INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

April 2017

Subject CA1 – Actuarial Risk Management

Paper One

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.

For numerical questions the Examiners' preferred approach to the solution is reproduced in this report; other valid approaches are given appropriate credit. For essay-style questions, particularly the open-ended questions in the later subjects, the report may contain more points than the Examiners will expect from a solution that scores full marks.

The report is written based on the legislative and regulatory context pertaining to the date that the examination was set. Candidates should take into account the possibility that circumstances may have changed if using these reports for revision.

Luke Hatter
Chair of the Board of Examiners
July 2017

A. General comments on the *aims of this subject and how it is marked*

1. The aim of the Actuarial Risk Management subject is that upon successful completion, the candidate should understand strategic concepts in the management of the business activities of financial institutions and programmes, including the processes for management of the various types of risk faced, and be able to analyse the issues and formulate, justify and present plausible and appropriate solutions to business problems.

2. This subject examines applications in practical situations of the core actuarial techniques and concepts. To perform well in this subject requires good general business awareness and the ability to use common sense in the situations posed, as much as learning the content of the core reading. The candidates who perform best learn, understand and apply the principles rather than memorising the core reading.

3. The examiners set questions that look for candidates to apply the principles specific to the situation set out in the questions, having read the question carefully. Many candidates gain few marks by writing around the subject matter of the question in a more general fashion. Detailed specialist knowledge is not required and nor is very detailed development of particular points.

4. Good candidates demonstrate that they have used the planning time well to understand the breadth of the question and to structure their answer – this is a big advantage in making points clearly and without repetition. This also enables candidates to use the later parts of questions to generate ideas for answers to the earlier parts.

5. Time management is important so that candidates give answers to all questions that are roughly proportionate to the number of marks available.

6. The comments that follow the questions concentrate on areas where candidates could have improved their performance. Candidates approaching the subject for the first time are advised to use these points to aid their revision.

7. Candidates who give well-reasoned points, not in the marking schedule, are awarded marks for doing so.

8. In this diet the scoring for the exam was done out of 200 and therefore the mark scheme shows a total of 200 marks available for the paper.

B. General comments on *student performance in this diet of the examination*

1. The standard of the answers to this paper were consistent with previous sessions. Better candidates planned out their answers, particularly for the longer questions and were rewarded because there was less duplication in their answers and ensured they thought widely enough to score well.

2. As per previous sessions answers to the application questions were mixed in that those that were structured scored well, whereas those that weren't had problems getting sufficient depth into their answer.

3. Bookwork questions were answered well compared to the April 2016 session, with most candidates scoring well.

C. Pass Mark

The Pass Mark for this exam was 59.

Solutions

Q1 Provide statistical support as to the likelihood or severity of the event, and appropriate assumptions to model these. [3]

The actuary can give advice on the benefits structure. [1]

The actuary can analyse trends from the data and both look back in the past to see how experience has been borne out, as well as making predictions for the future. [2]

Provide funding/reserving and contribution advice based on the expected level and incidence of claims. [3]

Can give advice on models that could be used to model the risk, [1]

Using stochastic modelling to assess likely outcomes. [1]

Use of scenario testing to assess the outcome in extreme conditions (which a stochastic model might underplay). [2]

Advice in assessing the strength of the sponsor/provider promise on the benefits being provided. [1]

Advice in communication with stakeholders in relation to the risks. [1]

Advice on risk mitigation options [1]

_Advice in designing the investment strategies to maximise returns but within the risk appetite. Also advice on matching of assets to liabilities [2]

[Max 10]

> This question was reasonably well answered; most could generate plenty of answers. The stronger candidates produced a short answer with good breadth in their solutions. There were a wide range of answers in terms of length with some candidates going into a level of detail that was not required for an "outline" question.

Q2 The Directors will want to use the analysis of change in surplus to understand the sources of surplus, and to reconcile to the previous year's results [3]

They will want to know the most financially significant contributors to surplus. [1]

For example mortality versus investment return [1]

or impact of investment strategy [1]

and to understand any non-recurring items of surplus [1]

and thus be able to forecast the likely trend of surplus into the future, noting that this is difficult given the lack of historic data. [2]

so that they can make appropriate decisions about the amounts of dividends that can be distributed, and other forms of surplus distribution. [3]

It should enable the Directors to understand the financial impacts of writing new business [2]

which are likely to be substantial during the last year given the rapid increase in new business. [1]

