

INSTITUTE AND FACULTY OF ACTUARIES

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CP3 – Communications Practice Scenario Material

Instructions for candidates

You are provided with this advance information to enable you to read and understand it in your own time, and not under examination conditions. Please note that this is an examination to test your ability to communicate technical information to a non-technical audience. It is not a test of your technical actuarial knowledge or skills. As such, any technical actuarial information or techniques needed to answer the question will be provided to you. You do not need to spend time revising other subjects or researching further detail on the topics covered in the paper.

This document consists of **9** printed pages and **0** blank pages.

Background

This pack contains details of an insurance company called ProtectMe that sells only protection business. It also contains some explanation of its reinsurance arrangements and underwriting approach. Specific sections are:

- Business Strategy 2018 and recent business results
- Extract from ProtectMe product manual
- Overview of Reinsurance with SpreadtheRisk
- Notice from Government Health Adviser
- Newspaper Article

Business Strategy 2018 and recent business results

ProtectMe is a well established proprietary life insurer offering a range of protection contracts. Their business strategy aims to keep them at least 3rd cheapest in a price comparison site table often used by customers, namely GetmelifeQuotes which covers 90% of competitors. This comparison site shows standard premiums for customers who are non-smokers requesting a sum assured of \$100,000 for level term and decreasing term assurances for a term of 20 years.

Historically, as well as term assurances, ProtectMe has offered a critical illness product. It is not currently writing new critical illness products having temporarily withdrawn the product on 01 December 2017. It has, however, publically stated the intention to relaunch before the middle of 2018. It wants to provide an innovative product and possibly introduce a 'first' for the industry.

This revised critical illness policy will follow on from the success of its innovative approach to e-cigarette users on its term assurance business. ProtectMe remains the only insurer to offer lower rates for people who would usually be classed as smokers but only use e-cigarettes and have not used tobacco in any form. This recognises the emergence of those who have started to use e-cigarettes as a social 'accessory'.

Recent new business annualised premiums for 2017 by distribution channel where applicable are shown below:

Product	Financial Adviser	Telesales	Internet
Critical Illness	\$0.8m	Not applicable	Not applicable
Level Term assurance	\$0.75m	\$1.1m	\$2.7m
Decreasing Term assurance	Not applicable	\$1.3m	\$2.2m

ProtectMe PRODUCT MANUAL (extract)

Lives must be age next birthday 18 to 70 inclusive. Age plus term must not exceed 90. All products are available on a single-life basis only.

Level term assurance: predominantly aimed at the homeowner market and available via all distribution channels but at varying minimum sum assured levels as follows:

Distribution channel	Minimum sum assured (\$)
Financial adviser	150,000
Telesales	50,000
Internet	50,000

Decreasing term assurance: predominantly aimed at the homeowner market. Not available via financial advisers but is available via telesales and internet with minimum initial sum assured of \$50,000.

For all products, premiums must be paid monthly via direct debit.

No protection product offers surrender values. Policies lapse without value if premiums are not paid within 30 days of the due date.

The formula in use for calculating premiums payable by a customer:

Sum Assured * Mortality factor * (1 + smoking loading) * (1 + BMI loading) * (1 + family history loading) + Plan Fee

The Plan fee is set to cover the ongoing cost of administering the business and is reviewable.

Details of the loadings and an example calculation are contained in the following Reinsurance and Underwriting Overview Section.

Reinsurance and Underwriting Overview

ProtectMe has a single Treaty with SpreadtheRisk that covers all business. It is a 90% quota share arrangement. The latest arrangement became effective on 01 February 2017 and terms are reviewable every two years.

SpreadtheRisk also provides the underwriting manual setting the loadings applicable and offers technical assistance both at underwriting and claims stage.

The following are extracts from the underwriting manual currently in use:

- Body Mass index (BMI)

Body Mass Index is calculated as weight (in kilograms) divided by the square of height (in metres). Cases will be treated as substandard lives where BMI exceeds 24.00 or is below 19.00. The loading to apply should be based on the following table. For non-integer BMI use the loading for actual BMI rounded up to the next integer – for example: BMI 37.23 use loading for BMI 38.

Category	BMI	Loading (%)
Extreme underweight	<15	DECLINE
Underweight	15 – 18	17
Normal	19 – 24	0
Overweight	25 – 29	15
Obese	30 – 34	20
Severely Obese	35 – 40	25
Morbidly obese	>40	DECLINE

- Family history

Where there is a history of close relatives dying (other than by accident) before the age of 65 loadings will apply. Close relatives are defined as biological parents, grandparents and siblings.

