EXAMINATION

April 2008

Subject SA2RSA — Life Insurance Specialist Applications

EXAMINERS' REPORT

Introduction

The attached subject report has been written by the Principal Examiner with the aim of helping candidates. The questions and comments are based around Core Reading as the interpretation of the syllabus to which the examiners are working. They have however given credit for any alternative approach or interpretation which they consider to be reasonable

Comments

The solutions contained in this document are more detailed than what would typically be required for a clear pass. Any relevant points made by candidates were given full marks, even if they are not contained in the solutions presented below.
Further comments are given in the solutions presented below.

Question 1

(i) *This question was relatively easy and relatively well answered by the better candidates. However, the majority of candidates did miss out on the impact that changes to competitors products could have had on their business volumes.*

Funeral is a form of term assurance (or whole life) cover. Term assurance (and whole life) premiums are easy to compare for different companies.

Internet access and quotations make comparisons (by clients and brokers) even easier. May not impact target market much.

The most likely reason for the decline in new business volumes is that the company's premium rates have become uncompetitive.

This might have happened due to other companies having targeted the same market:

- accepting lower expenses or profit margins or selling at a loss to gain market share;
- having negotiated favourable terms with reinsurers;
- having launched an effective marketing campaign into the market;
- having better claims experience which is reflected in their pricing;
- improving benefits by, say, increasing the number of family members (e.g. maximum children) covered under their policies, or having reduced exclusions or waiting periods.
- reducing the number of family members (e.g. maximum children) covered under their policies making the product cheaper (this would be beneficial if the reduction in premiums exceeded the perceived value of the benefit of having them covered).

Alternatively, it could have happened due to the company's premium rates increasing. This could be due to:

- reinsurers increasing their rates, causing an increase in the actual premium rates;
- increased operating expenses; or
- deterioration in the company's claims experience.

If the reduction in sales pertains to sales via a broker network, then a possible reason for the decline could be initial commission being lower than that paid by other companies or the commission may not meet the needs of the intermediaries.

The company may have gained a bad reputation over whether or not it pays contentious claims.

There may have been administrative problems, such as:

- delays in the setting up of policies;
- delays in collection of premiums or,
- delays over claim payments

There may have been delays over the payment of commission to brokers which would have made them less likely to place future new business with the company.

The company may have developed a reputation for unpopular underwriting decisions, i.e. adding loadings when other companies do not. This is unlikely given the type of business.

The medical limit (level at which medicals are requested) if any (unlikely for funeral business), may have changed relative to other companies (and now be lower).

The proposal forms may be difficult to follow and time consuming to complete.

There may be concerns about the ability of the company to pay claims (i.e. financial strength).

Other companies may have introduced attractive “free” add-ons and options such as guaranteed insurability on certain events, no-claim bonuses etc. (maximum of two marks if sensible examples are given – 1 per example).

The sole focus of the company may have been on other products (i.e. the investment products).

The company may have received bad publicity pertaining to other areas of business (investment) which could impact on new business volumes, for the funeral product.

There may have been a general reduction in new business volumes throughout the marketplace (e.g. due to a recession, changes in regulation or capital requirements, cultutral changes and / or changes in socio economic environment leading to an emerging middle class preferring traditional term products to funeral policies).

New regulations (e.g. changes in maximum commission and payment terms) may have made the product more difficult to sell.

There might have been adverse changes to the tax treatment of the policyholders or the life office.

There may have been a shift to alternative types of providers (e.g. burial societies, with profit products or group products).The company may have lost agents to competitors, or lost support of a large broker.

(ii)(a) *Again, this question was relatively well answered. However, a surprising number of candidates missed out on key points such as the issue of lapse and re-entry.*

Reducing the expense assumption will reduce the theoretical premium thus increasing new business volumes if the reduced premium looks competitive.

Overheads (e.g. management, computer systems etc.) have to be covered by the product range (investment and risk) as a whole.

If these are not covered at all by this product then they must be covered instead by other products (i.e. the investment products where expenses have an even higher impact on sales).

The aim of the company should be to maximize profits whilst ensuring that overheads (and all other expenses) are covered by the whole product range.

If other products are less price sensitive than the funeral product (unlikely for investment products) then the impact on new business volumes of loading additional overheads into them may be less than for this product.

If the increased funeral products sales result in higher overall profits with the total overheads being covered by the whole product range then this would be a worthwhile strategy.

