

THE CHARTERED INSURANCE INSTITUTE



E05

Examination element of M05 Insurance law

**Based on the 2016/2017 syllabus
examined from 1 May 2016 until 30 April 2017**

E05 – Examination element of M05 Insurance law

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Contents

Introduction to Examination Guide	3
E05 Syllabus	7
Specimen Examination	14
Specimen Examination Answers and Learning Outcomes Covered	24

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the E05 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their E05 studies before attempting the specimen examination. Students should allow themselves one hour 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. The examination must be successfully passed within 18 months of enrolment on M05.

Although the specimen examination in this guide is typical of an E05 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 M05 reading list, which is located on the syllabus in this examination guide and on the CII website at 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
- 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 M05 syllabus is published on the CII website at 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 CII 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 examination syllabus categorises M05 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to understand the subject matter. Each learning outcome begins with one of these cognitive skills:

Understanding - Candidates 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 E05 examination is 50 multiple choice questions (MCQs): 40 standard format and 10 multiple response format. One hour is allowed for this examination.

The M05 syllabus provided in this examination guide will be examined from 1 May 2016 until 30 April 2017.

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.

Please note that the Insurance Act 2015, which comes into effect on 12 August 2016, will be reflective in examinations and the specimen paper from 1 October 2016.

E05 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

When preparing for the examination, candidates should ensure that they are aware of what typically constitutes each type of product listed in the syllabus and ascertain whether the products with which they come into contact during the normal course of their work deviate from the norm, since questions in the examination test generic product knowledge.

A standard format 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 or best 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.

A multiple response format question consists of a problem, followed by between four to six options. For each question more than one option is correct. Candidates must select **all** the correct options to gain the mark.

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, in 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.

Insurance law

Purpose

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

- demonstrate a knowledge and understanding of the laws which form the background to the operation of insurance;
- demonstrate a knowledge and understanding of the system within which these laws operate and are administered;
- apply knowledge and skills to practical situations.

Assumed knowledge

It is assumed the candidate has the knowledge gained from a study of the fundamental principles and practices of insurance as covered in IF1 Insurance, legal and regulatory or equivalent examinations.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the nature and sources of law and legal systems.	3
2. Understand the concept of legal personality.	2
3. Understand the principles of the law of tort and the characteristics of the main Torts.	4
4. Understand the law of contract.	4
5. Understand the law of agency and its application to insurance.	4
6. Understand the main principles governing the formation of insurance contracts.	9
7. Understand how the terms of insurance contract are classified and the effect of a breach of an insurance contract term by the insured and of other vitiating factors.	8
8. Understand the main legal principles governing the making of an insurance claim.	6
9. Understand how losses are measured and how the principle of indemnity applies to insurance claims.	4
10. Understand how the principles of subrogation and contribution apply to insurance claims.	6

*The test specification (relevant to the M05 multiple choice question exam only) 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**
Mixed assessment for Mo5 of which both elements must be individually passed. This consists of:
 1. an online coursework assignment using RevisionMate consisting of 10 questions which sequentially follow the learning outcomes. This must be successfully completed within 6 months of enrolment; and
 2. a multiple-choice question (MCQ) exam at one of the CII's online centres (paper based MCQs are available in April and October for those sitting outside the UK). The MCQ exam consists of 40 standard format and 10 multiple response questions. 1 hour is allowed for this examination. This exam must be successfully passed within 18 months of enrolment.
- This syllabus will be examined from 1 May 2016 until 30 September 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/updates
 2. Select the appropriate qualification
 3. Select your unit on the right hand side of the page

1. Understand the nature and sources of law and legal systems

- 1.1 Describe the classifications of law and the main branches of public and private law.
- 1.2 Describe the characteristics of English law and the UK legal system.
- 1.3 Describe the development of common law and of equity.
- 1.4 Describe the two main sources of law: legislation and judicial precedent (case law).
- 1.5 Outline the minor sources of law.
- 1.6 Describe delegated legislation and statutory interpretation.
- 1.7 Describe the effect of supra-national legislation, such as European law, on national systems.
- 1.8 Describe the structure of the courts, the judiciary and the system of precedent.
- 1.9 Describe the elements of civil procedure and methods for the funding of litigation.

