

The following Sample Paper consists of 39 question items. They span over the "Exam 1: Risk Analysis & Insurance Planning" and the "Module: Introduction to Financial Planning". The actual Question Paper would consist of 77 items of total 150 marks out of which Introduction to Financial Planning items would be 17 items of 30 marks, thus representing 20% of marks in each of Exam 1, 2, 3 & 4. This Sample Paper is representative of the revised and restructured Exam effective from 1st February, 2013 as regards distribution and pattern of question items in respective Sections and their defined difficulty level. For more details, refer to the Revised Syllabus and Topic List. Suggested solutions to 3-mark and 4-mark problems are as per Working Notes alongside.

Exam 1 - RISK ANALYSIS AND INSURANCE PLANNING

Attempted Answers Are Checked and Displayed In Blue Color.

Correct Answers are Displayed in Red Color after each Question.

SECTION - I

1 The principle of indemnity does not provide against one of the following:

[1 Mark]

- (a) Morale hazard
- (b) Profiteering from insurance
- (c) Escalation in value of insured goods
- (d) Moral hazard
- (e) Not Attempted

Correct Answer : Escalation in value of insured goods

2 Which of the following is not a characteristic of Insurance?

[1 Mark]

- (a) Insurance builds the risk capacity of businesses especially in large environmental projects
- (b) Insurance allows financial security against future risk, accidents and uncertainty
- (c) Insurance helps in reducing anxiety and fear before and after the loss occurs as the loss compensation is provided for
- (d) Insurance protects and prevents the asset from loss due to the peril
- (e) Not Attempted

Correct Answer : Insurance protects and prevents the asset from loss due to the peril

3 Which of the following cannot change while agreeing on the implementation responsibilities?

[1 Mark]

- (a) The scope of the engagement, as originally defined
- (b) The sources of compensation and material relationships, previously disclosed
- (c) The responsibility itself of implementing the recommendations
- (d) The conflicts of interest, previously disclosed
- (e) Not Attempted

Correct Answer : The responsibility itself of implementing the recommendations

4 What empirically is closest to Self Insurance?

[1 Mark]

- (a) One can buy insurance online
- (b) An insurance company not reinsuring for excess risk covered
- (c) Managing risk by investing a corpus to be used in case of loss
- (d) One can retain the risk by not insuring against it
- (e) Not Attempted

Correct Answer : Managing risk by investing a corpus to be used in case of loss

5

[1 Mark]

- The principle of proximate cause helps in insurance in ascertaining _____.
- (a) the principal cause that sets in motion a chain of events inflicting the loss
- (b) the most immediate cause which inflicts the loss irrespective of the chain of events
- (c) the most severe cause in the chain of events leading to the loss
- (d) the nearest cause in a chain of events which can be identified for admissibility of insurance claim
- (e) **Not Attempted**

Correct Answer : the principal cause that sets in motion a chain of events inflicting the loss

6

[2 Marks]

- In establishing relationship with the client, which of the following situations of conflict of interest is not foreseen in the Financial Planning Practice Standards?
- (a) Any circumstances or relationships or facts that would place CFP practitioner's interests in conflict with the client's interests
- (b) Any advice that would be in conflict with financial products/services industry's business interests
- (c) Any personal conflict that would affect a CFP practitioner's ability to work successfully with the client
- (d) Any circumstances or relationships or facts that would place the interests of one client in conflict with another client
- (e) **Not Attempted**

Correct Answer : Any advice that would be in conflict with financial products/services industry's business interests

7

[2 Marks]

- Which of the following statement is nearest to the concept of insurance?
- (a) Insurance helps business entities to recoup some of the losses incurred in the normal course of their business operations
- (b) Insurance helps in regular savings by reducing income tax liability
- (c) Insurance helps restore the former financial position of the insured in the vent of loss due occurrence of the perilous event
- (d) Insurance helps individuals to be carefree of contingencies affecting their life and assets
- (e) **Not Attempted**

Correct Answer : Insurance helps restore the former financial position of the insured in the vent of loss due occurrence of the perilous event

8

[2 Marks]

- In pooling of risk, several insurance companies create a risk pool of funds for covering certain risks. Which of the following is not intended in risk pools?
- (a) Insurance companies are able to extend insurance to individuals or businesses likely to create sizable claims.
- (b) In case of catastrophic events, insurance companies spread the loss amongst all members.
- (c) The pool account acts like a buffer to absorb the excess risk covered by individual participating insurers for all types of risk.
- (d) This helps private insurers to carry out business by spreading excess risk and providing more competitive premiums to individual customers.
- (e) **Not Attempted**

Correct Answer : The pool account acts like a buffer to absorb the excess risk covered by individual participating insurers for all types of risk.

