

Actuarial Society of South Africa

EXAMINATION

May 2015

Subject A302 — Communications

EXAMINERS' REPORT

This subject report has been written with the aim of helping candidates. This report summarises the main points that the examiners were looking for and some common problems encountered.

Candidates were asked to draft the following:

- *An email to a customer;*
- *A presentation; and*
- *A factsheet.*

General Comments

Candidates were expected to recognise that there was some overlap between the three forms of communication, and were required to carefully consider what to include in each and deliberately duplicate some information as necessary. The better candidates managed to present the offer in a positive light rather than merely present the facts.

The examiners acknowledge that the Note that read “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.” was ambiguous and should have read “The customer’s sister opted for a floating interest loan. Fixed interest loans are offered as the default at Highlands Bank. Floating rates are only offered to clients who specifically request them.” Although the majority of candidates made the correct interpretation of the statement, the few who assumed floating rates were the default, in general, were not penalised.

QUESTION 1 - Email

Although most candidates covered the required points, i.e. acknowledged the customer’s query and invited them to a presentation as well as informing them of the factsheet that would be given to them at the presentation, a number were disappointing in how they structured the email.

- A disappointing number of candidates did not personalise the email and it read as though it was a general email which was not the required approach for this question.
- The better candidates managed to highlight that there were similar queries that Highlands Bank had received and thus set the tone for the invitation for the presentation well. A few cases gave the impression that Mpho Davids was the only attendee at the presentation.
- Some candidates did not mention the offer at all and went straight to inviting the customer to the presentation. Despite the fact that the presentation and factsheet presented an opportunity to go into the detail behind the query, it was important to address the customer’s query in the email.
- A significant number of candidates did not ask the customer to RSVP.

QUESTION 2 – Presentation

Most candidates managed to cover the required points. There was scope to include visual aids e.g. graphs and tables and a number of candidates used these well.

- Considering the offer did not apply to floating rates and the question specifically asked candidates not to calculate the floating rates instalments, it was disappointing that a number of candidates had a full slide on floating rates only. Some even suggested that the offer was available to floating rate customers.
- Many candidates did not explain the basic mechanics of the loan and thereby lost marks. Very few candidates mentioned that the capital is repaid in full at the end of the term. Many also went into too much detail on how loans work in general. The customer and others in the audience already had loans so too much lecturing wasted slide space.
- A number of candidates struggled to explain why less than 50% of the loan will have been repaid by the half-way point.
- A number of graphs were not well labelled and were difficult to interpret, leading to loss of marks.

- Very few candidates included a graph of the prime interest rate movements over time. This was really needed to show why the offer was being made to fixed rate loan customers.

QUESTION 3 - Factsheet

It was important to draft the factsheet in a manner that captured the fact that it was going to be used in all future promotional material to all qualifying clients. It therefore required a tone and content that would allow it to be reused and understood by customers who had not attended the presentation. Omitting key points on the basis of them being covered by the presentation led to loss of marks.

- The generic nature of the factsheet meant that the loan features such as 5-15 year term (instead of the ten in the example), the general mechanics of the loan and the qualifying criteria were required in order to meet the objectives.
- The offer did not apply to floating and therefore there was no need to be elaborate on the floating rates.
- Some candidates went into very elaborate detail explaining how a floating rate interest loan works, which (similar to the presentation) was not required and led to scripts that either missed out on other essential content or covered the content thinly.
- Some candidates did not follow the advice of using a ten-year example and either went through the effort of calculating new numbers (and sometimes incorrectly) or used examples that did not display the required points.
- Some tables had too many numbers and led to loss of marks.
- A number of candidates rightfully recognised the overlap between the presentation and the factsheet and reused graphs and/or tables from the presentation well.
- Some factsheets were highly impersonal. As this was directed at existing customers and hoped to attract them to the offer, a more personal tone (“you” language) was appropriate. Pointing the way ahead at the end was also essential.

The Factsheet was generally poorly done in comparison to the email and presentation. Many candidates failed to get the right structure and tone.

