

Protection, savings and investment products

FP2

Aims:

- to develop in candidates generic product knowledge and understanding relevant to the work of a person who is not dealing with highly sophisticated cases;
- to develop in candidates an ability to apply product knowledge and understanding required by a person who is offering unaccompanied but supervised advice on a variety of products and providers to satisfy client needs.

Note: The syllabus is examined on the basis of the English legislative position eight weeks prior to the examination date. Where law and practice in Scotland differs, this will be explained in the primary text.

Unit A - Protection

Element A1

Protection in the financial planning context.

On completion of this element, the candidate should

- A1.1 *know* the circumstances in which protection needs arise;
- A1.2 *know* the factors on which a client's protection requirements depend, e.g. age, dependants, income, financial liabilities.

Element A2

Knowledge of the range of protection products.

On completion of this element, the candidate should

- A2.1 *know*, in a generic sense, the providers, product features, policy benefits and their possible limits, tax treatment of
- term assurance: level, decreasing, convertible, family income benefit, renewable, increasing
 - whole of life: with and without profits, unit-linked, universal, low cost
 - health insurance (individual and group): income protection Insurance (PHI), critical illness, private medical insurance, long-term care
 - general protection insurance: redundancy, personal accident and sickness
 - business protection insurance: key person, partnership, shareholder protection.

Element A3

Use of protection products.

On completion of this element, the candidate should

- A3.1 *be able to apply* the products defined in A2 to satisfy clients' needs in specified circumstances.

Element A4

Knowledge of factors to be considered when comparing products and providers.

On completion of this element, the candidate should

- A4.1 *know* factors taken into account when comparing different types of products, e.g. surrender values, premium levels, product features, charging and commission structure, tax treatment (including qualifying and non-qualifying rules);

A4.2 *know* factors to be taken into account when comparing the various options available from different providers of the same product type;

A4.3 *know* basic factors to be taken into account when comparing different providers of a particular product, e.g. financial strength of the provider, underwriting requirements, quality of service and investment choice.

Unit B – Savings and investment

Element B1

Savings and investment in the financial planning context.

On completion of this element, the candidate should

- B1.1 *know* the circumstances in which there is a need for savings and investment advice;
- B1.2 *know* the factors on which a client's savings and investment requirements depend, e.g. disposable income, assets, attitude to risk, future potential liabilities.

Element B2

Knowledge of the range of savings and investment products.

On completion of this element, the candidate should

- B2.1 *know*, in a generic sense, the providers, returns, contribution limits, penalties, tax treatment, risk and accessibility of
- bank and building society accounts, including existing TESSAs
 - National Savings and Investments products: capital bonds, income bonds, children's bonus bonds, premium bonds, ISAs, pensioner's bonds, fixed rate savings bonds, certificates, investment and ordinary accounts;
- B2.2 *know*, in a generic sense, the providers, income and capital growth prospects, risk and accessibility, tax treatment, stock market indices, buying and selling mechanisms and charges of
- shares: quoted, unquoted, ordinary, preference
 - gilts
 - corporate bonds;
- B2.3 *know*, in a generic sense, the providers, product structure and features, benefits, risk and accessibility, tax treatment, penalties, charges of
- investment bonds
 - investment trusts
 - guaranteed growth bonds
 - guaranteed equity bonds
 - guaranteed income bonds
 - existing PEPs and PEP transfers

- maximum investment plans
- endowments (including traded endowments)
- unit trusts
- open-ended investment companies (OEICs)
- purchased life annuities: immediate, temporary, life, guaranteed, capital protected, escalating, level
- employee share option schemes;

B2.4 *know*, in a generic sense, the providers, product structure and features, contribution limits, benefits, risk and accessibility, tax treatment, penalties, CAT standards and charges of individual savings accounts (ISAs);

B2.5 *understand* the main investment styles and features of funds, e.g. volatility, inflows, outflows, cancellation prices, creation and level of risk.

Element B3

Use of savings and investment products.

On completion of this element, the candidate should

B3.1 *be able to apply* the products defined in B2 to satisfy clients' needs in specified circumstances.

Element B4

Knowledge of factors to be considered when comparing products and providers.

On completion of this element, the candidate should

B4.1 *know* factors taken into account when comparing different types of products, e.g. the investment objective of the product, surrender values, charging and commission structure, risk and accessibility, tax treatment (including qualifying and non-qualifying rules);

B4.2 *know* factors taken into account when comparing the various options available from different providers of the same product type;

B4.3 *know* basic factors taken into account when comparing different providers of a particular product, e.g. financial strength of the provider, quality of service, investment choice.

UNIT C — Pensions

Element C1

Pensions in the financial planning context.

On completion of this element, the candidate should

C1.1 *know* how to evaluate a client's pension requirements;

C1.2 *understand* the factors on which a client's pension requirements depend, e.g. age, income, dependants, previous and current pension arrangements, State provision.

Element C2

Knowledge of the range of pension products.

