



**FPSB**  
**Risk & Estate**  
**Planning Specialist**  
**(Work Book)**



Financial Planning  
Academy  
*Nurturing Careers*

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## RISK PLANNING SPECIALIST

### NUMERICAL SHEET

1) Mr. Mahesh, age 30, is suffering from cancer. The doctors have lost all hope & his death is certain. Mr. Mahesh reaches out to his friend, Mr. Suresh, who is an insurance agent, asking to buy an insurance policy worth Rs. 10 Cr. Mr. Mahesh is financially sound & can easily afford the premiums towards the policy. Should an insurance policy be offered to Mr. Mahesh by the insurance company?

2) Ms. Sonam is very close to her mother & would like to cover her motherly love & affection. BCCI are very impressed by the way M S Dhoni has captained the Indian side. In a short span of time, he has gone on to be the best captain of India ever. BCCI would like to buy an insurance policy covering his leadership skills. Sonam & BCCI have approached LIC asking them to help them with an insurance cover. Would it be possible for LIC to offer them an insurance policy?

3) Jay, age 24, is a trader & trades regularly in the stock & commodities market. He has been a very active trader & has made a considerable amount of income through executing trades. Off late, he is making losses & is keen to minimize his losses as much as he can. Rohan, his friend & an insurance advisor has suggested him to buy an insurance policy to cover the losses he may incur in trading. Would Jay be able to buy an insurance policy to cover his losses?

4) Mr. Gada has taken a life insurance policy covering him for death. He has taken an insurance cover for Rs. 10 Crore & has been paying the premiums regularly. While traveling to New Jersey, he was caught in an earthquake, where he lost his life. His family has put across a claim with the insurance company for Rs. 10 Crore. Will the claim amount be sanctioned?

5) Mr. Gada has taken a property insurance policy covering his property for damage & destruction. He has taken an insurance cover for Rs. 10 Crore & has been paying the premiums regularly. While traveling to New Jersey, he came to know that, there has been a massive earthquake at his home town, damaging his property. He has put across a claim with the insurance company for Rs. 10 Crore. Will the claim amount be sanctioned?

6) Mr. Himanshu is a businessman and has wants to know if he could insure his business which is affected due to the following uncertain activities

1. Inflation
2. Political upheavals
3. Technological changes
4. Fire, theft & misappropriation

7) If Mr. Rahul the owner of the house which is valued at Rs. 15,00,000 insured the house for Rs. 4,00,000 against fire and the house was subsequently destroyed by fire. What would be the amount that Mr. Rahul would recover?

8) If a solid gold pendent is valued at Rs. 2,00,000 and is insured by the insurer for this amount, two years ago and was subsequently stolen. Also, the current value of the item could be as high as Rs. 3,00,000 because of the substantial appreciation in the value of gold over the two years. What would be the amount recovered from the insurer for the same?

9) Mr. Gandhi, has taken 2 Mediclaim policies covering the same peril. Policy A (issued by XYZ Insurance company) is worth Rs. 300,000 while Policy B (issued by PQR insurance company) is worth Rs. 200,000. He incurs a heart attack & is immediately hospitalized. The total cost of hospitalization comes to around Rs. 150,000. Mr. Gandhi approaches you, a qualified financial planner, inquiring if he could raise a claim request (of Rs. 150,000) to both the companies (i.e. company XYZ & PQR). What would you suggest?

10) Mr. Jay's car was hit by a vehicle, which was being driven by Ms. Unnati. Mr. Jay reached out to his employer ICICI Lombard to make good the losses (say Rs. 7,000). ICICI Lombard, paid the claim amount raised to Mr. Jay in full settlement. Mr. Jay now decides to sue Ms. Unnati too for the damages. What is the amount that Ms. Unnati would pay to Mr. Jay?

11) Ms. Mehta, age 30, is planning to take a life insurance policy. She has a family medical history of high diabetes. Ms. Mehta takes a life insurance policy worth Rs. 2 crores. She doesn't disclose the same to Max Life Insurance while taking the term insurance policy. The insurance premium calculated by the company is with regards to a normal healthy individual. She pays the premium regularly. One fine day, she meets with an accident, wherein she loses a lot of blood & the doctors couldn't operate her because she was a high diabetic & they had to bring it in control before they could take things forward. Ms. Mehta passed away because of the same. What should Max Life Insurance do?

12) Mr. Mehta, age 35, stays in a bungalow at Navsari, Gujarat. His bungalow is next to Mr. Shah's who is out most of the times & has left the keys for safekeeping of the bungalow with Mr. Mehta. Mr. Mehta fears that, there is a possibility that Mr. Shah's bungalow may catch fire due to short circuit or otherwise, because of which his bungalow may be caught in fire too. He gets in touch with ICICI Lombard asking them if he can insure the bungalow of Mr. Shah.

13) Mr. Patil had insured his house, against fire, with HDFC Ergo General Insurance covering his house for a sum of Rs. 2 Crore on 16th Jan, 2012. The house caught fire on 23rd July, 2012. While trying to arrest the spread of the fire, the officers of the fire brigade department, took up some furniture & threw it down from the house. While raising a claim with HDFC, Mr. Patil claimed the damage to the furniture too (which was thrown down from the house). What would be the stand of the insurer?

14) Ms. Jiah Khan, aged 30, has taken a term insurance policy on 12th Feb, 2013 from her agent Mr. Suraj Pancholi. The sum insured was Rs. 15 Cr. Ms. Khan committed suicide on 16th Nov, 2013. The nominee of Ms. Khan puts across a claim request with Mr. Suraj Pancholi for the sum insured. Mr. Suraj promises that the insurance company would repay the promised sum insured. As a financial planner, do you agree with the advice given across by Mr. Suraj?

15) Mr. Suhas (30) had taken a life insurance policy in the name of his wife Ms. Suhas (25) on 1st Jan, 2013 for a sum of Rs. 500,000 from LIC. Ms. Suhas died a sudden death on 2nd Feb, 2015. Mr. Suhas who was the policyholder, requested for the claim amount. On further investigation by the police, it was found out that, Ms. Suhas was murdered by her husband only to claim the policy money to pay of his debts. Will LIC settle the claim amount?

16) A house owned by Mr. Nikhil is listed for sale for Rs 30,00,000 is destroyed by the wind storm & the current value of the land on which the house has been built is Rs, 10,67,000. What would be the amount of loss covered under the insurance?

17) If Mrs. Ritz purchased a car for Rs. 2,50,000 & the car is insured for Rs. 3,00,000. What would be the amount recovered from the Insurer in case of an accident?

18) Mr. B owns a house that is worth Rs. 45,50,000 & the amount of insurance cover taken is Rs. 25,00,000 & the property suffers a damage of Rs. 15,00,000 with no deductible. What would be the amount paid by the Insurer due to coinsurance penalty?

19) Mr. Pradeep owns a house which is valued at Rs. 30,00,000 & is insured only for Rs. 20,00,000 (67% of the value). If the house suffered a damage of Rs. 12,00,000. What would be the amount of claim received for the house to Mr. Pradeep?

20) Mr. Krishna has 25 years left for the retirement. He earns Rs. 5,00,000 p.a. His Personal living expenses, insurance premiums & taxes are equivalent to Rs. 2,20,000. Discount rate for the same has been assumed as 4% p.a. Use the Income based, human life value approach to determine a life insurance need.

21) Mr. & Ms. Sharma aged 50 & 47; both have life expectancy of 35 years. Calculate the insurance required based on Need Based Approach for Mr. Sharma. You've the following information:

Current Investments = Rs. 25,00,000

Expenses = Rs. 3,00,000 (including Rs. 1,00,000 of Mr. Sharma's personal expenses)

Mr. Sharma's income post-tax = Rs. 3,00,000

Final Costs = Rs. 1,00,000

Inflation rate = 5% p.a. Return on investments = 8% p.a.

22) 45-year-old client named Anna wishes to replace Rs. 5,50,000 of her Rs. 8,50,000 annual income for her spouse benefit, upon her death. Here, the client expects this salary to increase 3 percent per year and she plans to live to age 90. And also, conservative interest rate is considered as 6% p.a.

23) 35-Year-old client named Ravi wishes to replace Rs. 6,70,000 of his Rs. 8,00,000 annual income for his spouse benefit, upon his death. With the rate of interest as 6% p.a. & increase in salary at 3% p.a. Find the amount needed by the Capital Retention Method?

24) Faber Case

Frederick and Frieda Faber are working through the steps in a life-needs analysis. Frieda is a stay-at-home mother, taking care of the couple's two children. The Faber's have decided they would like Frieda to continue staying at home until the children leave home. The couple has reached the place in

their calculations where they need to decide how much income would be required to provide adequate income to care for the two children: Eva, age 10 and Emma, age 8, until each child reaches age 18.

Step one is determining the amount of cash inflow required to sustain a desirable lifestyle for Frieda, Eva and Emma. This process involves looking at the budget, backing out expenses directly related to Frederick, and settling on the appropriate amount. Calculations would need to factor an acceptable inflation rate so purchasing power would remain relatively constant. We will also need to agree to a discount rate (i.e., return on savings/investments). For our purposes, let's settle on the following:

- Annual income needed with Frieda and both girls at home: Rs. 150000
- Annual income needed with Frieda and Emma at home: Rs. 108750
- Inflation rate: 3.5 percent
- Discount rate: 5.0 percent
- Years remaining at home
- Eva: 10
- Emma: 8

25) Mr. Sharma is 30 years old & plans to retire at the age of 60. He is employed as the Vice President (Operations) with Global Cosmetic Ltd at an annual remuneration of Rs. 9,50,000, which is increasing by 5% p.a. His annual expenses are as follows: -

Personal expenses are to the tune of Rs. 1,50,000.

Life insurance premium, for self, is Rs. 18,000.

Life insurance premium of Rs. 10,500 & Rs. 6,500 p.a. for his wife & child respectively.

Professional tax of Rs. 3,000 &

Income tax, subject to allowable deductions of Rs. 1,32,000

The rate of interest assumed for capitalization of future income is 8%. Calculate the amount of insurance cover, required by Mr. Sharma, using Human Live Value (HLV) approach.

26) Mr. Deep aged 30 years has one child who is currently 5 years old and will be in college for four years, beginning at age 18. A year of college expenses totals to Rs. 2,50,000, inflation for college costs is 6% p.a. and our client, Mr. Rahul can earn 7% p.a. on their investments. Find the insurance cover required today to meet this education goal?



## RISK PLANNING SPECIALIST

### NUMERICAL SHEET SOLUTIONS

#### 1) Solution:

“Risk” is defined as a possibility that the actual outcome may differ from the expected outcome. The word “possibility” here, signifies, “uncertainty”. So, insurance can be offered only when there is an uncertainty in the outcome of an event. Here, Mahesh is suffering from cancer & his death is “inevitable - i.e. certain”. So, offering him insurance wouldn’t be feasible.

Kindly note that, although “death” is a certain outcome for all of us, insurance basically covers the “timing” of death. The moment, the timing is certain, the concerned individual loses out on his option to protect him through insurance.

#### 1. Solution:

Insurance covers “financial risks” (i.e. risks which can be quantified in terms of money) but it cannot issue an insurance policy to cover any risk which cannot be quantified in financial terms. Both the risks stated above (“love & affection” & “leadership qualities”) are “non-financial risks” & so cannot be insured.

#### 2. Solution:

Insurance only covers “pure risks” (i.e. pure risks have only two possible outcomes - either a loss or no loss, but never ever a possibility of gain). Jay is into buying & selling of shares (i.e. speculative activity). Insurance doesn’t cover speculative activities. If insurance started covering speculative activities then everybody will try to profit out of insurance - thus defeating the whole objective and purpose of insurance.

#### 3. Solution:

Life insurance covers death caused due to any means. Even if death has been caused on account of a natural disaster & if the insured has been paying premiums regularly, the same would be covered under life insurance. (However, if Mr. Gada is staying in area which is prone to earthquakes or has earthquakes more often, and say he applies for a life insurance cover, then the insurance company may either: -

1. Specifically exclude death on occasion of an earthquake or
2. Include death on occasion of an earthquake but with an increase in premiums or
3. Reject his request for life insurance completely).

#### 4. Solution:

Unless otherwise stated in the policy, damage/destruction caused to property on account of any natural disaster is specifically excluded under general insurance (Key: - The movie, “Oh my god”)

#### 5. Solution:

Insurance covers only “particular risks & static risks” (i.e. risks which affect only individuals & not the whole population). It doesn’t cover “dynamic & fundamental risks” (i.e. risks which occur due to changes in economy or which affect large section of the population). Fire, theft & misappropriation

are particular risks & so would be covered under insurance. While inflation, political upheavals & technological changes are fundamental & dynamic risks & thus cannot be covered under insurance.

#### 6. Solution:

The insured would only be able to recover Rs. 400,000, even if the property is actually worth Rs. 15,00,000. If the insured was able to recover Rs. 15,00,000 and so make a profit out of insurance, this would constitute a wager (i.e., speculation), which would be against the true nature of insurance.

#### 7. Solution:

The insurance would only pay the agreed value of Rs 2,00,000 & not Rs 3,00,000. Furthermore, the insurer would still pay Rs. 2,00,000 even if the value of the item actually declined to Rs 1,00,000.

#### 8. Solution:

In this case the second policy would be hit by the **“Principle of Contribution”**. Raising a request with both the companies means he is paid twice for a single claim, thus the claimant would end up profiting from insurance.

If an insured person has coverage under two indemnity insurance policies, he has the right to choose under which policy he wants to make the claim. If the claimed amount is higher than the sum insured under the policy on which he has first made the claim, the insured person can claim the balance amount from the second indemnity policy.

#### 9. Solution:

As per the **“Principle of Subrogation”**, once the claim amount is settled, the insurer steps into the shoes of the insured (i.e. in this case, ICICI Lombard, will step into the shoes of Mr. Jay) & is entitled to recover from the defaulting party a sum (to the extent paid to the insured). The principle of subrogation thus stops the insured from profiting out of insurance. Unnati will not pay anything to Jay.

#### 10. Solution:

Ms. Mehta was suffering from high diabetes at the time of death. Moreover, she didn't disclose her family history of diabetes at the time of taking the policy. In this case, she has breached the **“principle of utmost good faith”** & Max Life insurance can repudiate the claim on this ground. The claim has now become voidable at the option of Max Life Insurance.

#### 11. Solution:

As per the **principle of “insurable interest”**, there has to be a financial interest in the subject matter to be insured, i.e. Mr. Mehta should incur a financial loss if Mr. Shah's bungalow gets burnt down by fire. Since, Mr. Mehta won't incur a financial loss if Mr. Shah's bungalow gets burnt down by fire (he would incur a loss only if the fire is spread to his bungalow), Mr. Mehta won't be eligible to buy insurance on Mr. Shah's bungalow.

#### 12. Solution:

As per the **“principle of proximate cause”** - the initial event in the chain of events that caused the loss needs to be looked at while accepting claim settlement requests. The rule is that for the loss to be paid or compensated under an insurance policy, it must have been caused by an insured peril. Unless

the loss is proximately caused by an insured peril, the policy doesn't pay or respond. In this case, the furniture was thrown out of the house to arrest the spreading of the fire. Mr. Patil had taken an insurance policy against fire. Since, fire is an insured peril, the loss of damage of furniture gets covered.

### 13. Solution:

-In this case, the "suicide clause" has automatically been triggered. The suicide clause gets triggered, if the insured commits suicide within 1 year of taking the life insurance policy. If the policyholder commits suicide within 1 year, his family will not be able to avail the benefit of getting the sum assured.

### 14. Solution:

LIC won't settle the claim as insurance cannot be taken for an illegal objective.

### 15. Solution:

The current value of the house would be the sale price less the value of the land (land is not covered by insurance), assuming the sale price was not overinflated. Therefore, the amount covered would be Rs. 19,33,000.

**Note: In accident policies the economic loss sustained by the insured is calculated by referring to lost income, medical bills, set amounts detailed in the policy for specified injuries or sicknesses and, in the case of residual injuries, the levels of damages awarded by the courts.**

### 16. Solution:

If a car is purchased for Rs. 2,50,000 and insured for Rs. 3,00,000 an insurer would be required to only pay Rs. 2,50,000 and be prevented from voiding the policy.

### 17. Solution:

Amount Paid by the Insurer will be =  $25,00,000 / 45,50,000 * 15,00,000$   
= Rs. 824175.8242

Therefore, the amount paid by the Insurer would be Rs. 8,24,176.

### 18. Solution:

If the house suffered damage of Rs. 12,00,000

$12,00,000 * 67\% = \text{Rs. } 8,04,000$

Therefore, the amount of claim received for house to Mr. Pradeep will be Rs. 8,04,000.

### 19. Solution:

Set	Begin
N	25

<b>I</b>	4%
<b>PV</b>	? 4549149.68
<b>PMT</b>	280000(500000-220000)
<b>FV</b>	0
<b>P/Y</b>	1
<b>C/Y</b>	1

**20. Solution:**

Particulars	Amount
Immediate expenses (i.e., final costs)	1,00,000
+ PV (Net Ongoing Expenses) (WN1)	45,13,873.13
- Available assets (i.e., current investments)	-25,00,000
Insurance Required as per NBA	<b>21,13,873.126</b>

PV of Net Ongoing Expenses

Particulars	Amount
Set	Begin
N (i.e., life expectancy of surviving spouse)	35
I%	2.857142857
PV	? 45,13,873.126
PMT	2,00,000 ( 3 Lakhs - 1 Lakh)
FV, P/Y, C/y	0,1,1

**21. Solution:**

Particulars	Amount
Set	Begin
N	45
I%	2.916 (6% & 3%)
PV	? ₹ -1,40,94,351.11
PMT	550000
FV, P/Y, C/y	0,1,1

**22. Solution:**

Capital Retention Approach = Annual Income / Rate of Return  
= 6,70,000/2.9126% = Rs. 23003502

**23. Solution:**

Here Real Rate of Return =  $(1+5\%)/(1+3.5\%)-1 = 1.44927\%$

PV of Annual Income needed with Frieda and both girls at home:

Set	Begin
N	8
I	1.44928%
PV	? 1141684.021
PMT	-150000
FV	0
P/Y	1
C/Y	1

Now that we know the amount required to fund the income stream while both girls are at home, we can move on to calculate the amount needed to fund the additional two years when Frieda and Emma remain in the home.

