

## Additional Sample Questions: Insurance Planning (RAIP) and Retirement Planning (RPEB)

Attempted Answers Are Checked and Displayed In Blue Color.  
Correct Answers are Displayed in Red Color after each Question.

### SECTION - I

- 1  
[1 Mark] Which of the following statements is correct about peril?  
(RAIP)
- (a)  A peril is the condition which increases the risk or seriousness of a loss
  - (b)  A peril is something that can cause a loss
  - (c)  A peril is habit or activity that increases risk, such as drug or alcohol use
  - (d)  A peril increases the probability and/or the severity of a loss
  - (e)  Not Attempted

Correct Answer : A peril is something that can cause a loss

- 2  
[1 Mark] Hazard is \_\_\_\_\_.  
(RAIP)
- (a)  the direct cause of the loss
  - (b)  the average size of a loss per occurrence
  - (c)  the condition that increases the cause of a loss
  - (d)  the number of losses during a specified period
  - (e)  Not Attempted

Correct Answer : the condition that increases the cause of a loss

- 3  
[1 Mark] The Payment of Gratuity Act, 1972 applies to the prescribed entities in which \_\_\_\_\_.  
(RPEB)
- (a)  10 or more persons are or were employed on any day in the preceding 12 months
  - (b)  10 or more persons have completed continuous service in the preceding 12 months
  - (c)  10 or more persons are employed and at least one has completed 5 years of continuous service
  - (d)  10 or more persons are employed in the preceding 12 months and are also covered under Employees' Provident Fund
  - (e)  Not Attempted

Correct Answer : 10 or more persons are or were employed on any day in the preceding 12 months

- 4  
[1 Mark] Wages to be considered for purpose of calculation of gratuity to be paid to an employee covered under the Payment of Gratuity Act, 1972 is \_\_\_\_\_.  
(RPEB)
- (a)  average wages drawn during the previous 10 months
  - (b)  average wages drawn during the
  - (c)  weighted average of wages drawn during the previous 5 years
  - (d)  wages last drawn by him
  - (e)  Not Attempted

Correct Answer : wages last drawn by him

5  For defined benefit plans, which of the following changes in actuarial assumption would not increase plan costs to an employer?

[1 Mark] (RPEB)

- (a)  High rate of salary escalation
- (b)  A rising trend in the interest rates
- (c)  Early retirement
- (d)  Longer life expectancy predicted
- (e)  Not Attempted

Correct Answer : A rising trend in the interest rates

6  Pick out an assessment or analysis from the following which a Financial Planner would normally not be engaging in while formulating a retirement planning strategy for a client?

[2 Marks] (RPEB)

- (a)  Analyzing and integrating information from a variety of sources to arrive at solutions
- (b)  Maintaining awareness of changes in the economic, political and regulatory environments
- (c)  Take an analysis of the minimum amount with which all other goals can be achieved so that maximum sums can go towards retirement goal
- (d)  Arriving at informed decisions when faced with incomplete or inconsistent information
- (e)  Not Attempted

Correct Answer : Take an analysis of the minimum amount with which all other goals can be achieved so that maximum sums can go towards retirement goal

7  If an individual is able to maintain the value of investments so that the investments in the future have the same purchasing power as before, he would be able to

[2 Marks] (RPEB)

- (a)  buy more goods by utilizing those investments in the future than now
- (b)  encounter rise in prices even if inflation outpaces investment return
- (c)  more than offset increased prices as investments compound while inflation rises in straight line
- (d)  maintain the same standard of living in the future by utilizing investments
- (e)  Not Attempted

Correct Answer : maintain the same standard of living in the future by utilizing investments

8  Which of the following would not be an impact of higher than average inflation in the accumulation stage on the retirement corpus? (RPEB)

[2 Marks]

- (a)  The corpus needed on retirement would be larger for the same lifestyle to be maintained.
- (b)  Higher rate of interest due to higher inflation would give better compounding effect and hence a sustainable corpus.
- (c)  The real return on investing money today would be difficult to sustain the purchasing power from the corpus accumulated.
- (d)  Higher consumption would leave less investible surplus leading to a lower than required corpus.
- (e)  Not Attempted

Correct Answer : Higher rate of interest due to higher inflation would give better compounding effect and hence a sustainable corpus.

