

Actuarial Society of South Africa

EXAMINATION

11 May 2021

Subject N211 — Communications

Time allowed: Three hours and fifteen minutes, plus an additional five minutes to allow for uploading your file in the ASSA Exam Platform

Total marks: 100

INSTRUCTIONS TO THE CANDIDATE

1. *Ensure that you are logged in and authenticated through Examyty before you attempt the examination.*
2. *Ensure that you have your candidate number handy to input as part of the examination.*
3. *Questions are only available in this ASSA Exam Platform and may not be printed.*
4. *You will be provided with a Word and a PowerPoint template to access and use to complete your questions. You may only use the files provided to you. No other files from your PC may be accessed.*
5. *An Excel template will be available to use if necessary but will not be uploaded and used for the marking process.*
6. *Ensure that your Candidate number appears in the Header (Word template) and Footer (PowerPoint template). [Select “Insert”, then “Header”/“Footer”, input your candidate number on blank header/footer template and select “Close Header”/“Close Footer”]. DO NOT USE YOUR NAME OR MEMBER NUMBER ON YOUR ANSWER SCRIPT.*
7. *You are strongly encouraged to use the first 15 minutes as reading time only; however, you may commence answering the paper whenever you are ready.*
8. *Mark allocations are shown in brackets.*
9. *Add your word count to the bottom of Question 1. Include words in tables and graphs.*
10. *Attempt all questions. Save your work continuously during the examination.*
11. *You MAY NOT make use of a Formulae and Tables book during the examination. Any such information that may be required will be provided to you within the examination.*
12. *Upload your answer files with your solutions into the ASSA Exam Platform. You need to upload your files BEFORE the examination time expires.*

13. *Once you have added your files, you MUST click on FINISH ATTEMPT to save your files. You will still be allowed to go back and make changes (Review Attempt) if you have time.*
14. *Once you are satisfied with your uploaded file, click **FINISH ATTEMPT and FINISH ALL AND SUBMIT** whereafter you will not be able to make more changes. Take this into account when finishing early - once you have submitted, you will not be able to make any more changes to your answers.*
15. *It is the candidate's responsibility to ensure that all work is submitted BEFORE the end of the examination time. Take this into account when planning your review and submission. There will be no time announcements.*
16. *You should use blank paper to work on any calculations where this is appropriate.*

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.

END OF INSTRUCTIONS

QUESTION 1

You work for Investments Unlimited, a small firm that manages investments on behalf of clients. You recently received your FASSA designation and one of the new responsibilities is handling technical complaints. The email below arrived in your mailbox.

From: justice@investmentsunlimited.co.za
To: alex@investmentsunlimited.co.za
Date: 26 February 2021 14:34
Subject: FW: Poor investment performance – Investor number 13579

Hi Alex

Please reply to Mr Jacobs and copy me in.

Regards

Justice
Managing Director: Investments Unlimited

From: peter@wealthadvisors.co.za
To: justice@investmentsunlimited.co.za
Date: 26 February 2021 12:07
Subject: Poor investment performance – Investor number 13579

Dear Mr Sithole

I have just received the latest statement for my client, Ms Ryder. The statement shows that your firm delivered a return of -6.4% for Ms Ryder over the last year. This is extremely disappointing. Your marketing material claims that you achieved a return 3.4% for the same period on the same portfolio, so something must be wrong with the statement. How can I explain the performance to Ms Ryder with incorrect information?

Yours sincerely

Peter Jacobs
Wealth Advisor

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Write an email reply to Mr Jacobs of no more than 600 to 650 words that will give him the information he needs to explain the investment performance to Ms Ryder. Keeping Ms Ryder as an Investments Unlimited client and Mr Jacobs as a supporting advisor are important.

In your reply you need to illustrate the performance of the HiFlyer Balanced portfolio compared to its benchmark. For this illustration you will use gross performance before any fees or commission.

As part of your explanation, you will need to reconcile the gross return on the HiFlyer Balanced portfolio before any fees and commission with the return shown on Ms Ryder's statement. The reconciliation will need to include separately the reduction in the gross investment return due to the fees, the commission, and the withdrawal, with a comparison to the benchmark return.

The concern that the investment statement and the marketing material do not agree must be dealt with.

