



Chartered
Insurance
Institute

P63 – Long-term insurance business

Diploma in Insurance

April 2019 Examination Guide

SPECIAL NOTICE

Candidates entered for the October 2019 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

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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. 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 obtain free copies of the most recent Examination Guides online at www.cii.co.uk.

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 Qualifications Brochure, which is *essential reading* for all candidates. It is available online at www.cii.co.uk.

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.

EXAMINER COMMENTS

Question 1

This question was very well answered by the majority of candidates.

Question 2

This question was not well answered with very few candidates achieving high marks. Many candidates provided brief answers and often repeated the question. Some candidates made reference to the underwriting process rather than claims.

Question 3

Few candidates gained high marks on this question, with several making reference to how policy ownership can be changed rather than the types of policy ownership. Some candidates mentioned the types of insurance policies rather than the types of policy ownership.

Question 4

This question produced mixed responses, but most candidates provided reasonably good answers. Some candidates did not achieve any marks for the brief explanation but then achieved full marks when listing four typical events upon which a guaranteed insurability option is exercised.

Question 5

Most candidates gained low marks for both parts (a) and (b) of this question. The candidates that did attempt the question often used generic terms about the Prudential Regulation Authority (PRA) rather than the PRA Rulebook specifically.

Question 6

Many candidates did not perform well on this question. The candidates who did attempt part (a) were often able to then answer part (b) correctly.

Question 7

Few candidates gained high marks on this question.

Question 8

This question was answered well by the majority of candidates.

Question 9

The candidates who answered this question achieved relatively high marks, in particular for part (b).

Question 10

Many candidates did not attempt to answer this question. In general, marks gained were not very high.

Question 11

This question was well answered by the majority of candidates with many providing good content, with the appropriate explanation, in order to achieve full marks.

Question 12

This question produced mixed answers. A few candidates confused their key points from the Association of British Insurers Guide of Good Practice for Unit-Linked Funds with other guides used in the insurance industry.

Question 13

This question was answered well by the majority of candidates. However, some answers would have benefitted from focusing on the services offered by a reinsurer.

Question 14

This question was reasonably well answered by most candidates.

Question 15

Some candidates chose not to attempt the Part II questions and a number of candidates provided very brief answers. Part (a) of this question was either very well answered and therefore achieved high marks or lacked an understanding of the Care Act 2014. In part (c), several candidates did not describe the specifics in relation to long-term care insurance.

Question 16

Some candidates chose not to attempt the Part II questions and a number of candidates provided very brief answers. The candidates that did attempt this question made a good attempt with some candidates using relevant case law.

Question 17

Some candidates chose not to attempt the Part II questions and a number of candidates provided very brief answers. The candidates that did attempt this question displayed a good understanding of the General Data Protection Regulation although very few candidates showed any application.



Chartered
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P63

Diploma in Insurance

Unit P63 – Long-term insurance business

April 2019 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. Describe briefly the **four** main categories of participant in the UK life insurance industry. (8)

2. Explain briefly how the following tools are used to understand a claimant's functional or mental capacity in relation to claims assessment.
 - (a) Functional capacity evaluation. (5)
 - (b) Work capacity evaluation. (5)

3. Discuss the different types of policy ownership for individual and group life assurance policies. (15)

4. Explain briefly a guaranteed insurability option (GIO) and state **four** typical events upon which a GIO can be exercised. (7)

5.
 - (a) Outline the main purpose of the Prudential Regulation Authority (PRA) Rulebook. (3)
 - (b) State **six** fundamental rules set out in the PRA Rulebook. (6)

6.
 - (a) Outline **two** occupation-based definitions available in the individual income protection market. (6)
 - (b) State the usual tax treatment for an employer-paid premium on a group income protection policy. (2)

7. (a) State **six** distinct income streams that are taxable for an individual. (6)
- (b) State **three** benefits that are not taxable for an individual. (3)
8. List **ten** medical conditions which are defined by the Association of British Insurers Guide to Minimum Standards for Critical Illness Cover. (10)
9. (a) Identify **four** common purposes of a trust. (4)
- (b) Describe briefly the 'three certainties' that must be present if a trust is to be valid as agreed in the case of *Knight v Knight* (1840). (6)
10. Describe the Money Purchase Annual Allowance and who it applies to. (12)
11. Explain the underwriting decisions possible when underwriting an under-average life. (15)
12. State **seven** of the key points from the Association of British Insurers Guide of Good Practice for Unit-Linked Funds. (7)
13. Explain the reasons an insurer would make use of the services offered by a reinsurer. (12)
14. Explain the circumstances when a declaration of continued good health/change of circumstances would be required. (8)

