



Insurance Commission VUL Reviewer

Choose the best answer.

1. Which of the following statements about option to top-up under variable life insurance products is FALSE?
 - a. To top-up a policy, the policyowner pays further single premium at the time of top-up.
 - b. Policyowner may buy additional units in the variable life fund and these units will be allocated to new variable life insurance policies.
 - c. Further premiums at time of top-up will be used in full, after deducting charges for top-ups, to purchase additional units of the variable life funds.
 - d. Policyowners are normally allowed to top-up their policies at any time, subject to a minimum amount

2. What are the disadvantages when investing in common shares?
 - I. Dividends are paid not more than fixed rates.
 - II. Investors are exposed to market and specific risks.
 - III. Shares can become worthless if company becomes insolvent.
 - a. I, and II
 - b. I, and III
 - c. II, and III
 - d. I, III, and III

3. Which of the following statements about the flexibility features of variable life policies is FALSE?
 - a. Policyholders may request for a partial withdrawal of the policy and the withdrawal amount will be met by cashing the units at bid price.
 - b. Policyholders can take loans against their variable life policies up to the entire withdrawal value of their policies.
 - c. Policyholders have the flexibility of switching from one fund to another, provided it satisfies the company's switching criteria.
 - d. Policyholders have the flexibility of increasing or decreasing their premiums for regular premiums variable life policies.

4. What is the most suitable investment instrument for someone who is interested in protecting his principal, while receiving a steady stream of income?
 - a. Equities
 - b. Warrants
 - c. Variable Life Policies
 - d. Fixed Income Securities

5. A unit trust is ____.

- a. Established by a trust deed, which enables a trustee to hold the pool of money and assets in trust on behalf of the investor.
- b. A close-end fund, and does not have to dispose of its assets if a large number of investors sell their shares.
- c. One whereby an investor buys units in the trust itself and not shares in the company.
- d. An organization registered under the Securities and Exchange Commission (SEC) which usually invests in a wide range of equities and other investments.

6. The following are characteristics of a variable life insurance policy

- I. Its withdrawal value and protection benefits are determined by the investment performance of the underlying assets.
- II. Its protection costs are generally met by implicit charges.
- III. Its commissions and company expenses are met by a variety of explicit charges, notice of which is given by life companies normally 6 months prior to any change in such charges.
- IV. Its withdrawal value is normally the value of units allocated to the policyholder calculated at the bid price

- a. I, II and IV
- b. II, III and IV
- c. I, II and III
- d. I, III and IV

7. Which of the following statements are TRUE?

- I. The policy value of variable life policies is determined by the offer price at the time of valuation.
- II. The policy value of endowment policies is the cash values plus any accumulated dividends less any outstanding loans due at time of surrender.
- III. The life company needs to maintain a separate account for variable life policies distinct from the general account.

- a. II and III
- b. I, II, and III
- c. I and III
- d. I

8. Variable life insurance policy owners may withdraw in terms of ____.

- a. Number of units or fixed monetary amount through cancellation of units.
- b. Number of units or fixed monetary amount through reduction of the life cover sum assured.
- c. Fixed monetary amount only through reduction of the life cover sum assured.
- d. Number of units through cancellation of units.

