



Chartered
Insurance
Institute

LP3

Certificate in Financial Services

Life and pensions principles and practices

Based on the 2022/2023 syllabus
examined from 1 September 2022 until 31 August 2023

LP3 - Life and pensions principles and practices

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Published in June 2022 by:

The Chartered Insurance Institute

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LP3 - Life and pensions principles and practices

Based on the 2022/2023 syllabus examined from 1 September 2022 until 31 August 2023

Introduction

This examination guide has been produced by the Qualifications and Assessment Department at the Chartered Insurance Institute to assist students in their preparation for the LP3 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves one hour to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the specimen examination in this guide is typical of an LP3 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the LP3 reading list, which is located on the syllabus in this examination guide and on the CII website at www.cii.co.uk.

Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

- 1) Visit www.cii.co.uk/learning/qualifications/unit-life-and-pensions-principles-and-practices-lp3/
- 2) Select 'exam guide update' on the right hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

Syllabus;

The LP3 syllabus is published on the CII website at www.cii.co.uk. **Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Supporting information for the syllabus which contains a detailed overview of the areas covered can be found on the unit page. Select Supporting information for the 2022/2023 syllabus on the right-hand side of the page.

Skill Specification

The skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested. Learning outcomes for LP3 encompass the skill levels of *know* or *understand*. Different skill levels lead to different types of question, examples of which follow.

Know - Knowledge-based questions require the candidate to recall factual information. Typically questions may ask 'What', 'When' or 'Who'. Questions set on a *know* learning outcome can only test knowledge.

Understand - To answer questions based on understanding, the candidate must be able to link pieces of information together in cause-and-effect relationships. Typically questions may ask 'Why'. Questions set on an *understand* learning outcome can test either knowledge or understanding or both.

Examination Information

The method of assessment for the LP3 examination is 50 multiple choice questions (MCQs). 90 minutes are allowed for this examination.

The LP3 syllabus provided in this examination guide will be examined from 1 September 2022 to 31 August 2023.

Candidates will be examined on the basis of English law and practice in the tax year 2022/2023 unless otherwise stated.

The general rule is that legislative and industry changes will not be examined earlier than 3 months after they come into effect.

A multiple choice question consists of a problem followed by four options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only one correct or best response to the problem posed.

One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

Candidates are permitted to make rough notes. Candidates are **not** permitted, under any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate's examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

Life and pensions principles and practices

Objective

At the end of this unit, candidates should be able to demonstrate a knowledge and understanding of

- the role of the life and pensions sector;
- the sector's operational functions and activities and;
- the sector's regulatory and legislative environment, including individual professional responsibilities.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the role and value of the financial services sector	5
2. Understand the importance of life and pensions products and services for society, the economy and individuals	9
3. Understand the structures and main activities of the life and pensions sector	10
4. Understand the key principles of risk, contracts and insurance law	11
5. Understand ethical, legal and regulatory duties and how these relate to organisational and individual responsibilities	15

* The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

Important notes

- Method of assessment: 50 multiple choice questions (MCQs). 90 minutes are allowed for this examination.
- This syllabus will be examined from 1 September 2022 to 31 August 2023.
- Candidates will be examined on the basis of English law and practice in the tax year 2022/2023 unless otherwise stated.
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- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
 1. Visit www.cii.co.uk/qualifications
 2. Select the appropriate qualification
 3. Select your unit from the list provided
 4. Select qualification update on the right hand side of the page

1. Understand the role and value of the financial services sector

- 1.1 Describe the functions of the financial services sector, including life and pensions.
- 1.2 Describe the key institutions and organisations within financial services, including the UK government, and their roles.

2. Understand the importance of life and pensions products and services for society, the economy and individuals

- 2.1 Explain the social value of insurance and how protection needs are met by State and private provision.
- 2.2 Explain the importance of sufficient retirement income and how this is supported by State and private provision.
- 2.3 Explain the role of investments in life and pensions products and services.

3. Understand the structures and main activities of the life and pensions sector

- 3.1 Describe the main organisation types and operating models within the life and pensions sector.
- 3.2 Describe the key functional areas within life and pensions organisations.

4. Understand the key principles of risk, contracts and insurance law

- 4.1 Explain how risk is defined and addressed by consumers and providers.
- 4.2 Explain the key principles of contracts and insurance law.
- 4.3 Explain duties relating to clear information and disclosure and their importance.

5. Understand ethical, legal and regulatory duties and how these relate to organisational and individual responsibilities

- 5.1 Explain the objectives and roles of financial regulators and the Ombudsman.
- 5.2 Explain the features and importance of professional standards and ethical and inclusive practice.
- 5.3 Explain conduct risk and the regulatory measures in place to ensure good conduct.
- 5.4 Explain legislation and legislative duties relating to – data protection; financial crime; equality.
- 5.5 Describe the consequences of ethical and unethical conduct.

