Chartered Insurance Institute

P63 – Long-term insurance business

Diploma in Insurance

April 2018 Examination Guide

SPECIAL NOTICE

Candidates entered for the October 2018 examination should study this Examination Guide carefully in order to prepare themselves for the examination.

Practise in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

P63 – Long-term insurance business

Contents

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the examiners that you meet the required levels of knowledge and skill to merit a pass in this unit.

Before the examination

Study the syllabus carefully

This is available online at www.cii.co.uk or from Customer Service. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas; however you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Read widely

It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single study text will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. However, you should note that there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge.

Know the structure of the examination
Assessment is by means of a three hour paper.

Part 1 consists of 14 compulsory questions, worth a total of 140 marks.

Part 2 consists of 2 questions selected from 3, worth a total of 60 marks.

Each question part will clearly show the maximum marks which can be earned.

Read the current Diploma in Insurance Information for Candidates
Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current Diploma in Insurance Information for Candidates brochure, which is *essential reading* for all candidates. It is available online at www.cii.co.uk or from Customer Service.

In the examination

The following will help:

Spend your time in accordance with the allocation of marks

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking, so a long answer is a waste of time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to fully understand the question that has been asked before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates' should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be given. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators

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 alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINER COMMENTS

Question 1
This question was reasonably well answered by most candidates. However, some did not gain full marks on each outcome as their answers were not concise enough.

Question 2
This question was either very well answered or not. Some candidates chose not to attempt it at all.

Question 3
This question was well answered by the majority of candidates. Some provided a brief explanation for each product option when the question only required candidates to list the options.

Question 4
Overall, this question was answered well although some candidates did not provide sufficient detail to gain full marks on part (a).

Question 5
Many candidates did not achieve high marks on this question and a number did not attempt the question at all.

Question 6
This question was reasonably well answered by most candidates. However, some did repeat or combine key parts and as a result gained lower marks.

Question 7
The answers to this question produced mixed answers however, it was reasonably well answered by many candidates.

Question 8
This question was reasonably well answered by the majority of candidates. In part (b), some focused on the types of trusts rather than the common circumstances when a trust may be set up.

Question 9
This question was well answered with candidates providing enough detail to achieve high marks.

Question 10
This question was reasonably well answered by most candidates however, some incorrectly identified the remedy for each misrepresentation.

Question 11
This question was reasonably well answered by many candidates.

Question 12
This question was answered well by the majority of candidates.

Question 13
This question produced mixed responses however, it was reasonably well answered by most candidates.

Question 14
The majority of candidates did not attempt to answer this question at all.

Question 15
This question was the least popular of the Part II questions. It produced mixed responses however, the majority of candidates achieved high marks. Some candidates' answers would have benefited from greater detail to gain higher marks.

Question 16
The majority of candidates who chose to answer this Part II question provided enough detail in all three parts to achieve high marks.

Question 17
This question was the most popular of the Part II questions with many candidates answering both parts very well. In general, candidates gained higher marks on part (b).

Chartered Insurance Institute

P63

Diploma in Insurance

Unit P63 – Long-term insurance business

April 2018 examination

Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit P63 – Long-term insurance business

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 200 marks, as follows:

Part I	14 compulsory questions	140 marks
Part II	2 questions selected from 3	60 marks

- You should answer **all** questions in Part I and two out of the three questions in Part II.
- You are advised to spend no more than two hours on Part I.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show each step in any calculation, even if you have used a calculator.
- 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.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

PART I

Answer ALL questions in Part I

Note form is acceptable where this conveys all the necessary information

1. State **four** examples of the outcomes specified by the Financial Conduct Authority for fair treatment of customers. **(8)**

2. Outline **four** UK market associations which represent life assurers or advisers. **(8)**

3. List **six** product options normally available to customers when purchasing term assurance. **(6)**

4. **(a)** Describe briefly a purchased life annuity. **(3)**

(b) List **six** types of purchased life annuity. **(6)**

5. Describe the main UK tax allowances and reliefs in relation to personal taxation. **(12)**

6. **(a)** Describe briefly the function of a medical examiner's report. **(4)**

(b) Explain the **three** key parts of a medical examiner's report. **(9)**

7. **(a)** In relation to life assurance underwriting, outline and give an example for **each** of the following additional risks:

(i) Increasing. **(2)**

(ii) Reducing. **(2)**

(iii) Constant. **(2)**

(b) List **five** methods for dealing with under-average lives when assessing risk. **(5)**

8. **(a)** Describe briefly the purpose of a trust. **(4)**

(b) List **five** common circumstances when a trust may be set up. **(5)**

9. **(a)** Apart from the assessment and settlement of claims, outline **three** typical functions of a claims department. **(6)**

(b) Describe briefly the benefits of and topics likely to be covered in a claims philosophy document. **(8)**

10. Outline the **three** categories of misrepresentation and the remedy for **each**. **(12)**

11. Describe briefly, in relation to reinsurance:

(a) Original terms. **(4)**

(b) Risk premium. **(4)**

12. Explain briefly the difference between a unit-linked and a with-profits investment. **(6)**

13. Outline **three** types of long-term group risk policy. **(12)**

14. Explain the key taxation principles specific to life assurance companies in the UK. **(12)**

PART II

Answer TWO of the following THREE questions
Each question is worth 30 marks

15. **(a)** Describe individual critical illness insurance and discuss why it has become more popular in recent years in the UK. **(15)**

(b) Describe the key considerations to determine the validity of an individual critical illness claim. **(15)**

16. **(a)** Mr Smith is in the process of considering a life assurance policy under joint ownership.

Explain briefly the difference between the **two** basic types of joint ownership in English law. **(8)**

(b) Following Mr Smith's decision, his proposal is accepted, and the first premium is paid.

Outline the details Mr Smith and the other life assured would expect to read in the policy documentation received. **(12)**

(c) Once a policy has been issued, describe the ways in which its ownership can be changed. **(10)**

17. **(a)** Discuss the drivers for recent changes in attitude towards long-term insurance. **(15)**

(b) Describe **five** requirements for a life assurance contract to be legally binding. **(15)**

TEST SPECIFICATION

April 2018 Examination – P63 Long-term insurance business	
Question	Syllabus learning outcome(s) examined
1	6 – Understand consumer protection
2	1 – Understand the structure of the long-term business market
3	2 – Understand long-term business contracts
4	2 – Understand long-term business contracts
5	7 – Understand taxation considerations
6	3 – Understand risk assessment and control
7	3 – Understand risk assessment and control
8	2 – Understand long-term business contracts
9	4 – Understand claims administration
10	4 – Understand claims administration 6 – Understand consumer protection
11	5 – Understand reassurance
12	2 – Understand long-term business contracts
13	2 – Understand long-term business contracts
14	7 – Understand taxation considerations
15	2 – Understand long-term business contracts 4 – Understand claims administration
16	2 – Understand long-term business contracts
17	1 – Understand the structure of the long-term business market 2 – Understand long-term business contracts 4 – Understand claims administration 6 – Understand consumer protection

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

Any four of the following:

- Outcome 1: Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.
- Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.
- Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
- Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances.
- Outcome 5: Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.
- Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

Model answer for Question 2

Any four of the following:

- The Personal Investment Management & Financial Advice Association/Association of Professional Financial Advisers – represents the interests of financial advisers to the Financial Conduct Authority and policymakers who have an impact on the adviser marketplace and the business operation of advisers.
- Association of British Insurers – represents the general insurance and long-term savings industry. Its role is to lead debate and speak up to insurers, and to represent the UK insurance industry to government, regulators and policymakers in the UK, EU, and internationally, driving effective public policy and regulation.
- British Insurance Brokers' Association – represents the interests of investment intermediaries who are not registered insurance brokers, as well as many registered brokers.
- Group Risk Development – provides a collective voice to government and stakeholder groups on key regulatory and legislative issues and promotes and enhances the status and uptake of corporate group protection benefits on behalf of its members within the UK insurance, reinsurance and intermediary markets.
- Investment and Life Assurance Group – a practitioner-based representative trade body which acts as a forum for producers, administrators and distributors of life and health protection insurance and of pension and investment products.
- Association of Financial Mutuals – represents mutual insurers, friendly societies and other financial mutuals across the UK at a corporate and political level.

Model answer for Question 3

Any six of the following:
- Single or joint life.
- Critical illness cover.
- Total permanent disability.
- Renewable option.
- Escalation option.
- Waiver of premium.
- Life buy back option.
- Replacement cover.
- Conversion option.
- Guaranteed insurability options.
- Terminal illness.