SECTION - II

1 The deductible is _____.

[1 Mark]

- (a) the amount that is deducted from the premium as mortality charge
- (b) the amount of unpaid premiums deducted from the amount of claim
- (c) the sharing of costs incurred between the insurer and the insured according to a specific formula
- (d) the expenses borne by the claimant before an insurer will pay any compensation
- (e) **Not Attempted**

Correct Answer : the expenses borne by the claimant before an insurer will pay any compensation

2 Which of the following is not a regulatory objective of rate making?

[1 Mark]

- (a) Expanding insurance density
- (b) Insurer solvency
- (c) Non-discriminatory premiums
- (d) Consumer protection
- (e) **Not Attempted**

Correct Answer : Expanding insurance density

3 The Foreign Exchange (Forex) market does all of the following except:

[1 Mark]

- (a) It assists in curbing speculation in the value of currencies.
- (b) It facilitates in transferring the currency risk from the risk averse to the risk takers.
- (c) It determines the relative values of different currencies.
- (d) It assists international trade and investment by enabling currency conversion.
- (e) **Not Attempted**

Correct Answer : It assists in curbing speculation in the value of currencies.

4 Recession is defined as _____.

[1 Mark]

- (a) a receding liquidity levels with the bankers due to an increased demand of money in the economy
- (b) increased spending as a result of improved employment prospects and income levels
- (c) a rise in the general price level of goods and services in an economy over a period of time
- (d) a significant decline in the economic activity that lasts longer, from a few months to a few years
- (e) **Not Attempted**

Correct Answer : a significant decline in the economic activity that lasts longer, from a few months to a few years

5 The classification of insurance contract as aleatory contract means that _____.

[2 Marks]

- (a) the value admissible as benefit or compensation to the insured are not equal even if the perilous event is same and simultaneous
- (b) the entire book of business written by the insurer is based on the premise that the values exchanged by contracting parties are unequal
- (c) the insured stands to benefit on a reducing scale if the perilous event is shifted away from the date of contract
- (d) the values exchanged by the contracting parties are not necessarily equal and may change reciprocally in the event of loss
- (e) **Not Attempted**

Correct Answer : the values exchanged by the contracting parties are not necessarily equal and may change reciprocally in the event of loss

6

A training institute bought 50 computers at a total cost installed for Rs. 25 lakh. The set up came into operation on 1st April, 2012. The cost of a similar new computer in due course declined to Rs. 42,000. The industry norm of the depreciation charged on the computers is 30% on written down value basis. At what appropriate value he should insure the set up on next due date 1st April, 2013?

[3 Marks]

- (a) Rs. 25 lakh
- (b) Rs. 14.7 lakh
- (c) Rs. 17.5 lakh
- (d) Rs. 21 lakh
- (e) Not Attempted

Correct Answer : Rs. 14.7 lakh

7

A With Profit life insurance policy with a track record of offering bonuses at Rs. 50 per thousand sum assured (SA) has a premium differential of Rs. 30 per thousand SA from the similar pure term policy. The corresponding pure term cover of 20 years and SA Rs. 12 lakh is available at Rs. 7,860 p.a. Your client has recently paid 16th premium in the With Profit policy. You evaluate the differential returns from With Profit policy in case of mortality today from the perspective of 8% p.a. return. You find that _____.

[3 Marks]

- (a) The return on with profit policy is lower by 3.35% p.a.
- (b) The return on with profit policy is lower by 2.22% p.a.
- (c) The return on with profit policy is lower by 4.41% p.a.
- (d) The return on with profit policy is lower by 5.10% p.a.
- (e) Not Attempted

Correct Answer : The return on with profit policy is lower by 2.22% p.a.