Reading list

The following list provides details of further reading which may assist you with your studies.

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 examination.

The resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII study texts

Life and pensions principles and practices. London: CII. Study text LP3.

eBooks

The following eBooks are available via www.cii.co.uk/elibrary (CII/PFS members only):

Insurance law: an introduction. Robert Merkin. London: Informa, 2014.

Recreating sustainable retirement: resilience, solvency and tail risk. P. Brett Hammond, et al. Oxford: Oxford University Press, 2014.

Journals and magazines

Financial adviser. London: FT Business. Weekly. Available online at www.ftadviser.com.

Personal finance professional (previously Financial solutions). London: CII. Six issues a year.

Money management. London: FT Business. Monthly. Available online www.ftadviser.com/brand/money-management.

Money marketing. London: Centaur Communications. Weekly. Available online at www.moneymarketing.co.uk.

Pensions age. London: Perspective. Monthly. Available at www.pensionsage.com.

Websites

International Longevity Centre UK - www.ilcuk.org.uk.

The Pensions Policy Institute (PPI) - www.pensionspolicyinstitute.org.uk.

Reference materials

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2007.**

* Also available as an eBook through eLibrary via www.cii.co.uk/elibrary (CII/PFS members only).

Financial Conduct Authority (FCA)
Handbook. Available at
www.handbook.fca.org.uk/handbook.
Prudential Regulation Authority (PRA)
Rulebook Online. Available at
www.prarulebook.co.uk

Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (www.revisionmate.com). Details of how to access Revisionmate are on the first page of your study text. It is recommended that you only study from the most recent version of the examination guide.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

1. Which type of financial services products allow individuals and institutions to invest in a wide and diversified range of assets?
 - A. Derivatives.
 - B. General insurance products.
 - C. Pooled investment funds.
 - D. Short-term savings.

2. Which type of financial services product is **most commonly** used to provide funds for when an unexpected death occurs?
 - A. Long-term insurance.
 - B. Long-term savings.
 - C. Short-term insurance.
 - D. Short-term savings.

3. Which financial market is **mainly** used by life and pensions firms and Lloyd's of London as part of their **main** day-to-day activities?
 - A. Capital markets.
 - B. Foreign exchange markets.
 - C. Insurance markets.
 - D. Money markets.

4. Where a company has issued bonds to investors, what do the investors receive as a consequence?
 - A. Distributions.
 - B. Dividends.
 - C. Interest.
 - D. Premiums.

5. Who has the **ultimate** responsibility for the state of the economy in the UK?
 - A. Bank of England.
 - B. Financial Policy Committee.
 - C. The Government.
 - D. HM Treasury.

6. What cash-in value, if any, is provided under an accident, sickness and unemployment insurance policy?
 - A. None.
 - B. A fixed percentage of premiums paid.
 - C. A return of the premiums paid in the current policy year only.
 - D. A return of the premiums paid since the policy started.

7. Becky takes out a level term assurance policy in her own name. What is the tax position on the premiums paid and any benefits received?
- A. The premiums attract tax relief and any benefit is not taxed.
 - B. The premiums attract tax relief and any benefit is taxable.
 - C. The premiums do not attract tax relief and any benefit is not taxed.
 - D. The premiums do not attract tax relief and any benefit is taxable.
8. In October 2028, the State Pension age for both men and women will be
- A. 65 years old.
 - B. 66 years old.
 - C. 67 years old.
 - D. 68 years old.
9. Helen is being automatically enrolled into her employer's pension scheme. In what circumstances, if any, is she permitted to opt out?
- A. In all circumstances.
 - B. Only if she is under age 22.
 - C. Only if she is age 60 or over.
 - D. In no circumstances.
10. Kevin has a Personal Savings Allowance of £1,000. This indicates that Kevin is **most likely** to be
- A. a basic-rate taxpayer.
 - B. a higher-rate taxpayer.
 - C. an additional-rate taxpayer.
 - D. a retired person.
11. In what circumstances, if any, is a Pension Wise specialist permitted to give advice during contact with a member of the public?
- A. In no circumstances.
 - B. Only if the pensions under discussion are defined benefit schemes.
 - C. Only if the pensions under discussion are defined contribution schemes.
 - D. In all circumstances.
12. Financial needs which tend to last longer than 10 years are regarded as being
- A. short-term needs.
 - B. short to medium-term needs.
 - C. medium-term needs.
 - D. long-term needs.