Additional Information

- The HiFlyer Balanced portfolio holds 75% of the portfolio in equity.
- The annual performance benchmark for the HiFlyer Balanced portfolio is CPI + 5% before investment management fees, and commission, which for the statement period was 8.5%. The time horizon for benchmark performance is three years.
- The unit prices on the 1st of each month of the period were 100, 103, 100, 90, 80, 85, 90, 95, 100, 105, 100, 102, 105.
- The changes in unit price over the last year are attributed to the movements in the equity market.
- Ms Ryder withdrew R1.2m (30% of her investment value) on 1st June 2020.
- The money weighted return on Ms Ryder's portfolio for the year was -6.4%. The marketing material correctly states that the investment return achieved by the HyFlyer Balanced portfolio for the year to 01/02/2021 was 3.4% per annum after investment management fees.
- The fees charged by Investments Unlimited are 0.125% of the portfolio value per month at the start of each month and are equivalent to a reduction in investment return of 1.6% per annum on both the portfolio return achieved and on the benchmark return.
- The commission paid to Mr Jacobs is 1.5% of the portfolio value (before fees and withdrawals at the same date) paid on 1 June each year and is equivalent to a reduction in investment return of 1.9% per annum on the portfolio return achieved and 1.6% on the benchmark return.
- You do not need to verify the reductions in investment returns due to commission and fees. Since all return related reductions have been correctly stated, the reduction in return due to the timing of the client's withdrawal can be used as a balancing item in your reconciliation.
- The average return over the same period for similar portfolios in the market was 2.5% per annum after investment management fees, but before commission.
- Mr Jacobs has a suitable mandate to deal with Ms Ryder's financial affairs and there is no concern about sharing confidential information.
- Mr Jacobs is a new financial advisor in the industry, and this is his first client to whom he has recommended your firm.

[Total 50]

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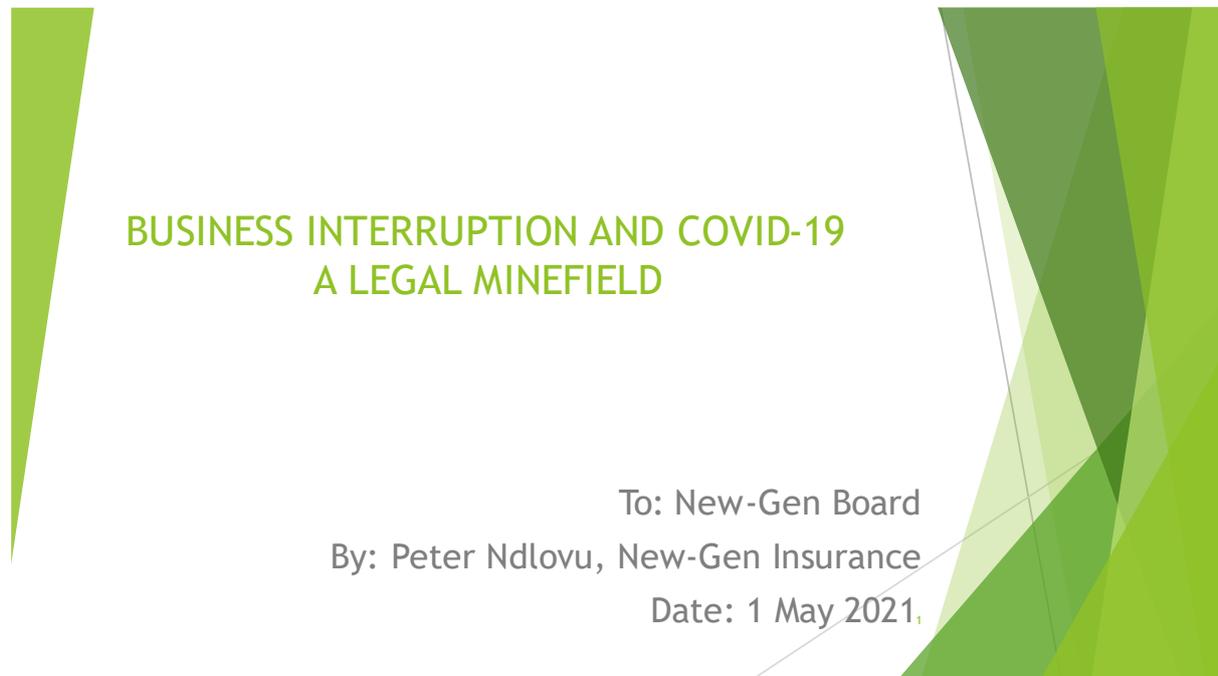
QUESTION 2

New-Gen Insurance Company is a small general insurance company writing certain classes of insurance, including property on both personal and commercial lines. You are an actuary, heading up New-Gen's product support department.

