

## P21

### Diploma in Insurance

#### Unit P21 – Commercial insurance contract wording

October 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.**



## 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. (a) Outline **two** principles of contract certainty which specifically apply at the time of entering into a commercial insurance contract. (4)
- (b) Explain briefly who is responsible if a commercial insurance contract has not met contract certainty principles and the extent of that responsibility. (4)
- (c) List **two** of the appendices to the Contract Certainty Code of Practice which contain guidance. (2)
  
2. Outline **five** reasons why a broker may be used by a (re)insured to arrange a (re)insurance contract. (10)
  
3. (a) Explain briefly the duty of due diligence placed on an insured. (4)
- (b) List **three** other duties and **three** rights of an insured under a commercial insurance contract. (6)
  
4. Identify and distinguish between the **two** most common types of proportional reinsurance treaty. (10)
  
5. (a) Explain how subscribing insurers' participation may be allocated if the lead insurer has signed on a 'line to stand' basis, the insurers' combined participation is over 100% of the order before inception of the contract, and the signing provision allows for disproportionate signing. (8)
- (b) State how insurers' participation is allocated if a placement is incomplete at the time of inception of the contract. (2)

6. (a) List **two** ways in which a term can be implied in a contract. (2)
- (b) Provide **four** examples of an implied term in insurance. (8)
7. (a) Explain briefly how a collateral **contract** may arise in insurance and how it may be excluded by the parties to a commercial insurance contract. (5)
- (b) Explain briefly what is meant by a collateral **condition** in a commercial insurance contract and the effects of a breach of a collateral condition by the insured. (5)
8. Explain briefly the purpose and operation of the following non-proportional treaty reinsurance clauses:
- (a) Index clause. (5)
- (b) Interlocking clause. (5)

QUESTIONS CONTINUE OVER THE PAGE

## PART II

Answer TWO of the following FOUR questions

Each question is worth 30 marks

9. (a) Explain whether binding authority agreements and line slips are contracts of insurance and whether the principle of utmost good faith applies. (9)
- (b) Outline **seven** ways in which a Lloyd's underwriter can limit a full binding agreement contract. (21)
10. (a) Identify and explain briefly the purpose of **six** boilerplate clauses that are common to proportional or non-proportional treaty reinsurance but have no reinsurance content in them. (24)
- (b) Describe the three stage process for converting a loss into the currency of a reinsurance treaty using a currency fluctuation clause. (6)
11. (a) Explain briefly why it is important to include an insuring clause in an insurance contract. (4)
- (b) Draft a basic insuring clause for an all risks property insurance contract, including a recital clause. (8)
- (c) Draft a policy period clause which would meet the mandatory requirements of a Market Reform Contract (MRC), and explain the reasons for these requirements. (12)
- (d) Explain the problems that may arise for an insurer with a 'risks attaching' basis of treaty reinsurance. (6)
12. (a) Describe the key features of a cancellation clause in an insurance contract. (15)
- (b) Explain how a multi-section insurance contract may be affected if the insured does not comply with a warranty. (15)



