INSTITUTE AND FACULTY OF ACTUARIES

EXAMINERS' REPORT

April 2022

CP3 - Communications Practice
Core Practices

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 Specialist Advanced (SA) and Specialist Principles (SP) 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
July 2022

© Institute and Faculty of Actuaries

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 audience, 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. If it makes the communication unclear or confusing for the audience, full marks will not be awarded 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 examination.*

Candidates were asked to produce a paper for the sales team of a life insurance company, setting out the rationale behind some upcoming changes to the investment choices available for unit linked policyholders. The exam paper gives some insight into the audience which candidates were expected to use to tailor their paper. There were members of the sales team who have limited experience and therefore any technical information will need to be well explained. However, it is clear that knowledge of the products can be assumed.

In general candidates appeared to be well prepared, with some very good. Less prepared answers tended to lack explanation of the key points but include a lot of irrelevant information.

C. Pass Mark

The Pass Mark for this exam was 60
1324 presented themselves and 791 passed.

 © Institute and Faculty of Actuaries

Solutions for CP3 - April 2022

Q1

Format of answer

(i)

Paper Format:

Clearly addressed to the Sales team	[1]
Suitable title for paper which should mention fund withdrawal	[1]
Date, authors	[1]

(ii)

Grouping of ideas:

Document is grouped into an appropriate number of sections (excluding introduction and summary).	[2]

(iii)

Logical order of points:

Logical order between sections.	[2]
Logical order of points within each section.	[3]
Points within each section are directly relevant to the heading.	[1]
Appropriate short headings on each section.	[2]
Sentences kept brief.	[2]

(iv)

Format of visual aids:

A visual aid that showed one of the following clearly

The change in the relative proportion of the energy fund and the corporate fund.	[2]
or	
The change in the assets under management,	[1]
Highlighting that the drop in investments in the energy fund has driven this.	[1]
or	
Illustration of the returns on the funds,	[1]
including both the last year's return and the average five-year return.	[1]

Best visual aid:

Type of chart/table chosen is appropriate for data being shown. (e.g. line chart for a trend, pie or stacked bar chart to show proportions).	[1]
Chart is clearly labelled with a title and axis labels / Table has clear headings and is well laid out.	[1]
The correct data is being shown on the chart - data has been filtered where necessary to ensure the message is clear.	[1]

[**Total 20**]

The majority of candidates formatted their paper well, picking up on the instruction to include both names as authors, and making it clear who the paper was addressed to. The examiners expected a short title that made the subject of the paper clear at first glance. Very general titles, such as 'STIL Unit Linked Funds', or very long-winded titles were common mistakes here.

© Institute and Faculty of Actuaries

Candidates who scored well structured their paper in a logical order, with enough background material initially to ensure that those with less experience were able to understand the rationale for the changes. The most common mistake with visual aids was to over complicate them, trying to show too much information on one chart, some with two y-axes.

(v)
Language used
Overall language:
Language used is simple and will be easily understood by the sales team. [5]
Professional tone (avoid comments which suggest other company investment strategies are irresponsible). [1]
Avoid colloquialisms, informal and/or emotive language. [1]

(vi)
Jargon terminology & relevancy:
Absence of technical terms. [4]
Superfluous accuracy of numbers. [3]
Absence of irrelevant points of content. [5]

(vii)
Grammar, spelling and punctuation. [3]
[**Total 22**]

Given the inexperience of some of the audience, language needed to be simple. Most technical terms would be considered jargon, and should therefore be avoided, or at least fully explained.

A lot of candidates included irrelevant content in their exam answer and therefore, they did not receive full marks.. Examples included:
- *Product rules such as maximum choice of investments funds*
- *Detailed descriptions of funds not being impacted*
- *Excessive use of actual price earning ratio figures*
- *The charging structures of the funds*
- *Going into a lot of detail about the thinking behind the POA guidance*
- *Too much detail on the fund range and risk categories*

(viii)
Content
Introduction:
Makes reference to the sales conference. [1]
Confirms the withdrawal of the Energy fund with an indication of timing. [1]
Mention confidentiality. [1]
Mention new fund to be launched simultaneously. [1]
Signpost the remaining content. [2]

 © Institute and Faculty of Actuaries

(ix)
Business Results:
Fund Under Management -
Total funds under management continue to decline. [1]
The decline is seen particularly in the Energy fund (and the adventurous fund). [1]
Include example figures showing decline. [1]
Mention market share is improving. [1]
Include example figures to show improvement. [1]