FV of Rs. 108750 after 8 years using the inflation rate as 3.5% p.a.

Set	Begin
N	8
I	3.5%
PV	-108750
PMT	0
FV	₹ 1,43,202.98
P/Y	1
C/Y	1

Now, calculate the sum needed to fund the remaining two years of income while Emma is at home

Set	Begin
N	2
I	1.449275%
PV	? 284360.2086
PMT	143202.9828
FV	0
P/Y	1
C/Y	1

We want to find out how much will be needed today to fund the future need, so we discount back to today

Set	Begin
N	8
I	5%

PV	? 192466.1822
PMT	
FV	284360.2086
P/Y	1
C/Y	1

By adding the two amounts:  $1141684.021 + 192466.1822 = \text{Rs. } 1334150.203$

**If no liquid assets or existing insurance is available, Rs. 1334150 is the amount of life insurance the Frederick's would need to fund this future income stream.**

If we were doing a full life-insurance needs calculation, we would move forward to determine amounts needed to fund Frieda's pre-retirement and retirement-period income (based on what the couple decides that amount should be). If the Faber's want to fund all or part of their daughter's university tuition, we would also work through the amount necessary for that need. The result, after adding all the amounts, is likely to be quite large. This would be true in many situations, and is one reason why term life insurance is often best for providing the necessary death benefit at the most cost-effective (and non-budget busting) premium. In the case of the Faber's, we would probably recommend a 10-year level-term life insurance policy to fund the need while Eva and Emma remain at home.

It may be that a different type of life insurance would make more sense for Frieda's pre-retirement or retirement need, but we would need more information to make that determination. We would need to know about available discretionary income, balanced by the need for other investment funding. Also, we would need to find out whether Frieda would be working outside the home after the girls leave, and if so, what impact that would have on her retirement-funding needs. Finally, whether from investments or other sources, we need to determine Frieda's net financial need during both the pre-retirement and retirement periods. We will not work through these calculations, but you should recognize this as another example of the holistic, inter-related nature of financial advice.

The proper method to assess risk exposures is to conduct a step-by-step audit. If an advisor does a complete risk management plan, he or she would assess each of the risk exposure areas. In some cases, the client may desire a more focused approach, and the advisor should adapt accordingly. As an example, the client may have already addressed all healthcare related risk exposures, and does not want to include that area in a broader risk-assessment audit. At the same time, an advisor should not assume that any area has already been addressed. It's best to assess all potential areas of need and let the client advise otherwise if appropriate.

#### 24. Solution:

Human Life Value (HLV) is calculated as = PV (Net Annual Income Lost)

Calculation of Net Annual Income

Calculation of Net Annual Income	Amount (Rs.)
Gross Annual Income	9,50,000

(-) Personal Taxes	-1,50,000
(-) Taxes (professional tax + income tax)	-1,35,000
(-) premium paid for self	-18,000
<b>Net Annual Income</b>	<b>6,47,000</b>

Particulars	Explanation	Amount (In Rs.)
Set	Money will be received immediately when a person passes away	Begin
N	No. of years left to retirement	30
I	Discounting factor (real rate of return)	2.857143%
PV	We have to solve PV (i.e., the amount of insurance required)	? (1,32,88,013)
PMT	Net Annual Income that is lost (as calculated above)	6,47,000
FV, P/Y, C/Y	Future Value, No. of annual payments & No. of annual compounding	0,1,1

Note: Any life insurance premiums paid, for any member of one's family, other than self, should not be deducted from the Gross Annual Income.

## 25. Solution:

Find the FV of Expenses Required at the age of 18 years

SET	Begin
N	13
I	6%
PV	-250000
PMT	0
FV	₹ 5,33,232.07
P/Y	1
C/Y	1

Amount (PV) required at child's age of 18 years

SET	Begin
N	4
I	0.943%
PV	? ₹ -21,03,213.26
PMT	₹ 5,33,232.07

FV	0
P/Y	1
C/Y	1

Insurance Cover Required today (Discounting @ 7% p.a.)

SET	Begin
N	13
I	7%
PV	? -₹ 8,72,758.73
PMT	0
FV	₹ 21,03,213.26
P/Y	1
C/Y	1



## RISK PLANNING SPECIALIST PRACTICE QUESTIONS

1) Your client aged 32 years old & has Rs. 35, 00,000 in loan liabilities. He has a non- working spouse of age 30 & children of age 7 years & 5 years. Additionally, the client wants higher education for each of his children to the tune of Rs. 35, 00,000 after 15 years & marriage expenses of Rs. 25,00,000 after 20 years (both are considered at current costs). The present household expenses are Rs. 55,000 per month, which includes housing loan EMI of Rs. 15,000. The client consumes Rs. 13,000 per month as personal expenses. He also wants to provide for 50 years living expenses for his spouse. He has an insurance cover of Rs. 45, 00,000 presently & his financial investments are Rs. 25,00,000. The additional quantum of life insurance is \_\_\_\_\_ (Assume all expenses required are inflation adjusted at an average inflation of 5% p.a. & the claim amount is invested to yield is 8% p.a.)

**Solution:**

Amount of additional insurance required	
Particulars	Amount (in Rs.)
PV (Loan) (given)	₹ 35,00,000.00
(+) PV (higher education for both children) (WN 1 & 2)	₹ 45,87,554.00
(+) PV (marriage expenses) (WN 3 & 4)	₹ 28,46,301.00
(+) PV (living expenses for spouse) (WN 5 & 6)	₹ 86,99,400.52
(-) Insurance cover already taken (given)	- ₹ 45,00,000.00
(-) Available investments (given)	- ₹ 25,00,000.00
<b>Additional Insurance cover required</b>	<b>₹ 1,26,33,255.52</b>

### Wno. 1: Cost of higher education after 15 years

SET	Begin
N	15
I %	5%
PV	-70,00,000
PMT	0
FV	<b>₹ 1,45,52,497.26</b>
P/Y & C/Y	1

### WNo. 2: Amount to be received today to achieve the education cost after 15 years

SET	Begin
N	15
I %	8%
PV	<b>-45,87,554</b>
PMT	0
FV	₹ 1,45,52,497.26
P/Y & C/Y	1

**Wno. 3 : Cost of Marriage expenses after 20 years**

SET	Begin
N	20
I %	5%
PV	-50,00,000
PMT	0
FV	<b>₹ 1,32,66,488.53</b>
P/Y & C/Y	1

**Wno. 4: Amount to be invested today to achieve the cost of marriage after 20 years**

SET	Begin
N	20
I %	8%
PV	<b>-28,46,301.33</b>
PMT	0
FV	₹ 1,32,66,488.53
P/Y & C/Y	1

**Wno. 5 : Net Household expenses per month**

Particulars	Amount (in Rs.)
Present Household Expenses	₹ 55,000.00
(-) EMI (loan amount shown separately)	₹ -15,000.00
(-) Personal Expenses	₹ -13000.00
<b>Net Household Expense</b>	<b>₹ 33,000.00</b>

**Wno. 6 : PV of living Expenses**

Particulars	Amount (in Rs.)
SET	Begin
N	600
$I\% = rrr = ((1.08/1.05) - 1) * 100$	2.857142857
PV	? 8699400.523
PMT	-27000
FV,P/Y,C/Y	0,12,1 (resp)

2) How much would an insurance policy reimburse a homeowner who has a house valued at R. 40,00,000 insured for Rs. 30,00,000 after experiencing a fire that causes Rs. 2,00,000 in damage? The house has an 80 percent coinsurance provision and a Rs. 10,000 deductible.

**Solution:**

Insurance would reimburse the homeowner Rs. 1,77,500 as a result of the coinsurance penalty for being underinsured. Required insurance is 80 percent of replacement value or Rs. 32,00,000, and the house is insured for 93.75 percent of the required amount. To determine the amount that will be reimbursed, divide Rs. 30,00,000 by Rs. 32,00,000 and multiply the loss amount by the result, then subtract the deductible:  $\text{Rs. } 30,00,000 / 32,00,000 = .93.75 \times \text{Rs. } 2,00,000 = \text{Rs. } 1,87,500 - \text{Rs. } 10,000 = \text{Rs. } 1,77,500$ .

3) Mr. Kelkar owns a flat worth (market value) Rs. 20,00,000 in the outskirts of Mumbai. He had insured it only for Rs. 16,00,000. The flat is damaged by an earthquake (he had requested cover from natural & manmade disasters too), which loss is assessed at Rs. 4,00,000. How much claim payment Mr. Kelkar will get?

**Solution:**

As per the “principles of average”, the claim amount that is payable to Mr. Kelkar would be as follows:

$$\begin{aligned}\text{Amount payable by the insurance company} &= (\text{Sum insured} / \text{Market Value}) * \text{Loss} \\ &= (16,00,000 / 20,00,000) * 4,00,000 \\ \text{Therefore, claim payable} &= \text{Rs. } 3,20,000.\end{aligned}$$

The objective of the “principle of average” is that, if there is an underinsurance, the insured is considered to be his own insurer to the extent of the underinsurance. This means, the insured will bear part of the loss as a penalty for underinsurance.

4) A couple with no dependants and age 60 years (male) and 58 years (female) has a corpus of Rs. 1 crore. Their expectancy to live is 80 years (male) and 83 years (female). Following are the annuity options: (1) Guarantee period of annuity of Rs. 9.43 Lakhs p.a. for 20 years. (2) Rs. 8.37 Lakhs p.a. as joint life annuity for 25 years 3) Rs. 7.28 Lakhs p.a. as joint life annuity for 25 years with return of purchase price.

- Option 1, as it gives highest returns.**
- Option 2, as it covers wife’s life expectancy.
- Option 1, as it gives higher annuity for husband.
- Option 3, as the corpus comes backs and return is high.

**Solution:**

<b>Option A gives return of 7.998</b>	<b>Option B gives return of 7.53</b>	<b>Option C gives return of 7.8515</b>
SET =Begin	SET =Begin	SET =Begin
N= 20	N= 25	N= 25
<b>I= Solve (7.998)</b>	<b>I= Solve (7.53)</b>	<b>I= Solve (7.8515)</b>
PV= -10000000	PV= -10000000	PV= -10000000
PMT= 943000	PMT= 837000	PMT= 728000
FV=0	FV=0	FV=10000000
P/Y=1	P/Y=1	P/Y=1
C/Y=1	C/Y=1	C/Y=1

5) How much life insurance must an individual purchase today to fully fund college education costs for a 10-year-old child who will enter a four-year university program at age 18? Assume current first-year expenses of Rs. 2,00,000, five percent tuition inflation and a seven percent discount rate, with all funds available at the beginning of college.

Investment Rate 7% and Inflation Rate 5%

**Solution:**

Find the FV of Expenses Required at the age of 18 years

SET	Begin
N	$18-10 = 8$
I	5%
PV	-200000
PMT	0
FV	<b>₹ 295491.0888</b>
P/Y	1
C/Y	1

Amount (PV) required at child's age of 18 years

SET	Begin
N	4
I	1.90476 (7% & 5%)
PV	<b>? ₹ - 1149236.187</b>
PMT	₹ 295491.0888
FV	0
P/Y	1
C/Y	1

Insurance Cover Required today (Discounting @ 7% p.a.)

SET	Begin
N	8
I	7%
PV	? -₹ 668865.9243
PMT	0
FV	₹ 1149236.187
P/Y	1
C/Y	1

6) A Property is insured with insurer A for Rs.200,000 and insurer B for Rs.100,000 respectively subject to pro rata average. If the loss reported is Rs.30,000, then as per principle of contribution how much will insurer A pay?

- a. 30,000
- b. **20,000**
- c. 10,000
- d. 15,000

**Solution:**

Particulars	Insured Value	Ratio	Amount of Claim
-------------	---------------	-------	-----------------

Insurer A	2,00,000	66.67% (2,00,000 /3,00,000)	20000 (30,000*66.67%)
Insurer B	1,00,000	33.33% (1,00,000/3,00,000)	10000 (30,000*33.33%)
Total	3,00,000	100%	30,000

7) A person requires Rs.50,000 per annum for the 15 years after retirement, which is still 10 years away. With a discount rate of 5% the need for the insurance based on this parameter is

- a. Rs.245,675
- b. **Rs.334,541**
- c. Rs.456,376
- d. Rs.567,645

**Solution:**

SET	Begin	Begin
N	15	10
I	5	5
PV	<b>? 544932</b>	<b>? 334541</b>
PMT	-50000	0
FV		544932
P/Y	1	1
C/Y	1	1

8) Amit born in 1950 has a life expectancy at birth of 65 years. Rajul his wife born in 1955 has a life expectancy at birth of 70 years. Assuming that the life expectancies have not changed, Amit is planning to buy an annuity to be paid to him or his wife till anyone of them is alive. Amit will retire on attaining age 58 i.e. in 2008.

- a. 4 years
- b. 12 years
- c. 7 years
- d. **17 years**

**Solution:**

In case of joint life annuity, consider the ages of younger partner.

$$1955+70=2025$$

$$2025-2008=17 \text{ years}$$

9) Calculate the HLV to recommend additional insurance cover for Mr. Rahate. His present age is 45 years, retirement age is 70 years, total income is Rs.21,00,000 [salaries: 15 lakhs, dividends on individual shares: 2.5 lakhs, HUF co-parcener's share of profit: 1.5 lakhs, interest on bank deposit and

other investment: 1 lakh, minor daughters' income (clubbed): 1 lakh]. He has paid corporate professional tax: Rs.5,000 and income tax (as per individual tax return filed): Rs.410,000. He pays total life insurance premium of Rs.55,000 (self-insurance cover: Rs.22,00,000). Reasonable maintenance charges for a person of his stature is assumed as Rs.100,000p.a. Assumed rate of interest to arrive at a present value of his future income is 5 %.

- a. **Rs.1.16 crores**
- b. Rs.3 crores
- c. Rs.1.80 crores
- d. Rs.12 crores.

**Solution:**

SET	Begin
N	25
I	5
PV	? 13762737
PMT	-9,30,000 (1500000-5000-410000-55000-100000)
FV	0
P/Y	1
C/Y	1

$$1,37,62,737 - 22,00,000 = 1,15,62,737$$

10) Your client earns Rs. 60,000 annually. She is married and has a child aged 3. If she should die, she wants her family to receive Rs.45,000 annually for the next 20 years, with the first payment due on her death, and to provide Rs.120,000 for her child's college education in fifteen years' time. She also wants to set up a final expense fund of Rs.15,000, and pay off the mortgage, automobile loan, and outstanding credit card balances. Extracts of her personal balance sheet are as follows:

Assets (Total = 590,000)

- Condominium (For Investment Purpose) : 210,000
- Personal Property: 50,000
- Automobile: 40,000
- Mutual Funds: 50,000
- Bank Deposits: 10,000
- Life Insurance: 100,000
- Mortgage Reducing Term Assurance: 100,000
- Group Death Benefit: 30,000
- Liabilities (Total 120,000)
- Automobile Loan: 15,000
- Mortgage: 100,000

- Credit Card Balance: 5,000

Assuming that the life insurance proceeds and liquid funds can earn 6% annually, calculate the additional Insurance cover required?

- a. 500,246
- b. 516,146
- c. 547,115
- d. **232,187**

**Solution:**

Calculation of PV of Expenses

SET	Begin
N	20
I	6
PV	? 547115
PMT	-45000
FV	0
P/Y	1
C/Y	1

Calculation of PV of Child's Education

SET	Begin
N	15
I	6
PV	? 50072
PMT	0
FV	120000
P/Y	1
C/Y	1

Amount of cover required as per need-based method

Particulars	Amount (in Rs.)
1. PV of Expenses	₹ 5,47,115.00
2. PV of Child's Education	₹ 50,072.00
3. Final Expenses Fund	₹ 15,000.00
4. Total of all needs (1+2+3)	₹ 6,12,187.00
Add Liabilities (15000+ 100000+ 5000)	+₹ 1,20,000.00
Less Financial Assets (210000+ 50000+ 10000)	-₹ 2,70,000.00
Less Existing Insurance (100000+100000+ 30000)	-₹ 2,30,000.00

**Insurance Required****₹ 2,32,187.00**

11) Personal Data of Mr. Vikram:

Earnings: Rs 2,00,000 p.a.

Debts: Rs. 1,00,000

Total Expenses: Rs. 1,28, 572

To support dependent's 75% of pre -death salary (assume no debts to be considered) Assuming simple interest of 7% p.a., as a Financial Planner find out the insurance required using the Capital Retention Approach

a) Rs.24,42,000

b) Rs.22,42,000

c) Rs.23,42,000

**d) Rs.21,42,000**

**Solution:**

Annual earnings/ROR =  $200000 \times 75\% / 7\% = 2142857$

12) Following are the details of Mr. Alok are:

Earnings: Rs 1,00,000 p.a.

