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

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 Retrocessionares. 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*************