



THE CHARTERED INSURANCE INSTITUTE

DIPLOMA

APRIL 2010 EXAMINATION PAPER

**UNIT P21
COMMERCIAL INSURANCE
CONTRACT WORDING**

INSTRUCTIONS

- Two hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- You are allowed to write on the inside pages of this question paper but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- **The answer booklet and this question paper must be handed in personally by you to the invigilator before you leave the examination. Failure to do this may result in your paper not being marked and you may be prevented from entering this examination in future.**

READ THE INSTRUCTIONS OVERLEAF CAREFULLY BEFORE ANSWERING ANY QUESTIONS.

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P21 – Commercial insurance contract wording

CANDIDATE INSTRUCTIONS

READ THE INSTRUCTIONS BELOW BEFORE ANSWERING ANY QUESTIONS.

Two hours are allowed for this paper. You should answer all questions in Part I and two out of the four questions in Part II.

The paper carries a total of 140 marks, as follows:

Part I	8 compulsory questions	80 marks
Part II	2 questions selected from 4	60 marks

You are advised to spend no more than one hour on Part I.

Answer each question on a new page. If the question has more than one part, leave several lines blank after each part.

It is important to show each step in any calculation, even if you have used a calculator.

You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.

PART I

**Answer ALL questions in Part I.
Each question is worth 10 marks.**

Note form is acceptable where this conveys all the necessary information.

1. List five factors that should be considered, according to the Financial Services Authority, by an insurer or broker when determining what ‘appropriate information’ should be given to a customer, to enable them to make an informed decision about any proposed insurance arrangements. **(10)**

2. Explain how the ‘hours’ clause in property catastrophe excess of loss treaties defines ‘event’ and ‘loss occurrence’, and why reinsurers use it. **(10)**

3.
 - (a) Identify four reasons why it is important for an insurer to receive timely notification of a claim. **(8)**

 - (b) If the claims notification clause in a policy is stated to be a ‘condition precedent to liability’, explain what the effect would be of a failure to notify the insurer of a claim in a timely manner. **(2)**

4. Distinguish between an excess provision and a coinsurance provision in an insurance policy. **(10)**

5.
 - (a) Explain the purpose of a limits clause and where this will be found in an insurance policy. **(4)**

 - (b) Give six examples of how the limit may commonly apply to a property damage claim. **(6)**

- 6. (a)** Identify in general terms the key elements of the broker's duty to the insured when placing the insurance. **(5)**
- (b)** List five ways in which the drawing up of policy documentation must be prepared in accordance with the Market Reform Group Contract Certainty Checklist. **(5)**
- 7. (a)** Describe briefly the role of a coverholder. **(3)**
- (b)** Identify the key features of the agreement governing the coverholder's authorisation. **(4)**
- (c)** Give three reasons why an insurer may decide to enter into such an arrangement. **(3)**
- 8. (a)** Distinguish between the classification of terms in:
- (i)** contracts generally; **(2)**
- (ii)** insurance contracts. **(2)**
- (b)** State what is meant by 'a condition precedent to a contract'. **(3)**
- (c)** List three general duties of an insured that are likely to be expressed in an insurance contract. **(3)**

PART II

**Answer TWO of the following FOUR questions.
Each question is worth 30 marks.**

- 9.** (a) Explain how a single insurance contract wording can provide cover for more than one insured and what should be taken into consideration when providing for such parties. **(16)**
- (b) Describe the main considerations when specifying the contracting parties in a reinsurance policy wording. **(14)**
- 10.** Describe how the courts interpret an insurance contract by reference to the ‘factual matrix’ and how this differs from the traditional principles of contract construction, notably the parol evidence rule. **(30)**
- 11.** Explain how the Market Reform Group defines ‘Contract Certainty’ and its contribution to Contract Certainty within the London Market. **(30)**
- 12.** (a) Explain why it is important for an insurance policy to contain a ‘Law and Jurisdiction’ clause. Include examples of potential problems to consider when drafting such clauses. **(20)**
- (b) Identify and explain the key elements of arbitration as a method of dispute resolution. **(10)**

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