COURSE COVERAGE

Question	Unit	Key performance outcomes	Learning objective	Marks
1a	1,2,4	2,5,7,9,10	2.3,5.1,5.2,5.3,5.4,7.2,9.5,10.3,12.1,12.2,12.3	5
1b	2,3,4	5,7,9,10,12	5.1,5.2,5.3,7.2,9.5,10.3,12.3	5
1c	2,4	5,12	5.1,5.2,5.3,12.2,12.3	5
2a	1,2,3,4	1,2,7,8,9,10,11,14	1.1,2.3,2.4,7.2,8.3,9.1,9.2,9.3,10.3,11.4,14.3	6
2b	3,4	8,9,14	8.3,9.1,9.2,9.3,9.4,14.1,14.2	20
2c	2	7	7.2	4
3a	1,3,5	1,9,15	1.1,9.1,15.1	6
3b	2,3,4	7,9,14	7.2,9.3,14.2	4
3c	1,2,3,4	1,2,3,7,10,12	1.2,1.3,2.1,2.3,2.4,3.2,7.4,7.6,10.3,12.1	5

QUESTION 1 **(15 Marks)**

You work as the pricing actuary for 'Innovations Ltd', a medium-sized Australian life insurer that sells a range of life insurance products through independent brokers. The brokers are paid commissions directly by Innovations Ltd.

As part of their strategy for growth, Innovations Ltd wants to increase sales through brokers who sell to individuals with high public profiles – such as actors and professional sports people. Innovations Ltd hopes that public endorsements of its products and service from such public figures will enhance its reputation in the market.

Innovations Ltd plans to increase sales by giving the target brokers a reason to approach new and existing clients of this type, through offering new features on certain products.

One of these products is its Total and Permanent Disability (TPD) product. The marketing and sales teams have suggested that the following draft policy wording, placed within the main body of the policy wording of the TPD product, could be an ideal addition to generate interest amongst the key brokers that it wishes to target:

Where an insured person participates in sport in a professional (paid) capacity, a benefit will be payable according to the following circumstances:

- *If the insured person suffers from a serious injury which prevents them from participating in their paid sporting capacity for a period between 6 months and 1 year, an amount equal to 20% of the base sum insured of this policy will be payable 1 year following the injury's occurrence*
- *If the insured person suffers from a very serious injury which prevents them from participating in their paid sporting capacity for a period greater than 1 year, an amount equal to 50% of the base sum insured of this policy will be payable 1 year following the injury's occurrence*

The marketing and sales teams have not yet consulted the underwriting or claims teams for their ideas about this proposed feature and policy wording, but have called on you to provide some initial feedback at a meeting tomorrow. In preparation for this meeting:

(a) Describe what aspects of the suggested product feature you would be seeking clarification on. (5 marks)

(b) Describe the major risks that you see with the suggested product feature. (5 marks)

(c) Describe any modifications to the product feature that you would recommend, giving reasons for what you suggest. (5 marks)

MARKING GUIDE

(a) Aspects of the suggested product feature you would be seeking clarification on:

Major clarifications include:

- Is it an acceleration of the overall TPD cover, or an additional amount to the base sum insured?
- On a related note, if a claim is paid one year after the occurrence of an injury, what happens then with the policy – does it cancel, do exclusions for future claims by some causes commence, ?
- A tighter definition of 'sports' would be needed. What sports are covered - chess? Darts? Board games? Video games? Contact sports?
- A clear definition of 'professional' would be needed. Is it only relating to a fulltime profession, or the main source of income for an individual, or income arising above some limit, does it need the person to be currently 'professional' or just over 'recent' times?
- Information on underwriting – does the person have to be a professional sportsperson at time the policy is taken out? Is there a minimum amount that they have to be paid and is the sum assured linked to their income from their sport?
- Information on claims process– how is it going to be assessed that the person was prevented from participating in their sport? Is this based on a medical opinion?
- Is it to cover injuries suffered only during the course of the sporting venture, or from any cause?
- Can an existing TPD policyholder now 'add-on' this feature, or is it a new TPD policy altogether?
- Requesting definition of "injury" – noting that the first says "serious injury" and the second point "very serious injury" – are these defined terms? What about illnesses or chronic recurring injuries?
- The current definition appears to suggest that if someone can play their sport just not at a level that is "professional" they will be paid. Is this the expectation for the policy?
- Other clarifications as appropriate

1 mark for each sensible clarification described.

To a maximum of 5 marks.