Debts: Rs. 1,28,572

To support dependent's 75% of pre -death salary (if no death)

Assuming simple interest of 7% per annum, how much times current annual salary does he need in terms of life insurance? Use the Capital Retention Method.

a) 10 times

b) 8 times

**c) 12 times**

d) 16 times

**Solution:**

Insurance required (using the Capital Retention Approach) = Annual Earnings / Rate of Return. Now annual earnings required to support dependents (75% of pre-death salary) =  $100000 \times 0.75 = 75000$ . Therefore, insurance required =  $75000 / 0.07 = 1071429$

Insurance covered required =  $1071429 + 128572$   
 $= 1200000$

i.e. approximately 12 times the current annual salary.



13) Rupesh has an expected total income over the next 15 years of Rs.1, 50, 000 p.a. If the inflation adjusted discount rate comes to 3% then what is the human life value when there is a lump sum requirement of another 300,000 to clear off his outstanding debt?

- a. Rs.13, 04,654
- b. Rs.18, 44,411
- c. Rs.21, 44,411**
- d. Rs.22, 04,654

**Solution:**

SET	Begin
N	15
I	3
PV	? 1844410.971
PMT	-150000
FV	0
P/Y	1
C/Y	1

Note: As in the question specifically mentioned that there is a lumpsum requirement of 300000.

So, insurance requirement will be = 18, 44,411+3, 00,000 = 21, 44,411

14) The sales literature of an insurer, pertaining to a particular participating policy, claims that in the past, the company had paid maturity benefits of 2.5 times the basic sum assured on their 15 years endowment policies. The company uses the uniform Simple reversionary bonus system and the terminal bonus system to distribute profits to its participating policyholders. Assuming that a uniform reversionary bonus rate of Rs.35 per thousand sum assured was declared over the last 15 years, a basic sum assured of Rs.50,000 and level annual premiums of 5,066, calculate the terminal bonus content in the maturity proceeds (ignore mortality).

- a. 50,000
- b. 48, 750**
- c. 83,767
- d. 75,000

**Solution:**

Maturity Value = Sum Assured + Reversionary Bonus + Terminal Bonus. Maturity Amount = 50000\*2.5 = 125,000.

Reversionary Bonus =  $35 \times 50000 / 1000 \times 15 = 26250$ .

Now, Terminal Bonus = Maturity Value – Sum Assured - Reversionary Bonus.

Therefore, Maturity Benefit =  $125000 - 50,000 - 26250 = 48,750$ .

15) Mr. & Ms. Doshi aged 50 & 47; both have life expectancy of 25 years. Calculate the insurance required based on Need Based Approach for Mr. Doshi. You've the following information:

Current Investments = Rs. 35, 50,000

Expenses = Rs. 4, 00,000 (including Rs. 2, 00,000 of Mr. Doshi's personal expenses)

Mr. Doshi's income post-tax = Rs. 5, 00,000

Final Costs = Rs. 1, 00,000

Inflation rate = 5% p.a. Return on investments = 8% p.a.

**Solution:**

Particulars	Amount
Immediate expenses (i.e., final costs)	1,00,000
+ PV (Net Ongoing Expenses) (WN1)	5459740.699
- Available assets (i.e., current investments)	-35,50,000
Insurance Required as per NBA	<b>2009740.699</b>

PV of Net Ongoing Expenses

Particulars	Amount
Set	Begin
N (i.e., life expectancy of surviving spouse)	25
I%	2.857142857 (8% & 5%)
PV	? 5459740.699
PMT	3,00,000 (5 Lakhs - 2 Lakh)
FV, P/Y, C/y	0,1,1

16) 45-Year-old client named Ravi wishes to replace Rs. 7, 80,000 of his Rs. 10, 00,000 annual incomes for his spouse benefit, upon his death. With the rate of interest as 6.5% p.a. & increase in salary at 3.5% p.a. Find the amount needed by the Capital Retention Method?

**Solution:**

Capital Retention Approach = Annual Income / Rate of Return  
 = 7, 80,000/2.8985%  
 = Rs. 26910470.93.

17) Rohan's ideal cover has to be estimated which in case of any exigency will first repay the outstanding loans and the remaining would be invested along with the couple's existing financial assets. Such combined corpus would be invested in a 7.5% p.a. return instrument to sustain the family's living expenses and the specific financial goals of higher education of their children. The

Living expenses need to be taken as inflation- adjusted to the extent of 80% of their present household expenses for 50 years. What should be the ideal cover?

**Additional Information:**

- Inflation: 5% p.a.
- Living Expenses: Rs. 4, 80, 000 p.a.
- Accumulate in a fund, higher education expenses of Ved & Vedini. Expenses at their respective age of 18 years are Rs. 4 Lakh p.a. (current cost) required for four years, cost escalation 8% p.a. (Current age of Ved & Vedini are 4 years & 1 year respectively).
- Outstanding Loans: Rs. 20,90,000
- Assets: Cash – Rs. 570000, Equity Shares - Rs. 1180000, PPF A/c - Rs. 490000

**Solution:**

Step1: Living Expenses: 1) 80% of Present Expenses for the next 50 years

SET	Begin
N	50
I	$((7.5-5)/1.05)$
PV	? 11420551
PMT	384000
FV	0
P/Y	1
C/Y	1

Step 2: Higher Education: a) Ved: Rs. 4, 00,000 for 4 years after 14 years @ 8%.

SET	Begin
N	14
I	8
PV	-400000
PMT	0
FV	? 1174877
P/Y	1
C/Y	1

SET	Begin
N	4
I	$((7.5-8)/1.08)$
PV	? -4732398
PMT	1174877
FV	0
P/Y	1
C/Y	1

SET	Begin
N	14
I	7.5
PV	? 1719344

PMT	0
FV	4732398
P/Y	1
C/Y	1

b) Vedini : Rs. 4,00,000 for 4 years required after 17 years @ 8%

SET	Begin
N	17
I	8
PV	-400000
PMT	0
FV	? 1480007
P/Y	1
C/Y	1

SET	Begin
N	4
I	((7.5-8)/1.08)
PV	? -5961459
PMT	1480007
FV	0
P/Y	1
C/Y	1

SET	Begin
N	17
I	7.5
PV	? 1743447
PMT	0
FV	5961459
P/Y	1
C/Y	1

Step 3: Total corpus required to meet the living and household expenses and loans  
 $11420551 + 1719344 + 1743447 + 2090000 = \text{Rs. } 1, 69, 73,342.$

Step 4: Financial Assets:  $570000 + 1180000 + 490000 = \text{Rs. } 22, 40,000$

Step 5: Life cover needed for Rohan:  $16973342 - 2240000 = \text{Rs. } 1, 47, 33,342.$

18) Mr. Jignesh , has taken a life insurance policy covering him for death. He has taken an insurance cover for Rs. 4.5 Crores & has been paying the premiums regularly. While traveling to Italy, he was caught in an earthquake, where he lost his life. His family has put across a claim with the insurance company for Rs. 4.5 Crore. Will the claim amount be sanctioned?

**Solution:**

Life insurance covers death caused due to any means. Even if death has been caused on account of a natural disaster & if the insured has been paying premiums regularly, the same would be covered under life insurance. (However, if Mr. Jignesh is staying in area which is prone to earthquakes or has

earthquakes more often, and say he applies for a life insurance cover, then the insurance company may either: -

1. Specifically exclude death on occasion of an earthquake or
2. Include death on occasion of an earthquake but with an increase in premiums or
3. Reject his request for life insurance completely).

19) 35-year-old client named Hardik wishes to replace Rs. 4,55,000 of her Rs. 7,50,000 annual income for her spouse benefit, upon her death. Here, the client expects this salary to increase 4.5 percent per year and she plans to live to age 82. (Assume she is employed till age 82) And also, conservative interest rate is considered as 7.5% p.a.

**Solution:**

Particulars	Amount
Set	Begin
N	82-35 = 47
I%	2.87081 (7.5% & 4.5%)
PV	? ₹ 11993281.67
PMT	455000
FV, P/Y, C/y	0,1,1

20) Miss Jagruti resides in Mumbai with her husband, Mr. Jignesh & has taken 2 Mediclaim policies covering the same peril. Policy A (issued by ABC Insurance company) is worth Rs. 4,50,000 while Policy B (issued by XYZ insurance company) is worth Rs. 2,00,000. She incurs Covid (Coronavirus) & is immediately hospitalized. The total cost of hospitalization comes to around Rs. 2,50,000. Miss Jagruti approaches you, a qualified financial planner, inquiring if he could raise a claim request (of Rs. 2,50,000) to both the companies (i.e. company ABC & XYZ). What would you suggest?

**Solution:**

In this case the second policy would be hit by the **“Principle of Contribution”**. Raising a request with both the companies means he is paid twice for a single claim, thus the claimant would end up profiting from insurance.

If an insured person has coverage under two indemnity insurance policies, he has the right to choose under which policy he wants to make the claim. If the claimed amount is higher than the sum insured under the policy on which he has first made the claim, the insured person can claim the balance amount from the second indemnity policy.

21) If Mr. Prem owns a house in Ahmedabad which is valued at Rs. 85,00,000 insured the house for Rs. 45,00,000 against fire (peril) and the house was subsequently destroyed by fire. What would be the amount that Mr. Prem would recover?

**Solution:**

The insured would only be able to recover Rs. 45,00,000 even if the property is actually worth Rs. Rs. 85,00,000. If the insured was able to recover Rs. 85,00,000 and so make a profit out of insurance, this would constitute a wager (i.e., speculation), which would be against the true nature of insurance.

22) An executive purchased an annuity for a lumpsum Rs 85 Lakhs when he was 55 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. 10.50 Lakhs p.a. vested against the purchase price of Rs. 1.50 Crores. What return is expected from the vesting date?

**Solution:**

SET	Begin
N (Life Expectancy of Surviving spouse)	85-53
I	? 7.52688%
PV (Purchase of Annuity)	-15000000
PMT (Annuity received every year)	1050000
FV (Return of purchase price of annuity)	15000000
P/Y	1
C/Y	1

**RISK MANAGEMENT (INDIA)****MCQ QUESTIONS**

1) Which of the following is correct with respect to Section 101A of the Insurance Act, 1938?

- A) **Every insurer shall reinsure with the Indian reinsurer such percentage of the sum insured on each general insurance policy as may be specified by the Authority.**
- B) It was enacted to enable the Government to collect information about both life and non-life business transacted in India.
- C) It ensures that an insurance product should only be used for protection and risk management mechanism.
- D) None of the above.

**Solution A)**

2) Your client wants to know more about the term waiver and Estoppel.

Statement 1: Waiver is the conscious and discretionary giving up of a known legal right.

Statement 2: A legal rule that prevents someone from changing their mind about something they have previously said is true in court.

Which of the above statements are correct?

- A) Both statements are incorrect
- B) **Both statements are correct**
- C) Only statement 1
- D) Only statement 2

**Solution B)**

3) Which of the following items does not reinforce the principal of indemnity?

- A) Actual cash value
- B) **Estoppel and policy waiver**
- C) Insurable interest
- D) Proof of loss

**Solution B)**

4) The goal of risk management is to:

- A) Minimize insurance expenditures
- B) Make certain that uninsured losses do not occur
- C) **Minimize the adverse consequences of losses and uncertainty connected with pure risk**
- D) Eliminate financial loss

**Solution C)**

5) Which of the following defines role of IRDA?

- A) **IRDA serves as an industry watch-dog for regulating and promoting the insurance and reinsurance industries in India.**
- B) IRDA is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines.
- C) IRDA is a statutory regulatory body entrusted with the responsibility to regulate the Indian capital markets
- D) None of the above.

**Solution A)**

**Explanation:**

The role of IRDAI is to protect the interest of the policy holders, to oversee the growth of the insurance industry and to help in bringing economic growth. All the insurance companies and related associates such as agents, TPAs, brokers, surveyors, repositories etc are expected to perform and function under the aegis of the rules framed by IRDAI.

6) Which of the following committee is responsible to control and regulate the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business?

- A) Committee for payment and settlement business
- B) Tariff Advisory Committee
- C) Economic Capital Framework Committee
- D) Asset liability management committee

**Solution B)**

7) Which of the following is not a function of TAC (Tariff Advisory Committee)?

- A) Clarifying Queries of Insurers
- B) Inspection of Risks
- C) Ensuring Implementation of the Tariffs
- D) **To recommend Investment policy and lay down the operational framework for the investment operation of insurer.**

**Solution D)**

Explanation Under Section 14(2) of the IRDAI Act, 1999, the duties, powers and functions of TAC are as follows:

- Drawing up and Updating Tariffs
- Clarifying Queries of Insurers
- Ensuring Implementation of the Tariffs
- Collection of Data and Analysis
- Publishing Tariffs and Other Regulations
- Inspection of Risks



8) Which of the following is an important link between IRDAI and the non-life insurance industry?

- A) Audit and Remuneration committee
- B) Life Insurance Council**
- C) Insurance Advisory Committee
- D) Investment Advisory Council

**cc B)**

**Explanation:** The Life Insurance Council and the General Insurance Council have been constituted under section 64C of the Insurance Act, 1938 in the year 2001. The Insurance Council functions through several sub-committees and includes all insurance companies in India.

The mission of Insurance Council is to:

- Function as an effective forum to assist, advise and assist insurers in maintaining high standards of conduct and provide services to policyholders
- Interact with the government and various bodies on policy matters
- Actively participate in disseminating insurance awareness in India
- Take steps to develop education and analysis in insurance

9) Which of the following is not a function of Insurance Information Bureau of India?

- A) Ensure data is accessible to numerous market players, researchers, policyholders and general public for real time decision making
- B) Provide benchmark rates for the industry
- C) Publish reports to help IRDAI in regulatory functions and insurers in decision making
- D) None of the above**

**Solution D)**

10) What is the main purpose of Insurance Ombudsman?

- A) The purpose is quick disposal of the grievances of the policy holders in an efficient, economical and impartial manner.
- B) To Publish reports to help IRDAI in regulatory functions and insurers in decision making.
- C) To Actively participate in disseminating insurance awareness in India
- D) None of the above.

**Solution A)**

11) Who was formed for the purpose of promoting insurance education and training to people working or intending to work in the insurance sector?

- A) Insurance Information Bureau of India

- B) Insurance Institute of India**
- C) Insurance Council
- D) General Insurance Council

Solution B)

12) Which of the following is not a function of Insurance Institute of India?

- A) To Provide benchmark rates for the industry.**
- B) To run college and conduct examinations within the insurance field and related subjects for awarding certificates, diplomas and degrees to those interested in insurance.
- C) To ascertain the law and practice relating to all matters connected with insurance and to disseminate such knowledge among those interested in insurance.
- D) To Assist people in the insurance industry to acquire the skills and expertise.

**Solution A)**

13) Agents serve as representatives of the insurance companies? Is this statement Correct

- A) Yes**
- B) No, they are representatives of the policyholders
- C) No, they are independent person.
- D) Information Insufficient

**Solution A)**

**Explanation:** Agents serve as representatives of the insurance companies and sell policies on behalf of the insurers

14) Your client has recently learnt more about the insurance business.

Statement 1 Insurance agents can only be paid commission, they cannot be paid salary.

Statement 2 Every agent has to adhere to the code of conduct specified by IRDAI.

Which of the above statement is correct?

- A) Both are Correct
- B) Both are Incorrect
- C) Only Statement 1
- D) Only Statement 2**

**Solution D)** While some agents are salaried, most agents rely on commissions for income.

15) Your client has recently heard about corporate agent that represent an insurance company and sell its policies. While doing business corporate agents have to

- A) conduct its transactions with clients with utmost good faith and integrity at all times;
- B) act with carefulness and persistence;

- C) treat all data given by the potential clients as totally confidential.
- D) **All of the above**

Solution D)

16) What is Bancassurance?

- A) **Banks and insurance companies collaborate to make a partnership within which the bank sells the insurance firm's product to its clients.**
- B) Bancassurance is the process of evaluating a company's risk in insuring a home, car, driver, or an individual's health or life.
- C) Bancassurance is the practice whereby insurers transfer portions of their risk portfolios to other parties by some form of agreement to reduce the likelihood of paying a large obligation resulting from an insurance claim.
- D) None of the above

Solution A)

17) Bancassurance works well because Insurance company earns a commission amount from the bank whereas the bank widens its market share and customer base. Is this statement True or False?

- A) True
- B) **False**

Solution B)

Explanation:

Bancassurance works well because Banks earns a commission amount from the Insurance Company whereas the bank widens its market share and customer base.

18) Your client has asked your opinion about Insurance broker and Insurance agent. You will suggest him that

- A) **Unlike an agent who is tied with one company, a broker is not bound by any one company and can offer Insurance from all companies.**
- B) Agents represent Consumers, while brokers represent Insurers.
- C) There is no difference between insurance agent and broker
- D) None of the above

**Solution A)**

Explanation:

Insurance brokers provide insurance from all the companies under one roof. Unlike an agent who is tied with one company, a broker is not bound by any one company. Agents represent insurers, while brokers represent consumers.

19) Which of the following is not the function of insurance broker?

- A) Rendering advice on appropriate insurance cover,

- B) Maintaining detailed information of available insurance markets,
- C) Submitting quotation received from insurer/s to the client.
- D) **None of the above**

Solution D)

The functions of an insurance broker, as prescribed by the Regulations, include the following:

- Rendering advice on appropriate insurance cover,
- Maintaining detailed information of available insurance markets,
- Submitting quotation received from insurer/s to the client,
- Providing underwriting information of the client to the insurer,
- Assisting clients in paying premium, negotiation of the claims, maintaining proper records of claims.

20) Web aggregators supply data relating to insurance products, comparison of comparable products offered by different insurance companies and have linkages to websites of various insurers from where customers will choose and get policies on-line.

Is this statement Correct?

- A) **Yes**
- B) No, they do not have linkages of websites of various insurers.
- C) No, they do not supply data related to insurance products.
- D) None of the above

**Solution A)**

21) Which of the following is not the responsibility of web aggregator?

