



September 2017

## **CP3 – Communications**

### ***Advance Material***

#### ***Instructions for candidates***

You are provided with this advance information to enable you to read and understand it in your own time, and not under examination conditions. Please note that this is an examination to test your ability to communicate technical information to a non-technical audience. It is not a test of your technical actuarial knowledge or skills. As such, any technical actuarial information or techniques needed to answer the question will be provided to you. You do not need to spend time revising other subjects or researching further detail on the topics covered in the paper.

PRESTIGE LIFE, is a large established life insurer. PRESTIGE LIFE has been in business for over 100 years offering insurance products to the affluent market. The products it offers include an extensive range of simple and more complex benefits, covering both protection and investment solutions. The company is known to establish deep relationships with clients through an extensive network of financial advisors.

YOUTHSURE, is a new insurer operating in the local market. YOUTHSURE currently sells only a simple term assurance product aimed at a younger target market.

You have been provided with the following information to enable you to familiarise yourself with the two companies:

- Financial information on PRESTIGE LIFE and YOUTHSURE
  - o Financial data for the year ended December 2016
  - o Explanation of financial ratios
- New business sales volumes
- Results from a market research survey
- Industry Magazine Article

## Financial Information

### FINANCIAL DATA FOR THE YEAR ENDED DECEMBER 2016

	PRESTIGE LIFE	YOUTHSURE
Claims Ratio	56.1%	46.8%
Expense Ratio	43.2%	12.2%
Combined Operating Ratio	99.3%	59.0%
Profit Margin	0.7%	41.0%
Average Premium	£117.22	£12.50
Risk Retention	98.0%	51.0%

### EXPLANATION OF FINANCIAL RATIOS

RATIO	FORMULA	SIGNIFICANCE IN ANALYSIS
Claims Ratio	$\frac{\text{(Incurred claims)}}{\text{(Gross Earned Premium)}}$	The ratio measures the company's loss experience as a proportion of premium income earned during the year gross of reinsurance. The claims ratio is a reflection on the nature of risk underwritten and the adequacy or inadequacy of pricing of risks.
Expense Ratio	$\frac{\text{(Net claims, commissions and operating expenses)}}{\text{(Net Earned Premium)}}$	Expense ratio reflects the efficiency of insurance operations in writing and servicing products.
Combined Operating Ratio	$\text{(Claims Ratio)} + \text{(Expense Ratio)}$	Combined ratio is a reflection of the underwriting expense as well as operating expenses structure of the insurer.
Risk Retention	$\frac{\text{(Net Earned Premium)}}{\text{(Gross Earned Premium)}}$	Indicates the proportion of risks retained by the insurer under a reinsurance arrangement.
Profit Margin	$\frac{\text{(Underwriting Profit for the Year)}}{\text{(Net Earned Premium)}}$	A positive result indicates that the company has priced its portfolio of products at levels which produce a profit after payment of expenses and policy benefits and prior to investment income.

**Note:** The precise definitions may vary between organisations. The definitions used here are for the purposes of this specific CP3 paper.

*New Business Sales***NUMBER OF NEW POLICIES SOLD PER QUARTER**

<b>Date</b>	<b>PRESTIGE LIFE</b>	<b>YOUTHSURE</b>
2014 Q1	4500	
2014 Q2	4530	
2014 Q3	4560	
2014 Q4	4440	
2015 Q1	4446	
2015 Q2	4533	
2015 Q3	4536	270
2015 Q4	4500	570
2016 Q1	4518	1350
2016 Q2	4443	600
2016 Q3	4497	2085
2016 Q4	4566	1650
2017 Q1	4533	2400
2017 Q2	4473	2700

Note: YOUTHSURE only began operations two years ago.

## ***Market Research Results***

PRESTIGE LIFE has mandated a market research company to identify differences in the customer bases of both PRESTIGE LIFE and YOUTHSURE. Below are selected results based on surveyed responses from 300 customers.

### **Question: What is your current age?**

Age Band	PRESTIGE LIFE	YOUTHSURE
18-24	2	8
25-34	8	60
35-44	15	45
45-54	37	27
55-64	48	7
65+	40	3
Total	150	150

### **Question: What is the main quality you look for in an insurance company?**

	PRESTIGE LIFE	YOUTHSURE
Cheapest premium in the market	3	38
Comprehensive product range	16	8
Easy to understand the benefits	12	31
Online sales process	4	48
Quality of advice	45	2
Quality of the brand	37	9
Trusted relationship	33	14
Total	150	150

### **Question: Who else have you ever had life insurance cover with?**

	PRESTIGE LIFE	YOUTHSURE
Insurer 1	60	5
Insurer 2	19	9
Insurer 3	12	15
Insurer 4	5	21
Insurer 5	48	3
No other	6	97
Total	150	150

Note: Insurers 1-5 are other companies in the market who offer comparable products

**Question:** How would you rate your insurer's post-sale customer experience?

	PRESTIGE LIFE	YOUTHSURE
Excellent	85	65
Good	59	19
Average	5	3
Below Average	1	16
Poor	0	47
Total	150	150

## ***Industry Magazine Article***

**Date: July 2017**

‘Fintech’ is the new buzz word on Wall Street. This refers to computer programs and other technology used to support or enable banking and financial services. In the past few years there have been a plethora of new companies started which are looking to disrupt traditional industries such as banking, insurance and pension funds.

One such company currently causing a stir is YOUTHSURE. Traditionally the life insurance market is dominated by a few large insurers which are seen to be old and boring. But YOUTHSURE is doing things differently and is looking increasingly to attract the younger market.

According to their CEO, “...millennials are all online and you need to be where your customers are. We offer a fully online user experience and our platform allows anyone to buy cover in minutes using their smart-phones. YOUTHSURE relies on the power of social media to get the word out, and our customers are engaged with our brand. The motor-insurance industry has largely embraced the direct model, and now it’s time for life-insurance to follow.”

Typically insurers provide complex products through their network of brokers and agents which provide holistic financial advice. But that could all change with the advent of so-called “robo-advisors”. These are digital platforms that provide automated, algorithm-driven financial planning services with little to no human supervision. YOUTHSURE CEO says: “...the young people of today don’t have the time for complex financial advice and don’t trust insurance salesmen. YOUTHSURE have built proprietary algorithms which can replicate the services of a human advisor at a fraction of the cost and time.”

But people looking to invest in the latest start-ups should be cautious, as some of the strategies and technologies have not yet been proven to be successful. Often these companies operate with very little funding and as a result may make poor long-term business decisions to ensure short-term profitability. Investing in early-stage companies can be risky. Venture capital investors must be prepared to tolerate volatile returns or even lose their investment altogether.

**END OF ADVANCE MATERIAL**