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 2011

Duration 3 hours

Instructions to Candidates

- 1. Answer any five questions
- 2. Note that question 1 is compulsory
- 3. Each question carries 20 marks

Question 1 [compulsory]

You have been consulted by the Officer of the Insurance Commissioner regarding possible reforms to the industry in an effort to enhance and improve supervision, in order to create a sustainable Insurance Industry for the protection of the policyholders. Using your knowledge gained in this course, recommend to the Officer of the commissioner on, features that need reform and why in your opinion such reforms are necessary

{20}

Question 2

Unearned Premium Reserve is one of the critical technical provisions that are found in an insurer's balance sheet and income statements. Using knowledge gained during your studies, identify any five methods that insurers use in providing for this reserve giving practical examples {20}

Question 3

Define each of the following and explain how insurers determine exposure of these risks and provide for them giving practical examples

Insurance risk

- Reinsurance Risk
- Investment risk
- Operational risk
- New business strain risk {20}

Question 4

Define each of the following terms and explain their significance in analyzing insurers' financial strength

- Financial Base ratio
- Claims cash cover ratio
- Times cover ratio
- Combined ratio and expense ratio
- Solvency margin {20}

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 {20}

Question 6

What is the significance of qualitative measures in the analysis of insurers' financial capacity and their ability to meet their obligation when called upon to do so? You are expected to support your solution with practical examples {20}

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)
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	256,626	781,452	524,826

Claims Recovered	222,546	380,243	157,697
Net Claims Paid	24.090	401 200	267 120
	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
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	
Other Orider Writing Income	
Total Net Premiums Earned	1,284,730
	1,284,730
	1,284,730 - 426,982

Net Claims Paid 10 10 10 10 10 10 10 1		- 1
IBNR Provision 82,891	Net Claims Paid	90,181
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 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/(Loss) After Taxation 627,513 Taxation 564,762	Increase/(Decrease) in Outs. Claims	68,032
Commissions Paid	IBNR Provision	82,891
Commissions Paid		-
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 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 564,762	Net Claims Incurred	241,104
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 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 564,762		-
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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 Total Expenses 662,463 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 564,762	Commissions Received	448,681
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 Total Expenses 662,463 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 564,762	Not Commissions Bold	-
Personnel	Net Commissions Paid	164,113
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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 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 564,762	OPERATING EXPENSES	-
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 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 564,762	Personnel	225 671
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 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 564,762		
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Underwriting Profit/(Loss) Investment Income Realised Gain/Loss - Shares Unrealised Gain/Loss - Shares Exchange Gain/Loss - FCA Profit/(Loss) on Disposal of Fixed Assets Profit Before Taxation Taxation Profit/(Loss) After Taxation 381,163 10,595 (134) 243,391 243,391 (58) (7,444)		-
Investment Income Realised Gain/Loss - Shares Unrealised Gain/Loss - Shares Exchange Gain/Loss - FCA Profit/(Loss) on Disposal of Fixed Assets Profit Before Taxation Taxation	Total Expenses	662,463
Investment Income Realised Gain/Loss - Shares Unrealised Gain/Loss - Shares Exchange Gain/Loss - FCA Profit/(Loss) on Disposal of Fixed Assets Profit Before Taxation Taxation	Hardamaritia a Bus (1//Lasas)	-
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Realised Gain/Loss - Shares Unrealised Gain/Loss - Shares Exchange Gain/Loss - FCA Profit/(Loss) on Disposal of Fixed Assets Profit Before Taxation Taxation Comparison Fixed Assets (134) 243,391 (58) (7,444)	La college of Lancour	-
Unrealised Gain/Loss - Shares Exchange Gain/Loss - FCA Profit/(Loss) on Disposal of Fixed Assets (7,444) Profit Before Taxation Taxation Profit/(Loss) After Taxation 564,762		1
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Profit Before Taxation 627,513 Taxation 62,751 Profit/(Loss) After Taxation 564,762		` ,
Taxation 62,751 Profit/(Loss) After Taxation 564,762	From (Loss) on Disposal of Fixed Assets	(7,444)
Taxation 62,751 - - Profit/(Loss) After Taxation 564,762	Profit Before Taxation	627 513
Profit/(Loss) After Taxation 564,762		•
` '	randion	
` '	Profit/(Loss) After Taxation	564.762
(5,,500)		•
Dividend Paid -		-

Transfer to General Reserve	-
Retained Profit/(Loss) for the Year	632,400