



**THE CHARTERED INSURANCE INSTITUTE**

**DIPLOMA**

**OCTOBER 2009 EXAMINATION PAPER**

**UNIT P81  
INSURANCE BROKING PRACTICE**

**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.**



THE CHARTERED INSURANCE INSTITUTE

**P81– Insurance broking practice**

**CANDIDATE INSTRUCTIONS**

**READ THE INSTRUCTIONS BELOW BEFORE ANSWERING ANY QUESTIONS.**

Two hours are allowed for this paper, which contains 15 short answer questions and carries a total of 130 marks.

The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.

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.

**Answer ALL questions.**

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

1. (a) (i) State what an MRC is and when its use became mandatory. (2)  
(ii) List four of its six sections. (4)
- (b) Guidelines have been put in place to ensure that its use is consistent with the principles of contract certainty and the Contract Certainty Code of Practice.  
  
Describe briefly four of these guidelines. (8)
  
2. (a) The Financial Services Authority (FSA) makes a clear distinction between a consumer and a commercial customer. State the FSA's definition of each. (2)
- (b) As the broker of a commercial customer, at your renewal meeting you are required to advise your client regarding the basis on which you have carried out the broking of their risks. On this occasion, you have given advice on the basis of fair analysis of the market.
  - (i) Describe what is meant by fair analysis in this context. (2)
  - (ii) If you had not given advice on the basis of fair analysis of the market, describe three other ways the broking could be carried out. (3)
  
3. (a) Using a diagram, illustrate the cyclical operation of the insurance market. (10)
- (b) Describe briefly why brokers with access to global markets should have an understanding of the different stages of the insurance market cycle. (3)

4. (a) Self-insurance, through the building up of funds, is a form of active risk retention.
- (i) State four reasons for dealing with risk in this manner. (4)
- (ii) Where self-insurance is centrally funded by a company, state a reason why it may be difficult to build up long-term reserves and increase the level of self-insurance. (1)
- (b) Describe briefly two common types of captive insurance company. (4)
5. Your company is a leading niche broker for printing companies in the UK. The British Print Federation has asked you to design an insurance product that can be offered to all its members. You are considering the operation of a delegated authority.
- (a) While operating a delegated authority, state for whom you are acting as agent. (1)
- (b) When meeting with the insurer to discuss the terms of the delegated authority, list five guidelines that will need to be agreed prior to commencement of the scheme. (5)
6. Your company is reviewing the services it offers its clients in order to identify new ways of adding value to the client/broker relationship and improve retention levels. As claims manager, you have been asked to identify services that you could offer your clients in the event that they suffer a loss. Currently your team are only processing client claims with insurers.
- Describe two additional services that you could offer in the event of a loss. (6)

7. In relation to contract certainty, reinforced by the Financial Services Authority, best practice requires policy wordings to be issued to the insured 'promptly'.
- (a) State how the Contract Certainty Code of Practice defines the term promptly in terms of:
    - (i) the retail customer; (1)
    - (ii) all other client classifications. (1)
  - (b) Having received instructions from your client to bind cover and confirmed in writing the insurer's agreement to go on risk, state what document you would prepare (prior to issuing full documentation) as standard practice in the London market for your client. State three points that the document should confirm. (4)
8. Insurance: New Conduct of Business Sourcebook (ICOBS) provides a template policy summary to cover the scope of the information that brokers may provide to consumers prior to contract, to enable them to make an informed decision.
- List eight of the items that could be found on the key facts policy summary. (8)
9. As the director responsible for client servicing, you have identified the need to reduce the number of client complaints.
- (a) Prepare a memorandum for all your account managers identifying three steps that may prevent complaints. (6)
  - (b) Outline for your team three fundamental rules that apply when dealing with a complaint. (3)

- 10.** The Financial Services Authority describes the process of establishing a client's requirements as assessing the customer's demands and needs.
- (a) Describe three activities a broker should undertake, when assessing the customer's demands and needs, giving a brief example for each. **(6)**
  - (b) Identify three issues a broker must take into account when making an advised sale, when checking that a policy is suitable for the customer's demands and needs. **(3)**
  - (c) State, using an example, what the broker should do if all the customer's demands and needs are not met by the policy and there is no suitable insurance available to the broker. **(3)**
- 11.** The risk manager of NTU Ltd, a long-term commercial customer, has asked you, as his broker, to look at the design of their insurance programme. One of the issues he wishes to discuss is the programme term.
- (a) Explain to the risk manager the two main reasons for looking at a policy term beyond the standard one year, and identify an advantage and a disadvantage for doing this. **(4)**
  - (b) State and describe briefly two methods of increasing the policy term beyond one year. **(4)**
- 12.**
- (a) State the voluntary code of practice which the Association of British Insurers published, in partnership with the Government, in November 1999, aimed at helping employees suffering from disease or injury arising from their employment. **(1)**
  - (b) Summarise what is set out in the code and state what the insurers who sign up to the code have agreed to. **(4)**

- 13.** The Financial Services Authority's requirement that certain information be given to the client has led most broking firms to move to more formal written agreements with their clients, including the use of a Terms of Business Agreement (TOBA).

Other than the regulatory information that may be provided to clients, state eight topics that would typically be included in a TOBA. **(8)**

- 14.** Holiday Leisure Ltd are a UK-based luxury hotel group. They have hotels in the UK, France, Germany, the USA and Australia.

They have a global insurance programme, but each hotel outside the UK has purchased some local policies. There is an excess layer and an umbrella policy in place.

Draw a detailed diagram showing how the global insurance programme might look. **(8)**

- 15. (a)** The Marine Insurance Act 1906 clarified the duties of brokers regarding the provision of 'material facts'.

(i) According to this Act, state when insurers can avoid an insurance contract. **(1)**

(ii) As listed in Section 19 of the Act, state exactly what brokers must disclose. **(2)**

(b) The English and Scottish Law Commissions are currently undertaking a review into insurance contract law in the UK. They have published a number of proposals. Summarise four of their main suggestions. **(8)**

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