

Actuarial Society of South Africa

EXAMINATION

18 May 2015

Subject A302 — Communications

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

1. Candidates will be issued with instructions to log in using a password (which you will be provided with at the exam center).
2. Enter all the candidate and examination details at the beginning of each question. Ensure that your Candidate number appears at the top of each page handed in. [Select “Insert”, then “Header”, input your candidate number on blank header template and select “Close Header”].
3. Save your work continuously throughout the exam, on the provided computer’s hard drive.
4. You have 15 minutes at the start of the examination to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have three hours to complete the paper.
5. You must not start typing your answers until instructed to do so by the invigilator/supervisor.
6. Mark allocations are shown in brackets on exam papers.
7. Attempt all questions, beginning your answer to each question on a new page.
8. Candidates should show calculations where this is appropriate.
9. Candidates are required to do a word count for the email and fact sheet – don’t forget to show this at the end of these relevant questions.

Note: The Actuarial Society of South Africa will not be held responsible for loss of data where candidates have not followed instructions as set out above.

AT THE END OF THE EXAMINATION

*Save your answers on the hard drive.
Hand in your question paper with any additional sheets firmly attached.*

In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator from the approved list.

You work in the unsecured loans department of Highlands Bank in Eskomville. In line with global trends, Eskomville has recently seen a decline in interest rates and the Reserve Bank of Eskomville has cut the repo rate from 13% to 8% over the past five years.

Highlands Bank has recently run a promotion on their loan book to take advantage of falling interest rates. The promotion involves issuing a new loan with the same loan amount and term as the original loan, thereby reducing the instalment and giving clients access to cash. The new loan is used initially to pay off the outstanding debt on the existing loan, and the remainder is paid to the customer as cash.

A customer has written to your customer services department. Below is a copy of his email:

From: Mpho.Davids@Home.Esk
TO: Customer.Services@Highlands.co.esk
CC:
Subject : Refinancing Promotion on Easy Access Loan
Date: 25 April 2015

Dear Customer Services

I recently received a 'special' offer to refinance my loan by taking out a new \$10,000 loan, and in the process reducing my repayment from \$1,992 to \$1,627.

To my horror and dismay, I will only receive a cash payment of \$3,320 instead of \$5,000 since we are half way through the term. I can do my sums and there is no way I can still owe almost 70% on my loan. After paying my instalments diligently for the past five years, I was horrified that you would even think of this as a special. To add insult to injury, my sister, who also took up a loan on the same day as me, has been showing off how her instalments have been gradually reducing over the past five years.

So much for a special offer. Somebody better explain to me why I'm being offered such a paltry amount and why I did not get the perk that my sister has been enjoying for years.

Looking forward to your response.

Regards

Mpho

The customer services department reported that there were several similar complaints from other customers and decided to host two identical workshops at the bank to address the matters raised by Mr Davids. The customers will be given an option to choose which of the two dates suits them better. The aim of the presentation is to provide clarity on the issues raised by Mpho Davids.

You have been asked to respond to Mr Davids and other complainants inviting them to attend a presentation of their choice.

REMEMBER TO SAVE

PLEASE TURN OVER

QUESTION 1

Write an email response to Mr Davids. The purpose of the email is to invite him to the Highlands offices for either presentation. (Similar emails will be sent to the other complainants.) Each client will also receive a more detailed factsheet after the presentation.

The email should be between 100 and 200 words. You should only include the subject heading and the contents of the email. The automatic “TO” and “FROM” sections of the email should be excluded from your answer. Count your words from the first sentence to the closing sentence without counting the salutation or the complimentary close/signature.

[20]

QUESTION 2

Prepare a presentation consisting of 7 to 9 slides. The presentation should cover the following:

- Fixed versus floating interest rate loans.
- The promotional offer that Highlands Bank is running.
- The repayment profile for a fixed rate loan and why less than 50% of the loan will have been repaid after the half-way point.

[40]

QUESTION 3

Write a factsheet for the client to take away with him after the presentation. The factsheet should be between 400 and 500 words. You can use a \$10,000 loan with a term of 10 years for any illustrations in your factsheet. Highlands Bank will use this factsheet for all future related queries. In addition, the factsheet will be included in the promotional material that will be sent to all clients who qualify for this special offer.

Notes

- The bank offers both fixed and floating rate interest loans and the loan terms vary from 5 years to 15 years. The fixed rate is set at the beginning of the contract and applies over the duration of the loan, while the floating rate is set relative to prime (which is 2% higher than the reserve bank repo rate).
- The client’s original loan commenced in April 2010 and was priced at prime interest rate. The original term was 10 years.
- Frequency of repayments on the loans is annual, with the first payment payable at the end of the year.
- Assume the numbers are correct.
- The customer does not have the option to vary the term of the loan or the amount.
- The special offer is only offered to clients whose accounts are up to date. It assumes the same credit score that was used at the time of the original application will be used for the refinance therefore the client's special offer loan will also be priced at prime rate of interest.

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- The customer's sister opted for a floating interest loan. Fixed interest loans are offered as the default but are only offered to clients who specifically request them.
- You are not expected to calculate the instalment amounts applicable for floating rate loans.
- The country's Reserve Bank sets the repo rate every quarter. The Prime rate of interest is set at Repo rate plus 2%.
- The historical rates are set out below:

Month	Prime Rate
Jan-10	15.0%
Apr-10	15.0%
Jul-10	14.0%
Oct-10	14.0%
Jan-11	14.0%
Apr-11	13.0%
Jul-11	13.5%
Oct-11	13.0%
Jan-12	12.5%
Apr-12	12.5%
Jul-12	12.0%
Oct-12	12.0%
Jan-13	11.5%
Apr-13	11.5%
Jul-13	11.0%
Oct-13	11.0%
Jan-14	11.0%
Apr-14	10.5%
Jul-14	10.5%
Oct-14	10.0%
Jan-15	10.0%

[40]

[TOTAL 100]

REMEMBER TO SAVE

END OF EXAMINATION