



CP3 – Communications Practice

Examination specimen papers and materials

Statement from the Principal Examiner

CP3 is designed to be a test of communication skills and, to the extent possible, technical actuarial knowledge is not being examined. As such, any technical information or techniques that are needed to answer the question will be provided to you, usually in the material released on the Friday before the exam. The intention of providing this material in advance is not to enable you to read around the topic; this will not be necessary to succeed in the exam. However, the examiners felt that it would be helpful for students to have an opportunity to digest the information provided in their own time, rather than having to do this under examination conditions. CP3 is not designed to be a time pressured exam, and it should be possible for students to complete their answer well within the exam time given.

As with other actuarial exams, the skills needed to pass CP3 can be learnt. I would encourage you to spend time studying the exam guidance and practising answering questions as you would with any other exam. With enough work there is no reason why any actuarial student should not be able to pass CP3 on their first attempt.

We have designed a set of specimen materials to help guide you through the new exam format. Within this document you will find:

- Advance Material – Scenario
- Sample Examination Paper
- Sample of a Pass Exam Paper
- Sample of a Fail Exam Paper
- Exam Marking Schedule

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CP3 – Communications

Sample Exam – Advance Material

Instructions for candidates

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

This document consists of **7** printed pages and **1** blank page.

You are a pricing actuary for Speedy CoverAll, which is a motor insurer. It sells private and commercial motor insurance and is unusual, being the only major insurer to sell products exclusively over the internet. Your competitors also sell through direct mail marketing, and through telephone sales forces. You have been provided with the following information:

- extracts from Speedy CoverAll's pricing manual:
 - product specification, which sets out the products offered and the targeted profit margin on each product
 - the company's pricing philosophy
 - the current business mix and expected profit margins
- a recent survey on motor insurance buying habits

Speedy CoverAll pricing manual

1 Product specification

The following table sets out the products that are sold to private individuals, along with the profit margin that is targeted. The profit margin shown is the profit as a percentage of the premium:

<i>Cover</i>	<i>Description</i>	<i>Profit margin</i>
Third party	Legal minimum cover. Covers the costs incurred by others as a result of an accident that is the fault of the policyholder, but does not cover the policyholder's own costs.	20%
Fully Comprehensive	Covers the costs of an accident that is the fault of the policyholder, including the costs incurred by others and the policyholder's own costs. Covers the costs to the policyholder if their vehicle is stolen or damaged (as long as damage is not deliberately caused by the policyholder) Certain exclusions apply (such as damage as a result of war or natural disasters). Belongings in the car and car stereos are not covered.	30%
Car stereo insurance	Additional cover that can be bought with either third party or fully comprehensive insurance. Covers the car's stereo system against accidental damage or, theft (including if the car itself is stolen). The claim is limited to the maximum claim amount stated in the policy, typically \$1,000.	70%
Car contents insurance	Additional cover that can be bought with either third party or fully comprehensive insurance. Covers any belongings that are stolen from the car (including those that are present in the car if the car itself is stolen). The claim is limited to the maximum claim amount stated in the policy, typically \$2,000.	75%

Prices for third party and fully comprehensive policies depend on the policyholder's characteristics (age, gender, address etc.) and the type of car being insured. Prices for the additional cover (car stereo and car contents) depend on the address of the policyholder and the type of car being insured.

The following products are offered to commercial customers. Cover extends to all employees of the company on a fleet of at least five vehicles.

<i>Cover</i>	<i>Description</i>	<i>Profit margin</i>
Third party	Legal minimum cover Covers the costs incurred by others as a result of an accident that is the fault of the employee, but does not cover the company's own costs.	30%
Fully Comprehensive	Covers the costs of an accident that is the fault of the employee, including the company's own costs. Covers the costs to the company if their vehicle is stolen or damaged (as long as damage is not deliberately caused by an employee) Certain exclusions apply (such as damage as a result of war or natural disasters). Belongings in the car and car stereos are not covered.	30%

Prices for the commercial cover vary depending on the number of employees, type of business and the number and type of vehicles.

Speedy CoverAll pricing manual

2 Pricing philosophy

The company has stated publically that it will maintain a minimum profit margin of 20% across its business.

- Cross subsidies in the pricing should be avoided where possible.
- Where cross subsidies are necessary, the pricing department should monitor the business mix closely to ensure profitability is maintained.
- Profit targets internally will exceed the minimum figure – current targets are 30% on average.
- Base products should be competitive relative to the market.
- High profit margins should be sought on add-on products (such as car stereo and car contents insurance).
- Pricing for base products should take the following into account:
 - average claims cost in the previous five years
 - recent trends in claims cost
 - expert opinion on likely changes to future claims costs

Speedy CoverAll pricing manual

3 Current business mix

The following table sets out the expected premiums and claims for 2017 (in \$m) for the products sold:

	<i>Third party</i>	<i>Fully comprehensive</i>	<i>Stereo</i>	<i>Vehicle contents</i>	<i>Commercial</i>	<i>Total</i>
Premiums	1.25	2.00	0.50	0.60	4.00	8.35
Claims	1.00	1.40	0.15	0.15	2.80	5.50
Profit	0.25	0.60	0.35	0.45	1.20	2.85
*Profit margin	20%	30%	70%	75%	30%	34%

