

# **INSTITUTE AND FACULTY OF ACTUARIES**

## **EXAMINERS' REPORT**

### **Subject CA3 – Communications**

#### **(Presentation)**

#### **Scenario: XYZ Pet Insurance**

##### **Introduction**

The Examiners' Report is written by the Principal Examiner with the aim of helping candidates, both those who are sitting the examination for the first time and using past papers as a revision aid and also those who have previously failed the subject.

The Examiners are charged by Council with examining the published syllabus. The Examiners have access to the Core Reading, which is designed to interpret the syllabus, and will generally base questions around it but are not required to examine the content of Core Reading specifically or exclusively.

The Examiners' preferred approach to the solution is reproduced in this report; other valid approaches are given appropriate credit.

D C Bowie  
Chairman of the Board of Examiners

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A possible set of slides to accompany a candidate's presentation is given below. This is not intended to be a model set of slides. In practice, a wide number of sets of slides were acceptable and candidates would have achieved good pass standards without having the same level of detail as the specimen slides.

Candidates were asked to give a brief presentation to the marketing team of an insurance company to explain

- what anti-selection means; and
- why it is inappropriate to remove the classification question on the online application form for exotic pet insurance.

Candidates were provided with details of premium rates that had been charged for 5 different classes of exotic pet over the previous 4 years.

The main points that the examiners were looking for and some common problems encountered were as follows:

1. Candidates were asked to deliver a presentation lasting between 8 and 10 minutes. Most presentations were delivered within the timescales and gained full marks. Presentations that were much longer than 10 minutes tended to be long, repetitive and difficult to understand. Presentations that were less than 8 minutes were typically rushed or did not clearly cover all the key objectives of the question.
2. Some candidates lost marks for poor body language, using inappropriate language (e.g. being too patronising, using unexplained jargon) and speaking in an unclear, monotonous voice, thus failing to gain rapport with the audience from the marketing team.
3. Most presentations had an appropriate first slide with a clear title, date and name of presenter.
4. Most presentations had an agenda. On better presentations, the agenda linked directly to the titles and content of the following slides. On weaker presentations, too much time was spent on the agenda giving rise to a laboured start, which tended to disengage the audience.
5. There was a great variation in the quality of the format of slides. There were examples both of slides with only a few bullet points, and slides with too much information. Good presentations had slides that were varied and clearly backed up the information that was being provided to the audience.
6. Some candidates put full-length narrative sentences on the slides. This was not appropriate to the slide format and tended to make slides over-busy. This also distracted the audience from listening to the presenter.

7. Some slides containing graphs were not well labelled or explained particularly well. Better candidates spent time explaining graphs in some detail: in general there is insufficient time for an audience to appreciate the full impact of a graph without being led through it slowly and carefully.
8. Some candidates flipped between using the slides and a flip chart. Weaker candidates flipped back and forth too much thus distracting the audience.
9. Good candidates clearly explained the main points:
  - why a different pricing structure may be appropriate for different classes of policyholder
  - what anti-selection meant; and
  - demonstrated the financial risks of removing the classification question from the online questionnaire for exotic pet insurance
10. Where presentations included a table of figures rather than a graph, marks were gained for how clearly it brought out the messages. Repeating the large table of premiums provided in the exam question was not a good way of demonstrating the different premium rates charged for the different classes of exotic pet.
11. Candidates were expected to assess the information provided in the question and choose the parts and language that were relevant for the audience.
12. Better candidates completed their presentation with a brief summary of the key messages and provided the opportunity to ask questions.

Candidates were not asked to provide a script to accompany the presentation.

## SOLUTION

### Slide 1

**Company XYZ**

Pricing Structure of insurance policies


Presentation to Marketing Team

by  
J.B Actuary

### Slide 2

**Purpose of Presentation**

Why so many categories of policyholder?



**DANGER!**

Dangers of simplifying the charging structure

## Agenda

- Why a pricing structure
  - How policyholders differ
  - Grouping risks
- “Anti-Selection”
  - What does it mean?
  - What are the risks?
  - Examples
- Summary

## Why a pricing structure? (1)



































Policyholders can differ by.....

- Chances of making a claim
- Likely claim sizes
- Depend on many factors....
  - e.g. for car insurance: age, sex, location, type of car
- Relevance of factor depends on type of policy
- High chance of claiming/claim size = “high risk”



### Why a pricing structure? (2)

- To group similar policyholders together.....
- So we can charge them a similar premium

**Benefits:**

- Charge more for “high risk” policyholders
- Offer better rates to “low risk” policyholders

### “Anti-Selection” (1)

- Charge a single rate for all, mix of business may change
- Becomes attractive to different policyholders

**High risk policyholders (should pay more)**

- Our rates not enough to cover all the risks
- Attracts more business
- Good value for money, BUT loss-making for company

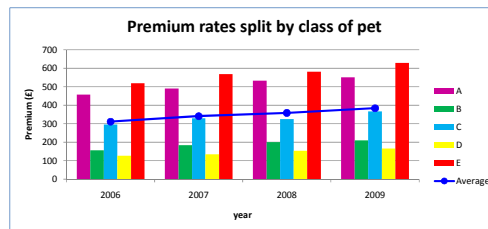
**Low risk policyholders (should pay less)**

- Our rates too high
- Lose business to competitors

More problematic if competitors split out risks

## “Anti-Selection” (2)

Premiums on exotic pet insurance policies



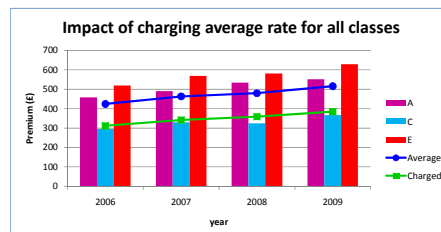
Charge the average rate for all classes.....

- Lose business in classes B and D
- Gain business in classes A and E

What effect could this have? – next slide...

## “Anti-Selection” (3)

If mix of business changes and lose “low-risk” classes



Actual rate charged may be less than amount needed to cover the risks

## Summary

- Pricing structure groups similar risks
- Premium charged reflects the policyholder's risk
- Combining all risks could lose low-risk business
- ...but attract more high-risk business
- Big impact if market is competitive
- Some combining may be possible of similar risks

# Any questions?

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**END OF EXAMINERS' REPORT**