2. Understand the concept of legal personality

- 2.1 Describe the status and capacity of natural legal persons and corporations.
- 2.2 Describe the main types of corporation and their characteristics.
- 2.3 Describe unincorporated associations and their characteristics.
- 2.4 Describe the characteristics of partnerships, the Crown and trade unions.

3. Understand the principles of the law of tort and the characteristics of the main torts

- 3.1 Describe the nature and classification of torts.
- 3.2 Explain the law of negligence: duty of care, breach of duty and rules concerning damage, including liability for economic loss and psychiatric injury.
- 3.3 Explain general characteristics of the other main torts: trespass, nuisance, the rule in *Rylands v. Fletcher*, breach of statutory duty and defamation.
- 3.4 Explain the application of tort and liability law in the context of employers' liability, liability for defective products and liability for dangerous or defective premises.
- 3.5 Explain the main defences, remedies and rules governing limitation of actions in tort.

4. Understand the law of contract

- 4.1 Explain the nature of contractual liability and classification of contracts.
- 4.2 Explain the rules governing the formation of a contract.
- 4.3 Explain how contract terms are classified under the general law.
- 4.4 Explain elements which affect the validity of contracts.
- 4.5 Explain the circumstances in which a contract may be discharged.
- 4.6 Explain remedies for breach of contract.
- 4.7 Explain the doctrine of privity of contract and the effect of the Contracts (Rights of Third Parties) Act 1999.
- 4.8 Explain the assignment of contractual rights and duties.
- 4.9 Explain assignment in the context of insurance and apply this to problem situations.

5. Understand the law of agency and its application to insurance

- 5.1 Explain the nature of agency and how an agency relationship can be created.
- 5.2 Explain the relationships between agents, principals and third parties.
- 5.3 Explain the nature of an agent's rights, responsibilities, authority and duties.
- 5.4 Explain the termination of agency and its effects.
- 5.5 Explain how the principles of agency law apply to insurance.
- 5.6 Apply the principles of agency law to problem situations.

6. Understand the main principles governing the formation of insurance contracts

- 6.1 Explain how the general principles of contract law apply to insurance.
- 6.2 Explain the concept and nature of insurable interest.
- 6.3 Explain the application of the law on insurable interest to the main classes of insurance and apply the law to problem situations.
- 6.4 Explain potential reform of the law relating to insurable interest.
- 6.5 Explain the doctrine of utmost good faith.
- 6.6 Explain misrepresentation in the context of insurance and apply its principles to problem situations
- 6.7 Explain the duty of disclosure in the context of insurance and apply its principles to problem situations.
- 6.8 Explain the Breach of good faith by the insured or the insurer: consequences and remedies and apply this to problem situations.
- 6.9 Explain the effect of the Financial Conduct Authority (FCA) Insurance Conduct of Business (ICOB) rules on the doctrine of utmost good faith and apply this to problem situations.
- 6.10 Explain the main areas of reform implemented by the Consumer Insurance (Disclosure and Representations) Act 2012.

7. Understand how the terms of insurance contracts are classified and the effect of a breach of an insurance contract term by the insured and of other vitiating factors

- 7.1 Explain the classification of insurance contract terms.
- 7.2 Explain the nature of warranties, conditions and other insurance contract terms and apply the law on these to problem situations.
- 7.3 Explain the effect of breach of warranty or condition and apply the law to problem situations.
- 7.4 Explain the effect of the regulatory rules on the law of warranties and conditions and apply the rules to problem situations.
- 7.5 Explain potential reform of the law of warranties and conditions.
- 7.6 Explain void and illegal insurance contracts and apply the law to problem situations.
- 7.7 Explain the distinction between joint and composite and apply the law to problem situations.

8. Understand the main legal principles governing the making of an insurance claim

- 8.1 Describe the parties who can claim on or benefit from an insurance contract and apply the law to problem situations.
- 8.2 Explain the rules governing notice and proof of loss and apply them to problem situations.
- 8.3 Explain the principles governing the construction of insurance contracts and apply them to problem situations.
- 8.4 Explain the doctrine of proximate cause.
- 8.5 Explain the doctrine of proximate cause in the context of 'chains of events', concurrent causes and efforts to avoid or reduce loss and apply the law to problem situations.

