

CMP Upgrade 2020/21

Subject SP1

CMP Upgrade

This CMP Upgrade lists the changes to the Syllabus objectives, Core Reading and the ActEd material since last year that might realistically affect your chance of success in the exam. It is produced so that you can manually amend your 2020 CMP to make it suitable for study for the 2021 exams. It includes replacement pages and additional pages where appropriate.

Alternatively, you can buy a full set of up-to-date Course Notes / CMP at a significantly reduced price if you have previously bought the full-price Course Notes / CMP in this subject. Please see our 2021 *Student Brochure* for more details.

This CMP Upgrade contains:

- all significant changes to the Syllabus objectives and Core Reading.
- additional changes to the ActEd Course Notes and Assignments that will make them suitable for study for the 2021 exams.

0 Retaker discounts

When ordering *retaker-price material*, please tick the relevant box when using the e-store or use the designated place on the order form.

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1 Changes to the Syllabus objectives

There were no significant changes to the Syllabus objectives.

2 Changes to the Core Reading and ActEd material

This section contains all the *non-trivial* changes to the Core Reading and ActEd material.

Chapter 1

Page 14

The final sentence of Core Reading on this page has been deleted.

Page 15

The first sentence of Core Reading on this page has been amended to read:

Some policies that are written to an expiry age have premiums that are payable for an exact number of years.

Page 21

In the first paragraph of Core Reading on this page, the final sentence has been amended to read:

An insurer that bowed to pressure, did not increase rates on business, and expected to have poor experience would have to be careful that it did not create a policyholders' expectation that there would never be such increases.

In the second paragraph of Core Reading on this page, the first sentence has been amended to read:

Reviews of premiums can result in 'selective lapsing'.

Chapter 3

Page 11

In Section 3.2, the first paragraph of Core Reading has been amended to:

The type of benefit could be selected from a range of alternatives, including a single lump sum payment, an annuity certain, a lifetime benefit subject to ongoing disability, a restricted benefit (eg payable for a maximum period, or to a maximum total amount) subject to ongoing disability, or possibly full indemnity.

Page 12

The first bullet point under the 'Benefit options' subheading has been amended to read:

- **length of deferred period**

Chapter 6

Page 16

There have been a number of changes to both the Core Reading and ActEd text in the 'Cash vs indemnity' section. A replacement page is attached.

Page 18

In Section 4.2, the first paragraph of Core Reading has been amended to read:

The individual with dependants (spouse and/or children) needs the comfort of knowing that there will be an income stream in the future. In order for the individual to provide for their upkeep and welfare, if they are unable to work, or must take a lower-paid job, due to ill health.

Chapter 7

Page 11

The first sentence of Core Reading on this page has been deleted.

Chapter 8

Page 9

The first sentence of Core Reading on this page has been amended to read:

Indemnity commission may be paid to any distributor who needs cash 'up-front' to develop their businesses, eg to support the cost of marketing ahead of commission from resulting sales.

Chapter 10

Page 4

In the third paragraph of Core Reading, the first sentence has been amended to read:

The role that the State itself plays in fostering a healthy nation depends on the style and culture of politics within the country.

Page 7

In Section 1.5, the second paragraph of Core Reading has been amended to read:

State healthcare programmes may be part of national culture and so radical changes may be difficult to introduce, especially in the short term, because of the difficulties in getting political agreement for these changes.

Chapter 12

Page 3

The third paragraph of Core Reading on this page has been amended to read:

The cost of obtaining and analysing the data, and suitability of the format of the data, may be other criteria to consider.

Page 8

In Section 3.1, the Core Reading before the bullet point list has been amended to read:

However, use of population data has drawbacks:

Chapter 17

Page 4

In Section 1.2, the second point in the bullet point list has been amended to read:

- **lives that have fallen sick, but are still within the deferred period**

Page 7

The first question and solution on this page has been amended to read:



Question

Explain how over estimating the proportion of deaths from a critical illness (k_x) could cause problems for the accelerated CI contract.

Solution

Recall the formula for the incidence rate at age x for this contract:

$$= i_x + (1 - k_x)q_x$$

Over estimating the proportion of deaths due to a critical illness would *understate* the cost of claims and could lead to inadequate premiums or reserves.

