

## P85

### Diploma in Insurance

#### Unit P85 – Claims practice

October 2014 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 P85 – Claims practice

### Instructions to candidates

#### 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.
- 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 six lines blank after each part.

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**Answer ALL questions**

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

1. State **one** extension and **two** exclusions which could be found in a commercial policy. (5)
  
2. John Smith, a professional footballer, sustains a serious spinal injury in a road traffic accident.  
  
Explain the basis upon which John's claim for future financial loss would be calculated. (12)
  
3. You are a claims handler at PQR Insurance plc. Your policyholder, ACME, have a claim made against them for liability for a fire that was allegedly caused by sparks from their premises. Your investigation reveals that in fact, there is only a 30% chance that the claimant will succeed in proving that ACME was at fault. The claim made is for £100,000.  
  
Identify **three** possible reserves that you could set for this claim, explaining the advantages and disadvantages for **each**. (12)
  
4. You are a senior claims handler at PRS Insurance. You are handling a claim valued at £100,000. The risk to which the claim attaches is subject to a 50% quota share proportional reinsurance treaty.
  - (a) Explain what this means and how this will affect the cost of the claim to PRS Insurance. (7)
  - (b) Explain briefly the factors that would determine if the reinsurer is obliged to pay the claim and how your answer would differ if this was an excess of loss reinsurance. (5)
  
5. Explain, with reference to case law, the factors which would determine whether a claims handler should accept notification of a circumstance under a professional indemnity policy. (12)

6. You are a claims handler at PQR Insurance plc. You receive notification of a claim from a policyholder, you then discover that the premium has not been paid.

Explain briefly how you will proceed with the claim. (6)

7. A consumer policyholder contacts XYZ Insurance plc to complain about their claims operation. In particular, she states that it was not clear from the policy documents how she should make her claim in the first place and that, despite advertising the speed of the claims service, the claim then took too long to be concluded and she had to keep chasing for updates.

Outline **two** areas of Financial Conduct Authority regulation and guidance of which XYZ Insurance plc may be in breach. (8)

8. Bob Jackson makes a claim against his household policy for water damage to his ceiling. On investigation, the claims handler discovers that Bob had failed to mention in his proposal form that he had made a similar claim two years ago. Bob says that this was a mistake as he had forgotten all about it.

Explain how the insurer will proceed, citing the relevant statute in support of your answer. (12)

9. State **three** pieces of information obtained during the handling of a claim that could be of use to underwriters. (6)

10. List the **six** stages through which a typical first party claim will proceed. (6)

11. PLE Insurance receives a claim for a stolen vehicle from one of their policyholders.

(a) Outline any **three** factors relating to the vehicle that might indicate that this is a fraudulent claim. (6)

(b) Identify **two** insurance industry databases that may be used in the investigation. (2)

QUESTIONS CONTINUE OVER THE PAGE

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12. Bloggs Insurance Company (Bloggs) receives a letter of claim relating to a serious injury sustained by one of their policyholder's employees. The damages claimed are £50,000.
- (a) Identify the protocol under which the claim would be made, including the relevant time limits. (3)
- (b) Identify the track to which the claim would be allocated, stating a reason. (2)
- (c) Bloggs successfully defend the claim. Explain whether Bloggs can recover their defence costs from the claimant. (4)
13. Smiles plc has to close their factory following a fire.
- Identify **three** types of external expert that Smiles plc's insurer may instruct in order to investigate their business interruption claim, explaining briefly the purposes of **each** instruction. (6)
14. Smiths of Devon Ltd have a policy with James Insurance plc covering their nationwide chain of shops. The policy has a 72 hour deductible of £25,000 and an annual aggregate deductible of £50,000. During a period of flooding, a number of their premises suffer serious damage.
- Explain how these **two** policy provisions will operate to affect claims made by Smiths of Devon Ltd. (10)
15. The Grand Insurance Company decides to write a new line of business which produces claims from outside the UK.
- Outline **three** factors of which the Claims Manager should be aware that are relevant to handling claims in non-UK jurisdictions. (6)



