

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

23 September 2020 (am)

Subject CP3 – Communications Practice Core Practices

Time allowed: Three hours

If you encounter any issues during the examination, please contact the Examinations Team
at T. +44 (0) 1865 268 873

You are a product actuary at ABC Insurance and have been working on the project with SalesMachine to prepare for the launch of the new joint venture to market the ABC Funeral Insurance Plan. The project is well underway. You are attending a meeting with the SalesMachine Marketing Committee at the end of the week to reach agreement on some issues with the product and campaign before sign-off and launch. You have received the following email from your manager, Peter Taylor, the Head of Products at ABC Insurance, who has expressed concerns about the proposed script for directly marketing to potential customers over the telephone:

From: ptaylor@abcinsurance.com
To: asmith@abcinsurance.com
Date: 4 September 2020
Subject: SalesMachine Marketing Committee Meeting

Dear Alex,

As you are aware, I have two concerns with how the SalesMachine team have drafted the script for our telephone sales staff, to be used when marketing the new ABC Funeral Insurance Plan. The business case for this product is due to be discussed in the upcoming meeting, and I would like to present some proposals that address these concerns.

Firstly, the script should include some pre-qualifying questions early on the telephone call to ensure that customers have a financial need for the product. This will help filter out customers who are most likely to lapse their policies due to poor product fit. I have attached my recommended change to the sales script.

Based on my modelling I estimate that this small change will reduce lapse rates from 10% per month to 5% per month.

My second recommendation is that we include 5 basic medical questions in the script for the sales staff to ask. This will allow us to immediately identify pre-existing conditions for major risks upfront and hence either decline cover or impose exclusions, as appropriate. With our target 24-hour turnaround time to finalise claims we will not have sufficient time to scrutinise policyholders' previous medical records as thoroughly as we would like in order to determine the validity of each claim. Therefore it is important to at least capture some information during the sales process. I estimate this will improve the loss ratio on the product from 70% to 50%.

These two changes will result in lower sales numbers and I estimate that the conversion rates (sales per call made) will reduce from 10% to 8%. Furthermore, these changes will increase the length of our sales calls which means that we need more sales staff. This will result in a monthly expense increase.

My team has adjusted the business case analysis to incorporate these changes (see attached spreadsheet). I believe these changes will be financially advantageous in the long term, though would expect some negative impact in the short term due to the reduced sales.

Please draft a meeting paper to the SalesMachine Marketing Committee for discussion at the end of the week. Bear in mind that the committee members don't have any insurance experience and are primarily focussed on sales volumes.

It is important that you clearly communicate, in your paper, how the benefits of improved lapses and claims outweigh the lower sales volumes. Note that the Marketing Committee will be particularly focused on the impact on profit before tax over time.

Regards,
Peter Taylor
Head of Products: ABC Insurance

Attachment:
Sales Script - Process Map

	<i>Step</i>	<i>Explanation</i>	<i>Time (minutes)</i>
1.	Introduction	Sales staff to introduce themselves, the company and purpose of the call.	0.5
2.	Compliance disclosures	Compliance disclosures regarding protection of personal information, authorised financial services provider, etc	1
3.	Pre-quality	Are you currently employed and/or earn a regular income? Do you earn above \$1,000 per month? Do you have a partner/spouse/dependants	2.5
4.	Features and benefits	Position the key benefits of the product - cover amount, ancillary benefits, quick claims process, etc.	5
5.	Medical questions	Ask 5 basic medical questions to identify pre-existing conditions.	1.5
6.	Capture details	Personal, dependant, demographic and payment details.	3
7.	Quotation	Provide a price	1
8.	Close	Get customer consent. Read any regulatory/compliance disclosures. Wrap up the call.	2

Note: Suggested adjustment indicated in grey

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 meeting paper for the Marketing Committee to explain the merits of the proposed changes. [90]
- 2**
- (i) This paper required you to demonstrate to a committee of experienced sales directors that sales volumes and revenues are not the most important factor to consider in this case. Explain how you used the structure of your paper to construct your argument from a starting point that would be familiar to the members of the marketing committee and take account of how they are remunerated. [6]
 - (ii) Give two examples of terms that you identified to be jargon for this audience, explaining, for each, why you consider it to be jargon. [2]
 - (iii) Explain why you decided to include the data that you did in your visual aids. [2]
- [Total 10]

END OF PAPER