## SECTION - II

1 Physical hazards in case of non-life insurance are \_\_\_\_\_.

[1 Mark]

(RAIP)

- (a)  hazards arising from a situation's structural or operational features
- (b)  hazards caused by the carelessness of the operating entities
- (c)  unrelated incidents aggravating a situation of peril
- (d)  hazards caused by external environmental factors
- (e)  Not Attempted

Correct Answer : hazards arising from a situation's structural or operational features

2 Morale hazard arises from \_\_\_\_\_.

[1 Mark]

(RAIP)

- (a)  the insured's intrinsic character differentiating right from wrong
- (b)  the possibility that having insurance makes us less careful towards a perilous situation
- (c)  the insured's conscious and malicious intent to cause a loss
- (d)  the insured's tendency to profit from a situation of peril
- (e)  Not Attempted

Correct Answer : the possibility that having insurance makes us less careful towards a perilous situation

3 Once the risk is measured, insurers either charge more for the higher risk or refuse to cover the higher risk at all in order to protect themselves from \_\_\_\_\_.

[1 Mark]

(RAIP)

- (a)  inadequate reserves
- (b)  unfair profiteering by the insured
- (c)  adverse selection
- (d)  resorting to reinsurance
- (e)  Not Attempted

Correct Answer : adverse selection

4 An incorrect estimation of lower inflation post-retirement would not result in \_\_\_\_\_.

[1 Mark]

(RPEB)

- (a)  insufficient accumulated corpus
- (b)  cutting back or retrenchment in expenses
- (c)  reduced sustainability of corpus than desired
- (d)  increased standard of living
- (e)  Not Attempted

Correct Answer : increased standard of living

5 The process of retirement planning would generally not involve \_\_\_\_\_.

[2 Marks]

(RPEB)

- (a)  concentrating on maximizing returns from corpus after retirement to leave a sizable estate
- (b)  projecting individual needs and goals into the future and making sound financial plan
- (c)  making a plan for covering lifelong living expenses & disposition of assets at death
- (d)  planning to maintain current lifestyle and providing cost of staying physically healthy after retirement
- (e)  Not Attempted

Correct Answer : concentrating on maximizing returns from corpus after retirement to leave a sizable estate

6 The earning member of a family aged 35 years expects to earn till next 25 years. He expects an annual growth of 8% in his existing net income of Rs. 5 lakh p.a. If he considers an average investment yield of 6% till his life expectancy of 80 years, what economic value could be ascribed to his life today?

[3 Marks]

(RAIP)

- (a)  Rs. 1.58 crore
- (b)  Rs. 1.20 crore
- (c)  Rs. 1.01 crore
- (d)  Rs. 3.50 crore
- (e)  Not Attempted

Correct Answer : Rs. 1.58 crore

7 Mr. X has a 25-year endowment policy, the annual premium being Rs. 15,850 for a sum assured of Rs. 12 lakh. He has paid 18 premiums and has Rs. 6,50,000 towards declared bonuses on this policy. He has met his objectives and has sufficient cover and wealth support. He does not wish to continue in the policy. He has the option to either make this policy paid up, or surrender the same at a factor of 75% of the paid up value. If he chooses to surrender, what return he should earn on the surrender value to offset the paid up value, when due?

[3 Marks]

(RAIP)

- (a)  2.92% p.a.
- (b)  3.66% p.a.
- (c)  4.20% p.a.
- (d)  5.67% p.a.
- (e)  Not Attempted

Correct Answer : 4.20% p.a.

8 A retiree of age 60 wants to enter into the reverse mortgage scheme by mortgaging his self-occupied house which is valued at Rs. 80 lakh. An approved lending institution agrees to provide periodic monthly payments under the scheme considering a loan to value ratio of 80% and at a rate of interest of 13.75% p.a. If the retiree opts for a 15-year term of reverse mortgage, what fixed periodic monthly payments he stands to receive under the scheme?

[3 Marks]

(RPEB)

- (a)  Rs. 13,379
- (b)  Rs. 10,703
- (c)  Rs. 10,826
- (d)  Rs. 13,532
- (e)  Not Attempted

Correct Answer : Rs. 10,703

9 A retiree of age 65 has fixed pension of Rs. 15,000 per month. His household expenses have exceeded his pension of late and are Rs. 16,000 per month now. He has approached an approved lending institution under Reverse Mortgage Scheme. He is offered fixed monthly payments for 15 years at a rate of interest of 13.75% on Rs. 64 lakh eligible value of his home. He meets his annual expenses as increased by 6% inflation every year and invests the excess amount from his two fixed annuities, fixed pension and reverse mortgage stream, in an investment yielding 10% p.a. at the end of every year starting from this year onwards. You assess at the end of five years thus accumulated fund against the total liability under Reverse Mortgage and find that \_\_\_\_\_.