Possible solutions are attached. They do not cover all the possible points, and are not intended to be model solutions. In practice a wide range of solutions was acceptable.

Question 1 Solution:

Subject: Re: Refinancing Promotion on Easy Access Loan

Date: 25 April

Dear Mr Davids

Thank you for your email earlier today expressing your concerns on the promotion we are currently running.

We have noted that many of our customers have the similar concerns as you and management have decided to host two presentations. The following topics will be discussed at the presentation.

- A description of how the special offer promotion works;
- An explanation of why the cash payment you received may be lower than you expected it to be, and
- An explanation why your instalments may not have not been decreasing over time (like your sister's).

Presentation details

Date: 5 May 2015 and on 12 May 2015 (you can choose which one you would like to attend)

Time: 17:00 – 19:00

Place: Auditorium, Highlands Bank

RSVP: 3 May 2015

A detailed factsheet will also be given at the presentation. It will provide more detailed information and examples on the promotion offered on the loans.

Please do not hesitate to contact me at 0123456789 if you have any further questions.

Yours sincerely

<<signature>>

AN Actuary

Actuary: Highlands Bank

Question 2 Solution:

Slide 1:

**Promotional offer:
Fixed rate loans**

To: Highlands Bank loan holders
By: Anthony/Ann Actuary

24 May 2015

1

Slide 2:

Topics to be covered

- Prime interest rate movements
- Loan repayment types
- Fixed rate promotional offer
- Cash benefit
- Loan repayment split
- Conclusion

2

Slide 3:

Prime interest rate movements

Prime interest rate

Percentage interest

Date

- Decline overall
- Impact
 - Floating rate loan repayments decrease
 - Fixed rate loan repayments unchanged

3

Slide 4:

Loan repayment types

Floating rate loan repayments

- Move with prime interest rates (↑ or ↓)
- Overall decrease since January 2010

Fixed rate loans repayments

- Unchanged over time
- Fixed at loan inception
- Greater than floating rate repayments (loans granted pre Oct 2014)

→ Promotional offer to fixed rate clients up to date with repayments

4

Slide 5:

Fixed rate promotional offer

Details

- Refinance loan
 - Original term (5 to 15 years) and amount
- Interest fixed at current prime rate
 - 10%: lowest in 5 years
 - Lower than current fixed rates (loans granted pre Oct 2014)

Benefits

- Reduced interest rate and loan repayment amount
- Immediate cash back = loan amount repaid to date

5

Slide 6:

Cash back

Example: \$10 000 loan

	Existing loan	Refinanced loan
Issue date	Apr 2010	Apr 2015
Fixed interest rate	15% p.a.	10% p.a.
Term	10 years	10 years
Annual repayment	\$1 992,52	\$1 627,45
Immediate cash back	None	\$3 320,76 (=½ loan amount)

Outstanding loan progression for refinanced loan

6

Slide 7:

Fixed rate loan repayments

- Annual repayment fixed
- Each repayment split
 - interest portion
 - capital repayment portion
- Outstanding loan decreases with each repayment
- Interest portion dependent on outstanding loan amount
 - ➔ Biggest at initial repayment
 - ➔ Decreases in subsequent repayments
- Loan paid off faster as term progresses
 - Roughly = 1/3 in first 5 and last 2 years of 10 year loan

Outstanding capital

Term	Percentage
0	100.00
1	~90.00
2	~80.00
3	~70.00
4	~60.00
5	~50.00
6	~40.00
7	~30.00
8	~20.00
9	~10.00
10	0.00

7

Slide 8:

Conclusion

Current repayment situation

- Fixed rate repayments > floating rate repayments

Promotional benefits

- Fixed rate repayments reduce
 - Recalculated on lower current interest rate
- Immediate cash back = loan amount repaid to date

Future repayment situation

- Future repayments fixed at lower amount
- Repaid over same term as initial loan

8

Slide 9:

ANY QUESTIONS?

Contact:
anactuary@highlands.com

THANK YOU

9

Question 3 Solution:

Highlands Bank (Pty) Ltd

Factsheet – Easy Access Loan Promotion

The prime interest rate has fallen over recent years and Highlands Bank is passing this benefit on to its loan clients.

