

Examination Booklet

Diploma of Financial Services (Financial Planning)

Module 2: Risk Management & Insurance Planning

Practice Exam

(2008/2009 Financial Year)

This is a closed book exam.

Time allowed is 90 minutes.

- Question 1** Loss of income derived from a property is an example of:
- a) Personal risk
 - b) Property risk
 - c) Liability risk
 - d) Financial risk
- Question 2** Insuring your house is an example of which of the following?
- a) Risk transfer
 - b) Self insurance
 - c) A control measure
 - d) Risk retention
- Question 3** A car insurance policy with an excess of \$800 in order to reduce the amount of the regular premium is considered to be:
- a) Self insurance
 - b) Risk transfer
 - c) Partial risk retention
 - d) Complete risk retention
- Question 4** What is the third step in the risk management process?
- a) Implement appropriate strategy
 - b) Identify the risk
 - c) Develop alternatives
 - d) Monitor, review and update strategy
- Question 5** When a financial adviser is assessing insurance needs for his/her client, the financial adviser should always:
- a) Make sure the client has life cover
 - b) Identify any risks that the client may be exposed to and recommend strategies to address those risks
 - c) Recommend the client consult an insurance broker to identify risks the client is exposed to
 - d) Identify current investments, the risks associated with those investments and recommend strategies to address those risks

- Question 6** Which of the following statements is correct with regards to an authorised representative?
- a) They are responsible for the ongoing relationship between the adviser and the licensee
 - b) They are the insurance company who issues the insurance
 - c) Their duty is first and foremost to follow the client's instructions
 - d) Their responsibilities and obligations are to the insurance company that they represent
- Question 7** The Financial Services Reform Act 2001 replaces:
- I. Life Code of Practice
 - II. All of the Insurance (Agents & Brokers) Act 1984
 - III. Life Insurance Act 1995
 - IV. Chapter 7 & 8 of the Corporations Act 2001
- a) I, II and IV
 - b) I, II and III
 - c) I and III
 - d) I, II, III and IV
- Question 8** APRA is concerned with the prudential functions of:
- I. Life Insurance Act 1995
 - II. Financial Services Reform Act 2001
 - III. Financial Sector (Shareholdings) Act 1998
 - IV. Insurance Act 1973
- a) I, II and III
 - b) II and IV
 - c) III and IV
 - d) I, III and IV
- Question 9** Which legislation deals with the registration, supervision and solvency of general insurers?
- a) Financial Services Reform Act 2001
 - b) National Health Act 1953
 - c) Life Insurance Act 1995
 - d) Insurance Act 1973

- Question 10** Which of the following best describes the primary role of the 'Investment & Financial Services Association (IFSA)?
- a) To influence, both ethically and expertly, the political, social, business, and economic environment in order to promote members' role in providing insurance protection and security to the community
 - b) To communicate with governments, regulators, other industry groups, media and the community on issues affecting their members
 - c) To provide education services and professional certification to its members
 - d) To provide services to help manage and improve business practices and technical support
- Question 11** Where an adviser wants to be an authorised representative of more than one licensee:
- a) The adviser is not obligated to obtain approval from licensees
 - b) The adviser must obtain approval from all existing clients
 - c) The adviser is not required to disclose all relationships in the SOA
 - d) The adviser must obtain approval of all licensees
- Question 12** What does the insured's duty of disclosure mean?
- a) The insured must disclose everything to the insurer
 - b) If a proposer does not answer a question on the application form, the insurer does not have to pay claims
 - c) The insured must disclose to the insurer every relevant matter known
 - d) If a question on an application form is ambiguous, and as such the meaning of the question is misunderstood by the insured, the insurer can claim non-disclosure