9. Understand how losses are measured and how the principle of indemnity applies to insurance claims

- 9.1 Explain the principle of indemnity.
- 9.2 Explain the measure of indemnity in various classes of insurance and apply the law and practice to problem situations.
- 9.3 Explain the factors which limit, reduce, extend or modify the principle of indemnity and apply the law and practice to problem situations.
- 9.4 Explain the methods of providing indemnity and apply the law and practice to problem situations.
- 9.5 Explain the doctrine of salvage and abandonment and apply the law and practice to problem situations.
- 9.6 Explain the effect of claim payments on policy cover and apply the law and practice to problem situations.

10. Understand how the principles of subrogation and contribution apply to insurance claims

- 10.1 Explain the doctrine of subrogation as a corollary of principle of indemnity.
- 10.2 Explain the source of subrogation rights and apply the law to problem situations.
- 10.3 Explain abandonment and salvage and apply the law and practice to problem situations.
- 10.4 Explain how subrogation rights may be modified or denied and apply the law and practice to problem situations.
- 10.5 Explain the nature of double insurance and contribution and how contribution arises at common law.
- 10.6 Explain the operation of contribution at common law and the effect of common contribution conditions.
- 10.7 Explain methods of ascertaining the ratio of contribution.
- 10.8 Apply the principle of contribution to the main lines of insurance and to problem situations.
- 10.9 Explain the effect of market agreements on rights of contribution.

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 or email knowledge@cii.co.uk.

CII study texts

Insurance law. London: CII. Study text M05P05.

Insurance, legal and regulatory. London: CII. Study text IF1.

Books (and ebooks)

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

Business law. Denis Keenan and Sarah Riches. 8th ed. Harlow: Pearson Longman, 2007.

Casebook on torts. Richard Kidner. 12th ed. Oxford: Oxford University Press, 2012.

Claims handling law and practice. Richard West et al. London: Witherby, 2008.

Colinvaux's law of insurance. 10th ed. London: Sweet & Maxwell, 2014.

Company law. J Charlesworth et al. London: Sweet and Maxwell, 2011.

Competition law and policy in the EU and UK. 5th ed. Barry Rodger, Angus MacCulloch. Routledge-Cavendish, 2015.*

Consumer insurance law: disclosure, representations and basis of the contract clause. Peter Tyldesley. Haywards Heath: Bloomsbury Professional, 2013.

Drafting insurance contracts: certainty, clarity, law and practice. Christopher Henley. London: Leadenhall press, 2010.

Essential law for your business: a practical guide to all legal and financial requirements. Patricia Clayton. 13th ed. London: Kogan Page, 2009.

Insurance and reinsurance law and regulation: jurisdictional comparisons. Clive O'Connell. London: Sweet and Maxwell, 2014.

Insurance and reinsurance law review. Peter Rogan. Law Business Review, 2012.

Insurance and the law of obligations. Robert M. Merkin, Jenny Steele. Oxford: Oxford University Press, 2013.*

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

Insurance law in the United Kingdom. 2nd. ed. John Birds. The Netherlands: Kluwer Law International, 2014.

Insurance law: text and materials. Ray Hodgkin. 2nd ed. London: Cavendish, 2002.

Insurance theory and practice. Rob Thoys. Routledge, 2010.*

MacGillivray on insurance law: relating to all risks other than marine. 13th ed. London: Sweet & Maxwell, 2015.

Public companies and equity finance. Alexis Mavrikakis. Guildford: College of Law, 2012.

Palmer's limited liability partnership law. 2nd ed. Geoffrey Morse (ed). London: Sweet and Maxwell, 2011.

Principles of European Insurance contract law: a model optional instrument. Mandeep Lakhani, Helmut Heiss. Munich: Sellier European Law Publishers, 2011.*

Research handbook on international insurance law and regulation. Julian Burling, Kevin Lazarus (eds.). Edward Elgar Publishing, 2011.*

Smith and Keenan's English law: text and cases. Charles Wild and Stuart Weinstein. 17th ed. Harlow, England: Pearson Education, 2013.