Particularly capital intensive lines of new business should be identifiable [1]

and also capital impact of different distribution channels. [1]

It will enable the Directors to validate the calculations and assumptions used for pricing using the actuarial control cycle. [1]

and feedback required changes into the pricing and/or management of further new business. [1]

Directors may be able to compare new business strategy of this company with competitors, noting it is a new company. [1]

Although this depends on the level of detail disclosed in competitors' published analyses [1] and how consistent the methods and assumptions are across offices. [1]

Despite the new business written, existing business surplus/deficit may also have been material and this should also be discernible from the analysis. [1]

Enable the Directors to consider future investment strategy. [1]

The analysis should, if performed independently of the main valuation, provide a check on the valuation data and process [1]

making it easier for the Directors to be able to sign off statutory accounts and/or regulatory returns noting rapid change of the business [2]

and provide detailed disclosures for those documents. [1]

The Directors may also be interested in using analysis data in any executive remuneration schemes. [1]

[Max 16]

> This question was well answered by most candidates. Most candidates showed awareness of the issues that made this an application question rather than just repeating the core reading. The weaker candidates focused on general issues with limited points referencing to the question.

Q3 (i) Diversification – total capital required is less than the sum of the parts. [2]

Diversify by: [5]

- lines of business.
- geographical region.
- providers of reinsurance.
- investment – asset classes.
- investment – assets held in each class of business.

Underwriting at proposal stage [1]

Claims control procedures – only pay out claims intended and defined in the policy. Paying more claims will reduce profit but consider cost of claims control. [2]

Management control systems – good management controls can reduce provider's exposure to risk [2]

including – good quality data. [1]
Monitoring of liabilities to detect accumulation of risk. [2]

Accounting and audit – ensure accurate provisions and capital requirements are calculated, premiums are collected. Reassures providers of finance. [2]

Options and guarantees – care must be taken, particularly those that appear to have limited value when granted but become valuable if market or other conditions change. [2]

Reinsurance used to reduce capital or reduce the level of claims [2

Alternative Risk Transfer – produces tailor made solutions for risks that the conventional market would regards as uninsurable [1]

These could include: Integrated Risk Cover, Securitisation, Post Loss funding, Insurance derivatives, Swaps [2]
[Max 16]

(ii) Underwriting refers to the assessment of potential risks so that each can be charged an appropriate premium. [2]

Protection from anti selection, including misrepresentation at the proposal stage [2]

Identify risks for which special terms need to be quoted. A provider may however aim to accept a large proportion of business at standard rates. [2]

For substandard risks, the underwriting process will identify the most suitable approach and the level of special terms to be offered. [2]

Risk classification to ensure all risks are rated fairly. [2]

Ensure that claim experience does not depart too far from that assumed in the pricing basis. [1]

Financial underwriting to reduce risk for larger proposals. [1]

Consider cost / benefit of each level of underwriting [1]
[Max 8]

(iii) Claims control systems and management control systems are both risk management tools. [2]

The purpose of claims control systems is to ensure that only the "right" claims are paid. [2]

For example, to protect against fraudulent or excessive claims. Only pay claims within the policy conditions. [2]

Planning to pay claims as part of a proportionate claims control systems is part of the appetite to risk. Paying claims within the appetite to risk is not an operational risk event. [3]

Management control systems are focused on the operational management of the risk exposures. [2]

Good quality data focused on the risk factor exposures is essential to adequately manage and provision for the risk. A company will have a risk appetite to cost effective controls around the data. However, a control failure is and operational risk event. [3]

Good accounting and audit procedures do not change the risks, however, failure to apply good accounting or audit procedures can cause unintended risks, for example, too high provisions can understate financial strength and cause a "run-on-the-bank" scenario, lower credit ratings can close of risk management tools where counterparties will not do business or only at a higher price. Failure of the accounting or audit procedures is an operational risk event and could cause regulatory issues. [5]

Monitoring liabilities taken on is an essential operational risk management tool. It can detected operational risk events mis-pricing of risks or failures in claims control systems. It is also a risk management tool so balance the risks accepted to stay within risk appetite. [3]

Consider cost / benefit of setting up and implementing the controls [1]

[Max 12]

[Total Max 36]

Part (i)	This was generally well answered, although some candidates went into too much detail on Reinsurance and ART.
Part (ii)	This part was well answered
Part (iii)	This part was answered less well with the stronger candidates giving an answer that had more breadth than the weaker candidates. Not many candidates considered risk management tools or that management tools focus on operational risk. Few candidates considered cost/benefit in their answers.

