

# **Actuarial Society of South Africa**

## **EXAMINATION**

June 2018

### **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.

The examination required the candidates to draft

1. Presentation slides to be presented to call centre staff of a life insurance company
2. A formal letter to the chairman of the company that they work for

## QUESTION 1 - Presentation

Candidates were presented with information relating to an older endowment assurance style life insurance product and were expected to prepare a presentation for the purpose of training call centre staff on the product.

The question required candidates to address four key aspects in their solution. After the presentation the call centre staff should be able to

- appreciate why customers bought the product originally,
- understand the important features of the product,
- explain the values associated with the policy, supported with an example and
- answer some frequently asked questions

In general candidates identified the main reasons why customers bought the product and the main features of the product. Only the stronger candidates picked up on the more implicit features that could be inferred from the information provided. Of all the sections to be addressed, the reasons for purchase and the product features were dealt with the best.

Explanations of the various values were in general relatively weak with insufficient attention given to each of the bonus values, the surrender value, the death value and the maturity value. Some candidates still insist on including detailed formulae which have no place in this form of communication. In the other extreme, no information was given and implied that the values content was too complicated for the audience to understand, which came across as arrogant and defeated the point the communication.

It was surprising that very few candidates made use of a graphical representation of the policy values. A graph provides an opportunity to present a lot of information in a visually appealing way without it being overwhelming. In this instance, there were multiple values of the benefit on different events at multiple points in time. A graphical illustration is ideal. A tabular illustration is also possible; however, this can be overwhelming for the audience. Only half the candidates managed to get the calculations correct, however those that were incorrect were mostly marginal errors. It is surprising though that candidates who have progressed this far in actuarial exams cannot do simple actuarial calculations correctly.

Most candidates lost out on a lot of marks by not addressing the frequently asked questions adequately. It wasn't sufficient to list the questions with no answers or direct the audience to another reference without some indication of the answer. Poor time management and planning may have been a reason for this part coming at the end of the presentation.

A key communication skill in answering this question was finding the balance between a succinct, engaging and to the point style and getting the necessary information across.

## **QUESTION 2 - Letter**

This question required the candidates to present a well-reasoned motivation to a person of significant influence and standing in a formal letter. The candidate had to maintain the formality of a letter and be persuasive and convincing about a course of action the writer felt strongly about.

It required the candidates to choose the right tone in writing to the chairman of the company. Many candidates used a familiar tone which was not appropriate given they were meant to be addressing the chairman.

All the information necessary for making the argument was presented in the question. The information was not of a technical actuarial nature and the emphasis was rather on construction of a logical argument to bring the reader to share the same view as the writer on the importance of the issue and the actions that could be taken.

As expected, given the information presented in question, marks for content were high. Even so, almost no candidates took advantage of the marks available for reading information from the graphs and communicating this information.

Better candidates were able to order the facts provided into a logical argument while weaker candidates gave the contents but tended not to link ideas and information appropriately.

In recommending actions, it was expected that some consideration be given to which of the actions were appropriate in the circumstances, not just repeat every option listed in the question. Numerous candidates did simply copy/paste the list without thought and in many cases without even changing the words. These candidates generally did not pass the exam.

This question was better answered than Question 1.

## Sample Answer – Question 1

# Guaranteed Endowment Assurance

Product Refresher Workshop  
for Call Centre Staff

*15 May 2018*

Presented by: Sandy Peters  
Actuarial Analyst

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## Agenda

- Reasons clients bought this product
- Important product features
- Policy value illustrations
- Policy value explanations
- Frequently asked questions
- Further assistance

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## Reasons clients bought this product

- Pays a benefit on maturity, death or early cancellation - whichever happens first
- Guarantees a minimum value on any death or maturity benefit payment
- Has potential for higher than expected values if bonuses are higher than expected
- Provides access to some benefit pay-out if needed before maturity
- Guarantees a minimum value on a surrender benefit payment after the 1<sup>st</sup> 5 years