However, the company needs to carefully consider the potential impact on the sales volumes of other products before it makes this change.

It is not always possible to separate out overheads accurately so there is a risk that the direct costs loaded on the product end up being incorrect.

The life office needs to check that it has sufficient free assets (i.e. assets in excess of liabilities and CAR) to cope with the new business strain from any anticipated increase in volumes. It will also need to consider whether a significant change in the mix of new business will result in a strain on the CAR ratio since different products will generate different new business strains and CAR requirements.

If the change is expected to generate a significant increase in new business volumes, the company would also need to check whether the relevant areas (e.g. new business capture, underwriting etc.) can cope with the additional volumes.

If the company adopts this proposal, then it will be exposed to changes in the mix of business as well as to changes in the volume i.e. both aspects will impact on whether total overheads are covered by the product range as a whole.

This could also result in total expenses (including overheads) being more than covered.

The company could choose to reduce the overheads loaded into the funeral product as per policy expenses (rather than excluding them completely) and hope that the extra volume of sales result in the total overheads covered by funeral products remaining at the current level (i.e. increased volume times reduced overheads loading per policy)

If premiums reduce significantly then the company needs to consider the risk of a lapse and re-entry on current business.

The impact of the proposal on the portfolio as a whole will depend on how large a proportion of the total portfolio is made up of this product.

(ii)(b)*This part of the question was not as well answered as one would expect. Most candidates missed out on the risk that business volumes were going to stay relatively similar and that there could simply be a switch from one product offering to the other. Furthermore, very few candidates considered how experience would be analysed, the cost of doing such analysis and whether there would be sufficient data to do this.*

With reviewable premiums the company would not be exposed to the risk that future experience was worse than expected. For guaranteed rates it will either have costed the guarantee stochastically or used prudent mortality assumptions when setting the premiums. It will be able to remove much of the stochastic charge or explicit margin from the premiums for the reviewable rates. It would therefore be able to charge lower premiums for the reviewable rates.

Potential policyholders may not like the potential for future increases in premiums. Whether the option of reviewable rates will improve new business volumes will depend on whether the reduction in premiums appears more attractive than the value placed on having guaranteed rates. The relative attractiveness of the cost of reviewable and guaranteed rates will partly depend on whether potential policyholders feel that future premiums are likely to rise or fall.

Whether this option is attractive may also depend on whether other companies offer reviewable rates. This would also give an indication of whether there is a genuine demand for such a product.

If no other companies offer the product, then the company would need to undertake some market research to determine whether there might be a demand. Ideally, a simple sales test should be carried out.

The company also needs to consider whether the business sold on renewable rates would increase overall volumes or simply replace that which would have been sold on guaranteed rates.

If all that happens is that there is a split of current new business volumes (without an increase) then it would not be worth developing the new option unless greater profit could be made on the reviewable rates.

The company would need to consider whether it has the capability of monitoring experience and changing the premiums in light of bad experience.

The company would also need to consider whether it is likely to have sufficient volumes to make for meaningful experience analysis.

The reviews themselves will also lead to an increase in expenses and the need for system changes.

This proposal is likely to involve some once off expenses which would have to be justified by potential increase in business volumes (and profits).

The company also needs to consider potential bad publicity from future increase in premiums and be sure that it would actually carry out this increase in practice (if required). If it would not, then the rates are not really reviewable.

The company would need to make sure that the marketing material and policy conditions clearly sets out the potential for increases in premiums and what would cause these so that policyholders' reasonable expectations (PRE) are framed appropriately. For example the company would need to be clear about how much of a change in experience would generate a change in premium.

The company needs to decide on how frequently it will carry out reviews and communicate this to policyholders.

In order to sell the product, the company may need to guarantee a period at the start of the policy during which it would not change the premiums

The company needs to consider whether it would also reduce premiums in light of good experience and set this out clearly in policy documentation and be prepared to do it in practice.

The company needs to make sure that it monitors experience appropriately in order to identify changes in experience as soon as possible.

There will still be a time lag between identifying bad experience and actually changing premiums so the premiums will be guaranteed to a limited degree. This implicit guarantee should be priced into the rates. There may also be a guarantee on the maximum increase.

If significant increases are required in the future then some policies will lapse which otherwise would not have. Thus, in the event of increases coming through, persistency experience would tend to be worse than for guaranteed premiums leading to lower profits.