- Question 13** Anti-discrimination and equal opportunity legislation prohibits discrimination on the basis of marital status, pregnancy, race, colour, disability and religious or political beliefs. This means that:
- a) Insurance companies cannot refuse applications on any of these factors, but they can reflect it in an increased premium
 - b) Insurance companies cannot refuse applications on any of these factors, nor can they reflect it in an increased premium
 - c) Insurance companies can refuse applications on some of these factors but only under special circumstances
 - d) Insurance companies can refuse applications on all of these factors but only under special circumstances
- Question 14** A lender requires a particular insurer's product to be in place before they grant a mortgage. This is known as:
- a) A consumer contract warranty
 - b) Misrepresentation
 - c) Third line forcing
 - d) Fraudulent disclosure
- Question 15** "The collector must tell the individual concerned of the purpose for which the information is being collected". This statement is a principle of the:
- a) Life Insurance Act 1995
 - b) Insurance Act 1973
 - c) Federal Privacy Act 1988
 - d) The Financial Services Reform Act 2001

- Question 16** In what form must recommendations to a client for life insurance be presented?
- a) Statement of Advice
 - b) Fact Find
 - c) Replacement Policy Advice Record
 - d) Customer Advice Record
- Question 17** Which of the following client categories are considered to be a high-risk group with regards to accidental death or injury?
- a) Young adult
 - b) Young family
 - c) Over 40s
 - d) Mature adult
- Question 18** Insurance underwriters consider occupation for the degree in which it could cause death or disablement. Another reason they consider occupation is:
- a) The ability to meet the premium each year
 - b) The ability for clients to generate sufficient income to maintain lifestyle
 - c) The likelihood of being able to return to work after a relatively minor injury, such as a broken leg
 - d) The opportunity to get to know the client
- Question 19** Which of the following occupational classifications would be considered more hazardous for insurance purposes?
- a) Professionals, such as accountants and lawyers
 - b) Clerical and other white collar workers
 - c) Skilled workers
 - d) Tradespeople doing manual work

- Question 20** The income of a client is used to determine:
- I. The amount of income protection cover required
 - II. The amount of premium loading and/or any exclusions applicable to the policy
 - III. What level of income would be required for dependants in the event of premature death
 - IV. What level of income would be required in the event of disability
- a) I and II
 - b) II and IV
 - c) I, III and IV
 - d) I, II and IV
- Question 21** Liability arising from the ownership or occupation of a property is an example of:
- a) Fixed liability
 - b) Personal liability
 - c) Speculative liability
 - d) General liability
- Question 22** Financial advisers need to know the current range of insurance products, market trends and innovations so that they can select the most appropriate products for their client. This is a requirement under the:
- I. Insurance Act 1973
 - II. Corporations Law s945
 - III. FPA Code of Ethics
 - IV. Financial Sector Act 1998
- a) II and III
 - b) I and III
 - c) I and IV
 - d) II and IV

- Question 23** Regulatory Guides:
- I. Address the requirements for providing advice
 - II. Are issued by APRA
 - III. Are issued by ASIC
 - IV. Are in place to ensure advisers explain all product proposals clearly to clients
- a) I and II
 - b) I, III and IV
 - c) II and III
 - d) I, II, III and IV
- Question 24** Capital Required = Living Expenses x Years Required.
This is the formula for the:
- a) Future value approach
 - b) Annuity approach
 - c) Needs approach
 - d) Multiple approach
- Question 25** Peter earns \$55,000 pa. He estimates that his family would require 80% of his income in the event of his death or disability. Using the annuity approach, what is the required lump sum if the investment returned 5% per annum?
- a) \$2,750,000
 - b) \$220,000
 - c) \$1,100,000
 - d) \$880,000
- Question 26** Which of the following is true with regards to workers compensation?
- a) It will cover the employee for any injury
 - b) It can be used in place of income protection
 - c) It will cover the employee for 10-12 days per annum in the event of injury
 - d) It is required by law in all states

- Question 27** The two differences when considering funding a short or long term disability, rather than death, are medical and maintenance costs. Examples of this are:
- I. Modifications to the house for wheelchair access
 - II. Chiropractic treatment
 - III. Annual living expenses, including those of the client
 - IV. Funeral expenses
- a) I and II only
 - b) I, II and IV
 - c) I, II, and III
 - d) I, II, III and IV
- Question 28** Income Protection usually provides cover for up to 75% of normal income. Why doesn't it provide a greater level of cover?
- a) Any more than 75% might be a disincentive to return to work
 - b) As Income Protection payments are tax free, 75% of salary after tax is close to 100% of salary before tax
 - c) It is assumed that sick leave will provide the gap of 25%
 - d) It is assumed that workers compensation will provide the gap of 25%
- Question 29** Medicare:
- a) Will cover all hospital fees
 - b) Will cover ambulance service in an emergency
 - c) Provides basic cover for hospital and medical expenses
 - d) Will generally cover physiotherapy expenses

