

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

September 2011 examinations

Subject ST2 — Life Insurance Specialist Technical

Purpose of Examiners' Reports

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 who are 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. Although Examiners have access to the Core Reading, which is designed to interpret the syllabus, the Examiners are not required to examine the content of Core Reading. Notwithstanding that, the questions set, and the following comments, will generally be based on Core Reading.

For numerical questions the Examiners' preferred approach to the solution is reproduced in this report. Other valid approaches are always given appropriate credit; where there is a commonly used alternative approach, this is also noted in the report. For essay-style questions, and particularly the open-ended questions in the later subjects, this report contains all the points for which the Examiners awarded marks. This is much more than a model solution – it would be impossible to write down all the points in the report in the time allowed for the question.

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Chairman of the Board of Examiners

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General comments on Subject ST2

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 within the marking scheme. Candidates are expected to show knowledge of the relevant content of the Core Reading, but those who tailor their answer to the specifics mentioned in the question will score more highly than those who answer in a more generic way.

Comments on the September 2011 paper

As usual, questions that focussed on knowledge of the Core Reading were well answered. The numerical question, 4 (i), was, however, poorly answered. Whilst the report below gives quite a detailed solution, many candidates were unable to cover the basic calculation of the value in force. Similarly, answers to questions that required candidates to think more widely, such as 6 (iv) did not show a comprehensive enough of answer. Candidates should use Examiners' Reports to practice applying their knowledge to the situations set.

1 (i) Asset enhancing

The value of in-force (VIF) is the excess of the statutory reserves over the realistic reserves plus the priced margin in a portfolio that will be released over time. The reinsurer gives the insurer funds now that are repaid over the next few years from the future emergence of the VIF as cash, i.e. as and when future profits arise on a particular block of business they are used to pay off the loan that was provided by the reinsurer.

This is usually a contingent loan arrangement, since the repayment of the loan is dependent on the future profits arising and the block of business on which the loan has been secured will be specified.

Liability reduction

This is known by a number of alternative names, including virtual capital and time-deferred-stop-loss. Under this arrangement the reinsurer agrees to cover X_m of claims relating to policies of the longest term within a block of reinsured business. As the VIF emerges, the insurer recaptures the risks over time. The X_m of claims covered is usually chosen to be a small percentage of the expected VIF. The reinsurer charges a fee for this service.

- (ii) Asset enhancing financial reinsurance allows the insurer to increase its assets by changing its VIF (which is usually an unrecognised asset in terms of the regulatory balance sheet of the insurer) into cash. The cash received from the reinsurer is recognised as an increase in assets of the insurer.

There is no change in the liabilities of the insurer, since if the VIF is not recognised as an asset on the balance sheet of the insurer because of its contingent nature then anything contingent on it does not have to be recognised as a debt. Hence from a regulatory perspective, the assets are increased, the liabilities are unchanged and hence the regulatory capital position of the insurer is improved.

Note that this only assists in improving the regulatory balance sheet position where there is value in the VIF (i.e. regulatory accounts are based on statutory reserves that have implicit margins, rather than a realistic balance sheet approach e.g. such as that envisaged in the EU under Solvency II).

Under liability reduction financial reinsurance, as the name suggests, the insurers' statutory liabilities are reduced due to the passing of X_m of claims liabilities to the reinsurer. There are no changes on the assets side of the balance sheet, aside from the small impact of paying the (small) fee to the reinsurer. There is no need to recognise the payment of the full reinsurance premium (for the X_m claims) in the balance sheet, because this is effectively made contingent upon the emergence of future surpluses and the reinsurance is expected to be recaptured so that it does not have to be paid. Hence there is a reduction in the liabilities, very little change in the assets, resulting in an improved regulatory capital position for the insurer.

Note that there may also be additional benefits, from a capital perspective, to the insurer of putting such a financial reinsurance arrangement in place. For example, if the company operates in a regulatory regime that requires a solvency margin, this may be reduced. The passing to the reinsurer of X_m of the longest claims may result in the insurer's assets and liabilities being more closely matched. e.g. in the case of an immediate annuity portfolio where the longest dated expected annuity payments are reinsured, it may be very difficult to purchase assets of sufficient duration to match the liabilities hence by reinsuring the longest claims, it may be possible to improve the matching of the assets and liabilities, which may have a secondary impact of reducing the amount of mismatch reserve that has to be held in the statutory accounts, reducing the statutory liabilities further and improving the capital position further.

