

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

Subject CA3 - Communications (Presentation)

Scenario: Mortgage training for graduates

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.

For the CA3 communications examination the examination is designed to examine the communication of an "actuarial" concept to a non actuarial audience. Sufficient technical detail on the scenario is provided in the question so that candidates from all backgrounds are able to answer the question.

One approach to the slides required for the presentation is reproduced in this report; other valid approaches were given appropriate credit.

Fiona Layton
Chairman of the Board of Examiners

March 2016

A possible set of slides to accompany a candidate's presentation is given below. This is not intended to be a model set of slides. In practice, a wide number of sets of slides were acceptable and candidates would have achieved good pass standards without having the same level of detail as the slides below.

Candidates were asked to give a presentation on mortgages to an intake of new graduates. Candidates were given clear instructions from their manager on what the presentation should include:

- "... an explanation of how a repayment mortgage and interest only mortgage work;
- "... some details on our niche market";
- "... include numerical details of how a repayment mortgage actually works";
- "... consider what happens over five years as well as over the whole term";
- "... include an illustration on how house prices have varied in the past"; and
- "... like the trainees to understand what "negative equity" is and in particular how it can arise for our customers, perhaps with a simple example".

Candidates were provided with the relevant details including a housing prices index and details of the changes in house prices over both a 1 year and 5 year period.

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

1. Candidates were asked to deliver a presentation lasting no longer than 10 minutes. Most presentations were delivered within the guideline and gained full marks for the time element. Presentations that were much longer than 10 minutes tended to be long, repetitive and to include irrelevant information. (For example, some candidates continued providing information on interest only mortgages for far too long into the presentation.) Presentations that were very short (less than 7 minutes) were typically rushed or did not clearly cover all the content requested.
2. As the audience for this presentation was a group of new graduates better candidates adopted a friendly welcoming approach.
3. Most presentations had an appropriate first slide with a clear title, date and name of presenter.
4. Most presentations had an agenda. On better presentations, the agenda linked directly to the titles and content of the following slides. On weaker presentations, too much time was spent on the agenda giving rise to a laboured start, which tended to disengage the audience.
5. There was a great variation in the quality of the format of slides. There were examples both of slides with only a few bullet points, and slides with too much information. Good presentations had slides that clearly backed up the information that was being provided to the audience.
6. Some candidates put full-length narrative sentences on the slides. This was not appropriate to the slide format and tended to make slides over-busy. This also distracted the audience from listening to the presenter.


7. Some slides containing graphs were too complicated. For example, some candidates included details of the loan outstanding, the repayment amounts and the interest elements on a single slide. Where a single vertical axis was used, it was difficult for the audience to see the detail of the repayment and interest amounts when the vertical axis went up to £100K. Where two vertical axes with different scales were used, the messages were often muddled unless the candidate talked very clearly through the slide. Better candidates generally chose to include multiple slides with each illustrating different points.
8. Good candidates used XYZ Building Society's niche market wherever possible in their explanations. This tended to make the messages clearer for the audience and provided a more coherent and relevant presentation.
9. Where presentations included a table of figures rather than a graph, marks were gained for how clearly the table brought out the messages.
10. Better candidates completed their presentation with a brief summary of the key messages and provided the opportunity to ask questions.

Candidates were not asked to provide a script to accompany the presentation.

SOLUTION

Slide 1

XYZ Building Society
Introduction to mortgages



Graduate Induction Day
August 2015
Fred Smith

Slide 2

AGENDA

- What is a mortgage?
- Our niche market
- Repayment mortgage examples
 - over 5 years
 - over full term
- Changes in house prices
 - annually
 - over 5-year periods
- Negative equity & example
- Summary & Questions

Slide 3

WHAT IS A MORTGAGE?

Loan tied to house purchase

1. Repayment mortgage

- monthly payments repay capital AND interest
- loan outstanding decreases throughout term
- end of the term mortgage has been fully repaid

2. Interest only mortgage

- monthly payments pay interest only
- loan outstanding remains unchanged
- additional funds needed to pay mortgage at end

Slide 4

OUR NICHE MARKET




First time buyers

- Typical house price £105,000
- Minimum deposit £5,000
- Repayment mortgage only
- Mortgage amount £100,000 (=£105,000 - £5,000)
- Term 25 Years
- Interest 5% each year
- Yearly repayment is £7,095