[4 Marks]

(RPEB)

- (a)  Rs. 3.34 lakh net liability due to Reverse Mortgage Loan
- (b)  Rs. 3.10 lakh net liability due to Reverse Mortgage Loan
- (c)  Rs. 3.51 lakh net liability due to Reverse Mortgage Loan
- (d)  Rs. 66,097 net liability due to Reverse Mortgage Loan
- (e)  Not Attempted

Correct Answer : Rs. 3.51 lakh net liability due to Reverse Mortgage Loan

## SECTION - III

1 A client's change in risk profile with advancing life stage would not be influenced by \_\_\_\_.

[1 Mark] (RPEB)

- (a)  higher investible surplus
- (b)  higher financial liabilities
- (c)  higher asset base
- (d)  higher tax liability
- (e)  Not Attempted

Correct Answer : higher tax liability

2 Which of the following factors does not necessarily support a lower corpus than the required future living expenses?

[1 Mark] (RPEB)

- (a)  Higher than expected inflation
- (b)  Income generating assets other than financial assets
- (c)  No liabilities post-retirement
- (d)  Regular income flow from working post-retirement
- (e)  Not Attempted

Correct Answer : higher than expected inflation

3 A self employed person died in an accident. His wife, who is working in a bank, is nominee of his PPF account. She also has a PPF account in her name. She requested your opinion on the funds standing in her husband's PPF account. You suggest that \_\_\_\_.

[2 Marks] (RPEB)

- (a)  she can transfer the PPF account in the name of their only child
- (b)  she can continue the PPF account without transfer and also maintain her existing PPF account
- (c)  she should withdraw the amount as the PPF account is non-transferable, nor a nominee can continue the account
- (d)  she can transfer the funds standing in her husband's PPF account to her own PPF account
- (e)  Not Attempted

Correct Answer : she should withdraw the amount as the PPF account is non-transferable, nor a nominee can continue the account

4 An individual opened PPF account on 1st April 2007. The amount outstanding in his account on 31st March 2013 was Rs. 4,93,564. If he had a balance of Rs. 2,45,428 on 31st March 2010, what amount can he withdraw and from which date?

[3 Marks] (RPEB)

- (a)  Rs. 1,22,714 from 1st April 2013 in year 2013-14
- (b)  Rs. 2,46,782 from 1st April 2013 in year 2013-14
- (c)  Rs. 1,22,714 from 1st April 2014 in year 2014-15
- (d)  Rs. 2,46,782 from 1st April 2014 in year 2014-15
- (e)  Not Attempted

Correct Answer : Rs. 1,22,714 from 1st April 2013 in year 2013-14

5 An annuity product is designed in such a way that it gives first cash flow at 6% of the corpus at the end of first year and thereafter every year in the form of growing annuity at the rate of 5%. If the cash flows are guaranteed for 15 years, what rate of return is obtained on the corpus invested?

[3 Marks] (RPEB)

- (a)  3.04% p.a.
- (b)  3.91% p.a.
- (c)  5.07% p.a.
- (d)  6.41% p.a.
- (e)  Not Attempted

Correct Answer : 3.04% p.a.

6  A retiree has accumulated Rs. 1.86 crore towards his retirement corpus. His current monthly household expenses are Rs. 90,000 which he needs inflation adjusted for 30 years. If he considers average inflation to be 5.5% p.a. from now onwards, what rate of return from a 30 year annuity, payable annually and deferred by one year, should meet his goal?

[3 Marks] (RPEB)

- (a)  10.66% p.a.  
(b)  10.13% p.a.  
(c)  9.76% p.a.  
(d)  8.46% p.a.  
(e)  Not Attempted

Correct Answer : 9.76% p.a.

7  A professional just retired has accumulated Rs. 40 lakh. He invests this corpus in an investment instrument giving return of 8% p.a. His current annual household expenses are Rs. 5 lakh, escalating at inflation of 6% p.a. He would rent out his other fixed property at an expected annual rent of Rs. 1.80 lakh, the rentals increasing at 6% p.a. The balance expenses are met by withdrawing from the invested corpus. The commercial property, currently valued at Rs. 50 lakh, is expected to appreciate at 8% p.a. He expects to sell the property after 15 years to create a fresh corpus for his living expenses. How long the total funds available are expected to last after 15 years?

