Chartered Insurance Institute

P63 – Long-term insurance business

Diploma in Insurance

October 2019 Examination Guide

SPECIAL NOTICE

Candidates entered for the April 2020 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 well answered by the majority of candidates.

Question 2
Some candidates' answers would have benefitted from more detail for parts (b) and (c) however, overall, this question was reasonably well answered.

Question 3
Some candidates did not gain high marks on this question as their answers were too brief.

Question 4
This question was not well answered by most candidates with some choosing not to attempt it at all.

Question 5
This question was well answered by the majority of candidates.

Question 6
This question had some varied answers with many candidates achieving reasonable marks.

Question 7
This question had very mixed answers with only a few candidates gaining high marks.

Question 8
This question was well answered by the majority of candidates.

Question 9
Most candidates did not achieve high marks on this question. A few answers were too general and lacked enough detail on the provisions of the Trustee Act 2000 and the Married Women's Property Act 1882.

Question 10
On this question, some candidates focused on the methods of reinsurance, rather than the ways in which a risk can be reinsured.

Question 11
This question was not well answered with some candidates choosing not to attempt it at all.

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

Question 13
Few candidates performed well on this question, with many candidates demonstrating a limited understanding of the Financial Conduct Authority.

Question 14
Few candidates gained high marks on this question.

Question 15
Candidates who chose to answer this Part II question attempted both parts and achieved reasonable marks. For part (b), some candidates demonstrated limited application to the scenario.

Question 16
This Part II question produced a varied response. Some candidates' answers would have benefited from greater detail to gain higher marks.

Question 17
This question was the most popular of the Part II questions. It produced a mixed response. Candidates' answers would have benefited from more detail on the benefits to employers and to employees.

Chartered Insurance Institute

P63

Diploma in Insurance

Unit P63 – Long-term insurance business

October 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. **(a)** List **four** main types of provider of long-term insurance policies. **(4)**

(b) Outline the difference between specialist insurance companies and composite insurance companies. **(3)**

2. Describe briefly:

(a) level term assurance; **(1)**

(b) family income benefit; **(3)**

(c) decreasing term assurance. **(3)**

3. Describe briefly the restrictions, under English law, on the capacity to contract for:

(a) companies; **(5)**

(b) minors; **(5)**

(c) persons lacking mental capacity. **(5)**

4. Explain briefly **three** ways how income protection providers can offer policyholders provision for an increase in benefit amount over the life of the policy. **(6)**

5. Describe the advantages of an automated rules-based underwriting system in relation to life assurance. **(10)**

6. Outline **five** types of investment option for unit-linked funds. **(10)**

7. Describe in relation to life assurance:

(a) natural premiums; **(6)**

(b) level premiums. **(6)**

8. List **seven** types of purchased life annuity. **(7)**

9. Outline the provisions of the:

(a) Trustee Act 2000; **(10)**

(b) Married Women's Property Act 1882. **(4)**

10. Describe **two** ways in which a risk, under a life assurance policy, can be reinsured. **(12)**

11. Outline the role of the Financial Services Compensation Scheme. **(6)**

12. Describe the role of the coroner or procurator fiscal following a death claim. **(10)**

13. **(a)** Describe briefly the main responsibilities of the Financial Conduct Authority (FCA). **(3)**

(b) State the **three** operational objectives of the FCA. **(6)**

(c) List **six** of the blocks in the FCA Handbook. **(6)**

14. Outline when the following types of tax may be payable.

(a) Income tax. **(3)**

(b) Capital gains tax. **(3)**

(c) Inheritance tax. **(3)**

PART II

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

15. **(a)** Outline the standard exclusions a claims assessor may need to consider when assessing a critical illness (CI) policy. **(10)**

(b) A claims assessor at ABC Insurance recently received a completed CI claim form from a policyholder who has suffered a severe stroke.

(i) Outline the initial information ABC Insurance is looking for on the claim form received. **(10)**

(ii) Explain the process the claims assessor will undertake in order to demonstrate that the policy definition for a stroke has been met. **(10)**

16. Mrs Baker recently moved to a new house and is looking to start a family with her newlywed partner. Given her circumstances may change in the near future, she is reluctant to purchase a term assurance policy as she is concerned it will not meet her changing needs over time.

