

**THE CHARTERED INSURANCE INSTITUTE**



**W01**

**Award in General Insurance**

**Based on the syllabus examined until 30 April 2016**

# Award in General Insurance

Based on the syllabus examined until 30 April 2016

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# Award in General Insurance

Based on the syllabus examined until 30 April 2016

## Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the W01 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves two hours to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the specimen examination in this guide is typical of a W01 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the W01 reading list, which is located on the syllabus in this examination guide and on the CII website at [www.cii.co.uk](http://www.cii.co.uk).

## Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

- 1) Visit [www.cii.co.uk/qualifications](http://www.cii.co.uk/qualifications)
- 2) Select the appropriate qualification
- 3) Select your unit on the right hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

## Syllabus

The W01 syllabus is published on the CII website at [www.cii.co.uk](http://www.cii.co.uk). **Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

## Skill Specification

The skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested. Learning outcomes for W01 begin with *know* or *understand*. Different skill levels lead to different types of question, examples of which follow.

*Know* - Knowledge-based questions require the candidate to recall factual information. Typically questions may ask 'What', 'When' or 'Who'. Questions set on a *know* learning outcome can only test knowledge.

*Understand* - To answer questions based on understanding, the candidate must be able to link pieces of information together in cause-and-effect relationships. Typically questions may ask 'Why'. Questions set on an *understand* learning outcome can test either knowledge or understanding or both.

## Examination Information

The method of assessment for the W01 examination is 100 multiple choice questions (MCQs). 2 hours are allowed for this examination.

The W01 syllabus provided in this examination guide will be examined until 30 April 2016.

Candidates will be examined on the basis of English law and practice unless otherwise stated.

The general rule is that legislative and industry changes will not be examined earlier than 3 months after they come into effect.

A multiple choice question consists of a problem followed by four options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only one correct response to the problem posed.

One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

While no questions involve complex calculations, candidates are permitted to use calculators during the examination. 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.

Candidates are permitted to make rough notes. Candidates are **not** permitted, under any circumstances, to remove any papers relating to the examination from the examination room.

## Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

## After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate's examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

# Award in General Insurance

## Objective

At the end of this unit, candidates should be able to understand the:

- Basic principles of insurance
- Main legal principles related to insurance contracts
- Main regulatory principles related to insurance business
- Key elements to protect consumers.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the nature and main features of risk and insurance	20
2. Know the structure and main features of the insurance market	22
3. Understand the main legal principles governing insurance contracts	42
4. Understand the main regulatory and legal principles applicable to the transaction of insurance business	14
5. Know key aspects of ethics, corporate governance and internal controls	2

\*The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

## Important notes

- This syllabus will be examined from 1 May 2015 until 30 April 2016.
- Candidates will be examined on the basis of English law and practice unless otherwise stated.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
  1. Visit [www.cii.co.uk/qualifications](http://www.cii.co.uk/qualifications)
  2. Select the appropriate qualification
  3. Select your unit on the right hand side of the page

## 1. Understand the nature and main features of risk and insurance

### The nature and main features of risk

- 1.1 The concept of risk and risk perception;
- 1.2 How different risks are categorised;
- 1.3 The risk management function and process;
- 1.4 The relationship between frequency and severity of loss;
- 1.5 The types of risk that can be insured and the types of risk that cannot;
- 1.6 What is meant by a peril and a hazard and the difference between the two, as they relate to insurance;
- 1.7 How the principles defined in element 1.1 to 1.6 are applied to a given set of circumstances.

### The nature and main features of insurance

- 1.8 The basis of insurance as a risk transfer mechanism;
- 1.9 How insurance operates by the pooling of risks;
- 1.10 How insurance benefits policyholders and society in general;
- 1.11 What is meant by co-insurance, dual insurance and self-insurance;
- 1.12 The main classes of insurance in outline.

## 2. Know the structure and main features of the insurance market

### The insurance market

- 2.1 The way in which the insurance market is structured on a global and regional basis;
- 2.2 The main features of the different types of insurers;
- 2.3 The unique structure and main features of Lloyd's;
- 2.4 The main features and services of intermediaries in the insurance market;
- 2.5 The different distribution channels used for the selling of insurance;
- 2.6 The basic purpose of reinsurance.

### The insurance profession

- 2.7 The main functions of underwriters;
- 2.8 The main functions of claims personnel;
- 2.9 The main functions of loss adjusters and loss assessors;
- 2.10 The main functions of actuaries;
- 2.11 The main functions of risk managers;
- 2.12 The main functions of compliance officers;
- 2.13 The functions of the Chartered Insurance Institute (CII).

## 3. Understand the main legal principles governing insurance contracts

### Contract

- 3.1 The essentials of a valid contract of insurance;
- 3.2 How contracts of insurance can be terminated.