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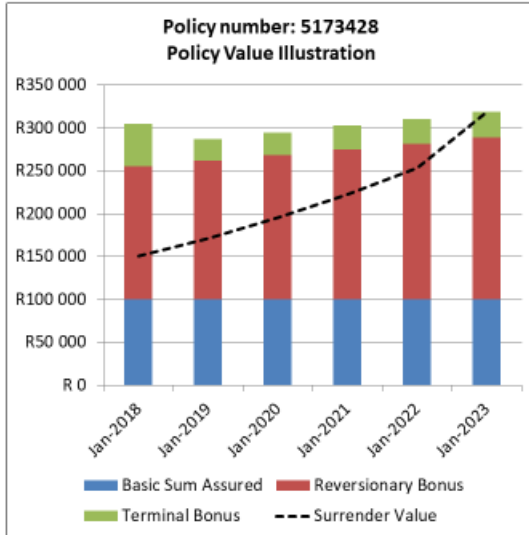
## Important Product Features

<b>Premium</b>	<i>Paid monthly Fixed amount for the term of the policy</i>
<b>Sum Assured</b>	<i>Fixed amount for the term of the policy</i>
<b>Benefit Payment Events</b>	<i>Death Maturity Early termination or cancellation (Surrender)</i>
<b>Bonus Dates</b>	<i>Bonus rates decided on 1 December each year Added to policy on policy anniversary on/after 1 December each year</i>
<b>Other Benefits</b>	<i>No additional benefits included with this product</i>
<b>Other</b>	<i>Policy cannot be made paid-up with no future premiums payable No loans are available using policy as security</i>

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# Policy Value Illustrations

The system will give you these policy values. The example below illustrates how the policy values can change over the years



- **Basic sum assured:** Remains the same every year at R100 000
- **Reversionary bonus:** Expected to increase from R155 214 to R188 752 at 1/1/2023
- **Terminal bonus:** Currently R50 000, but is expected to reduce to R30 000 at 1/1/2023
- **Death claim value:** Currently R305 214
- **Surrender value:** Currently R150 702
- **Maturity value:** Expected to be R318 752 at 1/1/2023

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# Policy Value Explanations

<b>Reversionary Bonus</b> Current bonus rate = 2.5%	<ul style="list-style-type: none"> <li>• Future bonus rates - not guaranteed</li> <li>• Past bonuses - guaranteed</li> <li>• Total reversionary bonus cannot reduce</li> <li>• Bonus rate applied to sum assured plus past bonuses – called a compound bonus</li> </ul>
<b>Terminal Bonus</b> Current bonus rate = 2.0%	<ul style="list-style-type: none"> <li>• No terminal bonus, past or future, guaranteed</li> <li>• Can reduce, expected to reduce to 1% in December 2018</li> <li>• Bonus rate applied to sum assured for each year policy in force – called a simple bonus</li> </ul>
<b>Death Claim Value</b>	= Sum Assured + Reversionary Bonuses given up to date of death + Terminal Bonus at date of death
<b>Surrender Value</b>	= Nil in the 1 <sup>st</sup> 5 years from date policy started = Surrender factor based on no. of years still to run on policy x {Sum Assured + Reversionary Bonuses already given up to date of surrender}
<b>Maturity Value</b>	= Sum Assured + Reversionary Bonuses given up to date of maturity + Terminal Bonus at maturity date

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## Frequently Asked Questions - 1

Detailed answers included in the training handbook

- ***How much longer before I get my pay-out?***  
Maturity value paid at maturity date  
Maturity date is <<1 January 2023>>  
Take lower surrender value now
- ***How much will I get when the policy matures?***  
Maturity value depends on the future bonuses  
Maturity value at least the sum assured plus the reversionary bonuses so far.  
Guaranteed amount is <<R255 214>>.
- ***How much will I get if I cancel the policy before it matures?***  
Surrender value you can receive now is <<R150 702>>.  
Surrender value will increase each year  
Surrender value also increases with future bonuses

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## Frequently Asked Questions - 2

- ***Can I have a loan against the policy?***  
No
- ***Why is the surrender value of the policy lower than the amount I would get on death?***  
Designed to provide a higher benefit on death than on surrender  
Most clients require a higher pay-out on death  
Premium calculated based on this product design
- ***Why is it called guaranteed if you don't guarantee the investment return?***  
Investment with no guarantees, the investment capital could be lost  
Original sum assured guaranteed  
Reversionary bonuses so far guaranteed  
Only future bonuses not guaranteed
- ***Can I change my investment portfolio to an equity fund?***  
No  
No investment portfolio options available on this product  
Company is taking the investment risk so decides how to invest