- A) To handle all its transactions with clients with utmost good faith and honesty.
- B) **Underwriting the insurance policy.**
- C) Considering all the information supplied by the prospective customers as totally confidential
- D) None of the above

**Solution B).**

**Explanation:**

For conduct in matters relating to client relationship every web aggregator shall:

- handle all its transactions with clients with utmost good faith and honesty
- act with care and diligence
- ensure that the customer understands his relationship with the Web Aggregator and on whose behalf the Web Aggregator is acting
- consider all the information supplied by the prospective customers as totally confidential

- avoid conflict of interest

22) Which of the following is not the duty and responsibilities of a Surveyor and Loss Assessor?

- A) Conducting surveys and remark about excess/under insurance.
- B) Evaluating liability under the insurance contract
- C) Commenting on salvage and its disposal wherever necessary
- D) To solicit insurance products and to distribute other financial products by employing individuals licensed to market, distribute and service such financial products.**

**Solution D)** To solicit insurance products and to distribute other financial products by employing individuals licensed to market, distribute and service such financial products. This is the responsibility of Insurance Marketing Firms.

23) Which of the following is not Insurance repositories?

- A) NSDL Database Management Limited
- B) Central Insurance Repository Limited
- C) Karvy Insurance Repository Limited
- D) None of the above.**

**Solution D)**

**Explanation:** Insurance Repository is a company which is formed and registered under the Companies Act, 2013 and has been granted a registration certificate by IRDAI for maintaining insurance policies data in electronic form on behalf of the insurance companies.

There are 4 such Insurance repositories as of June 30, 2019:

- a) NSDL Database Management Limited
- b) Central Insurance Repository Limited
- c) Karvy Insurance Repository Limited
- d) CAMS Repository Services Limited

24) Which of the following is not the benefit of holding insurance policies in electronic form?

- A) Less denial of claim**
- B) The policies are in safe custody and can be easily accessed when needed
- C) No requirement to visit the offices of individual insurance companies for service.
- D) No need to go through KYC verification again at the time of purchase of new policy

**Solution A)**

25) Which is correct with respect to Section 25 of IRDAI Act, 1999?

- A) **It lays down the establishment of the Insurance Advisory Committee which advises on matters relating to making of regulations for the insurance industry.**
- B) It lays down the rules regulation for insurance agents, brokers
- C) It lays down the rules for loss assessors, Insurance companies and web aggregator.
- D) None of the above

**Solution A)**

26) Which of the following is the Key responsibility of the Insurer?

- A) To assist policyholders in managing risk in an efficient way through their insurance products, and to pay the claims covered by such insurance products.
- B) To maximise profit for its shareholders
- C) To Increase the number of financial products offered.
- D) None of the above

**Solution A)**

**Explanation:**

Some other key responsibilities of the insurance companies are:

- To mobilize savings of the people.
- To extend the sphere of insurance, thereby including the socially and economically backward classes.
- To act as trustees of the insured public.
- To safeguard economic use of resources collected from policyholders.
- To manage business in a fiduciary capacity.

27) Which of the following is not a source of revenue generation for insurance company?

- A) Underwriting income
- B) Reinvestment income
- C) Unpaid claims on lapsed policies
- D) None of the above**

**Solution D)** All 3 are sources of revenue for an insurance company.

28) Statement 1 The pure premium, determined by actuarial studies, consists of that part of the premium which is necessary to pay for losses and loss related expenses.

Statement 2 'Load' is in addition to the premium which is necessary to cover other expenses, particularly sales expenses, and to allow for a profit.

Are these statements Correct

- A) No
- B) Only Statement 1 is correct**

- C) Only Statement 2 is correct  
**D) Both are correct**

Solution D)

29) Is reversionary bonus a part of the guaranteed benefit?

- A) True  
 B) False

**Solution A)**

**Explanation:**

Bonuses, declared regularly and paid at the time of maturity or at the time of policy surrender during the policy term or on the death of the life assured, are called reversionary bonuses. Once declared, they are included as a part of the guaranteed benefits

30) Your client has recently understood about terminal bonus. He asked you what will happen to the amount of terminal bonus if he increases the term of the policy?

- A) Increase**  
 B) Decrease  
 C) Remains Same  
 D) None of the above

Solution A)

31) Deduction under section 80C in respect of life insurance premium is restricted to 20% of capital sum assured in respect of policies issued on or before 31-3-2012 and \_\_\_\_\_ % of capital sum assured in case of policies taken on or after 1-4-2012

- A) 20%  
**B) 10%**  
 C) 15%  
 D) None of the above

**Solution B)**

32) What is the minimum holding period in respect of ULIP policy whose premium is claimed as deduction under section 80C?

- A) 5 years**  
 B) 3 years  
 C) 2 years  
 D) 1 years

**Solution A)**

33) Your client had purchased a term plan few years ago. He is facing financial difficulties now and he wants to take loan against his term policy. Is he allowed to take loan against term policy?

- A) Yes
- B) No**
- C) Yes, provided that he has paid the premium for last 3 years
- D) None of the above

Solution B) No

**Explanation:** A loan cannot be taken against a term plan. It can be availed only against traditional life insurance policies viz. endowment plans, money-back plans, whole life etc. where there is a guaranteed return and the policy itself is used as a collateral for the loan.

34) Your client has an insurance policy and he had taken a loan against his policy

**Policy Details:**

Sum assured = 20 Lacs

Loan taken = 5 Lacs

Premium = 50,000 Annually

Loan Principal Balance outstanding = 4 Lacs

He has already repaid the entire interest amount and only the principal balance of 4 lakhs is pending for repayment. What amount will he receive if the maturity of the policy is today?

- A) 20 Lacs
- B) Nil because he still has the Loan Outstanding
- C) 15 Lacs
- D) 16 lacs

Solution D)

**Explanation:**

The loan amount and the interest need to be repaid during the term of the policy. If only interest is paid, then at the time of settlement, the due principal amount will be deducted from the claim amount. If the policy holder dies during the loan term, the pending amount will be deducted from the claim amount and disbursed to the nominee.

35) An employee having salary of 35,000 Pm. What is the maximum benefit he can get in EDLI Scheme?

- A) No upper limit
- B) 6 Lakhs
- C) Benefits Calculated considering maximum salary as 15,000
- D) 25 Lakhs



**Solution B)**

**Explanation:** The maximum average monthly salary of an employee is capped at Rs. 15,000. If the basic salary of a member goes above Rs. 15,000 per month, the maximum benefit is capped at Rs. 6,00,000

36) Your client has purchased an ULIP plan. He wants to know what amount is receivable on the death of policyholder?

- A) Sum assured
- B) Fund value
- C) **Higher of the Sum Assured or the Fund Value**
- D) None of the above

**Solution C)****Explanation:**

If the policyholder of a ULIP plan dies during the policy term, the nominee gets the higher of the Sum Assured or the Fund Value as a death benefit. So, if the fund value is lower than the sum-assured, then the sum assured will be paid. But when the fund's value is more than the sum assured, the death benefit paid is the accumulated amount in the fund.

37) Statement 1: Opting for disability insurance is one way of contingency planning.

Statement 2: Contingent planning helps to manage expected outcomes which could otherwise lead to temporary financial gains.

Are these statements correct?

- A) Both are correct
- B) Both are Incorrect
- C) **Only Statement 1 is correct**
- D) Only Statement 2 is correct

Solution C) Only Statement 1 is correct

**Explanation:**

Contingent planning helps to manage unexpected outcomes which could otherwise lead to temporary financial losses.

38) Your client has asked you about operative clause. You will suggest him

- A) Operative clause is the declaration by the insurer.
- B) Operative clause is an integrated contract in the form of an Agreement between the insured and the insurer.

- C) Operative clause is a promise that the insurer undertakes to pay the benefits of the policy to the insured if the reason for which the policy was incepted happens while the policy is still in force.**
- D) None of the above

**Solution C)**

39) An Insurance policy in which a policyholder can easily revive his/her lapsed policy by approaching the nearby branch office of the insurer and paying all unpaid premiums along with interest. Is what type of revival?

- A) Special revival  
 B) Revival due to grace period  
 C) Instalment revival  
**D) Ordinary revival**

**Solution D)**

40) An insured person can revive the policy by taking a policy loan. Is this statement incorrect?

- A) Yes  
**B) No**

**Solution B)**

Explanation the above statement is correct

41) Life insurance is a contract of indemnity where loss of life is indemnified in terms of money. Is this statement correct?

- A) Yes  
**B) No**

**Solution B)**

Life insurance is not a contract of indemnity since value of human life cannot be quantified in terms of money.

Nonlife insurances are Contract of indemnity where loss of goods and properties is indemnified in terms of money

42) Which of the following type of insurance is mandatory?

- A) Personal accident Insurance  
 B) Life Insurance  
**C) Third Party motor Insurance**  
 D) Fire Insurance

**Solution C)**

43) A Machine worth rupees 50000 insured for 25000 under fire insurance policy. It was damaged due to fire and the amount assessed is 20000. What is the maximum claim payable?

- A) 20000
- B) 25000
- C) 50000
- D) **10000**

**Solution D)**

44) The third-party administration role mainly involves

- A) **Checking and paying insurance claims**
- B) Sending renewal notices
- C) Issuing documents on behalf of insurer
- D) Selling ;new insurance policies

**Solution A)**

45) Your client is covered by group health insurance policy. He wants to know can he claim deduction of the premium paid from his income?

- A) Yes, he can claim deduction under section 80D.
- B) **No**
- C) Yes, provided he has paid premium in cheque.
- D) Depend on the type of health policy

**Solution B)**

**Explanation:**

Group Health Insurance premium provided by the company is not eligible for deduction by the employee. Employers get taxation benefits on a group health insurance.

46). Your client pays health insurance premium for his brother.

Premium paid = 35000

Sum assured = 4 Lacs

Can your client claim deduction for the premium paid for his brother's health insurance?

- A) Yes, but he can claim only up to 25,000
- B) Yes, if his brother is dependent on him
- C) Yes, provided that the premium is paid by your client and not by brother.
- D) **No**

**Solution D)**

The premiums paid for health insurance availed by brothers/sisters do not qualify for tax deductions.

47) What is the maximum amount an HUF can claim deduction under section 80 D if his current age is 65 years?

- A) Nil, Only Individuals can claim deduction under section 80D
- B) 25,000
- C) **50,000**
- D) None of the above

**Solution C)**

**Explanation:**

Just like individual taxpayers, an HUF can also claim a deduction under section 80D for a health insurance taken for any of the members of the HUF. This deduction will be Rs. 25,000 for the insured member whose age is less than 60 years, and will be Rs. 50,000 for the insured of 60 years of age or more.

48) Which of the following is the benefit of agricultural insurance?

- A) It provides benefits farmers to maintain agricultural credit flow
- B) Rationalizes loss assessment procedures
- C) Helps to build up precise statistical data of crop production
- D) **All of the above**

**Solution D)**

49) Your client is engaged in the business of export of apparels. He sells his goods on credit to some international client. Now due to economic recession he wants protection against payment delays and non-payment by its buyers. Which type of Financial product will you suggest him?

- A) Forward swap to hedge against currency movement
- B) Marine Insurance
- C) Business Insurance
- D) **Credit Insurance**

**Solution D)**

**Explanation:**

Credit insurance is designed to protect manufacturers from the risks due to default in payment.

50) Which of the following is not a form of liability insurance?

- A) Public liability
- B) Professional indemnity
- C) Product liability
- D) **Agricultural Insurance**

**Solution D)**

## RISK MANAGEMENT (GLOBAL)

### MCQ QUESTIONS

1) Which of the following defines Risk Minimization?

- A) Risk minimization occurs when one individual or entity takes on the risk for the benefit of another.
- B) **Risk minimization is employing strategies to reduce the likelihood or the severity of loss caused by a particular risk.**
- C) Risk minimization is not doing things that expose one to risk.
- D) Risk minimization means retaining and avoiding risk

**Solution B)**

2) An individual with no life insurance has decided that the risks associated with skiing are worth it and does not take steps to avoid, minimize, or transfer the risk, which of the following clearly defines his attitude towards risk?

- A) **Risk retention**
- B) Risk Avoidance
- C) Risk Transfer
- D) Risk minimization

**Solution A)**

3) An individual trades in the derivatives markets. Recently while trading in the derivatives market, he has suffered huge losses. His friend suggested him to buy an insurance to avoid such losses in the future. He has approached you to ask your opinion on this topic. Which one of the following will you suggest him?

- A) He can buy an insurance policy to avoid losses in future
- B) He can buy insurance policy provided that the risk covered is pure risk and not speculative
- C) **He cannot buy insurance policy, since trading in derivatives is speculative risk and insurance policies covers only pure risk.**
- D) None of the above

**Solution C)**

4) What is the meaning of peril and hazard?

- A) **A peril is the direct cause of the loss and hazard is anything that either causes or increases the likelihood of a loss.**
- B) A Hazard is the direct cause of the loss and peril is anything that either causes or increases the likelihood of a loss.
- C) A peril is the direct cause of the loss and hazard is anything that either causes or decreases the likelihood of a loss.
- D) A peril is the indirect cause of the loss and hazard is anything that either causes or increases the likelihood of a loss.

**Solution A)**

5) Buying a term insurance policy is to cover which type of pure risk?

- A) Catastrophic Losses
- B) Death and Disability**
- C) Loss of Income
- D) Accidental Risk

**Solution D)**

6) Insurers consider four factors before accepting a risk. Which of the following is not one of them?

- A) The law of large numbers must apply
- B) The loss must be intentional**
- C) The loss must be measurable and able to be defined
- D) The loss must not be financially catastrophic

**Solution B)**

7) Insurance works on the principle of

- A) Sharing of losses
- B) Probabilities
- C) Large numbers
- D) All of the above**

**Solution D)**

8) Insurance helps to

- A) Prevent adverse situations from occurring
- B) Reduce the financial consequences of adverse situations**
- C) Negate all consequences of adverse situations
- D) Make assets continuously productive

**Solution B)**

9) An insurer will sue the individual who caused harm to an insured after it has settled the insured's claim. This statement refers to which principal?

- A) Subrogation**
- B) Indemnity
- C) Insurable Interest
- D) Utmost good faith

**Solution A)**

10) The insurer is required to abide by the terms of its contracts. This statement relates to the term

- A) Aleatory
- B) Adhesion**
- C) Unilateral
- D) Conditional

**Solution B)**

- 11) The main purpose of having Life insurance is:
- A) As an avenue for long-term investment
  - B) As a medium for getting income tax benefits from savings
  - C) As a governmental programme for reducing poverty
  - D) **None of the above**

Solution D)

- 12) The principle of ensures that an insured does not profit by insuring with multiple insurers
- A) Subrogation
  - B) **Contribution**
  - C) Indemnity
  - D) Particular Average

**Solution B)**

- 13) Compared to the premium for a Term plan, the premium for an Endowment plan will be \_\_\_\_\_ for the same age
- A) **More**
  - B) Less
  - C) Same
  - D) Varies from insurance policy to policy

**Solution A)**

- 14) If only those with high risks obtain insurance coverage, this is an example of
- A) Indemnification
  - B) **Adverse selection**
  - C) Replacement
  - D) Subrogation

**Solution B)**

- 15) Which of the following items would most likely be covered at replacement cost under your homeowners' policy?
- A) Stolen Property
  - B) Damage to your roof
  - C) **Flood damage due to furniture**
  - D) Wind damage due to you fence

**Solution C)**

16) An insurance advisor is helping you to buy a policy. He asked you to buy a policy which states that in the event of a total loss, the policy will reimburse a policyowner the amount required to replace the property up to policy limits. Which type of replacement provision advisor is referring to?

- A) Actual cash value
- B) Replacement cost**
- C) Inflation guard endorsement
- D) Guaranteed replacement cost

**Solution B)**

17) An insurance policy gives you two options -

Policy A which has higher deductible and Policy B which has lower deductible. Assuming other things remain the same, which policy will have lower premium?

- A) Policy A**
- B) Policy B
- C) Both policies will have same premium
- D) None of the above

**Solution A)**

Higher the deductible, lower the premium

18) A neighbour's negligence causes damage to your home. Your insurer pays you for the damages and sues your neighbour for her negligence. The insurance company may do this because of a

- A) Co insurance Clause
- B) Subrogation**
- C) Indemnity
- D) Principal of contribution

**Solution B)**

19) A fire destroyed Mr. Shah's store. Investigators determined the fire originated in the garbage dumpster behind the store, and the insurance company indemnified him for his loss. What insurance term describes the fire that caused the destruction of Ethan's store?

- A) Hazard
- B) Severity of loss
- C) Peril**
- D) Captive

**Solution C)**

20) To indemnify means to

- A) Put back in the same financial position just prior to the loss.**
- B) Put aside funds to pay for losses reported but not yet paid.
- C) Transfer risk to someone who has better financial resources and can withstand loss.



D) Make financial provisions for dealing with potential losses.

**Solution A)**

21) XYZ Insurance Ltd. agreed to insure a large commercial client. Due to the size of this client's operations, there is the potential that it could suffer a substantial loss. It would be financially difficult for XYZ Ltd. to pay the entire claim itself. To spread this risk, XYZ Ltd. contacted ABC Insurance Company to request that it cover a portion of the risk. ABC insurance Company agreed, but only on the condition that it receives a portion of the premium the client has paid to XYZ Insurance Ltd.

The term that best describes this scenario is

- A) Retention.
- B) Reinsurance.**
- C) Loadings.
- D) Casualty insurance.