Furthermore, there is likely to be selective lapsing and the policies which lapsed would tend to be those in better health so the claims experience of the remaining policies is likely to worsen further, requiring further increases in premiums.

There could be a lapse and re-entry issue for existing policyholders on guaranteed rates if they perceive the new reviewable rates as being better value.

Reviewable rates may be less capital intensive i.e. lower margins in reserves and less CAR requirement.

In the event that the company can only obtain reinsurance which does not include guaranteed rates, the company may want to make this change in order to be able to reinsure the business on similar terms to the original policy.

(ii)(c) *This part of the question was well answered by most candidates.*

If attractive to potential policyholders, then this could increase sales since maintenance of real cover will help meet policyholders needs.

This change is unlikely to impact volumes significantly by itself.

There is a serious risk of anti-selection. Each year's increase is at the policyholder's discretion. The policyholder is more likely to increase his premium (and cover) if he (or his family) is in bad health. This anti-selection is likely to lead to poorer claims experience.

The anti-selection risk could be reduced by making policyholders choose at outset whether they want an automatic increase each year or not. Or the company could prohibit any increase if one was not taken in the previous year (or previous two years). The company can also consider limiting the total increase (e.g. to 50% or 100% over the Life of the Policy

The company would have to allow for the potentially worse experience when setting the premium rates. The company could consider inflation based increases.In theory, the risk cost will increase with age so if the sum assured increases, all other things being equal, the premium should increase by more than the sum assured.

Similarly, expense (inflation) may be at a different rate to the premium increase.

To allow for the fact that the premiums increase at the same rate as the benefit, the premium at outset should be higher (or the profit criteria will be lower) than for a policy without this option.

The company would also need to make an assumption as to the proportion of policyholders choosing each increase option (consistent with other financial assumptions) when setting the premium.

In pricing, the company should make an assumption about how many increases will be affected by each policyholder. This will be difficult to predict making it more likely that actual experience will differ from assumed experience.

If the assumption is too prudent then the premium rate will be high and the policy may not sell.

Expenses will also be incurred at each premium increase date which would need to be allowed for in the premiums. The company will also need to consider whether initial commission would be paid on each increase option.

The company will need to adapt its administration and commission systems to ensure that the process for taking out an increase is as automated as possible.

The increase option may afford the company an opportunity to communicate with the customer and present possible cross-sell (or upgrade) opportunities.

The different options will have to be reserved for appropriately - possibly increase new business strain, capital requirements etc. In particular, PGN104 requires the life office to ignore premium increases when reserving except when the increase results in higher reserves. The premium rate used for the increase could (as an alternative be based on) the new business premium rates applicable at that point in time.

(ii) (d) *The answers to this question were disappointing. Very few candidates picked up on the fact that changing the risk discount rate did not change underlying profitability but rather changed the profit requirement of shareholders. The reality is that if premiums reduced as a result of the risk discount rate being changed then shareholders make less profits (or receive less of return on Capital) this was only picked up by one or two of the candidates.*

The risk discount rate is usually based on the return the company requires on risk free assets increased to reflect the additional risk that profits might not emerge as expected from the contracts (sometimes plus an explicit margin).

Thus, if there is more uncertainty about future cashflows differing from those assumed the risk discount rate should be higher.

A lower risk discount rate will increase the present value of profits. So the proposed reduction in risk discount rate will allow premiums to be reduced (assuming that the company maintains its current capitalized profit requirement) whilst meeting the company's profit targets which should lead to higher volumes of new business.

However, the company needs to remember that although the value of new business will apparently be greater, the return on capital is less (since the premiums are lower) and decide whether it is comfortable with this.

If the risk discount rate has not been changed for a while then the economic conditions and return available on risk free assets may be different from that underlying the current risk discount rate.

If the risk free return is now lower, then this would justify a lower risk discount rate.

If the risk free return is not lower then a change in risk discount rate would be less justified and could just be a case of smoke and mirrors.

Any justified change in risk discount rates should apply to other products as well as this one.

Any difference in risk discount rates between products should reflect differences in the risks relating to these products.

Reducing the risk discount rate for the funeral product in isolation would lead to inconsistent comparisons of the profit from different products unless the risks are genuinely perceived to have reduced.

This in turn could lead to incorrect conclusions e.g. the company investing capital in writing funeral products when the returns available could be higher if it was invested in other products (unlikely if the other product is a low premium investment product).