Model answer for Question 4

(a) A purchased life annuity is a lump sum of money from savings or investments rather than a pension fund. It is treated as providing an income of which part is treated as a return of the original capital invested. Each income payment will be split into two parts – a taxable interest element and a non-taxable capital element.

(b) *Any six of the following:*
- Annuity certain.
- Capital protected annuity.
- Deferred annuity.
- Enhanced life annuity.
- Guaranteed annuity.
- Immediate annuity.
- Impaired life annuity.
- Increasing annuity.
- Joint life and last survivor annuity.
- Temporary annuity.

Model answer for Question 5

Once an individual's income for the tax year has been calculated, certain deductions can be made to arrive at the taxable income.

Marks awarded for any of the main allowances and relief stated below:

- Tax-free Personal Allowance – the amount of income you receive each year without having to pay tax on it. In 2017/18, the allowance is £11,500. Since the 2016/17 tax year, non-tax payers may transfer some of their Personal Allowance to their partner, providing the partner is a basic rate tax payer.
- Tax-free Blind Person's Allowance – this is added to the tax-free Personal Allowance where the individual is on a local authority register of blind persons, or if they live in Scotland or Northern Ireland and are unable to perform any work for which eyesight is essential.
- Married Couple's allowance – this is added to the tax-free Personal Allowance. It applies only to couples living together and who were born before 6 April 1935.
- Personal Savings Allowance – this is the amount of tax-free interest you can receive on savings, first introduced for the tax year 2016/17.
- Dividend Allowance – this replaced the dividend tax credit from April 2016.
- Maintenance Payments Relief – this is when an individual is paying maintenance to an ex-spouse or former civil partner. Individuals are only eligible if a partner was born before 6 April 1935 and the person receiving maintenance has not remarried or is not in a new civil partnership, or payments are for children aged under 21.
- Gift payments to charity.
- Employees and directors – tax is deducted for business expenses which employees or directors have paid for in connection with their employment, such as travel and subsistence, work tools or clothing, and fees and subscriptions to professional bodies.
- Self-employed – tax relief on business expenses including: advertising; business premises costs; buying stock or materials, general office costs; legal and professional fees; motor and travelling; and repairs and renewals.
- Pension contributions tax relief – for personal pensions, the pension provider claims back tax from the Government at the basic rate of tax (20%). Higher rate taxpayers can claim the difference by claiming through their annual tax return. Often for company or public service pension schemes, the employer takes the pension contributions from the employee's pay before deducting tax but not National Insurance contributions.

Model answer for Question 6

(a) A medical examiner's report is an up-to-date insight into the health of the proposer. It is usually obtained from an independent doctor to obtain an unbiased viewpoint. Any areas requiring attention should be highlighted. To assist the examining doctor, background medical history may often be supplied. Additional tests, such as an electrocardiogram or blood tests may also be requested and carried out.

(b)
- Part 1 consists of questions put by the examiner to the proposer. These will relate to personal details such as family history. Questions will also be asked relating to the proposer's smoking and drinking habits, personal medical history including any past illnesses and operations, medical tests or the taking of medication on a regular basis. Both parties will sign the form to indicate that the answers given are correct. Part 1 therefore builds a detailed picture of the proposer's medical history and their family background before the second part of the examination. The questions and answers are also valuable where non-disclosure is suspected since this is a second opportunity for the proposer to disclose health-related information.
- Part 2 relates to the physical examination of the proposer and includes measurements of height, weight and blood pressure, and enquiries which involve examination of the major bodily systems to ascertain the physical condition of the proposer at the date of examination.
- Part 3 relates to the opinion that the examiner forms of the suitability of the proposer for the life or protection product in question. The examiner is asked not to share their opinion with the proposer, although if they are the proposer's own general practitioner, the proposer has the right to see the report under the Access to Medical Reports Act 1988.

Model answer for Question 7

(a) **(i)** Extra risk not necessarily significant at the outset but as time progresses, its effect is likely to become more significant. Examples include: someone with a high or low body mass index and chronic bronchitis.

(ii) Extra risk at its maximum in the early years of the policy but as time progresses the less intense the risk becomes and may eventually come to be regarded as an average/standard life. Examples include: certain types of cancer.

