

Actuarial Society of South Africa

Examination

Subject A302 — Communications

29 October 2012 (am)

EXAMINERS' REPORT

Question 1

Email

Format: The correspondence should resemble an email, with a 'subject', 'from', 'to' and 'date' fields. The format mark also includes a friendly salutation and close.

Language: This section includes choice of words, register/level of language, avoidance of jargon and overly numeric approach, style & tone, grammar, punctuation, spelling etc.

Planning and structure: This involves the use of headings from the subject line to headings in actual email. 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.

Objectives: Would you be satisfied to receive this email? Does it answer all your questions satisfactorily? Do you understand what has been described to you?

Content and objectives:

1. Mortgage and Car Loan Reconciliations
 - Drop in interest rates will lead to a decrease in both car and house repayments
 - Your current interest rate is prime (9%) on the mortgage and Prime plus 1%, ie 10% on the car
 - Current payments are R12,667.58 and R6,453.44 for mortgage and car loan respectively
 - Revised interest rates are 8.5% and 9.5%
 - Revised repayments are R12,398.57 and R6,406.59 (rounding to nearest rand is acceptable)
 - The saving due to lower interest rates is R315.86 per month

Subject A302 (Communications) – October 2012 –Examiners' Report

- If proposed 1% was implemented, interest rate would be 8% and 9%
 - Your repayments would have been R12,132.76 and R6,359.95
 - Leading to a saving of R628.31 per month
2. Effect on Pension Fund
- Your pension fund is invested in 50% equities and 50% in money market instruments
 - The lower interest rate leads to lower investment return on the 50% invested in money markets
 - Ultimately leads to a lower pension when you retire
 - Assuming interest rates do not increase again
 - Impact on equities is uncertain
3. Impact of lower interest rates on exchange rates
- Interest rates do affect exchange rates
 - Lower interest rates in South Africa will make South African bonds less attractive to international investors
 - This leads to weakening of demand for ZAR as investors sell South African bonds to buy alternative bonds in other currencies
 - Leading to a weakening of the Rand, ie more expensive to buy other currencies
4. What it means for your holiday to the USA
- The rand will be weaker than the US\$
 - You will need more ZAR for the same amount of US\$ (making your holiday more expensive)
5. Impact on Inflation
- Most of the oil used in South Africa is imported
 - Oil is traded in US\$
 - Weaker rand makes it more expensive to import oil
 - The cost of transporting goods and services around the country goes up
 - Leading to higher inflation

The communication meets the recipient's objectives and presents the communicator in a credible fashion.

- Mother understands what the new repayments are and would have been if the full 1% cut was implemented
- The money market portion of the pension will earn lower interest
- South African Rand will weaken
- Inflation is expected to increase

Question 2

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

Headings & Titles

- All headings, including sub-headings, appropriate titles for tables, graphs where needed
- 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
- Not too many words per slide
- 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 appropriate for the audience
- Jargon avoided
- Avoid use of symbols – T, K or S
- 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?

Content and objectives

- Option – contract between two parties to exchange an underlying security at a specified date in the future for a specified price
- A European call option gives the holder the right but not the obligation to buy the underlying security at a specified time for a specified price
- A European put option gives the holder the right but not the obligation to sell the underlying security at a specified time for a specified price
- The holder has the power to choose to exercise or not - the option is the holder's
- Explain security
 - Using shares as an example – or some other asset - specified
- Expiry date and exercise price set upfront
- The difference between an American Option and a European option is that with an American option the holder can exercise the option before the expiry, not just on the expiry date.
- For a call option

Subject A302 (Communications) – October 2012 –Examiners' Report

- When share price exceeds strike price, the option is in the money
- Holder can buy asset for less than market price
- For a put option
 - When strike price exceeds share price, the option is in the money
 - Holder can sell asset for more than market price
- Impact of share price on call option prices
 - The higher the share price, the higher the price
 - Graphical illustration (possible – but full credit can be given if not included)
- Option price is higher if share price higher as likelihood that share price in the money at expiry is higher
- Does the presentation leave the audience with an understanding of the different types of options?
- Does the audience understand when an option is 'in the money'?
- Does the audience understand how the price of an option varies with the price of the underlying security?
- Is the presentation factually accurate and covers the key points well?

END OF EXAMINERS' REPORT