(b) Major risks with the suggested product feature:

- The possibility of adverse selection against the insurer is very high. Those in certain sports, at certain ages, with vulnerability to increased injury from either an existing injury or risk exposure are likely to see this feature as a way to provide financial advantage. This cost has to be factored into the premium, and may make the cost prohibitive, thereby making it attractive only to those at high risk of claim. (2 marks)
- For those with serious injuries in the past, there is a risk of moral hazard. Someone who is no longer performing well in their paid sport may be tempted to put in a claim, blaming it on their old injury recurring again. (1 mark)
- This is exacerbated by the payout not being indemnity based, but just being a % of an underlying TPD sum insured, which was (likely) based on costs involved with severe injury, not just a sports-preventative injury. (1 mark)
- Lapse and re-entry of existing TPD policyholders may eventuate, with additional levels of commission, underwriting, set-up and administration costs involved (1 mark)
- The costs of establishing true cause of claim and the management of any claimant prior to the 1 year following an injury are likely to be high, relative to the benefit. This cost has to be factored into the premium, and may make the cost prohibitive, thereby making it attractive only to those at high risk of claim. (1 mark)
- The ability to establish whether someone could not play their sport at a professional level due to an injury is difficult to assess. Particularly if they could play just were no longer good enough to play professionally. The lack of clarity around the adjudication of claims is a material risk. (1 mark)
- Other reasonable points to be awarded marks as appropriate.

To a maximum of 5 marks.

(c) Potential modifications to the product feature:

- Limits on underlying Sum Insured to which the additional benefit should be applied (1 mark)
- Not all sports or injuries should be covered. E.g. severe concussion in contact sports should not be covered, establishing long term mental difficulties from injury could be fraught with difficulty (1 mark)
- Excluding pre-existing conditions is essential, given the significant risks with adverse selection (1 marks)
- Age restrictions should be imposed on the cover at inception, so that there is not an incentive for an older sportsperson to take out this policy when they are reaching the end of their career and may have chronic conditions (1 mark)

- Age restrictions should be imposed on the cover for cessation so that there is not an incentive for an older sportsperson to continue playing a hazardous sport with the increasing risk of claim (1 mark)
- Some consideration could be given to offsetting the payout from other insurance and income sources, similar to disability income policies. For example, if the insured person has not been able to play their sport for 12 months and has missed out on an income of $100,000, but in the meantime has worked in a different role for $80,000, the payout need not exceed $20,000? (1 mark)
- Assessment should be based on medical advice that the individual was unable to play the sport at any level. (1 mark)
- Other reasonable points to be awarded marks as appropriate.

To a maximum of 5 marks.

QUESTION 2 **(30 Marks)**

QuickInsure Ltd is an Australian life insurer that sells limited-underwriting products through direct sales channels. The CEO of QuickInsure has seen television advertisements from other insurers that sell funeral insurance. She has asked QuickInsure's product development team to come up with a funeral insurance product to compete in this market. Her requirement is to have a simple product that can be easily sold via the internet. The features that the product development team would like to include in this product are as follows:

- The policy will pay out a sum insured of $1,000 in the first year of the policy, upon any cause of death excluding suicide;
- The policy will pay out a sum insured of $2,500 in the second year of the policy, upon any cause of death excluding suicide;
- The policy will pay out a sum insured of $15,000 beyond the second year of the policy, upon any cause of death;
- There is no underwriting at all on this product;
- Premiums cease after 15 years, but cover continues until the policy ends as defined below;
- One policy can insure any number of lives, as long as they belong to the same family. A family is defined as a single person or a couple, plus the dependents (children) that they are legally responsible for. The age at which cover would cease for a dependent is 25. Lives insured cannot be added after policy commencement – any new lives would have to take out their own policy;
- The sum insured is paid out upon the first claimable death in the family. The policy then ceases;
- Premiums are not differentiated on the basis of family size – i.e. policies with single lives insured are charged the same as larger family units;
- Level premiums are payable annually in advance, with the level premium dependent on age at policy commencement of the oldest life insured under the policy.