### Agency

- 3.3 The methods of creating an agent/principal relationship;
- 3.4 The duties of an agent to his principal and the duties of a principal to his agent;
- 3.5 The consequences of an agent's actions on his principal;
- 3.6 Suggested content of business agreements or best practice between an insurer and intermediary.

### Insurable interest

- 3.7 The requirements for insurable interest in insurance contracts.

### Utmost good faith

- 3.8 How the principle of utmost good faith applies to contracts of insurance;
- 3.9 How the duty of disclosure operates in non-life insurance contracts, how it is modified by policy wordings and the contrast with life assurance contracts;
- 3.10 The definition of a material fact and examples of such facts in connection with non-life proposals and how insurers may limit their entitlement to information by their wordings;
- 3.11 The consequences of non-disclosure or misrepresentation of material facts.

### Proximate cause

- 3.12 How the principle of proximate cause is applied to non-complex claims.

### Indemnity

- 3.13 The definition of indemnity and which types of policy are policies of indemnity;
- 3.14 How the indemnity principle is applied to contracts of insurance;
- 3.15 What is meant by agreed value, new for old, reinstatement and first-loss policies;
- 3.16 How average is applied to non-complex cases of underinsurance.

### Contribution

- 3.17 The principle of contribution and when and how it applies to the sharing of claim payments between insurers in straightforward property cases.

### Subrogation

- 3.18 The principle of subrogation and why it may or may not be pursued in simple circumstances.

## 4. Understand the main regulatory and legal principles applicable to the transaction of insurance business

### Role of the regulator

- 4.1 The role of the regulator in the insurance industry;
- 4.2 The international standard setting body for the insurance industry, the IAIS;
- 4.3 The international standard setting body in relation to financial crime, the FATF;
- 4.4 The different types of regulatory approaches (including principles-based, risk-based and prescriptive-based regulation);

- 4.5 Prudential and market conduct regulation;
- 4.6 Tools used by regulators to supervise the industry.

#### Capital adequacy

- 4.7 The importance of establishing and maintaining capital adequacy;
- 4.8 The different approaches to capital adequacy;
- 4.9 The relationship between capital adequacy and solvency controls levels.

#### Anti money laundering and counter terrorism financing

- 4.10 The regional and global problem;
- 4.11 The FATF definition of money laundering;
- 4.12 Know your client: the main principles.

#### Fraud

- 4.13 The different types of fraud faced by insurers;
- 4.14 Fraud management by the insurer.

### 5. Know key aspects of ethics, corporate governance and internal controls

#### Ethical standards

- 5.1 The scope and operation of the CII ethical code of practice in broad outline.

#### Suitability

- 5.2 The objectives of 'fit and proper' requirements and the risks of unsuitability.

#### Internal control system

- 5.3 Risk management frameworks outlined;
- 5.4 The role of compliance and audit; 5.5
- 5.5 Establishing a customer complaints procedure.

## Reading list

The following list provides details of various publications which may assist you with your studies.

**Note: The examination will test the syllabus alone.**

The reading list is provided for guidance only and is not in itself the subject of the examination.

The publications will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) or email [knowledge@cii.co.uk](mailto:knowledge@cii.co.uk).

### CII study texts

Award in General Insurance. London: CII. Coursebook W01.

### Books (and ebooks)

A beginner's guide to the insurance profession. Johnsie Gladney. New Delhi: World Technologies, 2012.\*

Bird's modern insurance law. 9th ed. John Birds. Sweet and Maxwell, 2013.

Handbook of insurance. Georges Dionne. New York: Springer, 2013.\*

Insurance claims. 3rd ed. Alison Padfield. Bloomsbury Professional, 2012.

Insurance theory and practice. Rob Thoyts. Routledge, 2010.\*

World insurance: the evolution of a global risk network. Peter Borscheid, Niels Viggo Haueter. Oxford: Oxford University Press, 2012.\*

### Periodicals

The Journal. London: CII. Six issues a year. Also available online via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/PFS members only).

### Reference materials

Concise encyclopedia of insurance terms. Laurence S. Silver, et al. New York: Routledge, 2010.\*

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004.

The insurance manual. Stourbridge, West Midlands: Insurance Publishing & Printing Co. Looseleaf, updated.

Kluwer's handbook of insurance. Kingston upon Thames, Surrey: Croner. CCH. Looseleaf updated.

\*Also available as an ebook through Discovery via [www.cii.co.uk/discovery](http://www.cii.co.uk/discovery) (CII/PFS members only).



## Examination guides

An examination guide, which includes a specimen paper, is available to purchase via [www.cii.co.uk](http://www.cii.co.uk).

