



Specimen coursework assignment

M86 – Personal Insurances

The following is a specimen coursework assignment including questions and indicative answers.

It provides guidance to the style and format of coursework questions that will be asked and indicates the length and breadth of answers sought by markers. The answers given are not intended to be the definitive answers; well-reasoned alternative answers will also gain marks.

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Contents

Coursework submission rules and important notes.....	3
Top tips for answering coursework questions.....	3
Table of Learning Outcomes.....	4
M86 specimen coursework questions and answers.....	5
Question deconstruction and answer planning.....	27
Glossary of key words.....	30

Coursework submission rules and important notes

Before commencing work on, or submitting, your coursework assignment it is essential that you fully familiarise yourself with the content of *Mixed Assessment Candidate Guidelines*. This includes the following information:

- Answers to a coursework assignment should be between 5,000 and 10,000 words in total depending on your writing style.
- Arial font and size 11 to be used in your answers.
- Important rules relating to referencing all sources including the study text, regulations and citing statute and case law.
- Penalties for contravention of the rules relating to plagiarism and collaboration.
- Six month deadline from enrolment date for the submission of coursework answers.
- The total marks available are 200. You need to obtain 120 marks to pass this assignment.
- Do not include your name or CII PIN anywhere in your answers.

Top tips for answering coursework questions

- Read the Learning Outcome(s) and related study text for each question before answering it.
- Ensure your answer reflects the context of the question. Your answer must be based on the figures and/or information used in the question.
- Ensure you answer all questions.
- Address all the issues raised in each question.
- Do not group question parts together in your answer. If there are parts (a) and (b), answer them separately.
- Where a question requires you to address several items, the marks available for each item are equally weighted. For example, if 4 items are required and the question is worth 12 marks, each item is worth 3 marks.
- Ensure that the length and breadth of each answer matches the maximum marks available. For example, a 30 mark question requires more breadth than a 10 or 20 mark question.

The coursework questions link to the Learning Outcomes shown on the M86 syllabus as follows:

Question	Learning Outcome(s)	Chapter(s) in the Study Text	Maximum marks per answer
1	Learning Outcome 1	Chapter 1	10 marks
2	Learning Outcome 2	Chapters 2, 3 & 4	20 marks
3	Learning Outcome 2	Chapters 2, 3 & 4	10 marks
4	Learning Outcome 3	Chapters 5 & 6	20 marks
5	Learning Outcome 4	Chapters 7 & 8	20 marks
6	Learning Outcome 5	Chapters 9 & 10	20 marks
7	Across more than one Learning Outcome	Across more than one chapter	30 marks
8	Across more than one Learning Outcome	Across more than one chapter	20 marks
9	Across more than one Learning Outcome	Across more than one chapter	30 marks
10	Across more than one Learning Outcome	Across more than one chapter	20 marks

M86 Specimen coursework questions and answers

Question 1 - Learning Outcome 1 (10 marks)

You are an underwriter for a household insurer. One of the insurer's household contents policyholders notifies you that they have sold their rural home in order to move to a city location.

The existing policy provides cover for general contents and valuables, including several high value watches. They wish to continue contents cover under their existing insurance policy for their city home.

The policyholder intends to let one bedroom of their city home to a tenant. The policyholder has not previously let a room to a tenant.

- (a) Explain **three** underwriting actions you would take regarding the policyholder's notification of their change of address. (6)
- (b) Explain **two** underwriting actions you would take as a result of the policyholder's intention to let one bedroom to a tenant. (4)

Answer to question 1 - Learning Outcome 1 (10 marks)

- (a) Having been notified by a policyholder of a change to their address I would take the following actions:

Firstly, I would seek full details of the new address including postcode. The new address details would be needed to send correspondence to the policyholder. More importantly, the postcode would indicate the rating district that should be used when calculating the premium for the new property. It is likely that this property, as it is located in a city, would be in a different and almost certainly higher risk postcode rating district. This is because of the increased theft risk that urban living generally presents compared to more rural locations.

Secondly, I would require completion of a property questionnaire to gather material facts and assess the new risk presented. This questionnaire would provide full details about the construction and security of the property, e.g. the presence of alarms and whether minimum security requirements in respect of door and window locks are met. With this information, I could then assess whether the risk was acceptable, and if so whether any conditions, warranties or terms in respect of security would need to be applied. These may include – minimum security requirements to be in place when the property is empty; a security alarm to be installed and maintained; or an additional, compulsory theft excess.