PART II

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

15. Mrs Biggins is approaching her 70 birthday and is in the process of preparing for her future care needs.
- (a) Describe the main features of the Care Act 2014 and the current rules in place. (12)
- (b) Mrs Biggins is concerned about paying for care.
Describe briefly the possible options available to her. (8)
- (c) Describe the criteria often used to determine eligibility to claim under a long-term care policy. (10)
16. Explain the consequences of a breach of duty, in relation to the duty of disclosure, using relevant case law. (30)
17. (a) Describe the Data Protection Act 2018, including the main elements of the Act. (12)
- (b) Describe the type of information the General Data Protection Regulation (GDPR) applies to, and to whom. (10)
- (c) State the **eight** rights created for individuals under the GDPR. (8)

TEST SPECIFICATION

April 2019 Examination – P63 Long-term insurance business	
Question	Syllabus learning outcome(s) examined
1	1 – Understand the structure of the long-term business market
2	4 – Understand claims administration
3	2 – Understand long-term business contracts
4	2 – Understand long-term business contracts
5	6 – Understand consumer protection
6	2 – Understand long-term business contracts 4 – Understand claims administration
7	7 – Understand taxation considerations
8	2 – Understand long-term business contracts
9	2 – Understand long-term business contracts
10	2 – Understand long-term business contracts
11	3 – Understand risk assessment and control
12	2 – Understand long-term business contracts
13	3 – Understand risk assessment and control 5 – Understand reinsurance
14	3 – Understand risk assessment and control
15	1 – Understand the structure of the long-term business market 2 – Understand long-term business contracts 3 – Understand risk assessment and control
16	2 – Understand long-term business contracts 3 – Understand risk assessment and control
17	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

- Buyers of insurance – the general public seeks life assurance and other products. Businesses both large and small may insure their employees either for the company's own benefit or for that of their employees.
- Sellers of insurance – the insurance companies, friendly societies and some Lloyd's underwriting members.
- Financial advisers – the insurance intermediaries and advisers.
- Reinsurers – the insurance companies which provide insurance to insurance companies. Professional reinsurance companies only deal with insurance companies and do not sell policies to the general public.

Model answer for Question 2**(a) Functional capacity evaluation (FCE)**

This assessment is usually carried out by an occupational or physical therapist specialising in patients' functional and occupational capabilities. They use purpose-built equipment designed to measure mobility, muscle strength, dexterity and other activities relevant to daily work. The assessment may be tailored to the activities that the claimant may do in their own job, and also to the nature of the claimant's disabilities. Certain equipment used can measure effort and consistency and so the medical assessor can report back to the insurer as to the claimant's physical limitations and also where claimants may be exaggerating their disabilities in order to make a claim.

(b) Work capacity evaluation (WCE)

- These assessments may involve some or all of the techniques for FCEs, but the aim is to assess the claimant's limitations in the context of establishing ways that they may be able to continue working with workplace adaptations, e.g. for an office worker, changes to the desk and chair set-up and modifications to computer hardware/software may help.
- Employers are required by the Equality Act 2010 to provide reasonable adaptations for workers with disabilities and so the claimant and the insurer may be able to discuss these with the employer to enable the claimant to continue working.
- WCEs also provide recommendations of other forms of work to which the claimant may be able to transfer their skills. This can help the insurer identify claims which are valid and those which may not be because the claimant can be helped to return to work.
- This kind of intervention by insurers is sometimes welcomed by patients and doctors as services like this are not readily available on the National Health Service (NHS).

Model answer for Question 3

Many policies are owned by and cover a single life. For a life assurance policy, unless the policy is assigned or placed under trust the proceeds of the policy on death go to the policyholder's estate. Most personal income protection policies are owned by the life assured to protect themselves if they cannot work due to illness or injury.

Policies can also be owned by joint lives. In such a case it is important that the contract makes it clear how the joint owners hold the contract. There are two basic types of joint ownership in English law: joint tenancy and tenancy in common.