**Solution B)**

22) Your client states "There are some policies that are designed to remain in force as long as the person insured is alive. Insurers can accomplish this because these policies retain a portion of the premium in the form of cash value, which helps offset the increasing cost of insurance as the insured ages"

Which type of policy is he talking about?

- A) Permanent policies**
- B) Term Policy
- C) Life Insurance
- D) Endowment Plan

**Solution A)**

23) Which of the following clearly defines the meaning of cash value in a life insurance policy?

- A) Cash value is an additional cost built into an insurance policy to cover losses which are higher than anticipated for the company arising from the insuring a person who is prone to a form of risk
- B) Cash value is the maximum amount of risk retained by an insurer per life.
- C) The cash value of a life insurance policy equals the total amount of premiums paid minus the cost of insurance and other charges assessed by the carrier.**
- D) None of the above

**Solution C)**

24) Your client wants to buy a policy that will provide him the coverage for the insured's whole life, but will allow him payments to be made for a shorter period of time. Which type of policy is he talking about?

- A) Endowment
- B) ULIP**
- C) Whole life policy

**D) Limited Pay whole Life Policy**

Solution D)

25) You have a meeting with an insurance company and they explain you two policies  
 Policy A -This Policy covers two people and pay death benefit after both individuals die  
 Policy B -This policy covers two individuals and pay the death benefit when the first covered person dies.

Which type of policies are they talking about?

- A) Policy A and Policy B are both term plans
- B) Policy A is first to die joint life policy and policy B is second to die joint life policy
- C) Policy A is second to die joint life policy and policy B is first to die joint life policy**
- D) None of the above.

Solution C)

- 26) What is the main difference between an absolute and collateral assignment?
- A) An absolute assignment transfers all ownership rights in the contract from the owner to someone else. On the other hand, collateral assignment transfers some rights, but not all.**
  - B) Collateral assignment transfers all ownership rights in the contract from the owner to someone else. On the other hand, an absolute assignment transfers some rights, but not all.
  - C) Absolute assignment can be used as a collateral for loan. On the other hand, collateral assignment cannot be used as a collateral.
  - D) None of the above

Solution A)

27) Mr Rahul had purchased a Term life insurance policy three years ago.

Premium due on March 1, 2021.
Grace Period 30 days.
Premium amount= Rs. 10,000
Sum Assured = Rs.15,00,000
Rahul dies on March 15, 2021.

What amount will his family receive from the insurance company?

- A) Rs.15,00,000
- B) Nil
- C)Rs.14,90,000**
- D)None of the above

**Solution c)** Because If an individual dies during the grace period, the insurer will subtract any outstanding premium amount from the death benefit proceeds

28) Which of the following means Contestable period in Insurance Policy?

- A) **The life insurance Contestable period is a short window in which insurance companies can investigate and deny claims.**
- B) A contestable period is a set length of time after the due date during which payment may be made without penalty.
- C) Contestable period is a part of an insurance policy that stipulates when coverage can begin again after a recent accident.
- D) None of the above

**Solution A)**

The life insurance Contestable period is a short window in which insurance companies can investigate and deny claims.

29) Your client has recently purchased a life insurance policy. He has approached you to help him in selecting the beneficiary of the policy. In case if he dies, he wants proceeds from the insurance company to be given to his wife. In case if his wife is not alive at that time, he wants proceeds to be given to his son. What advise will you give to him?

- A) He can select any one of them as beneficiary
- B) He should only select his wife as the beneficiary
- C) He should only select his son as the beneficiary
- D) **He should select wife as primary beneficiary and his son as contingent beneficiary.**

**Solution D)**

30) You have started your own financial planning practice. One of your clients had committed suicide. His wife approaches you to understand what amount she will receive from the insurance company?

Details given

Policy purchase date Jan 01, 2010.
Sum Assured = Rs. 25 Lacs
Exclusion period 3 years
Annual premium= Rs. 25,000

- A) Nil
- B) He will receive the total premiums that he had paid
- C) **25 Lacs**
- D) 24,75,000

**Solution C)**

Death by suicide is normally excluded during a specified period following policy inception. The exclusion period usually is one or two years. This clause provides that if the insured commits suicide

Within the exclusion period, the insurance company only has to return premiums paid, perhaps with interest. Once the exclusion period passes, suicide is treated as any other death and entire sum assured is paid.

31) On their way home from school, two children Ram and Shyam enjoyed throwing rocks at vehicles from a bridge overlooking the freeway. One day, a rock they threw smashed the front windshield of a vehicle and scared the driver, who crashed into the guardrail. The driver was not injured, but the damage to the vehicle was substantial. Both Ram and Shyam were later caught by the police, and their parents were forced to pay for the damages to the vehicle involved in the accident. Ram and Shyam's actions can be described as an example of

- A) The theory of probability.
- B) **Negligence.**
- C) Exposure to risk.
- D) The law of large numbers.

**Solution B)**

32) One of your clients wants to purchase an insurance policy which will pay him the dividends. Which type of policy will you suggest him?

- A) Cumulative Insurance policy
- B) Non-cumulative Insurance Policy
- C) **Participating Insurance Policy**
- D) Non participating Insurance Policy

**Solution C)**

When a policy pays a dividend to a policy owner, that policy is said to be participating policy.

33) XYZ Insurance company is able to offer affordable insurance policies to its insureds. The low premiums enjoyed by its policyholders can be attributed to the company's community involvement and low operating costs, since it is a corporation owned by its policyholders. The policyholders take part in the company's operations through voting rights and by sharing in the financial successes and failures of the company.

What kind of insurance company is XYZ Insurance Company?

- A) Captive insurance company.
- B) **Mutual insurance company.**
- C) Stock company.
- D) None of the above

**Solution B)**

34) You are attending an Investment conference. You meet one of your old friend and you both are having discussion on the Insurance policies. Your friend states that there is a provision that permits the policyowner to convert the term insurance into a cash value (permanent) form of insurance.

Which type of clause is he referring to?

- A) Common Disaster clause
- B) Settlement Clause
- C) Conversion Clause**
- D) There is no such provision available.

**Solution C)**

**35)**

Statement 1- In Insurance, only financial loss can be compensated
---

Statement 2- In order to be insurable, a risk must be capable of statistical estimation.
--

Which of the above statement is correct?

- A) Only Statement 1 is correct
- B) Only Statement 2 is correct
- C) Neither statement 1 nor statement 2
- D) Both are correct**

Solution D)

36) The main purpose of the guaranteed insurability rider benefit is to give the policyholder the right to

- A) Increases cover when a key life event occurs**
- B) Maintain insurance cover despite fall in investment value.
- C) Includes his dependents in the policy
- D) None of the above

**Solution A)**

37) Which of the following ratio is not used in NAIC Criteria to evaluate an insurance company?

- A) Gross change in capital structure and reserves
- B) Return on capital employed.**
- C) Changes in product and asset mix
- D) Commissions and expenses to premiums and deposited.

**Solution B)**

38) Mr Rahul is trying to understand about various risk involved in the insurance business. Mr Rahul tells you about the risk arising from underestimating liabilities from existing business or not properly pricing prospective business. Which type of risk is he referring to?

- A) Credit Risk
- B) Asset Risk
- C) Underwriting Risk**
- D) Off Balance sheet risk.

**Solution C)**

39) An insurance company uses operating leases in their business (They do not list the asset and corresponding liability on its own balance sheet). Which type of risk is involved if someone is investing in this insurance company?

- A) Credit Risk
- B) Asset Risk
- C) Underwriting Risk
- D) Off Balance sheet risk.**

**Solution D)**

40) Your client has recently heard about a new term “Lapse Ratio”. He approaches you to help him understand the same. What will you suggest him?

- A) Lapse ratio is the reduced amount of sum assured paid by the insurer in case of discontinuation of the policy.
- B) Lapse ratio is the total percentage of fund assets used for administrative of the insurance company.
- C) The lapse ratio represents the percentage of policies that are terminated each year out of all policies in force.**
- D) All of the above

**Solution C)**

41) Is it necessary that policy holder and insured be the same person?

- A) Yes
- B) No**
- C) Depends on case to case
- D) Yes, in case of life insurance, No in case of general insurance.

**Solution B)**

**Explanation:**

The policyholder may also be the insured. For instance, a husband might purchase an insurance policy on his own life to protect his wife and children in case of his death. In that case, the husband is the policy owner and the insured.

Or a policyholder could also be the beneficiary and not insured. That same husband might purchase an insurance policy on his wife's life, naming himself as a beneficiary, to protect his family's financial welfare in case she died. In that case, the husband is the policyholder and the beneficiary -- and his wife is the insured.

42) What are the some of the factors that you will consider before selecting your advisor?

- A) Experience
- B) Training and Education
- C) Reputation
- D) All of the above**

**Solution D)**

43) Which of the following statement is incorrect?

Statement 1 Keyman life policy proceeds can be set off against lost income from business.
---

Statement 2 Keyman life policy can provide compensation to protect profits
--

Statement 3 keyman life policy can compensate for losses incurred due to stoppage of work, following the absence of the keyman from the work.
---

A) Statement 2

B) Statement 1

C) Statement 3

**D) None of the above**

**Solution D)**

44) Excursion in a health policy means

**A) Diseases specifically not covered**

B) Diseases covered under the policy

C) Both option A and B

D) None of the above

**Solution A)**

45) According to a common law, when should be the insurable interest present in the insurance contract for a fire insurance?

**A) At the time of purchasing insurance policy**

B) At the time of claim

C) Both option A and B

D) None of the above

**Solution A)**

46) Mr. Harshad is the Human resource manager of company ABC and looking for the life insurance policy. The insurance agent informs her that the company ABC must ensure that a minimum number of employees will be covered under the group policy. Mr Harshad approaches you to know the main reason behind this requirement. What will you be your response?

A) To reduce premium cost per employee

B) To reduce the administration charges

C) To ensure maximum people in the company are insured.

D) Avoid adverse selection

**Solution D)****Explanation:**

Adverse selection basically refers to the tendency of people whose exposure to risk is higher than average to purchase insurance to a greater extent than those whose exposure is less than average.

47) You client has approached you to know about the disability income benefit rider in the life insurance policy. Which of the following statement are correct?

- 1) A waiting period normally applies before income benefits are provided to the insured.
- 2) Income benefits will be provided during the insured disability.
- 3) Death benefits will be reduced if income benefits are provided to the insured.

- A) All statements are correct
- B) Only Statement 1 is correct
- C) Only statement 2 is correct
- D) **Statement 1 and 2**

**Solution D)**

48) Rohit and Alia are married couple. Rohit had already purchased a life insurance policy. Primary beneficiary in the life policy of Rohit is alia and the contingent beneficiary is Jay. Recently Rohit and Alia met with an accident and both of them passed away.

Who will receive proceeds from the Insurance Company?

- A) Legal heirs of Rohit and alia
- B) Dependents of alia since alia is the primary beneficiary
- C) **Jay because primary beneficiary is not alive**
- D) Parents of Rohit

**Solution C)**

The contingent beneficiary will be entitled to the death benefit on the death of primary beneficiary.

49) You recently met with the Chief Risk officer of an insurance company. He states "Conducting a risk management audit is the most appropriate way to begin developing and optimizing a risk management strategy"

Is this statement Correct?

- A) **Yes**
- B) No
- C) Information insufficient
- D) None of the above

**Solution A)**

50) Your client has already existing employer-sponsored and government-provided benefits adequately cover potential medical expense exposure. What will you suggest him on purchasing additional insurance cover?

- A) Purchase an additional cover
- B) **No additional insurance cover needed**
- C) None of the above

**Solution B)**



51) Which of the following is not a part of risk management strategy?

- A) Select the most appropriate risk management technique
- B) Review the current situation
- C) Transfer and Retain Risk**
- D) Identify the Risk

**Solution C)**

**Explanation -**

A risk management strategy should include the following steps:

- Identify the risks
- Review (and inspect) current situation
- Analyze the information
- Select the most appropriate risk management technique
- Implement the chosen approaches
- Monitor results

52) Which one of the following final expense should not be considered when considering potential life insurance needs?

- A) Funeral and unpaid medical expense
- B) Outstanding debts
- C) Expenses required to increase the standard of living**
- D) Estate settlement cost

**Solution C)**

53) Which one of the following is not part of four main rating agencies?

- A) ICRA**
- B) Standard and Poor's
- C) Moody's
- D) Fitch

**Solution A)**

The four are Standard and Poor's, Moody's, Fitch, and A.M. Best. Each of these organizations rate insurer's financial stability and well-being.

54) How much benefit will a normal LTC insurance policy pay for expenses incurred when a family member provides LTC care services?

- A) No Amount**
- B) Amount as specified in the policy
- C) Salary of the family member
- D) Average remuneration of the caretaker

**Solution A)**

Typically, the insurer will pay no amount for services provided by a family member. Some policies include a respite care benefit that allows the caregiver to take a break from caregiving by paying for another caregiver to step in.

55) Negligence is what kind of tort?

A) An intentional tort

**B) An unintentional tort**

C) A criminal tort

D) None of the above

**Solution B)**

## ADDITIONAL MCQ QUESTIONS OF RISK MANAGEMENT

1. Crop insurance is an important part of agriculture in India. Which one of the following losses is covered under crop insurance?

- a) Burning of crop by order of a public authority
- b) Loss of revenue due to fall in price of agricultural commodities**
- c) Malicious damage due to negligence of the farmer
- d) Damage caused by birds or animals

**Answer (b)**

2. Insurers consider four factors as requirements for an insurable risk. One of the reasons why it may not be possible to purchase insurance to cover a certain peril or the coverage premium may be so high as to be prohibitive is most likely an example of which factor?

- a) The loss must be by chance.
- b) The loss must be measurable and able to be defined.
- c) The law of large numbers must apply.
- d) The loss must not be financially catastrophic**

Answer: (d)

Reason: The loss must not be financially catastrophic. A catastrophic loss to an insurer is not the same as a catastrophic loss to an individual. Loss of a house might be financially catastrophic to a family. However, loss of one house would not make much financial difference to an insurer. On the other hand, the loss of 10,000 houses could definitely be financially catastrophic for an insurer, to the extent that the company might no longer be viable as a business. This is one of the reasons why it may not be possible to purchase insurance to cover a certain peril.

3. There are four insurance concepts that apply to insurance law that affect the operation of the insurance policy. The transfer of rights and entitlements from one individual to another most likely falls under which of the concepts:

- a) Insurable interest
- b) Subrogation**
- c) Indemnity
- d) Utmost good faith

**Answer: (b)**

**Reason:** Subrogation involves the transfer of rights and entitlements from one individual to another

4. The Motor Vehicles Act, 1988 regulates all aspects of road transport vehicles in India. Which one of the following is a correct provision of Motor Insurance under the Act?

- a) As per the Act, motor insurance is optional for vehicles engaged in government essential services.
- b) The cover ensures the insured's liability in respect of only death or bodily injury to third parties and not to damage of property of third parties.
- c) Motor insurance does not provide cover against loss or damage to the insured vehicle due to terrorist activity.
- d) The cover ensures the insured's liability in respect of death or bodily injury to third parties and also damage to property of third parties.**

**Answer: (d)**

5. A loss assessor in insurance sector is an individual, or a firm, who deals with cases related to a claim. Which one of the following statements correctly describes the function of a loss assessor?

- a) Providing underwriting information of the client to the insurer.
- b) Conducting spot and final surveys, and quantifying claims**
- c) Processing and settlement of claims.
- d) Processing forms, paperwork and premiums in a timely and precise manner.

**Answer: (b)**

**Reason:** Loss assessor's duty is to conduct survey of the damaged property in question, and to properly quantify claim such that it is filed for an accurate and realistic amount.

6. The major risk management areas are: property, liability, life, health, and disability. Financial advice is a holistic process, and recommendations a financial advisor makes in one area often have an impact on one or more other areas. Few individuals can effectively address all financial needs to the same degree and at the same time. In the case of a client with limited funds, risk-management goal prioritization is a valuable activity as risk transfer always costs money to implement. Which of the following statements regarding risk management strategies is most likely correct?

- a) Risk management prioritization is not often a matter of balancing needs with available resources.
- b) Top risk management priorities should be those areas of risk that can cause the most harm.**
- c) All risks require insurance.
- d) A person may not have enough assets so that purchasing insurance is not necessary.

**Answer: (b)**

7. Motor vehicle (car) insurance normally has four main coverage sections: liability, medical payments, physical damage, and uninsured motorists. The car insurance policy makes payments based primarily on the obligation of the insured. Rani owns a car and she allows her daughter Katrina to use the car. One afternoon Katrina was not feeling well and let her friend Karisma drive her home from school. Karisma damaged the car backing up in the parking lot. Which of the following statements is most likely correct?

- a) Rani will receive an insurance payment because the policy covers any person authorized by the insured to drive the covered vehicle.
- b) Rani will receive an insurance payment because the policy covers any person authorized to use the covered car.
- c) Rani will receive an insurance payment because the policy covers the named insured or any family member living in the insured's household.
- d) Rani will not receive an insurance payment because the policy does not cover any person to use the covered car.**

**Answer: (d)**

**Reason:** Rani will not receive an insurance payment because the policy does not cover any person to use the covered car. Rani will not receive an insurance payment. The person has to be authorized to use the car. Katrina is authorized by Rani to use the car, Karisma is not authorized. The car insurance policy makes payments based primarily on the obligation of the insured. The policy defines the insured as being: 1) the named insured or any family member (living in the insured's household, 2) Any person authorized to use the covered car, 3) Any person authorized by the insured to drive the covered vehicle

8. To what extent is the liability of a health insurance company to pay claims under an indemnity plan, also known as Mediciclaim?

- a) Actual expenses incurred in treatment
- b) Actual expenses incurred, up to the amount insured for specified illnesses.**
- c) The sum insured on contracting the disease, irrespective of amount spent
- d) A maximum of 10 times the premiums paid.

