INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

April 2018

Subject SA2 – Life Insurance Specialist Applications

Introduction

The Examiners' Report is written by the Principal Examiner with the aim of helping candidates, both those who are sitting the examination for the first time and using past papers as a revision aid and also those who have previously failed the subject.

The Examiners are charged by Council with examining the published syllabus. The Examiners have access to the Core Reading, which is designed to interpret the syllabus, and will generally base questions around it but are not required to examine the content of Core Reading specifically or exclusively.

For numerical questions the Examiners' preferred approach to the solution is reproduced in this report; other valid approaches are given appropriate credit. For essay-style questions, particularly the open-ended questions in the later subjects, the report may contain more points than the Examiners will expect from a solution that scores full marks.

The report is written based on the legislative and regulatory context pertaining to the date that the examination was set. Candidates should take into account the possibility that circumstances may have changed if using these reports for revision.

Luke Hatter
Chair of the Board of Examiners
July 2018

A. General comments on the *aims of this subject and how it is marked*

1. The aim of the Life Insurance Specialist Applications subject is to instil in the successful candidates the ability to apply knowledge of the United Kingdom life insurance environment and the principles of the actuarial practice of life insurance to a United Kingdom life insurance company.

2. The Examiners' Report covers more points than would be expected to get full marks. This is so that alternative approaches to questions by different candidates can be accommodated. Whilst candidates are expected to show knowledge of the relevant content of the Core Reading, it is much more important in this exam to tailor answers and apply that knowledge to the specifics of the question than it is in earlier exams.

B. General comments on *student performance in this diet of the examination*

As usual, the candidates that adapted their solutions to the question set scored well. An example in this paper is question 2 (iv). The question states that the company uses the standard formula approach. Some candidates wasted time discussing, for example, operational risks in some detail whereas the standard formula has a prescriptive approach to determining the SCR.

In many cases students struggled to correctly interpret what was required in Q2 parts (vii) and (viii) and this meant that the exam was somewhat harder than intended when the paper was set. The fact that the exam was therefore more difficult than recent sittings was reflected in the lower pass mark.

C. Pass Mark

The Pass Mark for this exam was 55

Solutions

The marks shown here are out of 200, so represent 0.5/100.

Q1 (i)

The PRA is concerned with the prudential management of companies (i.e. their safety and soundness) [1]
Whereas the FCA is concerned with conduct of companies in financial markets, including the fair treatment of customers. [1]
Both are concerned with ensuring an appropriate degree of protection for policyholders. [1]

The PRA nominates or approves the independent expert [1]
The PRA also approves the form of the report on the scheme of transfer [1]
… and approves the form of the policyholder notice [1]
The FCA consults on these forms… [1]
… but the PRA takes the leading role [1]
Both may be heard by the court [1]
[Sub-total 6]

(ii)

The PRA would be concerned about the capital protection for all groups of policyholders. [1]
The regulators will be concerned with any risk management issues, such as increased operational risk. [1]
The regulators will want to ensure that all affected customers receive appropriate communication. [1]
Policyholders of Company A: [1]
It would want the company to demonstrate that it has the capital available to support the purchased policies… [2]
…without adversely affecting the capital protection (or benefit security) of the existing policyholders [2]
This would be under stress scenarios as well as current conditions [1]

Policyholders of the policies being purchased: [1]
It may be interested in the proposed assumptions for capital calculations… [2]
…and how these compare to those used by Company B. [2]
Both regulators would be concerned that Company A had sufficient expertise to manage the transferred business. [1]
The FCA would be concerned about the fair treatment of the policyholders of the policies being purchased. [1]
Including meeting TCF principles [1]
This would include the policy terms they get from Company A being no worse than those with Company B [2]
This would include charges being no more than those in the current policies… [2]
…and product features being the same or better [2]
The choice of unit funds should be similar (or wider) [1]
The level of service provided should be of at least the same standard [1]
Application of discretion should be similar to that in Company B [2]

Remaining policyholders of Company B: [1]
The regulators may also be concerned with competition regulation… [1]
And whether the purchase of these policies leaves Company A in a dominant position in the group pensions market [2]
The regulators may be concerned that this group of business may be worse off due to, for example, the loss of cross subsidies. [1]
[any sensible example]

[Sub-total 12]