*Profit margin = (Premiums – Claims)/Premiums * 100

The following table outlines some characteristics of Speedy CoverAll's private motor policyholders, compared with the industry average:

	<i>Speedy CoverAll</i>		<i>Industry average</i>	
	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>
Gender mix	54%	46%	51%	49%
Average age	32	35	45	46
Average third party premium	\$500	\$300	\$450	\$300
Average fully comprehensive premium	\$400	\$200	\$250	\$125
Third party policies as percent of total policies sold	33%	29%	22%	18%

Survey questions and responses

The following results are taken from a survey conducted in 2012. This is from an industry wide survey of private vehicle policyholders in the country where Speedy CoverAll operates. It is not known whether your customers participated. However, the regulator stated that 40% of the market was asked the questions and 85% of recipients responded. The total market size has been broadly stable since the survey was published. There are 20 regulated firms operating in your country and currently you have a 12% market share in vehicle insurance.

If you faced increases of 10% to the cost of vehicle insurance would you:

- (a) stop driving a car?
- (b) change to a cheaper type of insurance?
- (c) keep insurance exactly the same but change to a cheaper insurance provider?
- (d) change your vehicle to reduce cost?
- (e) remove any options at next renewal to leave just core cover?

<i>Option</i>	<i>Response</i>
(a)	1%
(b)	10%
(c)	40%
(d)	9%
(e)	40%

As in Question 1 (above) how would you respond if the increase was 15%?

<i>Option</i>	<i>Response</i>
(a)	2%
(b)	20%
(c)	20%
(d)	13%
(e)	45%

What is the most important factor in choosing your insurance provider?

- (a) price
- (b) reliability of customer service when making a claim
- (c) ease of buying
- (d) type of cover and options available
- (e) financial credit rating of the provider

<i>Option</i>	<i>Response</i>
(a)	40%
(b)	25%
(c)	15%
(d)	12%
(e)	8%

END OF ADVANCE MATERIAL

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CP3 – Communications

Sample Exam – Question Paper

This document consists of **6** printed pages and **0** blank pages.

You have received the following email from a non-executive director that has recently joined the Board. This is her first appointment as a non-executive director. She has had a career in medicine, most recently working for a large pharmaceutical company. She has no insurance experience.

To: Actuary@gi.co.uk

From: Mrs L Freshman

As you will be aware I have recently been appointed to the Board of Speedy CoverAll Insurance and will be attending Board meetings with effect from 1 Oct 2017.

I have read in the media that there is new legislation which means insurers will have to introduce gender neutral pricing. I notice that this topic is on the agenda of my first board meeting and would appreciate it if you could send me a letter to explain how pricing currently works for the business we write and how the law change will impact us. I am interested in our profits and how much we sell as I fear that the change may mean customers change what they buy.

This will greatly assist me in learning about our business to make a valuable contribution at Board meetings.

*Kind regards
Lynn Freshman*

Instructions for candidates

Remember that CP3 is a test of your ability to filter information, and communicate it to a particular audience. Only use information that is contained in this examination paper and the advance material provided. Do not draw on prior knowledge of a particular market, legislation or company.

On the following pages will find a recent magazine article on gender neutral pricing for motor insurance, and a memo produced by the pricing team on the implications of the changes for Speedy CoverAll.

Question 1

Draft a response to Mrs Freshman of 700 to 850 words. [90]

Question 2

- (a) Visual aids such as graphs, tables or charts can be useful for communications. Comment on your approach to these in your answer to question 1. [3]
 - (b) Outline how you chose which information or data to leave out of the letter to Mrs Freshman. [5]
 - (c) Give two examples of how you chose appropriate terminology (either terminology you have included or have deliberately chosen to exclude). [2]
-

The Insurance Chronicle

15 April 2017

Women lose out with new insurance legislation

It has been confirmed that from 1 January 2018 insurers will no longer be able to vary their premiums based on the sex of the policyholder. The effect of this will be felt acutely in motor insurance, where there are currently large differences between what men and women pay for insurance, particularly at the younger ages.

It is estimated that women will, on average, pay around \$75 more for car insurance per year from 2018 when the changes take effect. The additional cost will be significantly higher for young women, who will have to subsidise the reckless driving of their male contemporaries.

Evidence suggests that men claim more on their car insurance policies than women. Historically men have had to pay this additional cost through higher premiums, but this cost will now be shared between men and women with this new legislation coming into force. Men will therefore see a reduction in their premiums, with young men benefiting the most.

From the view point of the insurance company this introduces a cross subsidy into their business. The balance of men and women on their books will become crucial. If the proportion of male policyholders is higher than expected, this could reduce profits, or even lead to losses. Insurance companies will need to ensure they monitor the gender mix of their policyholders carefully and adjust their pricing accordingly.

Some industry experts have predicted that insurers may target women through their marketing to try to actively manage the gender mix. This is clearly a zero-sum game. Where one company succeeds in increasing the proportion of women policyholders, another will inevitably lose out.

It is also expected that women may opt for more basic levels of cover in order to minimise the increases in premiums. This is the biggest step change in motor insurance pricing for some years, and the full effects are unlikely to be clear for a number of months.