Number of close relatives dying before age 65	Loading (%)
1	2
2	4
3	7
4 or more	10

- Smoker loadings

Loadings for smokers are applied in accordance with the following table:

Smoker type	definition	Loading %
Class 2	Tobacco user within last ten years	45
Class 1	e-cigarettes only within the last ten years	35
Non Smoker :	Not used a tobacco product or e-cigarette in the last ten years	0

Where more than one loading factor applies the combined effect is compounded rather than additive.

EXAMPLE: –

A man age 35 next birthday applies for level term assurance of \$150,000 on a single-life basis with a term of 20 years. He uses both tobacco and e-cigarettes at point of application. His father died aged 52 in a road traffic accident. His height is 1.70m and weight is 75kg.

$BMI = 75 / (1.7 * 1.7) = 25.95$ rounded up to 26 therefore loading 15%

Family history of 1 member dying before age 65. HOWEVER this was due to an accident hence loading is 0

$Premium = 150000 * 0.00006 * 1.15 * 1 * 1.45 + \text{plan fee}$

(the rates and loadings above are applicable 01 May 2018)

NOTICE from the Government Health Adviser

Since 2012 e-cigarettes have become available and are being promoted as an aid to stop smoking. This is a welcome initiative but it will be many years before the full impact of these can be assessed.

From the investigations and research performed to date conclusions being drawn are that:

- Use of e-cigarettes carries less damage to health than long-term smoking.
- It is not completely risk free – for example, some of the ingredients have been found to contain low levels of potentially cancer causing material that may, if used for long durations, increase the cancer risk in users.
- There is still a significant impact on lung health which leads to respiratory issues.
- Data collection and research will continue but at this stage, the indication is that use of e-cigarettes will reduce the risk of death from smoking related causes by at most 10%.
- There are some people who whilst they have never used any form of tobacco are using e-cigarettes and it is believed this may cause health issues at a later date.

NEWSPAPER ARTICLE from Daily Journal written by J A Penn, July 2017.

Comparison sites : are they accurate each and every time?

Comparison sites have very quickly become the first stop for many of us when we need to buy insurance, but do they always give customers an accurate quote? If you don't fit the 'standard criteria', or if the insurance companies have not provided the site with their latest rates, you may find the premium quoted on the site to be incorrect.

Most comparison sites are for healthy non smokers and typically apply to sum assureds of \$100,000. But they do vary and it is important that you realise this.

Read the headings and footnotes carefully because they contain important information. Footnotes often describe slight differences between participating companies

The rates are not guaranteed. You cannot secure your cover on a comparison site. You have to go either online direct to the insurance company or via a financial adviser.

Companies charge extra for 'non standard' lives that they believe pose an extra risk. You may be asked questions about your own or family medical history, hazardous occupations or unusual geographical locations. These can make a difference to the premium you pay.

Some common misunderstandings that potential customers make:

'Smoking'

You are a fit and healthy non smoker: right? That may be how you perceive yourself but insurers may disagree. If you are new to the insurance world this often comes as a rather nasty surprise.

Let's first look at the 'smoker'. Are you a smoker? Well that depends on how 'smoking' is defined.

Go back twenty years and smoking means using tobacco – be they cigarettes, cigars, chewing tobacco, roll-ups or pipe tobacco. Things were clear cut. Giving up was something that did not happen. So if you ever lit up at all, you were definitely classed as a smoker and it was just a question of how heavy.

But roll forward to today and this is becoming an ever increasingly complex question. With health campaigns and more knowledge of what smoking does to health, many are giving up or seeking out alternatives. These alternatives include e-cigarettes, patches, gum and sprays. They are not tobacco products but do contain nicotine or substitutes believed to be harmful.

It is these effects that are now causing insurers concern. Anything other than complete abstinence still has a negative impact on your health. This is causing insurers to still classify those using tobacco substitutes to quit or simply as a 'fashion statement' as smokers. The health benefits of these alternatives compared to traditional tobacco products are not yet fully understood and insurers are therefore extremely cautious. Likewise studies are only just beginning to find out how using e-cigarettes impacts health.

Those personal questions: your health

Now what is healthy? Most insurers ask you a number of questions; some more than others. However, nearly all will ask for your height and that most personal of questions none of us like to think about – your weight! You know you are carrying an extra little bit, so what? Well weight itself isn't their concern; it is looked at together with height and they determine your Body Mass Index. Insurers place you in a band and to be 'healthy' you must fit in it. Fall outside this band, and, as with smoking, they will charge you more.

So there you have it. You will need a quote from an insurer to know for certain what you will pay. And finally if you are thinking of being anything than fully honest – forget it! Insurers can and do check. If you deliberately lie, you will not be covered and cases have been taken to court, some resulting in imprisonment.

YOU HAVE BEEN WARNED!!!!!!

END OF SCENARIO MATERIAL