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NEXT PAGE Finance and Enterprise Risk Management. Core Segment Morning Session ****BEGINNING OF EXAMINATION**** FINANCE AND ENTERPRISE RISK MANAGEMENT. CORE SEGMENT MORNING SESSION Questions 1-3 pertain to the Case Study. Each question should be answered independently. 1. (7 points) Zoolander Life is very concerned about being able to secure reinsurance for its term life insurance business line after January 1, 2005. Richard Scarlet, the reinsurance intermediary, has been unable to secure a replacement for Rose Re ' s YRT reinsurance program at a reasonable price. As an alternative, Richard Scarlet has proposed accepting a 100% funds withheld coinsurance contract which is available from Cranberry Reinsurance Solutions. Under that arrangement, the reinsurance allowance is set at 10% of ceded premiums, and the risk charge is 1% of the outstanding surplus account for the prior year. A simplified income statement for the term life insurance business line follows: Zoolander Life Projected 2005 Term Life Business Line Before Reinsurance Premiums Gross 33,000,000 Ceded 0 Net Premiums 33,000,000 Investment Income Gross 1,650,000 Ceded 0 Net Investment Income 1,650,000 Reinsurance Allowance 0 Total Revenue 34,650,000 Claims amp. Surrenders 19,000,000 Reserve Increase Gross 11,000,000 Ceded 0 Net Reserve Increase 11,000,000 Total Benefits 30,000,000 Expenses

& 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