Pricing memo

Implications of gender neutral pricing

This memo is for internal use only. It is intended to set out the expected implications of the introduction of gender neutral pricing on Speedy CoverAll. The notes below outline the additional risks and proposed initial pricing approach. This approach will need to be reviewed regularly as the market stabilises following the introduction of the legislation.

Key risks to Speedy CoverAll

- There will be an inherent cross-subsidy in the premiums, with women paying too much and men not paying enough on a risk neutral basis.
 - This is particularly acute for Speedy CoverAll because of the lower average age of our policyholders.
 - If the proportion of male policyholders is higher than expected then profitability will decrease (all else being equal).
- Policyholders that see increasing premiums may reduce the cover they buy from fully comprehensive to third party only.
 - Profit margins are lower on third party policies, so this could affect our average profit margin.
 - However, even in the extreme case that 100% of policyholders opt for third party rather than fully comprehensive, our average profit margin is projected to remain above 30%.
- Policyholders that see increasing premiums may cut back on buying additional products.
 - Profit margins are significantly higher on additional products, therefore we could see a fall in overall profit margins.
 - It would take a fall in sales of 75% of these additional products to bring our overall profit margin below 30%.
- Our commercial policies should not be affected, as our pricing here is already gender neutral. However, it is possible that some competitors use gender as a rating factor and therefore there may be some pricing volatility in the market. It is difficult to predict the impact that this could have on Speedy CoverAll.

Marketing approach

- No plans to specifically target women policyholders – our marketing costs are low and our business is best served by keeping it this way.

- At point of sale, advertise additional products to male policyholders – they may be incentivised to buy additional products because of the drop they see in their premiums.

Proposed pricing approach

- Price products assuming the current gender mix in our own portfolio.
 - We will not load additional margins as we want to maintain our competitive position.
 - Our gender mix is already slightly more weighted towards males than the industry average, but it is possible we will see a reversion to the industry average with this legislation.
 - A monitoring process will be set up that will track the gender mix monthly and communicate this to senior management. If there is a change in gender mix of more than 5% in a given month the pricing team will present to the board on suggested remedies to maintain profitability.
- Pricing for additional products will not change.
 - Volumes of additional products sold will be monitored quarterly and communicated to senior management.
- Pricing for commercial policies will not change.

Market intelligence will be gathered to assess the changes in prices of our competitors. The strategy will be reviewed after three months.

END OF QUESTION PAPER



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CP3 – Communications

Sample Exam – Answers (pass)

Answer to Question 1

<My address>

<Non-exec director address>

<Date>

Dear Mrs Freshman,

IMPACT OF GENDER NEUTRAL PRICING

Thank you for asking me to aid your understanding of how legislation change may impact both our business and customers. I will give you some background to the change, assist you with a description of our business and approach to setting prices. Finally I discuss what may happen post 01.01.18.

Background: New legislation

As you have read, a new law has been passed. It is effective from 01.01.18. All motor insurers, including Speedy CoverAll, will no longer be able to charge different premiums based on gender. There are no other changes imposed so other factors involved in pricing remain unchanged.

Our Current Products and Strategy

We offer cover to private individuals or businesses. For private vehicle insurance there are two levels of cover:

- (a) Private Third Party (PTP): This covers the policyholder for costs incurred by others involved in an accident where the policyholder is at fault. This is the minimum cover required by law.
- (b) Private Fully Comprehensive (PFC): In addition to third party cover, this covers the driver's own costs in the accident, and also theft and vehicle damage unless deliberately done by the policyholder.

For both these policies, the premium we charge depends upon, amongst other things: gender, age and address. Additional extra cover is available for car stereos and car contents.

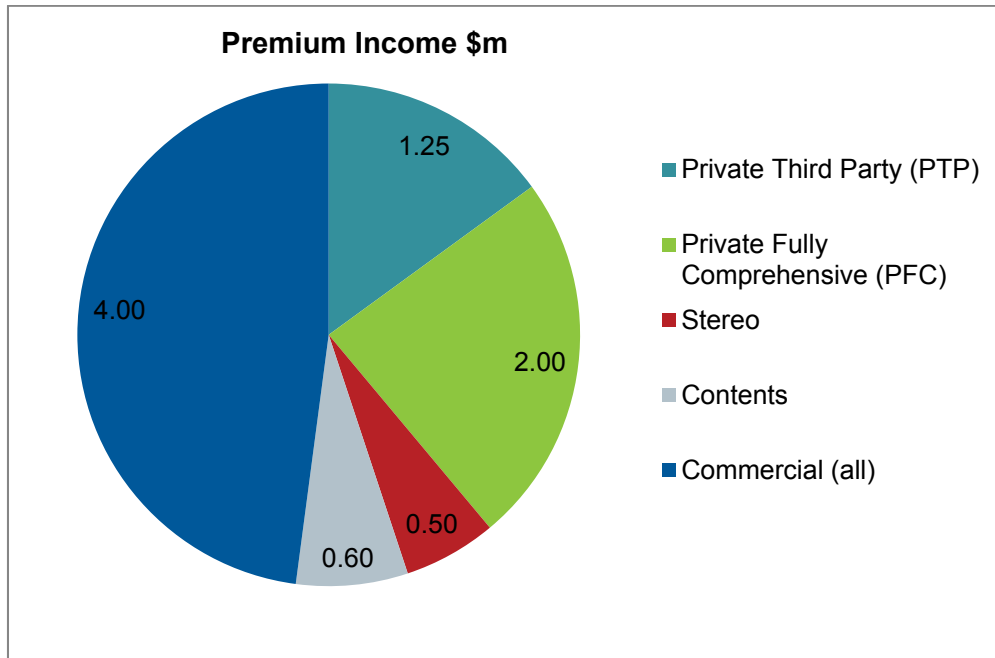
Our commercial fleet vehicle insurance, offered to businesses, covers employees who drive company vehicles. The premium does not depend on the gender of its employees.

