

THE CHARTERED INSURANCE INSTITUTE

P21

Diploma in Insurance

Unit P21– Commercial insurance contract wording

April 2013 examination

Instructions

- Two hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and 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 book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit P21 – Commercial insurance contract wording

Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which 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 should answer **all** questions in Part I and two out of the four questions in Part II.
- You are advised to spend no more than one hour on Part I.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- 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.
- 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.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave several lines blank after each part.

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) Outline **three** reasons why a defined term prevails over any everyday or common meaning of the word. (6)
- (b) List the **four** ways in which defined terms may be identifiable throughout the policy wording. (4)
2. Explain the purpose of the General Underwriters Agreement. (10)
3. (a) State **three** reasons why an exclusion may be applied to a policy and give an example of each. (6)
- (b) Explain briefly what is meant by the term buy-back or write-back. (4)
4. Describe the Lloyd's Wordings Repository. (10)
5. (a) Explain briefly the purpose of the net retained lines clause. (7)
- (b) Outline what is meant by common account protection reinsurance. (3)
6. State **five** negative effects of insurers or brokers seeking to develop their own wordings rather than using London Market model wordings. (10)
7. (a) Differentiate between conditions precedent to the contract and conditions precedent to liability. (6)
- (b) Outline **two** examples of each type of condition referred to in part (a) above. (4)
8. (a) Explain briefly what is meant by a reinstatement after a loss. (5)
- (b) Outline **two** ways by which the additional premium for a reinstatement may be calculated. (5)

PART II

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

9. (a) Explain the London Market Group's contribution to contract certainty and the introduction of the market reform contract. (20)
- (b) Describe briefly the recent London Market Group modernisation initiatives that involve electronic processes. (10)
- 10 (a) Company XYZ has a choice of purchasing Policy A with an excess of £50,000 or Policy B with a deductible of £20,000. Both policies have a policy limit of £1,000,000.
- In the event of a claim of £1,070,000, calculate which of these two policies would pay the highest amount and explain your reasons why. (12)
- (b) Explain how variations in policy limits may be worded and applied. (18)
11. (a) With reference to *HLB Kidsons v Lloyd's Underwriters* (2007), explain why it is important that a claim is made within reasonable time. (10)
- (b) Explain how the claims notification arrangements may be modified where a commercial policy has a deductible and a large number of small claims are anticipated. (10)
- (c) Explain the insurer's rights in the event of a claim. (10)
12. Discuss the key clauses and provisions in a reinsurance treaty wording that seek to protect the various parties involved from the impact of insolvency. (30)

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