

THE CHARTERED INSURANCE INSTITUTE



WH1

Award in General Insurance (Hong Kong)

Based on the 2017/2018 syllabus

Examined from 27 February 2017 until 30 April 2018

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Contents

Introduction to Examination Guide	3
WH1 Syllabus	7
Specimen Examination	11
Specimen Examination Answers and Learning Outcomes Covered	28

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the WH1 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves two hours 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.

Although the specimen examination in this guide is typical of a WH1 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 WH1 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 WH1 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 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 skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested. Learning outcomes for WH1 begin with *know* or *understand*. Different skill levels lead to different types of question, examples of which follow.

Know - Knowledge-based questions require the candidate to recall factual information. Typically questions may ask 'What', 'When' or 'Who'. Questions set on a *know* learning outcome can only test knowledge.

Understand - To answer questions based on understanding, the candidate 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 WH1 examination is 100 multiple choice questions (MCQs). 2 hours are allowed for this examination.

The WH1 syllabus provided in this examination guide will be examined from 27 February 2017 until 30 April 2018.

Candidates will be examined on the basis of Hong Kong 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.

A 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 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.

While no questions involve complex calculations, candidates are permitted to use calculators during the examination. 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, under 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.

Award in General Insurance (Hong Kong)

Objective

At the end of this unit, candidates should be able to understand, in the context of the Hong Kong insurance market, the:

- basic principles of insurance;
- main legal principles related to insurance contracts;
- main regulatory principles related to insurance business;
- key elements of consumer protection.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the nature and main features of risk and insurance	20
2. Know the structure and main features of the Hong Kong insurance market	11
3. Know the main functions of insurance professionals	11
4. Understand the main legal principles governing insurance contracts	42
5. Understand the main regulatory and legal principles applicable to the transaction of insurance business in Hong Kong	14
6. Know key aspects of ethics, corporate governance and internal controls	2

*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 27 February 2017 to 30 April 2018.
- Candidates will be examined on the basis of Hong Kong 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/qualifications
 2. Select the appropriate qualification
 3. Select your unit on the right hand side of the page

1. Understand the nature and main features of risk and insurance

The nature and main features of risk

- 1.1 The concept of risk and risk perception;
- 1.2 How different risks are categorised;
- 1.3 The risk management function and process;
- 1.4 The relationship between frequency and severity of loss;
- 1.5 The types of risk that can be insured and the types of risk that cannot;
- 1.6 What is meant by a peril and a hazard and the difference between the two, as they relate to insurance;
- 1.7 How the principles defined in element 1.1 to 1.6 are applied to a given set of circumstances.

The nature and main features of insurance

- 1.8 The basis of insurance as a risk transfer mechanism;
- 1.9 How insurance operates by the pooling of risks;
- 1.10 How insurance benefits policyholders and society in general;
- 1.11 What is meant by co-insurance, dual insurance and self-insurance;
- 1.12 The main classes of insurance in outline.

2. Know the structure and main features of the Hong Kong insurance market

The Hong Kong insurance market and its global context

- 2.1 The structure of the Hong Kong insurance market and its role in the global insurance market;
- 2.2 The main features of the different types of insurers;
- 2.3 The unique structure and main features of Lloyd's;
- 2.4 The main features and services of intermediaries in the insurance market;
- 2.5 The different distribution channels used for the selling of insurance;
- 2.6 The basic purpose of reinsurance.

3. Know the main functions of insurance professionals

The insurance profession

The main functions of:

- 3.1 underwriters;
- 3.2 claims personnel;
- 3.3 loss adjusters and loss assessors;
- 3.4 actuaries;
- 3.5 risk managers;
- 3.6 compliance officers;
- 3.7 the Chartered Insurance Institute (CII)

4. Understand the main legal principles governing insurance contracts

Contract

- 4.1 The essentials of a valid contract of insurance;
- 4.2 How contracts of insurance can be terminated.

Agency

- 4.3 The methods of creating an agent/principal relationship;
- 4.4 The duties of an agent to their principal and the duties of a principal to their agent;
- 4.5 The consequences of an agent's actions on their principal;
- 4.6 Suggested content of business agreements or best practice between an insurer and intermediary.

Insurable interest

- 4.7 The requirements for insurable interest in insurance contracts.

