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https://www.100test.com/kao_ti2020/84/2021_2022_SOA_E7_9C_9F_E9_A2_98N_c50_84040.htm COURSE 8 FINANCE - 1 - GO ON TO NEXT PAGE FALL 2002 Morning Session **BEGINNING OF EXAMINATION** MORNING SESSION Questions 1-4 pertain to the Case Study. Each question should be answered independently.

1. (5 points) Zest's Chief Executive Officer, Mr. Zach, has been approached regarding the possible acquisition of Cling To Life Insurance Company. Cling To Life has been successful in the Group Long Term Disability market (LTD) and had premiums of 350 in the year 2000. Zest feels that the purchase will be a way to rejuvenate its LTD business. Cling To Life could be purchased for 100. If purchased, Cling To Life's assets and liabilities would be consolidated with those of Zest. Cling To Life's year-end 2000 balance sheet is as follows:

Assets	Public Bonds	Investment Grade	425		
	Below Investment Grade	225	Private Bonds (Investment Grade)	200	
	Commercial Mortgages (Investment Grade)	125	Real Estate	20	
	Cash and Other Short Term	5	Total Assets	1,000	
Liabilities	950	Equity	50	Total Liabilities and Equity	1,000

(a) (1 point) Calculate the effect that the purchase of Cling To Life will have on Zest's yearend2000 required capital. Show your work.

(b) (4 points) Describe three options that Zest could use to fund the purchase of Cling To Life. Assess the impact of each option on Zest's balance sheet and RBC ratio.

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pertain to the Case Study. Each question should be answered independently.

2. (12 points) You are a consulting actuary who has been hired by Mr. Cairns to review Zest's current Asset/Liability Management (ALM) policy and practice. Mr. Cairns is cognizant of the qualitative aspects of rating agencies' analyses and feels that perhaps a reformulation of Zest's ALM policy might lead NARA to adopt a more favorable outlook of Zest.

(a) (6 points) Evaluate Zest's current ALM policy, commenting on both the overall approach and its appropriateness for each of the products in the three main product lines.

(b) (4 points) Propose refinements to Zest's existing ALM strategy that may be viewed favorably by NARA. Provide support for your suggestions.

(c) (2 points) Describe how a holistic approach could be used as Zest's ALM process.

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Questions 1-4 pertain to the Case Study. Each question should be answered independently.

3. (12 points) Although NARA is the pre-eminent insurance company rating agency, Zest is concerned that it may be imprudent to rely on the ratings of only one agency. Zest is contemplating approaching Standard amp. Poor's to view its liquidity position. Zest's CFO has asked you to test Zest's results under the Standard #8226.#61472. The Premium Stabilization Reserve for the Group-LTD line is 1050.2.#61472.#8226.#61472. The Unearned Premium Reserve for the Individual Term Insurance line is 36.1.#61472.#8226.#61472. All investments are in securities and assets from developed countries.#61472.#8226.#61472. Investment grade commercial mortgages and non-CMO public bonds are split

25% NAIC ' 1 ' and 75% NAIC ' 2

' .#61472.#8226.#61472.Equities are split 10% investment grade preferred stock and 90% common stock.#61472.amp. Poor ' s insurance liquidity model. Insurance Liquidity Tables Table 1 Liability Risk Factors Liability Immediate Scenario (%) Ongoing Scenario (%) Traditional life 30 50 Term life 50% of UEPR 50% of UEPR Interest-sensitive life 50 50 Deferred annuities 90 100 Single-premium immediate annuities 100 100 Other individual annuities 100 100 Supplementary contracts 30 50 Variable life and annuities 0 0 Individual accident and health 50% of UEPR 50% of UEPR Individual disability 50% of any cash value 50% of any cash value Structured settlements 100 100 GICs and funding agreements 100 100 Group annuities and other deposit funds 100 100 Group accident and health 50% of PSR and UEPR 50% of PSR and UEPR Group life 50% of PSR and UEPR 50% of PSR and UEPR Group long-term disability 50% of PSR and UEPR 50% of PSR and UEPR Health claims reserves 100 100

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