You manage the pricing team, and in the absence of industry statistics for similar products in the market, an actuarial analyst that reports to you has suggested the following assumptions for pricing this policy:

1. The mortality for each life insured is equal to 500% of population mortality;
2. The number of lives insured on a policy is equal to the average family size in Australia, which is 2 adults and 2 children. It is assumed that the oldest adult is a male, the second adult is a female of age 2 years less than the male, the older child is a male who is 28 years younger than the adult male, and the younger child is a female who is 30 years younger than the adult male;
3. New business expenses are $100 per policy at t=0, and $15 per policy at each subsequent policy anniversary. Claim expenses are negligible, and any impacts of inflation can be ignored;

4. Rates of policy cancellation are equal to 150% of the industry cancellation rates for YRT policies;
5. The profit requirement is for each policy to make an expected profit of $500, with future transfers discounted at a rate of return of 12% per annum (effective);
6. Investment earnings are equal to 5% per annum;
7. A simplified approach can be assumed for reserves held for a policy in force at the end of each policy year, given by the lesser of 15,000 and [t / 20 x 15,000], where t = policy year.

(a) State, with reasons, whether you believe assumptions [1] to [4] above are reasonable or not reasonable. (6 marks)

(b) Given the assumptions above, determine an appropriate annual premium that would be charged for a policy where the oldest adult is aged 42. Population mortality and industry YRT cancellation rates can be found in the spreadsheet 'QuickInsure'.

You may find it necessary to make some simplifying assumptions regarding:
o The interaction between mortality and policy decrements;
o The timing of claims payable in any one year;
o The independence or otherwise of mortality between insured lives.

State clearly any assumptions that you make and explain your reasoning. You may ignore the impact of tax. (20 marks)

(c) Suppose that you now have credible and relevant industry information which shows that policy cancellations for funeral insurance are in fact significantly higher than 150% of YRT cancellation rates. You have shown this to your actuarial analyst, who comments that higher policy cancellations generally means that higher premiums are required to recoup initial expenses and pay for higher future claims. Respond to the analyst, including justification for any agreement or disagreement with what she has said. (4 marks)

MARKING GUIDE

(a) In answering this part, vague and general statements are not useful - answers must be specific to the particular policy in question in order to earn marks.

1. The mortality for each life insured is equal to 500% of population mortality

For a non-underwritten product sold via direct means, it not unreasonable to base mortality on a multiple of population mortality. (0.5 marks)

500% is a high multiple of population mortality suggesting significant anti-selection, and given this is direct to consumer with no exclusions (other than suicide in the first two years) anti-selection is considered likely (1 mark).

It is arguable that 500% is too high, particularly if applied as a permanent loading to every life in a family (0.5 mark).

The effects of anti-selection should wear off over time as the lives in the poorest health decrement from the pool (0.5 marks)

As rates are not differentiated by smoker status, additional anti-selection arising from smokers taking out this policy is possible (0.5 marks)

Probably not as strong a rationale for child mortality to be 500% of population mortality, given the limited sums insured in the first two years of the policy. But this is probably not material given the much higher mortality for adults on the policy. (0.5 marks)

To a maximum of 1.5 marks for this assumption

2. The number of lives insured on a policy is equal to the average family size in Australia, which is 2 adults and 2 children. It is assumed that the oldest adult is a male, the second adult is a female of age 2 years less than the male, and the children are aged 28 and 30 years younger than the adult male on the policy

Reasonable assumption about average Australian family size and ages. (0.5 marks)

However, given the premium rating by age of oldest adult on the policy regardless of numbers of lives insured on the policy, this is likely to increase the average family size taking out this policy – it is not unreasonable to expect larger families being attracted to this product. (1 mark)

The claims cost will be sensitive to the number of lives and the age and gender mix. (0.5 marks)

The assumption of an "average" family age mix and number of lives may not be appropriate for a funeral insurance product, which is generally targeted at older customers. (0.5 marks)

To a maximum of 1.5 marks for this assumption

3. New business expenses are $100 per policy at t=0, and $15 per policy at each subsequent policy anniversary. Claim expenses are negligible, and any impacts of inflation can be ignored;

Inflation on policy anniversary expenses of $15 is not material. (0.5 marks)

However, due to the long term nature of the projection, it would be prudent to allow for expense inflation (0.5 marks for any reasonable discussion of inflation)

Fixed $ amount for new business expenses will be sensitive to assumed/projected sales volumes (0.5 marks)

The expense assumptions are too low, given the high marketing costs required to generate volume in the direct distribution channel, plus having to support overhead costs such as staff costs and the costs of setting up and maintaining a functional website and admin system. (0.5 marks for general comment, plus 0.5 marks for appropriate justification)

Such a low expense assumption could be justified if volumes are expected to be very high, but that may not be realistic given that QuickInsure is only just entering the funeral insurance market. (0.5 marks for low expense unit costs being justified by high volumes, plus 0.5 marks for reality check)