Subrogation: law and practice. Charles Mitchel et al. Oxford: Oxford University Press, 2007.

Subrogation and contribution in insurance practice. RM Walmsley. London: Witherby, 2001.

The law of insurance contracts. Malcolm A Clarke. 6th ed. London: Informa, 2009.

The law of liability insurance. Malcolm Clarke. New York: Informa, 2013.*

The modern law of insurance. Andrew McGee. LexisNexis, 2011.

Tort law and liability insurance. Gerhard Wagner. Wien: Springer, 2005.

Tort law: text, cases and materials. Jenny Steele. 3rd ed. Oxford: Oxford University Press, 2014.

Ebooks

The following ebooks are available through Discovery via www.cii.co.uk/discovery (CII/PFS members only):

Business law. David Kelly, Ruby Hammer, John Henty. Taylor and Francis, 2014.

Tort law and the Legislature: common law, statute and the dynamics of legal change. Jenny Steele, et al. Oxford: Hart Publishing, 2013.

Tort law: challenging orthodoxy. Erika Chamberlain, et al. Oxford: Hart Publishing, 2013.

Tort law defences. James Goudkamp. Oxford: Hart Publishing, 2013.

Factfiles

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 (CII/PFS members only).

- Recent developments in tort. Alan Peck.

- Civil procedure rules. Alan Peck.
- The regulation of general insurance business. Ian Youngman.

Contract certainty: an Airmic guide for risk managers and insurance buyers. AIRMIC. 2009. Available via www.airmic.com (register your details to access).

Delivering excellence in insurance claims handling: claims best practice guide. AIRMIC. 2010. Available via www.airmic.com (register your details to access).

Reservation of rights. AIRMIC. 2009. Available via www.airmic.com (register your details to access).

Further articles and technical bulletins are available at www.cii.co.uk/knowledge (CII/PFS members only).

Journals and magazines

Insurance law monthly. London: Informa. Monthly.

Post magazine. London: Incisive Financial Publishing. Weekly. Also available online at www.postonline.co.uk.

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

Further periodical publications are available at www.cii.co.uk/journalmagazines (CII/PFS members only).

Reference materials

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

Colinvaux & Merkin's insurance contract law. Robert M Merkin. Brentford: Sweet & Maxwell. Looseleaf, updated.

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

i-law: online database of legal knowledge. Informa. Available online via www.cii.co.uk/lawdatabases (CII/PFS members only).

International encyclopedia for insurance law. Wolters Kluwer. Available online via www.cii.co.uk/lawdatabases (CII/PFS members only).

*Also available as an ebook through Discovery via 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.

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (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 (CII/PFS members only).

1. The Chancery Division is a division of the
 - A. County Court.
 - B. Crown Court.
 - C. High Court.
 - D. Supreme Court.

2. The Marine Insurance Act 1906 is an example of
 - A. a codifying act.
 - B. delegated legislation.
 - C. international legislation.
 - D. a retrospective act.

3. A 'litigation friend' (formerly 'next friend') is responsible for litigation costs awarded against a claimant who is a
 - A. bankrupt.
 - B. company.
 - C. partnership.
 - D. minor.

4. One of the requirements for the rule in Rylands v Fletcher to operate, is that there **must** be
 - A. a defamatory statement.
 - B. fault or negligence by the defendant.
 - C. a negligent misstatement.
 - D. a non-natural use of land by the defendant.

5. For which tort is the claimant **never** required to prove that he has suffered loss or damage?
 - A. Negligence.
 - B. Nuisance.
 - C. Slander.
 - D. Trespass to land.

6. Katy's mother bought her an iron, which turned out to be defective and caused a fire. It resulted in damage to Katy's personal property amounting to £500 and also caused severe burns to Katy's right hand. In order to achieve a recovery at law, which legal action should be pursued?
 - A. Katy's mother should sue the seller in tort based on the principle of negligence.
 - B. Katy should sue her mother based on the principle of vicarious liability.
 - C. Katy should sue the manufacturer based on the provisions of the Consumer Protection Act 1987.
 - D. Katy should sue the seller for breach of contract in selling a defective electrical product.

