



CF5EXT

THE CHARTERED
INSURANCE INSTITUTE

CERTIFICATE IN FINANCIAL PLANNING

PAPER 5—INTEGRATED FINANCIAL PLANNING

**PREPARING FOR CF5
EXAMINATION TECHNIQUE**

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PREPARING FOR THE CF5 EXAMINATION

EXAMINATION TECHNIQUE

PURPOSE OF THIS GUIDE

This technique guide offers you guidance on how to prepare for the CF5 examination. Careful preparation for the examination will help you to demonstrate that you have the required skills to merit a pass in this unit. As you prepare, it should be your aim to ensure that you are technically able to answer the questions and that you can do justice to your abilities under examination conditions.

Details of the administrative procedures and regulations which form the basis of your examination entry are to be found in the current Certificate in Financial Planning Information for Candidates brochure, which is essential reading for any candidate before entering for the examination.

THE SYLLABUS

It is crucial that you study the syllabus, which can be obtained online at www.cii.co.uk or from Customer Service, because all of the questions in the examination will be based directly on the syllabus. You will be tested on the syllabus alone, so it is vital that you are familiar with it. The CF5 syllabus states that candidates will be tested on their ability to apply their knowledge of the financial services industry and its regulation, and to demonstrate an understanding of the products tested in Papers 1, 2, 3 and 4. You are therefore advised to take CF1, 2, 3 and 4 before attempting CF5.

A reading list is provided with each syllabus. You are advised to read as widely as possible when preparing for the examination and to keep up to date by reading the financial periodicals suggested.

PRODUCT LIST

At the back of each examination paper there is a product list and tax guide. The product list and tax guide can be obtained online at www.cii.co.uk and it will help if you familiarise yourself with them before the examination. The product list will form the basis of the of your recommendations and you will be asked to justify the products you have recommended. It is therefore worth considering before the examination the circumstances in which you would recommend certain products and the reasons why. Pay special attention to the products which you do not deal with on a regular basis. You should ensure you are familiar with the tax treatment of each product and the risk profile; whether the products are considered to be low, medium or high risk.

TAX GUIDE

The tax guide which can be obtained online at www.cii.co.uk enables you to concentrate on answering the questions without having to worry about remembering general tax information. *Please note that you are not allowed to take your own tax guide into the examination.*

ASSESSMENT

Assessment is by means of a two hour written paper. The paper comprises two compulsory structured questions:

Question	Marks	Question weighting	Suggested time spent answering questions (minutes)
1	50	50%	60
2	50	50%	60
Total	100	100%	120

Each structured question comprises a case study specifically written and rigorously edited by practitioners with relevant experience to ensure it is both technically and structurally correct. You should practise being able to identify salient points and apply them effectively to answer each specific question.

Question 1 may require candidates to identify and explain any apparent inconsistencies. Candidates may also be required to extract relevant facts to present a suitable financial planning solution and to compare products and recommend a course of action.

Question 2 is designed to test candidates' ability to construct an investment portfolio to meet a client's needs, justify the products they have recommended and demonstrate they understand what is required at a regular client review.

STANDARD OF THE EXAMINATION

The examination is designed for candidates who are new to the industry and who will be offering supervised advice involving classes of business that are likely to be relevant to the needs of clients whose circumstances are straightforward. The examination is not meant to test a practitioner's ability to give advice in complex or highly sophisticated client situations. The Certificate in Financial Planning has been accredited by the Ofqual, and is included in the National Qualifications Framework at level 3, it is of equivalent standard to A level qualifications.

EXAMINATION GUIDES

Examination Guides are available online at www.cii.co.uk.

The guide provides useful revision material. You can set yourself a mock examination and then mark your answers against the model answers provided. You should set yourself strict time deadlines when answering the questions. The more practice you have in answering questions within the time allowed in the examination, the better prepared you will be on the day. Not only will this exercise improve your examination technique but by marking your answers you will quickly identify any gaps in your knowledge which you can then address before the day of the examination.

IN THE EXAMINATION

Assuming you have prepared adequately you will only do justice to yourself in the examination if you adopt the following crucial rules:

1. Spend your time in accordance with the marks allocated to each question

Always remember that if you do not complete the paper, your chances of success may be reduced drastically. The maximum marks allocated to each question and its constituent parts are given on the question paper. The number of marks is the best indication of how much time you should spend on each question part. If part of a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking. Conversely, if part of a question has 14 marks allocated a couple of lines will **not** be an adequate answer.

