Actuarial Society of South Africa

EXAMINATION

April 2026

Subject N211 — 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.

General Examiner's comments

The pass rate for this session was particularly bad. Candidates continue to struggle with basic present value calculations.

In addition, candidates continue not to notice spelling errors (even when highlighted by Word and PowerPoint).

Finally, candidates continue to not format Rands correctly. In this sitting, some candidates had Rand amounts to 4 decimal places, others had spacing in wrong places and some even had 'r' instead of R to denote Rands.

All of these items are things that candidates should be able to get right and yet a significant number still do not.

Question 1

Objectives

The question required candidates to write an email to a friend comparing the features of three different financing options to purchase a car. The response needed to cover the four criteria the friend had identified to assess which financing option was the best for him. The four criteria were:

- the lowest monthly repayment
- the timing of all payments
- the lowest overall cost
- the least risk of paying more than expected.

Candidates were not expected to make a recommendation, nor should they have. There was information stated in the question as unknown that would be necessary to make a recommendation.

The key actuarial concept that had to be communicated was the use of the net present value of cashflows so that the value of cashflows with different timing can be compared. Merely summing the cashflows, when some occurred at the start, some over the duration and some at the end of the financing period is not an actuarily sound method for comparison.

To perform well on the question the candidate had to

- summarise the information provided and used in the assessment,
- assess the four criteria for the three different financing options and where possible state which was the best option on those criteria and
- conclude with the key findings and state that the best option would depend on the friend's financial circumstances.

Common Errors

The most significant common error was the direct comparison of the sum of the cashflows for each financing option, ignoring the time value of money and the discounting factors provided in the question. Although in this case the bank loan had both the lowest net present value and the lowest sum of cashflows, this may not have been the case. One would have expected actuarial students to identify the importance of the time value of the cashflows and apply appropriate discounting.

Candidates lost marks for not acknowledging that there is a difference between summarising the information that has been provided and the assessment of the information. Both needed to be dealt with in a good solution.

A further common error was the belief that the motor dealer financing option allowed the friend to use the car for four years and then receive an amount at the end of the financing period that was greater than the sum of the repayments made and therefore make a profit. It should have been obvious to candidates that this was an unlikely outcome. Candidates failed to account for the final payment due to the dealer which equalled the guaranteed future value that the dealer would pay your friend for the car. It is acknowledged by the examiner that the question could have been more explicit about the final payment due to the dealer.

Many candidates chose to structure their email around each financing option rather than around each assessment criteria that the friend wanted addressed. Both technically and communicatively, this made it much harder to compare the options on each criterion and see which financing option was the best on each criterion

Candidates referred to the financing options by the numbers given to those options in the question rather than by a description that made it clear which option they were referring to. Candidates who did this also got features of the options mixed up possibly because they weren't clear which option was which. The friend had no hope of knowing which option was which and this confusion affected both the technical and communication marks.

There were opportunities to use tables to present information which many candidates did not take. This resulted in sentences with lots of numbers making them hard to compare. Some candidates opted to use graphs which were not appropriate for the information in this context. Where tables are used, they must have appropriate column and row headings and insights from the data in any graphic, including tables, must be drawn out for the audience.

Weak conclusions did not draw out the key findings of the assessment that was done or make it clear that the best option would depend on his financial situation which the candidate did not have information about.

Sections done well

From a technical marking perspective there were no sections that were consistently done well by candidates.

Summary

Overall, the technical marks for this question were lost due to

- not using a net present value to compare cashflows for the lowest overall cost,
- not separating the summary of data provided and the analysis of the data,
- not dealing with the specific assessment criteria expected by the friend,
- weak conclusions.

Communicatively speaking, a warm and friendly style and tone in the opening paragraph is recommended before getting down to the more formal comparison of options. The close should echo the friendly tone and point the way ahead for further contact. As mentioned above, the structural integrity of the comparison was of the utmost importance to avoid confusion. An essayistic style is not recommended as headings and bullets enhance readability and clarity and guide the reader towards a cohesive conclusion.