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 a joint tenancy can be disposed of by will only by the last surviving joint tenant. Many joint life first death policies are held under a joint tenancy by the two lives assured. This means that when one dies the sum assured is payable to the other as the 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. However, it would mean that the sum assured would be payable 50% to the survivor, and 50% to the estate of the deceased. A joint tenancy is automatically converted to a tenancy in common by the bankruptcy of one of the joint tenants.

Life of another policies

Examples of life of another policies are where a person (the policy owner) takes out a life assurance policy on the life of their spouse, e.g. for childcare should the spouse die. In business, key person cover can be taken out in this way as the business is the owner of the policy and will receive the claim payment money on the death of the insured member of staff. Of course, with any such policy, there must be insurable interest.

Group covers

When a business takes out group life policies for its employees, these are generally set up under a discretionary trust to ensure the appropriate beneficiary is paid quickly. The trustees are the owners.

Model answer for Question 4

A guaranteed insurability option (GIO) gives the policyholder the option to increase the sum assured without further medical evidence on specific events. They are usually only available to policyholders who have been accepted at standard rates and up to a specific age, usually 50-55. Specific events are predetermined in the policy and are normally subject to a time limit.

Any four of the following:

- Marriage/civil partnership.
- Childbirth.
- Mortgage increase.
- Divorce/separation.
- Business loan.
- Promotion/salary increase.

Model answer for Question 5

(a) The Prudential Regulation Authority (PRA) Rulebook is one of the main framework documents. The PRA Rulebook includes a set of fundamental rules that apply to all firms. These are intended to ensure that firms act responsibly, ensure they have appropriate controls, and have adequate capital to meet their liabilities.

(b) *Any six of the following:*

- A firm must conduct its business with integrity.
- A firm must conduct its business with due skill, care and diligence.
- A firm must act in a prudent manner.
- A firm must at all times maintain adequate financial resources.
- A firm must have effective risk strategies and risk management systems.
- A firm must organise and control its affairs responsibly and effectively.
- A firm must deal with its regulators in an open and cooperative way and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice.
- A firm must prepare for resolution (the process by which the authorities can intervene to manage its failure) so, if the need arises, it can be resolved in an orderly manner with a minimum disruption of critical services.

Model answer for Question 6

(a) *Any two of the following:*

Own occupation

The policyholder is unable, due to illness or injury, to perform the material and substantial duties required of them in their normal occupation. They should not be following any other occupation

Suited occupation

The policyholder is unable, due to illness or injury, to perform the material and substantial duties required of them in their normal occupation and unable to perform any reasonable alternative occupation to which they are suited by their transferable skills at that time and is not following any other occupation.

Any occupation

The policyholder is unable, due to illness or injury, to perform any occupation.

Activities of daily living

For this definition the policy will typically specify six activities. If the policyholder is permanently unable to perform three or more of the activities due to their disability their claim will be paid.

(b) The premium is usually allowed as a business expense.

Model answer for Question 7

(a) *Any six of the following:*

- Salaries/wages/bonuses/commissions/other income from employment.
- Benefits provided by an employer such as company cars and certain insurances paid for by the employer such as critical illness and private medical insurance.
- Director's fees.
- Professional fees and business profits including self-employed earnings.
- Pensions and annuities.
- Some social security benefits.
- Share dividends, interest and other forms of investment income.
- Rent from land or property.
- Profits from any trade.

(b) *Any three of the following:*

- Meals provided for all employees in a staff canteen.
- Christmas parties.
- Childcare.
- Group life cover.
- Mobile phones.

Model answer for Question 8

Any ten of the following:

- Cancer.
- Heart attack.
- Stroke.
- Alzheimer's disease.
- Aorta graft surgery.
- Benign brain tumour.
- Blindness.
- Coma.
- Coronary artery by-pass grafts.
- Deafness.
- Heart valve replacement or repair.
- Kidney failure.
- Loss of speech.
- Loss of hand or foot.
- Major organ transplant.
- Motor neurone disease.
- Multiple sclerosis.
- Paralysis of limb.
- Parkinson's disease.
- Third degree burns.
- Total permanent disability.
- Traumatic brain injury.