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate ([www.revisionmate.com](http://www.revisionmate.com)). Details of how to access Revisionmate are on the first page of your study text.

It is recommended that you only study from the most recent versions of the examination guides.

## Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at [www.cii.co.uk/knowledge/iilrevision](http://www.cii.co.uk/knowledge/iilrevision) (CII/PFS members only).

1. By operating a pooling of risk system, the law of large numbers assists insurers to make
  - A. reliable claim payment predictions.
  - B. reliable investment return predictions.
  - C. reliable new business predictions.
  - D. reliable premium income predictions.
  
2. Lloyd's syndicate A underwrites 60% of a risk, syndicate B underwrites 25% and syndicate C underwrites the remaining 15%. Collectively the syndicates are acting as
  - A. coinsurers.
  - B. composite insurers.
  - C. dual insurers.
  - D. reinsurers.
  
3. From an insurer's point of view, risk can be defined as the
  - A. certainty of loss.
  - B. frequency of loss.
  - C. measure of loss.
  - D. possibility of loss.
  
4. Which category of risk has the three possible outcomes of a loss, a break even or a gain?
  - A. A fundamental risk.
  - B. A particular risk.
  - C. A pure risk.
  - D. A speculative risk.
  
5. Which type of risk arises from a cause outside the control of any one individual and affects a large number of people?
  - A. A fundamental risk.
  - B. A particular risk.
  - C. A pure risk.
  - D. A speculative risk.
  
6. Why do underwriters regard risk management as being important?
  - A. It reduces the potential for loss and assists in quantifying risks.
  - B. It is a fee-earning opportunity and encourages customer loyalty.
  - C. It is the best way to assess and quantify the sums insured at risk.
  - D. It is the main way for an insurer to gain an understanding of a policyholder's business.
  
7. In terms of frequency and severity, the risk of an explosion aboard an oil rig is classed by insurers as
  - A. high frequency, high severity.
  - B. high frequency, low severity.
  - C. low frequency, low severity.
  - D. low frequency, high severity.
  
8. In relation to general insurance, a risk to be insured **must** be
  - A. avoidable.
  - B. fortuitous.
  - C. inevitable.
  - D. unavoidable.

9. In relation to general insurance, what type of risk **CANNOT** be insured?
- A. A risk where the potential for a large number of homogeneous exposures is absent.
  - B. A risk where there is a physical hazard which increases the likelihood of a loss occurring.
  - C. A risk where no financial measurement of the potential loss can be made.
  - D. A risk where the severity of the potential loss is difficult to quantify.
10. A hazard is defined as something which
- A. can adversely affect the risk to be insured.
  - B. does not affect the risk to be insured.
  - C. is always covered by an insurance policy.
  - D. is always excluded from an insurance policy.
11. In relation to insurance, a peril is
- A. an event which may give rise to a loss.
  - B. the chance of an event which may give rise to a loss.
  - C. an internal feature that increases the chance of an event which may give rise to a loss.
  - D. an external feature that increases the chance of an event which may give rise to a loss.
12. What is the presence of flammable composite panels in the construction of a factory building **best** described as?
- A. A fundamental risk.
  - B. A hazard.
  - C. A peril.
  - D. A pure risk.
13. In financial terms, why is insurance, as a means of risk transfer, attractive to a policyholder?
- A. The administrative cost of handling claims is borne entirely by the insurer.
  - B. The policyholder is able to swap an unknown future loss with a specified cost now.
  - C. The policyholder's premium is generally less than potential future claims.
  - D. The policyholder's cash flow is improved by upfront payment of the premium.
14. How does the provision of insurance help the cash flow of a business?
- A. It lessens the need for the business to keep cash reserves.
  - B. It prevents losses which could interrupt the business operation from occurring.
  - C. It provides for the payment of cash if the business makes a trading loss.
  - D. It underwrites the debts owed by the business.
15. The **main** benefit to an individual when insuring his house is that
- A. it reduces the chance of damage to the property.
  - B. mortgage or rental costs are lower.
  - C. maintenance costs are covered.
  - D. the risk of a loss is transferred.
16. A large company has decided to set aside money to settle frequent small losses that occur. This is known as
- A. coinsurance.
  - B. dual insurance.
  - C. reinsurance.
  - D. self-insurance.

