Institute and Faculty of Actuaries

EXAMINERS' REPORT

CP3 - Communications Practice
Core Practices

September 2022

Introduction

The Examiners' Report is written by the Chief Examiner with the aim of helping candidates, both those who are sitting the examination for the first time and using past papers as a revision aid and also those who have previously failed the subject.

The Examiners are charged by Council with examining the published syllabus. The Examiners have access to the Core Reading, which is designed to interpret the syllabus, and will generally base questions around it but are not required to examine the content of Core Reading specifically or exclusively.

For numerical questions the Examiners' preferred approach to the solution is reproduced in this report; other valid approaches are given appropriate credit. For essay-style questions, particularly the open-ended questions in the later subjects, the report may contain more points than the Examiners will expect from a solution that scores full marks.

The report is written based on the legislative and regulatory context pertaining to the date that the examination was set. Candidates should take into account the possibility that circumstances may have changed if using these reports for revision.

Sarah Hutchinson
Chair of the Board of Examiners
December 2022

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A. General comments on the *aims of this subject and how it is marked*

Written communication [90 marks]
Produce a written piece of communication that explains a scenario typically faced by an actuary in their day to day work. This communication will be aimed at a non-actuary, although the target audience's level of financial knowledge and understanding will vary from question to question.

The communication needs to be of a standard that it would be acceptable as a first draft. It is important that the recipient would both understand the communication and be satisfied with the response. The marking schedules include details of the marks awarded including the necessary content. To the extent that it makes the communication unclear or confusing for the audience, marks may also be lost for including irrelevant content or details that candidates have specifically been asked to exclude from their solution.

Reflective questions [10 marks]
A set of questions designed to allow candidates to consider the approach that they took in their communication and justify certain decisions. For example, candidates may be asked what information they felt was relevant for this audience, or which terms they specifically excluded because they would constitute jargon.

Candidates are provided with some background reading a few days before the exam (the Scenario Material) to allow them to familiarise themselves with the scenario without being under exam conditions. Candidates are expected to read the information provided, but are not required to do any further reading or research around the scenario.

B. Comments on *candidate performance in this diet of the examination*

This scenario asked candidates to explain some technical insurance concepts to non-specialists. The concepts were more technical than in recent sittings, but the basic principles of identifying the least sophisticated reader, and ensuring the explanations were pitched at a level that they could understand remain consistent. In this case, the least sophisticated reader should be assumed to have no detailed knowledge of how insurance companies operate.

Feedback indicates that some candidates struggled with the content on this exam. Brief explanations of the key concepts were given in the material, but a basic level of knowledge of the core industries that actuaries work in is assumed. A student with a working knowledge of the previous exams should not need to read around the material, however, having the scenario material available prior to the exam does allow candidates to briefly remind themselves of the key topics should they need to.

Candidates should pay close attention to what they are being asked and ensure that their answer is directly answering that question. Where questions in this paper covered similar topics to previous exams, some candidates gave generic answers that did not specifically answer what was asked. On question 2, candidates should also ensure that they always ground their answers in the scenario and avoid making general points. This will become even more significant in future sittings with 20 marks being available for question 2.

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Candidates should keep in mind while completing the examination:

Think first about the audience the information is created to, consider who the least sophisticated reader will be, what background information do they need to put to put the issues in context and what they are going to use the information for, and therefore, how much detail do they need.

Consider the numerical information that the audience would find useful to understand the key messages, whether the information ca be filtered to make it easier to understand and how the information should be presented so that the audience understands the message.
Plant the order in which information is presented in the paper. Ensure they follow a logical order, with the necessary information presented first and points building on each other and there is a narrative running through the paper that is easy for the audience to follow.
Aim for the paper to be as concise as possible while still fully explaining the key points to the reader. Check whether there is information that can be removed without compromising the explanation, too many charts and tables may distract the reader.
For question 2, candidates should directly answer the question asked and ground the answer in the scenario of the paper. Avoid making very general points that could be applicable to any scenario and ensure the answer references what was needed for the paper.

C. Pass Mark

The Pass Mark for this exam was 54
1448 presented themselves and 764 passed.

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Solutions for CP3 - September 2022

Q1

(i)

Format of Answer

Paper Format:

Clearly addressed to shareholders (in heading or first sentence of document) [1]

Suitable title for paper mentioning impact of pandemic [½]

And impact on solvency / financial position of company [½]

Date [½]

Author [½]

(Date and author can be in header, in first line of document, or at end of document)

(ii)

Grouping of Ideas:

Document is grouped into an appropriate number of sections [2]

(excluding introduction and summary. Award 2 marks if 3-5 sections, 1 mark if 2 or 6 sections, otherwise 0 marks).