On completion of this element, the candidate should

C2.1 *know*, in a generic sense, the providers, eligibility, contributions, benefits and options, tax treatment, statutory and IRSPSS rules relating to

- occupational pension schemes: contracted in or out
- State Second Pension
- additional voluntary contributions
- free standing additional voluntary contributions
- executive pension schemes
- Section 32 buy-out bonds;

C2.2 *know*, in a generic sense, the providers, eligibility, contributions, benefits, options, tax treatment, statutory and IRSPSS rules relating to

- personal pension schemes (including appropriate personal pension schemes), group personal pension schemes, pension term assurances
- stakeholder pensions
- retirement annuity contracts (Section 226); and how stakeholder pensions affect other pensions in C2.1 and C2.2 and the advice an adviser gives on them;

C2.3 *know* the basic distinguishing features of small self-administered schemes and self-invested personal pensions;

C2.4 *know* the main features of individual pension accounts;

C2.5 *know* the options available on retiring from or on leaving early from a pension scheme and, in outline, the consequences on divorce;

C2.6 *understand* the manner in which with profits funds operate in connection with stakeholder pension schemes.

Element C3

Use of pension products.

On completion of this element, the candidate should

C3.1 *be able to apply* the products defined in C2 to satisfy clients' needs in specified circumstances.

Element C4

Knowledge of factors to be considered when comparing products and providers.

On completion of this element, the candidate should

C4.1 *know* factors taken into account when comparing different types of products, e.g. eligibility, minimum contribution levels, charging and commission structure, transfer values, benefits payable, tax treatment;

C4.2 *know* factors to be taken into account when comparing the various options available from different providers of the same product type;

C4.3 *know* basic factors to be taken into account when comparing different providers of a particular product, e.g. financial strength of the provider, quality of service and investment choice.

UNIT D — Mortgages

Element D1

Arranging a mortgage.

On completion of this element, the candidate should

D1.1 *know* the factors which determine a client's borrowing capacity, e.g. income, liabilities, amount of deposit, credit history, employment status;

D1.2 *know* the costs associated with arranging a mortgage, e.g. arrangement fee, legal fees, Stamp Duty, indemnity guarantee premium, survey fee.

Element D2

Knowledge of the range of mortgage products.

On completion of this element, the candidate should

D2.1 *know* the types of mortgage - capital and interest (repayment), interest-only;

D2.2 *know* the interest options of mortgage - capped and collared, deferred interest, discounted, fixed rate, low start, tracker, variable rate;

D2.3 *know*, in a generic sense, the providers, costs and fees, conditions and penalties and tax treatment of the following methods of repayment for interest-only mortgages:

- endowment
- pension
- ISAs
- other collective investments;

D2.4 *know* in a generic sense, the providers, structure and features, costs and fees, conditions and penalties, and tax treatment of

- flexible and current account mortgages;
- cashback mortgages;

D2.5 *know* the use in connection with mortgages of protection products - mortgage protection, redundancy protection, accident and sickness protection, life cover and critical illness.

Element D3

Use of mortgage products.

On completion of this element, the candidate should

D3.1 *be able to apply* the products defined in D2 to satisfy clients' needs in specified circumstances.

Element D4

Knowledge of factors to be considered when comparing products and providers.

On completion of this element, the candidate should

D4.1 *know* factors taken into account when comparing different types of mortgages, e.g. redemption penalties, flexibility of repayment term, arrangement fees, overall APR;

D4.2 *know* basic factors taken into account when comparing different providers of a particular mortgage, e.g. annual payment review, portability, quality of service, whether any ancillary products are compulsory, availability of further advances.

Reading list

Note: The examination will test the syllabus alone. The reading list is provided for guidance only and is not in itself the subject of the exam.

CII publications can be obtained from the CII. For all other publications contact the publisher. It is possible that a book on the reading list is out of print. Such books can usually be obtainable through the public library service.

Most of these items can be seen in the CII Library, borrowed by members anywhere in Europe or purchased via CII Library Online at www.ciilo.org.

Primary text

FP2 coursebook: Protection, savings and investment products. CII/LIA. Latest edition. Updated twice-yearly.

Additional reading

The Daily Telegraph guide to lump sum investments. L. Walkington. 11th edition. Kogan Page. 1999.

The Financial Times guide to using the financial pages. R. Vaitilingam. Pitman. Latest edition.

How to read the financial pages. M. Brett. Century Business. Latest edition.

Personal financial planning: an introduction. T. McRae. Chapman & Hall. 1995.

Mountains out of molehills. T. O'Halloran. Witherby. 1993.

Reference works

Allied Dunbar tax handbook. Longman. Latest edition.

The financial adviser's factbook. ed. D. Wicks. Gee. Updated regularly.

Life assurance and pensions handbook. C. Marshall. Taxbriefs. Updated regularly.

National Savings investment guide for financial advisers. Department for National Savings. Updated regularly.

The pensions factbook. Gee. Updated regularly.

Personal financial planning manual. R. Rhodes. Butterworths. Latest edition.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. An example is: *The exam secret-how to make the grade.* B. Brown. Elliott Right Way Books. 2000.

The CII produces a CD-Rom for this purpose, entitled *Winning the brain game*.

Periodicals

Financial Adviser. Weekly.

The Journal, CII, bi-monthly.

Money Management. Monthly.

Money Marketing. Weekly.

Planned Savings. Monthly.

Prospect. LIA, monthly.

Technical Adviser. SOFA, quarterly.