Disclosure and representation

- 4.8 How principles relating to disclosure and representation apply to contracts of insurance;
- 4.9 How duties relating to disclosure and representation operate in insurance contracts, how they are modified by policy wordings, and how they contrast with life assurance contracts;
- 4.10 Legal definitions relating to disclosure and representation and factors that might limit an insurer's entitlement to information;
- 4.11 The consequences of non-disclosure or misrepresentation of relevant information.

Proximate cause

- 4.12 How the principle of proximate cause is applied to non-complex claims.

Indemnity

- 4.13 The definition of indemnity and which types of policy are policies of indemnity;
- 4.14 How the indemnity principle is applied to contracts of insurance;
- 4.15 What is meant by agreed value, new for old, reinstatement and first-loss policies;
- 4.16 How average is applied to non-complex cases of underinsurance.

Contribution

- 4.17 The principle of contribution and when and how it applies to the sharing of claim payments between insurers in straightforward property cases.

Subrogation

- 4.18 The principle of subrogation and why it may or may not be pursued in simple circumstances.

5. Understand the main regulatory and legal principles applicable to the transaction of insurance business in Hong Kong

Regulation

- 5.1 The approach to regulation in the Hong Kong insurance industry and the role of the regulator;
- 5.2 International standard setting bodies relevant to the Hong Kong insurance industry:
 - the International Association of Insurance Supervisors (IAIS);
 - the Financial Action Task Force (FATF);
- 5.3 Prudential and market conduct regulation;
- 5.4 Tools used by regulators to supervise the industry.

Capital adequacy

- 5.5 The importance of establishing and maintaining capital adequacy;
- 5.6 The different approaches to capital adequacy;
- 5.7 The relationship between capital adequacy and solvency control levels.

Anti money laundering and counter terrorism financing

- 5.8 The regional and global problem;
- 5.9 The FATF definition of money laundering;
- 5.10 Know your client: the main principles.

Fraud

- 5.11 The different types of fraud faced by insurers;
- 5.12 Fraud management by the insurer.

6. Know key aspects of ethics, corporate governance and internal controls

Ethical standards

- 6.1 The scope and operation of the CII Code of Ethics in broad outline

Suitability

- 6.2 The objectives of 'fit and proper' requirements and the risks of unsuitability.

Internal control system

- 6.3 Risk management frameworks outlined;
- 6.4 The role of compliance and audit;
- 6.5 Establishing a customer complaints procedure.

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

Award in General Insurance (Hong Kong). London: CII. Coursebook WH1.

Books (and eBooks)

A beginner's guide to the insurance profession. Johnsie Gladney. New Delhi: World Technologies, 2012.*

Insurance claims. 4th ed. Alison Padfield. Bloomsbury Professional, 2016.

Insurance law: an introduction. Robert Merkin. London: Routledge, 2014.*

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

Lloyd's: law and practice. 2nd ed. Julian Burling. Oxon: Informa Law, 2017.*

Research handbook on international insurance law and regulation. Julian Burling, Kevin Lazarus. London: Edward Elgar Publishing, 2011.*

World insurance: the evolution of a global risk network. Peter Borscheid, Niels Viggo Haueter. Oxford: Oxford University Press, 2012.*

Reports

Governance, risk and compliance. The Hong Kong insurance industry. Timetric. Updated regularly. Available online via www.cii.co.uk/forecastreports (members only).

Non-life insurance industry in Hong Kong, key trends and opportunities. Timetric. Updated annually. Available online via www.cii.co.uk/forecastreports (members only).

Personal accident and health insurance in Hong Kong, key trends and opportunities. Timetric. Updated annually. Available online via www.cii.co.uk/forecastreports (members only).

Journals and magazines

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

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.

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 (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. By operating a pooling of risk system, the law of large numbers assists insurers to make reliable
 - A. claim payment predictions.
 - B. investment return predictions.
 - C. new business predictions.
 - D. premium income predictions.

2. Lloyd's syndicate A underwrites 60% of a risk, syndicate B underwrites 25% and syndicate C underwrites the remaining 15%. Collectively the syndicates are acting as
 - A. coinsurers.
 - B. composite insurers.
 - C. dual insurers.
 - D. reinsurers.

3. From an insurer's point of view, risk can be defined as the
 - A. certainty of loss.
 - B. frequency of loss.
 - C. measure of loss.
 - D. possibility of loss.

4. Which category of risk has the three possible outcomes of a loss, a break-even or a gain?
 - A. A fundamental risk.
 - B. A particular risk.
 - C. A pure risk.
 - D. A speculative risk.