**Answer: (b)**

**Reason:** Under an indemnity plan, the insured can claim reimbursement of actual expenses incurred, up to the amount insured for specified illnesses, as per the terms and conditions of the policy.

9. Suhas has a health insurance plan. The plan comes with a co-insurance percentage of 70% up to the maximum out-of-pocket limit of Rs. 1,00,000 and a deductible of Rs. 10,000. During the policy period

Suhas fell ill and had to spend Rs. 75,000 for his medical treatment. What claim amount would be paid by the insurance company to Suhas under his policy?

- a) **Rs. 45,500**
- b) Rs. 52,500
- c) Rs. 65,000
- d) Rs. 90,000

**Answer: (a)**

**Reason:** Rs. 45,500 Total medical expense = 75,000; Deductible = 10,000; Remaining amount = 75,000 – 10,000 = 65,000 Applying co-insurance insurance company pays = 65,000\*70% = 45,500

10. Primary insurance companies 'cede' business to a re-insurer, which can either be treaty or facultative. Which one of the following options correctly represents the feature of a facultative re-insurance?

- a) It covers extensive groups of policies
- b) **It covers specific high-value risks which the ceding company prefers to pass on.**
- c) The ceding company agrees to cede all risks to the re-insurer
- d) It is limited to only property re-insurance

**Answer: (b)**

**Reason:** It covers specific high-value risks which the ceding company prefers to pass on. Facultative re-insurance is issued after an individual analysis of the specific risks by the re-insurer, and facts of the underlying policy. It covers specific individual, high-value risks which the ceding company does not prefer to retain under treaty.

11. Endorsements are an important part of policy document and can be issued at the time of purchase, mid-term or during the renewal period of the insurance policy. Which of the following statement correctly defines the meaning of endorsement in the context of an insurance policy?

- a) A process of transfer of the insured's benefits to the beneficiary.
- b) **It is a documentation which incorporates amendments, or additions, in the existing terms of the policy.**
- c) Insurer's acceptance of the claim raised by the insured as per policy.
- d) Insurer's acceptance of the proposed risk.

**Answer: (b)**

**Reason:** Any material changes, or amendments, to the existing insurance policy are made by an endorsement in the policy document.

12. Your client Anushka qualified for reduced disability benefits, and the insurance carrier adjusts her monthly disability benefit based on a formula that considers her loss of earned income relative to her prior earned income. What type of reduced disability benefit does Anushka's plan most likely have?

a) Permanent disability

**Residual disability**

b) Partial disability

c) Temporary disability

**Answer : (b)**

**Reason:** A residual disability provision allows for a lesser number of benefits to be paid if the insured is able to return to work in some capacity.

13. Life often presents difficult situations. Whether it's an illness leading to loss of work, significant damage to a home, a recreational accident, or a car crash, each can cause financial loss. Some risks of loss can be addressed without insurance, but others are best addressed by transferring the risk to an insurer. Risks may be relatively simple or complex. Regardless of the nature, risk management begins with an identification of the types of and potential exposures to risk. In the data gathering step a financial advisor will help to identify potential risks your client faces. In your analysis, you will evaluate various options for addressing these risks and present your recommendations to the client. Your client Sophie is newly married and starting a family. You and Sophie have looked at various life insurance options but for now the premiums are too high versus her budget. Sophie has decided that she will no longer partake in sky diving activities because she feels it is a high-risk sport that places her in too much danger. Sophie's decision to decline participation is a risk management technique commonly referred to as:

a) **Risk Avoidance**

b) Risk Transfer

c) Risk Minimization

d) Risk Retention

**Answer: (a)**

**Reason:** Risk avoidance is not doing things that expose one to risk. Sophie has decided to avoid sky diving due to her new family situation.

14. Insurance policies are legal contracts. Each party to a contract has a legal relationship with the company and vice versa. As a legal contract, there are standard terms and conditions and several elements to consider in a company evaluation when selecting an insurance company. The fact that a policy owner accepts the standard wording of an insurance contract, with no opportunity to negotiate variances to the wording, makes the policy one of:

- a) Universal
- b) Adhesion**
- c) Unilateral
- d) Aleatory

**Answer: (b)**

**Reason:** Adhesion: The insurer is required to abide by the terms of its contracts. In other words, because the company wrote the contract, it must honour its terms. This type of contract is one prepared by one party to the contract and requires the other party to the contract to accept or reject all of the conditions within the contract as a whole.

15. Mohit had purchased only compulsory third-party policy for his car. He jumped a red light and collided with another car and then with the boundary wall of a nearby house. Damage to his car was of Rs. 25,000, damage to another car was of Rs. 10,000 and damage to the boundary wall of the house was of Rs. 20,000. How much claim will the insurance company pay to Mohit?

- a) Rs. 30,000**
- b) Rs. 45,000
- c) Rs. 35,000
- d) Rs. 55,000

**Answer (a)**

Rs. 30,000 Damage to another car – Rs. 10,000 Damage to the boundary wall of the house – Rs. 20,000. Total claim = Rs. 30,000 since Mohit took third party liability policy, he will not be given claim for the damage of his own car.

16. General insurance includes cover for many risk exposures. Which of the following statements regarding general insurance is most likely correct?

- a) Homeowner's insurance does not include expenses incurred while the dwelling is damaged, by a covered peril, beyond the point where the dwelling can be occupied.



- b) Homeowner's insurance does not include medical payments to others, claims expenses, and damage to property of others.
- c) **Property insurance covers personal residences, outbuildings, warehouses, office buildings, condominiums and town houses, and apartment buildings.**
- d) Property insurance covers personal residences, outbuildings, warehouses, office buildings, condominiums and town houses, apartment buildings, and land.

**Answer: (c)**

17. It is important for a financial advisor to help their client's prioritize action steps to assist their client's in implementing risk management strategies. Conducting a risk management audit is the most appropriate way to begin developing and optimizing a risk management strategy. In a risk management audit with your client, the information gathered included the following: your client Kareena has just started her own consulting business after a long and successful career with a major employer but has lost employer-sponsored medical benefits. Kareena has also been appointed as a Director to a non-profit organization board. Kareena's successful career has enabled her to be classified as a "high net worth individual" (HNWI). Kareena has no dependents. The insurance priorities for Kareena in the order of most important to least important are most likely:

- a) Health insurance, life insurance, personal liability insurance.
- b) Personal liability insurance, life insurance, health insurance.
- c) **Professional liability insurance, healthcare insurance, and disability insurance.**
- d) Life insurance, personal liability insurance, and healthcare insurance.

**Answer: (c)**

**Reason:** Kareena started her own consulting company so she should have errors and omissions professional liability coverage. Kareena has lost her employer health insurance so she should prioritize that and she may want to consider disability. As a High Net Worth Investor with no dependents, it is unlikely that Kareena requires additional life insurance.

18. Aniket wants to renew his car insurance policy. His vehicle is 4 years old and its IDV as on date is Rs. 4.25 lakh. He has received the following quotation from his insurer for breakup of premiums:

(Own Damage) Base Premium – Vehicle	Rs. 8,100 Premium
- Electrical fittings	5% of Base premium
(Liability premium) Basic Third Party	Rs. 4,250
Legal liability to driver	Rs. 650
No claim bonus (NCB)	25%

What would be the gross premium payable by Aniket for his car insurance for the coming year, ignoring the taxes?

- a) Rs. 6,379
- b) Rs. 10,054
- c) **Rs. 11,279**
- d) Rs. 10,216

**Answer: (c)**

**Reason:**

Basic Own Damage premium Rs. 8100  
 + Premium for Electrical fittings =  $5\% \times 8100$  Rs. 405  
 Total Rs. 8505  
 (-)NCB =  $25\% \times 8505$  Rs. 2126  
 $8505 - 2126 = 6379$   
 Net Rs. 6379  
 + Liability premium for Third Party Rs. 4250  
 + Liability premium for driver Rs 650  
**Gross Premium Rs. 11,279**

19. The most significant financial investment made by most people is their personal residence and as such, conscientious homeowners often carry some form of homeowner insurance coverage. As a financial planner also licensed for insurance, your client calls you in some distress. While they were on vacation, their plumbing pipes accidentally overflowed from a bad connection made when remodelling the kitchen. What is even more unfortunate is when the friend who was asked to check in on the place, slipped on the water on the floor and injured herself and broke her new phone. She had to go to the hospital and pay for a treatment to her injured arm. Which of the following statement's regarding homeowner's insurance is most likely true?

- a) Under broad form coverage of perils, the accidental discharge or overflow of water is covered by homeowner's insurance. Section II of a homeowner's insurance may cover medical payments to others, claims expenses, and damage to property of others.
- b) **Under broad form coverage of hazards, the accidental discharge or overflow of water is covered by homeowner's insurance. Section II of a homeowner's insurance may cover medical payments to others, claims expenses, and damage to property of others.**
- c) Under broad form coverage of hazards, the accidental discharge or overflow of water is covered by homeowner's insurance. Section II of a homeowner's insurance may cover medical payments to others, claims expenses, and damage to property of others.
- d) Under broad form coverage of hazards, the accidental discharge or overflow of water is covered by homeowner's insurance. Section II of a homeowner's insurance may cover medical payments to others, claims expenses, and damage to property of others.

**Answer: (b)**

20. As people in most territories are living longer, they often require another level of healthcare. In many places, hospital-based care tends to be somewhat short-term. A financial advisor skilled in elder-care advice can be of tremendous benefit to an elderly person or the adult children of an elderly person looking for long-term care. Long-term care insurance is the insurance product specifically designed to help pay for the long-term care needs individuals may have. An important part of this process is helping clients determine how much long-term care coverage may be needed. Which of the following statements regarding long-term care is most likely correct?

- a) Long-term care (LTC) is generally divided into three categories: skilled nursing care, intermediate care, and custodial care. Insurance companies often use a list of activities of daily living (ADLs) to determine when coverage will be triggered. Similar to disability income insurance policies, long-term care policies use an elimination period that substitutes a dollar amount for a time period that functions as a deductible. Maximum benefit periods typically range from two years to 10 years.
- b) Long-term care (LTC) is generally divided into two categories: skilled nursing care, and custodial care. Insurance companies often use a list of activities of daily living (ADLs) to determine when coverage will be triggered. Long-term care policies do not use an elimination period. Maximum benefit periods typically range from two years to 10 years.**
- c) Long-term care (LTC) is generally divided into three categories: skilled nursing care, intermediate care, and custodial care. Insurance companies often use a list of activities of daily living (ADLs) to determine when coverage will be triggered. Similar to disability income insurance policies, long-term care policies use an elimination period that substitutes a dollar amount for a time period that functions as a deductible. Benefit periods are typically lifetime benefits.
- d) Long-term care (LTC) is generally divided into four categories: skilled nursing care, intermediate care, home-care, and custodial care. Insurance companies often use a list of activities of daily living (ADLs) to determine when coverage will be triggered. Long-term care policies do not use an elimination period. Maximum benefit periods typically range from two years to 10 years.

**Answer: (b)**

21. In some cases a group health insurance policy is part of an employer's statutory obligation. Which one of the following statements correctly describes a feature of group health insurance policy?

- a) Group health insurance policies do not provide cover to family members of the employees.
- b) Group health insurance policies are designed to include and exclude employees as members.**
- c) Group health insurance policies are generally high in premiums.
- d) Tax deduction can be availed by the employee for the premiums paid by the employer.

**Answer: (b)**

**Reason:** These plans are designed to include and exclude members as they join and leave the company.

22. Alia's apartment was destroyed by a fire, which the fire department believe was caused by a defective connection between the gas stove cooker and the gas line. The hazard in this case is:

- a) The fire.
- b) The defective connection between the gas stove cooker and the gas line.**
- c) Fact that the gas stove cooker uses gas.
- d) The use of gas to cook in Alia's home.

**Answer: (b)**

Reason: Losses (i.e., risks) are caused by perils. Perils such as fire can cause property damage. The term hazard is used to describe those things that increase the chance of loss by a peril. The fire is the peril. The defective connection is the hazard that increased the chance of fire. Perils may be specifically named in an insurance policy to identify what is covered as well as what is not covered.

23. The 'Conditions' component in a typical motor insurance contract is associated with which one of the following items?

- a) Exclusions in the Insurance Contract
- b) Limitations on the Insurer's promise to perform**
- c) Details specific to the policy
- d) A promise to pay the benefits of the policy to the insured

Reason: Limitations on the Insurer's promise to perform The 'Condition' section, or component, in a motor insurance contract, specifies the limitations on the insurer's promise to perform under the policy.

## ESTATE PLANNING SPECIALIST MCQ QUESTIONS- (INDIA)

1. Which of the following is not an example of lineal Consanguinity?

- A. **Cousins**
- B. Mother-Daughter
- C. Mother-Son
- D. Son- Father

**Correct Answer: A**

2. A will may be declared void if-

- A. made by a person who is of unsound mind or a minor
- B. obtained by fraud or coercion
- C. Not expressive of any definite intention or is void for uncertainty.
- D. **All of the Above**

Correct Answer: D

3. Which of the following is not true about the succession certificate?

- A. It is a certificate issued by a court of jurisdiction, usually a district court, to legal heirs & confers authority to inherit debts, securities & other movable assets.
- B. It cannot be granted to a minor.
- C. **It is granted to a person known as Administrator by a competent court.**
- D. It can be granted to a sound person.

**Correct Answer: C**

4. What is the preferred order considered while appointing an administrator under Letters of Administration?

- A. **Widow or Widower.**
- B. Petitioning creditors.
- C. Both A & B are given first preference.
- D. None of these

**Correct Answer: A**

5. According to Hindu Succession Act legal heirs are defined as

- A. Class I
- B. Class II

- C. Agnates and cognates
- D. All of the above**

**Correct Answer: D**

6. According to The Indian Succession Act

- A. By marriage a woman acquires the domicile of her husband, if she had not the same domicile before.
- B. The domicile of a minor follows the domicile of the parent from whom he derived his domicile of origin.
- C. The domicile of origin of an illegitimate child is in the country in which, at the time of his birth, his mother was domiciled.
- D. All of the above.**

**Correct Answer: D**

7. Testamentary succession means

- A. Succession to a property of the deceased in accordance with the provisions in the last will**
- B. Property will be inherited by the heirs in accordance with the law of succession.
- C. All of the above
- D. None of the above

**Correct Answer: A**

8. Which of the following statements is not true about a will?

- A. A codicil can be issued to make amendments in the will made by the testator
- B. A will comes into effect after the testator dies
- C. A certified copy of will is called probate
- D. A will can be altered after the death of testator**

Correct Answer: D

9. When is a person said to have died intestate?

- A. A person who had died having made a will.
- B. A person who has died without having made a will.**
- C. A person who has no assets to distribute on death.
- D. Both A & C

**Correct Answer: B**

10. How many domiciles can a person own?

- A. Two
- B. Three
- C. One**
- D. None

**Correct Answer: C**

11. Which of the following is not a type of domicile?

- A. Domicile by Acquisition**
- B. Domicile by Choice
- C. Domicile of Origin
- D. Domicile by operation of law

**Correct Answer: A**

12. What happens when property is bequeathed to a child in the womb under Muslim law?

- A. bequest to a child in the womb is valid, if the child is born within six months of testator's death.
- B. If the child is not born within six months, the bequest will lapse and will form a part of the remaining property of the testator which is not bequeathed under a will.
- C. bequest to a child in the womb is void
- D. Either A or B**

**Correct Answer: D**

13. Which of the following is not an appropriate option to fit in for principle of propinquity?

- A. When a Hindu dies intestate, this principle of propinquity is use of no use since there is no will for determining the proportion of allocation of a respective estate.**
- B. This rule is also known as doctrine of survivorship.
- C. The principle of propinquity, meaning in order of nearness of blood relation, that is, nearest degree of blood relation forms the basis of succession.
- D. It signifies the right by which an heir may take possession of the estate.

**Correct Answer: D**

14. In case none of the Class I legal heirs are present then the property in case of the death of Hindu male will

- A. Be transferred to Class II legal heirs**
- B. Not be transferred

- C. Will be transferred to his wife
- D. None of the above

**Correct Answer: A**

15. Succession depends on

- A. The law applicable to the deceased at the time of his/her death
- B. Testamentary under Will of the deceased
- C. The nature of property or rights and obligations held by the deceased at the time of death
- D. All of the above**

**Correct Answer: D**

16. A, B and C are joint tenants with equal share each , for a residential house property worth Rs 85 lakh . B is a relative of A. In Case of A's death, his right in the property \_\_\_\_\_

- A. Will devolve on A's heir
- B. Will devolve on A's nominees
- C. Will devolve on B and C**
- D. Will devolve on B only

**Correct Answer: C**

17. According to Hindu Succession Act legal heirs are defined as

- A. Class I
- B. Class II
- C. Agnates and cognates
- D. All of the above**

**Correct Answer: D**

18. Sneha wants partition of his father-in-law's HUF to claim her share and her husband's share out of the HUF's assets. In principle, Dr. Mishra is not keen for the same and wants to know whether his wife can legally demand partition of his father's HUF as she is also one of the members in the same?

- A. With prior permission from IT department
- B. No**
- C. Yes
- D. Data is insufficient

**Correct Answer: B**

19. Which of the following is false?



1. two persons are said to be related to each other by full blood when they are descended from a common ancestor, by the same wife
2. two persons are said to be related to each other by uterine blood when they are descended from a common ancestress but by different husbands.
3. one person is said to be an "agnate" of another if the two are related by blood or adoption wholly through males
4. Two persons are said to be related to each other by half-blood when they are descended from a common ancestor, by the same wife

- A. Only 1
- B. Only 2
- C. Only 3
- D. Only 4**

**Correct Answer: D**

20. Which of the following is included in class I heir of the Hindu succession Act

- A. Son**
- B. son's daughter's son
- C. daughter of a pre-deceased daughter
- D. son's daughter's daughter

**Correct Answer: A**

21. What conditions must be followed by the testator while preparing the will under Muslim law in India? Select the False option.