As also mentioned above, the use of tables – besides adding visual appeal – also enhanced the clarity of the comparisons especially if descriptors (dealer, bank, lease) rather than numbers are used.

As mentioned many times in these reports, some candidates lost unnecessary word count and formatting marks. It was clearly stipulated in the instructions that words and numbers in graphs and tables must be counted. Tables are usually part of the automatic word count but graphs, if inserted, are not and must be added manually. Their inclusion needs to be checked through highlighting to ensure the correct word count. Students must add this to the bottom of their answer; those who failed to do so, lost all word count marks (as did students who gave wildly incorrect word counts - we check!) The format mark includes spacing. Single spacing with 0/0 (not multiple 0/8) is recommended in all Word questions.

Question 1 - Sample Solution

From: Robert Nolo robert159@gmail.com
To: Mwaloni Manukato <mwaloniM@gmail.com>
Cc:
Subject: Which car financing option?
(Day, date and time are entered automatically in an email.)

Hi Mwaloni

A new car, exciting, but the financing options do seem complicated at first. I've worked through them and can certainly help guide you to your best option!

Financing options

The table below summarises key details:

Car Price R299 900
Financing Term 48 months

	Bank Loan	Motor Dealer Finance	Lease-to-buy
Deposit due upfront	R0	R0	R29 990
Monthly payment	R8 008	R4 371	R4 049
Final payment	R0	R215 928	R209 930

Important features

The monthly payments for the motor dealer finance and the bank loan are linked to the prime lending rate, which means that monthly payments can increase or decrease when the prime lending rate changes and the monthly payments for the lease-to-buy are fixed and don't ever change.

I've considered the three options from four perspectives:

- lowest monthly payments,
- timing and number of payments,
- lowest overall cost, and
- least risk of paying more.

Lowest monthly payments

The lease-to-buy has the lowest monthly payment of R4 049. So, on a month-to-month basis this will be the most affordable.

Timing of payments

The bank loan and the motor dealer finance don't require a deposit, so nothing to pay upfront unlike the lease-to-buy, where you will need to pay a deposit of R29 990. This will come from your savings, or you will need to find someone who can help you pay this deposit.

Both the motor dealer finance and the lease-to-buy have much lower monthly payments than the bank loan because they require you to pay an amount at the end of the 48 months. These future payments are substantial – R215 928 for the motor dealer finance and R209 930 for the lease-to-buy. If you want to own the car after 48 months, you will need to have saved up this amount. If you don't have this amount then, or even if you do, you can choose not to pay anything, but then you don't own the car.

The bank loan only requires the monthly payments; although they are the highest, there is no deposit to pay upfront and nothing extra to pay after 48 months.

Lowest overall cost

The option with the lowest cost is the one with the lowest value of the payments at a common point in time using a common interest rate. The timing of payments is different for the options so we can't just add up all the payments and compare the total. Paying an amount later is worth more to you than paying that amount now. I have shown this value for each option at the start of the financing, using an interest rate of 8% per annum which is what you could earn on savings.

	Bank Loan	**Motor Dealer Finance**	**Lease-to-buy**
Present value of payments	R328 024	R336 007	R348 447

The bank loan has lowest present value of all future payments and is therefore the lowest cost option.

Least risk of paying more

The lease-to-buy option has a fixed deposit, fixed monthly payments and the fixed final payment, so you know exactly what you need to pay.

Both the other financing options have the risk that interest rates increase, and you end up paying more.

The lease-to-buy therefore has least risk of paying more.

Conclusion

The lease-to-buy is the most expensive option but provides the most certainty. The bank loan is the lowest cost option, but the monthly payments are the least affordable. The lease-to-buy and motor dealer finance have large amounts due at the end if you want to own the car, while with the bank loan, you own the car with nothing more to pay.

The best option for you will depend on what you can afford each month, how much you have already saved for a deposit and how much you can save in future towards the final payment amounts.

If you want to chat further, give me call.

Regards

Robert

[Number of words: 643]

Question 2

Objectives

The question required candidates to create a PowerPoint presentation for the trustees of a defined contribution umbrella fund regarding whether the fund should consider changing its strategic asset allocation in response to changing economic conditions and industry trends.