Thirdly, in view of the increased likelihood of theft risk, I would now seek further information about the level of valuables and require updated valuations for the watches owned by the policyholder. Dependent on the exact value I may require further endorsements to the policy e.g. a safe to be installed in the policyholder's home or the watches to be removed to a bank for safe-keeping. Again, a higher compulsory theft excess may also be applied.

Following the actions taken above, I would then advise the policyholder of the terms, conditions and warranties that would now apply to their policy and any amendment in premium. If the terms were acceptable I would amend our records and upon payment of the required premium issue a new schedule to the policyholder which would clearly evidence the new terms of the policy.

- (b) Two underwriting actions that I would take in respect of a tenant occupying one of the bedrooms in the new property would be:

Firstly, I would note the presence of a tenant on the policy schedule and seek further information about the number and type of tenants and any non-motor criminal convictions they may have - dependent on the responses received further enquiries may be required. I would then make the policyholder aware that standard policy exclusions now apply in respect of the following perils:

Malicious persons or vandals:	Loss or damage caused by you, your household, your domestic employees, paying guests or tenants is excluded
Theft or attempted theft	Loss or damage caused by you, your household, paying guests or tenants. Loss or damage where the home is lent, let or shared unless force and violence has been used to get into or out of your home.

(CII study text, P86 Personal Insurances, 2015, P3/4 and 3/5)

Secondly, I would remind the insured that their contents policy is intended to provide cover for “household goods and personal effects belonging to the insured, or which are the responsibility of the insured, members of their household or resident domestic employees”, where “Household” is defined as usually including “insured’s spouse or partner, children parents of other relatives who normally live with the insured” *(CII study text, P86 Personal insurances, 2015 P3/2)*. Using these definitions, I would endorse the policy to note that there is no cover for the tenant’s possessions. I would notify the policyholder of this exclusion and advise them to ensure that the tenant is aware of this so that they can arrange their own insurance cover.

Question 2 - Learning Outcome 2 (20 marks)

You are an underwriter for a household insurer. One of the insurer’s most important insurance brokers has asked you to provide a quotation for a house, which is owned by one of their clients.

The house has a thatched roof and is:

- of high value;
- several hundred years old;
- in an isolated location; and
- near a river.

This house is outside your normal risk acceptance criteria. Due to the importance of the relationship with the insurance broker, you have decided to consider their request for cover.

- (a) Identify, with justification, **two** significant risks that exist for this house. (4)
- (b) Recommend with reasons **two** risk mitigation measures suitable for this house. (6)
- (c) Explain briefly **four** items of additional risk information you will require prior to underwriting this risk. (8)

- (d) Identify, with justification, **one** relevant method of obtaining the additional risk information you have explained in (c) above.

(2)

Answer to question 2 - Learning Outcome 2 (20 marks)

- (a) Two significant risks that exist for this house are:

Fire – This is a significant risk due to the property having a thatched roof which is susceptible to fire (and often storm) damage. This risk may be increased as the value and age of property would suggest the presence of more than one open fire/chimney stack and possibly a timber frame. Furthermore, the isolated location of the home could mean that if the property were to catch alight, it would take the fire brigade a long time to reach the property which would increase the damage caused by any fire.

Flood – Dependent on the proximity, size and flooding history of the river, this would also present a significant risk. The property may be built on the flood plain. Flood risks are increasing across the UK and although unlikely to result in the loss of the building, flood damage can ruin home contents. Being a high value property, this home is likely to have expensive contents (e.g. antique furniture or artwork) which would all be vulnerable to water damage.

- (b) Two potential risk mitigation measures which may be suitable are:

1. An electrical wiring check to be carried out on the property by an appropriately qualified electrician, with any necessary remedial works completed. The underwriter may make it a requirement for this to be completed once every 3 or 5 years, by way of a condition or warranty on the policy. The reason for this is to reduce the likelihood of any electrical defect triggering the start of a fire.

There would also be a requirement to sweep chimneys regularly, as this would reduce the chance of any soot build up being ignited by heat or flames from any open fire. The chimney should also be fitted with a spark arrestor, to prevent burning embers flying into and setting light to the thatch.