(iii)

Logic:

Logical order between sections. [2]

When awarding marks here, consider the overall heading and purpose of the section rather than the content within it. If read once and clear then 2 marks, if needed to re-read parts then 1 mark, otherwise 0 marks.

Logical order of points within each section. [3]

When awarding marks here consider the order of points within each section. If read once and clear then 3 marks, if one section needed to be re-read then 2 1 marks, otherwise 0 marks.

Points within each section are directly relevant to the heading. [1]

Appropriate short headings on each section. [2]

Give a mark to each appropriate heading up to 2 marks in total. Long headings or headings that do not succinctly describe what follows do not get a mark.

Sentences kept brief. [2]

Award 2 marks if there are no overly long sentences. Award 1 mark if there is one overly long sentence. If more than one overly long sentence, award 0 marks. The principle is that a sentence containing more than one message or too many sub-clauses is too long, or, if spoken, needs repeated breaks to articulate.

(iv)

Format of Visual Aids:

A visual aid that showed information relevant to answering the shareholders concerns. [2]

Best visual aid:

Chart / diagram has a clear title [1]

Chart axes are clearly labelled / diagram is well labelled [1]

If a chart - type of chart is appropriate for data being shown (e.g. line chart for a trend, pie, or stacked bar chart to show proportion.) If a diagram, there is no unnecessary complication - diagram shows key information clearly and concisely. [1]

[Total 20]

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Candidates, in general, structured their paper well, with information presented in a logical order. Where candidates struggled with structuring, the issue was often with points within a section not logically following from one another. For example, using terms in an explanation, and later in the same section explaining what the term means. A few candidates lost marks because the audience would not understand the focus of the paper from the title. Candidates should ensure that the title they choose is useful for the audience when they first pick up the paper.

Some candidates missed out on relatively easy marks by not labelling the axes or including a title on their charts. Candidates should also ensure that they do not make their charts too complicated. We cannot assume that all shareholders will be familiar with interpreting charts, and features such as a second axis are likely to confuse the audience.

(v)
Language Used
Overall Language:
Language used is simple and will be easily understood by the shareholders [5]
Award:
5 marks if the document is understandable as a whole
4 - 3 marks if up to two points need to be redrafted
2 - 1 marks if three to four points or one section needs to be redrafted
0 marks if more than four points or more than one section needs to be redrafted

Professional tone (avoid comments which "talk down" to the shareholders) [1]
Avoid colloquialisms, informal and/or emotive language [1]

(vi)
Jargon and Terminology:
Absence of technical terms [6]
Award 6 marks if there are no terms present which are too technical for the recipient. Award 4 marks if there is one unexplained technical term, award 2 marks if there are two unexplained technical terms. If there are three or more unexplained technical terms, award 0 marks. A list of jargon is supplied below which will include unnecessary technical terms and or abbreviations. The 'maybe jargon' column are terms that may be acceptable if well explained in the document.

Superfluous accuracy of numbers [1]
(such as too many decimal places) / oversimplification of numbers (e.g. too much rounding which means the point is unclear) is avoided)

Absence of irrelevant points of content [5]
Award 5 marks if no irrelevancies, award 3 marks if one irrelevant point, 1 mark if two irrelevant points. If more than two irrelevant points award 0 marks.

(vii)
Grammar, Spelling and Punctuation [3]
Award 3 marks if no significant grammatical, spelling or punctuation errors, 2 marks if one error, 1 mark if two errors. Award 0 marks if more than two errors. Each "error" should be

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significant enough to compromise the professionalism of the document or require sections to be redrafted.

[Total 22]

Most candidates avoided using jargon with this paper. However, lower scoring papers often included too many irrelevant points in their answer. For example, a few candidates went into detail on the calculation of reserves or included too many figures rather than picking out the key figures that illustrated their point.

Where candidates struggled with language, they tended to aim their paper at a more sophisticated audience. While some shareholders may have a detailed understanding of life insurance business, candidates should always consider who the least sophisticated audience member is when writing their paper.