7. An insurance policy would **automatically** be illegal and void if it is
- A. an employer's liability policy for a company without any employees.
 - B. a household contents policy covering a gun collection.
 - C. a life assurance policy taken out by a person who has no insurable interest in the life insured.
 - D. a marine cargo policy taken out by a person who is not the owner of the cargo.
8. With regard to formation of a contract, consideration **must** always be a
- A. benefit to the person receiving it or a detriment to the person giving it.
 - B. detriment to the person receiving it or a benefit to the person giving it.
 - C. benefit to both the person giving it and the person receiving it.
 - D. detriment to both the person giving it and the person receiving it.
9. Adam had a contract with a specialist storage company to store some valuable paintings, but damp storage conditions resulted in damage to the paintings. Although Adam's contract did **NOT** expressly state the storage requirements had to be suitable, he successfully sued the storage company on the basis that the contract terms were implied
- A. by custom.
 - B. by EU regulation.
 - C. in fact.
 - D. in law.
10. An insurance broker grants cover for motor insurance to a 21-year-old proposer. However, the broker's authority is restricted to only granting cover to drivers aged 23 years and over. What basis, if at all, is the insurer bound to cover the 21-year-old?
- A. Agency by estoppel.
 - B. Apparent authority.
 - C. Implied actual authority.
 - D. The insurer is not bound.
11. Whilst Tim was on holiday, unknown to him his agent made a contract on his behalf. Tim is happy to ratify the contract but he does want to change a minor term. The services under the contract are scheduled to be carried out next week. What is the legal position regarding ratification of the contract?
- A. Tim cannot ratify the contract as it was made without his knowledge.
 - B. Tim cannot ratify the contract excluding the minor term as the whole contract must be ratified.
 - C. Tim can ratify the contract and change the term as it is only a minor term.
 - D. Tim can ratify the contract and change the minor term if this is done within reasonable time.

- 12.** Alice acted as an agent for Ted in a house clearance sale and has successfully claimed commission by implied agreement. What does this indicate about the commission?
- A.** It was agreed as it was based on a verbal agreement.
 - B.** It was agreed as it was detailed in an agency contract.
 - C.** It was not agreed, but Alice had a lien on Ted's property.
 - D.** It was not agreed, but Alice's work was in her usual line of business for which she would normally be paid.
- 13.** Stuart has a joint mortgage with his wife of £60,000 and a personal loan of £5,000, but no other debts. How much insurable interest does his wife have in his life?
- A.** A maximum of £30,000.
 - B.** A maximum of £60,000.
 - C.** A maximum of £65,000.
 - D.** An unlimited amount.
- 14.** A proposer for property insurance forgot to disclose that his business premises were protected by a burglar alarm. What are the implications, if any, of this non-disclosure once the insurer is on risk and the premium is paid?
- A.** None, as it is a factor that lessens the risk.
 - B.** The insurer is obliged to refund a proportion of the premium.
 - C.** The insurer can avoid the policy, but must refund the premium.
 - D.** The insurer is obliged to quote revised terms to the proposer.
- 15.** In respect of insurance contracts the practical application of the doctrine of utmost good faith means that the
- A.** broker has a duty to the proposer to find the widest coverage at the best price.
 - B.** insured and the insurer have a reciprocal duty of confidentiality regarding contract information.
 - C.** proposer and the broker have a joint duty to disclose all material facts relating to the contract.
 - D.** proposer and the insurer have a reciprocal duty to deal honestly in negotiations leading to formation of the contract.
- 16.** When effecting a household contents insurance policy, the proposer deliberately provided the insurer with misleading information and so the insurer avoided the policy. In what circumstances, if any, is the insurer obliged to return the premium to the policyholder?
- A.** In no circumstances.
 - B.** The premium exceeds a de minimis amount.
 - C.** The premium was paid on day one of the policy period.
 - D.** Retaining the premium would be unfair to the policyholder.