If you are up to date with your annual repayments, this offer allows you

- to reduce your annual loan repayments and
- access immediate additional cash

The existing loan will be refinanced with a new loan

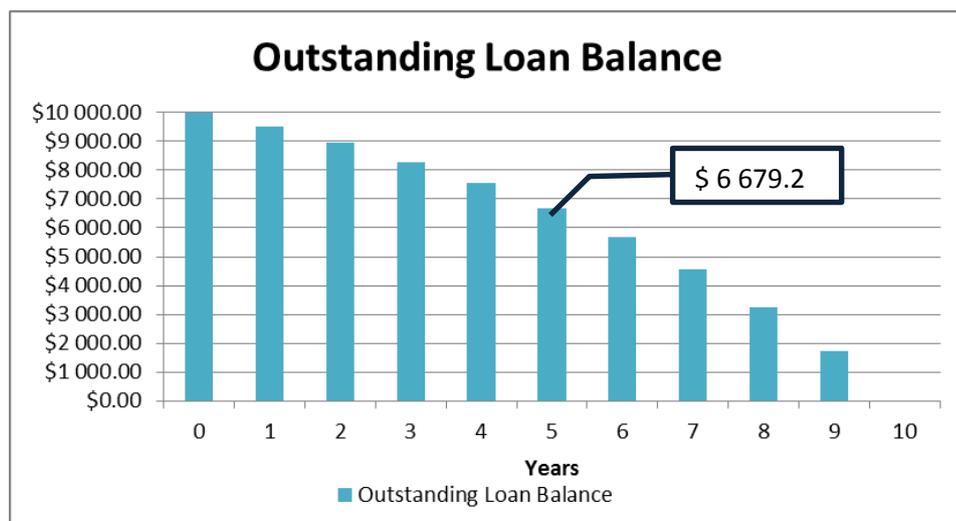
- for the same original amount and repayment term of the current loan, and
- without the need for a new credit rating assessment.

How a Loan Works

The amount that Highlands Bank lends you is repaid by you to the bank in annual repayments, due at the end of each year. This annual repayment amount will include

- the interest on the outstanding loan balance that you still owe to the bank, plus
- an amount that reduces the outstanding loan balance

The graph below shows how the outstanding loan balance of a loan reduces each year over the term of the loan.



This illustration is on a loan of \$10 000 for 10 years at an interest rate of 15 % per annum fixed for the loan term.

At the end of the term the outstanding loan balance is zero. It also shows that the loan balance initially declines slowly, but then more quickly as the amount needed for interest reduces.

Promotional Offer

If you take up the Easy Access Loan Promotional Offer you will be granted a new loan equal to the original amount of your current loan.

Your current outstanding loan balance will be paid off from the new loan. The amount paid to you in cash will be equal to the amount of the new loan less the amount that was used to pay the outstanding balance on your current loan.

This can be illustrated with an example of an original loan amount of \$ 10 000:

Original Loan	Amount	\$ 10 000
	Issue Date	1 April 2010
	Term	10 Years
	Interest Rate	15% per annum
	Repayment	\$ 1 992.52 per annum

New Easy Access Loan	Amount	\$ 10 000
	Issue Date	1 April 2015
	Term	10 Years
	Interest Rate	10% per annum
	Repayment	\$ 1 627.45 per annum

Due to the lower interest rate, you get the benefit of a reduced annual repayment of \$1 627.45 instead of the original \$ 1 992.52.

It must be noted that on a new loan, 10 annual repayments will be due at the reduced repayment while only 5 annual repayments would still have been due on the original loan.

The outstanding loan balance due on the original loan after 5 annual repayments is \$ 6 679.24.

The amount of cash immediately payable to you is \$10 000 less \$ 6 679.24 which is \$ 3 320.76.

How to take up this Promotional Offer

To get full details of this promotional offer, please contact our dedicated promotions call centre on 0800 555 123 or send an email to easypromotion@highlandsbank.co.za.

496 words