(viii)
Content
Introduction:

Note addresses the impact of the pandemic	[1]
on LifeCo's financial position	[1]
Should be read with reference to Annual Report and Accounts	[1]
Signposting of topics covered	[2]

(ix)
Difference between Reserves and Capital:

Insurers must ensure they have enough money to pay claims	[1]
Claims in the future must be planned for insurers need to ensure they have the money to meet them	[1]
Can predict what claims we expect to pay	[1]
Based on characteristics of our policyholder	[1]
Hold funds to meet future claims which are known as reserves	[2]
If we have to pay more claims than expected, then we need additional funds to cover this	[1]
These funds are known as capital	[1]
Provide a buffer to ensure we can pay unexpected claims	[1]
Any use of capital is a loss to the insurer	[1]
The additional claims paid above expectations (40% higher claims than expected) are therefore shown as a loss in our accounts	[2]

(x)
Why has pandemic led to an increase in reserves:

Pandemic not yet over and so claims levels expected to be higher than normal in coming months and years	[2]
We have therefore updated our expectations of the claims we will pay	[1]
We have increased the reserves that we hold to ensure that we can meet all claims that we now expect	[1]
This increase in reserves has led to a corresponding reduction in capital and so a loss in our accounts	[1]

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(xi)
Why has our solvency ratio fallen:
Clear explanation of what is meant by solvency ratio [3]
We have used our capital to pay additional claims that we were not expecting [1]
We have also used our capital to increase reserves for the higher claims we expect in the future [1]
We therefore have a lower buffer (capital) above the reserves now [1]
A fall in the proportion of funds that are attributed to capital is the definition of a fall in the solvency ratio [2]

(xii)
Impact of pandemic on CI:
We have seen significantly lower claims than expected [1]
Believe this is because diagnoses of conditions have not happened because of the strain on the health service [2]
Expect these diagnoses to happen in the future, this is not a fall in the incidence of these conditions [1]
Therefore need to increase reserves to meet these claims in the future [1]
This cancels out any benefit there would be from lower claims in 2022 [1]

(xiii)
Summary:
Increased claims payments in 2022 have led to a loss and a reduction in capital [1]
We now expect additional claims due to the pandemic in future months and years, which we have increased reserves for, also leading to a loss and a reduction in capital [1]
The drop in CI claims in 2022 is thought to be down to under diagnosis [1]
We expect these claims to come through in the future, and so have increased reserves cancelling out the impact of the lower claims [1]

[Total 40]

The stronger candidates were able to provide clear definitions of the key concepts without resorting to formulae. Lower scoring papers tended not to explain the concepts of capital and reserves in a way that the audience would understand. Some did not offer explanations at all, and others described them in too much technical detail that would have lost the audience. In general, candidates explained the impact of the pandemic on the Critical Illness product well.

(xiv)
The shareholders will be completely satisfied with the response to the question and the responder has made a good impression on the shareholders.
The communicated answer is clear and easy to read, the response flows through to a conclusion. It looks good, it is well set out, and it has the right tone of voice.
It satisfactorily and completely answers the question. The responder has made a good impression on the shareholders. [6-8]

The shareholders are left with some question marks over the responder, and therefore over aspects of the answer given.
The shareholders have been given an answer that is partially understandable although

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the response does not quite flow freely through to a conclusion. Some information in the argument is obviously missing and/or there are one or two visual mistakes and anomalies in the look of the response. Some technical terms may have been used that are not entirely clear. The shareholders are left with some question marks over the responder, and perhaps therefore over aspects of the answer given. [3-5]

The shareholders are left with a poor impression of the responder, are confused by the answer and/or do not trust the answer.
The answer will leave the shareholders confused. The communication is poorly written or possibly too technical. There are some obvious mistakes in the arguments, tables or charts do not make sense and/or are not properly labelled. The answer does not flow, but rather jumps around. The layout is not consistent throughout the communication. There may be spelling mistakes, or the underwriters have not been properly addressed. The tone of voice is wrong, perhaps too informal. The shareholders have been left with a poor impression of the responder and therefore do not trust the answer. [0-2]

[Total 8]

Candidates who scored well here ensured that their paper was focussed on the topics that they had been asked to cover, explanations were clear and pitched at the right level, and the information in the paper was structured in a logical way.

Q2

(i)
Steps taken to generalise the paper *(One mark awarded per reasonable point)* [4]
See sample answer for examples

(ii)
Professional tone *(One mark awarded per reasonable point)* [4]
See sample answer for examples

(iii)
Criteria for exclusion *(½ mark for criteria for exclusion, ½ mark for example)* [2]
See sample answer for examples

[Total 10]

In part (i), candidates answered reasonably well. The better candidates grounded their answer in the specific points that Harriet made in her email, what this tells us about what Harriet understands, and what adjustments were needed to ensure that it was suitable for all shareholders.