This was a bookwork question, with part (i) generally being answered better than part (ii). When answering part (ii), candidates tended to provide the basic information in the solution, but failed to consider the potential additional benefits of the liability reducing financial reinsurance. Another feature of candidates' solutions was that they answered both parts (i) and (ii) in the initial part of the question and then struggled to answer the subsequent part. Candidates were not penalised for this when being marked.

- 2** The Finance Director is correct that reducing underwriting can reduce expenses (e.g. reduced number of underwriters, fewer medical examinations). These need to be considered against the implementation costs of any new processes.

It can also result in increased volumes of business sold. This is because distributors and policyholders may favour a more relaxed underwriting stance, with less "hassle" factor and reduced processing time.

However, the company needs to weigh these benefits up against greater costs in other areas. In particular it needs to consider higher potential claims costs and the risk of increased anti-selection. If the company, therefore, takes a very prudent approach given the limited information, then more customers may be declined than previously and this could adversely impact the company's reputation. Reducing claims underwriting is likely to lead to increased fraudulent claims being paid. Reduced financial underwriting may lead to moral hazard e.g. cases of policyholders deliberately over-insuring knowing that they will shortly die and a claim will arise.

Firstly the company will want to consider the type of products written, since underwriting is more important and onerous for some types of product (protection business) than others (products principally used for savings). The company might want to consider those cases that are fully underwritten but where no additional premium is ultimately charged, to determine whether there are ways to reduce the number of cases that unnecessarily go through the full underwriting process.

This type of analysis should also compare the costs involved in obtaining further evidence at lower sums assured versus the additional premium charged/ the savings in respect of cases refused.

The company may want to consider other ways to manage its mortality risk, e.g. reducing the maximum sum assured that is available on term assurance, or carrying out less expensive on-line automated underwriting checks (e.g. that may result in more refusals for cover than would have been the case in the past, for example if only those that answer all of the health questions positively are offered cover).

The Finance Director may be able to make expense savings in the underwriting department in other ways, e.g. reviewing the number of cases handled by each member of underwriting staff, the ratio of full underwriters to support staff. For example, if it is found that the underwriting of one particular product absorbs most of the underwriting resource, the insurer may want to consider whether to stop selling this particular product, or may consider introducing a modified product that requires less underwriting.

The insurer will need to consider the level of underwriting carried out by its competitors for this product, to ascertain whether it is generally in line with the market or is taking an overly cautious approach. A reinsurer may be able to offer advice on this. If reducing the level of underwriting would put the insurer out of line with its competitors then the insurer is likely to experience the “sentinel effect” and attract a disproportionate share of the anti-selection risks. The insurer will want to charge for this additional risk in this instance and is likely to have to increase premium rates to compensate for the additional anti-selection risk. This can exacerbate the anti-selection effect, as the healthier lives are more likely to be take advantage of lower basic premium rates offered elsewhere where there is stricter underwriting.

The company may be able to reduce its premium rates due to the expected lower underwriting costs, but this is unlikely as it seems that the Finance Director is looking to reduce costs and increase profit margins rather than passing on all the cost reductions through to policyholders via lower premium rates. Further, if reinsurance is used then it is likely that the reinsurer will either increase its rates significantly if the level of underwriting is significantly reduced, or in the extreme may not wish to continue reinsuring this product, and this might also be reflected in higher premiums (or lower profit margin). Also, less underwriting will mean less homogeneity, making pricing harder. If premium rates are increased then this is likely to be unpopular with the insurer's sales channels, which could offset the sales advantage from the reduction in the level of underwriting. There are other implications of lower sales e.g. increased per policy overhead costs, lower market share etc, and these may not be implications that the Finance Director has intended.

The company may also need to hold higher reserves, due to increased uncertainty about future mortality experience.

Need to consider any regulatory restrictions, although as this is a proposal to reduce underwriting, then this is not likely to be an issue.

Candidates tended to provide superficial answers that did not cover as much of the variety of points as would have been expected. The question was asking the candidate to apply the core reading to a specific scenario but many candidates failed to be able to master this technique.