9. An investor in variable life funds gets to enjoy these benefits:
- I. Policy owners have access to pooled or diversified portfolios of investment.
 - II. Policy owners can easily change the level of the premium payments as the product design of variable life insurance policies have clear structures which cater separately for investment and insurance protection.
 - III. Policy owners can gain access to variable life funds managed by professional investment managers with proven track records.
 - IV. Policy owners can buy a variable life insurance policy only with a high initial investment.
- a. I, II, and IV
 - b. I, III, and IV
 - c. I, II, and III
 - d. II, III, and IV
10. Which of the following statements about rebating is/are TRUE ?
- I. Rebating is prohibited under the Insurance Code.
 - II. Rebating deals with offering the prospect a special inducement to purchase a policy.
 - III. Rebating will enhance the sales performance and uphold the prestige of an agent.
- a. I and II
 - b. I and III
 - c. II and III
 - d. III
11. Which of the following statements is FALSE?
- a. Variable life insurance policies offer investors plans with values that are indirectly linked to the investment performance of the life company.
 - b. A life insurance company will carry out a valuation of its funds yearly and any surplus may be allocated to participating policyholders as cash dividends.
 - c. Both Whole Life and Endowment policies can be used as an investment media with benefits that become payable at a future date.
 - d. The investment element of variable life policies varies according to underlying assets of portfolio.
12. Which of the following statements about single premium variable life policy are TRUE?
- I. There is no fixed term in a single premium variable life policy, and therefore, they are technically whole life insurance.
 - II. Top-up single premium injections are allowed in these plans.
 - III. Policyholders have the flexibility of varying the level cover.
- a. I, II, and III
 - b. II and III
 - c. I and II
 - d. I and III

13. Which of the following statements about variable life policies is/are TRUE?
- I. The cash withdrawal value is not guaranteed.
 - II. The volatility of the returns depends on the investment strategy of the fund.
 - III. The variable life policyholder has direct control over the investment decisions of the variable life fund.
- a. I, II, and III
 - b. I and II**
 - c. I and III
 - d. II and III
14. Which of the following statements about variable life policies are TRUE?
- I. Variable life policies generally have larger exposure to equity investment than with participating and other traditional policies.
 - II. The protection costs are generally met by implicit charges, which vary with age and level of cover.
 - III. Commissions and company expenses are met by a variety of explicit charges, some of which are variable.
- a. I, II, and III
 - b. I and II
 - c. II and III
 - d. I and III**
15. The facility to do switching under a variable life insurance policy is a very useful ____.
- a. For the purpose of profit planning by the life policies
 - b. For the purpose of assets planning by the trustee
 - c. For the purpose of sales planning by the fund managers
 - d. For the purpose of financial planning by the policy owners**
16. Which of the following is/are TRUE about the flexibility benefit of investing in variable life funds?
- I. Policy owners can easily change the level of sum assured and switch their investment between funds.
 - II. Policy owners can easily take premium holidays and add single premium to top-ups.
 - III. Variable life insurance products have a single product design with a clear structure which cater separately for investment and insurance protection.
 - IV. Policy owners can easily change the level of their premium payment.
- a. All of the above
 - b. I, II, and III
 - c. I, II, and IV**
 - d. I, III, and IV
17. Which of the following statements about risks of investing in variable life funds is TRUE?
- a. Investment in variable life funds which are fully invested in units of equity is not suitable for policyowners who can tolerate the risks of short term fluctuations in their account value.

- b. Policyowners who are risk averse should buy variable life insurance policies with high equity investment.
- c. Policyowners who are risk averse should not purchase life insurance policies with high protection and guaranteed cash maturity values
- d. Policyowners who invest in variable life funds with high equity investment face greater risk but offer the potential for higher returns over the long term than traditional life insurance policies.

18. What would be the withdrawal value after a year?

Offer price	= Ps 16.00
Bid-offer spread	= 4.5%
Number of Units bought	= 25,000 units
Policy Fee	= Ps. 1,800
Admin and Mortality Charge	= Ps. 8,750
Top-Up Fee	= Ps. 700
Admin for Top-Up	= Ps. 2,000

Sum assured is 190% of single premium of the value of the units, whichever is higher.

Assumptions:

1. Charges and fees are deducted after the single premium has been invested into the account.
2. The growth rate of the unit price and the bid-offer spread is maintained at 8% and 4.5% respectively.

- a. Ps. 432,000.00
- b. Ps. 420,069.02
- c. Ps. 401,107.58
- d. Ps. 412,500.00

19. Which of the following statements about an investor diversifying his portfolio is FALSE?

- a. A diversified portfolio provides greater security to an investor having to sacrifice the return for the portfolio.
- b. A diversified portfolio can completely eliminate the risk of investing the stocks in a portfolio.
- c. A diversified portfolio can involve purchasing different types of stocks and investing in stocks of different countries.