(iii) Company A should prepare estimates of what its balance sheet or ORSA would look like post-purchase [2]
…including its ability to meet solvency capital requirements [2]
… on a base scenario [1]
… and also under some stress/adverse scenarios [1]
Consider de-risking if capital is an issue. [1]
It should also ask Company B to do this for its remaining business [2]

Company A will need to obtain information from Company B on the details of the products... [2]
… and the level of charges [1]
It could continue these with no change [1]
Or it could improve them (e.g. reduce charges) [1]

Company A may look to revise the way the products are structured, [1]
e.g. the small schemes could be converted to individual policies to lower the admin cost [1]
or put into one large group scheme [1]

Company A may need to continue to offer the original range of unit funds [1]
… or it could combine them with existing funds if this does not restrict the choice [1]

The company needs to replicate all product features [2]
It needs to ensure that the discounts available on the executive product for higher fund sizes continue [2]
And that the loyalty bonus is still be paid on the medium-sized employer product… [2]
… despite the policies technically no longer remaining with Company B [1]

To reproduce these features, it may need to build new systems functionality… [2]
Or outsource the administration of the policies to a company which can replicate the features… [1]
Or buy the customers out of the features during the transfer [2]

The company needs to obtain details on the service standards promised by Company B [2]

And then amend its own standards accordingly, if required [1]
It will need to provide training to its existing staff on the new products [1]
Or it may be possible to transfer staff from Company B. [1]
The higher level of administration provided to the small employer pension product should continue [2]

The company needs to obtain information on how Company B has applied discretion / interpreted terms and conditions [1]
For example, for the pension contribution protection benefit it needs to ensure that it does not apply a stricter definition of the medical evidence that is required [1]
If any of the annual management charges are variable… [1]
… it should aim to continue past practice in terms of how frequently they are changed [2]

The company could point out that these products are currently closed to new business and so the purchase is not affecting the current market [1]
It could also do some analysis to show the before and after market share of pensions policies [1]

The company should discuss issues with the regulators. [1]
[any reasonable examples] [1]
The plans for the transfer of business should be shared. [1]
For example, plans to transfer the business in stages. [1]
[Sub-total 20]

(iv) Company A will want to make a profit (or not make a loss). [2]
This may be included as an explicit margin within the additional amount [2]

But there could also be profit implicit within the technical provisions [2]
In order to assess this, it may wish to recalculate the technical provisions using different methods or on a different set of assumptions… [1]
i.e. factoring in the expected new assumptions once the business is with Company A [1]
e.g. new expense levels [1]
… which may take advantage of synergies/economies of scale within Company A [1]
Commercial considerations, for example cross-sell opportunities. [1]
Different expected earnings (relative to EIOPA rules) or volatility adjustment. [1]
May wish to adjust for contract boundaries… [1]
… or lost transitional arrangements. [1]
And any tax synergies [1]
And any capital synergies from diversification [2]
And any expected persistency impact as a result of the transfer [2]
Any expected improvements to benefits/charges should also be taken into consideration in the analysis [1]

The company may potentially require an additional amount to cover the cost of holding capital for other (i.e. hedgeable) risks which are not included in the risk margin calculation [2]
The shareholders may have a different view of risk/risk appetite than that allowed for in the Solvency II risk margin [2]

Company A may wish to receive a higher amount if it has concerns about data quality [2]

Company A should take account of the cost of undertaking the transaction[O2]
Including the cost of developing its systems [1]
And the legal support required [1]

The acceptable amount may also be influenced by whether there are any other interested bidders [2]
And whether Company B is a willing seller or not [2]
And prices of any other recent transactions [2]
Company A will also consider whether there are any other opportunities available in the market [1]
Or alternative uses of its capital [1]
Nature and quality of assets being transferred from B to A as part of transfer of liabilities to A [1]
[Sub-total 16]

(v) Changes could increase or reduce tax (or tax relief) [2]
Changes could remove specific features completely [1]
Changes could introduce new features [1]
Changes may only affect certain groups of policyholders (for example, Executive Pension arrangements or those with small/large holdings). [1]
[Note to markers: give the above for any mention of increasing/reducing and removing, i.e. for any specific feature]

Contributions
Tax relief on the pension contributions could be changed [2]
The annual allowance (maximum pensions contributions in a year) could be changed [1]
The facility to carry forward unused annual allowances could be changed [1]
The annual allowance tapering could be changed [1]
Rules relating to tax relief on employer contributions could be changed [1]

