

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

Subject CA3 Communications

Day 2

Purpose of Examiners' Reports

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 who are 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. Although Examiners have access to the Core Reading, which is designed to interpret the syllabus, the Examiners are not required to examine the content of Core Reading. Notwithstanding that, the questions set, and the following comments, will generally be based on Core Reading.

The Examiners' preferred approach to the solution is reproduced in this report; other valid approaches are given appropriate credit.

T J Birse
Chairman of the Board of Examiners

2012

A possible answer is given below. This is not intended to be a model solution. 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 asked to draft a letter to a potential customer providing information on a new product that the insurance company has just released. The 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.

The main points that the examiners were looking for and some common problems encountered were as follows:

1. Most candidates had a suitable opening paragraph to the letter. Scripts gained marks for a clear summary of the query, but not where the opening paragraph was lengthy and repetitive or did not refer to the initial query.
2. There was no evidence of candidates running out of time and therefore not completing the answer.
3. Poor scripts were unstructured and simply repeated a lot of the information provided in the question paper. They did not attempt to exclude any information that was not relevant for the customer.
4. Many candidates lost marks for not getting to the point indicating that they did not identify the key objectives of the letter.
5. A number of candidates used language and tone that would not be appropriate for a customer. These scripts were dumbed down significantly e.g. describing that a product needs to have the right features, price etc.
6. The majority of the candidates were able to describe the product. However, a number of candidates lost marks for not explaining clearly how the product works.
7. Better scripts stated that there was an option to continue payment to spouse on an individual's death and that the company eventually receives a share of the proceeds from the sale of the property.
8. A number of candidates lost marks because of the use of jargon such as "p.a." and including figures that were not appropriately rounded e.g. £4068.1.
9. Poor scripts did not explain that income changes each year in line with the increase in the property index and the impact of the guarantee.
10. Good candidates included an illustrative example in their response showing the impact of the change in line with the property index and if allowance is made for the spouse's option.
11. A number of scripts suffered from poor spelling, grammar and punctuation.
12. The guideline length was 500 words. Scripts which were below 350 words generally missed out some of the explanation. Scripts which were longer than 550 words often lost marks for including unnecessary repetition or irrelevant detail.

SOLUTION

<company address>

Mrs A Thomas
10 Any Street
Anytown

15 November 2008

Dear Mrs Thomas

SUBJECT — NEW EQUITY RELEASE PRODUCT

I refer to our telephone conversation about our company's new equity release product. This product allows you to unlock some of the capital in your property while you continue to live in it. You can retain a share of the property for as long as you want. The product pays out a guaranteed level of income for the remainder of your life.

This letter sets out a brief description of this product and provides an example based on some initial information you provided.

Product Description

The product pays out a regular income in exchange for a share of your property. The amount of income depends on the proportion of the value of the property that is sold to us. For properties valued at less than £500,000, the maximum proportion is 40% of the value of the property. For higher valued properties the maximum proportion of the value is less than 40%.

How the product works

The first year's income is determined when the product is taken out. It depends on how long we expect the income to be payable for, our estimate of the property value and the proportion that is sold to us. The income paid is reviewed each year and changes in line with the annual change in the National Property Index. Whatever happens to the National Property Index, we guarantee that the income in any year will never be less than the income in the first year.

You can opt to have the income continue after your death, payable to any surviving spouse for the rest of their life. The income will be lower if this option is taken because it is expected to be paid over a longer period.

You can sell the property at any time and you will receive the proportion of the sale proceeds that you did not sell to us when the product started. Selling the property will not affect the income you receive – this will continue unchanged, and will vary as before.

Example

To show the income that you could receive, I have used some basic information you provided.

Based on your current age, a current property value of £800,000 and that you wish to sell 15% of your property, you would receive a payment of £4,068 in the first year. This assumes that the payments would continue to your spouse on your death. If in the following year the National Property Index increased by 3%, the payment in the second year would increase to £4,190. If in the third year, the Index fell by 10%, the payment would fall to £3,771. However, as we guarantee each payment to be at least the amount of income in the first year, the third year's payment would be £4,068.

The first year's payment would be higher if you did not select the spouse's option. However, the increases would be applied in the same way as described above.

Summary

I hope this information has been helpful. If you wish to proceed with the product, I attach the paperwork that you need to complete so we can provide a more accurate quotation. If I can be of any further assistance, please feel free to telephone or write to me at the above address.

Yours sincerely,

James Smith
Customer Services

END OF EXAMINERS' REPORT