CII Certificate in Insurance - Financial Protection (R05) Practice Exam (Sample)

Study Guide

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Questions

1. **Which category of risk is characterized by low frequency and high impact?**
   A. Insure
   B. Manage
   C. Accept
   D. Ignore

2. **What primarily determines the medical evidence required for key person insurance?**
   A. The applicant's health history
   B. The sum assured required
   C. The type of business
   D. The age of the individual

3. **What does the sum assured represent in Family Income Benefit?**
   A. A lump sum payable at retirement
   B. An annual payment until a set date
   C. A one-time payment at death
   D. A percentage of the total insurance cost

4. **How much of the mortgage is typically covered by a MPPI policy?**
   A. 75%
   B. 100%
   C. 125%
   D. 150%

5. **What is the most common reason given by millennials for not purchasing life assurance in the future?**
   A. They believe it is too expensive
   B. They do not understand it well
   C. They feel they do not need it
   D. They think it is too complex to acquire

6. What is the maximum gross tax relievable premium Michael can pay into a new term assurance policy?

A. £6,000

B. £40,000

C. None (premiums are not tax relievable)

D. £3,000

7. If Jack's mum gifts £200k to her son but the payout is in 6 months, why might the payout be declined?

A. Lack of sufficient funds

B. No insurable interest as the policy hasn't commenced

C. The beneficiary is underage

D. The gift exceeds legal limits

8. How long is a main residence disregarded for long term care financial support?

A. 8 weeks

B. 10 weeks

C. 12 weeks

D. 15 weeks

9. Why is participation in hazardous activities more important in the underwriting assessment for income protection insurance?

A. It increases the likelihood of death

B. It is less important for income protection than for life cover

C. There is a higher chance of injury than death

D. It affects the premium rates

10. What could trigger a review of a unit linked critical illness policy?

A. High initial premiums

B. Investment underperformance

C. Decline in life expectancy

D. Insufficient coverage limits

Answers

1. A
2. B
3. B
4. C
5. C
6. C
7. B
8. C
9. C
10. B

Explanations

1. Which category of risk is characterized by low frequency and high impact?

A. Insure

B. Manage

C. Accept

D. Ignore

The correct answer is that the category of risk characterized by low frequency and high impact is typically classified as "Insure." This category involves risks that do not occur frequently but, when they do, have significant consequences. Because of their potential to cause substantial damage or loss, it is prudent for organizations or individuals to purchase insurance to protect against these risks. Insurance serves to transfer the financial burden of such high-impact events to an insurance provider, alleviating the risk bearer from the full financial repercussions associated with infrequent yet severe incidents. For example, catastrophic events like natural disasters or major liability claims fall into this category, and having insurance coverage helps to mitigate the financial impact of these occurrences. In contrast, managing risks tends to involve ongoing strategies to minimize their impact or likelihood, which is more applicable to risks that are both high frequency and low impact. Accepting risks suggests that an individual or organization is willing to bear the financial consequences themselves, which is more suited to manageable risks rather than those that are infrequent yet severe. Ignoring risks is typically not advisable, especially for high-impact situations, as this could lead to severe negative consequences if they do occur. Therefore, insuring these low-frequency, high-impact risks is the most appropriate approach.

2. What primarily determines the medical evidence required for key person insurance?

A. The applicant's health history

B. The sum assured required

C. The type of business

D. The age of the individual

The determination of the medical evidence required for key person insurance is primarily influenced by the sum assured required. Insurers assess the potential financial impact on the business in the event of the key person's death or incapacitation. A higher sum assured indicates a greater risk to the insurer, which typically necessitates more comprehensive medical evidence. This can include medical history, current health status, and sometimes even more detailed evaluations or tests to mitigate the insurer's risk. While factors like health history, age, and type of business play a role in the underwriting process, they are secondary to the amount of insurance being sought. The sum assured is directly linked to the financial interest that the business has in the key individual, making it the most significant factor driving the need for medical evidence.

3. What does the sum assured represent in Family Income Benefit?

A. A lump sum payable at retirement

B. An annual payment until a set date

C. A one-time payment at death

D. A percentage of the total insurance cost

The sum assured in a Family Income Benefit policy specifically represents an annual payment that will be provided to the policyholder's beneficiaries in the event of the insured's death. This benefit is designed to replace the lost income and provide financial support for a specified period, thus ensuring that the family can maintain their standard of living during a difficult time. This benefit structure distinguishes Family Income Benefit from other types of life insurance policies, such as those that pay a one-time lump sum or a payout at retirement. With Family Income Benefit, the focus is not merely on a single payout but rather on ongoing financial support, making option B the correct choice. This mechanism serves to alleviate the financial burden on the family over time, rather than just offering a one-off assistance that might not suffice for ongoing living expenses.

4. How much of the mortgage is typically covered by a MPPI policy?

A. 75%

B. 100%

C. 125%

D. 150%

A Mortgage Payment Protection Insurance (MPPI) policy is designed to cover the borrower's mortgage repayments in the event of unforeseen circumstances such as loss of income due to illness, accident, or unemployment. Such a policy typically covers 100% of the mortgage repayments, allowing the insured to maintain their monthly commitments without the fear of losing their home. The correct answer being 100% stems from the objective of the insurance product, which aims to provide comprehensive coverage that directly correlates to the mortgage obligations of the policyholder. Therefore, in the event of a valid claim, the policy would cover the full amount of the mortgage payments for the agreed-upon duration, typically for a set period such as 12 months, depending on the policy terms. The other percentages such as 75%, 125%, or 150% do not align with the standard offerings of MPPI policies, which are designed to cover the entire mortgage payment amount to ensure financial security without providing excess coverage or a lesser amount that would leave borrowers liable for shortfalls. This comprehensive nature is vital for individuals seeking peace of mind while ensuring they can meet their mortgage obligations during difficult times.