5. Which type of risk arises from a cause outside the control of any one individual and affects a large number of people?
 - A. A fundamental risk.
 - B. A particular risk.
 - C. A pure risk.
 - D. A speculative risk.

6. Why do underwriters regard risk management as being important?
 - A. It reduces the potential for loss and assists in quantifying risks.
 - B. It is a fee-earning opportunity and encourages customer loyalty.
 - C. It is the best way to assess and quantify the sums insured at risk.
 - D. It is the main way for an insurer to gain an understanding of a policyholder's business.

7. In terms of frequency and severity, the risk of an explosion aboard an oil rig is classed by insurers as
 - A. high frequency, high severity.
 - B. high frequency, low severity.
 - C. low frequency, high severity.
 - D. low frequency, low severity.

8. In relation to general insurance, a risk to be insured **must** be
- A. avoidable.
 - B. fortuitous.
 - C. inevitable.
 - D. unavoidable.
9. In relation to general insurance, the type of risk that **CANNOT** be insured is one where
- A. there is potential for a moral hazard which increases the likelihood of a loss occurring.
 - B. there is a physical hazard which increases the likelihood of a loss occurring.
 - C. no financial measurement of the potential loss can be made.
 - D. the severity of the potential loss is difficult to quantify.
10. A hazard is something which
- A. can adversely affect the risk to be insured.
 - B. does not affect the risk to be insured.
 - C. is always covered by an insurance policy.
 - D. is always excluded from an insurance policy.
11. In relation to insurance, a peril is an
- A. event which always results in a loss.
 - B. event which may give rise to a loss.
 - C. external feature that increases the chance of an event which may give rise to a loss.
 - D. internal feature that increases the chance of an event which may give rise to a loss.
12. What is the presence of flammable composite panels in the construction of a factory building **best** described as?
- A. A fundamental risk.
 - B. A hazard.
 - C. A peril.
 - D. A speculative risk.
13. In financial terms, why is insurance, as a means of risk transfer, attractive to a policyholder?
- A. The administrative cost of handling claims is borne entirely by the insurer.
 - B. The policyholder is able to exchange an unknown future loss with a specified cost now.
 - C. The policyholder's premium is generally less than potential future claims.
 - D. The policyholder's cash flow is improved by upfront payment of the premium.
14. How does the provision of insurance help the cash flow of a business?
- A. It lessens the need for the business to keep cash reserves.
 - B. It prevents losses which could interrupt the business operation from occurring.
 - C. It provides for the payment of cash if the business makes a trading loss.
 - D. It underwrites the debts owed by the business.

15. The **main** benefit to an individual insuring his house is that
- A. it reduces the chance of damage to the property.
 - B. mortgage or rental costs are lower.
 - C. maintenance costs are covered.
 - D. the risk of a loss is transferred.
16. A large company has decided to set aside money to settle frequent small losses that occur. This is known as
- A. coinsurance.
 - B. dual insurance.
 - C. reinsurance.
 - D. self-insurance.
17. What type of insurance policy would protect an accountant against claims for negligence?
- A. Employers' liability.
 - B. Fidelity guarantee.
 - C. Money.
 - D. Professional indemnity.
18. Which type of insurance policy provides cover in the event of the misappropriation of funds by an employee?
- A. Employers' liability.
 - B. Fidelity guarantee.
 - C. Legal expenses.
 - D. Theft.
19. Dual insurance exists when
- A. more than one insurer shares the same risk.
 - B. more than one policy covers the same risk.
 - C. part of the risk is carried by a reinsurer.
 - D. part of the risk is carried by the insured.
20. Which basic principle ensures the premium payable under a contents insurance policy is fair and reflects the level of risk brought to the insurer?
- A. Contribution.
 - B. Indemnity.
 - C. Pooling.
 - D. Subrogation.