Q4 (i) Public liability to indemnify against liability for death or injury to a third party or damage to property belonging to a third party while at the hairdresser. [2]

Employers' liability to indemnify against liability to compensate an employee for death or injury as well as illness or disease suffered in the course of their employment. [2]

Professional liability to indemnify against negligence in the provision of a service, e.g. applying hair dye incorrectly. [2]
Product liability to indemnify against liability for death or injury to a third party or damage to property belonging to a third party resulting from a faulty product [2]

Motor liability – in respect of any company cars or delivery vehicles if mobile service offered. [2]

[Max 8]

(ii) When analysing the results of a product provider it is usually necessary to project items such as the revenue account and balance sheet. This involves building a model of the expected future experience of the provider. [2]

Needs to consider the relevant parts of the revenue account and project those cashflows forward. Including the expected new business premiums, claims, investment income and expenses [2]

Assumptions on each of the relevant revenue account items will need to be made, for example the levels of new business and the mix of new business to be written. [2]

The bases for such an exercise are likely to those used when the products were developed. The results of the initial product pricing models can be combined to build a complete model of the provider's future revenue accounts. It is important in building such a model to ensure that the elements of the revenue account are self-consistent in their own right. It is not sufficient to project premiums, investment income, death claims, lapses etc. independently. [4]

The model is developed by multiplying the profit test results by the expected number of policies to be sold in each future year. Then for each future year the number of policies still in force from previous years needs to be added in. This will then give a model that can be used to build up the expected future progress of the business as shown by the revenue accounts. [3]

Will need to consider the impact of the existing business, this is a general insurance business so this reflect claims mainly that either have not been settled OR not reported yet [2]

As time goes on, a second model can be built up from the original profit test, but using the actual volumes of business sold, rather than expected volumes. [2]

[Max 8]

(iii) The premium income may be increasing for many reasons but this will not necessarily lead to increasing profits. [1]

There may have been an increased number of claims relative to the initial assumptions. This may be due for a particular reason (e.g. reaction to chemicals used). There may be an increased propensity to claim as employees and clients are more aware that insurance may be held. Claims underwriting may be less efficient. [3]

Claims amounts may have increased relative to initial assumptions. Claims relating to injury may be increased by medical cost inflation. Claims relation to loss of earnings may be increased by earnings inflation. Some claims may be decided by courts and these awards may have risen significantly. [3]

Expenses may have increased relative to initial assumptions. This will also be affected by salary inflation. [2]

Increased competition or the position in the underwriting cycle may have led to lower contribution to profits. [1]

The business mix may have changed, e.g. more small salons, fewer large salons. [2]

Levels of new business may have changed relative to initial assumptions. Lapse rate may have changed. [2]

Reinsurance may be more expensive or the reinsure may have defaulted [2]

Investment returns may have reduced. [1]

There may have been changes to legislation, regulation or tax which could have reduced profitability. [1]

The reduced profits may be a short term anomaly in the market [1]

Policy wording may have been looser than intended leading to more successful claims [1]

The reduced profits could have come from delayed payments to already made claims or claims that had not been identified previously [1]

Credit for any other reasonable example [1]

[Max 10]

(iv) The company could try to:

- reprice [1]
- control expenses. [1]
- educate policyholders to reduce claims, e.g. health and safety training. [1]
- reduce the likelihood of claims through good underwriting of new business. [1]
- use reinsurance to limit the volatility of claims or to protect from the risk of large claims, and diversify across reinsurance providers. [2]
- follow an investment policy that increases investment returns (subject to an acceptable level of risk). [1]
- increase the number of policies that renew at the renewal date. [1]
- control the mix of new business to maximise the most profitable. [1]
- tighten terms and conditions, e.g. caps and excesses [1]

[Max 6]

(v) The company may hope that there will be an increase in profitability in future due to changes they have made [1]

And changes to market in general, e.g. less competition, more competitive reinsurance, higher investment returns. [2]

They may consider that not offering this product may lead to a loss of other opportunities. [2]

This may still create high profits. [2]

May cover fixed expenses of the company [1]

May be waiting for the economy to recover [1]

Could give the company diversification benefits [1]
[Max 8]
[Total Max 40]

Part (i)	Most candidates scored full marks on this part of the question.
Part (ii)	Most candidates scored reasonably well on this part, but the stronger candidates ensured their answers were focused and ensured they thought widely rather than developing few points in detail.
Part (iii)	Those candidates that understood the theory managed to apply to the question and scored well.
Part (iv)	This part of the question was well answered.
Part (v)	This part was also well answered by most candidates.