- A. A will must be in respect of property capable of being transferred and which exists at the time of the testator's death.
- B. Only one-third the estate may be bequeathed by will, subject to certain conditions and exceptions as prescribed by Shia law and Sunni law.
- C. Only two-third the estate may be bequeathed by will, subject to certain conditions and exceptions as prescribed by Shia law and Sunni law.**
- D. bequest of up to one-third of property to an heir will require consent of the other heirs after the testator's death.

**Correct Answer: C**

22. What are the primary sources of Muslim Law in India?

- I. The Quran
- II. the Sunna
- III. Ijma and Qiyas

- A. Only I

- B. Only I, II & III
- C. I, II & III**
- D. Only I & III

**Correct Answer: C**

23. Who can make a will?

- A. Anyone who is of sound mind and has attained the legal age of majority can dispose of their property by a will.**
- B. A minor can also make a will, if he has an estate passed to him.
- C. Both A & B
- D. Anybody above 15 years of age

**Correct Answer: A**

24. What is the difference between bequest and inheritance?

- A. Inheritance is the passing of the title to an estate upon death & a bequest is the act of leaving a thing under a will.**
- B. Inheritance is the act of leaving a thing under a will & Bequest is the passing of the title to an estate.
- C. Both Inheritance & Bequest are same.
- D. None of these

**Correct Answer: A**

25. Mrs. Namrata is facing some serious health conditions but is capable of understanding the mode of disposing her property & making a rational choice of who should inherit the property. Which of the following is true?

- A. The will made by Mrs. Namrata will be void since she is facing serious health conditions.
- B. The will made Mrs. Namrata will be valid.**
- C. The above data is insufficient
- D. None of these

**Correct Answer: B**

26. Mr Ram, the testator bequeaths a property to Mr. Anil on 31<sup>st</sup> March 2019. Unfortunately, Mr Anil dies in a car accident on 1<sup>st</sup> May 2019. What would be the effect on the legacy?

- A. The legacy lapses and forms part of the residue of the testator's property.**
- B. The legacy would be passed to the legal heirs of Mr. Anil.
- C. Testator cannot make any changes.
- D. Both B & C

**Correct Answer: B**

27. Jatin bequeaths the sum of Rs. 50,000, and also a villa in Goa, to Ankit, with the bequest of the villa on the condition to that Ankit will have to reside there. Which of the following is correct in this situation?

- I. Ankit may accept the bequest of money and refuse to accept the bequest of the villa.
- II. Ankit needs to accept the condition, or else both the bequests would be cancelled.

**A. Only I**

B. The above data is insufficient

C. Only II

D. Both I & II are correct

**Correct Answer: A**

28. A bequeaths to B, Rs. 5,000 being part of a debt due to him from B. He also bequeaths to C Rs. 10,000 to be paid out of his bank accounts, which are further bequeathed to X. Select the correct Option.

**A. The legacy to B is specific & the legacy to C is demonstrative**

B. The legacy to B is demonstrative & the legacy to C is specific

C. The legacy to B & C are both Specific

D. The legacy to B & C are both Demonstrative

**Correct Answer: A**

**Explanation:** where specified property is given to the legatee, the legacy is specific; where the legacy is directed to be paid out of specified property, it is demonstrative”.

29. Amit bequeaths his house to Rahul on the condition that Rahul will pay for the education of her surviving children. Rahul refuses to perform this obligation; this would result in \_\_\_\_\_

I. Rahul will still receive the House.

II. Rahul will not receive the House.

A. Option I is correct.

**B. Option II is correct.**

**Correct Answer: B**

30. Mr. Raj aged 58 years has a wife named Mrs. Radhika, aged 55 years live in a joint family. Mr. Raj passed away due to a heart attack. He had prepared no will. How will the property devolve in case - Mr Raj & Mrs Radhika are not Parsis.

**A. If the intestate has left a widow and lineal descendants, then one-third goes to the widow and balance two-thirds to the lineal descendants.**

B. A widow & lineal descendants will get the equal share.

C. If the intestate has left a widow and lineal descendants, then Two-third goes to the widow and balance one-thirds to the lineal descendants.

D. Widow & lineal descendants both will get nothing, since Mr Raj died intestate.

**Correct Answer: A**

31. Which of the following is True in case an individual has died intestate & is not Parsi –

- A. If the intestate has left a widow and lineal descendants, then one-third goes to the widow and balance two-thirds to the lineal descendants.
- B. If the intestate is survived by the widow and kindred, but no lineal descendants, then one-half goes to the widow and the balance one-half to the kindred.
- C. If there are no lineal descendants or kindred then, that the property goes entirely to the surviving husband or wife.
- D. All of the above**

**Correct Answer: D**

32. A soldier handwrites a will. Such a will would be termed as \_\_\_\_\_ will.

- A. Void
- B. Contingent
- C. Holographic**
- D. Sham

**Correct Answer: C**

33. Which of the following is/are true in respect of WILL?

- 1. A single will, made jointly by a husband and wife, where each may make a disposition of his or her respective properties is a joint will.
- 2. Conditional or contingent wills become enforceable only on the happening of a particular event.
- 3. When two or more persons make a will, whereby they bequeath their properties to each other, it is known, as a reciprocal will.
- 4. An executor is a person appointed by court to administer testator's property and to carry into effect the provision of the will

- A. 1,2 & 3 correct**
- B. 2 & 4 correct
- C. All of the above
- D. None of the above

**Correct Answer: A**

34. Which of the following statement/s are true?

- 1. A Joint will is a testamentary instrument whereby two persons agree to make a Joint Will.
- 2. Where a Will is executed in duplicate the testator keeping one and depositing the other with some other person it is called a Duplicate Will.
- 3. A Mutual 'Will' is one of the two testamentary papers made respectively by two persons each giving the other similar rights in his property and being in fact identical so far as they can be, for the purpose of carrying out the intention of the testators

4. A Will executed in two copies are called, as duplicate will.

- A. All of the above
- B. **1,2 & 3**
- C. 2 & 4
- D. 1 & 4

**Correct Answer: B**

35. Select the correct statement/s

- 1. Onerous Will imposes an obligation on the legatee that he gets nothing until he accepts it completely
- 2. Two simultaneous will which are related to each other are known as duplicate will
- 3. Will is mutual when two testators confer on each other reciprocal benefits as by either of them constituting the other his legatee
- 4. Heir can demand operation of will during the lifetime testator

- A. Only 1
- B. Only 2
- C. **1 & 3**
- D. 1 & 4

**Correct Answer: C**

36. The rights and obligations of the deceased person gets transferred to the living person whom the dead person or the law on his behalf, has appointed to represent him in the world of living is

- A. **Succession**
- B. Transfer of estate
- C. Will
- D. None of the above

**Correct Answer: A**

37. Which of the following is true?

- 1. Any changes in a will can be made by writing a codicil
- 2. Court appoints an administrator to take over estate of a deceased in absence of will
- 3. The person who has responsibility to care for the children of a deceased is called guardian
- 4. In case two wills are found, then last WILL will be considered

- A. Only 1
- B. Only 2
- C. Only 3
- D. **All of the above**

Correct Answer: D

38. A person or firm that holds or administers property or assets for the benefit of a third party is known as \_\_\_\_\_.

- A. Beneficiary
- B. Prosecutor
- C. **Trustee**
- D. Executor

**Correct Answer: C**

39. A person to whom a Trusts assets / income is intended for is known as \_\_\_\_\_.

- A. **Beneficiary**
- B. Legal heir
- C. Nominee
- D. Trustee

**Correct Answer: A**

40. A person who creates the trust is known as \_\_\_\_\_.

- A. **Settlor**
- B. Trustee
- C. Executor
- D. Testator

**Correct Answer: A**

41. Advantages of a trust are

- 1. To provide sufficient income for minor children or family members
- 2. To provide financial assistance to family members
- 3. To avoid probate
- 4. Cost-efficient since no cost is charged to establish a trust

- A. Only 1
- B. **1,2 & 3**
- C. None of the above
- D. All of the above

**Correct Answer: B**

42. As per the IT act 1961, an individual or a firm appointed as a trustee has obligation to pay tax in the capacity of

- A. Creator of trust
- B. **A representative assessee**
- C. A prosecutor
- D. An individual only

**Correct Answer: B**

43. The person designated as the recipient of income from a trust is the

- A. Grantor
- B. Trustee
- C. Remainder beneficiary
- D. Beneficiary**

**Correct Answer: D**

44. Which of the following statement/s are true?

- 1. A trust created by an individual during lifetime, typically as a revocable trust is called living trust
- 2. Probate is the court-supervised process of proving a will and distributing property under the will or distributing property in accordance with the law in the absence of a will.
- 3. The property remaining in a descendant's estate after payment of the estate's debts, taxes, and expenses and after all specific gifts of property and sums of money have been distributed as directed by the will is called the residuary estate.
- 4. Settlor is also known as arbitrator in estate planning

- A. 1, 2, & 3 correct**
- B. 1, & 3 correct
- C. 2, & 4 correct
- D. 4 only correct

**Correct Answer: A**

45. Which of the following statements are true?

- A. There can be only one grantor to the trust
- B. A Living Trust is subject to Public scrutiny
- C. The trust cannot be revoked by the creator during his lifetime
- D. Trustees are appointed for a Trust, whereas Witnesses are appointed for a Will**

Correct Answer: D

46. Attestation of the will must be in presence of the testator.

- A. True**
- B. False

**Correct Answer: A**

47. Recently in an unfortunate event, one of the Kunal's brother died in road accident at the age of 32. He was a bachelor & he died intestate. Kunal's parents were living with his deceased brother. Apart from Kunal there are three other siblings of the deceased. Kunal wants to know the applicable order of priority as per Hindu Succession Act for the disposition of his deceased brother's property.

- A. Both parents will get the priority over all siblings, including Kunal himself.
- B. All siblings of Kunal will get the priority over their parents.
- C. **Kunal's mother will get priority over her husband & sons.**
- D. All of them will have equal right over the property of the deceased.

**Correct Answer: C**

48. Thirukatti wants to know that in case he dies intestate, who among his following relatives would not get preference while his property is being devolved.

- A. Mother
- B. **Sister**
- C. Daughter
- D. Wife

**Correct Answer: B**

49. Kartik wants to know according to which Act his father's estate would be distributed in case he dies intestate.

- A. **Hindu Succession Act 1956, under which people belonging to Sikh, Hindu, Buddhist, Jain religion are covered.**
- B. Hindu Succession Act 1956, under which people belonging to Sikh, Hindu, Parsi & Jain religion are covered.
- C. Hindu Succession Act 1925, under which people belonging to Sikh, Hindu, Buddhist, Jain religion are covered.
- D. Hindu Succession Act 1925, under which people belonging to Sikh, Hindu, Parsi, Christian, Jews & Jain religion are covered.

**Correct Answer: A**

50. Soumya wants to adopt a child & part with some of her properties in favour of the child. She wants to plan her Estate as she will remain a spinster throughout her life. But she is afraid that after her death, her brother may challenge such transfer. You would advise her \_\_\_\_\_

- A. not to do any Estate Planning
- B. to prepare a WILL
- C. **to create a registered living trust where the child would be the beneficiary.**
- D. to prepare a power of Attorney in favour of her father to manage her property for the benefit of the child.

**Correct Answer: C**

51. Under the IT Act, any amount received by as a Gift in an financial year will be taxable-

- A. **If the Aggregate of the gifts received from an unrelated person exceeds Rs. 50,000 in cash or by way of credit to an individual or a HUF.**
- B. If the Aggregate of the gifts received from an unrelated person exceeds Rs. 50,000 in cash only to an individual or a HUF.
- C. If the Aggregate of the gifts received from an unrelated person exceeds Rs. 50,000 in cash or by way of credit to an individual.



D. If the Aggregate of the gifts received from an unrelated person exceeds Rs. 50,000 in cash or by way of credit to a HUF.

**Correct Answer: A**

52. Dhananjay wants to gift Rs. 5 Lac (in cash) to his son vijay to buy a house. Vijay wants to know how this receipt will be treated in his hands from Income Tax perspective.

- A. No tax will be paid by Vijay as it is gifted to him to buy a house.
- B. No tax to be paid by Vijay as gift in cash from a father to son is tax-free.**
- C. Either receipt will be taxable in the hands of Vijay as its received in cash.
- D. Either receipt will be taxable in the hands of Vijay as its more than Rs. 50,000.

**Correct Answer: B**

53. Anil & Radha wants to donate Rs. 2,00,000 p.a. for the education of poor children of their area but for this purpose they do not want to hand over this amount to any person or organization. Anil wants to have your opinion regarding setup of proper entity for this arrangement. You advice to be-

- A. Anil should set an irrevocable private charitable trust & devolve the necessary asset in the trust.**
- B. Anil should create his personal HUF & devolve the necessary asset in the trust.
- C. Anil should make an amendment in the partnership deed to his firm & create a provision for the same in new deed.
- D. Anil should hold these funds in his personal account & manage the same in his personal capacity.

**Correct Answer: A**

54. You have advised Ishita to do estate planning. According to you what should be the most preferred way for her estate planning.

- A. She should devolve all of her personal HUF.
- B. She should prepare a Will naming her children as the sole beneficiaries in the same.
- C. She should prepare a Will naming her children as the sole beneficiaries as well as designate one or more guardians with their prior consent.**
- D. She should transfer all of her existing properties in the name of her children & nominate her both children equally in all her legal documents.

**Correct Answer: C**

55. Which of the following is true about a Revocable Trust?

- A. A trust that may not ring-fence assets and the assets of the trust may be attached in recovery of the settlor's of debts under law.
- B. The settlor cedes the ownership and control over trust property and on his death will not form part of his estate.
- C. assets transferred to a trust by a settlor would continue to be treated as the settlor's assets, under income tax law.
- D. Both A & C**

**Correct Answer: D**

## ESTATE PLANNING SPECIALIST MCQ QUESTIONS – (GLOBAL)

1. You are collecting information & examining circumstances related to Estate planning for your client who shall be retiring in next 15 years. Which of the following is not essential at this stage?

- A. Accounting for all assets, fixed & financial, & charges/lien over them.
- B. Information of all financial liabilities & encumbrances, their gross & outstanding values, & whether covered by way of insurance.
- C. **Value of retirement fund & whether client wishes to gift or bequeath a part of that.**
- D. Details of division of the estate among the heirs & other dependents.

**Correct Answer: C**

2. Susan, Jessica, Violet & Helen want to purchase a holiday home together. The friends have decided to purchase a holiday home together. The friends have known each other since their university days & want to get a place that will allow them to share holidays together with their families. The four have located a house they want to purchase, & they are trying to decide the best form of ownership. The total cost for the house is Rs. 40,00,000. Susan plans to invest Rs. 10,00,000. Jessica will invest Rs. 10,00,000. Violet plans to use the house more than the others & will invest Rs. 12,50,000. Helen plans to invest the remaining Rs. 7,50,000. After seeking professional legal & financial advice, the friends have decided to purchase the holiday home & title it as tenants in common. Which of the following statements is most likely correct?

- A. If Susan dies, the remaining owners have automatic right to the decedent's share of the property.
- B. **If Susan dies, the remaining owners have no automatic right to the decedent's share of the property.**
- C. Susan will own 25%, Jessica will own 25%, Violet will own 25%, and Helen will own 25%.
- D. Susan will own 25%, Jessica will own 25%, Violet will own 18.75%, and Helen will own 31.25%.

**Correct Answer: B**

Explanation: This arrangement does not come with rights of survivorship. As such, when one owner dies, his or her portion of the property passes to the decedent's estate & will be disturbed according to the terms of the will. If Susan dies, the remaining owners have no automatic right to the decedent's share of the property.

3. Yash turned 18 years of age this year. His mother, Mrs. Kavya gifted him a car which she bought a year ago. The car has been retitled to Yash's name & he now has full ownership of the car.

- A. Since, the car has been retitled to Yash's name now, Yash has Future interest in the car.
- B. Since yash has outright ownership, he has a present interest in the car.**
- C. Since the car has been retitled to Yash's name, he has neither present interest nor Future Interest in the car.
- D. Yash will have present interest in the car after Mrs. Kavya passes away.

**Explanation:** Yash has a present interest in the car, since present interest refers to legal or beneficial ownership that allows a person to use the property/asset immediately.

4. What makes a gift "complete"?

- A. Relinquishing all control over the over the property being transferred.**
- B. Relinquishing the control over the income from the income-producing asset for a period of time but not the control over the asset.
- C. Both A & B can be possible.
- D. None of these.

**Correct Answer: A**

5. Which one of the following is not true about Community Property?

- A. It is all property acquired & held as part of the matrimonial estate (including debts).
- B. While living, each spouse may act, & the action will be considered to be a part of community property. But the debt incurred by one partner will not be owned by other.**
- C. Community property is all property, unless otherwise declared as being separate, that is acquired after marriage.
- D. None of these.

**Correct Answer: B**

6. A \_\_\_\_\_ is a document (except in cases of valid oral) that specifies how the property owner wants his or her estate to be distributed at death.