17. A comprehensive policy is an example of which class of insurance?
- A. Motor insurance.
  - B. Pecuniary insurance.
  - C. Property insurance.
  - D. Travel insurance.
18. Which type of insurance policy provides cover in the event of the misappropriation of goods by an employee?
- A. An employers' liability insurance policy.
  - B. A fidelity guarantee insurance policy.
  - C. A money insurance policy.
  - D. A theft insurance policy.
19. Dual insurance exists when
- A. more than one insurer shares the same risk.
  - B. more than one policy covers the same risk.
  - C. part of the risk is carried by a reinsurer.
  - D. part of the risk is carried by the insured.
20. Which basic principle ensures the premium payable under a contents insurance policy is equitable and reflects the level of risk brought to the insurer?
- A. Contribution.
  - B. Indemnity.
  - C. Pooling.
  - D. Subrogation.
21. From whom could an individual obtain assistance in determining the best provider of the insurance required?
- A. An insurance broker.
  - B. A loss assessor.
  - C. A risk manager.
  - D. An underwriter.
22. A policyholder will employ a loss assessor **primarily** to
- A. advise on risk management issues.
  - B. negotiate renewal terms.
  - C. prepare and present an insurance claim.
  - D. review his insurance cover.
23. Direct insurance companies operate via the telephone or mail directly to
- A. advisers.
  - B. agents.
  - C. brokers.
  - D. consumers.
24. What level of underwriting control would **normally** be put in place by an insurer that operates worldwide through subsidiary companies?
- A. Complete control by the parent company.
  - B. Complete control by the subsidiary companies.
  - C. Control by the parent company over high-risk business and control by the subsidiary companies over low-risk business.
  - D. Control by the parent company over low-risk business and control by the subsidiary companies over high-risk business.

25. The surplus funds of a mutual insurer may be distributed to the insurer's
- A. board of directors.
  - B. employees.
  - C. policyholders.
  - D. shareholders.
26. Which type of insurer does **NOT** provide insurance to the general public?
- A. A captive insurer.
  - B. A composite insurer.
  - C. A mutual insurer.
  - D. A proprietary insurer.
27. What are public limited companies who underwrite business within the Lloyd's market otherwise known as?
- A. Corporate members.
  - B. Lloyd's syndicates.
  - C. Managing Agents.
  - D. Underwriting names.
28. What is the **main** financial advantage for insurers that operate on a direct basis?
- A. They do not have to pay commission charges.
  - B. They incur smaller advertising costs.
  - C. They receive fewer claims.
  - D. They can charge higher premiums because they offer a faster service.
29. What does it mean when an insurance policy is reinsured?
- A. The insurer has replaced an insured's existing policy with a new one.
  - B. The insurer has passed on all or part of an insured's risk to another insurer.
  - C. The insured has renewed a policy with the same insurer for a subsequent year.
  - D. The insured has taken out a second policy with another insurer on the same subject matter.
30. A purchaser of a new refrigerator wishes to obtain extended warranty insurance cover for it. From where is he **most likely** to obtain the cover?
- A. A direct insurer.
  - B. An insurer's representative.
  - C. A local insurance broker.
  - D. The shop where the purchase was made.
31. An insurer who has accepted a risk too large to retain can choose to insure part of the risk with
- A. an assignee.
  - B. a cedant.
  - C. a coinsurer.
  - D. a reinsurer.
32. What type of business do reinsurers **usually** accept?
- A. Business from individuals who have already insured the risk with an insurer.
  - B. Business from non-insurance companies which have large insurance needs.
  - C. Business originally underwritten by an insurer.
  - D. Business which insurers have refused to underwrite.

33. Which insurance professional decides whether a proposed risk is accepted by an insurer?
- A. An actuary.
  - B. A reinsurer.
  - C. A risk manager.
  - D. An underwriter.
34. Lloyd's is
- A. a Government body.
  - B. an insurance company.
  - C. an insurance market.
  - D. an insurance syndicate.
35. What is the **main** function of a call centre operative dealing with motor claims?
- A. Taking down the initial notification details.
  - B. Assessing the extent of the damage to the insured's vehicle.
  - C. Liaising with accident repairers.
  - D. Arranging payment in a final settlement.
36. One of the **main** functions of claims personnel is to settle claims with a minimum of wastage or avoidable overpayments. What are these overpayments known as?
- A. Consideration.
  - B. Leakage.
  - C. Proximate cause.
  - D. Subrogation.
37. What is the **main** function of an actuary?
- A. To apply mathematical techniques to business problems.
  - B. To develop new insurance products based on market research data.
  - C. To manage the insurer's investment portfolio.
  - D. To negotiate claim settlement with the insured on behalf of the insurer.
38. Who is **specifically** responsible for identifying areas within a business where potential losses could be controlled or eliminated?
- A. An actuary.
  - B. A loss adjuster.
  - C. A loss assessor.
  - D. A risk manager.
39. What is a compliance officer's **primary** responsibility?
- A. Approving premium rates.
  - B. Ensuring a firm complies with regulatory requirements.
  - C. Identifying and analysing market trends.
  - D. Monitoring of the internal audit department.
40. What is the Chartered Insurance Institute?
- A. An arbitration authority.
  - B. A professional body.
  - C. A regulatory body.
  - D. A trade association.