- Question 30** The federal government offers a number of incentives for joining, and penalties for not joining, a private health insurance scheme. They are:
- I. Gap cover
 - II. Avoidance of the Medicare Levy
 - III. Avoidance of the Medicare Levy Surcharge
 - IV. 30% Rebate on premiums
 - V. Premiums increasing with age if clients have not entered the Private Health Insurance System by age 31
- a) II, IV and V
 - b) III, IV and V
 - c) I, III, IV and V
 - d) I, II, IV and V
- Question 31** Which of the following is NOT a control measure which may be used to reduce property risk?
- a) Extinguishers and fire blankets
 - b) An excess on the house and contents insurance
 - c) Car alarm
 - d) Cutting back trees around the home
- Question 32** Your house cleaner, Kylie, breaks her arm in your home. What insurance would provide the most comprehensive cover?
- a) None, Kylie should have her own Income Protection Insurance
 - b) Home Insurance
 - c) Contents Insurance
 - d) Domestic Workers Compensation Insurance
- Question 33** What are the two main types of life insurance premiums?
- a) Level and Stepped
 - b) Uneven and Level
 - c) Even and Stepped
 - d) Variable and Flat

- Question 34** Which of the following is a benefit of having multiple lives covered under the one policy?
- a) The premium is calculated based on the details of 'the person of least risk'
 - b) The clients are only required to pay the equivalent of one person's premium, being whichever is the most expensive
 - c) Each of persons covered has access to their own sum insured plus that of the other life insured, effectively doubling their level of cover
 - d) The clients only incur one policy fee
- Question 35** In the event of the life insured committing suicide, what would happen under a term life policy?
- a) A claim would be paid in full if the policy had been in force for at least 12 months
 - b) Partial claim paid, depending on length the policy has been in force
 - c) The claim would be paid if the policy had been in force for at least 13 months
 - d) A claim will never be paid in this situation
- Question 36** With regards to TPD, the broad definition of being totally and permanently disabled is the 'the insured is unable to return to work'. Can a homemaker then, be covered for TPD?
- a) No, as a homemaker is technically unemployed
 - b) Yes, but the homemaker must choose their desired definition of TPD from a number of options at time of application
 - c) Yes, but only if they are gainfully employed elsewhere at least on a part-time basis
 - d) Yes, but there may be a separate definition of TPD applied
- Question 37** What is the term used for the insured's right to renew their life insurance policy regardless of changes to medical status?
- a) Right to renew
 - b) Guaranteed renewable
 - c) Right to continue
 - d) Guaranteed continuance

- Question 38** Some whole of life and endowment policies have a surrender value which gives rise to the 'non forfeiture' principle. Which of the following best describes the 'non forfeiture' principle?
- a) The ability to 'skip' a premium without the policy lapsing (so long as the accumulated unpaid premiums, plus interest, do not exceed the surrender value)
 - b) The ability to 'skip' a premium without the policy lapsing (so long as the premium is paid within 6 months)
 - c) The ability to 'skip' a premium without the policy lapsing (so long as the premium is paid within 12 months)
 - d) The ability to 'skip' a premium without the policy lapsing (so long as the skipped premium, plus interest, is added to the next premium)
- Question 39** If the policy owner is the life insured and has NOT nominated a beneficiary:
- a) The benefits will automatically be paid to the spouse
 - b) The benefits will still be automatically paid to the beneficiary
 - c) The benefits will be paid to the insured's superannuation fund
 - d) The benefits will be paid to the insured's estate
- Question 40** A flat tax rate, limited liability to the value of ownership and separate legal entity are all characteristics of a:
- a) Sole trader
 - b) Partnership
 - c) Company
 - d) Trust