- A. Probate
- B. Contract
- Will**

**Correct Answer: C**

7. Will is also known as \_\_\_\_\_

- A. Trust

**B. Testatory Document**

- C. Probate
- D. Succession Certificate

**Correct Answer: B**

8. The person whose will is being prepared is called the \_\_\_\_\_

- A. Executor
- B. Settlor
- C. Testator**
- D. None of the above

**Correct Answer: C**

9. Which legal document lays out the fate of an individual's property after his death.

- A. Registry
- B. Will**
- C. PoA
- D. Submission

**Correct Answer: B**

10. Which of the following is true about gross estate?

- A. It is everything a person owns.**
- B. any amount subject to taxation on transfer or distribution (which may or may not include everything).
- C. Both A & B.
- D. None of these.

**Correct Answer: A**

11. Mr. Ram, Anil & Kush managed a garment business together, named ABC Garments Ltd. They wanted to plan about the future funding in case of any eventuality (death of any business owner among them). Since Their families are also not competent to manage the business. There are several ways to provide the funding, but one of the common methods is through use of one or more life insurance policies. Which of the following statements is most likely correct?

- A. In a buy-sell cross purchase method, the business pays the insurance premiums.**

B. In a buy-sell entity purchase method, the buy-sell agreement is between Business owner A & business owner B.

**C. In a buy-sell entity purchase method, the business pays the Insurance premiums.**

D. In a buy-sell cross purchase method, the business receives the insurance proceeds.

**Correct Answer: C**

12. Identify which of the following include in some estate planning objectives of married couples as well as to the unmarried ones?

A. Plan for potential incapacity

B. Minimize taxes

C. Manage Assets

D. None of these

**E. All of the Above**

Correct Answer: E

13. As a financial planner, in which of the following cases would you think that the client's heirs/beneficiaries need protection, & if so from whom?

a. In a situation, when an elderly person who is a beneficiary, is mentally incompetent or nearly so.

b. In a situation, where a minor who is likely to overspend inherited assets; has creditors, even siblings & former spouses.

A. Only (a)

B. Only (b)

**C. Both (a) & (b)**

D. None of these

**Correct Answer: C**

14. In which of the following, forced heirship be a potential problem for surviving spouses?

**A. In territories with succession mandatory rules, the surviving spouse may be required to share estate funds with the children.**

B. In territories with succession mandatory rules, the surviving spouse may not be required to share estate funds with the children.

C. No, in general forced heirship is not a potential problem for surviving, since estate planning may give them a equitable share.

D. None of the following fits in the situation.

**Correct Answer: A**

**15.** As a Financial Planner, you explain your client the importance of Succession Planning & list out some of the points to consider in succession planning & they are \_\_\_\_\_

- I. The successor; family member, business partner, other
- II. Succession type; partial or full succession, Timeframe
- III. Key personnel changes, skill retention strategies & Restrictions
- IV. Legal consideration; buy-sell agreement, reference to a will
- V. Risk management & Communication strategy
- VI. Financial considerations; retirement income, sale prices, tax implications

- A. Only I & II
- B. I, II, IV & VI
- C. **All of the Above**
- D. Only VI

**Correct Answer: C**

**16.** One identified potential problem when HNWI's children inherit a large amount of property is called affluenza. What is affluenza and how can it be addressed?

- A. **It refers to false sense of entitlement.**
- B. It is a situation in which HNWI's children like to acquire even more amount of money.
- C. It is a positive aspect therefore, it doesn't need to be addressed.
- D. None of the Above

**Correct Answer: A**

**17.** Buy-sell Agreements comprises of some consistent elements. Which of the following do you think need to be included?

- I. The price that will be paid for the business.
- II. The circumstances that allow the share of the business to be sold, such as retirement, death, disability, or leaving the business
- III. Who can buy the departing owner's share of the business?

- A. Only II
- B. Only I
- C. C Only I & II
- D. **I, II & III**

**Correct Answer: D**

**18.** A cross-purchase agreement is a document that allows a company's partners or other shareholders to purchase the interest or shares of a partner who dies, becomes incapacitated or retires.

- A. True
- B. False

**Correct Answer: A**

19. When the current environment is not especially conducive to selling the business, but that situation is anticipated to improve in the near future, what can surviving family members do to continue business operations for a period of time?

- A. **If the business cannot be sold, the family should have plans to suspend business operations or perhaps hire someone (or a firm) to manage the business.**
- B. Handle the business by themselves only to save the managing costs.
- C. Regardless of the business organization structure, the family members must sell the business as early as possible.
- D. None of these.

**Correct Answer: A**

20. Your client Mr. Girish informs you that he has dependent children & is worried about his survival since he is the only parent. As a financial planner, which one of the following is not an appropriate option that you will suggest Mr. Girish?

- A. Sufficient Funds to provide for living expenses
- B. A guardian/administrator to manage the money to oversee the funds.
- C. Someone to care for and guide the children as they grow to majority and independence.
- D. **Keep the funds in the name of child's aunt since he is close to him & later tell her to pass the same to his child after majority.**

**Correct Answer: D**

21. What is an estate planning?

- A. **An intentional method of legally protecting your assets & determining the distribution of your belongings on death.**
- B. An intentional legal process to plan the layout of an estate property.
- C. The plan devised to design a new home (the estate).
- D. The plan developed by a judge after a person's death to determine which beneficiaries of the estate receive which assets.

**Correct Answer: A**

22. How does the probate estate differ from the gross estate. Which of the following is not appropriate to the context?

**A. The gross estate is not owned by the decedent.**

B. The probate estate includes only those assets that pass-through probate. This means assets distributed according to a will or by the rules of intestacy.

C. The probate estate will often be smaller, sometimes quite a bit smaller, than the gross estate.

D. None of these.

**Correct Answer: A**

23. How does a trust divide property ownership?

A. Legal Ownership.

B. Beneficial Ownership.

**C. Both (A) & (B).**

D. None of these.

**Correct Answer: C**

**Explanation:** A trust will divide property into two categories: legal ownership and beneficial ownership. Legal ownership is vested in the trustee who is required to administer the trust assets (corpus), on behalf of the grantor, for the benefit of the beneficiary, who has beneficial ownership. As previously described, beneficiaries who must wait to receive the trust corpus are said to have a future interest, while those who can demand and receive current income are said to have a present interest.

24. Which of the following is not true about Grantor Trust?

A. A Grantor Trust is one in which the grantor (i.e., the individual creating and supplying trust assets) retains some degree of control over the trust.

**B. A Grantor Trust is one in which the trust creator gives up all right, title, and interest in the trust corpus.**

C. In a grantor Trust, The Grantor may be a trustee and may also be the beneficiary.

D. Grantor Trust is taxed differently than that of Non- Grantor Trust.

**Correct Answer: B**

25. What is the function of a special needs trust and, where allowed, how may it be used?

A. A special needs trust, as the name implies, is a vehicle to hold cash or other assets that will be used to pay for necessary care, housing and other expenses, and provides spending money for the beneficiary.

B. The financial planner and family should use care in establishing the trust (or other) vehicle to ensure it is done in such a way as to receive all potential tax and other benefits and contains no provisions that may stand in the way of accomplishing its purpose.

C. Only A is correct

**D. Both A & B are correct**

Correct Answer: D



26. As a Financial Planner, which of the following must not be included in the checklist while reviewing a client's will-

- A. **No changes in the residuary clause since it cannot be altered.**
- B. Cancellation of debts by a will provision is desired.
- C. Review of will by an attorney has not occurred in the past 12 months.
- D. Change in the amounts bequeathed to one or more beneficiaries is desired.

**Correct Answer: A**

27. How would you help a client to work through steps that will be part of an estate plan?

- a) Create an inventory of what is owned and what is owed
- b) Develop a contingency plan
- c) Provide for children and dependents
- d) Protect assets
- e) Document wishes
- f) Appoint fiduciaries/legal representatives

- A. Only a, b & c
- B. Only d & f
- C. **All of the above**
- D. Only e & f

**Correct Answer: C**

28. Deep would like to know how the property would devolve if a person dies intestate & also the importance of Estate Planning. According to you, which of the following is not appropriate in Estate distribution when a person dies intestate?

- A. A Succession Certificate is applicable when there is no valid will.
- B. Legal Heirs will apply to the civil court for grant of a Succession Certificate.
- C. Law of Inheritance is application in Estate distribution.
- D. **Legal Heirs get estate rights on the basis of probate.**

**Correct Answer: D**

29. Radhika, In case of her life contingency, is apprehensive about managing the affairs of her children. You advise her to set up a common Minor Beneficiary Trust for - Sush & Sushmita (aged 8 & 10 years respectively). You put forth the argument in favour as:

- A. **Such a Trust shall protect assets transferred & shall manage them as per guidelines issued to the trustee until either or both of her children reach a specified age to be defined by Radhika.**
- B. Such a Trust shall protect & manage assets for her children only until they individually reach majority i.e., 18 years of age.

- C. Such a Trust shall not take further resources/assets/inheritances once the benefits have been transferred to it & the guidelines specified by Radhika for their use.
- D. Such a Trust shall strictly prevent early distribution of assets before both Sush & Sushmita attain majority i.e., 18 years of age.

30. What are four basic coverages of a will?

- A. Specifying how the individual wants the estate to be distributed at death & Naming an executor.
- B. Naming a guardian/administrator for young (minor) children.
- C. Revoking any previous versions of a will.
- D. All of the Above.**

**Correct Answer: D**

31. Which of the following is true about a non- grantor trust?

- A. It is a term used to describe an arrangement where the donor of the assets gives up all the control.
- B. With this type of trust, the donor gives up their right to revoke, amend, or terminate the trust.
- C. A trust established under this is a taxable entity, which means a separate income tax return needs to be filed on behalf of the trust.
- D. All of the Above**

**Correct Answer: D**

32. Probate is the orderly process of estate distribution according to a valid will or applicable statute (e.g., rules of intestacy). It is handled through a probate court (which may or may not hold that title, depending on the territory). Probate has some positives. Which is of the following is least likely a positive regarding probate?

- A. The probate process is structured according to relevant laws and applicable rules. This helps to keep things moving forward in the most effective, efficient manner.
- B. Probate ensures fair distribution of assets according to the valid will and/or applicable statutes.
- C. Probate is not expensive.**
- D. Probate is fair and orderly. The probate court oversees the process, which provides boundaries and structure.

**Correct Answer: C**

**Explanation:** Probate can be expensive. All the court costs, legal fees, assessors, accountants, the personal representative, and related fees can cost a lot of money. This is a downside or negative to probate.

33. Who normally pays taxes related to giving or receiving a gift?

- A. The Donor or gift-giver pays the taxes.
- B. Recipients, if any taxes are due.

- C. Both A & B.
- D. None of these

**Correct Answer: C**

34. If an individual wants to reduce estate-related liabilities by giving an *inter vivos* gift, is there any possibility the gift may be recalled or brought back into the estate?

- A. No there is no possibility, the gift may be recalled or brought back into the estate.
- B. Yes, many territories have a lookback period for when the gift giver dies within a certain period of years following the transfer.**
- C. Depends upon the age of an individual.
- D. None of these are the appropriate options.

**Correct Answer: B**

35. What is a unified tax and how may it be applied to estate planning?

- A. The tax applies to the value of the estate at death and to certain transfers or gifts made during the individual's lifetime.
- B. In a unified system, the value of lifetime gifts will be deducted from any estate tax exemption.
- C. It may be possible to give lifetime gifts with enough value that there is no estate tax exemption/exclusion left, and the entire taxable estate actually will be taxed.
- D. All of the Above.**

**Correct Answer: D**

36. Three main options exist that may circumvent forced heirship distribution schemes. Which one from these options is excluded?

- A. Life Time Transfers.
- B. Create a Trust.
- C. Establish a foreign company to own property.
- D. Develop a plan.**

**Correct Answer: D**

37. What is usufruct & how may it apply to estate planning? Select the option which is not appropriate to this context.

- A. Usufruct technically refers to the ability of a person to use the property of another person, without changing the character of the property.
- B. Usufruct can allow a surviving spouse to live in the family home, use community property assets, and the like.
- C. The rights normally do not terminate at the remarriage / death as well.**
- D. Only A & B

**Correct Answer: C**

38. What categories of family members may be considered to be primary heirs in a forced heirship scheme?

**A. Spouse, Children of the decedent normally will be considered as primary heirs.**

A. parents, grandparents, siblings, will be considered as primary heirs.

B. Both A & B can be considered to be primary heirs.

C. None of these.

**Correct Answer: A**

39. Probate can be a positive process used to effectively administer a decedent's estate. However, it also can have some negatives associated with it. What are some of the negative aspects of probate?

A. Probate can be Expensive.

B. It can be time-consuming.

C. . Probate records generally are considered public information.

**D. All of the Above**

**Correct Answer: D**

40. What options may HNWI and heirs use to protect their privacy as part of estate distribution?

A. HNWI may find it reasonable to have assets flow into a trust and name a reliable, often professional, trustee.

B. they may use foreign (e.g., offshore) corporations to hold assets, or perhaps make use of domestic corporate (or other) entities that provide a degree of security and privacy.

**C. Both A & B**

D. Only A, since Option B is not appropriate to the context.

**Correct Answer: C**

41. One of your client Mr Sudhir, enquires to you about the intrafamily loan, you tell Sudhir that the following option is not true about the intrafamily loan.

A. With an intrafamily loan, parents can provide a financial resource to their children for a specific use, or create a trust for their benefit.

**B. The rates used for intrafamily loans are typically not more attractive than what may be available commercially.**

C. The rates used for intrafamily loans are typically more attractive than what may be available commercially.

D. They're also a good way to transfer wealth with a minimum of tax consequences for you or your heirs.

**Correct Answer: B**

42. What is not the core element of a medical workup for mild cognitive impairment (MCI)?

- A. Laboratory tests (perhaps including brain imaging)
- B. In-office neurological examination
- C. Thorough medical history

**D. Input from a stranger who claims to be the well-wisher.**

**Correct Answer: D**

43. Arrange the following stages through which cognitive impairment can pass.

- I. Moderate impairment
- II. Severe impairment
- III. No impairment
- IV. Mild impairment
- V. Questionable impairment

A. I, II, III, IV & V.

**B. III, V, IV, I & II**

C. III, V, IV, II & I

D. I, III, IV, II & V

**Correct Answer: B**

44. What are some of the advance directives (legal documents) that can be used to prepare for the possibility of incapacity?

- A. Living will
- B. Revocable living trust
- C. Durable or enduring power of attorney (POA) & medical POA
- D. All of the Above**

**Correct Answer: D**

45. What are some key symptoms of MCI. Which one of the following cannot be counted as MCI Symptom?

- A. Forgetting things more often.
- B. Showing correct judgement.**
- C. Having trouble finding the way around familiar environments.
- D. Forgetting important events such as appointments or social engagements.

**Correct Answer: B**

46. As a financial planner, what should you not do if you recognize that your client is experiencing MCI?

- A. When a client experiences mild or full-scale dementia, it will change your relationship with them—both legally and professionally.
- B. If you do not identify suspected incapacity to appropriate individuals (e.g., family, supervisors, related professionals), you do not become legally liable for your actions.**
- C. If you do not identify suspected incapacity to appropriate individuals (e.g., family, supervisors, related professionals), you may become legally liable for your actions.
- D. None of these.

**Correct Answer: B**

47. Why is a regular POA not a good choice when a person becomes incapacitated?

- A normal power of attorney (POA) ceases to function when the principal becomes incapacitated. This defeats the purpose of having one in the event of incapacity. A better choice is a durable power or springing power.

State the Following is-

- A. The above Statement is Correct**
- B. The above Statement is False, since A normal Will ceases to function not PoA
- C. The above Statement is False, since A PoA never ceases to function.

**Correct Answer: A**

48. Since you explained your client that, Within the area of estate planning, the emphasis is on developing strategies that help the client achieve end-of-life goals. What are six estate planning concerns a financial planner should be ready to address? Which is not an appropriate option from the following?

- A. Excess of Liquidity**
- B. Improper disposition of assets
- C. Inadequate income or capital
- D. Asset values destabilized and not maximized
- E. Excessive taxes and transfer/distribution costs
- F. Special needs

**Correct Answer: A**

49. The primary emphasis of financial planning is to develop strategies that help clients achieve life goals. Within the area of estate planning, the emphasis is on developing strategies that help the client achieve end-of-life goals. Wanting assets to remain in the family often is a common goal. The same is true for parents wanting to help children, especially in a financial way. Gifts are sometimes used

provide for children or grandchildren. When a gift is made, whether it goes to a family or nonfamily beneficiary, it will be subject to gift and perhaps inheritance rules in the territory. Another method of making an intrafamily transfer is through use of a loan. Each territory has its own rules for this, but we can identify some commonalities. Which of the following statements regarding intrafamily loans is most likely true?

- A. A loan fits into a category that may create a taxable event.
- B. An intrafamily loan cannot become a gift.
- C. An advantage of an intrafamily loan is that the parent cannot simply state that a business actually valued at Rs.1 million will have an intrafamily loan value of Rs.100,000.
- D. To be a loan, a financial transfer must have a legally recognized agreement, a stated rate of interest (which, in some cases in certain territories, may be 0%), and a repayment period with minimum required payment amounts.**

**Correct Answer: D**

50. What are some decisions that should not be made immediately following death of a spouse?

- I. Selling the house or other property.
  - II. Giving away the cash or other assets. (includes children).
  - III. not to make any major financial, legal, or lifestyle change for a period of time (e.g., at least six months to one year).
- A. Only I & II
  - B. Only III
  - C. I, II & III**
  - D. Only I

**Correct Answer: C**

51. What are two reasons an heir might want to disclaim an inheritance?

- A. When a person inherits an asset, often they also inherit any debt associated with that asset.
- B. A second reason used to disclaim an inheritance is inconvenience.
- C. Debt is not a reason; an heir might want to disclaim an inheritance.
- D. Only A & B**

**Correct Answer: D**