8

Mr. A has a gross annual salary of Rs. 10 lakh of which he saves 25% including mandatory savings and voluntary systematic investments. Another 35% goes towards servicing of housing and car loans and taxes. His Financial Planner advises him to accumulate 8 months' household expenses in liquid funds. He changes job and expects an immediate rise of 30% in his gross income. The incremental effect in his mandatory savings and taxes would respectively be 1.5% and 3% of his revised gross income. You estimate that other heads would not change materially except his household expenses which would rise by 8% due to child education. How many months will it take to accumulate liquid reserves?

[3 Marks]

- (a) 13 months
- (b) 14 months
- (c) 15 months
- (d) 16 months
- (e) Not Attempted

Correct Answer : 16 months

9

A businessman bought a piece of land in March, 2002 for Rs. 80 lakh. He got a factory built on the land at a cost of Rs. 90 lakh, the factory became operational on 1st September, 2005. The land prices have appreciated at 15% per annum in the period and the construction cost has escalated at 12% per annum since 2005. At what value the factory should be insured in April, 2013 on Market Value basis if the depreciation on factory premises is charged at 6% per annum on straight line method?

[4 Marks]

- (a) Rs. 2.43 crore
- (b) Rs. 76 lakh
- (c) Rs. 1.16 crore
- (d) Rs. 3.09 crore
- (e) Not Attempted

Correct Answer : Rs. 1.16 crore

SECTION - III

1 The following is not a factor when identifying the life insurance need of a client?

[1 Mark]

- (a) Non-earning dependents having definite life goals
- (b) Tax saving potential
- (c) Uncovered financial liabilities
- (d) Existing financial and other assets
- (e) Not Attempted

Correct Answer : Tax saving potential

2 The Internal Rate of Return (IRR) is _____.

[1 Mark]

- (a) The real rate of return indicating the actual purchasing power derived from an investment
- (b) The gross return obtained from an investment over the entire period of investment duration
- (c) The rate of interest which is internally decided by an institution as desirable for evaluating the profitability of projects
- (d) The discount rate that reduces to zero the net present value of a stream of income inflows and outflows
- (e) Not Attempted

Correct Answer : The discount rate that reduces to zero the net present value of a stream of income inflows and outflows

3 Economic Value of Human Life is best computed as _____.

[2 Marks]

- (a) Present value of net economic contribution till productive earning life discounted at a suitable rate of investment
- (b) Present value of all future earnings till the expected life of an individual discounted at expected rate of inflation
- (c) Present value of all future expenses till the expected life of an individual discounted at expected rate of inflation
- (d) Future value of annual present earnings taken for all productive future years at a suitable rate of growth of income
- (e) Not Attempted

Correct Answer : Present value of net economic contribution till productive earning life discounted at a suitable rate of investment

4 An executive purchased an annuity for a lump sum Rs. 85 lakh when he was of 53 years and had in dependents a non-working spouse of age 48 and a son of age 25. On reaching age 60, he expects at least one, himself or his spouse, to survive till 85 years and contracts an immediate life annuity with return of purchase price at Rs. 10.15 lakh p.a. vested against the purchase price of Rs. 1.61 crore. What return is expected from the vesting date?

[3 Marks]

- (a) 6.73% p.a.
- (b) 5.76% p.a.
- (c) 4.25% p.a.
- (d) 5.17% p.a.
- (e) Not Attempted

Correct Answer : 6.73% p.a.

5 Mr. A has invested in an instrument for three years. The instrument has produced a return of 11%,15% and 12% in the three years. You as Mr. A's advisor have observed that the ruling inflation in these three years respectively was 4%,7% and 8%. You find the real rate of return which Mr. A has received as _____.

[3 Marks]

- (a) 5.65% p.a.
- (b) 7.08% p.a.
- (c) 5.96% p.a.
- (d) 6.32% p.a.
- (e) Not Attempted

Correct Answer : 5.96% p.a.

6

A family's monthly expenditure is Rs. 40,000. The earner accounts for 15% of the expense. He wants to cover his family's inflation-adjusted expenses for the next 40 years considering average inflation at 5.5% p.a. and the investment return at 7.5% p.a. The approximate life insurance needed is _____.