Model answer for Question 9

(a) *Any four of the following:*

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

(b)

- The **words** used must be on the whole imperative; that is, they must unmistakably show that a trust is intended.
- The **subject matter** must be certain. The property to be subject to the trust must be specified.
- The **objects** of the trust, the beneficiaries, must be certain. This can be achieved simply by naming the beneficiaries: for example, 'on trust for X, Y and Z absolutely'. It can also be achieved by describing the beneficiaries as a class: for example, 'on trust for the employees for the time being of the XYZ Co. Ltd'. Note that this certainty is not required if a trust is exclusively for charitable purposes.

Model answer for Question 10

The Money Purchase Annual Allowance (MPAA) rules were introduced to ensure that individuals do not use the pension freedoms, (which are intended to provide people with easy access to their retirement savings), to avoid tax on their current earnings by diverting their salary into their pension (with tax relief), and then immediately withdrawing 25% tax-free.

The MPAA restricts contributions to money purchase arrangements to £4,000 (£10,000 before 6 April 2017) a year, before an annual allowance charge applies. There is no carry forward between tax years for the MPAA.

The MPAA will apply to any individual who, on or after 6 April 2015:

- draws down funds in excess of any pension commencement lump sum from a flexi-access drawdown fund (including receiving payments from a short-term annuity provided from a flexi-access drawdown fund);
- converts a capped drawdown fund to flexi-access drawdown, and subsequently takes a drawdown income from that fund;
- takes more than the maximum allowable income from a capped drawdown fund on or after 6 April 2015. In such a case, capped drawdown benefits automatically become flexi-access drawdown benefits;
- has received a flexible drawdown payment prior to 6 April 2015 from pre-6 April 2015 drawdown fund;
- receives an uncrystallised funds pension lump sum;
- receives a stand-alone lump sum and is not entitled to enhanced protection;
- receives a payment from an annuity that can decrease (except in certain defined circumstances); or
- receives a payment of scheme pension, (other than through an annuity in a scheme with fewer than 12 members, i.e. a SSAS).

Model answer for Question 11

Acceptance with a monetary extra

- Throughout the policy – a level extra premium system is charged for constant or increasing extra risks throughout the policy duration. If an increasing extra was charged, it would be necessary to monitor the health of each individual or to charge everybody an average increase. If the average was charged, those whose health was not deteriorating might cancel the insurance, whereas those deteriorating would continue the cover.
- Temporary – where the extra risk is reducing, a temporary monetary extra may be charged. It is unsound to charge constant extras as there will be a tendency to discontinue the policy – for example, once recovery is made – and take out another on more advantageous terms. Alternatively, the company may be asked to reconsider its terms which involve unnecessary expense. A temporary extra may be charged, after a recurrence-free period, for proposers who have a history of cancer.
- Addition of years – this is a method commonly used for under-average lives whereby the life is considered as a certain number of years older than the actual age and the premium for the rated-up age is charged. The amount of extra in money terms is, therefore, the difference between the premium for the rated-up age and that for the actual age of the premium table.

Acceptance at standard rates but with a specially imposed exclusion

By way of example, death as a result of participating in aviation or motor racing could provide only for a return of premiums. The principal drawback to this approach is that the cover is not complete. A policy containing a special exclusion is generally unsuitable for assignment as mortgage protection to a bank or building society.

Acceptance at standard rates but for a special type of policy only

An example would be where the life insurer received a proposal for a whole life policy. If the extra risk is an increasing one, the risk in later life might be far too great. In a policy which ceases at age 60 for example, a term assurance to age 60 may be acceptable.

Postponement

Circumstances arise where a proposer would have to be declined if the risk were judged on its present position. It may be unfair to a proposer to decline the proposal if there is a possibility of some improvement in the future. The proposal can, therefore, be delayed for a specified period. The following are examples of cases where postponement is fair to the office and the proposer.

- If a current impairment is under investigation, postponement gives time for the symptoms to settle, be diagnosed and remedied.
- If the proposer has recently been diagnosed with a medical condition, it may be necessary to postpone cover until the applicant has fully recovered or perhaps returned to work for a continuous period of six months.

Declinature

Unfortunately, with no possibility of improvement in the future, some proposals are not acceptable on any terms and have to be declined. Each life insurer has its own standard of underwriting; consequently, declinature by one insurer does not necessarily mean that other life insurers would reach the same decision. Other life insurers may sometimes be willing to offer terms to a proposer who has been declined elsewhere. Provided that they are not in competition, most life insurers are prepared, with the consent of the proposer, to show their medical papers to another insurer.

