

FN241 class 12-13 review questions

Provide precise and concise responses to the following questions referring to theories, concepts, and frameworks as discussed in the class materials and the main textbook. For quantitative problems, demonstrate the process of calculation and clearly highlight your answers as appropriate. Write down your answers clearly so that the lecturer can read them easily.

Review questions

1. Answer the following questions
 - a. Briefly explain three reasons for reinsurance
 - b. Distinguish between facultative reinsurance and treaty reinsurance
 - c. What is the meaning of adverse selection? What is the difference between adverse selection and moral hazard?
 - d. Identify some methods that insurers use to control for adverse selection.

2. Answer the following questions
 - a. Briefly discuss the two principal types of financial reserves needed to be maintained by P&C insurers.
 - b. What are the two major sources of revenue for a non-life insurance company? What are the major expenses of non-life insurance company?
 - c. Name three ways in which the assets of a life insurance company differ from the assets of a non-life insurance company.

Application questions

1. Based on the balance sheet and P&L statements in class 13 material, calculate relevant financial ratios.

2. Life insurance investments are said to be a crucial contributor impacting a nation's economic and social wellbeing. Why?