

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– May/June 2011

Duration **3 hours**

Instructions to Candidates

1. Answer five questions
 2. Note that question 1 is compulsory
 3. Each question carries 20 marks
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Question 1 **[compulsory]**

Using the appendix 1 compute the following

- | | |
|--|-----|
| a. Times cover ratio for XYZ Insurance Company in 2010 | {2} |
| b. Growth in the balance sheet for XYZ in 2010 | {2} |
| c. Solvency margin for XYZ Insurance company in 2010 | {2} |
| d. Financial base ratio for XYZ Insurance in 2009 | {2} |
| e. Using your knowledge gained in this course comment on the importance of each of the ratios to an insurance analyst | {6} |
| f. What are the three items contained in the claims and benefits section of the income statement of an insurance company | {2} |
| g. Comment briefly on XYZ Company Reinsurance Placement Schedule relative to its financial position. | {4} |

Question 2

IBNR which is an insurance technical reserve is a critical component of the Insurance company's' financial statements. Using the following methods illustrate how IBNR is derived using hypothetical examples

- a. Basic chain ladder method {4}
- b. Expected claims method {4}
- c. Bornhuetter-Ferguson method {4}
- d. Cap code method {4}
- e. How is back testing of the IBNR reserve carried out? Illustrate your answer using practical examples {4}

Question 3

You have been given the following information for AGSHEF Re

Business class	Gross Premium Income	Net Premium Income	Gross losses Incurred
Motor	\$2 500 000	\$2 000 000	\$1 000 000
Fire	\$3 000 000	\$ 500 000	\$100 000
Engineering	\$2 000 000	\$ 600 000	-
Msc Accident	\$1 500 000	\$ 1 000 000	\$2 000 000
Total	\$9 000 000	\$4 100 000	\$3 100 000

Compute the following

- a. Implied profit margin for each class of business {4}
- b. The weighted percentage of profit margin passed on to reinsurers per class of business {4}
- c. Retention ratio by class of business and overall retention ratio for the company {3}
- d. What is the significance of the reinsurance utilization ratio to an Insurance Manager {3}
- e. Using your knowledge gained in this course justify the need for additional capital to the shareholders of Agshef Re {6}

Question 4

You have been employed by ZTA Holdings which is a diversified financial services group. The company is contemplating on purchasing an Insurance Company as well as a broking firm to strengthen their presence in the Insurance Industry. You have been asked by management to present a paper on how they can determine a fair or reasonable purchase price for the companies they have identified. Using the knowledge you have gained in this course outline the five methods that you can use in valuing a company using hypothetical examples for each method chosen {20}

Question 5

Qualitative tools play a significant role in the analysis of the strength of a Retrocessionaires. Using the knowledge gained in this course explain the importance of each of the following qualitative tools in the analysis of retrocessionaires financial strength

- a. Management {2}
- b. Shareholders {2}
- c. Listing on the stock exchange {2}
- d. Revenue composition {2}
- e. ICT capabilities {2}
- f. Branch network {3}
- g. Reinsurance and Reinsurance spread {4}
- h. Policies {3}

Question 6

- a. Explain the significance of financial management and analysis to a reinsurance broking house. {15}
- b. Outline the key factors that an insurance broking firm's income statement must contain and explain why. {5}

*****THE END*****