INSTITUTE OF ACTUARIES OF INDIA

EXAMINATIONS

14th July 2022

Subject SA3 – General Insurance

Time allowed: 3 Hours 30 Minutes (14.30 - 18.00 Hours)

Total Marks: 100

INSTRUCTIONS TO THE CANDIDATES

1. ***Please read the instructions to examinees sent along with hall ticket carefully and follow without exception.***

2. ***The answers are expected to be India Specific application for the syllabus and corresponding core reading. However, substantially the core reading material is still taken from material supplied by Actuarial Education Company which is meant for UK Fellowship examination. The core reading also contains some material which is India Specific, mostly the IRDA regulation. In view of this, it should be noted that focal point of answers is expected to be India Specific application. However, if application specific to any other country is quoted in the answer the candidate should answer the question with reference to Indian environment.***

3. ***Mark allocations are shown in brackets.***

Q. 1) An established general insurance company in India is considering establishing its presence overseas. In this regard, the Board of the company has given their 'go-ahead' for acquiring an overseas general insurer. Alongside considering the necessary legalities and procedural formalities like seeking the required regulatory approvals for finalizing the acquisition deal with the identified target company, the company is also simultaneously seeking necessary professional advice on the potential risks surrounding such a transaction and how to have these risks insured.

i) List the practical considerations for any company desirous of expanding its operations globally through acquisition of another company. (5)

The management of the acquiring company has hired the services of an international M&A (mergers and acquisition) consultancy firm to understand the various risks involved and how they might be addressed. Following its assessment, the consultancy firm has advised the acquiring company to purchase the following insurance covers to safeguard its commercial interests in the acquisition deal:

1. <u>Representation and Warranty Insurance:</u> It offers insurance coverage to buyers to guarantee the contractual representations and assurances made by sellers associated with corporate acquisitions that form the premise of the acquisition deal.

2. <u>Tax Liability Insurance:</u> It is a customised insurance policy which effectively ring-fences / isolates an identified tax issue and removes it from the sale agreement negotiation particularly when its incidence and / or quantum are uncertain.

3. <u>Title Insurance:</u> It is used to provide protection to the buyer against losses resulting from defects or failure of title to shares and to assets/properties held by the seller associated with the corporate acquisition. It protects against risks existing at the time of closing the acquisition deal and is often taken in conjunction with Representation and Warranty Insurance.

4. <u>Litigation buyout Insurance:</u> It is a customised insurance policy which effectively ring-fences liabilities which may arise from any current or anticipated litigation, arbitration or other dispute. This is particularly useful in the context of the sale of a business where the unresolved dispute would otherwise prevent the sale proceeding or would have a significant impact on the price to be paid.

5. <u>Environment Liability Insurance:</u> It is used to provide cover for pollution or environmental damage caused by gradual or sudden accidental environmental pollution events.

Prior to approaching competent general insurance companies offering the above insurance covers, the CEO of the acquiring company intends to gain a better understanding of these insurance products in general. The CEO has asked you, the Chief Actuary, to draft a brief note providing an overview of the above insurance products.

ii)

a) By drawing inference from the above definitions, outline the key product features, likely coverages and exclusions under each of the above insurance products. (25)

b) Of the above insurance covers suggested by the insurance consulting firm, state with reason(s) which of the above coverage(s) you think may not be particularly necessary for the acquiring general insurance company. (2)

[32]

Q. 2) The Covid-19 pandemic has significantly impacted Retail insurance lines like Motor and Health as well as Aviation and Marine insurance. In fact, the aviation industry and maritime passenger businesses suffered greatly from the negative impact of emergency response measures like territorial lockdowns, travel restrictions and stringent Covid-19 health measures to contain the spread of the virus.

i) Outline the various aspects of the Aviation insurance sector that were affected during the pandemic. Your answer must include the challenges faced by the Aviation industry, changing exposure & claims experience and the changing insurance needs of this sector in the aftermath of the pandemic. (10)

ii) Describe the challenges faced by the maritime passenger business segment and the new risk exposures that insurance companies must consider to meet additional insurance needs of maritime companies engaged in passenger transportation in the aftermath of the pandemic. (8)

[18]

Q. 3) Insurance penetration was identified as being below par for low-income households leaving insurance protection gaps in this segment. To address this and to bolster the micro insurance segment, IRDAI (Insurance Regulatory and Development Authority of India) constituted two committees in February 2020 – one for designing a Combi product for the micro insurance segment and another for assessing the feasibility of establishing standalone micro insurance companies. You are an Actuary with a large general insurance company in India.

i) The report of the committee for designing a Combi product for the micro insurance segment was published in April 2022. Referencing this report, discuss various aspects of offering a combi micro insurance product vis-à-vis existing products offered by most general insurance companies. Your response must include aspects such as bundling insurance covers, underwriting considerations, sales, reinsurance and profitability. (15)

ii) The report of the committee for standalone micro insurance companies was published in August 2020.

a) One of the recommendations in this report was the establishment of a standalone captive micro insurer. Define "captive insurer" in this regard. (2)

b) Based on the recommendations outlined in this report, the promoters of the general insurance company where you are employed are contemplating setting up a standalone micro insurer. You have been asked to draft a report on the advantages and disadvantages of such a decision. (8)

[25]

Q. 4) i) Implementation of IFRS17 accounting standard is expected to bring a fundamental change in the treatment of insurance liabilities, particularly discounting of liabilities (under the building block approach). This is markedly different from the existing IRDAI regulations (Assets, Liabilities and Solvency Margin for Non-Life Insurance Business, 2016) where discounting of liabilities is not permitted. In view of the same, outline the various factors that need to be considered with respect to reserving for various lines of business, when IFRS17 is implemented. Your response must include aspects such as estimation of the best estimate liabilities, choice of discount rate, risk adjustment for non-financial risk and estimation of cash flows for various lines of business. (20)

ii) Tax authorities issued notices to a few general insurance companies seeking an explanation for the exclusion of IBNR and PDR from tax computation, citing that doing so led to lower tax payment. Explain the reasons behind excluding IBNR and PDR in the computation of tax liabilities for general insurance companies. (5)

[25]

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