21. Individuals seeking assistance in finding the best insurance policies for their needs would **normally** approach
- A. an insurance broker.
 - B. a loss assessor.
 - C. a risk manager.
 - D. an underwriter.
22. Direct insurance companies **mainly** sell their products to
- A. advisers.
 - B. brokers.
 - C. consumers.
 - D. tied agents.
23. Which type of buyer of insurance in Hong Kong is an amateur sports club?
- A. Company.
 - B. Partnership.
 - C. Public body.
 - D. Unincorporated body.
24. The surplus funds of a mutual insurer may be distributed to the insurer's
- A. board of directors.
 - B. employees.
 - C. policyholders.
 - D. shareholders.
25. Which type of insurer does **NOT** provide insurance to the general public?
- A. A captive insurer.
 - B. A composite insurer.
 - C. A mutual insurer.
 - D. A proprietary insurer.
26. What are public limited companies who underwrite business within the Lloyd's market otherwise known as?
- A. Corporate members.
 - B. Lloyd's brokers.
 - C. Managing agents.
 - D. Underwriting names.
27. What is the **main** financial advantage for insurers that operate on a direct basis?
- A. They can charge higher premiums because they offer a faster service.
 - B. They do not have to pay commission charges.
 - C. They incur smaller advertising costs.
 - D. They receive fewer claims.

28. When an insurance policy is reinsured the
- A. insurer has replaced an insured's existing policy with a new one.
 - B. insurer has passed on all or part of an insured's risk to another insurer.
 - C. insured has renewed a policy with the same insurer for a subsequent year.
 - D. insured has taken out a second policy with another insurer on the same subject matter.
29. What type of intermediary advises on products from one insurer only?
- A. Aggregator.
 - B. Independent.
 - C. Lloyd's managing agent.
 - D. Tied agent.
30. An insurer who has accepted a risk too large to retain can choose to insure part of the risk with
- A. an assignee.
 - B. a cedant.
 - C. a coinsurer.
 - D. a reinsurer.
31. What type of business do reinsurers **usually** accept?
- A. Business from individuals who have already insured the risk with an insurer.
 - B. Business from non-insurance companies which have large insurance needs.
 - C. Business originally underwritten by an insurer.
 - D. Business which insurers have refused to underwrite.
32. What type of organisation is Lloyd's?
- A. A Government body.
 - B. An insurance company.
 - C. An insurance market.
 - D. An insurance syndicate.
33. What is the **main** function of an insurance broker?
- A. To assess the risk before cover is provided.
 - B. To decide on what terms a proposed risk should be accepted by an insurer.
 - C. To determine the validity and value of a large insurance claim.
 - D. To place insurance business on behalf of a client.
34. Which insurance professional decides whether a proposed risk is accepted by an insurer?
- A. An actuary.
 - B. A reinsurer.
 - C. A risk manager.
 - D. An underwriter.

35. What is the **main** function of a front line call centre operator dealing with motor claims?
- A. Arranging payment in a final settlement.
 - B. Assessing the extent of the damage to the insured's vehicle.
 - C. Liaising with accident repairers.
 - D. Taking down the initial notification details.
36. Allocating a reserve to an insured loss is the responsibility of the
- A. broker.
 - B. claims handler.
 - C. loss assessor.
 - D. underwriter.
37. What is the **main** function of an actuary?
- A. To apply mathematical techniques to business problems.
 - B. To develop new insurance products based on market research data.
 - C. To manage the insurer's investment portfolio.
 - D. To negotiate claim settlement with the insured on behalf of the insurer.
38. Who is **specifically** responsible for identifying areas within a business where potential losses could be controlled or eliminated?
- A. An actuary.
 - B. A loss adjuster.
 - C. A loss assessor.
 - D. A risk manager.
39. What is a compliance officer's **primary** responsibility?
- A. Approving premium rates.
 - B. Ensuring regulatory requirements are met.
 - C. Identifying and analysing market trends.
 - D. Monitoring of the internal audit department.
40. What is the Chartered Insurance Institute?
- A. An arbitration authority.
 - B. A professional body.
 - C. A regulatory body.
 - D. A trade association.
41. After investigating a liability claim for injury, from whom does the loss adjuster **usually** receive payment of fees?
- A. The insured.
 - B. The insurer.
 - C. The negligent third party.
 - D. The third party insurer.

