

Tutors' marking guidance notes – BP:I December 2018

General

Most well explained points are awarded 1 mark per point. Points that are specific to the insurance industry (eg impact of a defect on reserving) are more likely to score 1½ – 2 points. Points that could be equally valid with a non-insurance company (eg existence of foreign exchange risk) are more likely to be given ½ marks. Mention of a concept only likely to receive ½ marks if not evident from the context that the candidate understands its significance.

These guidance notes should be read in conjunction with the student marks plan for this session.

Question 1 – Welsh Life

	Max	Headroom	Mark analysis
1.1 Identification of errors in initial recognition and preparation of corrected calculation	7	8	1 mark for each error in calculation identified 4 marks for correct calculation for initial recognition
1.2 Preparation of GMM reconciliation and impact on P/L	12	14	10 marks for GMM liability reconciliation 4 marks for P/L (marks awarded for method, despite incorrect value number, if workings provided)
1.3 Analysis of the accuracy of statement that IFRS 17 spreads underwriting profits and losses over contract life	4	6	2 marks for explaining that losses on onerous contracts are recognised upfront under GMM 2 marks for explaining that profits are spread over life of contract under GMM 2 marks available for additional relevant points eg profits actually spread in line with coverage, losses recognised if contract becomes onerous during life
1.4a Explanation of FVTPL measurement for mortality bonds and benefit to Welsh Life	4	5	1 mark for explanation of mortality bond liability Up to 2 marks for application of designation of mortality bond liability as FVTPL at recognition under IFRS 9. Up to 2 marks for identification of the benefit due to offsetting effects on both mortality bonds and insurance liabilities in P/L
1.4b Treatment of own credit gains from liability measurement with journals	5	6	3 marks for explanation of application of 'own credit' provisions of IFRS 9 to mortality bonds. 1 mark for calculation of amounts related to own credit vs other gains 2 marks for correct double entry
1.5 Ethical and regulatory issues arising from operation of Chooselife PCW	8	9	2½ marks available for identification and explanation of each relevant issue More generic issues not closely related to scenario (eg GDPR) receive limited credit
Total Marks	40	48	

Question 2 – Sizewell Insurance

	Max	Headroom	Mark analysis
2.1a Significance of the three key matters provided to audit planning	6	8	1 mark per relevant, well explained point Max 3 marks for points related to any one key matter
2.1b Additional steps to take in relation to each key matter	6	8	1 mark per appropriate, well explained step Max 3 marks for points related to any one key matter Very limited credit for generic points or just objectives
2.1c Most appropriate option to report concerns regarding each key matter	8	9	For each matter <ul style="list-style-type: none"> • 1 mark for consideration of options • 1 mark for reasoned decision as to most appropriate • 1 mark for identification of correct addressee
2.2 Effect of reorganisation on reliance on internal auditors	8	9	2 marks for factors that should be assessed before reliance placed on internal audit Up to 1½ marks for each relevant matter from scenario discusses in relation to the above 1 mark for conclusion
2.3 Five internal controls to prevent/detect the fraud	5	6	1 mark for each effective control Must be specific and adequately described for full credit
Total Marks	33	40	

Question 3 – Melchester Life

	Max	Headroom	Mark analysis
3.1 Identify and explain risks related to constituents of investment portfolio	12	14	<p>1 mark for each risk explained in the context of the investment held</p> <p>Only ½ mark for identification of risk already referred to as relating to additional investment types.</p> <p>Maximum 3 marks for explained risks for each investment type</p> <p>Maximum 2 marks for more general risk points on equities vs bonds</p>
3.2 Evaluate appropriateness of structure of each of the two parts of the portfolio	12	13	<p>4 marks for explaining key features of each part (with profits/other products) of portfolio relevant to investment objectives and requirements</p> <p>1 mark each for relevant points discussing appropriateness of investments held to objectives of that part of the portfolio</p> <p>Maximum 7 marks available for each part of the portfolio</p>
3.3 Identify and explain two ways of mitigating mortality risk arising from a pandemic	3	5	<p>Up to 2½ marks for explanation of:</p> <ul style="list-style-type: none"> • Natural hedge with annuities • Reinsurance – best choice XL <p>More limited credit available for other suggestions not so closely related to mortality. Eg co-co bonds, ensuring pandemic risk captured in underwriting process</p> <p>No marks for suggesting mortality bond issue as ruled out by question.</p>
Total Marks	27	32	
Total Marks - Exam	100	120	