Fund Distribution -
Illustrate the current split by fund. [1]
Clear that majority of funds invested in medium risk - this is an important area (this could be implied in a visual aid but this must be a clear message). [2]
Energy fund share is declining (with example). [1]
Whilst the corporate fund improves. [1]
This is despite the corporate fund having lower return. [1]
Summarise recent returns on different funds. [1]
Compare with average fund returns over five years. [1]
Highlight differences. [1]
Mention that Energy fund has offered high rates of return in recent years. [1]
[Marks available 15, maximum 12]

(x)
Reasons for Withdrawal:
Past Return is not the sole driver of investment choice. [1]
Outlook is also important. [1]
Explain Price Earnings Ratio. [2]
State PER below 15 could indicate share is undervalued (or equivalent statement). [1]
However, price may be cheap compared to earnings because earnings have been strong but future outlook is poor. [1]
Energy Fund invests in gas and oil where outlook is poor. [1]
Comment on prospects/challenges of the sectors [1]
STIL is being proactive and has climate change concerns. [1]
Want to react on customer feedback. [2]
Mention that the POA plans to bring in measures to ensure companies consider the environmental impact they have. [1]
STIL wishes to act in line with regulator comments. [1]
Confirm overall conclusion to withdraw the energy fund. [1]
[Marks available 14, maximum 12]

(xi)
New Ethical Fund:
Medium risk equity fund. [1]
With a target return of 9%. [1]
No restriction on sectors (hence potential for more diverse holdings). [1]
Priority is undervalued shares where growth expected. [1]
Companies selected must be 'green' with low carbon footprint. [2]

(xii)
Summary:
Energy fund is being withdrawn. [1]

 © Institute and Faculty of Actuaries

New fund (the ethical fund) will be launched. [1]
Reminder of confidentiality. [1]
Opportunity for comments and future contact details. [1]
[**Total 40**]

Candidates were not awarded full marks in the content section because they failed to adequately explain the key points. Well prepared candidates demonstrated enough detail to ensure that the sales team understood the motivations for the changes.

Some candidates did not explain the concept of the price earnings ratio, presumably because they felt that the explanation may have been too technical for some members of the intended audience. This was perfectly acceptable, as long as the concerns about the future investment performance of the energy fund were explained in other ways. Although there were marks available for explaining the PE ratio, it was possible to obtain marks without doing so.

Overview
(xiii)
The audience will be completely satisfied with the response to the question and the responder has made a good impression on them. 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. [6-8]

The audience are left with some question marks over the note, or lack of understanding. The briefing note is partially understandable although 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 audience are left with some doubts. [3-5]

The audience are left with a poor impression of the authors, are confused by and/or does not trust the company/authors. The answer will leave the audience confused. The communication is poorly written, contains excessive use of tables/charts 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. The tone of voice is wrong, perhaps too informal or unduly critical of the company and its actions. [0-2]

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)

 © Institute and Faculty of Actuaries

Explain how you chose to display and describe numeric data used in your briefing note. [6]

One mark per **well explained** point (to be well explained the example should be given with an explanation of why it was important to take that approach)

(ii)
List 2 pieces of information you omitted from your briefing paper and explain why you chose to exclude them. [2]

This is a question asking about irrelevancy but to earn full marks candidates need to say why they are irrelevant e.g. it is something already known to the audience, or it would distract from the main message requested by the Head of Marketing.
½ mark per piece of information excluded and ½ mark for suitable justification of the exclusion

(iii)
State two examples of relevant words or expressions the audience would consider to be jargon and explain how you ensured these were understandable in your briefing note

For two valid examples of jargon. [1]
For two valid explanations of jargon. [1]
[**Total 10**]

Jargon List

Always jargon	May be Jargon	Not Jargon
Ordinary shares Preference shares Modelling Probability of default Venture capital Charging structure Transition risk Concentration risk	Price Earnings Ratio Stock (asset) selection Reputation risk Net profit / earnings Under/Overvalued share price Risk index Volatility Credit rating Qualitative factors Future / forward looking Backward looking Annual management charge Target return PE ratio Net earnings per share Market price Capital requirement	Equity Dividend Share POA

Part (i) was poorly answered by a lot of candidates. While candidates had made decisions about the presentation of numerical information in their papers, for example producing graphs, or using statistics within the text, they struggled to set out the rationale for these decisions. The examiners noted that where candidates had taken a scattergun approach to

 © Institute and Faculty of Actuaries

including numerical information in their papers (for example, including five or six charts) scored low on this question. Candidates should consider carefully what message they are trying to convey with the numerical information, and therefore how to best present it to the audience.

Parts (ii) and (iii) were generally well answered, though full marks were not awarded often because the candidate had not justified their answer.

[Paper Total 100]

END OF EXAMINERS' REPORT

© Institute and Faculty of Actuaries