41. After investigating a liability claim for injury, from whom does the loss adjuster **usually** receive payment of fees?
- A. The insured.
  - B. The insurer.
  - C. The negligent third party.
  - D. The third party insurer.
42. What is the **main** function of an insurance broker?
- A. To assess the risk before cover is provided.
  - B. To decide on what terms a proposed risk should be accepted by an insurer.
  - C. To determine the validity and value of a large insurance claim.
  - D. To place insurance business on behalf of a client.
43. Which insurance principle seeks to place the insured in the same position after an insured loss as existed immediately before?
- A. Contribution.
  - B. Indemnity.
  - C. Subrogation.
  - D. Utmost good faith.
44. To whom does the principle of utmost good faith apply in relation to insurance contracts?
- A. The proposer only.
  - B. The insurer only.
  - C. Both the insurer and the proposer.
  - D. Any interested third party.
45. Under which insurance principle can an insurer assume the rights of the insured against a third party to recover money paid out under a claim?
- A. Arbitration.
  - B. Average.
  - C. Contribution.
  - D. Subrogation.
46. The essentials of a valid contract of insurance are
- A. invitation to treat, acceptance and consideration.
  - B. invitation to treat, offer and acceptance.
  - C. invitation to treat, offer and consideration.
  - D. offer, acceptance and consideration.
47. Under contract law, if a proposer is accepting an offer of insurance by return of post to the insurer, at what point is the acceptance complete?
- A. When the letter of acceptance is drafted.
  - B. When the letter of acceptance is posted.
  - C. When the letter of acceptance is received by the insurer.
  - D. When the letter of acceptance is acknowledged by the insurer.
48. Who, if anyone, may terminate a household insurance policy?
- A. The insured only.
  - B. The insurer only.
  - C. Both the insured and the insurer.
  - D. Neither the insured nor the insurer.

49. If a principal agrees to be bound by the actions of an agent who has acted outside the terms of the agency agreement, what type of agency has been created?
- A. Agency by apparent authority.
  - B. Agency by consent.
  - C. Agency by necessity.
  - D. Agency by ratification.
50. An insurance broker recommends and arranges a policy for his client and collects the premium on behalf of the insurer. The broker subsequently advises the client on how to make a claim. At what point in this scenario is the insurer the broker's principal?
- A. When the policy is recommended.
  - B. When the policy is arranged.
  - C. When the premium is collected.
  - D. When advising on how to make a claim.
51. An agent, acting within the terms of the agency agreement, enters his principal into a contract with a client. How, if at all, can the principal avoid the contract?
- A. The principal cannot avoid the contract as he is bound by it.
  - B. The principal may invoke the undisclosed principal rule.
  - C. The principal can terminate the agency retrospectively.
  - D. The principal can refuse to ratify the contract.
52. Under the cancellation of risks section of an agency agreement, a statement is **usually** included requiring the intermediary to pay the insurer
- A. an early termination fee.
  - B. a refund of any tax liability.
  - C. an unexpired premium charge.
  - D. any unearned commission.
53. What is insurable interest?
- A. The investment income received from insurance premiums.
  - B. The interest from an investment, the loss of which can be insured against.
  - C. The financial interest which a person has in an item.
  - D. The interest payable on insurance instalments.
54. When **must** insurable interest **first** exist in order for a private motor insurance policy to be enforceable by law?
- A. At the time of the quotation.
  - B. At the time the proposal form is completed.
  - C. At the time the policy goes on risk.
  - D. At the time of a claim.
55. An individual borrows his friend's car on the condition that he arranges comprehensive insurance cover on the vehicle for himself. The individual's broker informs him that he is unable to do so as he has no financial relationship with the vehicle. This is an example of the application of the
- A. contra proferentem rule.
  - B. material damage proviso.
  - C. principle of insurable interest.
  - D. principle of utmost good faith.



