

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

Subject CA3 – Communications

Day 2

Time allowed: 1 hour 30 minutes

INSTRUCTIONS TO THE CANDIDATE

1. *You have 15 minutes before the start of the examination in which to read the question. You are strongly encouraged to use this time for reading only, but notes may be made. You then have 1 hour 30 minutes to complete the paper.*
2. *Copies of the Formulae and Tables, Core Reading for subjects CT1 to CT8 inclusive and CA1 should be available electronically on your PCs. No other material can be brought into the examination room.*
3. *You must not start answering the question until instructed to do so by the supervisor.*
4. *At the end of the examination you should hand in the question paper along with any notes made during the examination.*

PLEASE NOTE THAT THE CONTENT OF THIS PAPER IS CONFIDENTIAL AND STUDENTS ARE NOT TO DISCUSS OR REVEAL THE CONTENTS UNDER ANY CIRCUMSTANCES.

The insurance company you work for has just released a new product. A member of the customer services team has received a call from a potential customer who has seen the advertisement for the product in a newspaper and wants more information. The customer services adviser has asked you to draft a letter on his behalf that he can send out. Your letter should include an explanation of the key features of the product, an illustration of the level of payment to the customer and briefly state the benefit to the customer. You should include any other aspect you consider to be relevant.

You have gathered the following information about the product:

- Capital release product aimed at a niche market — those over 60.
- Income payable annually and is secured against a share in the applicant's property. Applicant continues to stay in the property.
- Upper limit on capital released by the customer and is applicable at inception. The limit is the lower of 40% of value of property and £200,000.
- Property value determined by company's own surveyor.
- Charges incurred: 5% arrangement fee deducted from value of capital released at inception.
- The first year's income payment depends on the age and sex of the customer on inception.
- Each subsequent year, the amount of income payment is assessed depending on the change in the National Property Index (the customer is familiar with this Index).
- Future income payments to the customer are guaranteed to be at least at the same level as the first year's payment.
- There is an option to include a spouse's reversionary income of 100%.
- An impaired life option may be applicable subject to the individual undergoing a medical examination.
- On death of the customer (or, in the event of the spouse's option being taken, on death of the second life), the property is sold and a portion of proceeds is paid to the insurance company.
- Company is potentially exposed to moral hazard — customer does not have an incentive to maintain the property

The customer who has asked for the information is a female aged 63 and resides in an affluent suburb where average property value is £700,000. The customer's property is worth £800,000 and she intends to sell a 15% share of the property.

The actuary in your department has provided the following annuity rates for you to use in your illustrations:

<i>Age</i>	<i>Male</i>		<i>Female</i>	
	<i>Single Life</i>	<i>Reversionary</i>	<i>Single Life</i>	<i>Reversionary</i>
60	25.7	4.8	26.5	5.2
61	25.0	4.4	25.6	5.0
62	24.2	4.1	25.8	4.7
63	23.6	3.6	25.1	4.4.
64	23.1	3.3	24.5	4.0
65	22.5	2.9	24.0	3.7

Draft your letter in approximately 500 words. You do not need to consider the possibility of the customer selling the property before dying.

END OF PAPER