Model answer for Question 12

Any seven of the following:

- Policy conditions should explain how funds are managed.
- Where discretion is exercised, the primary requirement is treating customers fairly.
- Unit prices should be calculated in a fair and transparent manner.
- The pricing basis of the fund must be kept under regular review to protect continuing policyholders.
- Transactions should be processed in a fair and transparent manner.
- Rounding should be kept to a minimum, should not normally exceed 0.5% of the unit price, should be neutral and should be used as a way of levying a charge.
- All charges should be clearly defined and disclosed to policyholders.
- Errors should be quickly identified and rectified. Compensation should normally be paid where a unit pricing error is 0.5% or greater.
- Significant or persistent pricing errors should be reported to the Financial Conduct Authority.

Model answer for Question 13

- A reinsurer allows an insurer to write larger risks than might otherwise be possible. All life offices have a maximum limit on the sum assured they will themselves hold on any one life. This limit is called the retention. The insurer may accept a sum assured higher than its retention, but only if it can reassure the excess.
- A reinsurer allows an insurer to write sub-standard lives when this might not be the case otherwise. Retentions may be lower for older lives and sub-standard risks. The class of assurance may also affect the retention. An insurer may wish to reinsure a sub-standard life even if the sum assured is lower than its normal retention. Reinsurers have built up a special degree of expertise in underwriting sub-standard lives. This is because few individual life offices see enough sub-standard cases to build up meaningful statistics on them, whereas reinsurers tend to see a lot more.
- A reinsurer allows an insurer to access a far wider pool of claims data than available to the ceding office and sharing of claims data.
- A reinsurer smoothes the year-to-year profitability of the ceding office.
- A reinsurer allows an insurer to help manage new business strain, particularly for new life offices. Reinsurance is a necessity for an office which has just started to transact life assurance as it will wish to keep its new business strain within tolerable limits. New business strain can occur as a result of unexpected early claims before the fund has had a chance to build up the large reserves possessed by long established offices. It is also influenced by the level of reserves and initial expenses such as commission and underwriting.
- A reinsurer can also offer resources such as experience claims and underwriting teams, which also includes the use of medical experts such as chief medical officers.

Model answer for Question 14

It is usual for companies to seek clarification at a predefined stage that the basis of the risk has not altered since proposal form completion. This information would either be sought if a long time had elapsed between the submission of the proposal form and final acceptance or where there has been a significant delay between acceptance and premium payment. If a policyholder wished to increase their cover an insurer may allow the change based on the completion of a declaration of good health.

Practice varies but 30 days between acceptance and premium payment would normally be allowed. After this a statement reconfirming details of health, occupation etc. would be issued. The proposer would sign the document to signify it was true and complete to the best of their knowledge, and this would then form part of the contract basis.

In fact, if circumstances have changed, the proposer has a duty to disclose any material facts and the life insurer may seek to re-underwrite the case, whether or not a document was signed.

A longer period, e.g. up to 90 days, may be allowed for mortgage-related business.

Model answer for Question 15

- (a) The Care Act 2014 introduced a number of changes to the rules that determine how care is paid for. Part of the Act came into force in April 2015. Other parts of the legislation, originally planned to come into force in April 2016, have been deferred until 2020.

The Act provides for a universal deferred payment scheme so that people will not have to sell their home to pay for care during their lifetime. A local authority will pay agreed care costs in return for a legal charge on a property. These care costs will be repaid when the property is sold. This scheme came into effect from April 2015.

The Act brings together existing care and support legislation into a new modern set of laws. It was intended that; from April 2020 a cap would be introduced on the costs that people will have to pay for care. The cap was originally intended to be set at £72,000 from April 2016. Above the cap, the State would meet the cost of eligible social care needs. Those under 25 in April 2016 would not have been charged for social care.

The cap will exclude a new daily living cost charge which is intended to cover the costs (rent, food and utilities) that a person would have paid if they were living at home rather than in a care home. This charge will continue even when the care cost cap is reached.