We always aim to be competitive and profitable. We measure profitability in terms of profit margin. This is profit divided by premium and is expressed as a percentage. Profit is calculated as premiums received minus claims paid.

Our target is to achieve an overall 30% profit margin and we currently expect to achieve 34% this year. The minimum we target is 20% on any business type. Our optional extras give far higher profits than basic types of cover with margin up to 75%.

Business Mix and Price

Premium income for vehicle insurance is expected to be \$8.35m. Of this, around 48% is commercial vehicle cover. The remaining 52% comes from private insurance with a significant contribution from optional extras. The exact premium income in \$ is shown in the chart below.



Looking at our average private vehicle premium per annum by gender, the split is:

Cover Type	Gender	
	Male	Female
PTP	\$500	\$300
PFC	\$400	\$200

In terms of the gender mix by type of cover we currently experience the distribution shown below:

Cover type	Gender	
	Male	Female
PTP	57%	43%
PFC	53%	47%

Post 01.01.18

Commercial vehicle and extra optional cover prices will not change.

As we will no longer be able to charge different premiums for men and women, we will be adopting prices that are a blend of those for men and women based on the expected male-female split.

In terms of cost, men will benefit from a reduction whilst women face an increase. For a typical policyholder the amounts may be:

<i>Cost</i>	<i>Cover type</i>	
	<i>PTP</i>	<i>PFC</i>
Revised typical premium \$p.a.	\$415	\$305
Female increase \$p.a.	\$115	\$105
Male saving \$p.a.	\$85	\$95

Customers may make different decisions. We have access to the results of comprehensive survey data produced by our regulator in 2012. This gives us an idea of how the market may react in 2018. However, we do not know how many of our policyholders participated and whether reactions have changed. It shows that price is important to policyholders, however, it appears highly unlikely those facing price rises stop driving. Even with a 15% rise, only 2% stated they would cease driving.

To reduce costs, women may switch to third party cover from fully comprehensive and/or cease to take out stereo and contents cover. Conversely, men may upgrade their insurance from third party to fully comprehensive and/or take out optional extras.

I have investigated what happened to our results if all customers select third party cover and even in this extreme situation we can still achieve our target profit. We will be continuing to monitor our business results and provide updates each quarter.

Summary

Men will see a fall in cost of motor insurance whilst women face an increase. Whilst this is undesirable, all our competitors will be doing a similar exercise and face the same issue. We will not, however, be making changes to commercial vehicle insurance which is the largest part of our business.

I trust that this information will be useful to you. If you have any other questions, please do not hesitate to contact me again.

Yours sincerely

A Actuary FIA.
Pricing Actuary

{760 words}

Answer to Question 2

Part (a)

I have used both tables and charts to add variety to the document. The audience is well educated and able to understand tables. Where I discussed business mix, I used a pie chart to illustrate volumes in \$ and used % in the words to avoid simply replicating data.

I have kept the tables brief so each table has just one focus, rather than adding in extra data such as age which detracts from the message on cost.

Part (b)

I have not referred to the article. This is because Mrs Freshman has already read of the change and the numbers in this article cannot be verified and the source is unknown.

I have used some of the survey data but not used all of it. This is because as I said in the answer, it is old data and whilst a reliable source (being a regulator) it may not represent the feelings of our customers.

I have not used the age of customers because I feel discussing how premiums change with age is not important to the question focussing on overall results.

I have not produced full product descriptions choosing to omit the fine detail such as restrictions on amount of cover and exclusions such as war. Mrs Freshman only asks for a brief overview and the law does not affect product design.

I have not discussed distribution channels. I felt this was unnecessary given there are no plans to change this and is not explicitly questioned by Mrs Freshman.

Part (c)

The survey on impact of price increases could be discussed as price elasticity. However this would be a term unfamiliar to Mrs Freshman

I have introduced Mrs Freshman to the concept of profit margin as it is a key financial driver and the law impacts results

END OF ANSWERS

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CP3 – Communications

Sample Exam – Answers (fail)

In this document, you will see in the right hand column comments which highlight some of the failings of the letter. These are intentionally left in for your information.

Below is an example of a solution that would fail to meet the standard of a pass. Some notes are included to highlight some of the failings of the letter, though it should be noted that this is not an exhaustive list. This letter is not universally poor, and receives a number of marks, particularly under the content section of the mark scheme, but would be a clear fail overall.

