

# INSTITUTE AND FACULTY OF ACTUARIES

## EXAMINATION

14 September 2022 (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.

You work in the actuarial reporting department of LifeCo. LifeCo published its annual report and accounts on 28th August 2022. You receive the following email from your manager:

To: Alex@LifeCo.zzz  
From: Mahi@LifeCo.zzz  
Date: 14 September 2022  
Subject: Paper responding to shareholder questions

Dear Alex,

Following the publication of the Annual Report and Accounts, our investor relations team have received a number of similar emails from shareholders. I have attached one of these emails [reprinted below] that raises the most commonly asked questions.

The investor relations team have asked if we would produce a short paper to answer some of the points so that they can send this to everyone who has emailed in with a similar query. The paper should explain the reason why the pandemic has led to an increase in reserves (probably best to give some background on what reserves and capital mean in insurance). It should also cover why the pandemic has led to a fall in our solvency ratio, and why there has been no benefit from the fall in Critical Illness (CI) claims in 2022.

Could you please draft a paper for me to review by the end of the day? Bear in mind that some shareholders may not have a detailed understanding of life insurance business. The Annual Report and Accounts includes language that assumes the reader has a good understanding of finance and insurance, but the emails we are receiving show we must keep things simple.

Best wishes,  
Mahi

To: investorrelations@LifeCo.zzz  
From: Harriet.Seymour@ibia.zzz  
Date: 8 September 2022  
Subject: Questions about the performance of LifeCo

To whom it may concern,

I am a shareholder in LifeCo, and have been for a number of years. I read the latest Annual Report and Accounts with interest. Clearly, the pandemic has affected almost all aspects of life over the last 8 months, and I would expect LifeCo, as a life insurer, to have seen an increase in claims. However, there were aspects of the Annual Report and Accounts that I did not understand, and I wonder if you could explain them for me?

In the Annual Report and Accounts from 2021, there was a section setting out the capital requirements of LifeCo. In this section, it described the capital that LifeCo needed to hold as a result of various different risks, and one of these was 'Pandemic/epidemic risk'. I took from this that LifeCo was holding capital to cover a potential pandemic.

In the 2022 Annual Report and Accounts, the CEO talks about the additional claims leading to a loss. If LifeCo was already holding capital to pay claims that may occur in a pandemic, why has this caused a loss? If the money was there specifically to pay these claims, and the claims have been paid, surely this should be neutral for LifeCo.

The 2022 Annual Report and Accounts also talks about a deterioration in LifeCo's solvency ratio. Again, if capital has been allocated for a specific risk, and is then used to pay claims when that risk transpires, why would that lead to a reduction in the solvency ratio?

Finally, I noted that there was a comment in the CEO's statement about a reduction in CI claims. This sounded like good news to me, but they went on to say that there is no benefit from this. Could you please explain why a fall in claims is not good news for LifeCo?

Kind regards,  
Harriet Seymour

## Instructions to candidates

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 shareholders as requested in the email from Mahi. [90]
- 2**
- (i) You have been given one shareholder email as an example, but the paper you draft will be sent to a wide range of shareholders. Outline the steps you have taken to ensure that your paper is suitable for all shareholders, rather than being specifically for Harriet. [4]
  - (ii) The pandemic will have affected different shareholders in different ways. Describe the steps you have taken to ensure that your paper is of a professional standard. [4]
  - (iii) Describe two different criteria that you used to exclude information provided to you from your paper, giving an example in each case. [2]
- [Total 10]

**END OF PAPER**