56. In what three ways can insurable interest arise?
- A. Common law, contract or statute.
  - B. Common law, mediation or reinstatement.
  - C. Conciliation, contract or mediation.
  - D. Indemnity, statute or warranty.
57. The insurance principle which imposes a duty on the parties of a contract 'not to misrepresent any matter relating to the insurance' is known as
- A. assignment.
  - B. insurable interest.
  - C. legal personality.
  - D. utmost good faith.
58. In connection with an insurance policy, at what point does the duty of disclosure **first** arise?
- A. At the beginning of negotiations.
  - B. On the making of an offer.
  - C. On the acceptance of an offer.
  - D. At policy inception.
59. Under a **typical** fire insurance policy, the principle of utmost good faith is modified by the
- A. change of risk clause.
  - B. contribution clause.
  - C. reinstatement memorandum.
  - D. subrogation clause.
60. Under the duty of disclosure, what is required to be disclosed by the proposer in relation to an insurance policy?
- A. Facts of law which affect the assessment of the risk.
  - B. Financial details upon which ability to pay the premium can be assessed.
  - C. Material facts upon which the risk is to be assessed.
  - D. Personal requirements upon which the suitability of the policy can be assessed.
61. On an application for a theft insurance policy, the proposer advised the insurer that he only had a single Yale lock on the main entrance to the property to be insured. This information is an example of
- A. best advice.
  - B. common interest.
  - C. contract consideration.
  - D. a material fact.
62. In what circumstances may an insurer have the right to avoid paying a claim and to void a household contents insurance policy from inception?
- A. When a premium instalment is not paid.
  - B. When a second insurer is used by the insured.
  - C. When an undisclosed material fact is discovered.
  - D. When the value of contents is mistakenly underestimated by the insured.

63. An insurer is in the process of settling a claim and has already made three interim payments of £300,000 each. Prior to payment of the final amount of £300,000, the loss adjuster discovers that the insured deliberately withheld material facts relevant to the claim. What is the **maximum** amount the insurer can recover from the insured?
- A. £300,000
  - B. £600,000
  - C. £900,000
  - D. £1,200,000
64. The proximate cause of a loss will **always** be the
- A. dominant cause.
  - B. first cause.
  - C. last cause.
  - D. only cause.
65. An individual falls from his horse and is injured. He is taken to hospital where he dies due to an infection caught at the hospital. What is the proximate cause of his death?
- A. The fall from his horse.
  - B. The infection.
  - C. Riding his horse.
  - D. His stay in hospital.
66. In a road traffic accident a truck hits a tree, causing the tree to be deemed unsafe. The next day, before action can be taken to remove the tree, a gale blows it over onto a house. What is the proximate cause of the damage to the house?
- A. The location of the tree.
  - B. The road traffic accident.
  - C. The delay in tree removal.
  - D. The gale.
67. Following a football match, 200 rival fans riot in the street setting fire to cars and breaking shop windows. The window of a boutique is broken and smoke from a burning car outside damages the stock. What is the proximate cause of the stock damage?
- A. The football match.
  - B. The riot.
  - C. The fire from the cars.
  - D. The breakage of the boutique window.
68. Two personal accident insurance policies are effected. In respect of loss of limb cover, the first policy provides £25,000 and the second policy provides £30,000. What is the **total** amount that the insured will receive in the event of a valid loss of limb claim?
- A. £25,000
  - B. £27,500
  - C. £30,000
  - D. £55,000
69. Assuming that the sum insured is adequate, what is the measure of indemnity used in the case of the total loss of a building?
- A. The cost of reconstruction at the time of the loss.
  - B. The cost of reconstruction at the time of policy inception.
  - C. The original purchase price.
  - D. The original purchase price less an allowance for wear and tear.

70. A machine, which is adequately insured on an indemnity basis, is destroyed by an insured peril. A new machine costs £1,000 and a second-hand machine £700. In both cases the cost of transport and installation is £100. How much will the insured receive?
- A. £700
  - B. £800
  - C. £1,000
  - D. £1,100
71. An aircraft is insured on an agreed value basis of £20,000,000. At policy inception the market value is £18,000,000 which then increases to £21,000,000 on the day the aircraft crashes and is a total loss. However, when the claim is agreed it has fallen to £19,000,000. How much is the airline entitled to receive for the loss?
- A. £18,000,000
  - B. £19,000,000
  - C. £20,000,000
  - D. £21,000,000
72. A supplier's total stock, valued at £100,000, is insured against theft on a first loss basis with a sum insured of £20,000. If stock valued at £40,000 is stolen, what is the **maximum** amount payable, if any, by the insurer?
- A. Nil.
  - B. £10,000
  - C. £20,000
  - D. £40,000
73. Under a household insurance policy, the reinstatement basis of cover is more commonly known as
- A. agreed value cover.
  - B. first loss cover.
  - C. new for old cover.
  - D. underinsurance cover.
74. Garage buildings are valued at £200,000 and insured for £150,000 under an insurance policy which is subject to average. If a £50,000 insured loss is incurred, how much will the insurer pay?
- A. £12,500
  - B. £33,333
  - C. £37,500
  - D. £50,000
75. A factory contains £20,000 of stock and a fire destroys £12,000 of it. Under the standard fire insurance policy, which has a sum insured on stock of £10,000, what **maximum** amount, if any, will the insured receive after the application of average?
- A. £6,000
  - B. £8,000
  - C. £10,000
  - D. £12,000
76. A farmer loses a building containing livestock feed during a lightning strike. The loss adjuster advises the insurer that the building is adequately insured, however the livestock feed is only insured for 80% of market value. The claim is paid in full with no deduction for underinsurance. This is an example of the application of the
- A. first loss basis of cover.
  - B. principle of contribution.
  - C. special condition of average.
  - D. subrogation waiver.

