



**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	1,373,140	1,842,767	469,627
Increase/(Decrease) in UPR	365,274	276,415	(88,859)
<b>Premiums Earned</b>	<b>1,007,866</b>	<b>1,566,352</b>	<b>558,486</b>
Other Underwriting Income	-	-	-
<b>Total Net Premiums Earned</b>	<b>1,007,866</b>	<b>1,566,352</b>	<b>558,486</b>
Gross Claims Paid	256,626	781,452	524,826
Claims Recovered	222,546	380,243	157,697
Net Claims Paid	34,080	401,209	367,129
Increase/(Decrease) in Outs. Claims	131,992	296,010	164,018
IBNR Provision	68,640	92,138	23,498
<b>Net Claims Incurred</b>	<b>234,712</b>	<b>789,357</b>	<b>554,645</b>
Commissions Paid	526,109	561,602	35,493
Commissions Received	418,227	760,465	342,238

<b>Net Commissions Paid</b>	<b>107,882</b>	<b>(198,864)</b>	<b>(306,746)</b>
<b><u>OPERATING EXPENSES</u></b>			
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
<b>Total Expenses</b>	<b>486,996</b>	<b>265,274</b>	<b>(289,363)</b>
<b>Underwriting Profit/(Loss)</b>	<b>286,158</b>	<b>511,720</b>	<b>293,203</b>
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
<b>Profit Before Taxation</b>	<b>448,133</b>	<b>1,901,343</b>	<b>1,186,227</b>
Taxation	44,813	190,134	118,623

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

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

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

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	-
<b>Operating Expenses</b>	<b>498,350</b>
<b>Total Expenses</b>	<b>662,463</b>
<b>Underwriting Profit/(Loss)</b>	<b>381,163</b>
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)
<b>Profit Before Taxation</b>	<b>627,513</b>
Taxation	62,751
<b>Profit/(Loss) After Taxation</b>	<b>564,762</b>
Write Off ZWD	(67,638)
Dividend Paid	-
Transfer to General Reserve	-
<b>Retained Profit/(Loss) for the Year</b>	<b>632,400</b>