Benefits
The tax-free amount allowed to be taken could be changed [2]
The way in which pension income is taxed could be changed [2]
The lifetime allowance could be changed [2]
The rate at which the lifetime allowance increases each year could be changed [1]
The tax rate applicable to funds in excess of the lifetime allowance could be changed [2]
Taxation of death benefits or on inheritance could be changed [1]

The taxation arrangements may be changed for certain products such as income drawdown [1]

Investment

The way in which investments held by pension funds are taxed could be changed [1]

The list of tax exempt assets could be changed [1]

Company taxation

Pensions business may no longer be taxed on a trading profits approach [1]

It may no longer be taxable at corporate tax rates [1]

The definition of taxable trading profit could be changed [1]

[Sub-total 14]

(vi) If tax relief on contributions (or the extent of contribution allowances) is made more generous or increased, this could encourage policyholders (or employees) to increase their contributions [1]

If the relief is reduced, limited or removed this could encourage policyholders to reduce their contributions [1]

Changes in, for example, the tax free amount may affect when people choose to retire [1]

Or any changes to the way death benefits are taxed may affect their inheritance tax planning [1]

Though the impact of this would depend how many policyholders were impacted by the change or any limit imposed [1]

Given that policyholders are likely to want to continue to save for retirement… [1]

… the impact of any reduction or removal would depend on the attractiveness of alternatives, such as ISAs, to do this [2]

Changes to employer tax relief rules may result in the employer paying different levels of contributions… [1]

… which may affect the level that employees wish to contribute if employer contributions are matched [1]

The impact on policyholder behaviour of changes to taxation on benefits would be similar as for tax relief on contribution changes… [1]

…but likely to a lesser extent… [1]

… given that the actual policyholder impact of such a change is not seen until retirement… [1]

… compared to immediate impact of tax relief changes. [1]

The impact also depends on the alternatives available to provide retirement income [1]

The impact of changes to how the investments in pension funds are taxed may be even less [1]

As policyholders may not be so aware of these rules [1]

It may affect the type of assets that policyholders invest in [1]

If changes to company taxation result in changes to prices/charges [1]

Then this could affect propensity to purchase products [1]

Uncertainty around the arrangements may make people defer investment decisions [1]
It may change the timing of accumulation / de-accumulation [1]
It may also encourage more people to take advice [1]
It may affect the form of the benefits taken [1]
There may be greater levels of transfer out or paid up [1]
Alternatives to investing for retirement may seem more attractive (holidays…) [1]
[Sub-total 12]

(vii) **Systems**
The company may need to change its systems to be able to comply with the new tax rules [1]
Depending on the change this might be a simple parameter change or it might be more extensive [1]
Changes to systems increases operational risk [1]
There will be a cost of making such changes [2]

Volumes and profitability
There is likely to be an impact of the volume (or level) of contributions [1]
For the group schemes, the impact could be on contributions from both employees and employer [1]
The extent of this depends on which element of the tax regime is changed and how it is changed [1]
At an extreme, the pension products may all transfer or become paid-up [2]
The change in contribution level will impact the profitability of products [2]
And may change expenses… [2]
… depending on the cost of administering contributions [1]
Due to fixed costs,… [2]
… higher contributions are likely to increase the profitability of products (or vice versa) [1]
And would result in lower non-unit reserves (or vice versa) [2]
If the tax changes are to the corporate taxation of pensions, then this will have a direct impact on profit [2]
The company may wish to change its charges/pricing [2]
Although this may not be possible for existing business [1]
The company may wich to hold more capital for the uncertainty [1]
There may also be an impact on the potential to sell new pensions/schemes [1]
Customer service
There is likely to be an increase in the volume of customer queries… [2]
… as they want to understand the impact on them [1]
The company will need to have the resource levels… [2]
… and skill set / training to reply to these queries [1]
There may also be additional demand on customer services if the method of changing contribution levels is not automated [1]

Other products
The changes may make other products look more attractive for retirement savings [1]
This could lead to increased demand for those products [1]
If the company does not already offer these products, it may want to consider developing them to ensure it does not lose money to competitors [1]

The company would consider what competitors are doing as a result of the changes [2]
The extent of the impact could also depend on the distribution channel used [1]
The existing post retirement products may become inviable [1]

Other
Literature and annual statements may need to be changed [1]
If the changes are material, then there will be major change within the company leading to management distraction [1]
Staff may need to be reallocated [1]
Salesforce may need re-training [1]
Adverse changes may increase competition (for example lower charges) to attract more business [1]
Increased withdrawals may make the company a forced seller of assets [1]
Ultimately, it may impact on the company's share price and credit rating [1]

