

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORTS

September 2019

Subject SP2 – Life Insurance

Specialist Principles

Introduction

The Examiners' Report is written by the Chief 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.

Mike Hammer
Chair of the Board of Examiners
September 2019

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

1. The aim of the Life Insurance Specialist Technical subject is to instil in successful candidates the principles of actuarial planning and control, and mathematical and economic techniques, relevant to life insurance companies. The student should gain the ability to apply the knowledge and understanding, in simple situations, to the operation, on sound financial lines, of life insurance companies. The life insurance products covered by this subject exclude health and care insurance products covered by the Health and Care Specialist Technical subject.
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. The Examiners may also award marks for valid points that are not included in the marking schedule.
3. Candidates are expected to show knowledge of the relevant content of the Core Reading, and be able to apply this knowledge where appropriate.

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

Questions that focussed on knowledge of the Core Reading were generally well answered by well-prepared students.

In the higher mark application questions, stronger candidates generated the required breadth of points, using the specifics of the question, rather than focussing on a smaller number of themes, e.g. questions 4, 7(iii) and 9 (ii), and these proved to be questions which differentiated candidates.

C. Pass Mark

The Pass Mark for this exam was 56

Q1

Longevity

- The risk that policyholders live longer than expected. [½]
- Mortality improvements will increase the amount the insurer must pay out [½]
- and the expenses associated with the contract [½]

Investment

- The risk that assets backing the annuity portfolio underperform expectations [½]
- This is only a risk to the extent that assets are mismatched to liabilities. [½]
- And to the extent there are any potential credit defaults [½]

Expenses

- The risk that expenses are higher than expected. [½]
- And/or that expense inflation is higher than expected [½]

[Marks available 4, maximum 3]

Overall this was the most well answered question with most candidates referencing all three risks and the stronger candidates describing how they apply to immediate annuities specifically.

Q2

The aggregate asset shares at year end are calculated using the following formula:

Aggregate Asset Share at start PLUS Premium Income and Investment Income MINUS Expenses and Commission and Claims MINUS Shareholder Transfers *{mark given if formula implicit in calculations}* [1]

Asset Share at start = 5000 x 10000 = \$50m [½]

PLUS Premium Income = 500 x 10000 = \$5m and Investment Income of \$1.9m [½]

MINUS Expenses = \$0.5m and Commission = 0.02 x 5,000,000 = \$0.1m [½]

MINUS Claims = 180 x (6000+1000) = \$1.26m [½]

MINUS Shareholder Transfer on Terminal Bonus on Death
(180 x 1000)/9=\$20,000 [½]

MINUS Shareholder Transfer on Reversionary Bonuses
((10000-180) x 6000) x 0.04/9 = \$261,867 [½]

Total

50,000,000 + 5,000,000 + 1,900,000 - 500,000 - 100,000 - 1,260,000 - 20,000 - 261,867 =
\$54,758,133 [1]

[Total 5]

This question was answered reasonably well with most candidates including the elements of the calculation required. Stronger candidates set out their full working which meant that the marks for working were gained and less small arithmetic errors were made.

Q3

Regulatory

- May be seen as unfair contract, [½]
- May not be seen as treating customers fairly [½]
- given there is a fixed increase and this may be unacceptable in certain regulatory regimes [½]
- Contracts are long term, and hence regulatory regimes change therefore whilst it may be OK now, it might not in the future [½]
- The increase of 5% may be considerably out of line with long term inflation, and hence seen as unfair. [1]

Legal

- The clause could be seen as being open to interpretation [½]
- .. could be a percentage of units or a fixed charge [½]

Expenses

- The charge may not match expenses [½]
- Either in terms of magnitude or incidence [½]
- Inflation may be higher than 5% which may mean a future expense risk [½]
- Inflation may be lower than 5% then this may be seen as a PRE issue, or a further issue with unfair contract terms [½]
- Charge is only taken on policy anniversary (i.e. in arrears) [½]

Competition

- the charge may be out of line with competitors [1]
- this may lead to reputational damage [½]
- which may in turn lead to lower new business volumes [½]

Marketing

- the charge may be seen as a hindrance to marketing strategy [½]
- this may lead to reduced volumes of new business, [½]
- with knock on impacts for expense loadings [½]

