INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Life Insurance - PPP

Chapter: 10,11 (Unit 4)

Category: Practice Question

UNIT 4

Lapsation and Revival

1. What is lapsation?

2. Identify some of the causes of lapsation of life insurance policies

3. Discuss the consequences of lapsation of life insurance policies on

    a) Insurance Companies

    b) Policyholders

    c) Intermediaries

    d) Government

4. Discuss various revival methods of lapsed life insurance policies?

Risk

1. A life insurer has written large numbers of with-profits endowment assurances over many years. It has performed a careful analysis of the average expense per policy of this business. It is about to start writing without-profits term assurances for the first time, and it plans to use the per-policy expenses from its endowments as its expense assumption for the term assurances. Suggest reasons why this might not be appropriate.

2. Discuss the extent to which mortality represents a risk on without-profits term assurance, for an individual insurance company operating in an established insurance market in a country with a developed economy.

3. Why don't companies just charge a fixed fee for contracts, irrespective of their size, to get round the problem of mix by size of contract?

4. Describe the risks, associated with administration, caused by:

   (a) too much new business

   (b) too little new business.

5. A life insurance company has decided to add a renewal option to its ten-year without-profits term assurance contracts. It will charge for this option by increasing the premium for the original contract to cover the expected cost of the option. Has the risk for the company increased by giving this option?

Specimen Exam Question

A life insurance company has successfully been selling a unit-linked single premium savings contract through insurance intermediaries. The company is now considering introducing a new unit-linked regular premium savings contract in order to appeal to an even wider range of investors. The following design is being considered:

- Fund management charge: 1% per annum.
- Minimum annual premium: £2,000.
- Minimum term: 10 years.
- Surrender penalty: $0.5 \times (x+10-y)\%$ of the face value of the units at the date of surrender, in first ten years only (x = entry age, y = age at surrender).
- All charges are guaranteed for the duration of the contract.
- The face value of the units is payable on survival to the end of the term or on earlier death.

Describe the risks to the insurance company from launching this product. [14]