(iii) Extra risk where the extra hazard remains level throughout the duration of the policy. Examples include: recreational or sports risk. If the extra risk is by reason of occupation or foreign travel usually regarded as standard lives with a superimposed risk. If the extra risk is that of fatal accident, it is usual to remove the extra premium when the life assured is no longer exposed to the relevant risk.

(b) *Any five of the following:*

- Acceptance with a monetary extra/loading/percentage rating.
- Acceptance at standard rates but with a specifically imposed exclusion from a cover.
- Acceptance at standard rates but for a special type of policy only.
- Declinature.
- A shorter-term policy.
- Postponement/defer.

Model answer for Question 8

(a) A trust is a legal arrangement where one or more trustees are made legally responsible for holding assets for the ultimate benefit of a named person, people or group. Assets can include insurance, land, money, policies, property, or valuable items such as antiques. The trustees are responsible for managing the trust and carrying out the wishes of the settlor (the person who has put the assets into trust). The settlor's wishes for the trust are usually set out in a trust deed or in their will.

(b) *Any five of the following:*

- To ensure the beneficiaries receive the proceeds promptly.
- For children to use when they are older.
- To benefit a charity.
- To control family assets.
- To handle the affairs under inheritance tax laws for England and Wales when someone dies intestate.
- To manage assets of someone who is incapacitated.
- To pass assets in a will when someone dies.
- To run an employee pension or death benefit scheme.

Model answer for Question 9

(a) *Any three of the following:*

- To assess and pay valid claims to the right person as quickly as possible, in order to ensure the fair treatment of customers.
- Claims reserving to assist actuaries in managing the life funds.
- Considered to provide the tangible benefits of the insurer's promise to them if something unforeseen happens. How this is ultimately delivered will form the basis of the insurer's reputation.
- Feeding of claims data into expert underwriting systems.
- Handling customer complaints.
- Provision of information to reinsurers when they share liability.
- Provision of management information on the frequency and types of claim.

(b) A documented claims philosophy is a guide for the claims department's personnel that sets out the insurer's approach to claims assessment to ensure consistency and fairness. The document will reflect the insurer's attitudes to risk, including for instance guidance on the level of evidence required for different claim types. The philosophy document may also cover other topics including:

- Agreed service levels.
- Compliance with statutory rules and industry codes of practice.
- Approach to handling declined claims and complaints.
- Guidance on the fair treatment of customers.
- Handling misrepresentation.
- Assessor authority levels.
- Pricing and target markets.

Model answer for Question 10

<u>Innocent misrepresentation/‘honestly and reasonably’</u>

- The customer has acted honestly and reasonably in all of the circumstances.
- A reasonable person would have considered that the information was not relevant to the insurer.
- The misrepresentation would have resulted in a different underwriting outcome.
- There is no remedy. The insurer must pay the claim in full.

<u>Careless misrepresentation</u>

- The misrepresentation resulted from insufficient care (failure to exercise reasonable care).
- A reasonable person would have known that the information was relevant to the insurer.
- The misrepresentation would have resulted in a different underwriting outcome.
- The insurer is entitled to apply a proportionate remedy/settlement.

<u>Deliberate or reckless misrepresentation</u>

- On the balance of probabilities, the customer knew, or must have known, that the information given was both incorrect and relevant to the insurer.
- The misrepresentation would have resulted in a different underwriting outcome.
- The insurer is entitled to decline the claim and avoid the policy from inception.

Model answer for Question 11

(a) The reinsurance of a proportion of the original sum assured can be accepted on whatever terms are agreed by the offices concerned. Most original terms reinsurance is term assurance. It is common for the reinsurance to be affected at the same rate of premium and subject to the same policy conditions as those of the principal office. It is also common for a reinsurer to quote net level premiums, but the life office can charge a policyholder a rate they choose. The reinsurer is liable for a proportion of the original policy throughout its duration and pays its due share of any claim or surrender value.

(b) Under risk premium reinsurance, the death strain is reinsured, rather than a fixed proportion of the original sum assured. The death strain is the difference between the sum assured and the reserve, which therefore reduces year-on-year as the reserve builds up under a policy. The premium for risk premium reinsurance is based on a mortality table, with a loading to cover the expenses of the reinsurer, fluctuations in mortality experience and profit. The risk premium basis is especially appealing to a new office with premiums being relatively small and therefore the premium income and life fund develop more quickly than if the business were reinsured on original terms.