Discuss how term assurance can provide Mrs Baker with the flexibility she may require as she goes through different life stages. **(30)**

17. Discuss how group risk schemes operate and the benefits they can provide to employers and employees. *You should exclude group pension schemes from your answer.* **(30)**

TEST SPECIFICATION

October 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	2 – Understand long-term business contracts
3	2 – Understand long-term business contracts
4	2 – Understand long-term business contracts
5	3 – Understand risk assessment and control
6	2 – Understand long-term business contracts
7	2 – Understand long-term business contracts 3 – Understand risk assessment and control
8	2 – Understand long-term business contracts
9	2 – Understand long-term business contracts 6 – Understand consumer protection
10	2 – Understand long-term business contracts 3 – Understand risk assessment and control 5 – Understand reassurance
11	4 – Understand claims administration 6 – Understand consumer protection
12	4 – Understand claims administration
13	6 – Understand consumer protection
14	2 – Understand long-term business contracts 7 – Understand taxation considerations
15	2 – Understand long-term business contracts 4 – Understand claims administration
16	2 – Understand long-term business contracts
17	2 – Understand long-term business contracts 3 – Understand risk assessment and control 7 – Understand taxation considerations

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

(a) *Any four of the following:*
- Mutual companies.
- Proprietary companies.
- Friendly societies.
- Lloyd's of London.
- Reinsurers.

(b) Specialist companies deal with only long-term business and do not write general insurance business. Composite companies deal with many classes of insurance, including both long-term insurance and general insurance.

Model answer for Question 2

(a) Level term assurance provides a sum assured on death within the term. The sum assured remains level throughout the contract.

(b) Family income benefit provides tax-free instalments of capital on death which continue until the expiry date, usually paid on a monthly basis. This is a very cheap method of protecting the family against the death of the main income provider, as it is effectively a form of decreasing term assurance. Upon the death of the life assured there is usually a facility to commute the income benefit to a lump sum should the beneficiaries prefer this option.

(c) Decreasing term assurance is a term assurance where the level of life cover decreases each year, so that at the end of the final year it is nil. A decreasing term assurance is often taken out in conjunction with a mortgage so that as the mortgage decreases, the sum assured of the life policy also decreases.

Model answer for Question 3

(a) 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, which is its memorandum and articles of association. Power is implied to do anything incidental to these matters.

Originally, contracts which were neither expressly nor impliedly authorised were said to be *ultra vires* and void. However, under s.108 of the Companies Act 1989 it is provided that the validity of an act done by a company shall not be called into question on the grounds of lack of capacity by reason of anything in the company's memorandum. This effectively abolishes the *ultra vires* rule, at least as regards outsiders dealing with the company. The section also states that, in favour of a person dealing with a company in good faith, the power of the board of directors to bind the company or authorise others to do so shall be deemed to be free of any limitation under the company's constitution. The effect of this is that companies will be bound by their contracts notwithstanding the fact that technically they may not have power to enter into them. However, it has been considered for some time that a trading company does have the power to effect a policy on the life of a director or employee, subject to insurable interest. A proposal form may be signed on behalf of a company by any person acting under its authority, expressed or implied.

(b) A minor, or infant, in English law, is a person under 18 years of age. Subject to certain exceptions, contracts made by minors are not enforceable against them, though minors may be able to enforce them. Contracts for 'necessaries' and certain contracts of employment beneficial to the minor are enforceable. Other contracts are valid unless the minor repudiates the contract either before the age of 18 or within a reasonable time after. Insurance policies fall within this class. A minor can therefore propose for a life policy if they are old enough to know what they are doing. The minor can then repudiate the contract within a reasonable time of attaining 18. Consequently, most life offices will not do business with proposers under the age of 18. Some will, subject to parental consent, although this would not stop the minor repudiating the contract at age 18.

(c) A contract with a person with a mental health condition is binding on that person if the disability was not known by the other contracting party. They can, however, repudiate the contract if the disability was known to the other party. An insurer should therefore not grant a policy to a proposer who is known to be of unsound mind.