Q5 (i) The government may want to control inflation [2]

Higher real interest rates mean a decreased quantity of money is demanded which is met by a decrease in the money supply. This can lead to reduced inflation. Higher real interest rates can assist in any inflationary pressures by decreasing demand in the real economy. [3]

The government may want to strengthen the domestic currency [2]

If interest rates in one country are high relative to other countries, international investors will be more inclined to deposit money in that country. This increases demand for the domestic currency and tends to increase the exchange rate. [3]

High real interest rates reduces investment spending by firms and decrease the level of consumer spending. So increasing interest rates reduced the rate of growth in the short term. [3]

The government may want to increase rates for political reasons. [1]

Eg to increase savings rates, strengthen financial institutions, or make future rate decreases possible (as hard to go below zero) [3]

[Max 8]

(ii) **Equity Market**

Equity markets should be reasonably indifferent towards high nominal interest rates and high inflation. If the rate of inflation is high, the rate of dividend growth would be expected to increase. [2]

Real interest rates are probably more important than nominal interest rates. Investors expecting increasing inflation may also expect the government to increase real interest rates in response. [2]

Higher interest rates should reduce economic activity and therefore could reduce the level of corporate profitability, and hence reduce the general level of the equity market. Similarly increased cost of borrowing, particularly valid for highly cyclical companies. [4]

Also, the rate of return required by investors should be higher, so the present value of the future dividends will be lower. [2]

The increased interest rates are also likely to reduce capital available to invest and thus companies are unlikely to grow which will have a negative impact on the equity market [2]

Also negative to export based industries as currency may strengthen, as well as those with income from overseas subsidiaries. [3]

Conversely raw materials imported may be cheaper providing growth to some companies. [2]

Possible positive impact if rising inflation seen as a threat to the economy generally and the increased rates control this inflation [2]

However more certainty on future inflation would make investors more comfortable about fixed interest bonds. This could help the bond market and might result in a decrease in equity investment, as equities should provide a hedge against inflation. [3]

Bond Market

The yields on short term bonds are closely related to returns on money market instruments so an increase in short term interest rates will almost certainly reduce prices of short bonds. [3]

However, the yield on long bonds might increase by a smaller amount, or even fall due to investors expecting deflation in the longer term. [2]

Inflation linked bonds may be more affected if the expectation is that inflation falls. [1]

A significant part of the demand for government bonds in many markets comes from overseas. Increased expectations of future increases in the exchange rate will affect the demand from overseas investors. It will also alter the relative attractiveness of domestic and overseas bonds for local investors. [2]

Economic factors, which adversely affect prospects for corporate profitability, are likely to increase the perceived risk of corporate bonds relative to government bonds. This will increase the general level of the yield margin of corporate over government debt. [2]

The demand for bonds can be affected by institutional cash flow. If institutions have an inflow of funds because of increased levels of savings they are likely to increase their demand for bonds. [1]

Exchange Rate

There is likely to be an increase in the domestic currency, all other things being equal as overseas investors will be able to make a higher return. [2]
[Max 20]

(iii) If the government's fiscal deficit is funded by borrowing the greater supply of bonds is likely to put upward pressure on bond yields, especially at the durations in which the government is concentrating most of its funding. Selling Treasury bills would increase short term interest rates, while printing money will lower rates but increase expectations of inflation. [4]

Outlook for economic growth, expected improvements may generate market increases in anticipation of future growth. [3]

In the equity market, the equity risk premium is important – this is the additional return that investors require from equity investment to compensate for the risks relative to risk free rates of return. [2]

The equity risk premium fluctuates from time to time, depending on the overall level of confidence of investors and their views on risk. [2]

In general, real dividends, and therefore the fundamental value of companies, would be expected to grow roughly in line with real economic growth. Therefore changes in investors' views on economic growth have a major effect on the level of the equity market. [2]

Supply/Demand side issues also have an impact. If equity market conditions are depressed, companies may find it easier to raise funds through issues of corporate debt than through equity issues. Oversupply of corporate debt reduces prices and increases yields. [3]

How attractive are alternative investments? [1]

General market sentiment and investment fashions [2]

Marketing may have influenced the investor [1]

Investor's views of the risk may have changed [1]

Commodity prices (and other input costs) will affect many companies [1]

Political events or regulatory/tax changes [1]

[Max 12]

[Total Max 40]

Part (i) This part of the question was generally well answered with most candidates commenting on inflation, currency and political.

