

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

Subject CA2 Model Documentation, Analysis and Reporting

Examination Assignment L12

Introduction

The attached subject report has been written by the Principal Examiner with the aim of helping candidates. The specimen solutions are based on one possible approach to modelling the assignment set but the examiners gave credit for any alternative approach or interpretation which they considered to be reasonable.

T J Birse
Chairman of the Board of Examiners

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A possible model with audit trail and a possible summary are posted on the website. These are not intended to be model solutions but are intended to include more detail than would ordinarily be possible within the time allowed within the examination. There were many marks available in the audit trail and summary for the explanations, observations, conclusions and suggestions on the model itself. In practice, a wide number of solutions was acceptable and candidates would have achieved good pass standards without having the same level of detail as the specimen solutions.

Candidates were required to model the deterioration of quality of bananas from their Producers to Depot and onward shipment to the country of Cohortico. This exam did not rely on specific Core Reading from any CT subject, but did include the following modelling techniques:

- Cashflow modelling
- Discounting and IRR calculations

Some candidates made minor slips in the cashflow/discounting/IRR calculations but generally candidates were able to produce a reasonable model of this scenario.

Some common pitfalls included:

- using the wrong expense amount at the wrong point in the cashflow calculation. There were a number of different expense amounts to include and candidates needed to be careful that they were using the correct one in the correct place.
- errors in the determination of IRR, such as applying the Excel IRR formula to cashflows which had already been discounted.
- some candidates missed the fact that the bananas were sorted and repackaged at the depot. This led to projecting forward the wrong initial numbers of bananas during shipment, or not discarding the F bananas and therefore using too many boxes in shipment.

END OF EXAMINERS' REPORT