The presentation needed to:
- explain the current economic environment and why it was relevant to the fund
- discuss the impact of the current asset allocation and how changes in the asset allocation could impact fund performance
- assess the implications for members' retirement outcomes
- provide high-level comparisons to peer funds and
- leave the trustees with possible next steps.

The audience consisted of non-technical trustees and candidates were expected to communicate investment concepts clearly and practically rather than provide technical investment analysis. An overly specialist approach affected both technical and communication marks.

The key actuarial concepts that had to be communicated included
- the relationship between risk and return and how this applied to different asset classes
- the impact of falling inflation and declining interest rates in expected returns
- the trade-off between capital preservation and growth and how different members (young versus old) would have different needs

To perform well on the question the candidate had to
- summarise the information provided and used in the assessment,
- use visual representations of the information provided
- explain opportunities and risks of maintaining the current structure and of changing the structure of the portfolio
- recognise the implications of a single investment mandate and communicate the implications for different types of members
- discuss the implications for retirement outcomes (rather than just focus on investment returns)
- assess the implications of the changing strategies of peer funds
- conclude with balanced next steps for the trustees to consider.

Common Errors

Many candidates appear to have rushed the response, perhaps not balancing time between both questions. Communication quality was also a key differentiator with a common weakness being poorly labelled and/or difficult to read graphs.

Areas of weakness included:
- candidates discussing the benefits of increasing equity exposure without adequately addressing the risk of increased volatility
- failing to recognise the importance of a single mandate applying to all members across different life stages
- failure to appreciate the long-term expected performance of the different asset classes
- focusing solely on investment returns without linking this to retirement outcomes
- constructing and discussing alternative portfolios not grounded in the information presented

Stronger candidates communicated the trade-offs of the different strategies clearly and concisely and specifically drew attention to the different needs of members close to retirement versus younger members joining the fund.

In terms of layout and appearance, most candidates used attractive templates rather than boring black text on a white background. An audience's attention needs to be held so good use of colour, spacing, text variation, shapes, icons and other aids enhanced readability and interest. However, all pictures, photographs etc. must add value and not be merely ornamental – appropriateness and relevance are key factors.

An important element of structure and balance is the concept of grammatical parallel structure. It is essential when using bullets that all sentences or phrases be consistently used and follow on from a lead-in sentence (if used). Punchy short phrases rather than long-winded sentences are recommended. Some students cut and paste chunks of text from the question which weakened presentation guidelines (and marks!).

To help with timing, candidates were given a list of relevant topics to be covered and most used the wording and order given. However, some omitted the Introduction which provided an overview and purpose of the presentation. If – to keep to ten slides – candidates felt it necessary to cut this, then they needed to provide a very carefully worded title and sub-title on slide one. Candidates could also add their Conclusion and next steps to the Q&A/thanks slide as an eleventh could not be counted in the range mark.

Question 2 - Sample Solution

IMPACT OF DECLINING INTEREST RATES ON UMBRELLA FUNDS

To: Board of Trustees
ActVest Investments
By: Joe Naidoo, Actuary
Date: 1 March 2026

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AGENDA

1. Introduction
2. Overview of current economic landscape
3. Impact of current environment on fund performance
4. Impact of increased equity allocation on fund performance
5. Implications for members' retirement outcomes
6. Key risks and opportunities
7. Changes other funds are making
8. Conclusions and next steps

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INTRODUCTION

- Fund asset allocation constant amidst changes in economic environment
- Concerns raised following recent Retirement Fund News article:
  Funds shift asset allocations in response to changing environment

- **Purpose of today:**

  - Review current economic environment
  - Assess implications for the ActVest Umbrella Fund and its members
  - Compare our positioning to peers
  - Provide options for next steps