Part (ii) This was less well answered with the quality of answers varying significantly between the stronger and weaker candidates. Most candidates answered the equity market in high level details and scored the high level marks. On the bond market few candidates managed to consider short and long dated bonds and therefore didn't score as well as they could have.

Part (iii) This was poorly answered with some candidates contradicting or repeating what they had answered in part (ii).

As a general point for this question, the examiners were concerned that candidates struggled to understand the economic effects on different asset classes.

Q6 (i) At the extreme, it would be minimal. That is just collect personal details. [1]

However premiums should vary by a few key ratings factors. [1]

Critically age. [2]

Gender. [1]

Smoker status and other lifestyle issues eg alcohol. [1]

Some height/weight/BMI data may be asked for. [1]

Some very brief but significant health questions could be asked e.g. diagnosed with a terminal condition or had treatment for a life threatening illness e.g. heart disease. [2]

Alternatively, a catch-all health declaration could be required. [1]
[Max 6]

(ii) The lack of data will mean that the company will have great difficulty in setting appropriate premium rates. [1]

There will be no experience upon which to base expected mortality rates. [2]

Whilst, the company will have an idea as to what the key ratings factors are, they will not know how they will affect their target market. [2]

In fact, they may have a certain market in mind (hence an idea about mortality experience) but no data implies that they might actually end up with a different group. Hard to predict business volumes. [2]

They will need data from other sources. [1]

This will incur costs to obtain and may not be relevant or credible. [3]

No data implies they won't have models or systems available to analyse experience i.e. starting from a blank canvas. [1]

Similar problems will arise when determining expense loadings and capital requirements. [2]
[Max 6]

(iii) The uncertainty caused by poor data implies large contingency margins will be needed when calculating premium rates. Reinsurance could help with data and expertise but comes at a cost. [3]

This will lead to relatively high premium rates versus competitors. [1]

The policy will therefore, in theory, be difficult to sell, leading to low business volumes and a lack of revenue to cover costs. [2]

The alternative of having low contingency margins could mean premiums are too low for actual claims leading to large losses, but need high volumes to cover costs. [2]

Wrong pricing structure could see the company accepting poor risks (those who are rejected elsewhere) leading to losses. [1]

This will be exacerbated by the light underwriting standards, i.e. product vulnerable to anti-selection [2]

The desire to keep things cheap and simple could also lead to poor standards in terms of claims underwriting and general expense control again leading to losses. However could agree to take losses and burn cash initially while gathering data. [2]

It could be argued that the target market will have relatively higher mortality so requiring higher premiums. [1]

The market may not be able (or want) to assess value and so may take up the policy despite the high premiums. [1]

Given the high premiums it is likely that subsequent claims may appear to give poor value for premiums paid. [1]

In many cases, the claim amount may be less than total premiums paid. [1]

Especially for those who were old at the time of acceptance or who live for long time. [1]

This could cause reputational damage – especially given the sales channels and target market (could be seen as vulnerable). [3]

Or attract unwanted attention from a regulator. [1]

Linked to this, is the purpose of the policy.

The term could be quite long – a long time before death. [1]

Fixed sum assured so if inflation of funeral costs is relatively high, the sum assured may not be sufficient for what was expected, implied – no inheritance etc. [3]

No data on the market – what is the competition doing, is market saturated? [1]

[Max 12]

(iv) Must be available and not working for the competition [1]

The celebrity would have to be someone known to members of the target market. [1]

Probably quite old, i.e. likely to fit the profile for a policyholder, but good for their age [1]

Good value for the company [1]

Have a trustworthy image – integrity, honesty, seriousness etc. – would you buy something from them. [2]

[Max 4]

(v) A gift for enquiring or getting a quote. [1]

A more valuable gift once signed up. [1]

"Discounts" on premiums, e.g. low starting level, some "free". [1]

Benefits payable immediately – low waiting period. [1]

Offers on other products of the institution, e.g. banking or investment services, gym membership. [1]

Offers where the institution is a sponsor, e.g. sporting, entertainment tickets, free competition. [1]

Cheaper spouse's cover on same product [1]

[Max 4]

(vi) There is a selection risk but need to consider these are likely to be small amounts [2]