20. In traditional life insurance products, the allocations to policy owners in the form of dividends ____.

- I. Are not directly linked to the life company's investment performance
 - II. Have already been smoothened by the life company
 - III. Do not have the highs and lows of investment returns as in good investment years of the life company
 - IV. Are not fixed at the inception of the policy, but are greatly dependent on the investment performance of the life company.
- a. I, II, and III
 - b. I, II, and IV
 - c. I, III, and IV
 - d. II, III, and IV

21. Which of the following statements is TRUE about cash?

- a. It has high yield potential.
- b. Amount invested in cash depends on the size of the cash flow requirement.
- c. Investment in cash increases when there is a bull run in the stock market.
- d. Investment in cash decreases when interest rates rise.

22. Which of the following are main characteristics of variable life policies?

- I. The policies can be used for investment, as a source of regular savings and protection.
 - II. The withdrawal values and protection benefits are determined by the investment performance of the underlying assets.
 - III. The net cash values of the policies are the gross cash values shown in the policy that includes dividends up to the date of surrender, less any indebtedness including interest.
- a. II
 - b. I
 - c. I, II, and III
 - d. I and II

23. The duties of the trustee of unit investment trust do not include

- a. Managing the portfolio of investment and administering the buying and selling of shares in the unit trust itself
- b. Ensuring that the fund manager adhere to the provision of trusts deeds
- c. Acting generally to protect the unit-holders
- d. Holding the pool of money and assets in trust in behalf of the investors

24. The policy fee payable by a variable life insurance policy owner is to cover ____.

- a. The handling charges by professional investment managers
- b. The prices for each unit bought under the variable life insurance policy
- c. The mortality costs of the variable life insurance policy
- d. The administrative expenses of setting up the variable life insurance policy

25. In risk-return profile of bond funds, cash funds, managed funds, balanced funds, and equity funds, a risk-return graph will show that ____.

- I. Higher return normally comes with lower risk.
- II. Higher return normally comes with higher risk.
- III. At the top end of the graph are the equity funds.
- IV. The relatively risk-less cash funds sit at the bottom end of the graph.

- a. I, II, and III
- b. II, III, and IV
- c. I, II, and IV
- d. I, III, and IV

26. Variable life funds can be invested in any financial instruments including bond funds, property funds, specialized funds, and equity funds. Equity funds ____.
- a. Invest in shares of stocks and the magnitude of the change in unit prices will only depend on the quantity of the equities held
 - b. Invest in shares of stocks and during market recession, such assets are usually the last to depreciate
 - c. Invest in share of stocks which are inherently of lower risk in nature and the prices of stocks are stable
 - d. Invest in share of stocks and investor who buys such assets usually aims for capital appreciation
27. The investment returns under variable life insurance ____.
- I. Are not guaranteed
 - II. Are assured
 - III. Are linked to the performance of the investment fund managed by the life company
 - IV. Fluctuate according to the rise and fall of the market prices
- a. I, II, and III
 - b. I, II, and IV
 - c. I, III, and IV
 - d. II, III, and IV
28. Which of the following statements is FALSE?
- a. Rebating is to offer a prospect a special inducement to purchase a policy.
 - b. Twisting is a specific form of misrepresentation.
 - c. Misrepresentation is a specific form of twisting.
 - d. Switching is a facility allowing policyholder to switch to another variable life funds offered by the company.
29. Which of the following statements about the differences between variable life policies and endowment policies are FALSE?
- I. The policy values of variable life and endowment policies directly reflect the performance of the fund of the life company.
 - II. The premiums and benefits of the endowment policies are described at inception of the policy whereas variable life policies are flexible as they are account-driven.
 - III. The benefits and risks variable life and endowment policies directly accrue to the policyholders.
- a. I and II
 - b. I, II, and III
 - c. I and III
 - d. II and III
30. Which of the following statements about variable life policies are TRUE?
- I. Offer price is used to determine the numbers of units to be cancelled to the account.
 - II. The margin between the bid and offer price is used to cover the management cost of the policy.