If the risk discount rate used when pricing the funeral policy is changed, but that used when calculating the value of in-force (and value of new business) is not, then the apparently greater profits when setting premium rates will not reflect in the Embedded Value on the analysis of the Embedded Value.

The company may therefore find that it is not generating extra profits in the Financial statements and PGN107 disclosures (if shown).

If premiums are uncompetitive it may be an indication that other companies are using a lower risk discount rate.

It may be possible to get an indication of this from consultants or industry surveys.

If this turns out to be the case then the company will need to decide whether it is willing to accept a lower return on its capital or whether it will accept lower volumes of business than in the past.

(ii)(e) *This was an easy two marks with most candidates doing relatively well.*

Expanding the number of family members covered is likely to be costly (except in the case of adding to the maximum number of children covered).

However, if the rest of the market is doing this, this may be a reason for new sales having fallen. If so, then realignment with the markets may result in sales reverting to original levels; however, profitability (per policy) will reduce.

This could be a successful ploy if any underlying reinsurance terms and conditions can be changed without a material change in the reinsurance premiums.

It is important to keep both benefits and pricing in line with the market.

Life insurance is sold and not bought. Thus if the salesforce sees the additional benefit (i.e. more lives covered) worthwhile (or providing a competitive advantage), then this could be a good innovation (even if premiums increase slightly). It is important to discuss market norms as well as the benefits being added with the salesforce.

The company would need to consider whether the additional benefits required additional underwriting.

(ii)(f) *Most candidates seemed to miss the key points. In particular the risk of selective withdrawal at later durations was not considered by most candidates. Similarly, the cashflow implications were largely ignored. Also, only a few candidates picked up on the fact that this change could well improve persistency prior to payment of the cash bonus.*

The company would probably want to increase its premiums to allow for this otherwise it is likely that it will have to reduce its profit margin.

When premium rating, profit testing, reserving and doing embedded value calculations, the company would need to consider the impact on expected withdrawals.

While it is likely that withdrawal experience will be quite a bit better (as a consequence of this benefit) in, at least the six months prior to each bonus payment (e.g. from 4.5 – 5 years) it is quite likely that the Company will experience the withdrawals immediately thereafter (i.e. in the 61st month, the 121st month etc.)

The company will need to carefully consider the sensitivity of the withdrawal assumption (and it will need to consider different directions of sensitivity at different durations).

The company would also need to consider cashflow implications.

The company needs to consider how to invest for this cash bonus.

It is possible that claims experience will be marginally better than without this added benefit (mainly due to a decline in fraudulent claims).

Unlike in the short term market the purpose of the no claims discount is not to improve claims experience, but rather to encourage better persistency. Thus, no change in claims experience is expected.

If the company is making use of reinsurance, it is likely that the reinsurer will not be taking part in the cash bonus which means that the reinsurance terms and conditions will become more complicated (i.e. the company will need to keep a portion of the loading in the premium rates for the cash bonus, as well as its share of risk, expenses etc.)

An alternative to a no claims bonus could be a cash bonus assuming that the policy remains in force for a specified period. As death is not normally a selective event, this, may be perceived to be more fair and will still encourage efficiency.

Question 2

(i) *This part of the question was based on previous exam papers and as a consequence was relatively well answered. However, given that this question was based on theory, it was nonetheless surprising the number of candidates who missed out some of the more obvious points.*

Advantages of purchasing Company C

It may be difficult to obtain a license to start a new company in this particular country. It may also be harder for a new foreign company than a local company with a track record (even if the shareholders of the local company are foreign) to sell business.

Starting from scratch may be made more difficult because of language barriers (e.g. French in much of West Africa)

Gain experienced staff who understand the regulatory and taxation environment.

Staff are already trained in the type of products sold in this country.

No need to recruit staff which can be costly and time-consuming.

Have existing infrastructure, e.g. branch network

Can use existing administration and accounting systems.

Can sell new business immediately

May be a cheaper option, depending on sale price.

May be able to continue using the existing brand which already has a market reputation. It would also probably be difficult to sell with profit business in a new company.

Can hold on to existing client base and salesforce or relationships with agents.

Have past experience analyses which can be used as part of actuarial control cycle to set assumptions for future pricing.

Gain an immediate investment performance track record (could be a disadvantage if performance has been poor).

Disadvantages of purchasing Company C

Need to consider why is company B wanting to sell company C.

Company C's market reputation may be bad.

The purchase price may be over-inflated, if there is more than one potential buyer.