[4 Marks] (RPEB)

- (a)  15 years 2 months  
(b)  16 years 3 months  
(c)  18 years 7 months  
(d)  16 years 9 months  
(e)  Not Attempted

Correct Answer : 16 years 9 months

8  A retired person has contracted a 20-year immediate annuity plan which provides an annual stream of income, increasing year-on-year at 5%. He is due to receive 5th installment of Rs. 5.50 lakh which is 6% of the balance corpus remaining in annuity. He wants the term of the annuity to increase. He estimates that Rs. 4.75 lakh would be sufficient for his current living expenses. He proposes this to the annuity provider with other terms remaining as originally agreed. If the yield of the annuity is 6.5% p.a., how many more installments would get added in the restructured annuity than the original?

[4 Marks] (RPEB)

- (a)  5.36 installments  
(b)  6.36 installments  
(c)  3.04 installments  
(d)  7.39 installments  
(e)  Not Attempted

Correct Answer : 6.36 installments

9  A retired couple has fixed pension of Rs. 30,000 p.m. while their current living expenses are at 31,000 p.m. They stay in their own house. You advise them to avail a loan under reverse mortgage which is an eligible lump sum of Rs. 40 lakh for 15 years at 12.5% p.a. interest. The annual interest is calculated after every 12 months on the pre-standing balance and added to the outstanding loan amount. You invest the available amount after withholding the excess normal expenses for the first year and considering 6% inflation thereafter at the beginning of every year. If the investment yield is 9% p.a., by what amount outstanding loan would exceed investment after 8 years?

[4 Marks] (RPEB)

- (a)  Rs. 33.54 lakh  
(b)  Rs. 37.25 lakh  
(c)  Rs. 28.76 lakh  
(d)  Rs. 30.37 lakh  
(e)  Not Attempted

Correct Answer : Rs. 33.54 lakh

## SECTION - IV

- 1 **Which of the following cannot be claimed under travel insurance?**  
[1 Mark] (RAIP)
- (a)  Medical expenses due to hospitalization or personal accident when travelling abroad
  - (b)  Burglary and robbery for Indian home while travelling abroad
  - (c)  Without limit theft of cash and/or jewelry when abroad
  - (d)  Loss of baggage and financial loss due to delay or cancellation of flight
  - (e)  **Not Attempted**

**Correct Answer :** Without limit theft of cash and/or jewelry when abroad

- 2 **The purpose of Excess is to \_\_\_\_.**  
[1 Mark] (RAIP)
- (a)  provide the insured excess cover over the card rate at a small premium
  - (b)  fix a limit up to which claims are settled in a cashless manner
  - (c)  fix a quantum which the claim cannot exceed per contingent event
  - (d)  restrict coverage to events that are significant enough to incur large costs
  - (e)  **Not Attempted**

**Correct Answer :** restrict coverage to events that are significant enough to incur large costs

- 3 **Clinical Trial Liability Insurance covers legal liability arising out of \_\_\_\_.**  
[1 Mark] (RAIP)
- (a)  lack of care, negligence resulting in injury or death of a trial subject
  - (b)  claim as a result of a lawful act committed while performing duties
  - (c)  death or disability occurring in clinics or hospitals due to negligence
  - (d)  third party damages caused due to accidents caused in test runs of automobiles and airplanes
  - (e)  **Not Attempted**

**Correct Answer :** lack of care, negligence resulting in injury or death of a trial subject

- 4 **Under the Directors and Officers Liability policy, a company seeks to \_\_\_\_.**  
[2 Marks] (RAIP)
- (a)  alienate itself against any liability arising due to the bona fide acts of its directors and officers in the performance of their duties
  - (b)  indemnify itself, its directors and officers against certain damages and legal costs brought on by the alleged wrongful acts in their official capacity without a mal-intent
  - (c)  protect its directors and officers against contingencies such as onsite accidents in the performance of their duties
  - (d)  indemnify only its directors and officers against certain damages and legal costs brought on by their fraudulent acts
  - (e)  **Not Attempted**

**Correct Answer :** indemnify itself, its directors and officers against certain damages and legal costs brought on by the alleged wrongful acts in their official capacity without a mal-intent

- 5 **Which of the following factors does not match with the need of health insurance?**  
[2 Marks] (RAIP)
- (a)  Financial protection from rising cost of hospitalization
  - (b)  Increase in the incidence of critical diseases and accidents
  - (c)  Access to best medical facilities without liquidating assets
  - (d)  Improving longevity and better medical facilities
  - (e)  **Not Attempted**

**Correct Answer :** Improving longevity and better medical facilities

6

A 40 year old male individual can get a 15-year with-profit life insurance policy of a company at an annual premium of Rs. 12,046 which gives a sum assured of Rs. 1.5 lakh. The company historically has declared reversionary bonuses and terminal bonus per thousand sum assured at Rs. 35 and Rs. 80, respectively. A term plan with same life and other parameters is generally available for an annual premium of Rs. 3,565. Find the return on investment component of the company's policy on surviving the term.