2. Do not spend too much time on any question

If you have used up your time allocation for a particular question, leave some space, go on to the next question and only return to the other question after you have completed the rest of the paper.

3. Take great care to answer the precise question set

You will see by looking at any of the model answers provided by the CII that they are focused and specific; answers will only be acceptable if they answer the question. However brilliantly you write on a particular topic, if it does not satisfactorily answer the specific question set you will not score the allocated marks. Candidates with several years' experience should bear this in mind when answering questions; very experienced candidates have a tendency to read more into questions than is intended, or fail to note down creditworthy points because they feel these points are too obvious. Providing excessive background detail, which is not asked for by the question or commenting on peripheral matters, will not gain extra marks and will lose candidates valuable time in the examination.

Many candidates leave the examination room confident that they have written a good paper only to be mystified when they receive a fail result. Often the explanation for this lies in a failure to think carefully about what the question is asking for before putting pen to paper.

4. Understand what the key instruction words mean.

Each question part contains an instruction for you to carry out some sort of task, e.g. state, list, explain. These words are used very carefully and marks are allocated on the basis that you have understood the instruction and followed it precisely. For example, if you are only asked to list but ignore the instruction and provide a detailed explanation, you will not gain any extra marks and will have wasted time which might have been used to gain marks elsewhere in the paper. Some guidance on interpreting the meaning of key words is given on pages 10-14.

5. Read all parts of a question before attempting to answer

Both questions in CF5 involve reading a case study and answering a series of questions based on it. You are advised first to skim read the case study, then **read carefully all the question parts** before reading the case study a second time; this time highlighting the points which are relevant to your answers. Only after this, should you begin to answer each question part. This approach means that your second reading of the case study will be more productive and that you have read **all** the question parts before you put pen to paper. It stops you including in your answer to part **(a)**, material that would have been more appropriate in part **(b)**. You will therefore avoid having to duplicate much of what you have already written. *Normally, examiners will only give credit for an answer if it is contained within the correct question part.*

The examiners allow time for you to read the paper when they plan the examinations so do not think that you are wasting your time.

6. Consider the format in which you need to present your answers

The best guide to how you should set out your answers is given in the Examination Guide and you should study carefully how the model answers are laid out. On pages 7 to 9 of this guide are some examples of how you can reduce the amount of time it takes you to write the answers in the examination by following a bullet point or similar note format. However, there are some instances where your answers should be written in full sentences because of the way the question has been phrased.

When you are asked to calculate you should show all of your workings. Marks will be awarded for showing the correct method and not just for the correct answer. This ensures that, if you make a mistake in calculating the answer, you will not lose all the marks if you have shown the examiner that you know the correct method. You may find a basic calculator useful.

7. Decide on the order in which you will tackle questions before the day of the examination

There is no recommended order in which to attempt the questions. Some candidates prefer to answer their least favourite question first; others prefer to start with the question they feel most confident about.

Whilst preparing for the examination, set yourself some mock examinations using exam guides and decide on the approach which suits you best. Once you have decided on your strategy for attempting the questions, you should stick to it in the examination.

8. Ensure your handwriting is legible

Provided your handwriting is legible you will not lose marks if it is untidy. You are strongly recommended not to write in block capitals because it will slow you down and block capitals can become more difficult to read when written quickly.

9. Start a new page for each question

In the question paper you will be instructed to answer each question on a new page and to leave six lines blank between each question part. It is in your interests to comply with this ruling: it will help to ensure that you get full credit for your efforts.

10. Do not panic

The CF5 examination has not been designed to catch you out. There are no trick questions. Being calm and thoughtful during the examination will help you get the most from your preparation.

If you bear in mind all of the above points when preparing for the examination, you should stand the best chance of success in the examination. Good luck.

HOW TO PRESENT YOUR ANSWERS - THE DOs AND DON'Ts

It should be noted that the questions which follow would, in an examination paper, be preceded by a case study which would provide you with information needed to answer the question.

EXAMPLE ONE

Question: From the information provided by Mr and Mrs Matthews, note down the relevant points under the following heading:

Pension details.