[Sub-total 16]
[Total 96]

i. This was reasonably well answered; those that scored more highly recognised the different roles of the two regulators.
ii. Those that scored well considered the answer from the perspective of the policyholders of Company A, the policyholders being transferred and the policyholders that remain in Company B.
iii. Candidates who built on their answer to part ii) and considered some of the specific features of the products in the question scored well.
iv. This question differentiated well. Some marks were available for discussions of differences between the models and assumptions used by the two companies. However, the highest marks went to those that considered the wider business perspective.
v. Those that understood the relevant section of the Core Reading and applied it to the business in the question scored well. Quite a few candidates believed, incorrectly, that the business was BLAGAB.
vi. Those that considered a wider range of policyholder behaviour, including, for example, the relative attractiveness (or otherwise) of other product types, scored well.

vii. *A wider discussion than simply a consideration of profitability was required to score well.*

Q2 (i) The new contract is a life insurance "investment" contract [1]
Hence it will be subject to requirements of the Retail Distribution Review (RDR) [1]
The existing term assurance product is not covered by the RDR, so the RDR requirements are all "additional" [1]

Qualifications
Advisers must have obtained stringent qualification requirements before being able to provide advice on investment products [2]

Capital Adequacy
Adviser firms must have a certain level of capital adequacy [2]
i.e. holding three months of expenditure in realisable assets [1]

Remuneration
Commission is not permitted on investment products [1]
Instead, there is a more transparent requirement whereby policyholders pay explicit amounts… [1]
… via fees [1]
Given this is a product sold to individuals and not to groups… [1]
… the remuneration will be via adviser charging [1]
… rather than consultancy charging [1]
The level of remuneration will be agreed between adviser and policyholder [2]
The fee is explicitly deducted from a policyholder's fund or premium [2]
The timing of payments to advisers must coincide with payments from policyholders [1]
Paying a lump sum to the advisor *in lieu* of future payments (factoring) in not permitted. [2]
Given this is a single premium product, this would imply that deductions would be made from the initial premium [1]
There may be payments based on the value of investments (i.e. unit fund value) [1]

Advice
The RDR sets out four types of advice that can be offered by financial advisers [1]
Policyholders must be told what level of advice they are being given [1]

Basic advice only applies to stakeholder pensions [1]
So is not appropriate here [1]

Simplified advice is for customers with relatively straightforward needs [1]
… delivered through a decision tree process… [1]

… so is unlikely to be appropriate for the new investment product [1]

Restricted advice is a fuller level of advice [1]
… but is given by advisers who only recommend products from a limited number of firms, products or funds [1]
This could be relevant for this single premium bond [1]

Independent advice is full advice, where an adviser can recommend products from the whole market [1]
.. advice must be based on comprehensive and fair analysis of the relevant market [2]
… and must be unbiased and unrestricted [2]
This level of advice will be relevant for this product [1]

Financial advisers may offer different levels of advice on the new product to different clients. [1]
[Sub-total 20]

(ii) Under IFRS, the term assurance is classified as an insurance product [1]
… under IFRS4… [1]
… as it has significant insurance risk [1]

The unit-linked bond will be classified as an investment product [1]
… because the additional death benefit of 1% of units is not considered significant [1]
As a result is measured under IAS 18 and IAS 39 [1]
[Sub-total 4]

(iii) The assets held for both products will be measured at current market value [2]
… and will not be subject to any admissibility requirements [2]

The liabilities for the term assurance under "Old UK GAAP" will be derived from those calculated under Solvency I regulations [2]
… any excess prudence may be removed [1]
… and any reserves held in respect of general contingencies are not likely to be included [1]
For the unit-linked bonds, the cashflows arising are separated into an investment management services component… [2]
… measured in accordance with IAS 18 [1]
And a financial instrument component… [2]
… measured in accordance with IAS 39…. [1]
i.e.at fair value [1]
… i.e. with liabilities valued as the value of units [1]

For insurance contracts (i.e. the term assurances)… [1]
… a deferred acquisition cost (DAC) asset may be held [2]
… if the initial strain due to acquisition expenses… [1]
… is expected to be recovered from profits to be obtained in subsequent accounting periods [1]