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## Further Assistance

- A detailed product specification document covers the rules on how the product works
- The policy document covers all the terms and conditions of the policy
- This presentation is included in the training handbook
- Please contact the Product Development Team on [productquery@lifeco.co.za](mailto:productquery@lifeco.co.za) for any other queries
  - Sandy
  - Andile

Thank you



## Sample Answer – Question 2

Company letterhead with full contact details

15 May 2018

Mr M Peters  
Chairman  
ConsultingCo Ltd  
16<sup>th</sup> Floor  
Federated Building  
London

Dear Mr Peters

### **ConsultingCo's role in combatting global warming**

In your latest report to shareholders you identified a number of risks the company faces one of which is environmental risk. I recently attended a presentation by the World Working Group on Climate Change and left inspired by the opportunity to contribute to solving this serious global problem. The risks of global warming are significant and there is much more we can do to reduce this risk.

### **Risks of global warming**

As you know Carbon dioxide (CO<sub>2</sub>) increases due to industrial processes and consumer activity. In an environment in balance, CO<sub>2</sub> produced is offset by the absorption of CO<sub>2</sub> by plants. Currently the production of CO<sub>2</sub> exceeds the absorption of CO<sub>2</sub> and the quantity of CO<sub>2</sub> in the atmosphere is increasing. Higher CO<sub>2</sub> results in greater retained radiation from the sun.

With the higher retained radiation, sea and air temperatures increase, polar ice melts and sea levels rise. Reports from the Intergovernmental Panel on Climate Change project that from 2000 to 2100 sea levels will rise by almost 0.8 meters and the surface sea temperature will increase by 4°C if the increase in CO<sub>2</sub> continues. We have an opportunity now to limit this increase in temperature to 1°C if CO<sub>2</sub> emissions cease to increase from 2020 onwards.

### **Consequences of global warming**

An increase in surface sea temperature of 2°C is enough to result in extreme weather including high winds and flooding from both storms and tidal surges. Changing rainfall patterns result in new drought areas. Increased sea temperatures threaten marine life and changing rainfall and disease patterns threaten terrestrial life. Both of these are a threat to food security.

Storms and a rising sea level cause damage to property and loss of life.

A reduction of GDP per capita by 20% by 2100 is considered more likely than not if the current rate of increase in CO<sub>2</sub> continues.

### **Global Solutions**

There are two high level solutions. The first is using up more CO<sub>2</sub> than is produced. An increase in absorption of CO<sub>2</sub> can be achieved through reforestation. However, this will take too long and will never be enough to offset growing CO<sub>2</sub> emissions.

The second and only real option is reducing CO<sub>2</sub> emissions. Reducing CO<sub>2</sub> emissions comes at a cost, but the cost of not doing anything is far greater.

### **Practical application for ConsultingCo**

ConsultingCo can take a leadership position on this issue by having a company policy that describes the problem, our environmental values and how we intend to contribute to solving the problem.

Preference should be given to suppliers that have principles on climate change that are consistent with ours. ConsultingCo can actively support climate change initiatives that can range from raising awareness to funding research.

In the next budget cycle some funds should be allocated to finding a business opportunity for ConsultingCo in managing climate change risk. In reports to and engagement with clients, the company view on climate change should feature as this problem affects everyone.

We should be encouraging our staff and external stakeholders to adopt green practices in their own lives. Some green practices are:

- Insulating homes
- Reducing energy consumption – lights, appliances and travel choices
- Switching to clean energy sources e.g. solar geysers
- Reducing meat consumption.

Not all of these suggestions work for everybody but if we all do something, we can make a positive contribution.

In conclusion, the risks of global warming are far too important for ConsultingCo to ignore. We must take a firm stance that is supported with practices that demonstrate how seriously we take this risk. It will take inspirational leadership to take the global community to where it needs to be and ConsultingCo has a role to play.

Yours sincerely

<signature>

Andrew Small  
Consultant Actuary

(615 words)