THE CHARTERED INSURANCE INSTITUTE

CII

P21

Diploma in Insurance

Unit P21 – Commercial insurance contract wording

April 2017 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)** State how the Financial Conduct Authority (FCA) is funded. **(2)**

(b) Outline the role and objectives of the FCA in respect of the insurance industry. **(8)**

2. A treaty reinsurer has stated a subjectivity on a reinsurance contract: 'subject to provision of T&D information in earthquake areas'.

Explain briefly how this subjectivity may not meet with contract certainty standards. **(10)**

3. Describe the problems associated with binding authorities. Refer to the circumstances of *Sphere Drake Insurance Ltd & Odyssey Re (London) Ltd. v Euro International Underwriting Ltd & Ors* (2003) to support your answer. **(10)**

4. **(a)** Distinguish between an excess and a deductible. **(6)**

(b) Explain briefly the circumstances in which an excess or a deductible would be preferable for an insured in respect of a commercial liability policy. **(4)**

5. **(a)** State the meaning of the parol evidence rule. **(2)**

(b) Give **four** exceptions to the parol evidence rule. **(8)**

6. Describe the main projects of the London Market Group's modernisation programme. **(10)**

7. Distinguish between the **two** basic types of reinsurance and explain when **each** type may be used. **(10)**

8. Explain briefly how a clause entitling the insured to waive its right of recourse in a commercial insurance contract may affect:

(a) the insured; **(5)**

(b) the insurer. **(5)**

QUESTIONS CONTINUE OVER THE PAGE

PART II

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

9. A slip specialist, at ABC Insurance Brokers (ABC) in London, has to draft market reform contracts for several of ABC's divisions. Currently, the slip specialist has the following three contracts to prepare:

- Coverage for terrorism as part of a package policy for a small company with a turnover of EUR 500,000.
- A policy protecting a container ship carrying high value luxury goods.
- A facultative reinsurance policy indemnifying an overseas insurer of property risks.

(a) Explain the most likely Regulatory Client Classification the broker would state in **each** of the three contracts. **(6)**

(b) **(i)** State **three** purposes of the General Underwriters Agreement (GUA). **(6)**

(ii) Identify which schedules to the GUA might be used in the three contracts. **(3)**

(c) **(i)** Describe the potential clauses governing notification and settlement of claims that the broker may consider when drafting the contract with the overseas insurer. **(12)**

(ii) State the most likely claims clause to appear in the draft contract if the overseas insurer is inexperienced. **(3)**

10. Discuss the implications of the Insurance Act 2015 on commercial insurance contracts. **(30)**

11. An insurer has reserved their rights and is refusing to pay a claim which an insured believes is valid. In addition, the insured does not wish to waste resources fighting in court and the policy contains potential alternatives to resolve a dispute.

(a) Describe briefly **two** alternative dispute resolution methods that may be used. **(8)**

(b) The insured wishes to cancel the policy mid-way through the policy period.

Describe the challenges the insured may face in trying to cancel the policy. **(12)**

(c) The insurer has applied an exclusion as the basis for denying coverage but the insured believes coverage applies due to a buy-back to the exclusion.

(i) Explain briefly the nature of a buy-back clause and why it needs to be drafted carefully. **(6)**

(ii) Describe briefly the effect of a buy-back clause on the burden of proof. **(4)**

12. An insurer's broker is reviewing losses arising from Hurricane Matthew across their underwriting book of business. The losses fall across two underwriting years as follows:

- USD 400,000 on contracts incepting in underwriting year 1; and
- USD 800,000 on contracts incepting in underwriting year 2.

The insurer has a 'risks attaching' catastrophe excess of loss reinsurance with a limit of USD 1,000,000 and deductible of USD 300,000 for each year.

(a) Calculate, **showing all your workings**, how an interlocking clause would affect the insurer's recovery for **each** underwriting year. **(12)**

(b) **(i)** Describe how the basis of cover would change if the contract was on a 'losses occurring during' (LOD) basis rather than 'risks attaching'. **(10)**

(ii) Explain the difficulties that may arise with the LOD basis if Hurricane Matthew is ongoing at the time of expiry. **(8)**

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