17. To what extent, if at all, does the duty of good faith apply to employers' liability insurance?
- A. It applies in exactly the same way as it does to all other non-consumer insurances.
 - B. It does not apply as it is a compulsory class of insurance.
 - C. It only applies at inception of the policy but not at subsequent renewal.
 - D. It only applies to large companies, defined as those with more than 50 employees.
18. Under English Law, the right to insure the life of another person arises if there is
- A. the consent of the Law Commission.
 - B. the consent of the life assured.
 - C. a financial relationship recognised at law.
 - D. a relationship characterised by a close bond of natural affection.
19. The Consumer Insurance (Disclosure and Representations) Act 2012 abolished the duty of disclosure in consumer insurance with the result that a consumer's duty is to take reasonable care **NOT** to make a
- A. fraudulent statement.
 - B. misrepresentation.
 - C. qualifying disclosure.
 - D. representation.
20. A company is at the proposal stage for property and business interruption insurance. Material facts that require disclosure at this stage include
- A. both moral hazards and physical.
 - B. moral hazards only.
 - C. physical hazards only.
 - D. only physical and moral hazards that have occurred in the last 12 months.
21. The contractual term stating that a life insurance policy will **NOT** come into effect until the premium is paid is an example of
- A. a condition precedent to contract.
 - B. a condition precedent to liability.
 - C. a continuous warranty.
 - D. an implied warranty.
22. Why may an insurer insert a continuing warranty into an insurance policy?
- A. To avoid paying a loss if it is caused by a peril stated in the policy.
 - B. To enable an insurer to charge an additional premium if the warranty is breached.
 - C. To ensure that a full sum insured is declared to avoid underinsurance.
 - D. To ensure that measures are taken to improve risk management.

23. When an insured breaches a suspensive condition, for how long, if at all, is policy cover invalid?
- A. Cover remains valid, but the insurer is entitled to damages.
 - B. Cover is invalid until the insured describes the risk to the satisfaction of insurers.
 - C. Cover is invalid only for the period that the insured does not comply with the condition.
 - D. Cover is permanently invalid as the policy is terminated from the date of the breach.
24. Two policies were incepted and both were in joint names. Policy X was arranged by a lessor and lessee and policy Y was taken out by a married couple who have an equal share in their home. What are the **likely** types of policy X and policy Y?
- A. Policy X is a composite policy and policy Y is a joint policy.
 - B. Policy X is a joint policy and policy Y is a composite policy.
 - C. Both policy X and policy Y are composite.
 - D. Both policy X and policy Y are joint.
25. A clause in a company's professional liability policy enables the insurer to avoid paying for any losses when an insured admits responsibility for the loss. This type of clause is
- A. a condition precedent to contract.
 - B. a condition precedent to liability.
 - C. an express warranty.
 - D. an implied warranty.
26. A warranty in a household buildings insurance policy states that the chimney of the property should be professionally swept every year prior to winter use. A loss occurs as a result of severe winds and the chimney is damaged. How is the insurer legally entitled to respond to the claim for property damage to the chimney if the insured has breached the warranty?
- A. Avoid the claim but keep the policy in force.
 - B. Reduce the claim payment pro rata.
 - C. Reject the claim and terminate the policy.
 - D. Settle the claim in full.
27. A bundle of separate contracts between an insurer and several insured companies in a group of companies are all contained in a single insurance policy. This may be described either as a
- A. composite policy or coinsurance.
 - B. composite policy or contribution.
 - C. joint policy or coinsurance.
 - D. joint policy or contribution.
28. Joe has been injured in a motor accident. Under section 151 of the Road Traffic Act 1988, he has the right to make a direct claim against the insurer of the negligent driver, Sally, if he
- A. is a minor and has no contractual capacity.
 - B. has an unsatisfied court judgment against Sally.
 - C. has already had a claim against the Motor Insurers' Bureau rejected.
 - D. was wearing a seat belt at the time of the accident and no contributory negligence applies.