Actions of Distributors

- intermediaries may not have pointed out the clause to policyholders [1]
- may lead to mis-selling [½]
- charge may be unpopular with the intermediaries [½]

Investment Return

- if policyholder units have been subject to a low investment return, a fixed charge may become excessive and significantly reduce policyholder units [½]
- could have further PRE issues [½]
- if the charge is a percentage of units then expense risk higher if investment return is poor [½]

Guarantees and Options

- the increase is guaranteed, and thus may increase capital requirements [1]

Persistency

- reputational and other risks may increase persistency risk [½]
- which may then lead to further expense risk [½]

Operational

- company does not take or amend the policy charge as outlined in the terms and conditions [½]
- which may make it more difficult to take charge in future [½]
- and make it difficult to recoup any uncollected charges [½]
- leading to potential regulatory issues [½]
- and impacting profitability [½]

Impact on smaller policies

- a fixed monetary charge may adversely affect smaller policies more than larger [½]
- which may lead to adverse reputational issues [½]

[Total marks available 19, maximum 8]

This question was well answered with most candidates covering a good range of risks and some expansion points against each. The strongest candidates considered the majority of risks, going into some depth on each and considering, for example, the implications of both high and low inflation on the policy charge increase.

Q4

Mortality options are normally valued using cashflow projections based on expected future experience [1]

- Stochastic modelling is not generally used, although the company may want to conduct sensitivities to mortality assumptions when assessing the appropriate price [½]
- Similar for take up rate assumptions [½]
- The theoretical price of the guarantee should be the expected cost of benefits from the guarantee, [1]
- plus the expenses associated with administering the guarantee option [½]
- less the expected future premiums to be paid for the additional benefits [½]
- In addition the company may want to include a profit (or experience) margin [1]
- or adjust prices in order to be competitive on the market, as this alters the product offering [½]
- Expected cost of benefits will require an assumption as to the expected take up rates at the 5th and 10th anniversaries [1]
- This expectation may be set at an aggregate level or may be varied by factors such as age or distribution channel [½]
- The company will want to reflect the change in mortality assumptions when determining the price of the option. [1]
- Due to anti-selection, the mortality experience of lives who exercise the option should be heavier than those who do not [1]
- In general, the less people exercising the option, the heavier the mortality is likely to be [1]
- This increase in mortality may be via a percentage increase in mortality [½]
- or an age loading may be applied (e.g. a policyholder with age x exercising the option is assumed to have an age of $x+3$ for determining mortality assumptions) [½]
- It will also need to allow for the different mortality on the lives that do not exercise the option [it may be lower or using ultimate mortality] [½]
- The company is unlikely to have any relevant past experience to set the expected assumptions [1]
- So it may wish to draw on external expertise [½]
- An alternative simpler approach is to assume all policyholders exercise the most onerous option [½]
- and assume ultimate mortality for the option (compared to the select mortality the premium will be based on) [½]

The company may want to allow for the cost of holding additional reserves in respect of the option [½]

The company may want to check how the competition is charging for similar guarantees [½]

The company may want to add a margin for uncertainty [½]

[Marks Available 15½, Maximum 9]

This question overall was not well answered by candidates despite it being grounded in standard option pricing considerations. Many candidates considered option pricing techniques and stochastic modelling which are less appropriate for mortality options. Some candidates that did consider these approaches were still able to gain marks through considering the assumptions required. Stronger candidates thought through the specifics of the question and the mortality assumptions in detail.

Q5

(i)

In country A, the solvency capital requirement is likely to be lower than for country B... [1]

... as the reserves already contain significant margins whilst in country B, the reserves contain no margins... [½]

The solvency capital requirement in country B is likely to be determined using risk based capital techniques... [½]

... whereas in country A, the solvency capital requirement may use a simpler approach... [½]

... such as multiples of reserves, sum at risk or gross premium. [½]

The solvency risk capital requirements in country B are, therefore likely to be closely related to the individual risks borne by the company. [½]

Whereas the solvency capital requirement for the company operating in country A may be less closely related to the risks borne by that company. [½]

[Marks available 4, maximum 3]

(ii)

The supervisory balance sheet is subject to stress tests ... [½]

... on each of the specified risk factors. [½]

Each stress test is calibrated to be equivalent to 99.5% over a year. [½]