- Question 41** Which of the following can sue and be sued as a separate legal entity?
- I. A sole trader
 - II. A partnership
 - III. A company
 - IV. A trust
- a) I, II and III
 - b) I and II only
 - c) III only
 - d) I, II, III and IV
- Question 42** Are the premiums for a business insurance policy tax deductible?
- a) Yes
 - b) No
 - c) Yes, but only if the purpose of the policy is to cover a revenue loss
 - d) Yes, but only if the purpose of the policy is to cover a capital loss
- Question 43** Which of the following are all general insurances?
- a) House owners, consumer credit insurance and motor vehicle
 - b) House owners, health, TPD and motor vehicle
 - c) House owners, health and life
 - d) Household contents, death and motor vehicle
- Question 44** The Insurance Contracts Act 1984 classifies insurance taken for personal protection purposes as prescribed contracts. According to the Act:
- a) Policies must provide the same coverage in order that there is consistency throughout the industry
 - b) While policies must provide similar coverage there is some room for variance
 - c) Policies can provide any level of coverage as long as it has been clearly stated
 - d) Policies must provide a minimum level of coverage unless the consumer is made clearly aware of different terms of cover

- Question 45** Professional Indemnity Insurance upholds that:
- I. Duty of care is owed by suppliers of advice or information
 - II. Suppliers of advice or information present themselves as having special skill and knowledge in the area that the information is related to
 - III. It was reasonable that the person who took the advice or information would rely and act on that advice
 - IV. Liability only arises as a result of dishonest service
- a) I, II, III & IV
 - b) I, III & IV
 - c) I, II & IV
 - d) I, II & III
- Question 46** According to occupational underwriting, which of the following occupations would be considered hazardous?
- I. Mechanic
 - II. Roof tiler
 - III. Panel beater
 - IV. Security guard
- a) II and IV only
 - b) I, II and IV
 - c) IV only
 - d) I, II, III and IV
- Question 47** Major differences between underwriting life insurance and disability insurance are:
- I. Death is a single event, disability can occur repeatedly
 - II. Death is unpredictable, whilst demographic statistics indicate likely events of disablement
 - III. Death is permanent, disability may be permanent or temporary
- a) I, II & III
 - b) I & III
 - c) III
 - d) I & II

- Question 48** A financial adviser must demonstrate to the underwriter that they have considered:
- a) The insurer's requirements, for the proposed amount of cover, has been fulfilled
 - b) Their clients ability to meet the cost of premiums
 - c) Alternative methods to control or avoid the risk
 - d) The amount of risk that the insurer is taking on by accepting the client
- Question 49** Step 2 in the insurance review process is, 'Establish changes in client circumstances'. What would NOT be considered a 'change'?
- a) The client is made redundant
 - b) The client wants their insurances reviewed more frequently
 - c) The client's mother has permanently moved in
 - d) The client's marriage recently ended
- Question 50** The purpose of Insurance Brokers Disputes Limited (IBDLtd) is as follows:
- a) To provide a free service designed to handle complaints and help resolve problems and issues between insurance brokers and insurance companies
 - b) To provide a free service designed to handle complaints and help resolve problems and issues between insurance brokers and their clients
 - c) To provide a free service designed to handle complaints and help resolve problems and issues between any parties in the insurance industry
 - d) To provide a free service designed to handle complaints and help resolve problems and issues between insurance brokers' clients and the insurance companies

Marking Guide

Diploma of Financial Services (Financial Planning)

Module 2:

Risk Management & Insurance Planning

Practice Exam

(2008/2009 Financial Year)