- 3** (i) The nature and extent of any financial risks for the company from investment, expenses, and demographic assumptions are materially reduced as a result of the experience being shared between the company and the policyholder via bonuses. However, they can have some impact on profits where shareholder transfers are related to the declaration of bonus.

The level of guarantee provided under such a contract increases the risk from experience being worse than expected. In particular, there is a risk that investment returns are poor resulting in the asset share falling below the minimum guaranteed benefit (sum assured plus attaching declared bonus).

At times when the asset share is negative (e.g. early in the term), there is a financial risk from withdrawal. At other times, whether there is such a risk depends on how any withdrawal benefit paid compares with the asset share. The level of risk also depends on the degree to which surrender profits/losses are passed back to customers via the asset share.

Expenses being higher than expected and mortality higher than expected (if there is a guaranteed death benefit in excess of asset share) are other risks that are shared with the policyholder.

There is also a marketing and reputational risk under these policies: policyholders may not understand the maturity benefit that they will receive, and in particular they may expect the maturity benefit to be large enough to e.g. pay off a loan amount, which may not be the case if investment performance during the contract term was poor and the bonuses added lower than expected. This risk will be compounded if policyholders are provided with projections of maturity benefits at outset, under different investment performance scenarios, if the actual investment performance is worse than anticipated in those scenarios.

There is a risk to the insurer from selling insufficient business volumes resulting in the company being unable to cover fixed costs. Although the company can charge such costs to asset shares, there may be regulatory or marketing constraints to the extent that this can be done. Low new business volume risk is related to the risk of competitors taking actions that increase the relative attractiveness of their products, e.g. increasing bonus rates. There is a risk to the insurer from selling too much business leading to excessive new business strain and which may impact the company's ability to administer the policies. The insurer may be at risk from the mix and size of the policies sold being different to that allowed for when pricing the product, although this will depend on the extent of cross-subsidies acceptable within the bonus allocations.

There may be a risk of inappropriate management actions, such as declaring unsustainable bonus rates in order to obtain a short-term marketing advantage.

Overall, smoothing and PRE may limit the company's ability to mitigate the risks by limiting its ability to payout asset share and/or to charge significant adverse experience to asset shares.

- (ii) The main risk borne by the policyholder is that the amount of benefit provided eventually turns out to be insufficient or lower than expected, both on death and on maturity.

With profits contracts can provide some protection against the ultimate benefits being eroded by inflation, to the extent that the policyholder does not also choose to reduce the guaranteed level of benefit in anticipation of the future value of surpluses which they might enjoy. Where the death benefit is a fixed amount, then there is the possibility of erosion by inflation.

The policyholder is exposed to the risks that final bonuses are lower than expected due for example to:

- investment returns being lower than expected
- expenses being higher than expected
- other surpluses being lower than expected (e.g. higher than expected guaranteed mortality payments)

The smoothing of benefits mitigates these risks to some extent.

The policyholder carries some risk of insurer becoming insolvent. However this should be less than if the company just sold conventional without profits contracts, as future surpluses may be used to maintain solvency, before being distributed to policyholders.

The policyholder is exposed to the risk of being unable to maintain premiums due to accident, sickness, redundancy, or other loss of income and the benefit received if the policy is surrendered or made paid-up may not appear to be good value for money, particularly early in the policy term.

There is the risk that the policyholder does not understand the policy; therefore it may not meet their needs. For example, if the policy was taken out to repay a mortgage on a house and the risks not explained.

There is a risk that changes in taxation may alter the value from the policy.

- (iii) The asset share is the accumulation of premiums less deductions associated with the contract, accumulated at the actual rate of return earned on investments.

An allocation of profits on any without profits business written in the with profits fund will also be allocated to the asset share. Deductions include all expenditure associated with the contract, in particular:

- commission paid
- direct expenses incurred
- the cost of providing any minimum guaranteed life cover possibly on a smoothed, rather than current cost, basis
- the cost of providing any options, e.g. option to increase minimum guaranteed life cover

- the cost of providing the maturity guarantee
- allowances for tax
- transfers of profit to shareholders
- the costs of any capital necessary to support contracts in the early years
- a contribution to the free assets, which, in turn, support the smoothing of bonuses and the ability to exercise greater investment flexibility.