The change in the balance sheet surplus for the stressed vs the base balance sheets gives the capital requirement for that risk factor. [½]

The total capital requirement needs to combine the individual capital requirements... [½]

... in a way that reflects the diversification benefits between the risks. [½]

... and allows interactions between risks [½]

This may be achieved by using correlation matrices... [½]

... or copulas. [½]

The total capital requirement is likely to be less than the sum of the individual capital requirements for each risk. [½]

The calculation of the solvency risk capital may be done via a standard formula [½]

... or via a model (stochastic or deterministic) [½]

[Marks available 6, maximum 3]

[Total Marks available 10, maximum 6]

This question was answered reasonably well across both question parts. Most candidates picked up the marks in part (i) describing the difference between the likely relative size of the reserves and solvency capital requirements. Stronger candidates then also commented on the differences between how the solvency capital requirements may be calculated in the two countries. In part (ii) most candidates covered the stress concept based on risks to the 99.5% calibration with many also then describing diversification.

Q6

(i)

As the company has written significant volumes for many years, it is likely to have sufficient data to set assumptions. [1]

Base mortality

- It would select a suitable period of years of its data so that the volume of data is adequate... [1]
- ... but without introducing excessive heterogeneity due to trends over time. [½]
- The data would be divided into relevant homogeneous groups. [1]
- Again, subject to there being sufficient data in each group. [1]
- Anti-discrimination legislation may prevent grouping by, for example, gender. [½]
- It may construct its own mortality tables. [½]
- Or it may adjust standard tables for assured lives in the market that it operates. [1]

Mortality trends

- If mortality trends indicate worsening mortality rates, the company will want to allow for this trend... [1]
- ... as both the premium and sum assured are guaranteed. [½]
- Mortality trends may be supported by data from industry statistics, reinsurers or research papers [½]
- If mortality trends indicate improving mortality rates, company A might not reflect this in its pricing assumption... [½]
- ... allowing the likely improvements to operate as a margin for prudence/uncertainty... [½]
- The company will want to look at competitiveness of the product and may allow for mortality improvements in its pricing basis so that the resulting premium rates will be more competitive. [1]
- If there are any differences in the lives expected to take out the repriced product to those used in the mortality investigation, adjustments may be needed. [½]
- Having determined the best estimate mortality assumption, a margin for uncertainty may be added... [1]
- ... unless the allowance in the risk discount rate is considered sufficient. [½]
- The company may use sensitivity testing to help derive the assumptions [½]

[Marks available 13, maximum 7]

(ii)

In general there is more uncertainty and the company may want to include margins in the assumptions [½]

Company would consider any differences between the standard mortality of its own territory and the proposed territory. [½]

And:

- any differences in the target markets between the two territories. [½]
- any differences in sales channels used between the two territories which would affect mortality [½]

It may conclude that the markets are sufficiently close that the same mortality assumptions may be used. [½]

Or it may conclude that any differences can be allowed for by simple adjustments to its existing basis. [½]

The company is unlikely to have sufficient data in the territory [1]

If it writes any other business in the territory, then it may be able to use that experience [½]

Otherwise it may have to consult with reinsurers. [1]

Or if possible obtain industry statistics or information from competitors [½]

The resulting basis may be based on standard tables for the new territory. [1]

The company may have to allow for different legislative or regulatory requirements in the new territory. [½]

Underwriting standards may differ between territories which would affect the mortality of those purchasing the product. [½]

[Marks available 8, maximum 4]

[Total Marks available 22, maximum 10]

This question was fairly well answered overall. In part (i) the majority of candidates described well how the base mortality assumptions would be set and considered the existing data on which to base these. Stronger candidates were able to apply the specifics of the question when considering the mortality improvements and whether it would be appropriate to take these into account. In part (ii) stronger candidates focussed beyond the initial points on mortality experience difference between the two countries, to wider points including data and legislation.