[3 Marks]

- (a) Rs. 53 lakh
(b) Rs. 1.35 crore
(c) Rs. 1.15 crore
(d) Rs. 67 lakh
(e) Not Attempted

Correct Answer : Rs. 1.15 crore

7

A single mother, aged 33, earns Rs. 7.5 lakh p.a. out of which taxes and self-expenses account for Rs. 1.5 lakh p.a. Her salary is expected to rise 10% p.a. whereas taxes and personal expenses are likely to rise by 6% p.a. If she expects to work till 58 years, what economic value can you enumerate on her life, if she is confident of getting a return of 9% p.a. from investments?

[4 Marks]

- (a) Rs. 1.67 crore
(b) Rs. 1.82 crore
(c) Rs. 2.10 crore
(d) Rs. 1 crore
(e) Not Attempted

Correct Answer : Rs. 1.82 crore

8

Mr. A had taken a loan of Rs. 40 lakh in July 2010 at a floating rate of interest of 10% p.a for tenure of 20 years from a housing finance company. The company sent a notice raising the interest rate to 10.75% p.a. effective January 2012 thereby increasing EMI. He decides to refinance the loan at 10.25% from a bank which charges a processing fee of 1% of loan sanctioned. What absolute amount he stands to save in the remaining tenure if the outstanding loan amount as at end of March 2012 is refinanced so that the new loan terminates as per original tenure?

[4 Marks]

- (a) Rs. 3,60,948
(b) Rs. 1,92,266
(c) Rs. 4,90,240
(d) Rs. 2,39,401
(e) Not Attempted

Correct Answer : Rs. 2,39,401

9

A company has retirement age as 58 years. An employee at age 35 expected increments of 7% p.a. as per company policy when his annual net earnings were Rs. 6 lakh. After 5 years, he got next cadre and his annual net earnings became Rs. 9 lakh. The increments in the revised cadre are at 9% p.a. He had purchased a life cover by income replacement method at age 35. What additional cover is required if he expects his investments to yield 9.5% p.a.?

[4 Marks]

- (a) Rs. 48 lakh
(b) Rs. 98 lakh
(c) Rs. 70 lakh
(d) Rs. 57 lakh
(e) Not Attempted

Correct Answer : Rs.48 lakh

SECTION - IV

1 Under which of the following circumstances personal accident insurance benefit shall be accepted by the insurer?

[1 Mark]

- (a) Death due to gunshot
- (b) Self injury due to insanity
- (c) Breach of law with criminal intent
- (d) Accident under the influence of drugs
- (e) Not Attempted

Correct Answer : Death due to gunshot

2 Most health insurance policies cover pre-existing illnesses after _____. Get Question

[1 Mark]

- (a) 12 months
- (b) 24 months
- (c) 48 months
- (d) 3 months
- (e) Not Attempted

Correct Answer : 48 months

3 Which of the following is in adherence with the professional responsibility of a CFP professional towards the client?

[1 Mark]

- (a) Competing with professionals in specialized services to internalize most deliverables
- (b) Referring the client to other professionals for certain duration with transfer of liability
- (c) Having legitimate difference of opinion on an issue from fellow professionals and the client
- (d) Managing one's own prejudices and desires to achieve a proper balance of interests
- (e) Not Attempted

Correct Answer : Referring the client to other professionals for certain duration with transfer of liability

4 Under Financial Planner Code of Ethics and Professional Responsibility, the principle of Fairness is most appropriately interpreted to mean that a CFP professional would _____.

[2 Marks]

- (a) assess personal prejudices, feelings and desires in ascertaining the treatment he intended in a similar situation as the client's
- (b) owe the client all due services meant to be fairly provided, without prejudices and with proper balance of interests
- (c) be fair in charging, besides the terms of payment, for the services to be rendered outside the scope of engagement
- (d) treat all clients regarding the same service and deliverables fairly equally
- (e) Not Attempted

Correct Answer : owe the client all due services meant to be fairly provided, without prejudices and with proper balance of interests

5 Which of the following does not portray a true proposition under Keyman Insurance?

[2 Marks]

- (a) The value of insurance is linked to the financials of the company and typically much larger than individual covers
- (b) Premiums paid by the company would not be treated as perquisites in the hands of employees covered under the policy
- (c) The insurance is taken by a business firm on the life of key employee(s) to protect the firm against possible financial losses due to their premature death
- (d) The claim amount is exempt under Section 10 (10D) of the Income-tax Act, 1961 if the company is paying the premiums
- (e) Not Attempted