Company A may wish to sell different types of products than those currently being offered, and changing strategy/direction would therefore still take time and money to achieve.

Company C might not adapt easily to Company A's culture.

May have to put in place measures to ensure that key staff do not leave on change of ownership.

There may be elements of Company C that are not attractive, e.g. the distribution method, asset mix etc.

May need to find more initial capital to finance the purchase than for a startup operation.

Company C may have dependencies on Company B for some services, e.g. investment.

There may be legacy problems with Company C's business – while this could be covered by indemnities it can still be a drain on management time and a potential reputational risk.

(ii)(a) Given that this question was fairly straight forward (it involved working through a real life situation and listing points) it was disappointingly answered. Also, a fair number of candidates seemed to think that they were going to get 7 marks from making a few points. When requested to list information, a large number of items need to be listed for each and every mark that is gained. The examiners originally expected this question to be really well answered; however, only one or two candidates scored well in this part of the question.

Product, in-force and New Business Details

- In-force data in electronic format
- Summary of in-force business data by age, term, premium etc
- Descriptions of products sold (or policy documents)
- Charging structures of products sold
- Details of product guarantees and options
- Marketing literature
- Historic new business sales by class of product
- Planned new business volumes by class of product and the distribution channel
- Profile of new business (age /term /average premium)
- Profitability of new business
- Profit testing bases (or pricing basis)

Experience Analyses and bonus distribution

- Historic expense analysis
- Future expense budgets
- Details of commission / salesforce remuneration arrangements
- Persistency analysis
- Morbidity analysis
- Mortality analysis
- Investment performance and, if applicable, investment managers' track records and a detailed list of assets.
- Details of approach to asset/liability matching
- Current tax position
- Projected future tax position
- Details of historic bonus declarations
- Bonus reports and recommendations
- With profit guide and PPFM
- Earned Asset Share methodology (or smoothing philosophy)
- Details of Earned Asset Share calculations
- Comparison of current payouts against earned asset share
- Analysis of Surplus
- Analysis of Embedded Value profits

Other information

- Significant events which have occurred since the publication of the most recent accounts and returns
- Projected balance sheets and income statements
- Details of tax position
- Financial condition reports (or equivalent) if available
- Details of all reinsurance arrangements
- Details of any financing arrangements (e.g. from company B to company C)
- Internal and external audit reports e.g. on data integrity
- Correspondence with the regulatory authorities
- Details of any significant provisions e.g. policyholder compensation

- Details of any sales complaints
- Details of current and potential future litigation
- Board minutes
- Details of senior management / staff numbers / salesforce
- Employment contract details
- Details of staff pension fund
- Reasons for the sale
- Any analysts or rating agency reports
- System information

(ii)(b) *Candidates who read the question carefully answered this part of the question very well. However, a disappointing number of candidates gave a lot of commentary on what the Embedded Values numbers were likely to look like and how one should interpret these. The question did not ask for this. The question simply asked for details of how one would calculate the Embedded Value. Thus many candidates wasted precious time answering the question that they would like to be asked rather than the question that was asked. Similarly, many candidates gave a detailed explanation of how the Value of New Business would be calculated. This gained them no marks as it was not asked for in the question. The candidates who stuck to what was asked for and answered it carefully were able to get good marks for this relatively straight forward question.*

Determine a set of assumptions on a realistic basis

Assumptions will include investment returns, tax, mortality, maintenance expenses and withdrawals.

Use experience analysis provided by Company C.

Adjust for any one-offs which may have distorted past experience or where future trends are likely to be different.

Either use a full set of in-force data provided by Company C or use what information has been provided to set appropriate model points.

For the without profits business, project forward cashflows and supervisory reserves to determine surpluses arising each year.

For the with profits business, need to project future bonuses and asset shares.

If current reversionary bonus is unsupportable on realistic assumptions could assume it is gradually reduced from its present level to that sustainable in the longer term.

Assume that terminal bonus rates are set such that payouts are equal to asset shares at maturity.

In the asset share calculation allow for the contribution from the surplus arising on without profits business and for shareholder transfers.

Can then determine the cost of bonus in each future year.

The shareholders share of profits is 1/9 of the cost of bonus.

Net down results for taxation on shareholder profits.

The shareholder's net profit entitlement is then discounted to the present at the risk discount rate.

The risk discount rate depends on the return required by Company A shareholders.

This may depend on the method by which the takeover will be financed.

To this value should be added the shareholder's share

of any free estate in Company C.