III. The policy value is calculated based on the bid price of units allocated into the policy.

- a. I, II, and III
- b. I and II
- c. I and III
- d. II and III

31. Mr. Cruz is currently earning Ps 30,000 each month. He is 35 years old and has a reasonable amount of savings. He has a moderate level for risk tolerance. What kind of policy would you recommend him to buy?

- a. Participating endowment
- b. Variable life policies
- c. Participating whole life
- d. Annuities

32. Which of the following statements about twisting is FALSE?

- a. Twisting is a special form of misrepresentation.
- b. It refers to an agent inducing a policyholder to discontinue a policy with another company without disclosing the disadvantage of doing so.
- c. It includes misleading or incomplete comparison of policies.
- d. It refers to an agent offering a prospect a special inducement to purchase a policy.

33. Rank the following in terms of liquidity, from the least liquid to the most liquid:

- I. Short Term Securities
- II. Property
- III. Cash
- IV. Equities

- a. IV, I, III, I
- b. III, I, IV, II
- c. II, I, IV, III
- d. II, IV, I, III

34. Which of the following best describes the benefits of variable life policies?

- a. The policy benefits are payable only on death or disability.
- b. The policy benefits will depend on the long-term performance of the life company.
- c. The policy benefits are directly linked to the investment performance of the underlying assets.
- d. The policy benefits are guaranteed.

35. Investing in bonds offers the following advantages EXCEPT :

- a. It allows the investor a chance for capital preservation
- b. It is a place of temporary refuge when the investor foresees that the market outlook is uncertain
- c. It enables the investor an opportunity for capital appreciation
- d. It offers protection to the principal and a guaranteed steady stream of income

36. Which of the following statements about benefits in a variable life fund is FALSE?

- a. The fund provides a highly diversified portfolio, thus, lowering the risk of investment.
- b. The fund ensures definite high yield for the investor since it is managed by professionals who are well versed in the management of risks of investment portfolios.
- c. The fund relieves investor from the hassle of administering his/her investment.
- d. The fund enable small investor to participate in a pool of diversified portfolio in which he/she with low investment capital is likely to have acceded to.

37. The differences between traditional participating life insurance and variable life insurance include:

- I. Variable life insurance policies are less likely to offer more choices in terms of the type of investment funds.
 - II. The investment elements of variable life insurance policies is made known to the policy owner at the outset and is invested in a separately identifiable fund which is made up units of investment.
 - III. Variable life insurance policies offer the potential for higher returns.
 - IV. Traditional participating policies aim to produce a steady return by smoothing out market fluctuation.
- a. I, III, and IV
 - b. II, III, and IV
 - c. I, II, and III
 - d. I, II, and IV

38. Advantages of investing in preferred shares are:

- I. It gives shareholders the right to a fixed dividend.
 - II. Has the priority over company assets during dissolution.
 - III. They enjoy benefit of capital appreciation.
- a. I, II, and III
 - b. I and II
 - c. I and III
 - d. II and III

39. Under regular premium, variable whole life insurance plan:

- I. Premium top-ups and holidays, subject to the life company's administrative rules are usually allowed
 - II. Life protection is the main objective of the plan with investment as a nominal purpose.
 - III. Withdrawals after the payment of a few years premium are usually allowed.
 - IV. A single premium contribution is made to the policy which uses the premium to purchase units in variable life fund and to provide certain level of life cover.
- a. II, III, and IV
 - b. I, III, and IV
 - c. I, II, and IV
 - d. I, II, and III