Under the Mental Health Act 1983, the affairs and property of a patient with mental illness can be put in the hands of the Court of Protection. If this is done, the patient has no power to contract. The Court of Protection will normally appoint a receiver who only has the powers specifically given by the court order. The order does not transfer ownership of the patient's assets and is not the equivalent of a power of attorney. It might or might not give the power to make investments on behalf of the patient or deal with the patient's existing contracts.

Model answer for Question 4

- An option to increase the benefit, without evidence of health, every three or five years by a specified percentage. The maximum benefit levels of these options are normally limited by the life assurer and can only be taken if the insured is below a certain age limit. The increased premiums are based on the life assured's age and the life assurer's rates at the time.
- An automatic increase in benefit of a stated percentage every year or every three or five years. Premiums will normally increase by the same percentage.
- Index-linking, whereby the benefit is increased each year by the annual increase in an index, such as the Retail Price Index, and premiums are correspondingly increased. Once benefit starts to be paid, index-linking ceases and a fixed rate increase takes its place.

Model answer for Question 5

It is possible to program the protocols required to assess life and health insurance proposals into a rules-based software system. Systems are available to buy from specialist providers and reinsurers while some companies have developed their own. The system can be deployed at the point of sale to provide immediate acceptance or may be used later in the underwriting process. It enables fast and consistent processing of disclosures and can be used to drive drill-down questioning within tele-interview and tele-underwriting processes.

Traditionally, the answers to proposal questions are reviewed manually by an underwriter. A rules-based system allows the responses to be processed automatically once the rules have been set by the underwriters to enable standard proposals to be assessed with no human intervention or additional evidence. Systems can also be programmed to prompt for additional evidence and suggest ratings, referral to underwriters, or even to postpone or decline proposals.

The rules will be regularly reviewed and updated considering any medical developments and ensuring increased accuracy of underwriting.

Model answer for Question 6

Any five of the following:
- Equity or ordinary share – invested in ordinary shares quoted on the Stock Exchange.
- Fixed interest or gilt fund – invested in securities which carry a fixed rate of interest, normally UK Government securities and local authority issues.
- Property fund – invested in real property, usually commercial and industrial premises. However, because of the high capital cost of a single building, this fund will invest in other media while it builds up enough capital to purchase a further building.
- International fund – invested in assets abroad, usually shares on foreign stock markets.
- Cash fund – invested in short-term money markets such as bank deposits and Treasury bills, usually to provide a temporary refuge for the investor who requires a high degree of security.
- Index-linked gilt fund – invested in UK Government index-linked securities.
- Building Society fund – invested in Building Society deposits.

Model answer for Question 7

(a) Using mortality tables, the mortality for any given age can be found, and by multiplying this by the sum assured, the pure (or net) premium for that year can be calculated, i.e. the premium required just to meet claims in respect of those that die during the year.

It is obviously not known which lives will die, but if all the lives pay the premium for that age for that year's cover, there should be enough money to pay all those that die and leave nothing over. Consequently, next year's cover will cost a little more as all lives will be a year older. Each subsequent year's cover will cost more and more and so the natural premium will rise each year.

In the early years of life assurance, natural premiums were charged, but this was not very successful as premiums increased steeply in later years, leading people to be unable to afford cover when it was most needed. In addition, the tendency was for the best and fittest lives not to renew their policies, leaving a greater percentage of inferior or unfit lives, which led to an increase in the mortality rate over and above that predicted from the mortality tables, which are based on average lives. Premiums would then become inadequate to meet claims, leading to further increases which would only exacerbate the trend.

(b) As the risk of death increases with age, if a level premium is charged throughout the duration of a policy, the premium in the early years is higher than is needed to meet the current claims costs. Therefore, there will be money in hand to meet the cost of the greater risk in later years when the premium will be less than is required to cover such risk.