Individuals expecting to die soon may take out the policy to provide for funeral cover – hard to check with minimal underwriting but also small sum assureds being involved so unlikely [1]

There may be a waiting period before a claim can be made [1]

Exclusions in line with market practice [1]

Pre-existing conditions (only if asked about but not disclosed) [1]

Other T&Cs – e.g. illegal activities, hazardous sports, geographical limitations, death in war [1]

[Max 4]

(vii) Purchase

In theory, the existing insurance company will be able to provide the required data, expertise and systems. [2]

They will be familiar with the market and have experience in administration and development of insurance products due to their existing business. [2]

However, the type and range of insurance companies and products varies considerably. [1]

The institution wishes to introduce a particular type of product. In particular, it will have very specific data requirements due to the underwriting and sales channel features. [2]

If the insurance company purchased doesn't have experience of this type of product, problems will still arise. [1]

Likewise, systems and expertise may not be completely suitable for the new product but they should be easily adaptable, i.e. less of an issue than the data problems. [2]

This represents a much larger step than merely introducing one new product. [1]

The institution will need to decide whether or not they want such a large exposure straight away or whether a more gradual approach is preferable. [1]

They will have direct control of the company and so can affect its development. [1]

Likewise, the sales channels may not be what they want, e.g. they will have their own already established. [1]

The purchased company will have its own internal structures but these need to be melded into the institution's at the corporate level – this will involve time, cost and management resources and could be tricky, e.g. a clash of cultures.[3]

They will have to decide on the price to pay and carry out extensive due diligence. [2]

Likewise, they will need to decide how to raise the finance, whether to keep all of the purchased company or sell part of their existing operations. [2]

May not be able to afford it [1]

What about legacy liabilities (e.g. pension scheme, guarantees on books of old business? [1]

Joint Venture

A lot will depend on the particular insurance company chosen. Since, as mentioned above, the range in the marketplace is wide. [1]

Is there a suitable target? [1]

Regulatory issues, e.g. monopoly concerns [1]

Depending on their lines of business, relevant data may or may not be available. Also can it be used (e.g. data protection?) [2]

However, if the existing insurance company already writes a similar product, they may not to set up a joint venture that would compete with it. [1]

Hence any selected partner may not have the ideal data required. [1]

Likewise, it is perhaps unlikely that a partner would make its existing systems available directly. Hence new systems would need to be set up. [2]

However, they will have the expertise to do this, e.g. they will probably second staff to the joint venture or at least assist in the recruitment of the necessary experts. [4]

This is a more gradual way of entering the market. [1]

It could provide a stepping stone to the development of new products as and when resources and opportunities allow. [1]

In fact, it would seem that this will be the logical step as setting up a new company for just one product looks excessive. [1]

The institution will have more control over the product range, i.e. less unwanted lines. [1]

However, it will be a joint venture and so it will have to take into account the wishes of its partner – could be at a disadvantage given their familiarity with the market. [2]

In fact a lot of time and expense will be taken up in deciding on the new management structure, how it reports to the owners and the level of independence it will have. [3]

The percentage of the venture owned by each partner would need to be decided along with say the number of directors appointed by each. [2]

May need regulatory approval [1]

Again there would be the issue of raising finance but probably less needed than under the other option. [1]

[Max 22]

[Total Max 58]

Part (i) This was not as well answered as we expected. Stronger candidates focused on “minimal” underwriting and tailored the answer accordingly rather than just listing key underwriting factors without considering the “minimal” importance.

Part (ii) This was answered less well with only the stronger candidates going into sufficient depth and scoring well. Few mentioned that

	the need for experience for data needed to be consistent with minimal underwriting.
Part (iii)	Some candidates repeated their answer to part (ii) and scored less well compared to those that were prepared and had focused on the answer. Few focused on the problems of the lack of data.
Part (iv)	Most candidates picked up full marks on this part of the question.
Part (v)	Answered well, but not as well as part (iv) with some candidates offering unaffordable incentives
Part (vi)	Answered reasonably well, but stronger candidates came up with robust reasons, with weaker candidates focusing on one idea and giving different versions of the same idea.
Part (vii)	Answered less well than the rest of the question with lots of repeating the same point without expanding. Few candidates considered any potential problems of the costs of offering. Also few candidates recognised that the new product could be very different to existing insurers products so practical issues raised in the earlier parts of the question would remain.

END OF EXAMINERS' REPORT