INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

19 September 2023 (am)

Subject CP3 – Communications Practice
Core Practices

Time allowed: Three hours and five minutes

In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator.

If you encounter any issues during the examination please contact the Assessment Team on T. 0044 (0) 1865 268 873.

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You are an actuary working in the valuation department of LifeCo. You have received the following email from Anna Pudding, the Head of Valuation.

Dear Jan,

At the executive committee today, we discussed the quality of data in our systems for the LifePlus product. In particular, the committee is concerned that we are not meeting our regulatory requirements because of deficiencies in our current data system.

I assured the executive committee that, while there were significant problems with extracting data from our systems, we were able to get an extract of the current inforce policies for valuation purposes. I am therefore confident that we are able to assess our current insurance exposure. The sample analysis performed shows that the data extracts from the current system are missing detail for some policyholders, in respect of the options they selected under the LifePlus policy. We have made a prudent allowance in our valuation for this.

As you know, we have been unable to extract data of sufficient quality to enable us to perform a robust analysis on the mortality, morbidity and lapse experience of our LifePlus portfolio. We will be able to perform an analysis under the new system. However, until the data transfer has taken place, we are exposed to the risk of not meeting the letter of the regulations on data quality. However, given that our auditors have approved our plans, both for this year-end and for the migration of data next year, I am satisfied that we can justify our approach.

I want to produce a paper for the executive committee outlining our position. Could you please draft this paper and send it to me by the end of the day? We should be as transparent as possible in the paper and provide examples to support the points made. The paper should cover:

- The data problems we face
- The mitigations we have in place to deal with the data problems
- Information about the regulations that govern the data standards that we should adhere to
- The fact that our auditors are aware of the issue, and we do not propose bringing forward our current plans for the data migration next year.

Please bear in mind that not all members of the executive committee are actuaries, and while they know our business well, the note should be drafted so that members such as the Head of Legal and Compliance and the Head of Underwriting can follow it. If anyone wants more details, you can tell them to contact me.

Best wishes,

Anna.

A member of the team has previously provided the following summary of the data issues.

‘In our team meeting earlier, we discussed the data issues we have with the LifePlus product. Here is a summary of the latest position:

- As previously discussed, the issues are with the extracts from the system rather than the underlying data. The extracts are incomplete in the case of full historic policy information, and do not appear to be showing some of the options that have been selected by policyholders.
- The LifeBasic data has already been migrated to the new system, and we are now seeing no issues with this data in the extracts.
- The LifePlus data will be migrated to the new system by the end of June 2024. This will be in time to feed into the 2024 year-end valuation.
- We are taking the following action in our accounts in 2023 to address the issues:
  - We are increasing the liability attributable to options by 20% – we believe this is a prudent loading given the size of the issue we have seen.
  - Claims rates in previous years for this product have closely matched industry average experience, and therefore we have used industry data to set our assumptions for future claims rates.
  - We have done a full experience analysis on industry data. This includes a multivariate analysis to understand the significance of trends that we are seeing in the data and their potential drivers. We will go into more detail on the analysis performed in a future team meeting.
  - We have increased the expected future claims calculated using assumptions derived from the industry data by 5%, with the aim of being prudent in our valuation.
- We have been transparent about these issues with our auditors and had lengthy discussions with them about the cause of the issues, the extent of the anomalies in the data and the mitigations we have in place. We have also communicated the timelines for migration to the new system. The auditors have indicated that they are satisfied that this is not a material breach for this year, in part because of the mitigations we have in place, and in part because we have clear plans to solve this issue.
- It is vital that we hit the June 2024 timeline for the migration of the data so that we can feed the results into our year-end 2024 process. The auditors may not be as lenient for a second year.’

Remember that CP3 is a test of your ability to filter information and communicate it to a particular audience. Use only information that is contained in this examination paper and the scenario material provided. Do not draw on prior knowledge of a particular market, legislation or company.

1 Draft a paper for the executive committee as requested in the email from Anna. [80]

2 (i) The information in the paper highlights areas that could invite criticism of the company and of the valuation department. Describe how this influenced the drafting of your paper. [6]

(ii) Describe your reasoning for the order in which you presented the information in your paper. [3]

(iii) Explain how you selected which parts of the regulations to include in the paper. [5]

(iv) Identify three points in your paper that you would have described differently had the audience been the valuation team (comprising entirely of actuaries and actuarial students) and not the Executive Committee. [6]

[Total 20]

END OF PAPER