

FAP End-of-module Tests

Sample Solutions

Module 4

Question 13

The loss ratio in 2004 needs adjustment to make it relevant to current premium levels. If current premiums had been charged in 2004 the loss ratio would have been:

$$\frac{115}{1.23} \%$$

The average loss ratio over all three years, based on current premiums, is thus:

$$\frac{(115/1.23) + 95 + 86}{3} = 91.5\%$$

The new rate, as a percentage of the current rate, which will mean the target loss ratio is achieved is therefore:

$$\frac{91.5}{70} = 131\%$$

ie a 31% increase to the

current rate.

If there are other questions you are having difficulties with then let us know at FAP@bpptraining.com and we will look at including solutions in future updates of this document.

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