Model answer for Question 12

<u>Unit-linked investment</u>
A specified percentage of each premium is applied to purchase units in an investment fund of the policyholder's choice at the price on the day of payment. The value of the fund will vary on a day-to-day basis in line with investment markets.

<u>With-profits investment</u>
The investment fund is valued periodically, and any surplus is shared between the with-profits policyholders. Returns to policyholders are less volatile than unit-linked investments.

Model answer for Question 13

Group life (or group death-in-service) provides a lump sum benefit and/or death-in-service pension payable on the death of the scheme member. The lump sum benefits are usually expressed as a multiple of the member's salary or a fixed amount per member. Pensions are usually a proportion of the member's salary.

Group income protection provides a continuing income in respect of members who are unable to work as a result of illness or accident. For the benefit to be paid, there is a specified period during which an employee must be unable to work as a result of illness or accident. Benefits cease if the employee is able to return to work, dies or leaves the employer's service.

Group critical illness provides benefits usually in the form of a lump sum, to scheme members who are diagnosed as suffering one of a list of specified medical conditions as defined in the policy. The list of specified medical conditions is similar to those for personal policies. Benefits are subject to an exclusion for pre-existing conditions at the time of joining the scheme.

Model answer for Question 14

- The main provisions governing life assurance company taxation arise from the Income and Corporation Taxes Act 1988 and the Finance Act 2012.
- Trading profits are calculated on the basis of regulatory returns made to the Prudential Regulation Authority and not on the basis of statutory accounts to Her Majesty's Revenue and Customs (HMRC), as is the case for companies generally.
- Prompted by the regulatory reforms of Solvency II, HMRC started to make changes in the 2013/14 tax accounting year.
- Since 2013, the division of long-term insurance business has been split into basic life and general annuity business (BLAGAB) and other long-term business. Therefore, protection business written on or after 1 January 2013 is no longer treated as BLAGAB business. This means that the acquisition expenses on such business are not deductible in the I minus E calculation.
- For overseas life assurance business (OLAB), a UK life assurance company is only taxed on the profit it makes from writing the business. It is not taxed on the income and gains from the investments in the fund. OLAB funds thus can grow faster than ordinary UK funds.
- Generally, life reinsurance business is subject to this legislation, although certain specific rules exist depending on factors such as the class of business and from where the income is derived. The direct insurer may benefit from tax relief on the reinsurance premiums.

Model answer for Question 15

(a) Critical illness insurance, originally known as 'dread disease' insurance, originated in South Africa and was launched in the UK in 1986.

The object of this type of cover is to provide protection where the life assured is diagnosed with any one of a number of serious specified illnesses, but which doesn't result in death. In the UK market, over the years, this list of medical conditions has continued to grow.

Payment is made upon a claimant meeting a specified definition. Payment is typically in the form of a lump sum which can be used at the claimant's discretion e.g. to meet initial care costs, any shortfall in income or to pay for a once in a lifetime trip abroad.

Critical illness insurance complements and does not compete with income protection insurance which is designed to provide long-term replacement of income on disability.

Critical illness can be written as a standalone policy, or as an acceleration of the sum insured payable on death. In the case of the latter, the payment is an alternative, not in addition to the death sum assured. In the UK market, accelerated critical illness is most common.

Medical conditions covered, typically include major conditions: cancer; heart attack; kidney failure; major organ transplant and stroke.

The Association of British Insurers (ABI) has issued a Statement of Best Practice (SoBP) for critical illness cover to help insurers provide clearer product information. This includes standard definitions for commonly covered illnesses. In the December 2014 SoBP, 23 conditions had an ABI definition. Many insurers provide a more generous definition and these definitions are known as ABI-plus definitions. An ABI working group typically reviews this statement every two/three years.

NB: The ABI is currently undergoing an extensive consultation and review period with new standards being published in the near future. Answers making reference to this would also have been awarded credit.

Today, a lot of marketing around critical illness cover will be to people with family responsibilities and commitments, although individuals without such responsibilities may wish to protect their own quality of life in the event of one of the specified illnesses. One particularly common marketing approach is in connection with the protection of mortgage payments, with the critical illness sum assured being designed to pay off all or part of any remaining loan.