13. From an investor's perspective, what **key** disadvantage exists when investing in active funds rather than passive funds?
- A. Greater regulation.
 - B. Higher charges.
 - C. Lack of availability of rebalancing.
 - D. Lower reporting frequency.
14. The Minimum Capital Requirement under Pillar I requires that a financial firm **must** have 85% probability of meeting its financial capital adequacy requirement over what period?
- A. One year.
 - B. Two years.
 - C. Three years.
 - D. Four years.
15. Where an insurance company chooses to demutualise, it is **most likely** to become a
- A. limited liability partnership.
 - B. mutual company.
 - C. partnership.
 - D. proprietary company.
16. Which type of operating model for a company is based around the process of making a product or service available to a consumer?
- A. Asset manager model.
 - B. Distributor-led model.
 - C. Manufacturer model.
 - D. Outsourced provider model.
17. A **key** benefit of an investment house operating under the platform provider model is that
- A. costs tend to reduce.
 - B. the level of complaints received will reduce.
 - C. profitability will always improve.
 - D. staff morale will increase.
18. A **key** benefit of using a direct distribution method for the provision of financial advice is that
- A. all of the customer's circumstances are always taken into account.
 - B. a limited product range will satisfy all the customer's needs.
 - C. it minimises costs when compared to other distribution channels.
 - D. the provider may have to conduct an appropriateness test.

19. What are the **main** types of financial advice that are available in the UK, as defined within the Financial Conduct Authority's handbook?
- A. Basic and independent only.
 - B. Basic, independent and restricted.
 - C. Basic and restricted only.
 - D. Independent and restricted only.
20. The Financial Conduct Authority's Conduct of Business Rules require that details of access to the Financial Ombudsman Service in the event of a complaint **must** be contained within
- A. decision tree.
 - B. fact find.
 - C. fee agreement.
 - D. initial disclosures.
21. Where a financial firm demonstrates inadequate compliance controls, who is the Financial Conduct Authority **most likely** to take action against?
- A. The firm only.
 - B. The firm and its shareholders.
 - C. The firm's shareholders only.
 - D. Individual employees only.
22. For what **minimum** period **must** an insurance company retain its employees' training and competence records?
- A. 1 year.
 - B. 3 years.
 - C. 5 years.
 - D. 10 years.
23. For what **main** reason should a product provider monitor the complaints that it receives?
- A. To assess whether uncompetitive products need to be removed from sale.
 - B. To assist with monitoring resource requirements for its strategy team.
 - C. To calculate profit-related pay for all of its employees.
 - D. To establish whether further staff training is required.
24. A client has complained to an insurer and the insurer has rejected the complaint. In these circumstances, within what **maximum** period **must** the client refer the matter to the Financial Ombudsman Service to pursue the matter further?
- A. 4 weeks.
 - B. 8 weeks.
 - C. 6 months.
 - D. 12 months.

25. Farooq has £300,000 in a pension fund and does **NOT** wish for this to go down in value in any circumstances. What capacity for loss, if any, is Farooq **most likely** to have?
- A. None.
 - B. Low.
 - C. Medium.
 - D. High.
26. What is the opposite of risk acceptance, from a financial services provider's perspective?
- A. Risk avoidance.
 - B. Risk limitation.
 - C. Risk retention.
 - D. Risk transference.
27. What is the legal **minimum** age, if any, to be a personal pension policyholder?
- A. There is no minimum age.
 - B. 16 years old.
 - C. 18 years old.
 - D. 21 years old.
28. For a valid contract of insurance to be in place, there **must** be
- A. a consideration and an acceptance only.
 - B. an offer and an acceptance only.
 - C. an offer and a consideration only.
 - D. an offer, a consideration and an acceptance.
29. Which aspect of contract law requires that the parties to a contract **must NOT** mislead each other?
- A. Certainty.
 - B. Consensus ad idem.
 - C. Consideration.
 - D. Good faith.
30. An agent is **most commonly** authorised by
- A. an executor.
 - B. a principal.
 - C. a settlor.
 - D. a trustee.

31. Which body is responsible for enforcing consumer protection against unfair contract terms?
- A. The Competition and Markets Authority.
 - B. The Financial Conduct Authority.
 - C. The Financial Ombudsman Service.
 - D. The Prudential Regulation Authority.
32. What **minimum** age can a person become a donor under a Lasting Power of Attorney?
- A. 16 years.
 - B. 18 years.
 - C. 21 years.
 - D. 60 years.
33. An Enduring Power of Attorney was effected in 2005. With which body **must** it be registered on the incapacity of the donor?
- A. The High Court.
 - B. HM Revenue and Customs.
 - C. The local authority.
 - D. The Office of the Public Guardian.
34. Terry has been declared bankrupt. What **maximum** amount, if any, is he permitted to borrow, without being required to inform the lender that he is bankrupt?
- A. £1
 - B. £250
 - C. £500
 - D. An unlimited amount.
35. When providing a key facts illustration showing investment growth to a potential customer, the provider **must always** deduct
- A. advice fees.
 - B. all charges that apply.
 - C. the effects of inflation.
 - D. Financial Ombudsman Service levies.
36. Which body is responsible for identifying actions to remove or reduce systematic risk?
- A. Financial Conduct Authority.
 - B. Financial Policy Committee.
 - C. Prudential Regulation Authority.
 - D. Prudential Regulation Committee.