Claim expenses should be factored in, either as a constant $ amount per claim, which would be reasonable in this case given the set sum insured across all policies, or as part of the maintenance expense assumption. (0.5 marks)

To a maximum of 1.5 marks for this assumption

4. Rates of policy cancellation are equal to 150% of the industry cancellation rates for YRT policies;

In general, not unreasonable to expect higher cancellation rates than underwritten products. (0.5 marks)

However, cancellation rates beyond year 15 will probably be zero, given the paid-up nature of the policy. This should supersede the assumption of cancellation rates = 150% of YRT rates at those durations. (1 mark)

The general pattern of level premium contracts will be different to that of yearly-stepped premium contracts, with cancellations in later years for level premium contracts lower in general. (0.5 marks)

To a maximum of 1.5 marks for this assumption

Marks as above or for other reasonable observations, to a maximum of 6 marks.

(b)
A number of approaches could be adopted, with various assumptions possible regarding:
o The interaction between mortality and policy decrements;
o The timing of claims payable in any one year;
o The independence or otherwise of mortality between insured lives.

One possible approach is given in the marking spreadsheet. The sheet 'answer 1' assumes the following:

- Policy decrements arise from {policy-level cancellations} + {death of at least 1 family member};
- A maximum of 1 claim can be paid, and this is paid at the end of each policy year;
- All insured lives are assumed to be independent.

If a particular assumption is reasonable, justified, and then incorporated within the modelling itself in a manner consistent with the assumption made, then credit should be given.

As the question specifically asks for the calculations to be done "given the assumptions above", 0.5 mark should be deducted for each assumption which deviates from the given basis (subject to a minimum of zero marks for each particular assumption). However, the use of a different basis is allowable if a candidate has given a reasonable explanation for it.

As a guide, overall marks to be awarded on the following basis:

A. Getting the mechanical 'basics' right – i.e. accounting appropriately for:

- Expenses (1 mark)
- Reserves (2 marks)
- Investment earnings (1 mark)
- Correct sum insured in policy years 1, 2, & 3+ (1 mark)

Total: [5 marks]

B. Mortality and claims

- Accounting for each life mortality = 500% population mortality (1 mark)
- Excluding suicide from claim rates in years 1 and 2, dependents leave the policy at age 25 (1 mark)
- Timing and number of claims payable in one year: assumption stated, justified, incorporated into modelling correctly? (2 marks)
- Independence or otherwise of mortality between insured lives: assumption stated, justified, incorporated into modelling correctly? (2 marks)

Total: [6 marks]

C. Policy decrements

- 150% of YRT rates incorporated at all relevant durations (1 mark)
- Total rate of policy decrements in any one year incorporates the policy lapse rate and the probability of a claim. (2 marks)
- Overall rate of decrement in each policy year correctly links to other projected cashflows? (1 mark)

[Whatever is assumed for overall policy decrements, having policy decrements due to cancellations beyond year 15 equal to 0% or 18% is acceptable for full marks as the question asks to work with the given assumptions, but some candidates may over-ride this with the more realistic assumption of 0% at these durations]

Total: [4 marks]

D. Annual transfers and premium

- Correct calculation of transfers in policy years (2 marks)
- Correct calculation of overall EPV(profits) (1 mark)
- Correct derivation of level annual premium, limited to 15 years, based on the given profit criteria (2 marks)

Total: [5 marks]

In this given solution, the annual premium is $488.17

Total [A] + [B] + [C] + [D] = 5 + 6 + 4 + 5 = 20 marks maximum

(c) There are potentially 2 parts to an answer that a candidate may give:

Firstly, responding to the analyst's claims about risk business in general:
- It is normally the case that for risk business, higher policy cancellations means that higher premiums are required to recoup initial expenses (1 mark);
- Higher policy cancellations could lead to higher claims due to selective lapsation (1 mark)

- However, higher policy cancellations means that fewer policies will be in force in future years, reducing the number of policies exposed to the risk of claiming (0.5 mark as this would likely be offset by selective lapsation, making it a questionable point)

Secondly, with respect specifically to this funeral plan product:

- The policies become 'paid up' after 15 years whereby no future premiums are paid after that time, but cover continues on - so after 15 years, any policy which hasn't lapsed will stay until the inevitable claim occurs (1 mark)
- Therefore, this funeral plan product is actually lapse funded. Provided that acquisition expenses have been recovered, cancellations in the first 15 years are financially favourable for QuickInsure in that the policyholder(s) are surrendering their right to future claims. The premiums that they are paying is more than enough to pay for the risk within the policy up to that point in time (1 mark)
- In this case, the acquisition expense assumption is $100, compared to an annual premium of $488.17, so even an increase in the year 1 lapse rate assumption could lead to a reduction of premium (0.5 mark)

Marks as above to a maximum of 4.