Current rules

When an individual enters a home providing nursing care, they will be assessed by an National Health Service (NHS) nurse to establish whether the person has a primary healthcare need and if they would be eligible for the Registered Nursing Care Contribution.

Individuals will normally be expected to pay towards the cost of their accommodation and personal care in a care home from their own capital and income unless, following the means test or financial assessment, it is established that their capital and income are below a certain level.

The financial assessment takes into account all of the assets (including the home) as well as the total income of the individual. This includes pensions, savings and some State benefits. There are, however, certain circumstances where the local authority must ignore the value of the home, for example when a partner or relative resides there.

Financial assistance with care home fees may be available from the local authority social services department when an individual's capital is less than a certain amount. For 2018/19 the figure in England and Northern Ireland was £23,250 (different figures apply in Wales and Scotland).

If an individual's capital is between £14,250 and £23,250 in England and Northern Ireland, they will be expected to make some contribution from their capital as well as income. No contribution is required if the total capital is below the lower limits, but a contribution is still expected from the individual's income.

Capital of between £14,250 and £23,250 will be assessed to show an assumed ('tariff') income. Every £250 of capital between £14,250 and £23,250 will be assessed as though the individual has an extra £1 per week income. Again, different figures apply in Wales and Scotland.

- (b)** Some of the possible alternatives for a person concerned about paying for care include reliance on the State; meeting the costs from personal income and savings; selling a home; using an equity release arrangement; using a local authority deferred payment scheme; and a partner or relatives could look after them.

None of these options is likely to provide the financial security and comfort that people will need. Although somebody could save as much as possible with a view to building up an investment portfolio that could be used, if required, to meet the costs of long-term care at a later date, savings could quickly become depleted.

Due to its high cost, few people would be able set aside part of a pension to meet the possible costs of long-term care, which currently averages £26,000 each year and which can be double that or more in some areas such as London and the South-East.

- (c)** Pre-funded long-term care insurance policies can be in the form of protection policies or investment policies.

Benefits are paid under this type of insurance when the policyholder becomes unable to look after themselves and help is needed to take care of them. Different policies measure this inability in a more or less rigorous way, frequently measured by the inability of a person to undertake certain activities of daily living, known as ADLs.

ADLs are:

- Feeding – the ability to eat when food has been prepared and served.
- Mobility – the ability to move from room to room in a home.
- Dressing – the ability to put on and take off clothes.
- Toileting – the ability to get on and off the toilet or commode unaided.
- Washing – the ability to keep clean.
- Continence – bowel and bladder control to maintain personal hygiene.

The need for care may also mean that a person could need disability aids, such as a wheelchair, or special equipment to assist in getting in and out of the bath or up and down the stairs.

Payments under the policy will usually be made after the policyholder has become unable to perform a set number of ADLs for a period, typically three months or more, and the disability is not expected to improve. Some policies will also make payments where the policyholder has suffered mental cognitive impairment for three months and this condition is expected to continue.

Model answer for Question 16

The case of *Pan Atlantic Insurance v Pine Top Insurance Co. Ltd* (1994) dealt with the concept of utmost good faith and the proposer's duty to disclose all material facts. However, while the 2012 Act modifies this duty, it is worth noting that in *Pan Atlantic* it was also held that the underwriter must be able to show that, without the misrepresentation, it would not have entered into the contract or would have done so only on different terms.

The Consumer Insurance (Disclosure and Representations) Act 2012 provides that if a misrepresentation that is relevant to the risk is made that the consumer knows to be untrue or misleading, or does not care, the misrepresentation is categorised as deliberate or reckless. In such circumstances, the insurer is entitled to avoid the contract, refuse to pay any claim and retain all premiums except where it would be unfair to the consumer to retain them. In practice, life insurers have tended to return premiums in these circumstances, especially where there is an investment element to the policy.

Where the misrepresentation is not deliberate or reckless, it is categorised as careless, unless the misrepresentation is innocent or otherwise reasonable. The life insurer's remedy for careless misrepresentation is proportionate to the effect of the misrepresentation. If the insurer would not have entered into the contract on any terms had the consumer disclosed the information, it can avoid the policy and refuse any claims, but must return the premium to the policyholder.