Q7

(i)

Require a reasonable volume of credible data. [½]

, from which future experience and trends can be deduced [½]

It is important to agree the period over which the data will be collected. [½]

Data is divided into sufficiently homogeneous risk groups. [½]

There is a risk of creating data cells that have too little data in them to be credible. [½]

[Marks available 2½, maximum 2]

(ii)

Term from inception has very little exposure in the early years [1]
 Probably since the contract has been sold for a number of years but sales have reduced over recent years [1]
 This makes the data less credible [1]
 And so experience in the early years is very volatile as fewer policies [½]
 There is a significant concentration of exposure in the 6+ category [1]
 which doesn't provide much in the way of useful information to the company [½]
 It may be more appropriate to group the data by term from inception in different categories [1]
 e.g. combine some early years [½]
 And split out later years [½]
 To make it more meaningful analysis [½]
 Analysis by term from inception will help identify any issue once surrender penalties cease (at year 4) [1]
 Or any incidence of mis-selling [½]
 e.g. high lapses in year 1 or 2 [½]
 Term from inception analysis is in line with current assumptions [½]
 ... and hence the work involved in changing to term to retirement is reduced [½]
 Using a term from inception analysis will mean early retirements are not easily identifiable, [½]
 and the lapse assumption may therefore be understated or inappropriate [½]
 Term to retirement may be more appropriate if the product has more experience in recent years [1]
 As more credible data will be available in each cell of the analysis [1]
 Resulting in more stable experience [½]
 The effect of early retirements is more noticeable... [½]
 ...with a pattern of increasing lapse rates in the years prior to retirement [½]
 Performing the analysis on term to retirement will mean that early retirements are recognised in the experience and appropriately reflected [1]
 However the impact of surrender penalties or mis-selling are less obvious [½]
 On balance it would be wise to move to a term to retirement basis [1]
 However this depends on the purpose of the investigation, which hasn't been stated [½]
 [Marks available 18, maximum 8]

(iii)

Frequency of premiums [½]
 With monthly premiums there are more opportunities to stop paying premiums than if premiums are annual [½]
 Size of premium [½]
 A larger annual premium may be considered less affordable than a smaller, regular payment. Similarly, a high premium relative to income will be harder to afford than a smaller one. [½]
 Premium payment method. [½]
 Premiums paid in cash are more noticeable than premiums paid directly from a bank account and so lead to lower persistency rates. [½]

Age	[½]
Experience tends to be worse for younger ages.	[½]
Size of contract (e.g. fund size)	[½]
A smaller fund may be transferred to another provider to consolidate funds	[½]
A larger fund may be transferred to other providers if policyholders shop around in the market for the best deal	[½]
Target market (e.g. subdivide by policyholder type)	[½]
It may be possible to identify policyholder types that have poorer persistency (e.g. socio economic splits)	[½]
Intermediary	[½]
It may be possible to identify those intermediaries, or groups of intermediaries, that have poorer persistency	[½]
Although the data may be difficult to obtain, especially if intermediaries have changed over the contract.	[½]
However could look at groups of intermediaries (e.g. large firms and smaller firms)	[½]
Gender	[½]
There may be different state pension provisions for male/female which may impact persistency	[½]

[Marks available 9½, maximum 6]

[Total Marks available 29½, maximum 13½]

Overall this question was fairly well answered, more so in parts (i) and (iii), with many candidates covering the core reading points for part (i). Part (ii) was not answered quite as well with stronger candidates identifying volatility of the lapse rates under the first approach and the lack of credible data in each term category. Part (iii) was generally well answered with stronger candidates utilising the specifics of the question, for example the intermediary distribution approach.

Q8

(i)	
Company A would take on all risks of company B if they bought them	[1]
This would include any risks in relation to data quality	[1]
This data quality could affect the liabilities of company B ..	[1]
and the capital required to support the business	[1]
Liabilities (and capital) are calculated from data directly from the policies themselves	[½]
e.g. [half mark for each of first two examples] policyholder age, sex, premiums paid, sums assured	[1]
Poor data quality may also affect other data not directly from the policies	[½]
e.g. [half mark for each of first two examples] experience analysis, pricing assumptions, asset data, management information	[1]