42. A policyholder will employ a loss assessor **primarily** to
- A. advise on risk management issues.
 - B. negotiate renewal terms.
 - C. prepare and present an insurance claim.
 - D. review his insurance cover.
43. Which insurance principle seeks to place the insured in the same position after an insured loss as existed immediately before?
- A. Contribution.
 - B. Indemnity.
 - C. Subrogation.
 - D. Insurable Interest.
44. To whom does the principle of utmost good faith apply in relation to insurance contracts?
- A. The proposer only.
 - B. The insurer only.
 - C. Both the insurer and the proposer.
 - D. Any interested third party.
45. Which insurance principle allows an insurer to assume the rights of the insured against a third party to recover money paid out in respect of a claim?
- A. Arbitration.
 - B. Average.
 - C. Contribution.
 - D. Subrogation.
46. The essential elements of a valid contract of insurance are
- A. invitation to treat, acceptance and consideration.
 - B. invitation to treat, offer and acceptance.
 - C. invitation to treat, offer and consideration.
 - D. offer, acceptance and consideration.
47. Under contract law, if a proposer is accepting an offer of insurance by return of post to the insurer, at what point is the acceptance complete?
- A. When the letter of acceptance is drafted.
 - B. When the letter of acceptance is posted.
 - C. When the letter of acceptance is received by the insurer.
 - D. When the letter of acceptance is acknowledged by the insurer.

48. Who, if anyone, may terminate a household insurance policy?
- A. The insured only.
 - B. The insurer only.
 - C. Both the insured and the insurer.
 - D. Neither the insured nor the insurer.
49. If a principal agrees to be bound by the actions of an agent who has acted outside the terms of the agency agreement, what type of agency has been created?
- A. Agency by apparent authority.
 - B. Agency by consent.
 - C. Agency by necessity.
 - D. Agency by ratification.
50. When an agent is paid commission for placing insurance, in what **key** circumstance **must** the amount of this commission be disclosed?
- A. If it exceeds a prescribed threshold.
 - B. If instructed to do so by the insurer.
 - C. If it is a compulsory insurance.
 - D. If requested to do so by the client.
51. An agent, acting within the terms of the agency agreement, enters his principal into a contract with a client. How, if at all, can the principal avoid the contract?
- A. The principal cannot avoid the contract as he is bound by it.
 - B. The principal may invoke the undisclosed principal rule.
 - C. The principal can terminate the agency retrospectively.
 - D. The principal can refuse to ratify the contract.
52. Under the cancellation of risks section of an agency agreement, a statement is **usually** included requiring the intermediary to pay the insurer
- A. an early termination fee.
 - B. a refund of any tax liability.
 - C. an unexpired premium charge.
 - D. any unearned commission.
53. What is insurable interest?
- A. The financial interest which a person has in an item.
 - B. The interest from an investment, the loss of which can be insured against.
 - C. The interest payable on insurance instalments.
 - D. The investment income received from insurance premiums.

54. When **must** insurable interest **first** exist in order for a private motor insurance policy to be enforceable by law?
- A. At the time of the quotation.
 - B. At the time the proposal form is completed.
 - C. At the time the policy goes on risk.
 - D. At the time of a claim.
55. Insurable interest is only required at the time of a loss and **NOT** at the start of the policy when the claim relates to
- A. life assurance.
 - B. marine insurance.
 - C. motor insurance.
 - D. home insurance.
56. In what three ways can insurable interest arise?
- A. Common law, contract or statute.
 - B. Common law, mediation or reinstatement.
 - C. Conciliation, contract or mediation.
 - D. Indemnity, statute or warranty.
57. The insurance principle which imposes a duty on the parties of a contract **NOT** to misrepresent any matter relating to the insurance is known as
- A. assignment.
 - B. insurable interest.
 - C. legal personality.
 - D. utmost good faith.
58. In connection with an insurance policy, at what point does the duty of disclosure **first** arise?
- A. At the beginning of negotiations.
 - B. At policy inception.
 - C. On the making of an offer.
 - D. On the acceptance of an offer.
59. Under a **typical** fire insurance policy, the principle of indemnity is modified by the
- A. contribution clause.
 - B. jurisdiction clause.
 - C. reinstatement memorandum.
 - D. subrogation clause.