In part (ii), candidates' answers were generally poor. Candidates struggled to generate enough points, and a lot of points made were not specific enough to answer the question.

Most of the candidates did not directly answer the question in part (iii), instead they just listed information that had been excluded. This appears to be an example of candidates answering a question from a past paper, and not carefully reading what is being asked.

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Full marks were only available on this part if candidates had clearly stated the criteria that they had used to exclude information.

Always jargon	**May be Jargon**	**Not Jargon**
Experience analysis A/E Granularity Present value Net value Matching assets Over (instead of 'divided by') Any complicated formulae	Solvency ratio Capital Reserves Mortality rates CI Liabilities Strengthening (of reserves) Capitalised Metric Favourable experience Volatility in claims experience	Claims Premiums Death rates

[Paper Total 100]

Example solution

The following pages set out an example solution. This is not intended to be a perfect response, but is considered by the examiners to be a script that would comfortably pass the exam.

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Briefing paper for shareholders LifeCo
14th September 2022

The impact of the pandemic on reserves and solvency

This paper has been produced by the Actuarial Reporting Department of LifeCo and is intended to answer questions that shareholders may have about the impact of the pandemic on LifeCo's financial position. This paper should be read with reference to LifeCo's Annual Report and Accounts for the year ending 30 June 2022. The following topics are covered:

- What is the difference between reserves and capital?
- Why has the pandemic led to an increase in our reserves?
- Why has our solvency ratio fallen?
- What impact has the pandemic had on critical illness business

What is the difference between reserves and capital?

As an insurance company, our duty is to pay the claims of our policyholders as they arise. We must therefore ensure that we have funds available to meet claims payments now and in the future. We can calculate how many claims we expect to pay, based on the policies that we have on our books, and the characteristics of the policyholders (for example their age). We then ensure that we invest our funds so that we can meet these expected payments. These funds are known as 'reserves'.

However, things do not always turn out as expected, and the recent pandemic is a good example of this. We need to ensure that we are in a position to pay claims, even when they are higher than we expect. This is why we hold capital. It is a buffer to ensure that we have funds available if the number of claims we receive exceeds our expectations. Given that capital is there to cover claims that we do not expect to pay, any use of capital to pay unexpected claims is a loss to the insurance company.

Why has the pandemic led to an increase in our reserves?

As a result of the pandemic, we paid around 30% more in claims in the year ending 30 June 2022 than we expected. This has contributed to the loss in the 2022 Annual Report and Accounts. However, it is clear that the pandemic is not yet over, and we are likely to see higher claim rates in the rest of 2022 and beyond than we would have expected before the pandemic began. We have therefore changed our view of the claims we expect to pay in future years, and reflect this in our accounts by increasing the reserves we are holding to meet these claims.

Why has our solvency ratio fallen?

Our solvency ratio is measured as the total funds available divided by the reserves we hold. The higher the solvency ratio, the greater our ability to absorb unexpected claims in the future. A ratio of 150% means we have funds to cover the claims we expect to pay, plus an additional 50% as a buffer to cover additional claims.

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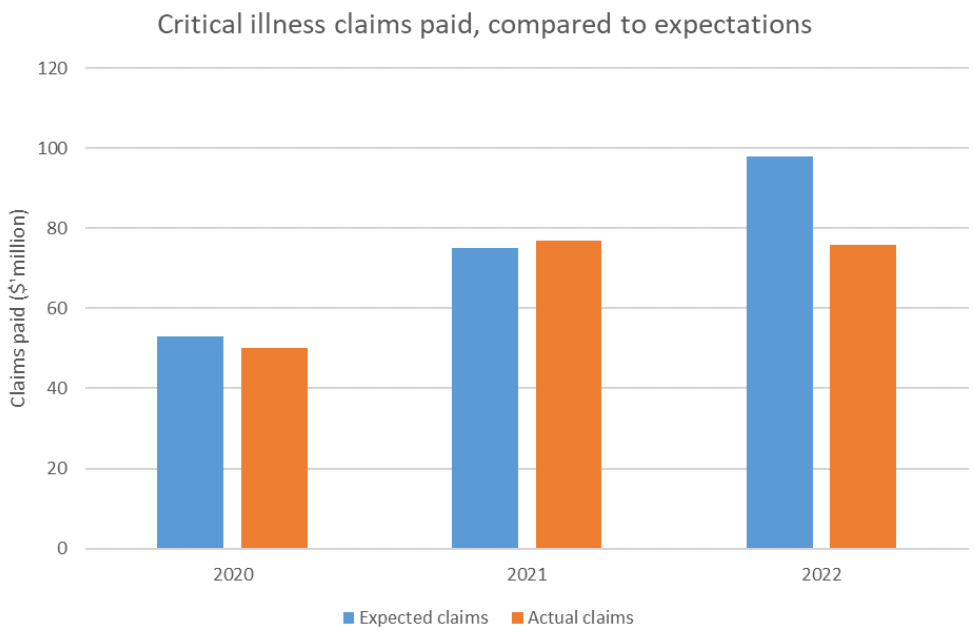
We have always held capital to cover ourselves against the risk that there is a pandemic. Having now had a pandemic, we have had to use some of this capital to pay the additional claims that we have received. In addition, some of our capital is also needed to fund the increase in reserves described above. As such, our capital buffer has served its purpose, and ensured that we have been able to pay the additional claims coming from this pandemic.