The lower the quality of the data the more additional capital the company would want to hold to cover this uncertainty	[1]
This might also indicate the quality of controls across the company	[1]
e.g. if data is poor then this may indicate that less validation is done of data entered into the system	[½]
Poor data could indicate that the management of B has not been good – so it is possible there could be other problems that could become apparent later	[½]
If it isn't clear why the data is held then this could cause problems with future use under regulations	[½]
Company A could be concerned about risk of regulatory intervention for B if data is poor	[1]
This or other data regulatory breaches could lead to fines and reputational damage	[½]
Or could lead to a regulatory capital “add-on”	[½]
Company B's reinsurer could refuse to pay its share of claims if data quality not good	[½]
Company B may not be pricing its products properly	[1]
All this will factor into the valuation company A would put on company B and so how much to pay to acquire it	[½]
Company A may be wanting to transfer the policy data from Company B onto its own systems. Poor data would lead to extra costs when doing this	[½]
[Marks available 15, maximum 7]	

(ii)

Company A will want to know the reinsurance arrangements company B has to understand how much they should pay for company B	[1]
f a reinsurance arrangement is in place that pays part of the claims expected on company B's policies then this reduces the expected pay outs for company B and so affects the valuation company A would put on company B	[½]
It affects expected cash out...	[½]
... and capital required to support Company B	[1]
Company A would want to know:	
The reinsurer(s) that the contracts are with	[1]
The credit rating and reputation of the reinsurer would affect how likely they are to meet their obligations	[1]
Company A may have reinsurance itself and so adding company B's exposures to this may mean they have more exposure to one reinsurer than allowed.	[½]
What products the reinsurance covers	[1]
This would affect what expected claims they would reduce in valuation projections	[½]
It might also give some insight into which products Company B are least confident about their assumptions for	[½]
Would want to check arrangements are appropriate for the mix of business they have	[½]
What type of reinsurance they have	[1]
Original terms (Coinsurance)/Risk Premium/Excess of Loss/Financial	[½]
Then individual surplus or quota share	[½]
This could give insight into which risk from the product(s) they are worried about, i.e. what was the purpose of taking out the reinsurance	[½]
The reason for taking out reinsurance if possible to find out...	[½]
... may be restricted information at due diligence stage	[½]
e.g. reduce capital requirements, reduce NBS, technical assistance	[½]
May indicate areas of uncertainty for company A to focus on	[½]
Size of reinsurance premiums	[½]

Needed for projections to factor in cost as well as reduction in payouts	[½]
Retention limits	[½]
Need to know to include in projections to split expected payments between Company B and the reinsurer when considering across all policies covered	[½]
Each of these elements could change by product or reinsurer if more than one arrangement is in place	[½]
Company A may want to ensure appropriate governance of reinsurance treaties has taken place (e.g. treaties have been signed etc)	[½]
Company B may have obtained preferential rates from reinsurers which Company A could benefit from in the future	[½]
Company A may operate in a different regulatory territory and there may be restrictions on reinsurers it may use	[½]
Company A may want to consider terminating treaties and hence want to examine terms and conditions of treaties for any termination clauses	[½]
[Marks available 17, maximum 10]	
[Total Marks available 32, maximum 15]	

The question was relatively well answered in both parts. Stronger candidates focused on why the data quality was important, as asked for by the question, rather than how the data could be checked. In part (ii) those who scored well did so by considering a breadth of points backed up with reasons why the information would be important.

Q9

(i)

Advantages

- The product will provide life cover, which will help provide for the remaining parent and child on the death of the other parent. [1]
- The policy is relatively simple to understand. [1]
- The policy is easy to take out as there is no underwriting. [1]
- The policy provides a lump sum when the child reaches maturity. [½]
- This is an appropriate duration as costs are likely to be incurred at this time. [½]
- For example, to help fund the costs of university... [½]
- ... Or to provide accommodation, should the child need to move away for work. [½]
- The premium is fixed giving certainty of cost. [1]
- If they provide the required evidence, then the first premium is waived and so reduces costs at a time when other outgo is high. [½]
- The surrender value gives policyholders flexibility in the future. [1]

Disadvantages

- Contract may not be appropriately targeted if it is not meeting the required customer need [½]
- E.g. if target market wants a savings vehicle then they may prefer not to pay for cost of death benefit. [½]

- e.g. if there isn't an expectation of child going to university and hence not need the savings element [½]
- If it's a protection contract they require then they may prefer not to pay for savings element. [½]
- The sum assured may be too high, making it unaffordable for many families. [1]
- The sum assured may be too low, making it unattractive. [½]
- The effects of inflation may mean that the sum assured is insufficient at the point of claim. [½]
- As the premium is the same irrespective of the lives assured, only single parents are likely to effect the policy on a single life basis. [½]
- This is likely to be relatively expensive in these cases. [½]
- The proof of birth complicates the application process. [½]
- The surrender value offered maybe lower than was expected as it is not guaranteed. [½]
- The surrender value in the first five years is zero [½]