The excess in the early years forms a reserve which can be drawn on to meet the heavier claims in the later years. The reserve continues to grow until the cost of one year's claims matches the premiums and nothing goes into the reserve. The next year's claims will slightly exceed the premiums and the difference will come from the reserve. Naturally, this will only be so where the mortality assumptions drawn from the mortality tables are matched by the actual experience. As mortality tables are compiled from past statistics and mortality has generally been improving, historically actual mortality experience has tended to be better than that predicted. However, in the UK this improvement appears to have slowed down and possibly even stalled in 2015. It is as yet too early to say whether this represents a change in trend, but if it does life assurers will need to re-examine their rates and claims reserving processes.

It is not possible to calculate the reserve under a single policy by accumulating premiums and subtracting claims. The insurance principle of pooling risk requires that policies under which claims occur at an early date are subsidised by policies where claims occur at a later date. Premiums that are not required to pay claims immediately are invested and the life assurer makes some interest on that investment. The actuary will have to allow for this in their calculation of the premium.

Model answer for Question 8

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

Model answer for Question 9

(a) The Trustee Act 2000 came into force on 1 February 2001 and applies to England and Wales only. It sets out some of the duties and powers of trustees, in particular with regard to investment.

The Act states that trustees have a duty of care to use such care and skill as is reasonable in the circumstances, having regard in particular to: any special knowledge or experience that they have or hold themselves out as having; and if acting as trustee in the course of a business or profession, to any special knowledge or experience that it is reasonable to expect of a person acting in the course of that kind of business or profession.

The duty of care applies to matters such as investment, acquiring land, appointing agents, insuring and valuing trust property, subject to anything to the contrary in the trust wording.

The Act gives trustees a specific power to invest anywhere as if they were absolutely entitled to the trust assets. Trustees must from time-to-time review investments and consider whether, having regard to the standard investment criteria, they should be varied. The standard investment criteria are suitability to the trust and diversification as far as is appropriate.

Trustees may acquire land in the UK for any reason and have the powers of absolute owners over it, subject to any restriction in the specific trust wording.

The Act applies to personal representatives administering a deceased person's estate as well as to trusts created during a settlor's lifetime.

(b) Life assurance policies may be taken out under trust under the Married Women's Property Act 1882 (MWPA) or under a non-statutory trust. Section 11 of the MWPA enables a person to create a trust over a life policy simply by expressing it to be for the benefit of a spouse, civil partner or children. The Act was passed in order to allow a wife the right to own, buy and sell her own property. It has the effect of recognising a husband and a wife as two separate legal entities when married instead of a husband being liable for his wife's property including any debts. Therefore, married women's legal rights include the right to sue and be sued.

Model answer for Question 10

Any two of the following:
<u>Facultative reinsurance</u>
Facultative means optional. Under this system of reinsurance both parties have a choice whether or not to enter into a contract. The life insurer will be able to decide whether it wants to buy the reinsurance cover and the reinsurer will define the associated terms. Each risk is assessed individually, a key difference to treaty reinsurance. The reinsurer will assess the risk(s) and propose a price. If the terms are acceptable to the proposer, the life insurer will usually reinsure the risk.

This type of reinsurance may be used when a life insurer does not have enough automatic capacity from its treaty reinsurers. It may also be used for complicated proposals where there are terms specific to the cover or if the risks are excluded from the treaty reinsurance contract. Since the reinsurer has the opportunity to assess the individual risks, it can negotiate the terms of cover.

<u>Treaty reinsurance</u>
Under a reinsurance treaty the element of discretion is removed. With a fully automatic treaty, all amounts over the retention limit of the life insurer up to a specified maximum figure must be accepted by the reinsurer. Any excess over the treaty's maximum limit would have to be reinsured facultatively.

Treaties are often arranged to cover all of a life insurer's business. Alternatively, a treaty can be restricted to a certain class of business, for example, to critical illness cover only. The underwriter is authorised to accept risks on the reinsurer's behalf. As cover is automatic under the treaty provisions with no individual terms being agreed, the life insurer will supply the reinsurer with regular statistics of business covered by the treaty, so the reinsurer is aware of its level of risk. The treaty will normally provide for premiums and claims to be paid on a monthly or quarterly accounting basis.

Many life insurers have reinsurance treaties specifically designed to provide automatic cover against new business strain. Treaties usually stay in force until renegotiated.