QUESTION 3 (15 Marks)

You are the marketing actuary for a life insurer which has recently appointed a new CEO. The CEO had a very successful sales career with an international pharmaceutical company, and so knows a little about life insurance in terms of mortality and morbidity, but does not know much about the features and differences between various products.

As such, she has asked you for background information. Prepare your response to the CEO's queries below, in the form of a memo.

(a) "I have been told by the Customer Service Manager that the pattern of policy lapses is different between yearly renewable term policies, and participating whole of life policies. What differences could we expect to see in the pattern of policy lapses between these policy types, and why might these differences come about?" (6 marks)

(b) "For our 'risk' policies, we offer premiums in 5-year stepped bands, where the premium is level for 5 years, as well as in 1-year stepped bands. Why do we do this? Why is the sum of the total premiums paid over 5 years different under each premium option? (4 marks)

(c) "I have heard that there is a lot of debate about how we pay our financial advisers for selling our policies. Is it a good idea for us to pay our financial advisers a commission, or is it better to pay them nothing and let them charge the customer a fee directly for the sale of the product?" (5 marks)

MARKING GUIDE

(a)
Overall – in the early years of a policy:

YRT is more attractive to customers who are seeking the best price in the short term, compared to level premium structures such as WOL which would be attractive to customers seeking price stability. Therefore, YRT policy cancellations might be higher due to price competition, with customers (or advisers) shopping around for cheaper premiums. This is less of an issue for WOL, although the relatively high premiums for WOL policies may mean that some policyholders find that they cannot afford or do not want to pay the higher premiums compared to YRT. This is offset a little by the scaling of surrender values which discourages early policy cancellations.

In the later years of a policy, the relative difference will depend on the attractiveness of the surrender value for WOL as an incentive for surrender, versus the impact of increasing premiums on YRT policyholders.

The main reasons that should be described in some detail for the CEO include:

- For participating whole of life:

o Premiums can greatly exceed the underlying cost of cover in the early years of the policy and vice versa in the later years, so the longer these policies are held, then the better 'value' they are to the policyholder, so there is an incentive to stay on the policy, given the 'investment' made in the early years.
o This is offset to some extent by surrender values, which are low in the early years of a policy but provide an incentive to surrender in the later years.
o Paid-up values can help to reduce "cancellation" rates in that paid-up policies remain in-force. However, making a policy paid-up is usually captured as a partial lapse when measuring lapse rates.
o Bonuses for participating business could provide an incentive for customers not to lapse.

- For yearly renewable term

o There is no surrender value, so there is no 'cash value' building up for the policyholder over time
o Premiums increase in line with age, and the increases can be very large at the older ages, leading to 'bill shock'.
o If a cheaper premium is available from another insurer, then there is an incentive to switch to the cheaper insurer, unless:

- Health reasons prevent this – if the policyholder is unable to get through underwriting with the new insurer, then they would have to stay with the existing policy if they still wanted cover

- There is some reason to stay with the current insurer: For example, brand loyalty, excellent service levels with the current insurer, product features or initiatives designed to improve retention (loyalty discounts/bonuses, loyalty programs/gifts etc), and/or customer inertia whereby the policyholder cannot be bothered with the time and effort involved in changing insurers, if the saving in premium is relatively small

2 marks for each of:

- Appropriate description of features of participating WOL that are relevant to an expected pattern of policy cancellations
- Appropriate description of features of YRT that are relevant to an expected pattern of policy cancellations
- Comparing the experience of the two products, ideally split along temporal lines of short- and long- term.

To a maximum of 6 marks.

(b)
The main reasons that should be described include:

- The greater certainty for future premiums under a 5-yearly stepped premium option may be favoured by some customers – this is a major reason to offer this premium option. (1 marks)
- The time value of money. Higher premiums are received earlier under the 5-yearly stepped option due to the need to cover the increase of mortality risk with age. (1 mark)
- Lapse assumptions under each option provide a difference as well. With a 5-yearly stepped premium option, we would expect lapses to be lower than for 1-yearly stepped policies, with a spike in lapses for the 5-yearly stepped premium option at the end of every fifth year (1 mark)

- When offering a 5 yearly stepped premium, there is more certainty with future premiums when compared to a one-year time horizon as premiums will not change with age in that 5-year period. The customer might be expected to pay more for the greater certainty offered under this option. (1 mark)
- Differences in the pattern of capital usage/strain for 1 yearly vs 5 yearly stepped premium business (0.5 mark)

Marks as above, or for other valid reasons and a suitable description of that reason (1 mark each), to a maximum of 4 marks.

