

Actuarial Society of South Africa

EXAMINATION

23 May 2011 (am)

Subject A302

Communications

EXAMINERS' REPORT

Question 1

1. Letter

Format:

Sender's address can be a letterhead across top of page or an address on right or left of page and include correct address details (no punctuation, etc.). The date should be in between addresses on right OR left but not below recipient's address. It should be written out formally: 1 September 2010. The format mark also includes salutation and close.

Language:

This section includes choice of words, register/level of language, avoidance of jargon, style & tone, grammar, punctuation, spelling etc.

Planning and structure:

This involves the use of headings from the subject line to headings in actual letter. Also includes the logical, coherent arrangement of information, good sentence and paragraph structure, good clear use of information without technical formulae etc. as well as good beginning, middle, end conventions: Opening paragraph: goodwill and topic identification; relevant body explanations and close: goodwill once again and pointing the way ahead.

2. Content and objectives

Note the candidate could have assumed that the employer pays for the NIF contributions or the working citizens do themselves. The points below assume the employer continues to pay, as the question does not indicate otherwise. If a candidate assumed the citizens pay, the same impacts will apply, they will just affect a different stakeholder, and credit should still be given. A solution assuming a lump sum benefit or annuity benefit will be accepted.

The following points **should** be included:

Technical Points

The principle of insurance, namely the sharing of risk where the unfortunate who die get a very good return on contributions and the fortunate who don't. The candidate could mention the social benefits of insurance. Mention of the fact that return of contributions plus interest is not relevant here. A number of ways to make this point will be acceptable.

The differences between public and private provision of insurance, e.g. premium rate setting at best estimate levels, not profit maximising levels; need for (constitutional) fairness and equality; the economies of scale of national infrastructure for benefit provision.

The impact on the non-employed population would be none other than possibly the impact of receive death benefits from employed spouses/parents etc.

The impact on the employed, but not currently covered, population would be substantial. Survivors would get significant benefits.

The impact on the employed and covered population would depend on current levels of cover – above maximum would need to secure private additional cover. Those below the maximum would not be affected.

The impact on the private industry would be a significant as a substantial portion of the insurance would disappear; remaining cover is limited to upper income people and there would be large scale retrenchments of clerical staff and a drop in the value of insurance companies.

Average rate of 4 per mille as a weighted average of the 3 industries, dealing with the concepts only.

Impact on employers will be that the cost of insurance will either increase or decrease, depending on industry. Mining will see significant decrease, financial services significant increase.

Employers may question fairness of a national rate, including the perception of each industry as their rate significantly increases or decreases.

Suggestion that further analytical work should be done to quantify the impacts. This could include work on future mortality improvements, the sustainability of premium

rates given demographic changes. (Include some comment about the way forward – next steps).

3. Communication objectives

Have the objectives been met for both parties in terms of mutual respect, sense of acceptance, trust etc. As reader, would the letter (and letter writer) be seen as credible (or would matters go further)? The tone and manner should be appropriate for a representative of the Actuarial Society (as opposed to a commercial enterprise or private citizen) addressing a government official.

1. As a professional actuary, would you have been happy to sign this letter with your name on it?
2. As the Director General receiving this letter, would you all your questions be answered or would you feel you still had unanswered questions?
3. As the Director General, would you be happy with the tone of the letter?

4. Comments on candidates answers

- Only a few candidates mentioned the principle of insurance.
- Most candidates wasted words in the opening paragraph by telling the reader what they would be telling them in the letter. Comes across as very patronising. It would be much more appropriate to have thanked the DG for an opportunity to comment on the impacts.
- Most candidates handled the impact on private insurers, employers and employees well but most people failed to consider the non-employed population.
- The good candidates highlighted and illustrated the cross-subsidisation effect across the industries.
- Very few candidates suggested that the Society could do additional work.
- Many candidates showed a bias in their letters toward protecting the private insurance industry rather than simply presenting facts of the pros/cons of the proposal. They therefore would not have been seen to be providing professional advice but rather would have been seen to be protecting the insurance industry.
- Candidates wasted words repeating back to the Director General of the National Treasury what the proposal was. Given that it is a government proposal, if I were the DG of National Treasury I would be a little irritated that an actuary assumed I didn't know what the proposal was and felt it necessary to remind me. These 40-60 words could have rather been used to better explain the impact.
- Some candidates were patronising in their tone explaining (for example) that death benefits was also known as life cover! That would clearly be insulting to the Director General of National Treasury. The recipient of the letter was clearly not considered.