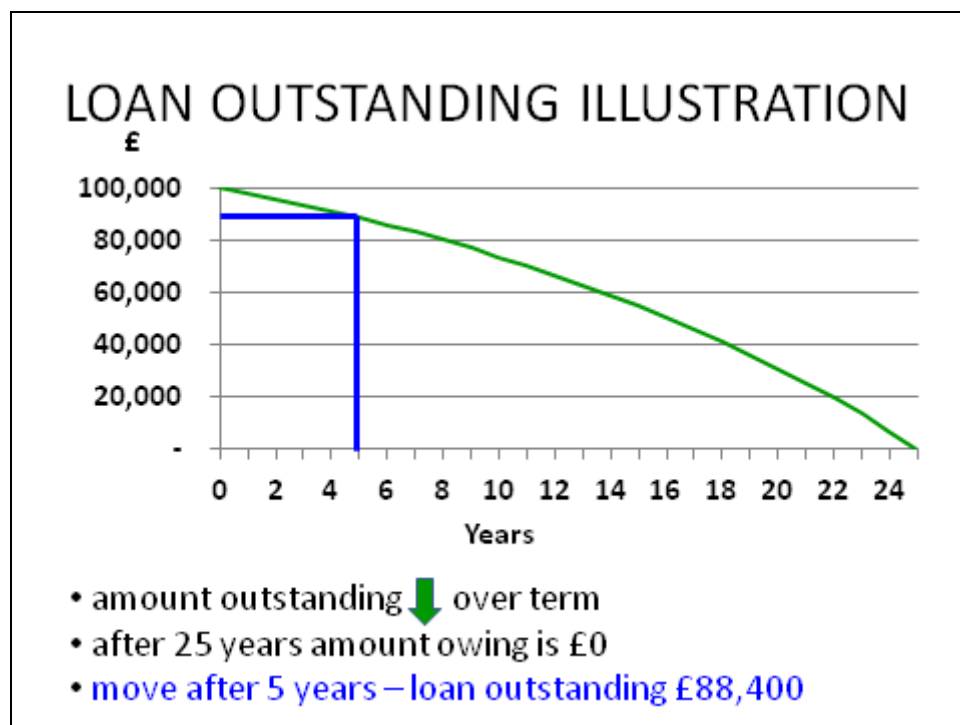


Slide 5

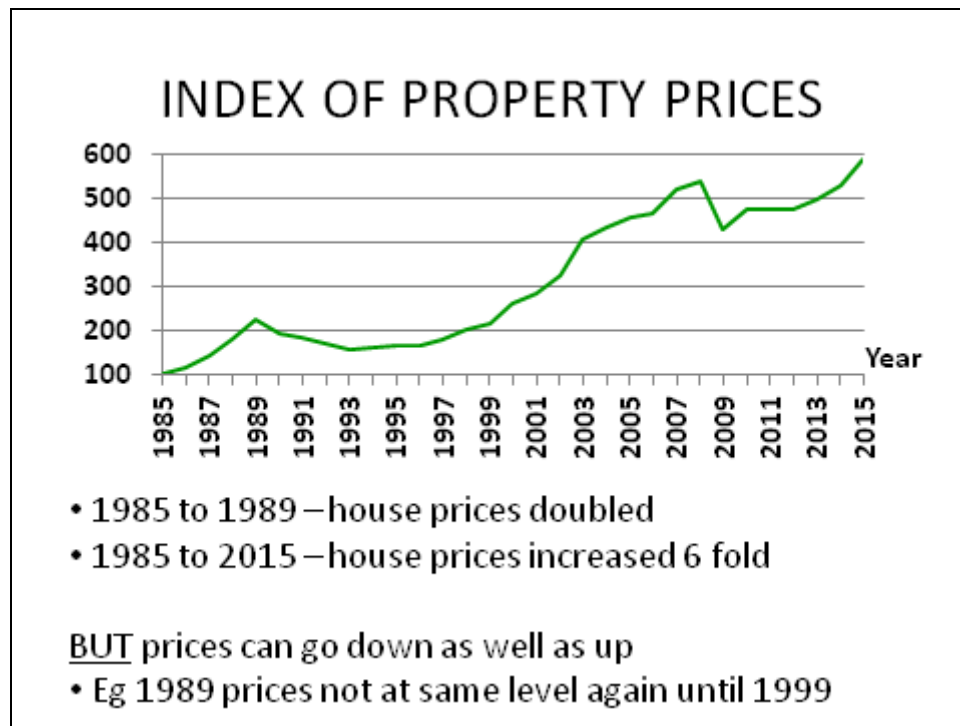
EXAMPLE REPAYMENT MORTGAGE (£)				
Year	Loan	Payment	Interest	Loan Repaid
0	100,000	7,095	5,000	2,095
1	97,905	7,095	4,895	2,200
2	95,705	7,095	4,785	2,310
5	88,422	7,095	4,421	2,674

- Yearly payments same throughout term (£7,095)
- Interest on loan Eg Year 1 = £5,000 (5% of £100,000)
- Each Year - Loan  Interest  Amount of loan repaid 