Both

- The fixed premium will be an advantage to some policyholders... [1]
- For example, older policyholders [½]
- Smokers [½]
- those in poor health [½]
- The fixed premium will be a disadvantage to the opposite group of policyholders. [½]
- The same is true for the lack of underwriting, [½]

[Marks available 17½, maximum 8]

(ii) (a)

The use of the same premium for all policies.

- It makes a very clear marketing message. [1]
- The premium and sum assured can both be quoted in the magazine. [1]
- ... making it easy for the potential policyholder to assess the value of the proposition [½]
- Equally, the premium may immediately put off a proportion of the customers... [1]
- As the premium rate is the same, this is expensive for single life and so may alienate single parents ... [½]
- ... and may lead to reputational risk as a result. [½]
- Regulation may prevent such cross-subsidies between groups of policyholders. [½]
- Due to the lack of underwriting there is an asymmetry of information between the company and customer. [½]
- The company will be exposed to the risk of the actual mix of policyholders being different to that assumed in the pricing. [1]
- This will be most affected by the amount of anti-selection by those in ill-health... [½]
- ... or those older than assumed. [½]

- These risks are, to some degree, mitigated by the target market... [½]
 - ... and the marketing strategy. [½]
 - More smokers than expected would also be a risk. [½]
 - This is not mitigated by the sales strategy. [½]
 - As a result, a reasonable risk margin would have to be included... [½]
 - ... increasing the premium... [½]
 - ... making it less attractive to a greater proportion of the target market. [½]
 - This could be mitigated to some extent by:
 - restricting the permitted ages. [½]
 - restricting to non-smokers only. [½]
 - introducing very simple underwriting... [½]
 - ... such as not been to a doctor in the last twelve months... [½]
 - ... except in relation to pregnancy [½]
 - Having different premiums by broad age bands. [½]
 - These refinements could still be within the initial advert. [½]
 - Administration will be very simple as no premium tables will need to be maintained. [½]
 - The lack of underwriting, and single premium level, in current proposition may make any reinsurance expensive [½]
 - The company will want to look at competitor propositions [½]
- [Marks available 16, maximum 10]

(ii) (b)

The waiver of the first year's premium

- With the exception of this feature, the product design is aimed to make the policy as simple as possible. [½]
- The feature is an attractive feature and may encourage new business volumes [½]
- Which may improve profits [½]
- The introduction of this feature significantly increases the complexity of new business administration. [1]
- Depending on the level of evidence required. [½]
- It also makes the ongoing administration more complex... [½]
- A flag needs to be placed on the policy to record the waiver. [½]
- Bank details may change over the first year... [½]
- ... leading to collection failures when the premiums start. [½]
- Take up rate of this feature will be an assumption in the pricing. [1]
- Exposing the company to the risk of underestimating the take up [½]
- This option will increase new business strain on writing new policies. [½]
- So the company may want to put a cap on the level of new business written with this option. [½]
- Including an additional loading into the premium would, again, increase the premium. [1]
- Again, making it look more expensive. [½]

- There may be a significant lapse rate for these policies at the end of the first year. [½]
- The company has given free life cover for a year. [½]
- Policyholders may just accept the free cover then lapse. [½]
- Or lapse whilst the asset share is negative [½]
- However, the company could seek to gain brand value by publicising the free cover to new parents. [½]
- It could just make this a feature for all policies. [½]
- And price accordingly. [½]
- This would solve many of the administrative issues... [½]
- ... but not the lapse effect. [½]
- The company would want to look at similar competitor products [½]

[Marks available 14, maximum 7]

[Total marks available 47½, maximum 25]

Whilst part (i) was well answered part (ii) was not, mainly due to a lack of breadth of points generated. In part (i) most candidates considered a good range of both advantages and disadvantages from the target market's point of view. In part (ii) stronger candidates considered a broad variety of points and also ways in which to mitigate some of the risks.

END OF MARKING SCHEDULE