

# Foundation Insurance Test

## Objective

To provide knowledge and understanding of basic insurance products, principles and practice, within the legal and regulatory framework of the insurance industry.

Summary of learning outcomes	Number of questions in the examination*
1. Understand how the insurance market operates	8
2. Understand risk and insurance in the context of the insurance market	7
3. Understand agency and insurance legal principles	17
4. Understand insurance underwriting procedures	10
5. Understand policy wordings and procedures for renewals	8
6. Understand insurance procedures for claims	10
7. Understand the conduct of insurance business	15
8. Understand personal insurance	18
9. Understand commercial insurance	7

\*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

- Method of assessment: 100 multiple choice questions (MCQs). 2 hours are allowed for this examination.
- This syllabus will be examined from 1 May 2016 until 31 December 2017.
- 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/updates](http://www.cii.co.uk/updates)
  2. Select the appropriate qualification
  3. Select your unit on the right hand side of the page
- *Wording in italics in the syllabus will only be tested from October 2016*

## 1. Understand how the insurance market operates

- 1.1 Describe the main features of the insurance market including the use of e-trading
- 1.2 Describe the relationships between buyers, intermediaries and sellers, and the different distribution channels
- 1.3 Describe the main features of intermediaries in the insurance market
- 1.4 Describe the main functions and responsibilities of loss adjusters and loss assessors
- 1.5 Describe the main functions and responsibilities of underwriters and claims staff
- 1.6 Describe, in outline, the non-insurance services available:
  - helplines and advice
  - authorised repairers and suppliers
  - risk control/advice
  - uninsured loss recovery services

## 2. Understand risk and insurance in the context of the insurance market

- 2.1 Explain what is meant by risk as it relates to insurance
- 2.2 Describe the types of risk that can be insured and the types of risk that cannot
- 2.3 Describe the relationship between severity, frequency, risk and insurance
- 2.4 Describe how insurance operates as a risk transfer mechanism
- 2.5 Describe how insurance operates by the pooling of risk
- 2.6 Describe, in outline, what is meant by self-insurance, coinsurance, dual insurance and reinsurance
- 2.7 Describe how insurance benefits policyholders and society in general

## 3. Understand agency and insurance legal principles

- 3.1 Describe the essentials of a valid contract of insurance
- 3.2 Describe the methods of creating an agent/principal relationship and the duties of each party
- 3.3 Describe the principle of insurable interest
- 3.4 Explain when insurable interest needs to exist
- 3.5 Describe what is meant by the principle of utmost good faith/*good faith*
- 3.6 Describe what is meant by a material fact/*material circumstances*
- 3.7 Describe what is meant by the duty of disclosure/*duty of fair presentation*
- 3.8 Explain the consequences of non-disclosure of material facts/*a breach of duty of fair presentation*
- 3.9 Describe what is meant by the principle of indemnity
- 3.10 Describe how indemnity is modified by agreed value, new for old and first loss policies
- 3.11 Explain what is meant by proximate cause
- 3.12 Explain what is meant by contribution
- 3.13 Explain what is meant by subrogation
- 3.14 Explain what is meant by underinsurance and how it is dealt with by the application of average

## 4. Understand insurance underwriting procedures

- 4.1 Describe the methods used to obtain material facts/*information*
- 4.2 Explain the significance of moral and physical hazard to underwriting
- 4.3 Describe the procedures relating to quotations and their legal significance
- 4.4 Describe the procedures relating to proposal forms and their legal significance
- 4.5 Describe the procedures relating to the issue of cover notes, policies and certificates of insurance and their legal significance
- 4.6 Explain the relevance of premium payment for valid cover
- 4.7 Describe what is meant by Insurance Premium Tax

## 5. Understand policy wordings and procedures for renewals

- 5.1 Describe the structure, functions and content of a policy form, including the policy schedule
- 5.2 Describe how excesses, deductibles and franchises are used
- 5.3 Describe the differences between warranties, conditions and exclusions
- 5.4 Explain the use of common policy conditions and exclusions
- 5.5 Describe the procedures relating to renewals and their legal significance
- 5.6 Explain how cancellation clauses operate

## **6. Understand insurance procedures for claims**

- 6.1 Describe the requirements for a valid claim
- 6.2 Explain why a claim may be invalid or only partially met
- 6.3 Describe the insured's duties after a loss
- 6.4 Describe the documentary evidence needed in relation to claims
- 6.5 Describe the methods by which claims can be settled
- 6.6 Describe the procedures commonly used to discourage and detect fraudulent claims
- 6.7 Explain the consequences of fraudulent claims for insurers and policyholders
- 6.8 Explain the difference between a policy that is void and one that is voidable

## **7. Understand the conduct of insurance business**

- 7.1 Describe in broad outline the main functions of the ABI, BIBA and the financial services regulator
- 7.2 Explain the broad effect of the Insurance: Conduct of Business sourcebook (ICOB5) on the general insurance industry
- 7.3 Describe the main provisions of the General Insurance compensation arrangements under the Financial Services Compensation Scheme
- 7.4 Describe the circumstances in which particular types of insurance are compulsory in the UK; specifically: employers' liability, public liability, professional indemnity and motor insurance
- 7.5 Describe the main provisions of the current Money Laundering Regulations
- 7.6 Describe in outline the provisions of the Data Protection Act 1998 and the types of confidential information
- 7.7 Explain the need for security and the requirements for confidentiality of information: its use, storage and disclosure
- 7.8 Explain the need for effective complaints-handling procedures
- 7.9 Describe the mechanisms for dispute resolution available to insureds and insurers and the role of the Financial Ombudsman Service

## **8. Understand personal insurance**

- 8.1 Describe the basic features and outline of typical policy cover required by private individuals for:
  - motor insurance
  - home insurance: buildings and contents
  - insurance for caravans, boats, pets and other property
  - travel insurance
  - private medical and dental insurance
  - personal accident and sickness insurance
  - extended warranty
  - legal expenses insurance
  - payment protection insurance for mortgages and loans

## **9. Understand commercial insurance**

- 9.1 Describe the basic features and outline of commercial insurance policy cover for:
  - liability: employers', public, products, professional indemnity
  - commercial property and pecuniary covers
  - commercial vehicle and 'fleet' motor covers

## 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

Foundation Insurance Test. London: CII. Study text FIT.

## Books (and ebooks)

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

A practitioner's guide to the regulation of insurance. 4th ed. John Young (ed). London: Sweet and Maxwell, 2011.

## Factfiles and other online resources

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via [www.cii.co.uk/ciifactfiles](http://www.cii.co.uk/ciifactfiles) (CII/PFS members only).

- The regulation of general insurance business. Ian Youngman.
- The regulatory framework. Simon Collins.

## 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).

Post magazine. London: Incisive Financial Publishing. Weekly. Also available online at [www.postonline.co.uk](http://www.postonline.co.uk).

## 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.

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

The insurance manual. Stourbridge, West Midlands: Insurance Publishing & Printing Co. 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/iilrevision](http://www.cii.co.uk/iilrevision) (CII/PFS members only).