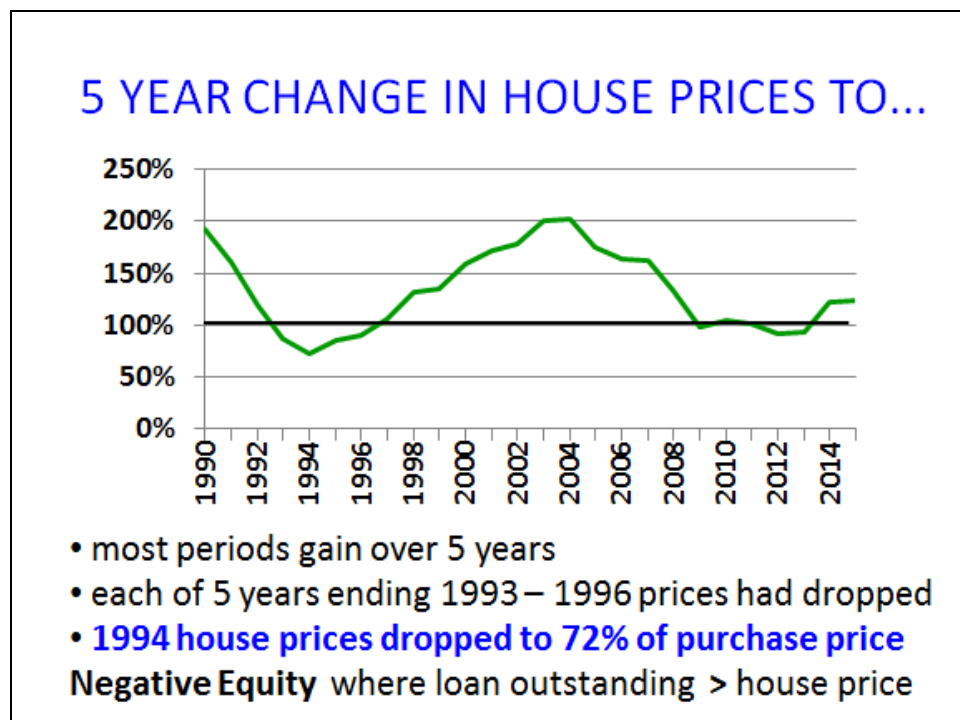
Slide 6



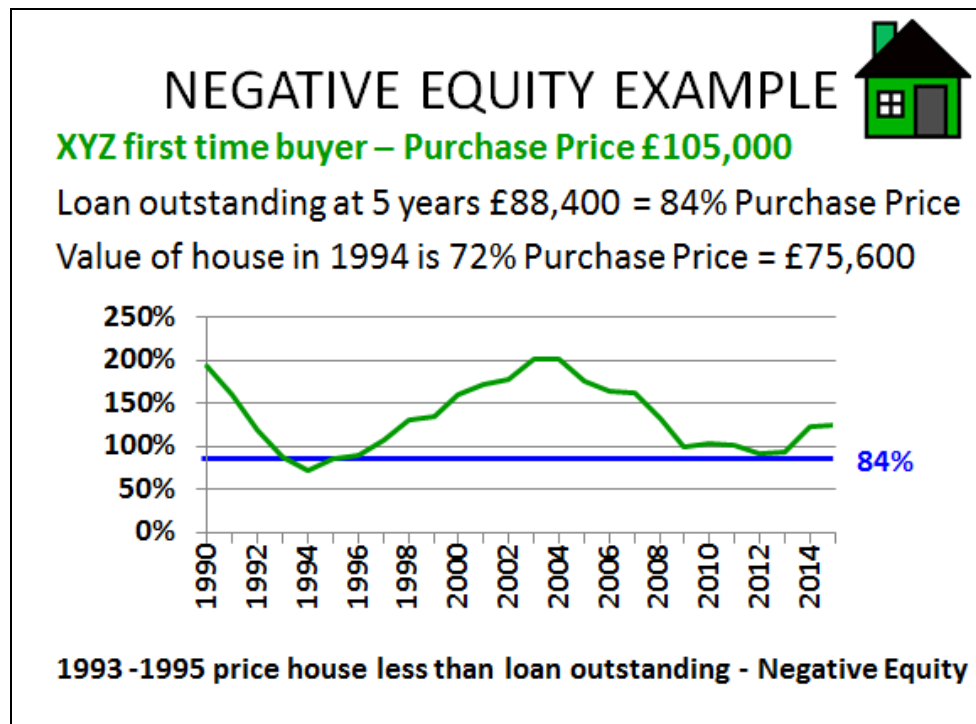
Slide 7



Slide 8




Slide 9



Slide 10

SUMMARY & QUESTIONS

- 2 types of mortgages – repayment and interest only
- Our niche market – first time buyers repayment mortgages
- Repayment mortgage
 - fixed amount each year
 - mostly paying interest early years
 - loan repaid over 25 years
- House prices can fall as well as increase
- Negative Equity – house price less than loan outstanding

 Fred.Smith@xyzbuildingsociety.com

END OF EXAMINERS' REPORT