

# Subject SP2

## CMP Upgrade 2020/21

### 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 Changes to the Syllabus

This section contains all the *non-trivial* changes to the syllabus objectives.

Objective 4.2 has been updated as follows:

- 4.2 Demonstrate an understanding of the different uses of actuarial models for decision-making purposes in life insurance, including:
- pricing products
  - developing investment strategy
  - projecting solvency
  - calculating embedded value.

Objective 4.3 has been updated as follows:

- 4.3 Demonstrate an understanding of the methods used for determining the cost of options and guarantees.
- 4.3.1 Describe the use of stochastic simulation and the use of option prices to determine the cost of an investment guarantee.
- 4.3.2 Describe the assessment of the cost of simple mortality options.

Objective 6 has been rewritten so that it now reads:

6. Solving problems
- 6.1 Develop proposals and recommendations, with justification where required, in relation to hypothetical scenarios reflecting the management of life insurance business.
- 6.1.1 Analyse these scenarios, demonstrating an understanding of the syllabus including the following factors (profitability, capital management, risk, regulatory and customer demand).
- 6.1.2 Suggest possible reasons why certain proposals and recommendations have been made.
- 6.1.3 Assess the implications of adopting the proposals and/or recommendations within a given scenario.
- 6.1.4 Discuss the advantages and disadvantages of suggested proposals and recommendations, taking into account different perspectives.
- 6.1.5 Demonstrate an understanding of any limitations and elements of uncertainty in the proposals or recommendations made.

# 1 Changes to the Core Reading and ActEd Course Notes

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

## Chapter 5

### Section 1.1

Towards the bottom of page 7, the ActEd paragraph below the heading 'Transfers of profit to shareholders' has been replaced by the following:

Asset shares can be used to determine benefits for with-profits policies. Clearly if part of the surplus has been transferred to the shareholders then that money is no longer around to pay benefits to with-profits policyholders, and should be deducted from the with-profits asset share. (Shareholder transfers are not deducted from the asset shares of without-profits contracts.)

## Chapter 9

### Section 1

The third paragraph of Core Reading on page 3 has been updated as follows:

**Management expenses consist of expenses that are incurred directly when new policies are written (new business), maintained (in-force business), terminated (claims) and overhead expenses that a company will incur regardless of the amount of new business it writes, the business it has in force and the claims it incurs. These overheads would include, for example, the costs of general management, at least part of the costs of a company's service departments (such as IT and HR), and the cost of accommodation.**

## Chapter 15

### Section 1.2

The question at the bottom of page 7 has been updated as follows:

A five-year term assurance contract comes in two forms: single premium and annual premium. Reserves are calculated on a prudent basis.

Explain which, if either, of these designs is likely to have the shorter discounted payback period (DPP).

## Chapter 17

### Section 1.7

The fourth paragraph of Core Reading on page 21 has been updated as follows:

**If a formula model is being used for pricing, the first two approaches above are not available and the risk of adverse future experience would be allowed for by taking margins. However, such a model does not help the actuary to quantify what these margins might be and they must use judgement based on their experience.**

## Chapter 18 / 20

Section 1 of Chapter 20 has been moved to Chapter 18 to become a new Section 1.4.

As a result, the section in the Chapter 20 Summary entitled 'Reserving assumptions vs pricing assumptions' has moved to the Chapter 18 Summary.

## Chapter 18

### Section 1.1

The penultimate paragraph of ActEd text on page 3 has been updated as follows:

If the valuation is for supervisory purposes (*ie* demonstration of solvency) then there will almost certainly be some constraints on the assumption decisions. These might be specific constraints (*eg* the valuation interest rate must equal the premium basis interest rate) or more general (*eg* use any basis, subject to the final result not being lower than it would have been under a prescribed prudent basis).

### Section 2.3

The first paragraph of ActEd text has been shortened so that it now reads:

The two methods are trying to focus on something slightly different and work in different ways.

## Chapter 19

### Section 0

The final paragraph of ActEd has been updated as follows:

In the next chapter, we will look at how we can make these reserves market consistent and we will consider the need for additional solvency capital over and above these reserves.

## Chapter 20

Syllabus objective 5.1 has been deleted from the Syllabus objectives box.

### Section 0

The third paragraph of ActEd has been updated as follows:

In this chapter we will consider setting reserving assumptions using a market-consistent approach and the need for additional solvency capital.

## Chapter 21

### Section 2.2

The fifth paragraph of ActEd text has been updated as follows:

Basing the surrender value closely on an asset share implies distributing accrued profits (or losses) to the policyholder. This is because the asset share contains all of the accumulated profits (or losses) from the policy to date. (Note that the asset share for without-profits contracts does not include a deduction for shareholder transfers.)

## 2 Changes to the X Assignments

### Overall

There have been minor changes throughout the assignments, including changes to mark allocations.

More significant changes are listed below.

### Assignment X3

The comment at the start of Solution X3.3 has been updated as follows:

*These topics are covered in Chapters 14, 15 and 16.*

In Solution X3.5 (ii) the penultimate point in the second bullet point list on page 7 has been updated as follows:

- If products are not profitable with the 90% bonus allocation, then consider how valuable to policyholders a 90% declaration is. If it is valuable, possibly look to repricing the product to accommodate this. [1]

### Assignment X4

In Question X4.5, the date in the second paragraph has been moved on to 31 December 2020.

In Solution X4.1 the second and third points under the 'Solvency capital' heading on page 2 have been updated. The second point is now worth half a mark as follows:

A method that is proportionate to reserves might be more suitable. [½]

The third point has been slightly reworded as follows:

For example, the percentage could be too big for a rapidly expanding company (especially if writing a lot of regular premium business). [½]

The penultimate point in Solution 4.3 has been updated as follows:

The higher reserving requirement may discourage new companies from starting, ... [½]

### Assignment X5

The sixth point in Solution X5.4 has been extended as follows:

The risk premium reinsurance would be operated just like a mortality charge, ie the mortality rate will be multiplied by the sum at risk (the guaranteed death benefit less the unit fund). [½]

The first point under the heading 'Underwriting procedures' in Solution X5.7 has been separated out into three separate points as follows:

The proposal form will be checked by a member of the clerical staff or by specialised underwriting software. [½]

Further information may be required if the proposal form indicates any potential problems ... [½]

... *eg* serious illnesses at a young age in family medical history. [½]

The following point has been added to the end of part (a) of Solution X5.8:

By continuing with the existing system then there are no costs from changing admin systems, staff training *etc.* [½]

## 3 Other tuition services

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

### 3.1 Study material

We also offer the following study material in Subject SP2:

- 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](http://www.ActEd.co.uk).

### 3.2 Tutorials

We offer the following (face-to-face and/or online) tutorials in Subject SP2:

- 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](http://www.ActEd.co.uk).

### 3.3 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](http://www.ActEd.co.uk).



### 3.4 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 [SP2@bpp.com](mailto:SP2@bpp.com).

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