lines property insurance as a product carrying high conduct risk.

iii. Comment on why the conduct risk would be elevated following catastrophic events affecting this line of business.

[3]

iv. Identify and describe five areas of possible improvements in relation to the TCF Framework for the insurer.

[5]

To comply with conduct risk regulations, insurers must demonstrate their adherence to fair treatment standards through internal and external reporting.

v. Describe key reports and data points an insurer should monitor to ensure compliance with conduct risk standards.

[5]

During a regulatory review of household insurance sales, third-party brokers and intermediaries were found to be more compliant with the requirements of the TCF framework compared to direct sales practices.

vi. Suggest potential concerns regulators may have regarding policies sold through direct distribution channels.

[4]

[Total 25]

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## QUESTION 3

In South Africa, the Compensation Fund, administered under the Compensation for Occupational Injuries and Diseases Act (COIDA), provides Workers' Compensation insurance for employees who suffer workplace injuries or diseases.

The scheme is financed through employer premiums, which are set based on the **employer's industry classification** and **past claims experience**. The government is considering reforms to improve the financial sustainability of the Compensation Fund and to incentivise workplace safety.

i. State the objectives the government may have in designing an employer contribution methodology, commenting on how using employer's industry classification and past claims experience supports these objectives.

[5]

The government is proposing a new premium calculation methodology based on adjusting the individual employer risk experience. The new method will be as follows:

- Initially premiums will be set at a flat rate of 1.5% of wage costs, charged uniformly across all employers from all industry classifications.
- The claim ratio for each employer will be calculated as the ratio of claims incurred to premiums collected for that employer within the year.
- The national average claim ratio will be determined based on total claims incurred and total premiums collected by the government insurer across all employers.
- Individual premiums will be adjusted as follows:
    - For every 5% where an employer's claim ratio is below 75% of the national average, their premium rate will decrease by 0.1%.
    - For every 10% where an employer's claim ratio is above 150% of the national average, their premium rate will increase by 0.2%.
- Premium adjustments are made at the end of each year of review and based on the claim ratio for that year. Premium rates are subject to a minimum of 1.0% and maximum of 4.0%.

The following table shows the national average claim ratio and the experience of three companies:

| **Year** | **National Average** | **Company A** | **Company B** | **Company C** |
|---|---|---|---|---|
| **1** | 55% | 480% | 85% | 10% |
| **2** | 55% | 10% | 75% | 50% |
| **3** | 55% | 15% | 70% | 95% |

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The standard premium rate of 1.5% of wage costs applies in Year 1. Adjustments begin in Year 2 based on Year 1 claim ratios. For instance, in Year 2, Company A will pay the maximum amount of 4.0% of wage costs.

ii. Comment on the experience of the three companies and what it may indicate about their size and nature.

[4]

iii. Discuss whether the new premium calculation method is likely to align premiums more closely with expected claim costs.

[6]

In some countries, private insurers are permitted to compete with government-run Workers' Compensation schemes.

iv. Identify and describe five potential benefits of introducing private insurers into the South African system.

[5]

v. Identify and describe five potential risks of introducing private insurers into the South African system, paying particular attention to regulatory considerations.

[5]

[Total 25]

[Grand Total 100]

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**END OF EXAMINATION**

 