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&amp; Commissions 3,500,000 Gain from Operations 1,150,000

COURSE 8: Fall 2004 - 2 - GO TO NEXT PAGE Finance and Enterprise Risk Management. Core Segment Morning Session (a) For Zoolander Life, show: i. the change in the income statement for 2005 under a 100% funds withheld coinsurance arrangement ii. the outstanding surplus account as of December 31, 2005. (b) Explain, from Zoolander ' s perspective, the benefits of their existing YRT reinsurance as compared to the benefits of Cranberry ' s proposed arrangement. (c) Recommend if Zoolander should purchase the reinsurance from Cranberry Re or should retain the risk. Defend your answer.

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2. (11 points) Bonnie Hawke, Zoolander Life ' s 2nd Vice President of Capital Planning, proposes to allocate capital by line of business using the GAAP required surplus methodology. You are given the following information.

Zoolander Life	Proposed	Capital Allocation	Line of Business	2003	2004		
Projected	2004	Annuity	100.0	103.0	Disability	150.0	160.0
		Life Insurance	200.0	240.0	Variable	215.0	225.0
		Corporate	367.6	390.0			
		Total	1,032.6	1,118.0			

(a) Explain why a company might choose to allocate capital by line of business. (b) Evaluate the appropriateness of the proposed allocation method chosen by Bonnie Hawke as compared to other capital allocation methods. (c) Using Bonnie Hawke ' s proposed allocation, determine whether each line of business is projected to create or destroy economic value in 2004 and

whether each line of business is projected to generate free cash flow. Show your work. (d) Explain the implications of the results in (c) above. COURSE 8: Fall 2004 - 4 - GO TO NEXT PAGE Finance and Enterprise Risk Management. Core Segment Morning Session Questions 1-3 pertain to the Case Study. Each question should be answered independently. 100Test 下载频道开通，各类考试题目直接下载。详细请访问 [www.100test.com](http://www.100test.com)