Allow for any additional liabilities e.g. deferred tax on capital gains, cost of mis-selling compensation.

It may be assumed that 1/10 of the estate can be attributed to shareholders immediately.

Or alternatively the terminal bonus rates could be increased by allowing the free estate to augment asset shares.

The latter is more realistic approach as it is likely to be the case that any free estate will be required as ongoing working capital within Company C.

Add the value of net assets in the shareholder fund.

This could be discounted to reflect that these assets are not immediately distributable.

Finally, the cost of capital is calculated as the operating cost of holding the required Capital and is deducted to arrive at the Embedded Value (ii)(c) *The majority of candidates did better than expected as this was a tough question. This was the part of the question that was expected to separate the candidates out for this question and it indeed did. The one disappointing aspect of the answers to this question is that many candidates did not consider the alternatives (which one will always include in a consulting report). In other words many candidates looked at pricing (which was the primary issue and got most of the marks) but few thought to mention that such a report would mention what alternatives there were to the proposal at hand. The alternatives were outlined in the question, so this should have made it relatively easy. Nonetheless, the better candidates did show a good grasp of understanding what was needed when contemplating a Sale and Purchase situation. One item of concern was that a number of candidates felt that assumptions could be tweaked and made "conservative" (while still being called best estimate) to aid the cause of their client. If one is calculating an Embedded Value on a best estimate basis then best estimate assumptions need to be used.*

The first decision that needs to be made is whether or not to buy Company C or to start up a new operation. The report will cover the advantages and disadvantages outlined in part (i) above.

The report will probably give some projections in terms of business volumes and profits under the two scenarios (i.e. purchasing a new company and starting from scratch).

The ultimate decision as to whether to buy or start a new operation will depend on company A's objectives and be influenced by:

- The price that they can negotiate;
- Their goals, such as market share after five years;
- Projected volumes and market share after 5 years on both scenarios; and,
- Return on capital of the two scenarios (i.e. amount of investment relative to profits anticipated in the projections).

The majority of the report will deal with the price to be paid should Company A decide to purchase Company C.

Price will be based on the Appraisal Value, which is the sum of the Embedded Value and the value of new business or "goodwill". Therefore also need to calculate Value of New business.

Price will often be 100% x NAV + x% *VIF +y% x Val NB where y% < x% < 100%

Need projections of sales volumes, based on Company C's plans and own knowledge of the market.

Model the profitability of new business using cashflow projections as for the Embedded Value calculation.

Alternatively use simpler method of a multiple of profit arising on last year's new business.

A suitable multiple will depend on the prospects for new business growth in this country. This should include an assessment of the market for insurance in the territory and of Company C's competitors.

May use a higher risk discount rate to determine Value of New Business than was used for in-force business since there are additional unknowns.

If one used the new business profitability information provided by company C then one needs to take care that the assumptions are appropriate – could be aggressive to raise the price.

Take into account any possible reduction in future profit margins e.g. due to legislative changes or increased competition.

General commentary on the life insurance industry in the overseas country, including

- Regulatory requirements and likely future developments.
- Recent history of prices paid for similar companies including analysis of the goodwill multiplier.
- Tax issues which may arise.
- Suggested options for the company structure post-transaction.

Impact on the purchase on the result of Company A, with regard to:

- Its financial strength or solvency position.
- Future post transaction statutory and embedded value profits.
- Analysis of the amount of capital which may be required to be injected into Company C e.g. to continue to support current bonus rates, maintain or enhance investment freedom, or to support the planned level of new business which Company A wishes to write.

Suggested options for the way in which the purchase could be financed.

Market value (or share price) of similar quoted companies if available.

Suggestions for ways in which Company A could win the deal. For example if company C is for sale in a public auction, could identify the benefits and advantages of Company A compared with the other potential bidders.

Might also include the following in the report:

- Sensitivity testing of the Embedded Value and value of New Business.
- Identification of potential risks and areas of concern (e.g. current or future litigation).
- Suggestions for ways in which these could be addressed, for example Company B could provide indemnities.
- Commentary on the "real" reasons why Company C might be up for sale.
- Commentary on reputation of Company C.
- Analysis of the management team and their contracts.
- Identification of synergies between Companies A and C.
- The value of any possible expense savings post transaction and the cost of introducing any new proposed products.
- Dependencies of Company C upon Company B and how these could be addressed.

END OF EXAMINERS' REPORT