60. Under the duty of disclosure, what is required of the proposer in relation to an insurance policy?
- A. Facts of law which affect the assessment of the risk.
 - B. Financial details upon which ability to pay the premium can be assessed.
 - C. Material representation of facts upon which the risk is to be assessed.
 - D. Personal requirements upon which the suitability of the policy can be assessed.
61. On an application for a theft insurance policy, the proposer advised the insurer that he does **NOT** have an intruder alarm at the premises. This information is an example of
- A. best advice.
 - B. common interest.
 - C. contract consideration.
 - D. the duty of disclosure.
62. In what circumstances may an insurer have the right to avoid paying a claim and to void a household contents insurance policy from inception?
- A. When a fraudulent non-disclosure is discovered.
 - B. When a premium instalment is not paid.
 - C. When a second insurer is used by the insured.
 - D. When the value of contents is mistakenly underestimated by the insured.
63. What does the model agreement produced by the Hong Kong Federation of Insurers (HKFI) state regarding the agent delivering end of year audited financial statements to the principal?
- A. The agent must be in a position to produce the statements on request.
 - B. The agent must produce the statements within a prescribed timescale.
 - C. The agent must submit a copy of the statements to the regulator at the same time.
 - D. The agent must use an HKFI-approved auditor.
64. The proximate cause of a loss will **always** be the
- A. dominant cause.
 - B. first cause.
 - C. last cause.
 - D. only cause.
65. An individual falls from his horse and is injured. He is taken to hospital where he dies due to an infection caught at the hospital. What is the proximate cause of his death?
- A. The fall from his horse.
 - B. The infection.
 - C. Riding his horse.
 - D. His stay in hospital.

66. An insurer pays a policyholder to repair the damage to his car caused by a vandal, who is later identified. What option can the insurer exercise to recover the claim paid?
- A. The arbitration clause.
 - B. The average clause.
 - C. The contribution condition.
 - D. Its subrogation rights.
67. After a pop concert, groups of fans start to riot outside the concert venue setting fire to rubbish bins and breaking windows. The window of a shop at the concert venue is broken and smoke from a burning rubbish bin outside damages the merchandise being sold. What is the proximate cause of the damage to the merchandise?
- A. The pop concert.
 - B. The riot.
 - C. The fire from the rubbish bins.
 - D. The breakage of the shop window.
68. In what circumstances will an agent whose actions are deemed to have apparent authority be liable to the principal for those actions?
- A. In all circumstances.
 - B. Only if this approach is agreed in advance.
 - C. Only if the agent was deemed to be acting out of necessity.
 - D. Only if the agent was deemed to be acting fraudulently.
69. Assuming that the sum insured is adequate, what is the measure of indemnity used in the case of the total loss of a building?
- A. The cost of reconstruction at the time of the loss.
 - B. The cost of reconstruction at the time of policy inception.
 - C. The original purchase price.
 - D. The original purchase price less an allowance for wear and tear.
70. A machine, which is adequately insured on an indemnity basis, is destroyed by an insured peril. A new machine costs HK\$10,000 and a second-hand machine costs HK\$7,000. In both cases the cost of transport and installation is HK\$1,000. How much will the insured receive?
- A. HK\$7,000
 - B. HK\$8,000
 - C. HK\$10,000
 - D. HK\$11,000

71. An aircraft is insured on an agreed value basis of HK\$200,000,000. At policy inception the market value is HK\$180,000,000 which then increases to HK\$210,000,000 on the day the aircraft crashes and is a total loss. However, when the claim is agreed it has fallen to HK\$190,000,000. How much is the airline entitled to receive for the loss?
- A. HK\$180,000,000
 - B. HK\$190,000,000
 - C. HK\$200,000,000
 - D. HK\$210,000,000
72. A supplier's total stock, valued at HK\$1,000,000, is insured against theft on a first loss basis with a sum insured of HK\$200,000. If stock valued at HK\$400,000 is stolen, what is the **maximum** amount payable, if any, by the insurer?
- A. Nil.
 - B. HK\$100,000
 - C. HK\$200,000
 - D. HK\$400,000
73. Under a household insurance policy, the reinstatement basis of cover is more commonly known as
- A. agreed value cover.
 - B. first loss cover.
 - C. new for old cover.
 - D. underinsurance cover.
74. Garage buildings have a reinstatement value of HK\$2,000,000 and a sum insured of HK\$1,500,000 under a policy which is subject to average. If a HK\$500,000 insured loss is incurred, how much will the insurer pay?
- A. HK\$125,000
 - B. HK\$333,330
 - C. HK\$375,000
 - D. HK\$500,000
75. A factory contains HK\$200,000 of stock and a fire destroys HK\$120,000 of it. Under the standard fire insurance policy, which has a sum insured on stock of HK\$100,000, what **maximum** amount, if any, will the insured receive after the application of average?
- A. HK\$60,000
 - B. HK\$80,000
 - C. HK\$100,000
 - D. HK\$120,000