During New-Gen's most recent product review, a decision was taken to incorporate business interruption insurance as an optional extra on commercial property policies. Your Board of Directors has asked you to update them on business interruption cover in the light of the recent legal challenges arising from the Covid-19 pandemic.

Your team has collected a variety of information regarding business interruption, which is given below.

From this information, prepare a presentation of 8-10 slides, including the title and concluding slides, in Microsoft PowerPoint for presentation at the meeting. The first two draft slides have been given to you, which you are at liberty to change.



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Agenda

- What is Business Interruption Insurance?
- How does it work?
- Covid-19 - local state of play
- Learnings from the Santam case
- What does it mean?

2

Information on Business Interruption Cover

Business Interruption (BI) is offered as an add-on to policies written in the commercial property class.

The purpose of BI is to indemnify the policyholder from losses suffered as a result of being unable (partially or completely) to carry on their business due to an insured event. For example, a manufacturer suffers a serious fire that destroys his factory and as a result, he can no longer meet his supply contracts. The property insurance will cover the cost of the replacement of the factory and its contents, but the manufacturer is unable to operate while the factory is being rebuilt and re-equipped. The financial losses he suffers between the date of the fire and full production resuming is covered by the BI benefit.

There are three types of claims that are accepted:

- Major damage loss: where an insured event at the insured's place of business leads to the insured being unable to continue his business for a period of time.
- Consequential loss: where an insured event at a key supplier or key customer leads to the insured being partly or wholly unable to continue his business for a period of time.
- Non-damage loss: where some other event that is not otherwise insured causes the insured to suffer a loss of profit, such as damage to road networks preventing access to the insured's premises, for example, adverse weather conditions in the vicinity potentially causing damage, the presence of a contagious or infectious notifiable disease in the area, resulting in a quarantine or limitation of travel to the area.

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The COVID-19 legal position

Your team has also found a useful article on-line ¹, excerpts from which are included below:

There are two categories of business interruption insurance that could respond to claims made by policyholders relating to business interruption losses suffered by them due to Covid-19.

The first category is known as standard business interruption insurance, which traditionally requires an underlying physical damage to or loss of property as a claim event. In South Africa, most business interruption policies relate to this type of insurance. South African insurers have taken the view that Covid-19 does not cause physical damage to or loss of property and claims under this type of insurance have been rejected.

The second category is where a policy has an extension for infectious or contagious diseases, often referred to as the notifiable disease, within a stipulated radius of the policyholder's business in the policy wording.

The High Court judgment cited the central issue of the Santam case to be around the interpretation of the policy wording, specifically with reference to the nature and scope of the insurance peril and whether the cause of the insurance event, being loss of income, was due to Covid-19, the "notifiable disease" or the Government enforced lockdown.

[A]n intentional approach to the interpretation of the policy wording is required, in a manner that provides an interpretive outcome that is fair, sensible and business-like.

The judgment of the Western Cape High Court ...[found] in favour of the policyholders and against Santam The plaintiffs ... wanted the court to rule ... that Santam is liable to indemnify them in terms of the business interruption section ... for losses "...occasioned by the occurrence of a notifiable disease in the form of Covid-19 occurring within a radius of 40 kilometres of the insured premises" and "that the indemnity period for the losses incurred is for 18 months".

The details of this case ...[have] illustrated the complexity around Covid-19 claims. In this case, Santam did not dispute the fact that Covid-19 is a notifiable disease. ...The policyholder had an initial claim, due to staff being quarantined for two weeks, that Santam accepted liability for. Subsequent to the initial claim, additional claims were submitted, and these were rejected on the basis that none of them were caused by a notifiable disease occurring within the 40-kilometre radius of the business premises, but rather because of a national lockdown, which is not included in the policy wording. ...

These cases highlight the emergence of business continuity threats for insurers, due to the quantum of the claims, as well as the importance of clear policy wording. ... New policies and policies that have been renewed, specifically exclude Covid-19. It can be expected that policy wordings will be amended to reduce interpretation issues going forward, and insurers should be explicit in what is and what is not covered.

[Total 50]

[Grand Total 100]

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END OF EXAMINATION

¹ From <https://www.bdo.co.za/en-za/insights/2020/covid19/covid-19-and-business-interruption-insurance> excerpts are attached with the kind permission of the author (Marnus Fourie of BDO)