The asset share can be calculated recursively on a year to year basis. Initially the earned asset share is zero. Each year the cash flows (as listed above) are recorded. A suitable rate of return on investments is used to accumulate the asset share at the start of the year plus cash flows arising during the year end, in order to determine the asset share at the end of the year.

This question was reasonably well answered, with candidates finding the standard bookwork contained in part (iii) easier to answer than parts (i) and (ii).

One common mistake in part (i) was to fail to tailor the answer to consider the conventional with profits product, referred to in the question, and the fact that experience is shared with the policyholder through bonuses.

4 (i) Embedded value:

Shareholder Net Assets = $5000 - 4000 - 300 = 700$

[Alternatively, net assets, including deduction of solvency margin = $5000 - 4000 - 300 - 200 = 500$]

The projected charges and expenses are as follows:

Time t	Unit reserves (t)	charges	Expenses	Net cash flow
0.5	$4000 \times 1.1^{1/2} = 4195$	84	42	42
1.5	$(4195 - 84) \times 75\% \times 1.1 = 3392$	68	34	34
2.5	$(3392 - 68) \times 50\% \div 75\% \times 1.1 = 2438$	49	24	24

The present value of these at 12% is
 $42 \div 1.12^{1/2} + 34 \div 1.12^{1 1/2} + 24 \div 1.12^{2 1/2} = 87$

Now need to allow for the release of non-unit reserves and cost of capital:

The non-unit reserves are released as follows:

Time t	Interest on non unit reserves (t)	Reserves released	Total cash flow
0.5	$300 \times (1.1^{1/2} - 1) = 15$	75	90
1.5	$225 \times 0.1 = 22$	75	97
2.5	$150 \times 0.1 = 15$	150	165

The present value of these at 12% is:
 $90 \div 1.12^{1/2} + 97 \div 1.12^{1 1/2} + 165 \div 1.12^{2 1/2} = 291$

It can be seen that the cost of capital for the non-unit reserves is:

$$1 - 291 \div 300 = 3\%$$

The cost of the “locked in” solvency margin is therefore $3\% \times 200 = (6)$

Therefore overall the total shareholder value resulting from release of non-unit reserves and cost of capital = $291 - 6 = 285$

[Alternatively, if solvency margin was deducted from s/h net assets, then this should also include release of solvency margin = $291 - 6 + 200 = 485$]

For example, one alternative approach is:

Projecting forwards the total of non-unit reserves and solvency margin together, and calculating the value of their joint release as

$$\begin{aligned} &125 \times 1.1^{1/2} \div 1.12^{1/2} \\ &+ 125 \times 1.1^{1/2} \div 1.12^{1/2} \\ &+ 250 \times 1.1^{2/2} \div 1.12^{2/2} = 485 \end{aligned}$$

From which then need to deduct the value of the solvency margin if this was not deducted from net assets, giving total of 285 as per above (or leave at 485 if solvency margin has already been deducted from net assets).

Therefore total EV = $700 + 87 + 285 = 1,072$

[Or EV = $500 + 87 + 485 = 1,072$]

- (ii) The calculation model now needs to project future bonuses, which will likely be based on the projection of future asset shares. It will need to make assumptions as to when profits are distributed as bonuses and in particular whether they are distributed as regular annual bonus or as a terminal bonus, which could make a difference to the timing and hence the value. The future bonus assumptions will need to take into account policyholders' expectations (for example smoothing), which may be influenced by past practice.

Where the net assets include the excess of asset shares over the reserves then the value to shareholders for this would be in respect of future projected bonuses from these assets in line with how the company believes these will be distributed to the existing policyholders, and this should be consistent with how the rest of the value of in force is calculated. In addition any net assets in a ring-fenced with profits fund over and above the asset shares may not be valued at the full face value; this may also have to be divided between policyholders and shareholders. As these are not clearly attributed to any individual policyholders (unlike the asset shares), the company will need to make assumptions about when this may be released into profit. Similarly, the release of the solvency margin may also not be 100% worth of value to shareholders, it could be that this also needs to be divided between policyholders and shareholders by projecting the release as bonuses.