Page 31

In the summary, in the 'Income protection insurance' section, the second bullet point has been amended to read:

- **lives that have fallen sick, but are still within the deferred period**

Chapter 24

Page 10

In Section 5.5, the final sentence of the first paragraph of Core Reading has been amended to read:

Examples of this in health and care insurance might arise where a small sickness insurer is at risk of an outbreak of local illness, or where an insurer has concentrated on providing group income protection to an industry that is now associated with a particular disease.

Chapter 25

Page 4

In Section 2, in the first point in the numbered list about 'Policy data', the Core Reading has been amended to read:

1. **Policy data: Are the policy records provided by the company complete and accurate?**

Chapter 26

Page 14

In the first paragraph of Core Reading on this page, the final sentence has been amended to read:

This proportion may be constant for all risks covered (quota share) or will relate the insurer's preferred monetary retention to the overall size of sum insured (surplus, under long-term covers).

Chapter 29

Page 25

The Core Reading under the investment costs sub-heading has been amended to read:

These costs (including the investment department, purchase taxes, commission etc) would be directly allocated to investment expenses and hence allowed for in assessing the investment return to use for pricing etc.

Chapter 31

Coinsurance

The final paragraph of the coinsurance definition has been amended to read:

In other contexts, coinsurance also refers to the situation where two insurers share the risk on a policy in agreed percentages and also may refer to reinsurance on an original terms basis.

Rehabilitation / partial benefit

The first paragraph of the rehabilitation / partial benefit definition has been amended to read:

This IP benefit is payable when a claimant is transitioning from being completely unable to work to complete recovery, and the claimant is able to return to work in a reduced capacity. While the claimant is partially back at work the claimant's benefit may continue at a reduced rate – this is a partial benefit. The amount of benefit is usually calculated in the same way as that for proportionate benefit, as described above.

Treating customers fairly (TCF) (SA1)

The final paragraph of the treating customers fairly definition has been amended to read:

In some jurisdictions, this concept is well established, and can be written into local law. For example in the UK the regulatory concept of Treating Customers Fairly ('TCF') is included within UK regulations such that a firm must pay due regard to the interests of its customers and treat them fairly.

3 Changes to the X Assignments

Throughout the assignments the solutions have been updated to remove references to gender. For example, 'he' and 'she' has become 'they'.

Assignment X2

Question 2.2

This question has been amended to read:

A non-executive director to a long-term insurance company has proposed that the company should offer income protection insurance with a one-day deferred period. The director suggests that this would have a substantial impact on the level of new business.

Discuss the potential problems with this strategy. [5]

Assignment X3

Question 3.5

The marks for part (i) of this question have been distributed between the sub-parts as follows:

- (a) the demographic assumptions [4]
- (b) the investment assumptions [3]
- (c) the expense assumptions. [4]

This change has also been reflected in the solutions to this question.

Assignment X4

Solution 4.1

In the solution to part (ii), the second bullet point has been amended to read:

- lives that have fallen sick, but are still within the deferred period

Solution 4.3

Under the sub-heading 'Probability that the option will be exercised and the additional benefit level that will be chosen', the second point has been amended to read:

A policyholder who perceives themselves to be in poor health or more susceptible to illness is more likely to exercise the option, thus selecting against the insurer. [½]

Assignment X5

Question 5.8

This question has been slightly re-worded to read:

A well-established long term insurance office has been writing income protection business for some years. The sales director, who has recently joined the organisation from another industry, has sent an email to the pricing actuary expressing concern at the cost of income protection.

Describe typical means of reducing the premium for income protection insurance, describing the risks associated with each. [21]

Solution 5.8

All points worth ¼ mark in this solution has been amended to score ½ mark, except the example about GIOs on page 14 which has been incorporated into the previous point (which is still worth ½ mark).

Solution 5.9

The bullet point list under the ‘New business volumes’ sub-heading has been changed to score ½ mark for each example, with a maximum of 1 mark.

The bullet point list in the ‘Overall’ section has been amended to score ½ mark for each two examples, with a maximum of 2 marks.

Assignment X6

Question 6.4

The first sentence of the question has been amended to read:

A proprietary health and care insurance company writes individual long-term care business.

4 Other tuition services

In addition to the CMP you might find the following services helpful with your study.

4.1 Study material

We also offer the following study material in Subject SP1:

- Flashcards
- Revision Notes
- ASET (ActEd Solutions with Exam Technique) and Mini-ASET
- Mock Exam and AMP (Additional Mock Pack).