Answer one

From the information provided by Mr and Mrs Matthews, I have noted that Mr Matthews is a member of the National Health Service Superannuation Scheme. When Mr Matthews reaches age 60 he will have 40 years service, in the NHS Superannuation Scheme. At present, Mr Matthews pays six per cent of his salary into his pension scheme. Mr Matthews wants to retire when he is 60 years old.

Mrs Matthews belongs to the Local Government Superannuation Scheme. Mrs Matthews also has an AVC into which she pays £20 per month. Mrs Matthews also wishes to retire when she reaches 60 years of age.

Answer two

Mr Matthews

*Belongs to the NHS Superannuation Scheme.
He will have 40 years' service at age 60.
He pays 6% of his salary into his pension scheme.*

Mrs Matthews

*She belongs to the Local Government Superannuation Scheme.
She has an AVC into which she pays £20 per month.*

*They **both** want to retire at age 60.*

Answer two has been presented in 55 words compared with 104 words in answer one, yet both answers would achieve the same number of marks in the exam. You can see that you will be able to manage your time more effectively if you adopt the answer two approach.

You will note that in both answers it has been specified to whom the pension details refer. It would not be sufficient to state '*Belongs to the NHS Superannuation Scheme*' as the examiner needs to know that it is Mr Matthews who belongs to the scheme. Therefore, bear in mind that note form is acceptable but the notes must be specific.

EXAMPLE TWO

Question: Explain the advantages and disadvantages of a whole of life policy compared with a level term assurance policy.

Answer One

Whole of life policy

The advantage of a whole of life policy is that it is available throughout the life assured's life. A surrender value may be payable on encashment and the sum assured can be changed to cater for changes in circumstances. The plan can also be clustered which helps to provide a greater degree of flexibility.

The disadvantages of a whole of life policy are that the underwriting is strict and the premiums can also be more expensive. Another advantage is that the premiums are reviewable after a set period which can in turn lead to an increase in premiums to maintain the required level of life cover.

Term assurance

An advantage of a term assurance policy is that its premiums are usually cheaper than those charged on a whole of life policy. The premium can be level throughout the term and the underwriting is often less strict than that applied to whole of life policies. The policy can have renewable and convertible options built into it.

The disadvantages of a term assurance policy are that the cover is only for the specified term of the policy originally chosen. There is no surrender value available and the cover may be more expensive if it needs to be renewed later.

Answer Two

	Advantages	Disadvantages
Whole of life	Cover available throughout life Surrender value may be payable Can vary amount of cover Cluster policies available for flexibility	Underwriting strict Usually more expensive Premiums are reviewable Reviews can increase in premiums to maintain cover
Term assurance	Usually cheaper form of life cover Level premium throughout term Underwriting less strict Can have renewable/convertible options	Cover only for specified term No surrender value Cover more expensive if renew

Both answers gain the same number of marks but answer two uses 73 words and answer one uses 211 words.

EXAMPLE THREE

There are some occasions when a bullet point format is not an acceptable approach when answering a question. For example, in question one when candidates are asked to give examples of questions they would ask a client in order to advise them on their financial objectives, the questions have to be presented as **questions** and worded in a way the client would understand. Given below are some examples of how such questions should be phrased.

Question: Write down a list of the questions you would need to ask David and Andrea to obtain all the additional information required to enable you to advise them on:

Retirement Planning

Answer

Can I see the latest policy document for your personal pension scheme?

Do you have the preserved benefit statement from the previous pension scheme?

Would you prefer to contribute lump sums or regular premiums?

KEY WORDS USED IN CF5 AND THEIR MEANINGS

Here are some of the key instruction words and phrases used most frequently in CF5, with explanations of their meaning.

NOTE DOWN

This means write down briefly the information required, usually a series of points with a common theme.

From the information provided note down the relevant points under the following headings:

(i) Pension details

- Felix and Angela are currently not making any pension provision;
- Felix is eligible to join his company scheme, which requires 6% members' contribution;
- etc.

You should state the relevant facts about pensions and financial objectives without explanation.

IDENTIFY AND EXPLAIN

This means pick out, state and give reasons for your choice.

Identify and explain any errors and inconsistencies in the information provided.

- Felix states he is not a member of the company pension scheme but Angela believes that he has life assurance under this scheme;
- etc.

You should state all the errors and inconsistencies you can find and for each one give at least one reason why you have selected it.

DESCRIBE

This means state all the relevant characteristics of something.