77. Which insurance principle gives an insurer the right to call upon other insurers to share in the settling of a claim?
- A. Average.
  - B. Contribution.
  - C. Subrogation.
  - D. Utmost good faith.
78. A building valued at £250,000 is jointly owned by Companies A and B, who each individually arrange insurance on it. Company A insures the building for £100,000, whilst Company B insures it for £150,000. How much of the valid claim is each insurer liable to pay if a loss of £55,000 occurs?
- A. Company A's insurer is liable for £22,000 and Company B's for £33,000.
  - B. Company A's insurer is liable for £27,500 and Company B's for £27,500.
  - C. Company A's insurer is liable for £33,000 and Company B's for £22,000.
  - D. Company A's insurer is liable for £55,000 and Company B's for £55,000.
79. A cottage is valued at £100,000 and is covered by two fire insurance policies, one with a sum insured of £50,000 and the other with a sum insured of £100,000. Under the principle of contribution, what **maximum** payment will the insured receive from the first policy if a fire causes damage costing £60,000 to repair?
- A. £20,000
  - B. £25,000
  - C. £30,000
  - D. £50,000
80. When a claim is made under a standard fire insurance policy, at what stage can an insurer begin to exercise subrogation rights?
- A. As soon as a valid claim is notified.
  - B. As soon as any third party admits liability.
  - C. As soon as settlement has been agreed.
  - D. As soon as the insured has been paid.
81. An insurer pays a policyholder to repair the damage to his car caused by a vandal, who is later identified. What option can the insurer exercise to recover the claim paid?
- A. The arbitration clause.
  - B. The average clause.
  - C. The contribution condition.
  - D. Its subrogation rights.
82. An insurer pays £10,000 and in addition allows the insured to retain the salvage, worth £1,000, in settlement of a claim for damage caused by a negligent third party. How much can the insurer claim from the third party when exercising its subrogation rights?
- A. £1,000
  - B. £9,000
  - C. £10,000
  - D. £11,000
83. Prior to the inception of a motor insurance policy an insurer provided the policyholder with a list of exclusions, but failed to warn of one extra exclusion which subsequently appeared in the policy document. What principle of insurance has the insurer breached?
- A. Caveat emptor.
  - B. Proximate cause.
  - C. Subrogation.
  - D. Utmost good faith.

84. If an insured suffers a loss covered under his insurance policy, the measure of indemnity will ensure that he will be
- A. able to make a profit from the loss.
  - B. in a worse financial position than before the loss.
  - C. placed in the same financial position as he was before the loss.
  - D. provided with replacement items.
85. The regulator is about to carry out a fit and proper assessment. This is **most likely** to relate to which specific aspect of its regulatory role?
- A. Authorisation.
  - B. Compensation.
  - C. Consumer education.
  - D. Market discipline.
86. Who holds majority representation within the International Association of Insurance Supervisors?
- A. Insurance consultants.
  - B. Regulators.
  - C. Reinsurers.
  - D. Trade bodies.
87. The four stated objectives of the Financial Action Task Force relate to clarifying standards, implementing standards, dealing with new threats and
- A. compensating relevant victims.
  - B. engaging with others internationally.
  - C. improving consumer awareness.
  - D. recommending legislative changes.
88. What type of regulation requires the completion of tasks within a stated **maximum** number of days?
- A. Conduct-based regulation.
  - B. Prescriptive-based regulation.
  - C. Principles-based regulation.
  - D. Risk-based regulation.
89. The two overriding objectives of the market conduct regulations in the general insurance market are to provide policyholders with a high level of security and to
- A. deter any attempts at money laundering activity.
  - B. ensure the capital adequacy of intermediaries.
  - C. help maintain confidence in the industry.
  - D. maximise the professional knowledge of sales advisers.
90. Once action has been taken by an institution as a direct result of the regulator utilising a remedial tool, what is **typically** the next step in this process?
- A. Enforcement action.
  - B. Investigation of cause.
  - C. Public censure.
  - D. Report on progress.