When DAC is established it is written down gradually (amortised)… [1]
… over the period in which it is expected to be recovered [1]
It is likely to be amortised at a rate commensurate with the pattern of margin emergence [1]
For investment contracts a form of DAC for commission type expenses is allowed [1]

[Sub-total 12]

(iv) The impact depends on the level of sales [1]

Market risk module
There is likely to be very little current market risk in relation to term assurances for the company [1]
The market risk components of the SCR will increase due to the new product [2]
… given that the value of future income from the bonds will be reliant on the annual management charge… [2]
… which is directly related to the value of the unit-linked funds [1]
The level of increase in the sub components of market risk will be dependent on the make up of the unit-linked funds [2]

Equity risk will rise… [2]
Property risk will increase if there is any property within the funds [1]
Credit spread risk will increase if corporate bonds are held within the funds [1]
Interest rate risk will move to the extent to which there are fixed interest stocks in the funds [1]
Currency risk will increase… [1]
… if the currency of the funds underlying the annual management charges is different from the currency of the expenses incurred [1]
Concentration risk may increase… [1]
… depending on how diversified the funds are [1]

Life underwriting risk module
Persistency risk sub-module [1]
There will be an element of persistency risk currently with the term assurance policies [1]
This is likely to increase materially… [2]
… due to the need to allow for the risk of high future withdrawals from the new product [1]
Given that withdrawals will reduce the value of future amcs [2]

Expense risk sub-module [1]
There will be some significant expense risk already from the term assurances [2]
… given these ordinarily have guaranteed premiums [1]
The new product will also have an expense risk [1]
… since the expenses are likely to have a fixed element (i.e. are not directly linked to the unit fund value, like the charges are) [1]
It is not clear whether the fund charges are guaranteed or variable at the company's discretion [1]

If variable, that would reduce the additional risk [1]

Mortality risk sub-module [1]
This will be the key risk under term assurances [1]
.. but is not a significant risk under the bonds [1]
… hence a small increase to the SCR for this sub-module [2]

Counterparty default risk module [1]
There may be some additional counterparty default risk if corporate bonds are held in unit-linked funds… [1]
… but there is unlikely to be a significant change to this element of the SCR… [2]
… particularly if it currently mainly reflects reinsurance default risk [1]
e.g. IFAs (any example)

Operational risk module [1]
The level of operational risk under the standard formula is based on percentages of earned premiums and technical provisions [1]
These are likely to be higher under unit-linked bonds than under term assurance [1]
… and hence the operational risk element of SCR will likely increase… [2]
… materially [2]

Aggregation
The new product is likely to introduce additional diversifications between risks… [1]
… so whilst overall the SCR will increase… [1]
… the overall impact on the SCR will not be as significant as the sum of the standalone impacts for each risk module [2]
There is unlikely to be any adjustment for the loss absorbing capacity of technical provisions at present… [1]
… and this is likely to remain the case [1]
[Sub-total 28]

(v) The selling of term assurances and investment bonds is treated differently following RDR. [1]
Sales of term assurances were not impacted by RDR, [2]
…and it may be that IFAs who sold those are not permitted to sell investment bonds. [2]

The customers buying the two products are likely to have different reasons for doing so [2]
… e.g. term assurance for protection of dependants [1]
… e.g. investment bonds for savings and potential future inheritance [1]

Hence may be difficult to find reasons for customers to buy both. [1]
And may be very different target markets. [2]
If they require protection, then they may not have a lump sum to invest [1]
If they have savings, they may not need protection [1]

Need to be careful to avoid situations where products are cross-sold to customers without fully understanding their needs. [2]
Or without treating them fairly. [1]

There are likely to be a number of term assurance policyholders who no longer actively deal with their original IFA (orphan clients), [2]
… or the original IFA may no longer be in business. [1]

Contact with existing customers, in terms of purchasing new products, is likely to be via IFAs. [1]
So the company may have limited opportunity to pursue cross-selling opportunities. [2]
If the company contacts customers directly, this could damage existing relationships with distributors. [2]

Selling through IFAs requires both products to be competitive in the marketplace... [1]
… otherwise IFA would find it difficult to place business with the company[1]

Data protection legislation may be an issue [1]

[Sub-total 10]

(vi) Ensure that those IFAs who are only now able to sell term assurances are encouraged to meet the required qualifications and requirements. [2]

Ensure that IFAs only sell where they have adequately understood customer needs. [2]
Perhaps consider redesigning the term product offering [1]
Provide sales training [1]
And clear documentation [1]