Answer to Question 1

< Non Exec Director address>

<Date>

Dear Lynn,

NEW LEGISLATION AFFECTING PRICING

Thank you for getting in touch and many congratulations on your appointment. I am Pricing Actuary for all motor insurance and hence best placed to answer your questions.

The new law

As you will be aware, for years now insurance companies have charged different premiums to men and women. After much comment in courts about how this could be discrimination a law becomes effective to change this. So, as you are aware from 1st Jan 2018 we can no longer do this. This does not mean that there is only one price. We can still charge differently based on other things as I will go on to discuss below.

Products and Pricing

As a driver yourself, I am sure you are familiar with the product you have for your insurance. However here are the details of our product as each insurer has slightly different features:

Cover	Description
Third party	Legal minimum cover. Covers the costs incurred by others as a result of an accident that is the fault of the policyholder, but does not cover the policyholder's own costs.
Fully Comprehensive	Covers the costs of an accident that is the fault of the policyholder, including the policyholder's own costs. Covers the costs to the policyholder if their vehicle is stolen or damaged (as long as damage is not deliberately caused by the policyholder) Certain exclusions apply (such as damage as a result of war or natural disasters). Belongings in the car and car stereos are not covered.

Comment [p1]: Only showing one address – should show address of the sender.

Comment [WU2]: This is too informal, and the letter should be addressed to Mrs Freshman.

Comment [p3]: Does not state the actual questions that have been asked – the audience would want to confirm that their questions had been understood and would be fully addressed.

Comment [p4]: This isn't provided in the scenario

Comment [p5]: Supposition, and poorly phrased sentence

Comment [p6]: no attempt made to filter the description. Candidate not demonstrating ability to filter

Car stereo insurance	Additional cover that can be bought with either third party or fully comprehensive insurance. Covers the car's stereo system against accidental damage or, theft (including if the car itself is stolen). The claim is limited to the maximum claim amount stated in the policy, typically \$1,000.
Car contents insurance	Additional cover that can be bought with either third party or fully comprehensive insurance. Covers any belongings that are stolen from the car (including those that are present in the car if the car itself is stolen). The claim is limited to the maximum claim amount stated in the policy, typically \$2,000.

Car contents and stereo insurance are add on covers and cannot be bought in isolation. We have one overall price for these regardless of attributes of the policyholder.

For third party and fully comprehensive cover, however, we currently vary premiums depending on:

- Age – young drivers have more accidents so pay more (our average male is 32 compared to an industry average of 35)
- Sex – males are charged more than the equivalent female
- Address

Our aim to be profitable. We measure profitability in terms of profit margin. Our target is to achieve an overall 30% profit margin and we currently achieve 34%.

Our latest sales figures show \$4.35m and consists of:

Fully Comprehensive	2m
Third Party	1.25m
Optional cover	1.1m

At an individual policyholder level we have the following average premiums (not allowing for additional optional cover):

Cover Type	Gender	
	Male	Female
TP	\$500	\$300
FC	\$400	\$200

A third of males choose third party cover. Meanwhile 71% of women choose fully comprehensive.

Comment [p7]: age data is not relevant and does not add anything to the explanation other than distracting the audience.

Comment [p8]: Profit margin is not defined, and would not be familiar to the audience.

Comment [p9]: no mention on distribution of profit across different products.

Comment [p10]: it's a table but poorly formatted – there are no column headers and the currency is not specified.

Comment [p11]: better table but the abbreviation has not been defined

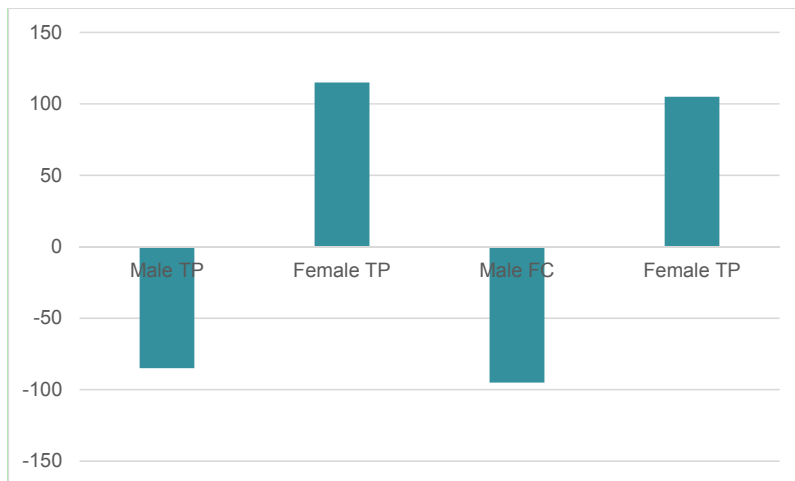
Comment [WU12]: This is confusingly written and makes a comparison unnecessarily difficult.

The future

Charging different premiums for men and women has to stop. The new single sex premiums will fall somewhere between the level we would have chosen for men and that for women and as men previously had the higher premium, it is women like yourself that will lose out.