<u>Quota share reinsurance</u>
Quota share reinsurance is a type of treaty reinsurance whereby the life insurer reinsures a fixed percentage of every policy in a particular class of business. For every policy covered by this agreement, the reinsurer will receive a fixed percentage of the premium and be liable for that percentage of the sum insured. The split is negotiated between the life insurer and the reinsurer but could be as much as 90% reinsurer, 10% life insurer.

Quota share insurance is a highly effective way of reducing new business strain. This arrangement is commonly used for high-volume protection contracts, such as term assurance and critical illness cover.

Model answer for Question 11

The Financial Services Compensation Scheme (FSCS) was established under the Financial Services and Markets Act 2000 to compensate claimants where authorised firms are in default and therefore unable to satisfy claims against them in connection with regulated activities. The FSCS's remit is governed by the Handbook's Compensation Sourcebook. It is open to claims from individuals and small companies; overseas financial services institutions and large companies are excluded.

The FSCS is a fund of last resort. It can only consider claims if they cannot be paid by anyone else for example, if the insurer is no longer trading but still has assets, the claimant will need to seek payment through the firm's administrators first. The FSCS is funded by a levy on authorised firms based on estimates of the compensation they are likely to have to pay out across the industry in a financial year.

Model answer for Question 12

Coroners are appointed by local authorities to investigate any sudden or unexplained death. In Scotland the procurator fiscal carries out this role.

Coroners may intervene when:
- the deceased has not been treated by a doctor during their illness or seen by a doctor in the previous two weeks;
- death occurred during surgery;
- death was sudden and unexplained or in suspicious circumstances;
- death may be due to an industrial accident;
- death was due to violence, neglect or any kind of poisoning; or
- death occurred in police custody or in prison.

The death in any of these circumstances is usually reported to the coroner by a doctor called to the death. If the police are involved, they will report the death, or in some cases the registrar may do so. If the coroner is involved, the registrar cannot register the death until the coroner's enquiries are complete.

The coroner's role is to determine cause of death. If they are unable to do so straightaway, they will arrange for the deceased to be taken to the local hospital where a post-mortem examination will be performed. If the coroner establishes the death was not due to natural causes then they will hold an inquest, which aims to identify the deceased, when, where and how the death occurred, and to establish the facts required by the registrar. This may involve witnesses being called.

In some cases, the coroner will then adjourn the inquest to allow the funeral to take place. In such cases an interim death certificate will be issued by the registrar, which will leave the cause of death 'open'. Once the coroner has completed the case, they will issue a report which will cover any findings from a post-mortem and a transcript of the inquest, and any information from the police if involved.

The insurer does not always need to know the cause of death and so may pay some claims once satisfied the death has taken place provided there are no other policy terms or issues it is concerned about.

Model answer for Question 13

(a) The Financial Conduct Authority (FCA) is a separate independent regulator responsible for the conduct of business and market issues for all firms, including insurers, and prudential regulation of small firms (e.g. insurance brokerages and financial advisory firms). The FCA is focused on taking action early before consumer detriment occurs. It uses thematic reviews and market-wide analysis to identify potential problems in areas like financial incentives. It also encourages innovation and competition in order to promote customer choice. The FCA reviews the product life cycle from design to distribution and has the power to ban products where necessary.

(b)
- Consumer protection – securing an appropriate degree of protection for consumers.
- Integrity – protecting and enhancing the integrity of the UK financial system.
- Competition – promoting effective competition in the interests of the UK financial system.

(c) *Any six of the following:*
- High level standards.
- Prudential standards.
- Business standards.
- Regulatory processes.
- Redress.
- Specialist sourcebooks.
- Listing, Prospectus and Disclosure.
- Handbook guides.
- Regulatory guides.

Model answer for Question 14

(a) Income tax may have to be paid on income you receive from an investment (other than qualifying life assurance policies). The amount of tax you pay will depend on all your income for the year. Basic rate tax will normally have been paid by the insurance company. So you will only have to pay higher rate tax on it if your income takes you into the higher rate tax brackets.

