

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

27 September 2019 (am)

Subject CP3 – Communications Practice Core Practices

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

1. You have three hours to complete the paper.
2. You must write your submission using a blank document and not use an imported e-template.

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 candidates 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
T. +44 (0) 1865 268 255

You are Product Actuary at Safehaven and have held this position for four years. You have just been appointed project manager for regulatory changes, including the recent publication of Update Notice 123 by the Financial Oversight Authority (FOA). The first project meeting will take place on 10 October 2019.

You have received the following e-mail from a new member of the Safehaven marketing team:

To: Alex Smith, Product Actuary

From: Sam Jones, Marketing Assistant

Hi Alex,

I have recently joined Safehaven as marketing assistant and my first task is to consider FOA Update Notice 123. I have read the main document but I have not read Annex 1 which looked quite complicated! I see this affects our Safehaven Retirement Income Solution product. My manager has nominated me to be part of the project team because despite not being with the company long, I understand our product and its charges well. I am passionate about giving customers fabulous service.

I manage much of the website content which is accessible to policyholders and I've noticed there are no individual policy projections. I think projections would be a marvellous addition. Policyholders can never have too much readily accessible information in my opinion.

I used to work for AllCovered General Insurers and I heard of stochastic calculations there. I must admit I never really understood them. What does the output of these stochastic calculations look like? Deterministic calculations seem very simple in comparison.

The manager of the customer service team showed me a couple of recent letters to policyholders about their projections. I was surprised we currently only send them in the post but I understand this is what current regulation requires. I see we only use two growth rates – 'Basic' and 'Alternate'. We also project the results to the end of five years. I have yet to speak with the investment team but I believe they set the two growth rates.

I thought the policyholder letters were poor. Even I didn't understand them and I know the product well. Now is a great time to change these to ensure we explain things better.

So in summary to help me prepare for the work ahead, please can you:

- 1 Let me know which projection method we use now and how it currently works including how the two growth rates are set.
- 2 Explain the stochastic method to me and include some results to help me understand how to calculate one of the percentiles that the FOA refer to.
- 3 Help me understand what might change going forwards in the light of FOA Update Notice 123. I understand some changes are optional but there are others that are compulsory.

For your information I am quite numerate. I studied marketing and accountancy at university.

I look forward to receiving the information and working with you. Can you also please confirm the date of the first project meeting so I can add it to my calendar?

Sam

As this is your first time overseeing a project, you have consulted your manager. She has suggested that your response to Sam should outline the basic components of deterministic projections and stochastic projections and answer his other queries.

She has given you the following instructions to follow and some additional information:

- Current projection method is a deterministic one. It is fine to describe the current method, though changes would be needed to comply with the Update Notice if the decision is taken to continue with a deterministic method.
- All letters have the same format. All Safehaven projections use a five year term and intermediate results are never shown. Results are shown rounded down to whole integer.
- Calculations allow for charges and withdrawals correctly.
- Stochastic calculations are used by the financial reporting team so there is in-house experience available to run these models.
- Do not speculate about all the actual changes that will be adopted in the implementation of FOA Update Notice 123. However, you should give two examples of possible changes and two examples of certain changes.
- Please respond directly to Sam in the format he has asked for.
- It is recommended that you aim to use around 750–850 words, although this is not a specific requirement.

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** Write a memo to Sam in response to his email, taking into account the advice and instructions given by your manager detailed above. [90]
- 2**
- (i) This is correspondence to a colleague within the organisation you have yet to meet. Explain how you chose the tone to use on this occasion. [2]
 - (ii) Justify how you presented numerical data in your answer. [4]
 - (iii) State, with reasons, two pieces of information you excluded from your answer. [4]
- [Total 10]

END OF PAPER