2. Given there is likely to be valuable items within the property and the location and nature of the property may make it more attractive to would be thieves, it may be necessary to conduct a review of the current security aspects. Following this survey, it may be recommended that a five-lever mortise deadlock be fitted on doors and key-operated locks on windows. The installation of a safe for valuable items and/or an alarm system may also be required to provide mitigation in respect of the theft risk.

(b) Four items of additional risk information required could include the following:

The full address of the property including the postcode - this would be necessary information to be able to rate the property. It would allow the property to be appropriately rated in accordance with the extent of the risk of theft. It would also enable the use of environmental mapping and other databases to identify the risk of flood. Technology in this area is now extremely advanced and given that this property is old and isolated, there may be sufficient historical data to allow precise individual property rating.

Details of Thatch - I would want to know the nature of the thatch fitted at the property (whether straw, reed or fibre), its age and condition. Some artificial thatches are certified as fire retardant. The condition of the thatch will have a bearing on fire risk and, if in poor condition, may suggest a lax attitude towards maintenance. This can be indicative of poor moral hazard and would be likely to increase the risk of loss.

Previous Claims History - This would provide the individual loss history for this property and the policyholder. I would be particularly interested in the causes of any losses and the value of any claims as this would allow me to fully understand the likelihood of loss arising from specific perils and the potential cost exposure. It may also be an indicator or whether any moral hazard may need to be considered.

Use of the property - This may highlight additional risk factors: are there long periods of un-occupancy; is the property used as a B&B; or is the policyholder operating a business from the home? If the property is used in any of these ways, the risk in respect of e.g. theft/malicious damage, public liability or value of contents could be increased and additional terms, exclusions or premium may be needed.

(d) One relevant method of obtaining this information would be by requesting a pre-inception risk survey. This would provide me with detailed, reliable information about the property. This would be in the form of a report from an expert risk surveyor and would include information about any further risk improvements that should be made, the Insured Peril most likely to cause loss, adequacy of the sum insured and the estimated maximum loss which could arise from any one incident.

Question 3 - Learning Outcome 2 (10 marks)

You are a claims handler for a household insurer. One of the insurer's household contents policyholders advises you that their bag was stolen this morning. The theft occurred on their train journey to work. They have already reported the theft to the police.

The bag contained the following items:

- £20 of personal money.
- £200 of their employer's money which they were taking to the bank as part of their employment duties.

- A daily train ticket which cost £7.
- A business credit card provided by the employer.
- A £10 gift voucher for a family member.

The policyholder seeks your advice on the likely cover under their contents insurance policy which includes a money and credit card extension.

Identify, with justification, the cover that may be available under the client's insurance policy for **each** of the stolen items listed above.

(10)

Answer to question 3 - Learning Outcome 2 (10 marks)

The policyholder has already complied with the notification clause by reporting this theft to the police within 24 hours of the loss so there should not be any issue relating to an exclusion regarding this. The crime reference number provided by the police in respect of the incident will need to be included when completing the claim form.

The £20 of personal money will be included as cash within the definition of money under this section. The sum insured for this section is generally between £200 and £500 so this amount is well within these limits.

The £200 of employer's money which they were taking to the bank will not be covered as under the money and credit card extension "money must be held for social, domestic or charitable purposes and belong to the insured or member of their family. Money for business purposes is therefore not covered" (*CII study text, P86 Personal Insurances, 2015, P4/8*). It is probable that this money would be insured under the employer's business policy.

Travel tickets are usually included within the definition of money and the daily train ticket costing £7 should therefore be covered. Proof of purchase of the ticket would need to be provided.

Business credit cards are not included under the definition of "Credit and Debit Cards" as this would not be used for "social, domestic or charitable use" and should be covered under the employer's business policy.

The £10 gift voucher for a family member is included under the definition of money and therefore cover should apply.

However, claims under the money section are subject to an excess of between £25 and £50, which is a critical factor here as the total value of the claim is only £ 37. Therefore, if the policy has an excess of £50 the policyholder will be unable to make a claim for any of the items listed above.

Question 4 - Learning Outcome 3 (20 marks)

You are an insurance broker. One of your existing clients has a household buildings and contents policy for their main home. The client has asked you to arrange an additional insurance policy for a newly-purchased holiday home. Both properties are of standard construction.