5. What is the most common reason given by millennials for not purchasing life assurance in the future?

A. They believe it is too expensive

B. They do not understand it well

C. They feel they do not need it

D. They think it is too complex to acquire

Millennials often cite the belief that they do not need life assurance as a significant reason for not pursuing this type of insurance. This perspective can stem from various factors, such as a focus on immediate financial priorities, a perception of invincibility associated with youth, or a general misunderstanding of how life assurance plays a role in long-term financial planning. Many in this demographic may also prioritize other forms of investments or savings, believing that life assurance is an unnecessary expense given their current life stage, which typically includes lower financial commitments such as dependent children or substantial mortgage obligations. This reasoning emphasizes a gap in financial education and awareness regarding the importance of planning for unexpected events, highlighting the need for better outreach and information tailored to younger audiences. As a result, there might be an opportunity for insurance professionals to engage with millennials more effectively to illustrate the value of life assurance, even at a young age when they might feel it's not immediately required.

6. What is the maximum gross tax relievable premium Michael can pay into a new term assurance policy?

A. £6,000

B. £40,000

C. None (premiums are not tax relievable)

D. £3,000

In the context of term assurance policies, it's crucial to understand the tax relief implications associated with different types of life insurance products. Term assurance, typically designed to provide a death benefit to beneficiaries, does not allow for tax relief on premiums paid. This is due to the fact that term assurance policies are not classified in the same way as certain investment-oriented policies, where premiums can attract some form of tax relief. Instead, the premiums for term assurance are considered personal expenses without any associated tax deductions or reliefs. When evaluating the options, the statement that "premiums are not tax relievable" accurately reflects the nature of term assurance. Therefore, the maximum gross tax relievable premium that Michael can pay into a new term assurance policy is indeed none, as there are no tax reliefs applicable to these premiums. In contrast, the other options suggest amounts that imply some level of tax relief is available, which is not the case for term assurance.

7. If Jack's mum gifts £200k to her son but the payout is in 6 months, why might the payout be declined?

A. Lack of sufficient funds

B. No insurable interest as the policy hasn't commenced

C. The beneficiary is underage

D. The gift exceeds legal limits

The option indicating no insurable interest as the policy hasn't commenced is pertinent in understanding why the payout could be declined. Insurable interest is a fundamental principle in insurance, which states that the insured must have a legitimate financial interest in the subject of the insurance. This means that the individual or entity purchasing the policy must stand to suffer a loss if an event covered by the policy were to occur. In the scenario described, if Jack's mum has pledged the £200k gift but it is set to be paid out only in 6 months, there would be a period during which the insurance policy has not yet commenced. Without an active policy at the point when any insurable event occurs, there is no valid claim to make for a payout. Thus, if something were to happen that would otherwise necessitate a claim, there is no legal ground for Jack to receive the funds since there has been no insurance contract in effect during that critical time. This understanding reinforces the importance of having insurable interest when a policy is active, as any claims made outside of that period or without sufficient coverage would naturally be denied due to the lack of established contractual obligations.

8. How long is a main residence disregarded for long term care financial support?

A. 8 weeks

B. 10 weeks

C. 12 weeks

D. 15 weeks

The main residence is disregarded for long-term care financial support for a period of 12 weeks. This means that individuals receiving long-term care may not need to consider the value of their main residence when assessing their financial eligibility for support during this time. This provision allows a buffer period for individuals to arrange their affairs or make decisions without the immediate pressure of their main residence being included in the financial assessment for care needs. This 12-week period is specifically beneficial as it provides individuals and families time to plan for the necessary care arrangements while ensuring that they still have access to their main home without immediate financial implications. Understanding this timeframe is vital for anyone involved in personal financial planning or advising clients on long-term care options.

9. Why is participation in hazardous activities more important in the underwriting assessment for income protection insurance?

A. It increases the likelihood of death

B. It is less important for income protection than for life cover

C. There is a higher chance of injury than death

D. It affects the premium rates

Participation in hazardous activities is particularly significant in the underwriting assessment for income protection insurance because there is generally a higher chance of injury than death. Income protection insurance is designed to provide financial support in the event that an individual is unable to work due to an illness or injury. Engaging in hazardous activities can significantly increase the risk of injuries that might lead to temporary or permanent inability to work, which directly impacts the potential claims made against the policy. When underwriters evaluate applicants, understanding the specific risks associated with their lifestyle choices—including hazardous activities—enables them to assess the likelihood that the applicant will need to make a claim on their income protection policy. This assessment is crucial to determining the insurer's risk exposure and helps to ensure that appropriate premiums are charged. Hence, recognizing the increased risk of injury informs the underwriting process for income protection insurance specifically, as it is aimed at covering loss of earnings rather than merely focusing on mortality risks.

10. What could trigger a review of a unit linked critical illness policy?

A. High initial premiums

B. Investment underperformance

C. Decline in life expectancy

D. Insufficient coverage limits

A review of a unit-linked critical illness policy could be triggered by investment underperformance. This is because these types of policies link the value of the policy benefits to the performance of underlying investments. If the investments do not perform as expected, it could affect the cash value of the policy and the overall benefits that the policyholder might receive in the event of a critical illness claim. The policyholder may want to assess their options if the investments are not yielding satisfactory returns, which could lead to discussions on changing the investment strategy, adjusting premiums, or even altering the coverage to better align with their financial goals. Ensuring that the policy meets the intended financial protection requirements is crucial, particularly in the context of serious health events that could impact a person's financial stability.