Describe three types of protection policy which Clare could consider.

- Long-term care cover;
- meet costs of private home nursing or nursing home care;
- etc.

You should separately state all the relevant features of three types of suitable cover.

OUTLINE

This means give a framework description, omitting the minor characteristics.

Outline the advantages of each contract as you would to Mike.

Critical illness

- Pays out lump sum on diagnosis of specified illness;
- etc.

You should state the key advantages to Mike of each contract in turn.

EXPLAIN (see **identify and explain** above)

LIST

This means write down a series of items in concise form, without explanation.

List the different costs associated with arranging the mortgage.

- Valuation fee or survey;
- arrangement fee (if applicable);
- etc.

You should write just enough to identify each item, without further comment.

GIVE REASONS

For each product you have selected give clear reasons for your choice.

National Savings Certificates (45th Issue) Index Linked

- Capital is secure;
- proceeds are tax free;
- etc.

You should set out, as separate points, a number of reasons why you have chosen each specific product. General points, for example, 'these products will provide a balanced and tax efficient portfolio' will not gain marks. See also **IDENTIFY** and **EXPLAIN**.

CALCULATE

This means use numerical data to work out the required result. Always write down your workings because the majority of marks are usually allotted for demonstrating that you understand the method, rather than your mathematical proficiency.

Calculate the income that your portfolio will produce.

You should set out clearly for each product your calculation of how much income it will produce and provide a total. This type of question will usually also ask you to explain the tax treatment of the income, so you will need to show the gross and net figures, as appropriate, and describe how tax is paid e.g. deducted at source.

RECOMMEND

This means based on the information given, suggest suitable products for the client(s).

Recommend from the product list, a portfolio of products that would meet Mr Thompson's requirements, stating the amount to be invested in each product.

You should set out your suggested products, clearly identifying each, with your proposed amount to be invested in each and an overall total. Reasons or justification of your choices are not required here; if you waste time extolling the virtues of your portfolio, you will only have to repeat your reasons if they are asked for in a later part of question two.

JUSTIFY (recommendation or amount)

This means give specific reasons why you have suggested certain products. If you are asked to justify the amounts you have recommended, be sure to provide reasons specific to each product.

For each of the product types that you have selected, justify your recommendations and the amounts of the investment.

Shires Building Society 90 Day Notice Account

- Capital is secure.
- It could be used to fund an ISA in future years.

You should give reasons for your selection of each product and at least one reason for the amount you have chosen for each product. See also **GIVE REASONS**.

STATE

This means give the relevant points without elaboration and preferably in logical sequence.

State the advantages and disadvantages of such a term assurance policy for Nicola.

Advantages

- Cheaper form of life cover;
- etc.

Disadvantages

- No surrender value is available;
- etc.

You should set out as separate points each advantage and then each disadvantage. Discussion or comparison of relative merits is not required here.

BRIEFLY

This means give a short, concise answer, having regard to the marks available. 'Briefly' is used by examiners to warn candidates that they do not require an in-depth treatment of the topic, but just the key points. See also **OUTLINE**.

Explain briefly how investment trusts are taxed.

- Capital gains may be charged when the gain is realised;
- Net gains may be reduced by the indexation allowance/taper relief;
- etc.

You should state the main facts; seven marks were allocated here, so it is likely that a good answer will contain six to eight points.

OPTIONS

This means the possible alternative courses of action open.

State the options available to Ian on leaving his occupational pension scheme to effect a personal pension.

- Transfer his cash equivalent of accrued benefits from the occupational scheme to the personal pension;
- Leave his accrued benefits in the occupational scheme and effect a completely new personal pension;
- etc.

Note that if you are simply asked for the options available to a client; you are not expected to evaluate those options and offer advice on which you consider most suitable.

FACTORS/FACTS

This means in the context of CF5, matters which have a direct bearing on the advising of a client.

For example: Question two. *List the factors you would need to take into account in recommending a portfolio for the Stewarts.* `

- Want 50% to be in UK based investments;
- Require capital growth and do not require income;
- etc.

You should state the facts which are relevant for advising the Stewarts personally, not factors in general terms which apply to everyone. For example, if you answer 'attitude to risk', no marks are given, because everyone has an attitude to risk. You are given information in the question about the Stewarts' attitude to risk: that is what you must state here, e.g. their attitude to risk is moderate/high.