Question 2

1. Overall presentation

Range of slides

- Title slide.
- Background/agenda slide which refers to the purpose of presentation.
- Main content slides with key points.
- Concluding/summary slide with offer to take questions.
- Two marks would be lost if too few or too many slides.

Headings & Titles

- All headings, including sub-headings, titles for tables, graphs etc.
- Headings and titles should be informative and should give a good idea of what's covered.
- Tables and/or graphs should be explained and accurate.

Structure & Design

- Appearance and layout of slides.
- Grouping of ideas.
- Do the slides relate to the agenda/background slide.
- Use of size, font and bullets.
- Placing of tables/graphs and relation to rest of the content.
- Appropriate tables/graphs are used instead of purely ornamental.

Language

- Wording more appropriate for a presentation rather than full sentences.
- Tone reflects the intelligence of an investment research team – some room to use technical words/jargon e.g. GDP.
- Tone not condescending.
- Correct grammar and spellings.
- Actual wording of headings and bullets (phrases, not full narrative).
- Wording of the headings not long-winded.

Overall impression

- How does the whole presentation feel:
 - Logical order of slides;
 - How professional does it look?

2. Content

Budget Imperatives / Aims of the budget

- Sustain Real Economic Growth
- Accelerate Job Creation
- Manage Expenditure
 - Interest
 - Non-Interest
- Increase Revenue

Sustain Real Economic Growth

- 10 year plan : GDP growth of 7% per year
 - Doubling of national income
 - R808bn on infrastructure
 - Inflation expected to remain within 3-6% target range

Accelerate Job creation

- R150bn over 3 years:
 - Promote jobs
 - Skills development
- 5 million jobs as per 10 year growth plan

Manage Expenditure – Interest

- Current deficit 5.3% of GDP
 - R26.2bn smaller than original forecast
- Plan to reduce deficit to between 3% and 4% of GDP over medium term
- Government loan debt to grow to 40% of GDP by 2013/14
- Borrowing to reduce as economy recovers

Manage Expenditure – Non-Interest

- Government wage bill doubled in previous 5 years
 - Tighten public sector wage inflation
- Expenditure plans
 - Expansion in social grants
 - Job creation initiatives
 - Infrastructure projects
 - Proposed NHI
- Plan to reduce spending growth to 3% per annum

Increase Revenue

- Tax revenue to keep rising in long term:
 - Economic growth
 - Higher employment

- Improved compliance
- Broadening of tax base
- Improve tax, VAT and customs revenue collection
- If measures unsuccessful, revisit current tax policy

Foreign Exchange

- Continue to support reserve bank in:
 - accumulating foreign reserves
 - reducing Rand volatility
- No measures to weaken rand
 - Capital inflows still expected during 2011/2012

Challenges

- Striking balance between reducing budget deficit and expenditure projects
- Managing civil servants' salary expectations following two years of above inflation increases
- Expected continuation of capital inflows to emerging markets

Conclusion

- Summary of key points, which could include tabulation of key figures:
- Questions?

3. Meeting objectives

- Does the presentation cover the key messages of the Budget Commentary?
- Is the presentation factually accurate and covered the key points well?

4. Comments on candidates answers

- This question was generally well-handled
- Many candidates did not mention the aims of the budget as an opening summary slide. Those that did generally passed.
- Some candidates tried to pack all the information onto the 10 slides instead of distilling the key facts as was required. These candidates did not pass the question.
- Some candidates again missed who the audience was and explained terms such as VAT, GDP etc. Not only was this a waste of a slide, it demonstrated that they had missed the correct level that they should have been pitching the presentation too. These candidates did not pass the question.

END OF EXAMINERS' REPORT