I have determined that the following annual premiums (£) could become:

Cost	Cover type	
	TP	FC
Revised average premium	415	305
Female increase	115	105
Male decrease	85	95



We can never predict 100% how customers will behave when prices change however a survey was conducted in the past that says that people are highly unlikely to stop driving (and hence buying car insurance) entirely so your fears about losing market entirely are not substantiated – price is very inelastic.

If prices fall, some can afford the optional extras. So we may say more men taking these extras that carry a profit margin as high as 75%

Comment [p13]: This could be more specific - the law comes into effect from 1 January 2018.

Comment [WU14]: This is confusingly written and makes a comparison unnecessarily difficult.

Comment [p15]: Mixed up the currency – should be \$

Comment [p16]: Graph duplicates information in the table (one or the other would be fine). Also no title, axes label or currency.

Comment [p17]: Not enough detail on source. Sentence is very long and difficult to make sense of.

Comment [p18]: This is jargon – it is not defined, and its use is unnecessary.

Summary

Men will be better off in terms of what they pay for insurance. Conversely women will be worse off. Whilst we will be forced into these cross subsidies, all our competitors face the same challenge. We do not feel that we will need to modify our marketing approach at all as our distribution method works well.

I believe I have addressed your concerns. However, please ask for more assistance by emailing me again either before or after your first Board meeting. I will be delighted to help.

Yours sincerely

A Actuary FIA.
Pricing Actuary

{785 words}

Comment [p19]: This is the first time cross subsidies have been introduced. This may not be understood by the audience, and new information should not be brought into the summary.

Answer to Question 2

Part (a)

I have used both tables and charts in my answer to give variation and avoid a daunting solid text only letter. I chose a bar graph for the changes in premium to visually highlight that there will be both winners and losers from the change in the law.

Comment [p20]: Although a pie chart was chosen in the sample solution a well formatted bar graph would attract marks and was appropriate in its use in this solution

Part (b)

I decided to concentrate my answer solely on private business because the law does not impose changes on the commercial business and by not mentioning commercial I keep well within word count.

Comment [p21]: There was scope to include some reference to commercial and indeed the question posed did not relate solely to private business.

I kept all the detail in private insurance so that the board member can contrast it with any insurance they have and know the specifics that apply to Speedy Coverall.

Comment [p22]: Students are expected to demonstrate appropriate filtering rather than copy and paste large chunks from the question. There is excess detail in the description that is not needed to answer this question

I didn't refer to the article as our new board member has read some material on the subject and felt it is not useful to point them in the direction of different articles which reiterate what they probably have already read.

I did not use claims data because no enquiry was made regarding the level of claims experience.

Part (c)

I used profit margin in my answer because it is a common term in the industry and fundamental in pricing. I mentioned cross subsidy because it is mentioned in the question and the board member may know of this from previous work.

Comment [p23]: Whilst this is true, no attempt was made to define it for the board member who is new to the industry so this comment will not score

Comment [WU24]: This should have been defined.

END OF ANSWERS



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CP3 – Communications

Sample Exam – Marking Schedule and Guidelines

MARKING SCHEDULE

OBJECTIVE	MARKS
<p><u>Length of answer</u></p> <p>The number of words should be calculated counting all words after the address, heading, salutation, heading for the letter etc. up to the sign-off.</p> <p>700–850 words 5</p> <p>625–699, 851–925 words 3</p> <p>550–624, 926–1000 words 1</p> <p><550 or > 1000 words 0</p> <p>Total for length of answer 5</p>	
<p><u>Format of answer</u></p> <p>Letter format (Up to 3 marks)</p> <p>Clearly addressed to Mrs Freshman (1)</p> <p>Suitable title for letter – clear reference to gender neutral pricing (1)</p> <p>Date, author, addressed in appropriate places (1)</p> <p>Planning and presentation (Up to 12 marks)</p> <p>Grouping of ideas</p> <ul style="list-style-type: none"> Document is grouped into an appropriate number of sections (excluding introduction and summary). Award 2 marks if 3–5 sections, 1 mark if 2 or 6 sections, otherwise 0 marks. (2) <p>Logical order of points.</p> <ul style="list-style-type: none"> Logical order between sections. When awarding marks here, consider the overall heading and purpose of the section rather than the content within it. If read once and clear then 2 marks, if needed to re-read parts then 1 mark, otherwise 0 marks. (2) Logical order of points within each section. When awarding marks here consider the order of points within each section. If read once and clear then 3 marks, if one section needed to be re-read then 2–1 marks, otherwise 0 marks. (3) Points within each section are directly relevant to the heading. (1) <p>Appropriate short headings on each section (2)</p> <ul style="list-style-type: none"> Give a mark to each appropriate heading up to 2 marks in total. Long headings or headings that don't succinctly describe what follows don't get a mark. <p>Sentences kept brief (2)</p> <ul style="list-style-type: none"> Award 2 marks if there are no overly long sentences. Award 1 mark if there is one overly long sentence. If more than one overly long sentence, award 0 marks. The principle is that a sentence containing more than one message or too many sub-clauses is too long. Or, if spoken, needs repeated breaks to articulate. A guideline is that over 35 words is too long. 	