For further details on ActEd's study materials, please refer to the *2021 Student Brochure*, which is available from the ActEd website at www.ActEd.co.uk.

4.2 Tutorials

We offer the following (face-to-face) tutorials in Subject SP1:

- a set of Regular Tutorials (lasting three full days)
- a Block (or Split Block) Tutorial (lasting three full days)
- an Online Classroom.

For further details on ActEd's tutorials, please refer to our latest *Tuition Bulletin*, which is available from the ActEd website at www.ActEd.co.uk.

4.3 Marking

You can have your attempts at any of our assignments or mock exams marked by ActEd. When marking your scripts, we aim to provide specific advice to improve your chances of success in the exam and to return your scripts as quickly as possible.

For further details on ActEd's marking services, please refer to the *2021 Student Brochure*, which is available from the ActEd website at www.ActEd.co.uk.

4.4 Feedback on the study material

ActEd is always pleased to get feedback from students about any aspect of our study programmes. Please let us know if you have any specific comments (*eg* about certain sections of the notes or particular questions) or general suggestions about how we can improve the study material. We will incorporate as many of your suggestions as we can when we update the course material each year.

If you have any comments on this course please send them by email to **SP1@bpp.com**.

3.4 Long-term care insurance

Cash vs indemnity

LTCI may provide cash or indemnity benefits.

The main need of the individual in this case may be an indemnity benefit that would cover the cost of care in the future, should the individual require it. However, few insurers (if any) will fund for care, ie will promise to indemnify the policyholder's residential and medical costs from incapacity in the future for the balance of lifetime, since this is deemed to be too uncertain a liability. The insurer will generally take a longevity (annuity) risk and may additionally promise to increase benefit levels in line with a suitable objective index of costs – but this is far short of indemnification.

The uncertainties mentioned above surround the probability of a claim, the duration of the claim and the amount of the claim payment(s).

The probability of claims will depend on:

- the types of accidents and illnesses that result in a need for care in the future
- new methods of treatment (*eg* a cure for Alzheimer's disease) and advances in care technology (*eg* improved post-stroke care).

The duration of claims may also be affected by advances in medical treatment, for example, they may prolong the policyholder's life when they are receiving care.

The amount of claim payments will depend on:

- the costs of care (*eg* salaries of care workers)
- how care is provided (*eg* more high-tech care may be more expensive)
- changes in the supply and demand for care services.

It is difficult (if not impossible) to forecast how these factors will change, therefore they may be viewed as too uncertain to entertain by many insurers.

Lump sum vs income stream

Long-term care insurance generally provides a cash income, triggered by the onset of incapacity. The benefit level is chosen at the time of purchase to meet estimated levels of assistance at the time of need, in accordance with the policyholder's means to pay (estimated income).

This describes a pre-funded policy.

Alternatively, an immediate needs policy converts a lump sum into a lifetime income, dependent on level of disability, at the time of need. Here also the level of benefit may increase with worsening incapacity.

3.5 Private medical insurance

Cash vs indemnity

Private medical insurance is normally an indemnity product – it pays the medical treatment costs incurred by the policyholder and in many cases the insurer settles with the provider of treatment directly. As described in Chapter 4, the insured event is treatment rather than the diagnosis of an illness or condition.

Only under special circumstances will the plan provide cash, such as:

- **In territories where the State offers an alternative, the insurer may pay a daily benefit in cash for time spent by the policyholder in a State hospital, which does not otherwise incur cost for the insurer.**

Such benefits are advertised to encourage individuals to reduce the insurer's claim outgo, by taking advantage of State-provided treatment where available.

- **Where there is a cap on the fees paid by the insurer for certain procedures, meaning that the benefit is not full indemnity. The policyholder may need to cover the difference if the hospital and/or consultant are charging more than the maximum.**

It should be noted that some PMI products have excesses.

Other short-term products do provide cash benefits, in particular:

- **Health cash plans are special arrangements designed to provide cash when certain medical events take place (eg physiotherapy, new spectacles).**

Other examples of health-related events are a stay in hospital and the undergoing of dental treatment.

The benefits under these plans are deliberately designed to provide a contribution to policyholders' medical costs, and not to provide full indemnification of these expenses; in this way the risk of anti-selection is much diminished.

- **Major medical expense plans ...**
... which provide a lump sum when the policyholder undergoes surgery.
- Personal accident plans, which provide a lump sum when the policyholder suffers a specified injury.