In the last few years, it has become increasingly popular for insurers to add partial payment options to their list of conditions, for example paying the maximum of £25,000 or 25% of the sum assured for less severe conditions. The most partial payments are mastectomy in the presence of ductal carcinoma in situ of the breast, and low-grade prostate cancer.

Many providers have a number of add-on options which typically involve an increase in premium and is often only available for 'ordinary rated'/standard lives. Examples include: waiver of premium, terminal illness, total permanent disability (TPD) and buy-back options.

(b) The claims assessor will need evidence that the critical illness suffered by the insured individual: is one of the critical illnesses defined in the policy; occurred during the period covered by the policy; is not subject to a policy or personal exclusion; there were no circumstances that might prevent the claim being paid, such as a breach of contract due to misrepresentation or fraudulent activity; has met the survival period (typically 10-30 days).

The initial information gathered through the use of a claims form, or via a telephone conversation with the claimant include: details of the life assured and their policy number; the policy definition of the critical illness they are claiming for; the nature of the illness, disability or medical procedure relevant to the policy definition; date of onset and brief history of the medical condition; general practitioners and treating specialist's name and contact details; for TPD claims, the employer's contact details and a description of the life assured's occupational duties.

This information will help the insurer identify the cover available and who they will need to contact when it comes to handling the claim. The claims assessor will also be able to inform the claimant on how the claim will be processed and if any other information is required from them in order to progress.

The claims assessor will request a bespoke report or send a questionnaire asking the specialist for information about the illness based on the policy definition. Where possible, and depending on how straightforward the case is, the assessor may obtain relevant reports from the claimant directly if they hold genuine copies.

The assessor will need to establish that the definition has been met and that it occurred while the policy is in force. It is essential that the claims assessor makes sure that they are assessing against the correct definition that was issued to the policyholder when they took out the policy.

Most insurers employ chief medical officers and/or medical advisers to assist with medical queries who will be able to advise the claims assessor if necessary. Often, they are active working specialists who have relevant and up-to-date knowledge. Furthermore, the assessor may refer certain cases to a reinsurer when they are sharing the risk for a second opinion if required.

For some critical illnesses, the assessor may have to advise the claimant to defer their claim since they may not be able to make a decision on the claim straightaway if, for example, symptoms must have lasted for at least six months, as is the case for certain definitions such as multiple sclerosis in the ABI 2014 SoBP.

Model answer for Question 16

(a) Joint tenancy
Under a joint tenancy, if one joint tenant dies their interest passes automatically to the survivor(s). On the death of the last survivor, the property passes to the legal personal representatives. Therefore, property held under joint tenancy can be disposed of by will only by the last surviving joint tenant.

Tenancy in common
A tenancy in common differs from a joint tenancy in that on the death of a tenant in common their interest passes to their estate and can therefore be disposed of by will. It is rare for a joint life first death policy to be held under a tenancy in common by the two lives assured. A joint tenancy is automatically converted to a tenancy in common by the bankruptcy of one of the joint tenants.

(b) Policy documents usually consist of pre-printed terms and conditions which are consistently applied to all contracts of that particular type, together with a personalised policy schedule including a unique policy number.

The policy document will include the following:
- The policy owner.
- The names of the lives assured.
- The type and amount of cover.
- The start and end date of the contract.
- The amount and conditions for premium payments.
- The events that can be claimed for.
- The exclusions standard to all policies and any specific to the lives assured.
- The insurer's name, address and company registration.
- The law and jurisdiction applicable to the contract.
- Details of how to contact the insurer for administration or to make a claim.
- The complaints procedure.
- The policy cancellation notice.
- Details of the regulators.

(c) Absolute assignment
A complete transfer of the policy, either by way of sale or as a gift. The assignor assigns the policy absolutely to the assignee.

Mortgage
A type of assignment used in connection with a loan. If an asset, such as a life policy, is being used as security for a loan, that asset will be mortgaged by the borrower to the lender for the duration of the loan. It is not an absolute assignment.

Bankruptcy
The name given to the situation where a person cannot pay their debts. When a policyholder becomes bankrupt they can no longer deal with their policy. The trustee will usually notify the assurer of their interest in the policy and the life assurer will then note this in its records, like a notice of assignment.

Trust
A trust is a legal arrangement where one or more trustees are made legally responsible for holding assets for the ultimate benefit of a named person, people or group.