The client's main home has five bedrooms and is located in the UK. The sums insured are £600,000 for buildings and £100,000 for contents.

The client's holiday home is in a different region of the UK. This region has high rainfall and several rivers. The holiday home has three bedrooms and sums insured of £300,000 for buildings and £30,000 for contents. The holiday home is let out for short-term periods during the summer to paying guests.

You have provided your client with a quotation for insuring their holiday home. The premium quoted is higher than the premium currently charged for the main home and also has additional policy terms and conditions.

Your client has asked you why there are differences between the two insurance policies.

- (a) Explain, with justification, **four** reasons why the client's holiday home premium is higher than their main home premium. (12)
- (b) Identify, with justification, **four** policy conditions that are likely to have been applied to the insurance policy for the client's holiday home. (8)

Answer to question 4 - Learning Outcome 3 (20 marks)

- (a) The holiday home presents a different level of risk to the insurer, when compared to that of the client's main home. Therefore, premium loadings will be applied to the holiday home which would increase the premium for this property, despite the sums insured for this property being lower.

Four specific reasons for these premium loadings are:

Period of Unoccupancy - The holiday home may be unoccupied for long periods of time. This presents issues to insurers in respect of increased risk of theft, malicious damage and arson damage which may not be discovered until the property is next visited which may be a substantial period of time. The risk of escape of water due to frozen pipes is also greater due to lack of heating, and this risk is exacerbated as the incident may be undetected for the period that the property remains unoccupied thus increasing the cost of repairs.

Location - Insurers will use systems for environmental mapping to establish the exposure for crime, storm, subsidence and flood perils and will load rates accordingly and may apply exclusions or increased excesses. As the holiday home is located near to

many rivers and has a history of high rainfall insurers will be loading the premium specifically in respect of flood cover. This risk may also be exacerbated by the periods of unoccupancy as described above.

Property Damage - As the holiday home is let out for short-term periods during the summer for paying guests. There is an increased of property damage caused by these guests as they may not treat it with the same respect they would their own home. Guests may return with sandy shoes or wet and muddy clothes which could damage carpets and furniture. There is also a possibility of theft and malicious damage by these guests. An increased premium should be charged to reflect the possible cost of such claims.

Public Liability - With the holiday home being let to visitors there is an increased risk in terms of Public liability claims as paying guests are more likely to submit a claim for loss or damage to property or bodily injury caused by negligence on the part of the home owner for example, if the carpet is not fitted properly and they trip and injure themselves. The premium therefore needs to be higher to reflect this increased risk.

(b) Four policy conditions that are likely to have been applied to the holiday home are as follows:

Regular Inspections - This will require the policyholder, or a responsible person authorised by them, to carry out periodic inspections (usually weekly) of the property. This would ensure that, in the event of damage, it is detected and reported quickly which should mean that the resultant claim is less costly.

Drainage of Water System - The insurer is likely to require that the water supply should be turned off and the water and heating systems drained during periods of unoccupancy in the winter months or thermostats left on a low setting to ensure property is heated. These actions are intended to prevent the risk of freezing and resulting bursting of pipes.

Minimum Security - A requirement to fit British Standard locks to doors and windows. Some insurers may also require an intruder alarm to be fitted and put into operation when the property is unoccupied. (*CII study text, P86 Personal Insurances, 2015, P6/19*). This would decrease the risk of theft and malicious damage.

Theft Condition - The insurer is likely to state that only theft as a result of forcible and violent entry is covered thus removing cover for theft by guests. It may also exclude theft of valuable items and money if the property is left unoccupied for periods in excess of 48 hours. This should discourage the policyholder from leaving items which are attractive to thieves in the property, thereby decreasing the risk of theft.

Question 5 - Learning Outcome 4 (20 marks)

You are a claims handler for a household insurer. One of the insurer's policyholders has buildings insurance cover for a property, which includes a separate garage. This policyholder took out their insurance with the insurer nine weeks ago.

The policyholder has since discovered that the garage has a large crack in one of its walls.

The policyholder appointed a qualified structural engineer whose report identified the cause of the crack as subsidence. The insurance policy includes subsidence cover.

Subsequently, the policyholder has notified you of the subsidence and has made a claim.

Your response to the claim notification is to appoint a loss adjuster. The loss adjuster will be instructed to monitor, over a two year period, the development of the crack in the wall in order to confirm its cause. Therefore, confirmation of the insurance policy liability is not possible until the monitoring period has been completed.