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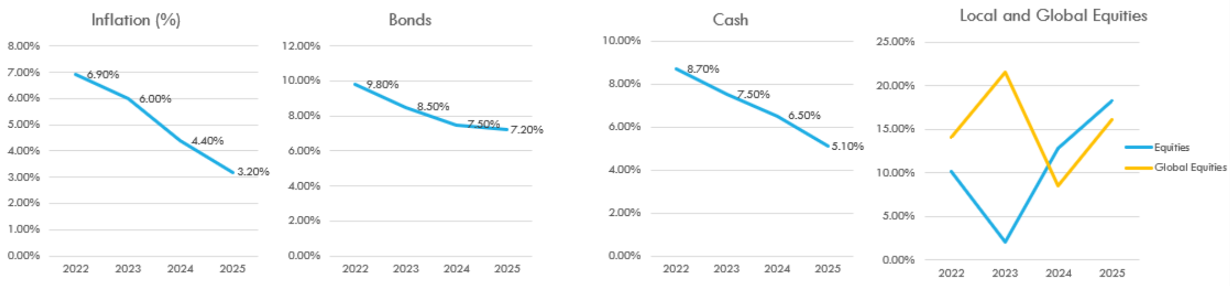
OVERVIEW OF CURRENT ECONOMIC LANDSCAPE

- Inflation has reduced significantly
- Bonds and cash yields have declined
- Equity returns have been volatile but have outperformed fixed income



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IMPACT OF THE CURRENT ENVIRONMENT ON FUND PERFORMANCE

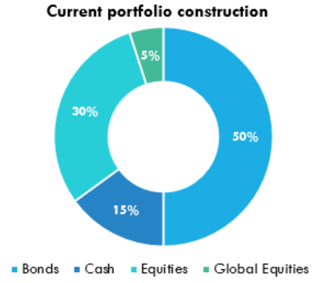
Short-Term Impact:
- Falling yields lift bond prices
- Capital gains boost
- The fund may have outperformed peers

Long-Term Impact:
- Lower yields reduce future returns
- May impact member retirement outcomes

Investment Considerations:
- Single investment mandate must balance
- Capital preservation (members close to retirement) and
- Growth needs (for younger members)

Fixed interest and cash assets = 65% of portfolio

Current portfolio construction



Expected weighted average return for the fund = 8.7%

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IMPACT OF INCREASED EQUITY ALLOCATION ON FUND PERFORMANCE

Impact of increasing equity allocation on fund performance

- Expected return
- Volatility / Risk

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IMPLICATIONS FOR MEMBERS' RETIREMENT OUTCOMES

	Current Strategy	Increased Equity Allocation
Retirement adequacy	- Stable but lower expected growth - More expensive annuity rates (low-interest rate environment) - Partial immunization through existing bond weighting	- Higher long-term growth potential - Balances more expensive annuity rates
Variability of retirement outcomes	More predictable outcomes	Greater variability in outcomes with possible sharp ups and downs in short periods
Suitability by life stage	More appropriate for members approaching retirement	More appropriate for younger members
Communication implications	Emphasise stability and predictability	Clearly explain risk / return trade-off

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RISKS AND OPPORTUNITIES

Risks:

- Higher portfolio volatility
- Potential for capital losses
- Alternative asset classes could introduce liquidity risk
- Global exposure may introduce currency risk
- Changes may not be suitable for all members

Opportunities:

- Increase expected returns
- Review asset allocation
  - Increasing local / global equity allocation
  - Investigate alternative asset classes
- Allow more flexible investment mandate
- Introduce members choice aligned with life-stage and risk profile

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CHANGES OTHER FUNDS ARE MAKING

- Increased growth exposure
  - Peer funds have reduced cash fixed-interest allocations by up to 25%
  - Increased exposure to alternative asset classes
  - Increased exposure to global equity
- Expected return for peer funds > expected return for Actvest
- Enhanced member communication and personalised service

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CONCLUSIONS AND NEXT STEPS

Conclusions

- Allocation heavily weighted to bonds and cash
- Growth assets offer higher potential returns but with more volatility
- Younger members likely to benefit while older members face greater timing risk
- Competitors are already shifting strategies and engaging members proactively

Next Steps

- Review the strategic asset allocation
- Strengthen member engagement

THANK YOU ☺
ANY QUESTIONS?

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