(c)

A candidate can take a neutral view here, or a view that one form of sales incentive is better than another. The awarding of marks is to be in line with the strength and reasonableness of the argument made for the view taken. The recently released Trowbridge Report is not examinable, therefore candidates should not be penalised for points which go against the Trowbridge recommendations (in particular, arguments in favour of upfront commission). However, marks may be awarded for relevant points arising from the report.

In terms of taking a view that a commission from the insurer to the adviser is 'better', the main points to earn marks are that:

- This is still legally allowed for risk business outside of superannuation, but not for investment products.
- Many advisers have their businesses structured around the cashflows associated with initial and renewal / trail commissions, so any disruption to that may make us less desirable to work with.
- This is particularly the case if other insurers keep paying commissions, and we do not.
- Affordability of insurance is a strong argument, whereby a commission built into a product effectively spreads (amortises) the sales cost of the policy over the average time period that a product is held for. This means that a policyholder only pays, within the premium charged, a small proportion of this significant cost each year, rather a large amount at the beginning of the policy. This may make it affordable for many potential policyholders.
- This is particularly so with life insurance which is generally understood to be 'sold and not bought' – an adviser is needed to explain the benefits and case of life insurance to a potential policyholder, and that they need to be incentivized. If consumers are unwilling to pay an upfront fee, commissions are an alternative.
- As such, issues of 'under-insurance' may become more pronounced if the public at large are not encouraged to purchase insurance, or if they are considering it, do not pursue it because of the existence of a large upfront fee.
- While there is an argument that commissions result in higher rates of churn, this is mitigated to some extent by having responsibility periods in which commission can be clawed back.

In terms of taking a view that the adviser charging a fee is 'better', the main points to earn marks are that:

- Whilst commissions are legal, public and political pressure for greater transparency in all financial transactions is driving trends to fee-for-service models rather than the more traditional commission-based arrangements.

- Potentially the cost of fee-for-service in the long run is a 'cheaper' proposition for customers, depending on what products are bought and how long they are held for.
- Some advisers have already moved to this model for risk business, and would like to work with insurers who support them in it so that they present a particular service offering to their clients.
- A commission structure with high upfront commission would encourage churning.
- A fee model effectively passes a high proportion of the upfront cost from the insurer to the customer, leading to a lower capital requirement for the insurer.

Relevant points from Trowbridge:

- Under the proposed Reform Model, upfront commissions will be banned and replaced by an Initial Advice Payment (IAP), which will be capped at 60% of the initial annual premium or $1,200, whichever is lesser. Renewal/trail or level commission will be capped at 20%. A five year rule applies at a customer level, which prevents the IAP from being payable more than once every five years in respect to a particular customer. A one year responsibility period will apply to any commission paid in the first year.
- The IAP is designed to be insufficient to fund the upfront cost of providing personal advice (estimated at $1,500 to $3,500 per customer). To remain viable, advisers would likely need to supplement the IAP with a fee charged directly to the customer.
- The operation of the five year rule and the responsibility period exacerbate the lack of viability for advisers switching customers to another insurer within 5 years. This is designed to eliminate the financial incentive to churn. Without the financial incentive, any policy switching would be driven by a genuine customer need (eg a change in the customer's personal circumstances), and it would be fair to charge customers a fee for servicing their needs.

Each point above or any other reasonable point, explained well, earns 1 mark.

0.5 marks can also be awarded for stating that they are not 'our' advisers, but are generally independent or at least are only partially tied to some insurers. Although the question does not explicitly point out that the advisers are 'tied' or 'independent', the course itself describes a 'tied agent' as no longer prevalent in Australia, and the term 'adviser' being different to 'agent' means they are either independent or partially tied, hence not 'our'.

0.5 marks can also be awarded for saying that the Insurer you work for can accommodate quoting / pricing systems whereby an adviser can opt for 0% commission, and charge a fee themselves – so that a decision does not have to be made yet, but both options can be kept open.

To a maximum of 5 marks.