

# Common Weaknesses in Exam Answers

- A lack of understanding of basic concepts.
- Spending too much time on one question.
- Poor exam technique in not reading the question thoroughly.
- Providing general answers that do not address the specific circumstances set out in the question.
- Raising a point but not providing a clear and complete explanation.
- Inability to apply judgement in practical situations.
- Not providing sufficient points in the answer.
- Not mentioning the obvious points.
- Stuffing up a simple and straightforward calculation question.
- Writing that is hard to read, making it difficult to give marks.



**It is 1 April 2012 and you have just joined a newly formed Australian Life Company, ONLINE life, as Appointed Actuary. You have extensive experience as a Valuation Actuary in other life companies. 1 April 2012 is also the launch date for ONLINE Life.**

**ONLINE Life sells business exclusively through its website [whyuseanadviser.com](http://whyuseanadviser.com)".**

**ONLINE Life's two product lines are:**

- A Funeral Benefit Plan, which pays a benefit of up to \$15,000 to cover the cost of the funeral of the life insured.**
- An Accidental Death product, which pays a maximum sum insured of up to \$500,000.**

**The financial year ends on 30 September.**

**You will present the 30 September 2012 Financial Condition Report (FCR) at the November board meeting. The Directors have experience in companies other than a life company, but have no knowledge of life insurance business.**

**You have a small valuation team of four people, comprising a recently qualified Actuary with 3 years experience in pricing protection products, two Actuarial Analysts and yourself as Appointed Actuary. You will be heavily involved in completing the policy liability valuation as well as writing the FCR.**

- a) Describe the difference in the key responsibility between the Appointed Actuary and the Board of Directors. (1 Mark)
- b) The FCR is a complex document. You will spend a significant amount of time writing the FCR, so you will want the FCR to effectively communicate your messages to the Directors.

Describe how you would structure and format the FCR so that your points are effectively communicated to the Directors. (4 Marks)

- c) Discuss the issues that you would expect to encounter in preparing the 30 September 2012 FCR, and how you plan to resolve these issues. (7 Marks)

- d) In the FCR you recommend that no dividend be paid to shareholders.

- i) Provide possible reasons for recommending no dividend be paid.  
ii) For each reason you have provided in i) explain whether or not it is absolutely critical that no dividend be paid.

(5 Marks)

- e) Describe the actions you could take if the Directors ignored your recommendation and decided to pay a dividend to shareholders.

(2 Marks)

**a) Describe the difference in the key responsibility between the Appointed Actuary and the Board of Directors. (1 Mark)**

- This was a straight forward question and was well answered.
- Whilst most candidates were able to provide a brief answer in 2 lines and get full marks, other candidates demonstrated poor exam technique by writing a full page but not getting full marks for a question worth 1 mark.

**b) Discuss how you would structure and format the FCR so that your points are effectively communicated to the Directors. (4 Marks)**

- For a relatively easy question this was poorly answered.
- Most candidates covered key points such as: FCR should be subdivided into sections, inclusion of an Executive Summary and must comply with PS200.
- **Few candidates mentioned including a Contents Page, an Appendix for technical details and including a Dictionary of terms in one of the appendices.**
- **Many candidates did not read the question properly, as they just listed the contents of the FCR (perhaps thinking of a past exam question).**

**c) Discuss the issues that you would expect to encounter in preparing the 30 September 2012 FCR, and how you plan to resolve these issues. (7 Marks)**

- This was poorly answered.
- **Most candidates were able to identify assumption setting and lack of knowledge as key issues and describe actions to resolve these issues (i.e. the obvious points).**
- **A number of candidates failed to recognise the circumstances of the company (in its first year).**
- **Some candidates did not structure their answer to ensure there was a solution covering each issue raised.**
- **Some of the comments were generic (model risk and data risk) but did not specifically link this to the question.**
- **Few candidates were able to identify issues related to administration systems, data integrity, expense apportionment and a risk framework.**
- **No candidate mentioned the conflict of interest the Appointed Actuary may face.**

- d) i) Provide possible reasons for recommending no dividend be paid.**  
**ii) For each reason you have provided in i) explain whether or not it is absolutely critical that no dividend be paid.**

**(5 Marks)**

- Answers were reasonable for this question.
- Most candidates commented on Capital Adequacy and Target Surplus, and recognised that not paying a dividend is critical to meet Capital Adequacy, but not necessary for Target Surplus.
- **Few candidates mentioned Solvency standards and its importance and a lot of the students did not think about the profitability in the first year.**
- **A number of candidates ignored the fact that the company was in the first year of operation and either missed the point about no profit and hence no dividend, or mentioned there was no profit but the dividend could be paid out of retained earnings.**

**e) Describe the actions you could take if the Directors ignored your recommendation and decided to pay a dividend to shareholders.**

**(2 Marks)**

- This was a relatively easy question and was well answered.
- Most candidates were able to identify the key points of whistle blowing and the need to have a meeting with the Directors to discuss the issues.

# Suggestions

- Use the online forum as much as you can to round out your knowledge.
- Practice past exam questions (the more the better).
- Think like the examiner. In study groups, mark another person's exam paper.
  - You will learn a lot by putting yourself in the examiner's shoes.
  - Provide constructive feedback.
  - Has the question been answered ? Does the answer relate to the question ?, Does each point have a complete explanation ? etc;

# Questions