If the life insurer would have applied different terms, such as an exclusion, it may apply the exclusion but allow the contract to continue. If the exclusion prevents a claim being paid, it is entitled to refuse the claim. Where the life insurer would have charged a premium rating, any claim under the policy would be paid subject to a lower sum assured proportionate to the actual sum that had been paid. If misrepresentation arises, which is not connected to a claim, the life insurer may choose to charge the consumer the correct higher premium rather than reduce the sum insured.

Under life of another contracts, if the life insured makes a deliberate or careless misrepresentation, the life insurer can apply the appropriate remedies, even if the policyholder was not at fault.

The burden of proving non-disclosure is on the life insurer. However, if a life insurer discovers a non-disclosed fact and then continues to accept the premiums, it cannot afterwards repudiate liability on the grounds of non-disclosure of that fact: *Hemmings v Sceptre Life Association Ltd* (1905). This is because, by knowingly accepting further premiums, the life insurer is deemed to have ratified the contract.

The case of *Malhi v Abbey Life Assurance Co. Ltd* (1994) showed that, unless the non-disclosed fact was later disclosed to a person authorised and able to appreciate its significance, the life insurer did not lose its right to avoid the contract. In this case, the proposer did not disclose alcoholism on his first proposal which resulted in a policy. The alcoholism was discovered by the life insurer following a medical report requested after a second proposal which was then declined. The life insurer did not check back to the first proposal and did not raise the matter until a death claim was made on that policy. It was held that the life insurer was still able to repudiate the claim on the first policy due to the non-disclosure.

Model answer for Question 17

- (a) The Data Protection Act 2018 (DPA 2018) came into effect in May 2018, to coincide with the General Data Protection Regulation (GDPR) and the Law Enforcement Directive coming into force. It aims to modernise data protection laws to ensure they are effective in the years to come.

Although the GDPR has direct effect across all EU Member States and organisations have to comply with it, it does allow Member States limited opportunities to make provisions for how it applies in their country. In the UK these have been included as part of the DPA 2018. It is therefore important the GDPR and the DPA 2018 are read side by side.

The main elements of the DPA 2018 include:

General data processing

- Implement GDPR standards across all general data processing.
- Provide clarity on the definitions used in the GDPR in the UK context.
- Ensure the sensitive health, social care and education data can continue to be processed to ensure continued confidentiality in health and safeguarding situations can be maintained.
- Provide appropriate restrictions to rights to access and delete data to allow certain processing currently undertaken to continue where there is strong public policy justification, including for national security purposes.
- Set the age from which parental consent is not needed to process data online at age 13, supported by a new age-appropriate design code enforced by the Information Commissioner.

Regulation and enforcement

- Enact additional powers for the Information Commissioner who will continue to regulate and enforce data protection laws.
- Allow the Commissioner to levy high administrative fines on data controllers and processors for the most serious data breaches; being up to £17m (€20m) or 4% of global turnover.
- Empower the Commissioner to bring criminal proceedings for offences where a data controller or processor alters records with intent to prevent disclosure following a subject access request.

- (b) The GDPR applies to 'controllers' and 'processors'. The definitions are broadly the same as under the Data Protection Act 1998 (DPA) i.e. the controller says how personal data is processed and the processor acts on the controller's behalf. Firms currently subject to the DPA are likely to be subject to the GDPR.

The GDPR places specific legal obligations on processors; for example, firms are required to maintain records of personal data and processing activities. A firm will have significantly more legal liability if it is responsible for a breach. These obligations for processors are a new requirement under the GDPR.

Controllers are not relieved of their obligations where a processor is involved – the GDPR places further obligations on controller firms to ensure their contracts with processors comply with the GDPR.

Like the DPA, the GDPR applies to personal data. However, the GDPR's definition is more detailed, reflecting changes in technology and in the way in which information is collected. It makes it clear that information such as an online identifier e.g. an internet protocol address can be personal data.

The GDPR applies to both automated personal data and to manual filing systems where personal data are accessible according to specific criteria. This is wider than the DPA's definition and could include chronologically ordered sets of manual records containing personal data. Personal data that has been anonymised e.g. key-coded can fall within the scope of the GDPR depending on how difficult it is to attribute the pseudonym to a particular individual.

- (c)
- The right to be informed.
 - The right of access.
 - The right to rectification.
 - The right to erasure.
 - The right to restrict processing.
 - The right to data portability.
 - The right to object.
 - Rights in relation to automated decision making and profiling.