However, this does mean that we now have a lower capital buffer to withstand further unexpected claims in the future. This reduction in the proportion of our funds that are attributed to capital is a fall in our solvency ratio.

What impact has the pandemic had on critical illness business?

Since the pandemic started we have seen a reduction in the number of critical illness ('CI') claims, compared to our standard expectations. The chart below shows the claims paid compared to our expectations over the last three years:



It is clear from the chart that the claims paid on critical illness business have fallen well short of our expectations in year-end 2022. As you may be aware, a critical illness policy pays out the sum assured if the policyholder is diagnosed with one of the illnesses listed on the policy. The fall in claims therefore indicates that fewer policyholders are being diagnosed with these conditions.

In dealing with the crisis of the pandemic, the health service cancelled a lot of appointments, medical tests, and screening programs. In addition to this, there is evidence that the public were reticent to access medical services except in the most urgent cases. We believe that these factors have driven the fall in critical illness claims. However, the affected policyholders will be diagnosed with these conditions as the pandemic subsides, and therefore we should expect to see these claims in the coming years. We have set up reserves

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to meet these claims, and this cancels out any benefit that there would be from the reduction in claims in 2022.

Summary

Losses coming from the pandemic have come through our accounts in two ways:

- An increase in claims in 2022, reducing our capital
- Our view that claims will be higher than previously expected over the rest of 2022 and beyond, leading to increases in reserves and a further reduction to capital

While we saw a reduction in CI claims in 2022, we expect that these claims are only deferred into future years. We have set up reserves for these claims, which cancels out the impact that the reduction in claims has on our 2022 position.

If you have any further questions please do not hesitate to contact investorrelations@LifeCo.zzz

Question 2

(i)

- It is clear from the email that Harriet understands the term solvency ratio, however, other shareholders may not be familiar with this term, so I have explained what this means in the paper.
- Harriet uses the abbreviation 'CI' for critical illness business. I have used the full name in the first instance and introduced the abbreviation in case other shareholders are not familiar with the term CI.
- Harriet has picked up on the fact that there has been a drop in CI claims as stated in the CEO's statement. However, I have not assumed that the audience know this already in my paper.
- Harriet has stated that capital is held in respect of pandemic risk. I have talked in my paper about the capital held to cover claims above what was expected, and the need to hold capital to cover the risks coming from a pandemic. Therefore, I have not assumed that shareholders know that capital is held to cover a potential pandemic.

(ii)

- I have ensured that the paper is very focussed on the specific areas that I have been asked to cover. I have stuck to explaining the technical detail and not given any general commentary about the pandemic. For example, the paper focusses on the financial impact of the pandemic on the insurer, and does not comment on the wider impact of the pandemic on individuals or society.
- Avoided emotive language. I have talked about the pandemic and its affects in a factual way, without using adjectives to describe its affects (e.g. this terrible pandemic).
- I have talked about the impact of the pandemic in terms of increased claims, rather than talking about the increase in deaths among policyholders.

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- The title of the paper highlights that it will be dealing with the impact of the pandemic. This is also repeated in the first sentence of the document. The topic is therefore clear to the reader before they get into the document and if they would rather not read about this topic they are able to stop at that point.

(iii)

- Excluded detail that is not needed to understand the concepts being addressed. Example - I did not include the details of the products that LifeCo offers because these details are not needed to explain the reserves or capital issues contained in the paper.
- Excluded information that it is reasonable to assume that the audience already knows. Example - I did not need to state that LifeCo offers life insurance products - as an investor in the business it is reasonable to assume that the shareholders already appreciate the broad types of business that LifeCo conducts

END OF EXAMINERS' REPORT

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