NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY FACULTY OF COMMERCE

DEPARTMENT OF INSURANCE AND ACTUARIAL SCIENCE

B.COMM (HONS) DEGREE IN RISK MANAGEMENT AND INSURANCE

FINANCIAL MANAGEMENT AND ANALYSIS - CIN 4206

SECOND SEMESTER FINAL EXAMINATION – AUGUST 2009

Duration 3 hours

Instructions to Candidates

- 1. Answer any four questions
- 2. Note that question 1 is compulsory [see attachment]

Question 1 [compulsory]

Using the attached income statement for XYZ Insurance Company for the period ended 30 June 2009, calculate the following ratios. As an analyst, support each ratio with your own comment and observation

a) Reinsurance utilisation	{3}
b) UPR Ratio	{3}
c) Expense Ratio	{3}
d) Net loss ratio	(3)
e) Combined ratio	{3}
1.1 What is the importance of solvency margin to an investor?	{3}

1.2 What is the importance of technical reserving for an insurance Company to the shareholders and investors? {7}

Question 2

- 2.1 You are the Managing Director of a leading short term Insurance broker, explain the importance of analyzing insurers financial strength to one of the insurers who is pushing you to give them business {10}
- 2.2 As a broker, what are the general balance sheet tests that you would carry to analyze the financial strength of any Insurance Company. Explain what each of them mean to your clients

 {15}

Question 3

In carrying out an analysis on the adequacy of capital for an Insurance firm, Actuaries identify certain risks associated with the Insurance Business. Identify these and explain how they are used in calculating the adequacy or need for additional capital in a short term insurance Company. Use a hypothetical example

{25}

Question 4

In your own opinion do you think qualitative assessment of an insurer's financial strength is important? Motivate your answer {25}

Question 5

When insurers present their financial statements, they normally include a provision for IBNR reserve. Identify four methods that are normally used in deriving IBNR and how each of the four methods work. You need to support your answer by giving hypothetical examples {25}

Annexure-Income statement

OPERATING REPORT FOR THE PERIOD ENDED - 31 MAY 2009

ALL BRANCHES UNAUDITED

	ACTUAL	BUDGET	VARIANCE
	\$	\$	
Gross Premiums Written	2,760,420	4,591,979	1,831,559
Reinsurance Premiums	1,387,280	2,749,212	1,361,932
Net Premiums Written Increase/(Decrease) in UPR	1,373,140 365,274	1,842,767 276,415	469,627 (88,859)
Premiums Earned Other Underwriting Income	1,007,866	1,566,352	558,486 -
Total Net Premiums Earned	1,007,866	1,566,352	558,486
Gross Claims Paid Claims Recovered	256,626 222,546	781,452 380,243	524,826 157,697
Net Claims Paid Increase/(Decrease) in Outs. Claims	34,080 131,992	401,209 296,010	367,129 164,018
IBNR Provision	68,640	92,138	23,498
Net Claims Incurred	234,712	789,357	554,645
Commissions Paid	526,109	561,602	35,493

Commissions Received	418,227	760,465	342,238
Net Commissions Paid	107,882	(198,864)	(306,746)
OPERATING EXPENSES			
Personnel	236,555	180,970	(55,585)
Travel and Representation	64,315	102,730	38,415
Premises	22,232	41,623	19,391
Communication	29,588	5,350	(24,238)
Office Supplies and Expenses	15,648	17,250	1,602
Service Fees	60,429	67,215	6,786
Depreciation/Amortisation	7,098	38,500	31,402
Insurances	10,890	10,500	(390)
ZWD Write Off	(67,641)		
Other Expenses	-	-	-
Operating Expenses	379,114	464,138	17,383
Total Expenses	486,996	265,274	(289,363)
Underwriting Profit/(Loss)	286,158	511,720	293,203
Investment Income	3,797	33,170	21,523
Realised Gain/Loss - Shares	-	83,477	62,680
Unrealised Gain/Loss - Shares	165,638	1,247,913	789,446
Exchange Gain/Loss - FCA	(16)	25,062	18,832
Profit/(Loss) on Disposal of Fixed Assets	(7,444)	-	542
Profit Before Taxation	448,133	1,901,343	1,186,227
Taxation	44,813	190,134	118,623

Profit/(Loss) After Taxation	403,320	1,711,208	1,067,604	
Dividend Paid Transfer to General Reserve	-			
Retained Profit/(Loss) for the Year	403,320	1,711,208	1,067,604	

Operating Report for the Period Ended 30 June 2009 for XYZ Insurance Company

Gross Premiums Written	3,193,369
Reinsurance Premiums	1,535,063
	-
Net Premiums Written	1,658,306
Increase/(Decrease) in UPR	373,576
	-
Premiums Earned	1,284,730
Other Underwriting Income	
Total Net Premiums Earned	1,284,730
	-
Gross Claims Paid	426,982
Claims Recovered	336,801
	-
Net Claims Paid	90,181
Increase/(Decrease) in Outs. Claims	68,032
IBNR Provision	82,891
	-
Net Claims Incurred	241,104
	-
Commissions Paid	612,794
Commissions Received	448,681
	-
Net Commissions Paid	164,113
	-
OPERATING EXPENSES	-

	-
Personnel	225,671
Travel and Representation	71,560
Premises	23,813
Communication	40,695
Office Supplies and Expenses	18,303
Service Fees	59,353
Depreciation/Amortisation	48,065
Insurances	10,890
Other Expenses	-
Operating Expenses	498,350
1 9 1	-
Total Expenses	662,463
Underwriting Profit/(Loss)	381,163
	-
Investment Income	10,595
Realised Gain/Loss - Shares	(134)
Unrealised Gain/Loss - Shares	243,391
Exchange Gain/Loss - FCA	(58)
Profit/(Loss) on Disposal of Fixed Assets	(7,444)
	-
Profit Before Taxation	627,513
Taxation	62,751
	-
Profit/(Loss) After Taxation	564,762
Write Off ZWD	(67,638)
Dividend Paid	-
Transfer to General Reserve	-
Retained Profit/(Loss) for the Year	632,400