OBJECTIVE	MARKS
<p>Charts and Tables (Up to 5 marks)</p> <p>Format of visual aids (3)</p> <ul style="list-style-type: none"> Charts and tables are an appropriate format for the information being described, for example a pie chart used to illustrate a business mix, a table to compare and contrast specific values. Award 1 mark for each appropriate chart or table to a maximum of 3 marks. <p>Visual aids kept simple (2)</p> <ul style="list-style-type: none"> Charts are not too complex, tables don't contain too many numbers. 2 marks if all charts & tables are simple and uncluttered; 1 mark if up to two charts/tables are overly complex, 0 marks if more charts/tables are complex. If no charts or tables in the answer, score zero. <p>Total for format of answer</p>	<p>20</p>
<p><u>Language used</u></p> <p>Overall language (Up to 7 marks)</p> <ul style="list-style-type: none"> Language used is simple and will be easily understood by the director (noting that she will have some business knowledge but will have limited understanding of specialist insurance matters). Award: 5 marks if the document is understandable as a whole 4–3 marks if up to two points need to be redrafted 2–1 marks if three to four points or one section needs to be redrafted 0 marks if more than four points or more than one section needs to be redrafted (5) Professional tone (avoid comments which “talk down” to the director, or comments which are derogatory to the industry in general and/or the legislation). (1) Avoid colloquialisms, informal and/or emotive language. (1) <p>Jargon and terminology (Up to 10 marks)</p> <ul style="list-style-type: none"> Absence of technical terms. Award 4 marks if there are no terms present which are too technical for the recipient. Award 2 marks if there is one unexplained technical term. If there are two or more unexplained technical terms, award 0 marks. A list of jargon terms is supplied below which will include unnecessary technical terms where a simpler term exists, terms and/or abbreviations which may be acceptable but are unexplained. (4) Superfluous accuracy of numbers (such as too many decimal places) is avoided. Award 3 marks if all numbers quoted use an appropriate level of accuracy. Award 2–1 marks if up to two numbers quoted in the text or up to six numbers in a table have been quoted with excessive accuracy. If more numbers have been quoted with excessive accuracy award 0 marks. (3) Absence of irrelevant points of content. Award 3 marks if no irrelevancies, award 2 marks if one irrelevant point, 1 mark if two irrelevant points. If more than two irrelevant points award 0 marks. Examples of irrelevancies might include for example detailed descriptions of the different policy types, full results of the customer survey. (3) 	

OBJECTIVE	MARKS
<p>Grammar, spelling and punctuation (Up to 3 marks)</p> <ul style="list-style-type: none"> Award 3 marks if no significant grammatical, spelling or punctuation errors, 2 marks if one error, 1 mark if two errors. Award 0 marks if more than two errors. Each “error” should be significant enough to compromise the professionalism of the document or require sections to be redrafted. (3) 	
<p>Total for language used</p>	<p>20</p>
<p><u>Content</u></p> <p>Marks shown are to be awarded for each item of content identified in the candidate’s answer. To be credited with the mark(s) the point needs to be clear and understandable. However, points that require only minor adjustment should be credited, as should valid points not included in the mark scheme.</p> <p>Markers should use discretion when there is more than one mark for a point, awarding part marks to reflect the level of clarity. Markers should also use their discretion when considering clarity to ensure that, for example, candidates who cover most of the content items, but not very clearly, are still given some credit, rather than penalised for every point made.</p> <p>1. Introduction</p> <ul style="list-style-type: none"> Clearly shows understanding of what the director has asked for. (1) Clearly signposts to the rest of the letter, stating that it will cover... (1) ...a description of the business mix and pricing strategy (1) ...commentary on the impact of the legislation from 1 January 2018 (1) <p>2. Background</p> <ul style="list-style-type: none"> From 1 January 2018 insurers cannot charge different premiums on gender. (1) There are no other changes. (1) <p>3. Pricing Strategy</p> <ul style="list-style-type: none"> Definition of profit margin. (1) Target profit margin is 30%. (1) Company currently achieves more than the target (34%)... (1) ...with some products (e.g. optional extras) giving much higher profits (1) <p>4. Products and Business Mix</p> <ul style="list-style-type: none"> Outline of private vehicle insurance – third party and fully comprehensive. (2) Private vehicle insurance uses gender in pricing. (1) Outline of commercial vehicle insurance, which doesn’t price by gender. (1) Summary of business mix in appropriate format (e.g. pie chart or table). (2) 	

