QUESTION Û 20 MARKS

policies all written in the last year. Your office has a sub fund consisting entirely of yearly renewable term

There are now 10,000 policies written at a premium of \$100 each, paid annually in advance. The death benefit is \$10,000. Capital at the start of the year was \$1m.

assumptions: The Margin 9 Services valuation at outset used the following

- acquisition expenses \$70 per policy incurred at the start of the
- servicing expenses \$15pa per policy incurred at the end of the year in respect of policies inforce at the end of each year mortality rate: 0.25% first year, 0.5% second year, and 0.75% thereafter with deaths occurring evenly over the year.
- lapses 10% pa, occurring at the end of the year
- net investment return 10% pa
- the profit margin at outset was 16.1% of premium
- the expected Margin on Services Policy Liability at the end of the year was -\$27.15 per policy.

EXAMINATIONS

LIFE INSURANCE SPECIALIST LEVEL

1996 EXAMINATIONS PAPER ONE

Actual experience during the year was as follows:

- acquisition expenses \$80 per policy renewal expenses \$15 per policy mortality rate 0.30% in the first year lapses 12% pa investment earnings rate 15%

experience to compare with the actual revenue account: You have prepared а revenue account based on the expected

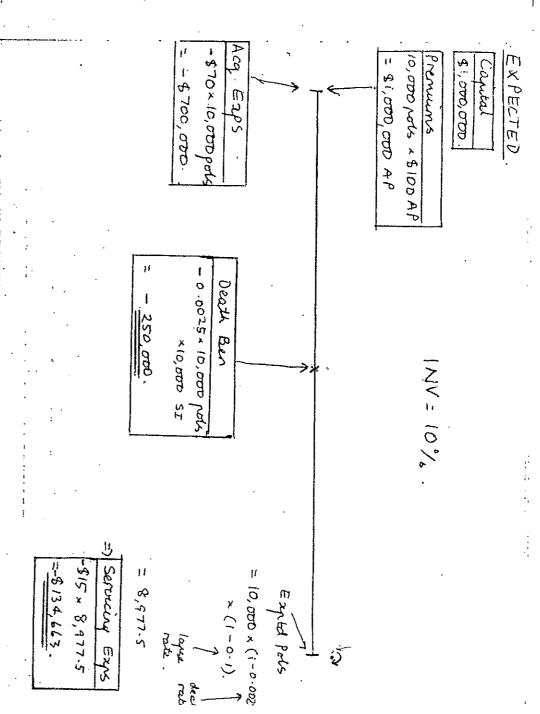
year end	Increase/(Decrease) in policy liabilities	Acquisition Expenses Renewal Expenses	Dutgo Policy Payments	Premiums Net Interest Income 118	
8,978 8,774	(244)	/00 135	250	1,000 1,000 158	Expected \$'000 \$'000
74	(238)	132	300	58	Actual 00

Calculate the actual and expected Margin on Services profit for the year.

Analyse the excess or shortfall in MoS profit arising from that expected

END OF PAPER

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6. Interest on Capital

SUMMAR

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