37. Facilitating effective competition within the financial services industry is the secondary objective of the
- A. Bank of England.
 - B. Financial Ombudsman Service.
 - C. Financial Policy Committee.
 - D. Prudential Regulation Authority.
38. A **key** role of The Pensions Regulator is to
- A. facilitate effective competition in the industry.
 - B. promote the safety and soundness of all UK-based pension schemes.
 - C. protect the benefits of members workplace pensions.
 - D. support the economic policy of the Government.
39. Employees who whistleblow on their employer are protected if disclosure relates to
- A. crimes and failure to comply with laws only.
 - B. crimes and miscarriages of justice only.
 - C. failure to comply with the law and miscarriages of justice only.
 - D. crimes, failure to comply with the law and miscarriages of justice.
40. Under the Financial Services Compensation Scheme, what is the **maximum** award that can be made in respect of a professional indemnity insurance policy?
- A. 90% of the claim without limit.
 - B. 100% of the first £50,000 only.
 - C. 100% of the claim without limit.
 - D. £85,000
41. Which body exists to provide compensation to defined benefit pension scheme members where an employer becomes insolvent and the pension scheme is underfunded?
- A. The Financial Ombudsman Service.
 - B. The Financial Services Compensation Scheme.
 - C. The Pensions Ombudsman.
 - D. The Pension Protection Fund.
42. With what **minimum** frequency **must** a financial adviser obtain a Statement of Professional Standing (SPS)?
- A. Every six months.
 - B. Every year.
 - C. Every three years.
 - D. Every five years.

43. A firm discovers that its processes have resulted in unfair customer outcomes. The risk is known as
- A. conduct risk.
 - B. financial risk.
 - C. operational risk.
 - D. systematic risk.
44. The Prudential Regulation Authority's statutory objectives are included within which legislation?
- A. The Financial Services and Markets Act 2000.
 - B. The Financial Services Act 2012.
 - C. The Pensions Act 2004.
 - D. The Pensions Act 2008.
45. To whom would breaches of data protection legislation be reported?
- A. A data controller.
 - B. A data processor.
 - C. The Information Commissioner.
 - D. The Prudential Regulation Authority.
46. Where a general practitioner (GP) has sent a medical report to an insurance company in respect of one of his patients, for what **minimum** period **must** the GP keep a copy of the report?
- A. 1 month.
 - B. 3 months.
 - C. 6 months.
 - D. 12 months.
47. The misuse of insider information is an example of
- A. bribery.
 - B. fraud.
 - C. market abuse.
 - D. money laundering.
48. Under the terms of the EU Gender Directive 2004, an employer **CANNOT** enforce a retirement age on its employees unless doing so can be
- A. agreed by a Government agency.
 - B. agreed by the workforce.
 - C. objectively justified.
 - D. treated as an exempt action.

49. What **key** protected characteristics are covered by the Equality Act 2010?
- A. Age and disability only.
 - B. Age and gender reassignment only.
 - C. Disability and gender reassignment only.
 - D. Age, disability and gender reassignment.
50. A financial adviser has behaved in an unprofessional way. The effect of such conduct will **initially** impact upon
- A. the adviser's compliance officer.
 - B. the adviser's customers.
 - C. the industry regulator.
 - D. other industry professionals.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 3			Learning Outcome 5		
1	C	1.1	14	A	3.2	36	B	5.1
2	A	1.1	15	D	3.1	37	D	5.1
3	C	1.2	16	B	3.1	38	C	5.1
4	C	1.2	17	A	3.1	39	D	5.2
5	C	1.2	18	C	3.2	40	C	5.1
5 Questions			19	D	3.2	41	D	5.1
			20	D	3.2	42	B	5.2
Learning Outcome 2			21	A	3.2	43	A	5.3
6	A	2.1	22	B	3.2	44	A	5.1
7	C	2.1	23	D	3.2	45	C	5.4
8	C	2.2	24	C	3.2	46	C	5.4
9	A	2.2	11 Questions			47	C	5.4
10	A	2.2				48	C	5.4
11	A	2.3	Learning Outcome 4			49	D	5.4
12	D	2.3	25	A	4.1	50	B	5.5
13	B	2.3	26	A	4.1	15 Questions		
8 Questions			27	A	4.2			
			28	D	4.2			
			29	D	4.2			
			30	B	4.2			
			31	A	4.2			
			32	B	4.2			
			33	D	4.2			
			34	C	4.2			
			35	B	4.3			
			11 Questions					