- (iii) For unit-linked contracts, more prudence in the reserving basis would increase the non-unit reserves and decrease net assets, but the value of in force would

increase as this extra prudence is released in the future. If the company takes the net assets at face value without any “lock in”, then the overall EV would reduce by the cost of holding the additional reserves, since the discount rate exceeds the earned rate. If the company treats all the net assets as “locked in” already the increased prudence would not make any difference.

For with profits business, the company should be projecting the expected bonuses based on asset shares. Any release of prudence in the reserves which are more than required to cover the bonuses driven by asset shares would be subject to management discretion in terms of how or when it is distributed. In effect this is no different to the treatment of the excess of the assets less the liabilities, and is unlikely to make a material difference to the EV.

Generally this was poorly answered across all three parts of the question. In part (i) there are a few ways in which the embedded value could be constructed but many candidates struggled to provide an answer. In part (ii), few candidates were able to provide the required level of detail and as a result this was the worst answered question on the paper. For part (iii), some candidates were able to consider the impact on the unit-linked product, but few were able to extend this to the with profit product.

5 (i) Assumptions:

Unit growth rate (p.a.)
Valuation interest rate (based on assets backing non-unit reserves)
Amount of annual charge on initial units that will be actuarially funded
Maintenance expense (p.a.)
Claims expense
Investment expense (maybe a reduction from amc)
Mortality
Number of switches per annum
Switch cost (if not included in investment expense)
Renewal commission
Expense inflation rate
Average annual management charge
Paid-up rates
Surrender rates
Premium reduction rates
Tax

- (ii) Obtain in-force extract of premium paying and paid-up policies at the beginning of period and end of period – including policies written during the year.

Obtain data file of all full surrenders and paid-up/premium reduction changes. Deaths and maturities will be excluded. It is usual to exclude switches from policy level investigation.

Subdividing data the data may be split by:

Movement type (full surrender/paid-up/premium reduction).

Duration in-force

Sales method

Premium/benefit level (including policies where no premiums are being paid)

Premium payment method

Original premium paying term of contract

Sex/Age

There may be a requirement to split the data into fund type as well.

However, the number of different cells investigated will depend on there being sufficient credibility of data within each cell. For each homogeneous group, there will be a need to calculate a surrender rate, a paid-up rate and a premium reduction rate based on experience over the year.

The number of contracts that survive in-force to the first policy anniversary in the company's last financial year is divided by the corresponding number of contracts issued, to give a first year persistency rate. The first year surrender rate can be determined as one less the persistency rate. A similar procedure can be adopted to obtain surrender rates for subsequent years.

Given policies cannot be made paid-up in the first year then there is no need to calculate a separate paid-up rate in the first year, however for subsequent periods this would be calculated as the number of policies made paid-up over the year divided into the number of premium paying policies over the policy year.

For premium reductions (that result in the policy not being made fully paid-up) the level of premium reductions would be divided into the total premiums on policies that were in-force and premium paying at both the beginning and end of the investigation period.

(iii) Possible reasons:

Economic conditions: there may have been difficult economic conditions over the past year and policyholders decide that they can no longer afford the premiums. There may have been poor investment performance, either across the market or specifically within funds offered by this company.

There may have been poor publicity for the company, the product, weakened financial strength, or poor administration / customer service. There may have been an increase in mis-selling, whereby products have not fully taken into account policyholders' needs or there may have been a similar industry-wide issue affecting all companies.

Competitors may have launched different products that have attracted policyholders or similar products with significantly lower charges.

If charges are variable, they may have been increased.

Insurance intermediaries may have been encouraged to move business through differences in commission structures.

The company may have sold a large cohort of business which is now in the early years of the contract where surrenders are likely to be higher, hence increasing overall withdrawals. Further, this cohort may have been sold by a particular distribution channel or distributor with poorer than average persistency.

There may have been recent changes to legislation or tax.

Part (i) was generally well answered as it was a standard book work question, although, some candidates failed to be able to distinguish between data items and assumptions. Despite part (ii) being a book work question, the quality of the answers were disappointing. Candidates in general were able to provide a reasonable variety of reasons for the poor persistency.