76. In accordance with best practice, an agent may only be appointed by another insurer if what **key** condition is met?
- A. Any subsequent insurer operates in a different territory.
 - B. Prior approval is obtained from the original insurer.
 - C. The agent is registered as a multi agent.
 - D. This fact is disclosed to all the agent's clients at outset.
77. Which insurance principle gives an insurer the right to call upon other insurers to share in the settling of a claim?
- A. Average.
 - B. Contribution.
 - C. Insurable Interest.
 - D. Subrogation.
78. In what circumstances, if any, does an agent have an automatic right to exceed his authority?
- A. Only if the action is likely to benefit the principal.
 - B. Only if the agent is sufficiently experienced in the relevant area.
 - C. Only if the relevant regulator's prior consent is obtained.
 - D. In no circumstances.
79. If an insured suffers a loss covered under his insurance policy, the measure of indemnity will ensure that he will be
- A. able to make a profit from the loss.
 - B. in a worse financial position than before the loss.
 - C. placed in the same financial position as he was before the loss.
 - D. provided with new replacement items.
80. When a claim is made under a standard fire insurance policy, at what stage can an insurer begin to exercise subrogation rights?
- A. As soon as a valid claim is notified.
 - B. As soon as any third party admits liability.
 - C. As soon as settlement has been agreed.
 - D. As soon as the insured has been paid.
81. In a road traffic accident a truck hits a tree, causing damage to the tree. A week later, a gale blows the tree over onto a house. What is the proximate cause of the damage to the house?
- A. The delay in tree removal.
 - B. The gale.
 - C. The location of the tree.
 - D. The road traffic accident.

82. An insurer pays HK\$100,000 and in addition allows the insured to retain the salvage, worth HK\$10,000, in settlement of a claim for damage caused by a negligent third party. How much can the insurer claim from the third party when exercising its subrogation rights?
- A. HK\$10,000
 - B. HK\$90,000
 - C. HK\$100,000
 - D. HK\$110,000
83. Prior to the inception of a motor insurance policy, an insurer provided the policyholder with a list of exclusions, but failed to warn of one extra exclusion which subsequently appeared in the policy document. What principle of insurance has the insurer breached?
- A. Caveat emptor.
 - B. Proximate cause.
 - C. Subrogation.
 - D. Utmost good faith.
84. In addition to the required solvency margin, insurers of general business in the Hong Kong market **must** hold assets covering what **minimum** percentage of their net liabilities?
- A. 75%
 - B. 80%
 - C. 85%
 - D. 90%
85. The regulator is about to carry out a fit and proper assessment. This is **most likely** to relate to which specific aspect of its regulatory role?
- A. Authorisation.
 - B. Compensation.
 - C. Consumer education.
 - D. Market discipline.
86. Who holds majority representation within the International Association of Insurance Supervisors?
- A. Insurance consultants.
 - B. Regulators.
 - C. Reinsurers.
 - D. Trade bodies.
87. The four stated objectives of the Financial Action Task Force relate to clarifying standards, implementing standards, dealing with new threats and
- A. compensating relevant victims.
 - B. engaging with others internationally.
 - C. handling consumer complaints.
 - D. improving consumer awareness.

88. What is the **key** role of prudential regulation in the Hong Kong insurance market?
- A. To ensure that customers are treated fairly.
 - B. To ensure that firms are financially sound.
 - C. To improve the cost-effectiveness of the products and services.
 - D. To improve the quality of the selling process.
89. The two overriding objectives of the market conduct regulations in the general insurance market are to provide policyholders with a high level of security and to
- A. deter any attempts at money laundering activity.
 - B. ensure the capital adequacy of intermediaries.
 - C. help maintain confidence in the industry.
 - D. maximise the professional knowledge of sales advisers.
90. Which organisation **regularly** monitors whether countries are adhering to a prescribed set of standards for combating terrorist financing?
- A. Financial Action Task Force.
 - B. International Association of Insurance Supervisors.
 - C. United Nations Security Council.
 - D. World Economic Forum.
91. When the regulator carries out an inspection at an intermediary's premises in order to identify any problems, what type of tool is this action **normally** described as?
- A. Diagnostic.
 - B. Prescriptive.
 - C. Quantitative.
 - D. Remedial.
92. Where funds originally obtained through criminal activity are transferred from a bank account in one country to a bank account in another country, this is **likely** to be part of which stage in the money laundering process?
- A. Integration.
 - B. Layering.
 - C. Placement.
 - D. Positioning.
93. Compared to other approaches, what is generally considered to be the **main** advantage of using the fixed ratio model method of determining capital adequacy levels?
- A. It focuses on the future rather than the present.
 - B. It focuses on the severity rather than the likelihood of loss.
 - C. It is relatively tax efficient.
 - D. It is simple to calculate and apply.