(b) Capital gains tax (CGT) is paid if you dispose of an asset that you have acquired, and you have made a profit on it. The profit is only taxable if the profit is above the CGT threshold. To determine the percentage of CGT to pay, you need to know your total income for the year, because higher rate income taxpayers will pay a higher rate of CGT on the profits made from the asset.

(c) Inheritance tax (IHT) is normally paid by the executors before the assets of the deceased person’s estate are passed on to the beneficiaries. The beneficiaries do not normally have to pay IHT. This is because the estate is taxable, not the beneficiaries. IHT is subject to its own thresholds and is not linked to the beneficiaries’ income. No IHT is payable on estates where the value of the assets is below the threshold. Taper relief applies to IHT where gifts have been made within seven years prior to death. Taper relief does not currently apply to CGT.

Model answer for Question 15

(a) A claim cannot be paid if an exclusion prevents it. Many critical illness policies carry standard policy exclusions such as:

- Alcohol dependency or abuse.
- HIV/AIDS through sexual activity or drug abuse.
- Unreasonable failure to follow medical advice.
- Self-inflicted injury.
- Hazardous activities.

In addition, some policies exclude the claimant if they live abroad, or outside the EU for more than a specified period.

The assessor will need to check for any personal exclusions that may have been applied to the policyholder when the policy was underwritten at the start of the contract. For example, the policyholder may have disclosed an existing medical condition or hazardous pastime that the insurer chose not to accept under the risk.

(b) **(i)** The initial information ABC Insurance would be looking for on the claim form received is:

- Details of the life assured and 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 practitioner's name and contact details.
- Treating specialist's name and contact details.
- For total permanent disability claims, the employer's contact details and a description of the life assured's occupational duties.

This information will help ABC Insurance identify the cover available and who they need to deal with in handling the claim. They will also be able to inform the claimant how the claim will be processed and any other information which may be required.

ABC Insurance will attempt to establish as early as possible any claim that will not succeed, so that the claimant can be told quickly, and ABC Insurance can save time and money on further assessment.

(ii) The main evidence required to demonstrate that the policy definition for a stroke has been met would be from the claimant's treating specialist. For example, for a stroke claim this will normally be a consultant neurologist. The assessor will request a bespoke report or send a questionnaire asking the specialist for information about the illness based on the policy definition. The assessor will need to establish that the definition has been met and that it occurred while the policy is in force.

Claims assessors may be faced with claims on policies that have been in force for many years. Policy definitions and model wordings have changed over the years and, therefore, it is essential that the claims assessor makes sure they are assessing against the correct definition that was issued to the policyholder when they bought their policy.

Assessors need to have sound medical knowledge in order to determine whether the policy definition is met. Most insurers employ a chief medical officer 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 will 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.

Model answer for Question 16

As Mrs Baker is married, she may wish to consider a joint life policy to protect herself and her spouse. Joint lives policies can be written on either a first death basis or on a second death/last survivor basis. In the former case, claims are payable upon the death of the first of the joint lives to die, within the term, whereas in the other, claims are only paid upon the death of the second or last surviving life assured.

Should both lives die together, in the same accident for example, then the elder will be presumed to have predeceased the younger.

Premiums for a second death policy are cheaper than one written on a first death basis as more premiums will generally have been received before a claim has to be paid out.

First death policies are often used to provide protection for dependants where there is a joint mortgage, so that the survivor is not burdened with an unserviceable debt. Second death policies are most often used in inheritance tax planning to provide a lump sum which will help fund any inheritance tax liability.

<u>Escalation</u>
Mrs Baker should consider whether she wishes her policy to escalate. Any policy effected for a fixed benefit will become less valuable as time goes on due to the effects of inflation. Therefore, a number of offices offer policies with some form of provision for increase.

The policyholder can help protect the value of the lump sum benefit over the years by selecting an Indexation Option when joining. Typically, a policyholder can select a fixed percentage such as 3% or 5% per year or opt for the sum assured to index in line with either the Retail Price Index or the Average Earnings Index.

<u>Waiver of premium</u>
This allows the policyholder an option to stop paying premiums for the life policy if they become disabled or seriously ill. It is usually measured based on ability to work and will typically pay out if the policyholder is unable to follow their own occupation or any occupation. Depending on her occupation, and employer’s sick pay benefits, Mrs Baker may wish to consider this option.