Company will need to understand how to contact the orphan clients without breaking any agreements with IFAs. [2]

Company would need to work with IFAs in publicising its new product [1]

May want to consider multiple product discounts. [2]

May need to consult with (or get advice from) any reinsurers. [1]
The company may want to invest in advertising in order to promote the company brand [2]
… to the general public… [2]
… and directly to IFAs [2]
Alternatively through sponsorship [1]

May decide to improve customer service (this may be used as a differentiator when discussing products with IFAs) [1]

Consider how the investment bond could be designed to be consistent with the target market for the protection product [1]

[Sub-total 8]

(vii) Cashflow models used for embedded value and Solvency II are likely to be on a policy by policy rather than customer basis [2]
Or they may be on a grouped model point basis [1]
Hence need to adapt in-force data inputs to identify customers / to identify policies already sold to the same customers [2]

Similarly would want to consider whether data from historic experience investigations can be adapted to reflect customer rather than policy [1]
… particularly for persistency data [1]
… and potentially mortality data [1]

May want to get additional data on customers to enable customer segmentation [1]
e.g. IFA [1]
location/postcode [1]
occupation [1]
income [1]
underwriting data [1]
any other sensible answer [1]

[Sub-total 6]

(viii) The company needs to consider what metric to use [1]
Customer value could be monitored purely from persistency rates… [1]
… but the implication here is that something more sophisticated is required [1]

Customer value may typically also be based on embedded value measures [2]

However, under Solvency II there is no longer a present value of future profits (or PVIF) element, [2]
As it has been replaced by best estimate (rather than prudent) liabilities (BEL) [2]

For term assurance the BEL is likely to be negative early on [1]
… indicating a value to the company from future profits under the policy [2]
However, the BEL will vary over the term of the policy [1]
… as mortality risk increases, and premium remains fixed [1]

Would also need to incorporate the release of the SCR [2]
and risk margin [2]
… hence would require a methodology to determine that release profile [2]

Alternatively may want to calculate an explicit PVIF [1]
… using prudent reserves used under IFRS reporting [2]
… and the PVIF would effectively be the release of the prudent margins over time [2]

The company may want to split the assumptions using customer segmentation [1]
… particularly for persistency [1]
… could also do adaptations for mortality assumptions [1]

This would require some adaptation of any cashflow model to allow for this. [1]

The value calculation should include profits arising from the expectation of multiple future policy purchases [2]
Taking into account customers' changing needs over their lifetime [1]
Perhaps by using available underwriting data [1]
Neither IFRS or Solvency II Pillar 1 allows for future new business [2]
So either method would need further adjustment for that element [1]
This would need to be done by estimating future purchasing patterns based on past experience [1]
Or using wider industry data / advice [1]

[Sub-total 16]
[Total 104]

i. *Those that understood the business environment for distribution within the context of the question scored well. Specifically, understanding the different requirements of advisors, following the Retail Distribution Review, for the different product types.*
ii. *Those with understanding of the relevant section of the Core Reading and who applied it to the products in the question scored well. Credit was given to those who were aware of changes made since the Core Reading was published.*
iii. *This question was able to differentiate between those candidates who knew a certain amount of bookwork and those who could apply it to the circumstances in the question.*
iv. *This question was well answered. The highest scores were achieved by candidates that went through the standard formula model risks and commented on the relative change in capital required from launching the new product compared to the current product.*
v. *This question required an understanding of the likely target markets for each product as well as the distribution methods appropriate for those markets and products and was well answered by the better prepared candidates.*
vi. *Credit was awarded for any reasonable suggestions.*
vii. *This question part was looking to see if candidates would consider what would be needed in the data in order to be able to place a value on the customer. The question was not asking about the vif on the policy, and was looking to see whether candidates could think about other things which would impact*

	customer value, such as their occupation, income, location. Marks could also be picked up by commenting that policy by policy data is different to customer data. Few candidates showed knowledge of customer value.
viii.	*There were a lot of potential marks to be picked up by candidates, but few did well on this question part. The question was looking for candidates to know that part of the customer value was embedded within the existing contract, so considerations of which metric would give the best results was required, along with an explanation of which elements of the existing cash-flows would be included. This coupled with an understanding of needing to adapt the calculation to allow for future new business based on future purchasing patterns and some form of customer segmentation would have gained significant marks.*

END OF EXAMINERS' REPORT