

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

20 April 2020 (am)

Subject CP3 – Communications Practice Core Practices

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

1. You are given this question paper and the scenario material that was provided.
2. Mark allocations are shown in brackets.
3. Attempt all questions. Each question is to be answered on a separate page.

If you encounter any issues during the examination please contact the Examination Team on T. 0044 (0) 1865 268 255.

You work in the pricing team of Insure One Limited.

The following article was published today in *The Daily*, a national newspaper with a wide readership that focuses on stories that aim to sensationalise current topics.

Unfair pricing in home insurance

Investigations into the home insurance market have shone a light on the unfair practices which lead customers to pay very different prices for the same product. Factors such as your marital status, occupation or whether your neighbours are security conscious are all used to justify charging you a higher premium. Industry insiders confirm that this practice is both legal and widespread.

As we all know, should you be the victim of burglary, a house fire or any number of catastrophes that damage your home or possessions, home insurance is there to provide you with a safety net. You can claim so that you are at least financially compensated for the losses you suffer. It seems reasonable then that the premium you pay might vary by the size of your house and by the value of the contents inside. If you'll need more money to replace everything should the worst happen, then paying a higher premium is logical.

Home security is also important. If you're security conscious and take steps to protect your home, you're less likely to suffer a burglary. So, you're then less likely to claim and therefore should expect to benefit from lower insurance premiums. Similar arguments could be made if your home is safer from fire, or natural disasters such as floods.

However, we have discovered that insurance companies use a lot of seemingly random factors when it comes to setting their premiums. Anyone can go online and get an insurance quote to test how premiums vary for different customers. For example, changing the marital status from 'married' to 'single' on the site of Insure One's online quotation webpage appears to increase premiums by as much as 35%. How can it be justified that two couples in otherwise exactly the same position, except that one couple happens to be married, are charged such different prices for the same product?

What you do in your job also affects the premium. For example, we discovered that changing the occupation from 'accountant' to 'gardener' increases the price by around 20%, which could be over £100 for some properties. This implies that Insure One believes that your house is more likely to be burgled while you're out tending to plants all day than if you were sitting in an office! Either that or Insure One is actively discriminating against manual workers.

Industry insiders also confirm that postcode¹ pricing is now standard across the industry. Insurers change their price based on the postcode of your house. They base the change in price on data they have about the number of claims in each area. This means that the premium you pay will be linked to your neighbours' premiums. So, neighbours who are lax with their security arrangements end up costing you a lot of money. Incredibly, postcode alone can change the price by up to 400%. This means that you could find yourself paying four times more for your home insurance than someone living in an identical house somewhere else!

¹ Every address in the country has a postcode. Each individual postcode covers anything from one to 80 houses.

Our investigations have exposed these underhand tactics which make the pricing of insurance policies complicated and confusing. Insurance company profits hit record levels last year and, based on the evidence we have gathered, it seems likely that this is partly because they are overcharging many customers based on discriminatory practices.

Your manager has asked you to draft a press release in response to the article. The press release will be issued to the editors of *The Daily* and posted on Insure One's website, but it is hoped that other newspapers may be interested. Your manager has asked you to:

- cover the broad concepts of how premiums are set, together with the principle of charging an equitable premium rate by minimising cross-subsidies in different customer cohorts.
- use evidence or examples, where relevant, to support your key points.
- ensure any numerical information is presented in a suitable format given the target readership.
- ensure the press release makes it clear that Insure One's premiums are fair and reasonable ...
- ... but avoid using the same emotive tone in the article.

Instructions to candidates

Remember that CP3 is a test of your ability to filter information and communicate it to a particular audience. Use only 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.

Questions

- 1** Draft a press release responding to the points made in the article. [90]
 - 2**
 - (a) Describe how you adapted your writing to allow for the varied audience that will read the press release. [4]
 - (b) Explain how your writing style, and the content covered, would have changed if you were asked to draft a letter to Insure One's board outlining the pricing team's position on the same topic. [4]
 - (c) Identify two pieces of information from the scenario material that you did not include in the press release. For each, explain why you decided to exclude it. [2]
- [Total 10]

END OF PAPER