Model answer for Question 17

(a) Changes to lifestyles underlie the basic changes in attitude towards long-term insurance over the last half a century.

Today, access to information through the use of technology now means that many have access to a range of goods and services at the click of a button.

Lives have become less predictable as people change jobs more frequently rather than staying with one employer throughout their working lifetime.

People are working longer because their pension fund is inadequate. Most employers have closed final salary pension schemes and replaced them with defined contribution arrangements.

With people living longer, there will be a greater need for funding to meet the costs of older age including any care needs. This may mean that people will need to use some of the equity in their home to fund these costs.

With changes in attitudes to marriage and divorce, and when it comes to raising a child, this has created a less predictable dynamic in which people in their 50s and 60s may find themselves with some responsibility for their own and their partner's partners as well as their own children.

As a result of the above, attitudes to long-term insurance have also changed. Background drivers include:

- Developments in the welfare state, with some people sharing the view that 'the state will always be there to provide for you'.
- The range of options now available when it comes to spending one's disposable income has increased, placing long-term insurance as a lower priority as a result.
- Technological developments have had a major impact on the purchase, delivery and process of long-term insurance, including the ability to purchase directly online.
- Family models have changed significantly, for example, with more single people and the growth of more informal family units, changing the need for certain types of long-term insurance.
- Greater public awareness over recent years as providers continue to publish their annual claims statistics in attempt to dispel public perception that insurers will look to avoid paying out claims. Statistics have shown, for example, that for life cover invariably over 95% of claims are paid.
- Attitudes to personal risk have changed significantly, with people becoming more aware of the financial consequences on their household if someone is diagnosed with a serious illness and ends up going on long-term sick leave.

(b) A life policy is a contract between the insurer and the assured, and the formation of that contract is subject to the normal requirements of the law of contract for it to be valid.

There are five requirements, all of which must be complied with for a life assurance contract to be legally binding.

1. Capacity to contract
Both the insurer and the assured must have legal capacity to contract.

Certain restrictions apply when it comes to minors. A person under 18 years of age in English Law under the Family Law Reform Act 1969, or a person under 16 years of age in Scottish Law under the Age of Legal Capacity (Scotland) Act 1991, since a life assurance contract would not be a contract of a kind commonly entered into by someone under 16. Contracts made by minors are not enforceable against them.

In general, a contract with a person with a mental health condition is binding on that person if the disability was not known by the contracting party. They can, however, repudiate the contract if the disability was known to the other party and the person with the mental health condition did not understand the nature of the agreement. Under the Mental Health Act 1983, the affairs and property of a person with mental illness can be put in the hands of the Court of Protection.

A company has a legal identity separate from that of its members. The powers of a company to contract can be found in its constitution (memorandum and articles of association).

The Financial Services Act 2012 gives the Prudential Regulation Authority and the Financial Conduct Authority (FCA) powers of regulation over life offices. The insurer must be authorised by these regulators to write long-term insurance business in the UK.

2. *Consensus ad idem*
This term means in complete agreement of mind. In any contract, the parties must be *ad idem* – of the same mind – as to the subject matter of the contract.

3. Consideration
A contract that is not under seal must have consideration to be valid. In life assurance, this is always present in the form of the premium. Legal action cannot be taken on a simple contract, as is the case for almost all life policies, after six years have elapsed from the accrual of the right of action (Limitation Act 1980).

A life policy can be issued under seal. There will still be consideration in the form of the premium, however the time limit for legal action is 12 years (rather than six years).

4. Insurance interest
An individual has an insurable interest when its continued existence provides a benefit and its loss or damage to it would result in financial or another disadvantage. In life assurance, a policy cannot exist if there is no insurable interest. Before the Life Assurance Act 1775, this was not necessary, and the lives of criminals were insured by people unconnected with them in the hope of making a substantial profit on their early death.

5. Offer and acceptance
The general law of contract applies to life assurance, but with certain modifications. The offer is not made by an insurer's prospectus, advertisement or website. This is merely an invitation to receive offers.

The proposal form completed by the proposer is by law the offer. The acceptance letter informs a proposer that the insurer has decided to accept the risk and quotes the premium. The assured then has a 30-day cooling off period in which to change their mind under the cancellation notice procedure under the FCA rules. If the assured uses this right, the contract is cancelled, and any premiums paid are refunded.