[3 Marks]

(RAIP)

- (a)  7.04% p.a.
- (b)  7.63% p.a.
- (c)  8.57% p.a.
- (d)  4.91% p.a.
- (e)  Not Attempted

Correct Answer : 7.63% p.a.

7

A warehouse insured its premises against fire and natural calamity for a value of Rs. 1.25 crore. Towards liability coverage, separate insurances for risks of fire and burglary for Rs. 12 crore each were taken to cover the goods kept at any time. The company took an umbrella insurance of Rs. 15 crore also. The warehouse was completely destroyed in fire. The registered value of goods at that time was Rs. 30 crore. What insurance can be settled in the Company's claim?

[4 Marks]

(RAIP)

- (a)  Nil to the Warehouse and Rs. 28.25 crore towards liability proportionately to clients
- (b)  Rs. 1.25 crore to the Warehouse and Rs. 19.8 crore towards liability proportionately to clients
- (c)  Rs. 1.25 crore to the Warehouse, Rs. 12 crore (max.) towards liability for perishable goods of clients, and Rs. 15 crore (max.) towards liability proportionately to others
- (d)  Rs. 1.25 crore to the Warehouse and Rs. 27 crore towards liability proportionately to clients
- (e)  Not Attempted

Correct Answer : Rs. 1.25 crore to the Warehouse and Rs. 27 crore towards liability proportionately to clients

## SECTION - V

1

Insurance companies apply the Law of Large Numbers to determine \_\_\_\_\_.

[1 Mark]

(RAIP)

- (a)  the likely cost of total annual claims
- (b)  the insurance need of a person
- (c)  the paid up value of a policy
- (d)  the average maturity value of a policy
- (e)  Not Attempted

Correct Answer : the likely cost of total annual claims

2

Which of the following cannot be a criterion for identifying an insurable risk?

[1 Mark]

(RAIP)

- (a)  The past statistics of the risk should be available
- (b)  Its chance of occurrence can be deduced from past information
- (c)  It definitely holds out a possibility of loss
- (d)  It holds out prospects of gain as well as loss
- (e)  Not Attempted

Correct Answer : It holds out prospects of gain as well as loss

3

Contributions to the Employee Pension Scheme (EPS), 1995 are made as under:

[1 Mark]

(RPEB)

- (a)  Employee- 8.33%, Employer- Nil, Central Government- 1.16%
- (b)  Employee- 12%, Employer- 12%, Central Government- Nil
- (c)  Employee- Nil, Employer- 8.33%, Central Government- 1.16%
- (d)  Employee- Nil, Employer- 12%, Central Government- 1.16%
- (e)  Not Attempted

Correct Answer : Employee- Nil, Employer- 8.33%, Central Government- 1.16%

4

The percentage of loan eligible and the tenure of repayment period that can be availed from a PPF account is \_\_\_\_\_.

[1 Mark]

(RPEB)

- (a)  50% of the eligible balance and 3 years
- (b)  One-third of the eligible balance and 5 years
- (c)  25% of the eligible balance and 3 years
- (d)  25% of the eligible balance and 5 years
- (e)  Not Attempted

Correct Answer : 25% of the eligible balance and 3 years

5

The following statements regarding National Pension System are true, except:

[2 Marks]

(RPEB)

- (a)  An active Tier I account is a pre-requisite for opening a Tier II account
- (b)  There is no limits on the number of withdrawals from Tier II account
- (c)  Tier II account provides facility of separate nomination and scheme preference
- (d)  Funds from Tier I account can be transferred to Tier II account
- (e)  Not Attempted

Correct Answer : Funds from Tier I account can be transferred to Tier II account

6

Which of the following loss can be insured?

[2 Marks]

(RAIP)

- (a)  Loss of profit caused by factory shut down due to strike of workers
- (b)  Loss of a customer's market reputation due to wrong return of cheque by the banker
- (c)  Loss due to reduction in sale of a product as a result of research outcome
- (d)  Loss of brand image caused by wrong report in media
- (e)  Not Attempted

Correct Answer : Loss of profit caused by factory shut down due to strike of workers