Correct Answer : The claim amount is exempt under Section 10 (10D) of the Income-tax Act, 1961 if the company is paying the premiums

6

A departmental store has rented a space in a Mall. The Store took insurance of goods housed in the shop for a value of Rs. 2.1 crore. The surveyor assessed the average value of goods stored at the facility at Rs. 2.5 crore. The Store in its quarterly stock taking on 31st December 2012 assessed value of the goods at landed cost of Rs. 1.8 crore. On 17th January 2013 the Store had a major fire destroying all goods stored therein. The Store as per sales records had sold goods for Rs. 35 lakh in the interim, making a profit of Rs.7.5 lakh. The admissible amount of claim should be _____.

[3 Marks]

- (a) Rs. 128.10 lakh
- (b) Rs. 121.80 lakh
- (c) Rs. 124.29 lakh
- (d) Rs. 145 lakh
- (e) Not Attempted

Correct Answer : Rs. 128.10 lakh

7

An entrepreneur setting up a leather processing unit purchased a land in 2006 for Rs. 50 lakh and got specialized construction done in 2007 for Rs. 1.6 crore. In March, 2008 the processing plant was constructed at a cost of Rs. 2 crore. The cost of such construction and plant are escalating at 10% p.a. The corrosive nature of chemicals requires depreciation on plant as well as premises at 15% p.a. on written down value basis. As in 2013, what additional reserves should be created by the company apart from depreciation reserves and the residual insured value of plant and premises to reinstate the facility in case it is destroyed in a calamity?

[4 Marks]

- (a) Rs. 3.34 crore
- (b) Rs. 2.45 crore
- (c) Rs. 2.20 crore
- (d) Rs. 1.45 crore
- (e) Not Attempted

Correct Answer : Rs. 2.45 crore

SECTION - V

1

Under _____ an insurance company notifies you that it has not lapsed your policy for non-payment of premiums, even though it had the right to do so.

[1 Mark]

- (a) Express Waiver
- (b) Implied Waiver
- (c) Waiver by Silence
- (d) Estoppels
- (e) Not Attempted

Correct Answer : Express Waiver

2

Which of the following is not barred to have played a role in case of a Free Consent?

[1 Mark]

- (a) Undue influence
- (b) Fraud or Misrepresentation
- (c) Mutual interest
- (d) Coercion
- (e) Not Attempted

Correct Answer : mutual interest

3

[1 Mark]



The _____ is one who holds a license to act as an insurance agent for a life insurer as well as a general insurer.

- (a) Composite Insurance Agent
- (b) Bancassurance Agent
- (c) Designated Person
- (d) Corporate Agent
- (e) Not Attempted

Correct Answer : Composite Insurance Agent

4

[1 Mark]

Which of the following cannot be categorized under Fiduciary Responsibility of a financial planner towards his/her client?

- (a) Disclose all material facts
- (b) Get the best returns on client's investments
- (c) Serve the client's best interest
- (d) Act in utmost good faith
- (e) Not Attempted

Correct Answer : Get the best returns on client's investments

5

[2 Marks]



Which of the following functions permitted by the Reserve bank of India for banks are also permitted for an entity to act in the capacity of a Non Banking Finance Company in India?

- (a) It can engage in the business of accepting demand deposits as well as time deposits.
- (b) It can incorporate itself either under the Banking Companies Act or the Companies Act depending upon the specific business activity.
- (c) It can engage in the business of loans and advances, acquisition of shares, debentures, stocks, bonds and government securities.
- (d) It can indulge in agricultural and industrial activities as well as in construction of immovable property.
- (e) Not Attempted

Correct Answer : It can engage in the business of loans and advances, acquisition of shares, debentures, stocks, bonds and government securities.

6

[2 Marks]



In which of the following conditions the contract is a voidable contract?

- (a) A contract is entered into with full disclosures and free consent but later it is discovered that it is violating the law.
- (b) With a fraudulent intent certain details or information, which are material to the risk, are either not disclosed or misrepresented.
- (c) A party which later discovers a material defect in the contract and has the power to reject the contract but chooses not to do so.
- (d) Through an oversight certain details or information, which are not material to the risk, is not disclosed.
- (e) Not Attempted

Correct Answer : Through an oversight certain details or information, which are not material to the risk, is not disclosed.