



September 2017

CP3 – Communications Question Paper

217

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

1. *You have 3 hours to complete the paper.*
2. *You must write your submission from the beginning and not use an imported e-template*
3. ***Please note only 1 word document to be submitted***

Your file names must include your ARN and each file should also contain your ARN as a header or footer.

Please note that the content of this paper is confidential and students are not to discuss or reveal the contents under any circumstances nor are they to be used in a further attempt at the exam. If you encounter any issues during the examination please contact the Examinations Team at online_exams@actuaries.org.uk T. 0044(0) 1865 268 255

You are a trainee actuary working in the strategy department at PRESTIGE LIFE. Despite various initiatives and sustained efforts over the past several years, the company has been struggling to increase new business volumes. As a result PRESTIGE LIFE is considering potential acquisition opportunities, and your department is leading this project. One target under consideration is YOUTHSURE, an online life insurer which began writing business two years ago and has begun increasing market share.

You have recently received an email from your manager:

To: jjones@prestigelife.co.uk
From: mmurray@prestigelife.co.uk
Date: 1 September 2017

Hello Jim,

As you know, our acquisition strategy is a top priority to the long-term sustainability of the firm. Since announcing our intentions to purchase YOUTHSURE, the market has shown a lot of interest but also raised a number of concerns. Mr Paul Paulson, one of our largest shareholders, sent me a message this morning asking for a quick overview of:

1. The key differences in the financial ratios between PRESTIGE LIFE and YOUTHSURE, and what this tells us about the nature of business of the two companies;
2. The commercial opportunities for PRESTIGE LIFE presented in this deal;
3. Any risks or downsides to the acquisition which he should be aware of.

I am travelling overseas tonight and would appreciate it if you could draft Mr Paulson a letter responding to these questions. Please only provide factual information without giving your subjective views or providing financial advice.

By way of background, Paul Paulson is a corporate lawyer by training and is responsible for managing a family trust which holds a number of investments in a wide range of industries. While he has good understanding of the insurance industry, his understanding of the technical details is limited. Therefore please cover the key points in your letter without going into too much technical detail.

To assist you further I have attached my notes from last week's meeting with the due-diligence team.

Kind regards
Margaret Murray

P.S. You do not need to discuss the offer price or anything outside of his request as I am meeting him later in the week to give him more detail.

Notes on YOUTHSURE Acquisition

1. YOUTHSURE is focused on attracting a younger customer base. As these individuals become older and their financial needs become increasingly more sophisticated, this could offer a new source of customers to PRESTIGE LIFE.
2. It is a concern that we may dilute the brand of PRESTIGE LIFE by being associated with YOUTHSURE. Not only could we confuse our PRESTIGE LIFE customers, but we could be sending a bad message to our existing sales force that their jobs may be at risk if they can be replaced by robo-advisors.
3. YOUTHSURE owns proprietary software and algorithms which allow it operate the business very efficiently. By adopting some of these systems or processes we may be able to reduce the expense base of PRESTIGE LIFE.
4. YOUTHSURE has a fundamentally different business model which offers PRESTIGE LIFE the opportunity to diversify risk.
5. It is only a matter of time before YOUTHSURE can also expect heavy competition from new as well as established players therefore it is at risk of losing its market share.
6. We can expect YOUTHSURE, as a young company, to yield volatile returns in the short/medium term.
7. YOUTHSURE currently only offer a single product. There is the opportunity to grow revenues by introducing new product lines. PRESTIGE LIFE's experience with a more diverse range of products may be very helpful in this regard.
8. YOUTHSURE has a low capital base, which may be causing the management team to sacrifice long-term profits at the expense of short-term cash flow. For example, the company has a very large quota share reinsurance treaty in place to help reduce new business strain. However, this also means that they are giving away a large portion of future profits. Similarly there has been very little investment into customer service resulting in some negative customer reports.

Instructions for candidates

Remember that CP3 is a test of your ability to filter information, and communicate it to a particular audience. Only consider information that is contained in this examination paper and the advance material provided. Do not draw on prior knowledge of a particular market, legislation or company.

Question 1

Draft a response to Mr Paulson of 650 to 750 words. [90]

Question 2

- (a) Visual aids such as graphs, tables or charts can be useful for communications. Comment on your approach to these in your answer to Question 1. [2]
- (b) Give TWO examples of information you decided to exclude from the letter to Mr Paulson, explaining your reasoning for each. [4]
- (c) Explain how you ensured that your use of language did not contain technical terms or jargon. [1]
- (d) Explain how you ensured that your use of language did not constitute giving financial advice to Mr Paulson. [3]

You can assume that all of the information provided in the advance material and the question paper is correct for the purposes of answering this question.

END OF QUESTION PAPER