

## P21

### Diploma in Insurance

#### Unit P21 – Commercial insurance contract wording

April 2016 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.**



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## 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 ten marks

Note form is acceptable where this conveys all the necessary information

1. (a) Outline **four** circumstances where the Open Market MRC should be used. (8)
- (b) Identify the other **two** main forms of MRC. (2)
  
2. Outline **five** events that typically trigger a special termination (or cancellation) clause in a treaty reinsurance contract. (10)
  
3. (a) Describe the role of the Association of Insurance and Risk Managers (AIRMIC). (5)
- (b) Explain briefly the purpose of the reservation of rights AIRMIC clause. (5)
  
4. Explain briefly:
  - (a) an aggregate deductible; (2)
  - (b) an inner deductible; (2)
  - (c) an aggregate limit of indemnity. (6)
  
5. Describe briefly **five** general regulatory principles that the Financial Conduct Authority and Prudential Regulation Authority should follow when issuing rules and guidance. (10)

6. (a) Explain briefly why a continuing warranty is likely to be an express rather than an implied term in a commercial insurance contract. (4)
- (b) Outline **three** examples of a continuing warranty in a commercial insurance contract. (6)
7. Identify **five** special requirements that may apply to a commercial insurance contract for regulatory purposes, outlining **one** example for **each** requirement. (10)
8. (a) Outline the cover provided by a catastrophe excess of loss treaty. (2)
- (b) Explain briefly how 'loss occurrence' is generally defined in the wording of a catastrophe excess of loss reinsurance contract for:
- (i) property risks; (4)
- (ii) liability risks. (4)

QUESTIONS CONTINUE OVER THE PAGE

## PART II

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

9. A Lloyd's syndicate, Box Insurance, is keen to work in partnership with Boutique Broker via a binding authority agreement.
- (a) Outline what is meant by a binding authority and describe briefly the **two** forms of binding authority that are available to Box Insurance. (6)
  - (b) Describe the potential benefits of a binding authority to Box Insurance and Boutique Broker. (12)
  - (c) Describe the responsibilities that Boutique Broker has towards Box Insurance as its coverholder. (12)
10. (a) Outline **four** reasons why it is important to have a law and jurisdiction clause defined in an insurance contract wording. (8)
- (b) Discuss why the law and jurisdiction of a commercial insurance contract must be selected carefully, providing examples in relation to **three** different countries. (15)
- (c) Explain briefly how the law and jurisdiction of a reinsurance contract is likely to be interpreted, if the reinsurance contract was effected in the London Market but did not specify the law and jurisdiction. (7)
11. (a) Explain the role and responsibilities of a broker in preparing an insurance contract wording. (12)
- (b) Explain the effect of an endorsement and how the language used can vary the effect. (10)
- (c) Outline **four** reasons for creating an endorsement or addendum to a contract wording. (8)
12. (a) Explain the importance of a change in law clause in a non-proportional treaty reinsurance contract. (5)
- (b) Discuss **five** typical liability clauses in a non-proportional treaty reinsurance contract. (25)