29. If an insurance claim is disputed and causation is an issue, what approach will a court take when looking to identify the proximate cause of the loss?
- A. It will accept the decision of the jury as guided on points of law by the judge.
 - B. It will follow decisions made by international courts.
 - C. It will rely on the common understanding of causation by a normal person.
 - D. It will require proof of causation by scientific and/or technical means.
30. Dan's insurer identified fire as the proximate cause of his insurance claim although the loss resulted from a series of perils. This indicates the insurer has judged that the fire **must** be the
- A. only insured peril.
 - B. most dominant of the perils.
 - C. first of the series of perils.
 - D. last of the series of perils.
31. Ian's speedboat suffered damage during a storm. The insurer identified that a design fault on the boat was a second and concurrent cause of the damage. Neither the storm nor the design fault would have caused the loss on its own. Ian's marine insurance policy provided cover against storm damage but the design fault was an uninsured peril. How, if at all, would Ian's insurer be liable for the claim?
- A. It would be liable for one half of the claim.
 - B. It would be liable for the claim in full.
 - C. It would only be liable for the portion of the claim caused by the storm.
 - D. It would not be liable for the claim at all.
32. Under English law, an element of statutory control over the wording of consumer insurance policies is imposed by the
- A. Consumer Insurance (Disclosure and Representations) Act 2012.
 - B. Consumer Protection Act 1987.
 - C. Consumer Rights Act 2015.
 - D. Unfair Contract Terms Act 1977.
33. Harry owns a vintage car which he insures on an agreed value basis. An expert valuation was accepted at inception. When the car was subsequently written off, why did Harry receive less than indemnity?
- A. The loss adjuster appointed by the insurer subsequently disputed the expert's valuation.
 - B. An equivalent replacement was available at a lower price.
 - C. The market value of an equivalent car had decreased.
 - D. The market value of an equivalent car had increased.

34. When Fred's yacht ran aground on rocks, but was **NOT** totally destroyed, he abandoned his rights to the yacht to his insurer but did **NOT** serve a formal notice of abandonment on the insurer. If Fred submits a claim, the insurer is entitled to classify it as
- A. an actual total loss.
 - B. a constructive total loss.
 - C. a partial loss.
 - D. salvage.
35. Which type of insurance **CANNOT** have its limit of liability exhausted by a series of partial losses?
- A. An employers' liability policy.
 - B. Motor third party bodily injury cover.
 - C. A theft cover on stock.
 - D. A products liability policy.
36. Following the case of *Lister v. Romford Ice and Cold Storage Ltd (1957)*, insurers generally agreed to
- A. give up their subrogation rights against workers who negligently injure their fellow employees in the course of employment.
 - B. pursue subrogation rights against directors on the grounds of vicarious liability.
 - C. use the independent liability method for the calculation of contribution.
 - D. waive their subrogation rights between subsidiary and associated companies of an insured.
37. Tina has an insurance policy which contains a contribution condition known as an escape clause. She takes out a second policy with another insurer, but despite the cover under the two policies overlapping, the original policy is **NOT** avoided using the escape clause. This is because
- A. both policies have an escape clause so they cancelled each other out.
 - B. statute law prohibits the use of escape clauses.
 - C. Tina has notified both insurers of the double insurance.
 - D. Tina has obtained the consent of her insurers.
38. An insurer is entitled to make a profit following an insured loss when
- A. the property is abandoned by the insured.
 - B. contribution is received from another insurer.
 - C. subrogation rights are exercised.
 - D. settlement is by way of indemnity.

- 39.** Two policies with different insurers cover the same loss of £12,000. The limit of liability is £20,000 under policy X and £40,000 under policy Y. Neither policy is subject to average or has a non contribution clause, but policy X is subject to a £4,000 excess. Using the independent liability method of calculating contribution, what amount will policy X contribute towards the claim payment?
- A.** £2,000
 - B.** £4,000
 - C.** £4,800
 - D.** £7,200
- 40.** An insurer has paid a policyholder for fire damage to his home caused by an electrician's faulty work, less the policy excess. How should any subrogation action for damages be brought against the negligent electrician and for what amount(s)?
- A.** By the insurer and the insured separately in their own names for the amount of the claim payment and the policy excess respectively.
 - B.** By the insurer only in its own name for the amount of the claim payment and the policy excess.
 - C.** By the insurer in the name of the insured for the amount of the claim payment only.
 - D.** By the insurer in the name of the insured for the amount of the claim payment and the policy excess.