- 6** (i) Take account of PRE.
Not exceed earned asset shares, in aggregate, over a reasonable time period.
At early durations not appear too low compared with premiums paid.
Take account of projections provided at new business.
Take account of surrender values offered by competitors/auction.
At later durations be consistent with projected maturity values.
Not be subject to frequent change, unless dictated by financial conditions.
Not be too hard to calculate, taking in account computing power available.
Be capable of being documented clearly.
May need to ensure it will gain regulatory approval.
Maintain equity between exiting and remaining customers.
So profit taking should be consistent between exiting and remaining customers.
Discontinuities in value by policy term should be avoided.
- (ii) Retrospective:
This is the accumulation of premiums less expenses and cost of cover provided. It may use earned asset share, but not necessarily. So it may be calculated using a formula and parameter values. The starting point for the basis would be actual experience to date for mortality, interest, expenses.
- Prospective:
This is the value of future benefits and expenses, net of future premiums. It uses estimates of future expected experience.
- Both approaches allow for a deduction of cost of surrender.
- (iii) Retrospective approach is better in early years as it allows for actual expenses incurred and is comparable with premiums paid, whereas prospective approach is unlikely to be.

Prospective approach is very sensitive to small basis changes.

Over time the retrospective approach is less valid since it doesn't reflect the profit the company would have made if policy stayed in force. So is hard to maintain equity between policyholders who stay and those who leave and hard to maintain equity between surrendering policyholders and shareholders.

The prospective approach is better in the later years since it allows the company to quantify how much profit to retain. The retrospective method is unlikely to run into maturity value and unlikely to be consistent with auction values, whereas the prospective method will meet both these criteria.

The prospective method is easy to calculate since it requires no knowledge of past experience, whereas the retrospective method will require historical data. The method is likely to be consistent with that used by competitors.

- (iv) The profit retained by the company is equal to the earned asset share minus the surrender value paid.

The basis used to set the surrender values has not been updated since launch so the driver of the lower profit must be the asset share being lower than expected.

Possible causes of this are:

- (a) Investment return
- Investment returns may have turned out lower than anticipated.
 - The company is very likely to have backed the liabilities with fixed interest investments, matched by term where possible.
 - Yields may have risen during the period and so the capital value of bonds would have fallen, and the earned asset share ("EAS") would have reduced, but the SV basis has not been changed to reflect this.
 - The approach used to calculate the surrender value scale may have been on a flat yield curve, or single point on the curve, which was not reflective of reality.
 - If corporate bonds were used to match the products then higher than expected defaults or widening credit spreads will have reduced the EAS.
- (b) Expenses
- The company's expenses may have been higher than expected.
 - Possible causes may include regulation changes, one-off projects or lack of control over budgets.
 - More policies surrendering than expected will increase the per policy expenses on the remaining policies.
 - Higher surrenders than expected may have been caused by mis-selling or lapse and re-entry problems, or economic conditions.

- Lower than expected new business volumes could have resulted in higher per policy expenses than expected.
- (c) Inflation
- Expense inflation may have been greater than anticipated.
- (d) Mortality
- Mortality within the in-force portfolio may have been heavier than in the surrender basis.
 - This may have been caused by out of date assumptions used.
 - Or not accurately enough reflecting the mix of business expected to sell.
- (e) Other
- The tax regime may have changed against the company.
 - Mix of surrenders is different.
 - E.g. higher early surrenders when asset share is negative.
 - Or more small policies surrendering.
 - Data or model error.
- (v) Possible ways to improve the profit made on surrender:

Review the surrender value basis periodically (if the terms & conditions allow). For example, update the SVs based on current market conditions. Reduce the current SVs if possible. For example, by increasing/decreasing the expense assumptions in the retrospective/prospective values.

Consider how detailed by term the SVs are and make them more detailed if possible.

Introduce new SVs which calculate both a prospective and retrospective value and pay out the minimum.

Compare the SVs to current auction values and competitor terms to identify particular durations where there is the most scope to increase the surrender profit margin.

Candidates were able to reproduce the list in part (i) of this question and to provide the basic description of the retrospective and prospective surrender value methods. Candidates started to find it more difficult to explain why a blended approach might be used in part (iii). Candidates struggled to apply higher level skills in part (iv) when considering reasons why the surrender profit was lower. Some candidates failed to realise that the cause was due to the asset share rather than the surrender basis, which had not changed and so could not be different to that expected. In part (v) most candidates were able to identify paying lower surrender values, but little else.

END OF EXAMINERS' REPORT