40. Risk can be classified into two particular categories in relation to investment. They include _____
- I. The risk of not losing some or all of a person's initial investment
 - II. The risk of rate of return on the investment not matching up to the individual's expectation
 - III. The risk of rate of return on the investment matching up to the individual's expectation
 - IV. The risk of losing some or all of a person's initial investment
- a. I and III
 - b. I and II
 - c. III and IV
 - d. II and IV
41. The selling price under a variable life insurance policy is ____.
- a. The price at which units the policy are bought back by the life company
 - b. The price at which units under the policy are offered for sale by the life company
 - c. Also known as the bid price
 - d. A fixed amount throughout
42. When investing in variable life funds, what are the benefits available?
- I. The variable life funds offer policyholders an access to pooled or diversified portfolios.
 - II. The variable life policyholder can vary his premium payments, take premium holidays, add single premium top-ups, and change the level of sum assured easily.
 - III. The variable life policyholder can have access to a pool of qualified and trained professional fund managers
- a. I and II
 - b. I and III
 - c. I, II, and III
 - d. II and III
43. Under variable life insurance policies, ____.
- I. There is no guaranteed minimum sum assured for the purpose of declaring dividends
 - II. There is no guaranteed minimum sum assured as a level of life insurance protection
 - III. Each of the policyowner's premium will be used to purchase units, the number of which is dependent on the selling price of each unit
 - IV. Purchase of units can only be made from the variable life fund itself, which will then create new units and the investment will add value to the fund
- a. I, II and III
 - b. I, II and IV
 - c. II, III and IV
 - d. I, III and IV

44. Why is it important that the customer has to understand the sales proposal in full?
- Because the insurer does not guarantee any return
 - Because the impact of changes in investment condition on variable life policy borne solely by the customer
 - Because the agent may give the wrong recommendations
 - Because the policyholders expects higher returns
45. A single premium variable life insurance policy ____.
- Has no withdrawal value
 - Must be issued with a maximum withdrawal value
 - Has no death benefit
 - Must be issued with a minimum death benefit
46. Which of the following statements about surrender value under traditional participating life insurance products is TRUE?
- When a participating insurance policy is surrendered, the surrender value is calculated by multiplying the bid price with number of units
 - Cash value is paid when a yearly renewable term insurance policy is surrendered
 - The amount of surrender value is usually higher than the amount under non-participating policies and it varies with the age of the assured, being lower at older ages
 - Policyholders who are risk averse should purchase life insurance policies with high protection and guaranteed cash and maturity values
47. Under a variable life insurance policy, the protection costs ____.
- Are met by a flat initial charges for regular premium loans
 - Are generally covered by cancellation of units in the fund
 - Are generally met by explicit charges stipulated openly in the policy terms
 - Vary with age of policy owner and level of coverage
- I, II, and III
 - I, II, and IV
 - I, III, and IV
 - II, III, and IV
48. The objective of satisfying customers' need and business profitability can be achieved by an agent through ____.
- The giving of freebies to customers
 - Extensive investment training by the company
 - The use of sales plan, where sales goals, strategic and objectives are coordinated with market analysis, segmentation and targeting
 - The giving of monetary assistance and discount to the customers
- I and III
 - II and III
 - I, II, and IV
 - II, III, and IV

49. Which of the following statements about investment objectives is FALSE?

- a. People invest money in fixed deposits to produce high and guaranteed returns.
- b. People invest money to enhance a comfortable standard living.
- c. People invest money to provide funds for higher education for their children.
- d. Investment in commodities has no regular income.

50. Diversification in investment involves ____.

- a. Putting all the funds under management into one category of investment
- b. Spreading the risks of investment by not putting the fund into several categories investment
- c. Reducing the risks of investment by putting one fund under management into several categories of investment
- d. Reducing the risks of investment by putting all one's eggs in one basket

51. Which of the following statements about diversification in portfolio management is FALSE?

- a. Diversification helps to spread the portfolio risk by investing in different categories of investment in a portfolio.
- b. Diversification can completely eliminate risk of investing in stocks in a portfolio.
- c. A diversified portfolio provides greater security to an investor without sacrificing the returns of the portfolio.
- d. Diversification can involve purchasing different types of stocks and investing in stocks of different countries.