



**THE CHARTERED INSURANCE INSTITUTE**

**DIPLOMA**

**OCTOBER 2009 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. (a) Identify two of the principal parties involved in placing a contract of insurance. (2)
- (b) Outline four examples of problems that the parties might face in the absence of contract certainty. (8)
  
2. (a) Identify the typical provisions found in a notification extension clause in a policy with a claims made basis of attachment. (4)
- (b) Explain how and why an insurer might seek to limit a notification extension clause. (6)
  
3. Explain the parol evidence rule and what relevance it has to the interpretation of contracts of insurance. (10)
  
4. Distinguish between the two basic methods of treaty reinsurance and provide an example of each. (10)
  
5. Outline five typical examples of rights and duties expressly conferred upon an insured, excluding those specifically in respect of claims. (10)

6. (a) Distinguish between how an excess and a deductible would be applied to a claim. (4)

(b) Give three reasons why an excess or deductible may be included in a policy. (6)

7. The standard motor insurance policy wording of Insurers R Us includes the following clause:

‘It is a condition precedent to liability that the policyholder must at all times maintain the insured vehicle in a satisfactory state of repair.’

(a) Explain what is meant by a ‘condition precedent to liability’ with reference to the above clause. (6)

(b) Discuss what would be the difference in effect, had the clause just stated that it was a ‘condition precedent to the contract’. (4)

8. The London and International Insurance Brokers Association (LIIBA) is the new trade association which has taken on the role previously performed by the London Insurance Market Brokers Committee (LMBC).

Outline five ways such trade associations represent the interests of Lloyd’s brokers in the London and international insurance and reinsurance markets. (10)

## PART II

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

9. The following clause is contained in a commercial liability insurance policy issued by Lloyd's syndicate 13, based in London, to Bond Shipbuilders Ltd, a company registered in Glasgow.

'All disputes arising out of or relating to this contract will be governed by UK law and the parties agree to submit to the jurisdiction of the UK courts.'

Explain the purpose of such a clause and discuss the practical difficulties involved with the application of this clause as worded. Suggest ways in which the clause could be improved and suggest an alternative method by which to resolve disputes.

**(30)**

10. A financial services liability insurance policy contains the following clause:

'The insurer shall not be liable for any claims for any actual or alleged liability of an insured under any express contract or agreement; provided, however, that this clause:

- (1) shall only apply to the coverage available to an insured under Section 1 (Directors and Officers Liability)  
and
- (2) shall not apply to any liability which would attach to an insured even in the absence of a contract of agreement.'

With reference to the above example:

- (a) identify the purpose of the clause and the reasons why an insurer may seek to include such a clause; **(10)**
- (b) outline how the underwriter has sought to limit the scope of this clause; **(10)**
- (c) in the event that a relevant claim arises, explain how the operation of this clause would affect the burden of proof. **(10)**

- 11.** (a) Explain the purpose and operation of the index clause (or stability clause) provided for in liability excess of loss treaties and the key factors that must be specified in the placing slip. **(15)**
- (b) Explain the significance of the Courts Act 2003 and illustrate the effect the Act had on key clauses under motor and liability excess of loss treaties. **(15)**
- 12.** Describe six key features that you would expect to see in a typical claims handling clause under a commercial insurance policy, and discuss the resulting responsibilities of the contracting parties in handling and resolving a claim. **(30)**