94. If an insurer's capital falls slightly below the prescribed capital requirements level, what action will be taken?
- A. The insurer will cease to underwrite immediately.
 - B. The insurer will take some corrective action whilst continuing to underwrite.
 - C. The regulator will intervene by imposing a fine.
 - D. The regulator will temporarily intervene by taking control of some of the insurer's assets.
95. According to the Financial Action Task Force's definition of money laundering, the aim of money laundering is to disguise what in relation to the criminally-obtained proceeds?
- A. The current location.
 - B. The future destination.
 - C. The origin.
 - D. The size.
96. Where a new customer is a non-permanent resident of Hong Kong and provides a Hong Kong identity card, what else is needed to satisfy customer due diligence requirements?
- A. Proof of nationality.
 - B. Proof of current address.
 - C. A signed declaration confirming eligibility for the appropriate product.
 - D. A signed declaration committing to comply with the relevant rules.
97. In the general insurance market, internal fraud **normally** means fraud committed by
- A. corporate stakeholders.
 - B. directors or employees of the insurer.
 - C. directors or employees of the reinsurer.
 - D. policyholders.
98. Best practice states that the head of an insurer's internal audit department should be **ultimately** accountable to the
- A. appointed actuary.
 - B. board of directors.
 - C. compliance department.
 - D. operational risk manager.
99. Which fit and proper requirement applies to key functionaries but **NOT** to significant owners?
- A. Financial soundness.
 - B. Integrity demonstrated in personal behaviour and business conduct.
 - C. Soundness of judgement.
 - D. Sufficient degree of knowledge, experience and professional qualifications.

- 100.** As part of an insurer's complaints-handling procedures, which complaints received should be logged?
- A.** All of the complaints.
 - B.** All of the complaints except the ones which cannot be resolved.
 - C.** Only the written complaints.
 - D.** Only the complaints classed as serious or significant.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 4			Learning Outcome 5		
1	A	1.9	43	B	4.13	84	B	5.1
2	A	1.11	44	C	4.8	85	A	5.4
3	D	1.1	45	D	4.18	86	B	5.2
4	D	1.2	46	D	4.1	87	B	5.2
5	A	1.2	47	B	4.1	88	B	5.1
6	A	1.3	48	C	4.2	89	C	5.3
7	C	1.4	49	D	4.3	90	A	5.9
8	B	1.5	50	D	4.4	91	A	5.4
9	C	1.5	51	A	4.5	92	A	5.8
10	A	1.6	52	D	4.6	93	D	5.6
11	B	1.6	53	A	4.7	94	B	5.5
12	B	1.7	54	C	4.7	95	C	5.9
13	B	1.8	55	B	4.7	96	A	5.10
14	A	1.10	56	A	4.7	97	B	5.11
15	D	1.10	57	D	4.8	14 Questions		
16	D	1.11	58	A	4.9	Learning Outcome 6		
17	D	1.12	59	C	4.13			
18	B	1.12	60	C	4.10	98	B	6.4
19	B	1.11	61	D	4.10	99	D	6.2
20	C	1.9	62	A	4.11	100	A	6.5
20 Questions			63	A	4.6	3 Questions		
			64	A	4.12			
Learning Outcome 2			65	B	4.12			
21	A	2.4	66	D	4.12			
22	C	2.5	67	B	4.12			
23	D	2.1	68	A	4.5			
24	C	2.2	69	A	4.14			
25	A	2.2	70	B	4.14			
26	A	2.3	71	C	4.15			
27	B	2.5	72	C	4.15			
28	B	2.6	73	C	4.15			
29	D	2.5	74	C	4.16			
30	D	2.6	75	A	4.16			
31	C	2.6	76	B	4.6			
32	C	2.3	77	B	4.17			
33	D	2.4	78	D	4.4			
13 Questions			79	C	4.13			
			80	A	4.18			
Learning Outcome 3			81	B	4.18			
34	D	3.1	82	C	4.18			
35	D	3.2	83	D	4.08			
36	B	3.2	41 Questions					
37	A	3.4						
38	D	3.5						
39	B	3.6						
40	B	3.7						
41	B	3.3						
42	C	3.3						
9 Questions								