

P21

Diploma in Insurance

Unit P21– Commercial insurance contract wording

October 2015 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. Distinguish between the roles and responsibilities of the Financial Policy Committee and the Prudential Regulation Authority. **(10)**

2. Explain briefly, in relation to insurance contracts, the application of:
 - (a) the doctrine of utmost good faith; **(5)**
 - (b) 'basis of the contract' clauses. **(5)**

3.
 - (a) Identify the **three** main parties typically involved in a commercial insurance contract. **(3)**
 - (b) State what is meant by 'privity of contract'. **(2)**
 - (c) Outline how a third party, who is not a party to a contract, may acquire rights to enforce a term under the contract. **(5)**

4. Distinguish between the effects of a breach of a condition precedent to liability and a breach of a suspensive condition, giving **one** example of **each** condition. **(10)**

5. Explain briefly, the effect in a commercial insurance contract wording, of words that:
 - (a) are in bold font or italicised; **(4)**
 - (b) are ambiguously worded and drafted by the insurer; **(3)**
 - (c) state 'directly or indirectly caused by...' in an exclusion clause. **(3)**

6. (a) Outline how the insurer's limit of liability may apply if a contract wording has more than one section. (6)
- (b) Explain briefly what is meant by an aggregate limit of liability. (4)
7. (a) State the **three** items that make up the definition of 'earned premium' in a proportional reinsurance treaty. (6)
- (b) State the items that are needed in order to calculate the loss ratio for a proportional reinsurance treaty written on an 'underwriting year' basis. (4)
8. (a) Describe the use of a letter of credit for funding loss reserves in a reinsurance treaty. (9)
- (b) State **one** other method of funding loss reserves. (1)

QUESTIONS CONTINUE OVER THE PAGE

PART II

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

9. Explain the key roles and responsibilities of the London Market Group (LMG), and the LMG Secretariat, outlining their achievements. **(30)**
10. (a) Identify **three** types of disease that may arise from a gradually operating occupational hazard spread over many years and **two** types of commercial insurance policy that cover occupational disease exposures. **(5)**
- (b) Explain the considerations which determine the most appropriate trigger for occupational disease risks. **(15)**
- (c) Explain the potential impact on cover of a change of trigger between one insurance policy period and the next. **(10)**
11. (a) Explain the provisions of a loss notification clause in a commercial insurance contract, outlining why it is important. **(18)**
- (b) Describe briefly the provisions of a claims notification clause, a claims cooperation clause and a claims control clause in a reinsurance treaty, identifying the differences between these three clauses. **(12)**

12. A reinsured is calculating its ultimate net loss (UNL) for a recent claim which exceeds its per risk retention.

For **each** of the items below, explain **with reasons**, whether they would typically be included **or** excluded from the UNL calculation.

- Sums paid in settlement of the claim to the original insured.
- Ex gratia payments.
- Payments into court.
- Salvage and subrogation recoveries.
- Costs of staff specifically allocated to pursuing recoveries.
- Office expenses and staff salaries.
- Claims on other reinsurance.
- A failed reinsurance recovery due to the insolvency of another reinsurer.
- Legal and loss adjustment expenses.
- A quota share reinsurance recovery protecting the reinsured's net account. **(30)**

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