OBJECTIVE	MARKS
<ul style="list-style-type: none"> • Appropriate commentary on business mix, (1 each – Max 2) (2) + Total premium income of \$8.35m + 48% is commercial vehicle/52% private (acceptable to round and say 50/50) + 13% of private cover is for extras such as stereo/contents • Summary of premiums (private vehicle) by type of cover and gender (2) • Gender distribution for private vehicle insurance (2) 	
<p>5. Impact of gender-neutral legislation: pricing</p> <ul style="list-style-type: none"> • Clear statement that commercial vehicle insurance will not change (1) • Clear statement that premiums for private insurance will change... (1) • ...the price being an average, based on the expected gender mix (1) • Men will see premiums reduce, women will see them increase (1) • Numerical examples to demonstrate the likely changes to the premium in an appropriate format (e.g. a table) (2) 	
<p>6. Impact of gender-neutral legislation: policyholder behaviour</p> <ul style="list-style-type: none"> • A customer survey was performed in 2012... (1) • ...which confirms the price sensitivity of private vehicle insurance (1) • Likely customer behaviours...(1 each) (3) <ul style="list-style-type: none"> + Customers are unlikely to stop driving altogether + Women may move from comprehensive to third-party to save costs... + ...and/or remove optional extras such as stereo and contents cover + Men may upgrade from third-party to comprehensive now it's cheaper... + ...and/or add optional extras such as stereo and contents cover • Caveat on survey, e.g. behaviour might have changed, number of participants unknown. (1) • Clear statement that target profit will still be achieved. (2) • Confirmation that the business will be monitored going forward. (1) 	
<p>7. Summary, close to letter</p> <ul style="list-style-type: none"> • For private cover, premiums for men will fall, and for women will rise. (1) • This will be true for competitors. (1) • No change to commercial, which is a significant part of the business. (1) • Offer of further help, or similar close. (1) 	
Total for content	40
<p><u>Meeting of objectives</u> The director is likely to be satisfied with the answer. <i>For guidelines see page 8.</i></p>	5
Total for meeting objectives	5

OBJECTIVE	MARKS
<p><u>Reflective questions</u></p> <p>2a. Approach to visual aids (½ each) (Max 3)</p> <ul style="list-style-type: none"> • Visual aids are needed to add variety • The addressee is a director and will be well-educated... • She will be able to understand tables of figures • Business mix is best shown in a pie chart... • ...because this clearly shows the proportions (or appropriate justification for other format) • Visual aids must add value and not just replicate the data • Tables are kept brief with key factors such as gender... • ...omitting factors such as age, to avoid detracting from the main messages <p>2b. Filtering information and data (½ each) (Max 5)</p> <ul style="list-style-type: none"> • No direct reference to the specific article on gender-neutral pricing • because the addressee has already read it... • ...data in the article cannot be verified and the source is unknown • Not all data from the survey has been used... • ...because it's old data... • ...and may not be representative of customer sentiment • Age (or other rating factor which has been omitted) is irrelevant here ... • ...therefore discussions on how premiums vary with age have been omitted • Full product descriptions are not needed... • ...such as detail on restrictions and exclusions... • ...because the legislation does not affect product design • Distribution channels are not relevant... • ...The director has not asked about these (this point can be credited as a reason for other omissions, where appropriate). <p>2c. Terminology (TWO examples required. ½ for each point) (Max 2)</p> <p>Markers should look for valid discussion points under the headings shown below:</p> <ol style="list-style-type: none"> 1) Terminology not from the question, not used in the answer <ul style="list-style-type: none"> • Policyholder behaviour could be referred to as “Price elasticity”... • ...which would be an unfamiliar term to the addressee 2) Terminology from the question, not used in the answer <ul style="list-style-type: none"> • The paper refers to “Profit margin”... • ...which is a key financial driver • The paper refers to “Cross-Subsidies”... • ...it's simpler to explain how the premiums change rather than discuss the technical principles of cross-subsidies 	

OBJECTIVE	MARKS
<p>3) Terminology used in the answer</p> <ul style="list-style-type: none"> • The paper refers to “Gender”... • Given Mrs Freshman’s medical background, she should be familiar with this term <p>Other examples to be given credit where appropriate. Where candidates have discussed more than two examples, markers should credit their highest scoring two. Do not credit more than one example from any one heading.</p>	
Total for reflective questions	10
TOTAL MARKS	100

Jargon list

Usually jargon	May be jargon	Not jargon
Price elasticity Profit margin Price loadings Cross subsidy On the books Zero sum game Risk neutral basis	Cross subsidy Price volatility Gender mix in the portfolio	Gender

GUIDELINES FOR MEETING OF OBJECTIVES

Director is satisfied

4–5 marks

The director will be completely satisfied with the response to the question and the responder has made a good impression on the director.

The communicated answer is clear and easy to read, the response flows through to a conclusion. It looks good, it is well set out, and it has the right tone of voice. It satisfactorily and completely answers the question. The responder has made a good impression on the director.

2–3 marks

The director is left with some question marks over the responder, and therefore over aspects of the answer given.

The director has been given an answer that is partially understandable although the response does not quite flow freely through to a conclusion. Some information in the argument is obviously missing and/or there are one or two visual mistakes and anomalies in the look of the response. Some technical terms may have been used that are not entirely clear. The director is left with some question marks over the responder, and perhaps therefore over aspects of the answer given.

0–1 mark

The director is left with a poor impression of the responder, is confused by the answer and/or does not trust the answer.

The answer will leave the director confused. The communication is poorly written or possibly too technical. There are some obvious mistakes in the arguments, tables or charts do not make sense and/or are not properly labelled. The answer does not flow, but rather jumps around. The layout is not consistent throughout the communication. There may be spelling mistakes or the director has not been properly addressed. The tone of voice is wrong, perhaps too informal. The director has been left with a poor impression of the responder and therefore does not trust the answer.

END OF MARKING SCHEDULE AND GUIDELINES