For Questions 41-50 more than 1 option is correct. You must select all the correct options to gain the mark.

41. The effect of the European Communities Act 1972 on statutory interpretation is that English courts **must**
- A. adopt a literal approach.
 - B. adopt a purposive approach.
 - C. apply domestic legislation in line with European Community obligations.
 - D. take into account judgments from the European Court of Justice.
42. The Crown consists of
- A. the armed forces.
 - B. Government ministers.
 - C. the Privy Council.
 - D. the police.
 - E. the reigning Monarch.
43. Following a motor accident, an insured may be able to claim for special damages for
- A. damage to clothing.
 - B. injury to feelings.
 - C. loss of earnings.
 - D. medical expenses.
 - E. pain and suffering.
44. In contract law, acceptance of an offer
- A. may be achieved by taking no action.
 - B. may be implied by conduct.
 - C. may vary the terms of the offer.
 - D. must be made in writing.
 - E. must exactly match the terms of the offer.
45. An agency will be **automatically** terminated
- A. by lapse of time if the agreement was created for a specific period of time.
 - B. by mutual agreement of the parties.
 - C. by performance of the task specified in the agreement.
 - D. on bankruptcy of the agent.
 - E. on death of the principal.

46. Which material circumstances do **NOT** need to be disclosed by a manufacturing company in an insurance proposal?
- A. Factors which lessen the risk.
 - B. Details about a trade which the insurers regularly underwrite.
 - C. Information which the insurer's risk survey should have revealed.
 - D. Unusual features of a risk that the insurer's standard survey would not reveal.
47. An insurance contract is subject to waiver by estoppel when an insurer is aware of a breach of a warranty by an insured, but the insurer then goes on to
- A. accept further premiums.
 - B. advise the insured about future loss prevention.
 - C. decline to renew the policy.
 - D. handle future claims.
48. Common law rules for the interpretation of insurance policies include the
- A. application of a technical or legal meaning.
 - B. contra proferentum rule.
 - C. golden rule.
 - D. mischief rule.
49. Which insurance terms and conditions can reduce a policyholder's entitlement to a full indemnity following a loss?
- A. An average clause.
 - B. An operative clause.
 - C. A policy excess.
 - D. A subrogation clause.
50. An insurer's subrogation rights may arise
- A. following an ex gratia payment.
 - B. in contract.
 - C. in tort.
 - D. under estoppel.
 - E. under statute.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Standard Format						Multiple Response Format		
Learning Outcome 1			Learning Outcome 7			Learning Outcomes 1-10		
1	C	1.8	21	A	7.1	41	B,C,D	1.7
2	A	1.4	22	D	7.2	42	A,B,C,E	2.4
2 questions			23	C	7.3	43	A,C,D	3.5
			24	A	7.7	44	B,E	4.2
Learning Outcome 2			25	B	7.1	45	A,B,C,E	5.4
3	D	2.1	26	D	7.2	46	A,B,C	6.7
1 question			27	A	7.7	47	A,B,D	7.2
			7 questions			48	A,B	8.3
Learning Outcome 3						49	A,C	9.3
4	D	3.3	Learning Outcome 8			50	B,C,E	10.2
5	D	3.3	28	B	8.1	10 questions		
6	C	3.4	29	C	8.4			
3 questions			30	B	8.4			
			31	B	8.5			
Learning Outcome 4			32	C	8.3			
7	C	4.4	5 questions					
8	A	4.2						
9	C	4.3	Learning Outcome 9					
3 questions			33	D	9.3			
			34	C	9.5			
Learning Outcome 5			35	B	9.6			
10	B	5.6	3 questions					
11	B	5.1						
12	D	5.3	Learning Outcome 10					
3 questions			36	A	10.4			
			37	D	10.6			
Learning Outcome 6			38	A	10.3			
13	D	6.3	39	C	10.8			
14	A	6.7	40	D	10.1			
15	D	6.5	5 questions					
16	D	6.8						
17	A	6.7						
18	C	6.4						
19	B	6.10						
20	A	6.7						
8 questions								