91. When the regulator carries out an inspection at an intermediary's premises in order to identify any problems, what type of tool is this action **normally** described as?
- A. Diagnostic.
  - B. Prescriptive.
  - C. Quantitative.
  - D. Remedial.
92. What **key** objective should an insurer satisfy to support the regulator's capital adequacy requirements?
- A. Address the reasonable expectations of its shareholders.
  - B. Avoid the need for reinsurance cover.
  - C. Meet its obligations to policyholders.
  - D. Minimise the risk of an underwriting loss.
93. Compared to other approaches, what is generally considered to be the **main** advantage of using the fixed ratio model method of determining capital adequacy levels?
- A. It focuses on the future rather than the present.
  - B. It focuses on the severity rather than the likelihood of loss.
  - C. It is relatively tax-efficient.
  - D. It is simple to calculate and apply.
94. If an insurer's capital falls slightly below the prescribed capital requirements level, what action will be taken?
- A. The insurer will cease to underwrite immediately.
  - B. The insurer will take some corrective action whilst continuing to underwrite.
  - C. The regulator will intervene by imposing a fine.
  - D. The regulator will temporarily intervene by taking control of some of the insurer's assets.
95. According to the Financial Action Task Force's definition of money laundering, the aim of money laundering is to disguise what in relation to the criminally obtained proceeds?
- A. Its current location.
  - B. Its future destination.
  - C. Its origin.
  - D. Its size.
96. An insurer is going through customer due diligence procedures for a customer who is a public company. The identity(ies) of which shareholders, if any, **must normally** be confirmed?
- A. None of the shareholders.
  - B. Only the majority shareholder.
  - C. Only the top three shareholders.
  - D. All of the shareholders.
97. In the general insurance market, internal fraud **normally** means fraud committed by whom?
- A. Corporate stakeholders.
  - B. Directors or employees of the insurer.
  - C. Directors or employees of the intermediary.
  - D. Policyholders.
98. Best practice states that the head of an insurer's internal audit department should be **ultimately** accountable to the
- A. appointed actuary.
  - B. board of directors.
  - C. compliance department.
  - D. operational risk manager.

99. Which fit and proper requirement applies to key functionaries but **NOT** to significant owners?
- A. Financial soundness.
  - B. Integrity demonstrated in personal behaviour and business conduct.
  - C. Soundness of judgement.
  - D. Sufficient degree of knowledge, experience and professional qualifications.
100. As part of an insurer's complaints handling procedures, which complaints received should be logged?
- A. Only the complaints classed as serious or significant.
  - B. Only the written complaints.
  - C. All of the complaints except the ones which cannot be resolved.
  - D. All of the complaints.

## Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
<b>Learning Outcome 1</b>			<b>Learning Outcome 3</b>			<b>Learning Outcome 4</b>		
1	A	1.9	43	B	3.13	85	A	4.1
2	A	1.11	44	C	3.8	86	B	4.2
3	D	1.1	45	D	3.18	87	B	4.3
4	D	1.2	46	D	3.1	88	B	4.4
5	A	1.2	47	B	3.1	89	C	4.5
6	A	1.3	48	C	3.2	90	D	4.6
7	D	1.4	49	D	3.3	91	A	4.6
8	B	1.5	50	C	3.4	92	C	4.7
9	C	1.5	51	A	3.5	93	D	4.8
10	A	1.6	52	D	3.6	94	B	4.9
11	A	1.6	53	C	3.7	95	C	4.11
12	B	1.7	54	C	3.7	96	A	4.12
13	B	1.8	55	C	3.7	97	B	4.13
14	A	1.10	56	A	3.7	98	B	4.14
15	D	1.10	57	D	3.8	<b>14 Questions</b>		
16	D	1.11	58	A	3.9	<b>Learning Outcome 5</b>		
17	A	1.12	59	A	3.9			
18	B	1.12	60	C	3.10	99	D	5.2
19	B	1.11	61	D	3.10	100	D	5.5
20	C	1.9	62	C	3.11	<b>2 Questions</b>		
<b>20 Questions</b>			63	C	3.11			
			64	A	3.12			
<b>Learning Outcome 2</b>			65	B	3.12			
21	A	2.4	66	B	3.12			
22	C	2.9	67	B	3.12			
23	D	2.1	68	D	3.14			
24	B	2.1	69	A	3.14			
25	C	2.2	70	B	3.14			
26	A	2.2	71	C	3.15			
27	A	2.3	72	C	3.15			
28	A	2.5	73	C	3.15			
29	B	2.5	74	C	3.16			
30	D	2.5	75	A	3.16			
31	D	2.6	76	C	3.16			
32	C	2.6	77	B	3.17			
33	D	2.7	78	A	3.17			
34	C	2.3	79	A	3.17			
35	A	2.8	80	A	3.18			
36	B	2.8	81	D	3.18			
37	A	2.10	82	C	3.18			
38	D	2.11	83	D	3.8			
39	B	2.12	84	C	3.13			
40	B	2.13	<b>42 Questions</b>					
41	B	2.9						
42	D	2.4						
<b>22 Questions</b>								