Question	Answer	Topic	Learning Outcome
Question 1	B	Topic 1	Outline the different forms of risk a client may face
Question 2	A	Topic 1	Outline the control and financial methods available for handling risk
Question 3	C	Topic 1	Outline the control and financial methods available for handling risk
Question 4	C	Topic 1	Describe the process of risk management and the role of the financial adviser during this process
Question 5	B	Topic 1	Describe the process of risk management and the role of the financial adviser during this process
Question 6	D	Topic 1	Define terminology used in the insurance planning industry
Question 7	A	Topic 2	Describe the insurance industry and the objectives of the Financial Services Reform Act and how it relates to the insurance environment
Question 8	D	Topic 2	Briefly outline the roles of ASIC and APRA as they relate to the insurance industry
Question 9	D	Topic 2	Explain how the Life Insurance Act protects the interests of owners and prospective owners of life insurance policies
Question 10	B	Topic 2	Outline the role and responsibilities of different intermediaries in the provision of insurance
Question 11	D	Topic 2	Outline the role and responsibilities of different intermediaries in the provision of insurance
Question 12	C	Topic 2	Explain how the Insurance Contracts Act protects both the prospective insured and the insurer
Question 13	A	Topic 2	Explain how the Insurance Contracts Act protects both the prospective insured and the insurer
Question 14	C	Topic 2	Understand the Trade Practices Act and the Privacy Act in relation to insurance

Question 15	C	Topic 2	Understand the Trade Practices Act and the Privacy Act in relation to insurance
Question 16	A	Topic 3	Explain why there is a need to carry out a detailed Fact Find
Question 17	A	Topic 3	Explain why there is a need to carry out a detailed Fact Find
Question 18	C	Topic 3	Explain why a client's occupation is relevant to insurance
Question 19	D	Topic 3	Explain why a client's occupation is relevant to insurance
Question 20	C	Topic 3	Explain why income and expenditure are important in insurance considerations
Question 21	B	Topic 3	Explain why assets and liabilities are important to insurance considerations
Question 22	A	Topic 3	Understand the importance of insurance product research
Question 23	B	Topic 3	Outline the documentation and presentation of recommendations
Question 24	D	Topic 4	Explain and apply the process for quantifying debts and other costs relating to the death of a client
Question 25	D	Topic 4	Explain and apply the process for quantifying debts and other costs relating to the death of a client
Question 26	D	Topic 4	Explain and apply the process for quantifying debts and other costs relating to the death of a client
Question 27	C	Topic 4	Outline the factors considered in planning the amount of cover needed for short and long term disablement
Question 28	A	Topic 4	Outline the factors considered in planning the amount of cover needed for short and long term disablement
Question 29	C	Topic 4	Identify the different types of healthcare insurance
Question 30	B	Topic 4	Identify the different types of healthcare insurance

Question 31	B	Topic 4	Describe the control measures that may be applied to reduce property risk
Question 32	D	Topic 4	Explain the exposures that will determine the amount of cover needed in relation to liability risk
Question 33	A	Topic 5	Explain the significance of the differences between a level premium and a stepped premium
Question 34	D	Topic 5	Outline the key features of the major types of insurance cover - term life, TPD, trauma, income protection, and how they are interrelated
Question 35	C	Topic 5	Outline the key features of the major types of insurance cover - term life, TPD, trauma, income protection, and how they are interrelated
Question 36	D	Topic 5	Outline the key features of the major types of insurance cover - term life, TPD, trauma, income protection, and how they are interrelated
Question 37	B	Topic 5	Outline the key features of the major types of insurance cover - term life, TPD, trauma, income protection, and how they are interrelated
Question 38	A	Topic 5	Outline the key features of the major types of insurance cover - term life, TPD, trauma, income protection, and how they are interrelated
Question 39	D	Topic 5	Understand the implications of life insurance within superannuation
Question 40	C	Topic 6	Outline the different kinds of business structures
Question 41	C	Topic 6	Outline the different kinds of business structures
Question 42	C	Topic 6	Identify the principal risks a business is exposed to
Question 43	A	Topic 7	Outline the main types of general insurance policies relevant to most clients

Question 44	D	Topic 7	Outline the main types of general insurance policies relevant to most clients
Question 45	D	Topic 7	Recognise the insurance policy options for a particular client's needs and circumstances
Question 46	A	Topic 8	Explain the different facets and considerations relevant to insurance underwriting
Question 47	B	Topic 8	Outline the differences between life, trauma and disability insurance underwriting
Question 48	A	Topic 8	Describe the ways in which an adviser can facilitate implementation of an insurance program
Question 49	B	Topic 9	Identify and explain the steps in the process for reviewing a client's insurance situation
Question 50	B	Topic 9	Understand how disputes are dealt with internally and externally