<u>Life buy back</u>
This option applies to joint life first death policies and allows the surviving policyholder the option to continue the cover to the end of the term on a single life basis.

<u>Replacement cover</u>
If joint life cover is selected from the outset, and a claim is payable on one person’s terminal illness or death, the life cover will end. Replacement cover allows the non-claiming person to set up a new individual life cover without further underwriting.

<u>Conversion option</u>
A conversion option gives the policyholder the option to convert their life cover later on into a whole of life policy without the need to provide any further medical evidence.

<u>Renewable policies</u>
Contracts may be written on a renewable basis, for example, with a term of five years with the options of renewing the contract for a further five years without medical evidence. The renewable option will continue until a fixed age.

<u>Guaranteed insurability options</u>
A guaranteed insurability option gives the policyholder the option to increase the sum assured without further medical evidence in the event of a change in circumstances. 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. Examples include: marriage or civil partnership; childbirth; mortgage increase; divorce/separation; and promotion/salary increase.

If Mrs Baker and her partner are considering having children or increasing their mortgage at some point in the future, then this may be a very sensible option for them to include as they are likely to want to increase their sum assured.

<u>Terminal illness</u>
Many life offices offer a terminal illness provision. If the life assured is diagnosed as suffering from a terminal illness which, in the opinion of the general practitioner or specialist, would cause death within the next twelve months, the life office will pay the death benefit early. A terminal illness benefit may not cover the last 12 or 18 months of the policy.

Model answer for Question 17

Group risk schemes are a type of employee benefit. Employee benefits are anything that employees are entitled, to over and above their contractual pay and can include tangible objects such as company cars but are more often intangible things such as holidays, pension scheme membership, gym membership, private medical insurance and life assurance. Some employers offer what is commonly called a flexible benefits package where employees can choose the benefits they want or choose to increase salary in place of benefits.

Group risk benefits are part of the overall package to be considered when employees choose between different potential employers. Employees changing jobs will often want to be assured that the benefits they enjoy with their current employer will at least be matched by their next employer.

The degree to which employers need to attract and retain staff is in part determined by the typical benefit provision in their industry. In long-established white-collar industries such as financial services, it is common for a range of benefits to be provided, including group risk benefits. In other industries, the need to provide them may be perceived as less important.

Some companies believe that they should provide benefits for their employees as they have a moral obligation to look after them. This is particularly the case with group risk benefits, which are fundamentally designed to prevent financial hardship following an employee’s death or illness.

The cost of group risk benefits can often be less than the value attached to such benefits by the employees who enjoy them. Had the employees bought the equivalent cover as individuals many would have found it expensive. Some may have been unable to obtain cover at all, for example, due to an adverse medical history.

When group risk policies are effected the life insurer’s contractual relationship is with the group policyholder. The policyholder will either be the employer or, for group life cover in particular, it can be the trustees of the trust under which the death benefits will be paid. The individuals insured are referred to as scheme members but do not usually have any contractual rights. This means that, in the event of any claims dispute arising under a group risk policy, an employee could not sue a life insurer directly.

In the vast majority of cases, it is employers who arrange the cover and employees (and/or their families) who are the recipients of the benefits. Partnerships can also provide cover for the benefit of their partners and limited liability partnerships can provide cover for their members. It is possible to provide group risk benefits for employees without insuring them; sometimes this is done by larger organisations. For smaller companies, a single death or income protection claim could seriously disrupt the financial position or even put it out of business. Larger companies could be put into difficulties by a quick succession of claims. There are a few more loose groupings which arrange group risk cover. Examples include trade union and the Police Federation which represent employees, and trade federations, such as the Electrical Contractors Association that represent employers but arrange benefits for their members’ employees.

There are three types of cover:

Group critical illness (Group CI)

Group CI cover 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.

Group life (or Group death in service)

Group life cover provides a lump sum benefit and/or death-in-service pension payable on the death of the scheme member.

Group income protection (Group IP)

Group IP insurance provides an income in respect of members who are unable to work as a result of an illness or accident.