The policyholder has expressed concern at the proposed timescale.

- (a) Explain, with justification, **two** potential methods of settlement of the policyholder's claim if subsidence is confirmed to be the cause. (8)
- (b) Explain the extent to which the insurer may be able to involve the policyholder's previous insurer in the claim settlement process. (12)

Answer to question 5 - Learning Outcome 4 (20 marks)

- (a) If subsidence is proven to be the cause, two potential methods of settlement that may be used by the insurer are:

Cash - The policyholder would need to submit in writing estimates for the cost of repair to the building which is likely to include the cost of underpinning or reconstructing the damaged building and other remedial repairs together with the structural engineer's report. Given that the amount is likely to be significant, it would be usual for the insurer to request two quotations. The insurer may then settle the claim by payment of a cheque to the insured which would usually represent the value of the lowest estimate and it would be the policyholder's responsibility to rectify the damage and pay the contractor. This would represent a full and final settlement.

Repairs – this is a partial loss i.e. damage caused by a large crack in the garage wall. The claim will also include the cost of reports to ascertain the cause of the subsidence and possibly strengthening the foundations and removing nearby trees. With the agreement of the policyholder, a Loss Adjuster would be able to instruct suitably qualified people to carry out this work and it may be more appropriate to agree to pay the workmen directly. The insurers may also have approved contractors with whom they

have special arrangements and it may be preferable to use them as reduced rates and guaranteed workmanship agreements may apply.

In these circumstances, the most appropriate course of action here would be the repair option which would not require the policyholder to pay out any money directly.

- (b) The insurer may be able to involve the policyholder's previous insurer as a consequence of the ABI Domestic Subsidence Agreement.

This agreement provides insurers with set guidelines on how subsidence claims, which by their nature often stretch over several years and therefore potentially several insurers, should be dealt with.

The agreement states that "if a claim is made within eight weeks of changing insurer, the previous insurer is responsible". Claims made between eight weeks and one year after changeover are handled by the new insurer, with the cost of settlement shared equally between the two insurers" (*CII study text, P86 Personal Insurances, 2015, P8/12*).

We are told that this policy was incepted 9 weeks ago therefore, whilst the current insurer will now be responsible for actually handling the claim in its entirety, it will be able to request 50% of the cost of the claim settlement from the previous insurer.

Had the policy been incepted just a week or two previously, (i.e. the policy had been with the current insurer for less than 8 weeks), the current insurer would have had no responsibility whatsoever and would have directed the policyholder to contact their previous insurer who would have been obliged under this ABI agreement to deal with the subsidence claim in its entirety.

However, had the policy been incepted over a year ago, the current insurer would have to deal with the claim in its entirety without seeking any involvement or financial contribution from the previous insurer.

Question 6 - Learning Outcome 5 (20 marks)

You are an underwriting manager for BCA plc, a household insurer, who specialise in high net worth household insurance products. BCA plc also offers standard household insurance products.

Currently, BCA plc's distribution method is exclusively through insurance brokers.

BCA plc is looking to grow their business by increasing market share, for both their high net worth and standard household insurance products. They are not looking to introduce new household insurance products at this stage.

BCA plc is concerned about the costs associated with acquiring new business in their existing markets.

BCA plc's senior management have asked you to look at increasing the number of distribution channels, whilst maintaining a positive relationship with their insurance brokers.

- (a) Recommend with reasons **two** appropriate additional methods of distribution of standard household insurance products. (8)
- (b) Identify, with justification, **one** disadvantage for each of the additional methods of distribution you recommended in (a) above. (4)
- (c) Recommend with reasons **one** appropriate additional method of distribution for the high net worth household insurance products. (4)
- (d) Identify, with justification, **two** disadvantages of the additional method of distribution you explained in (c) above. (4)

Answer to question 6 - Learning Outcome 5 (20 marks)

- (a) The first distribution method that I would recommend would be an aggregator website. This would allow BCA plc (referred to BCA hereafter) the opportunity to provide quotations to all customers visiting the aggregators site. It would therefore provide access to a large pool of potential customers at minimal expense. Costs would be saved both in advertising and in the administration of new business. As standard household insurance products are relatively simple, they lend themselves to being rated by computer algorithm rather than an individual underwriter, and are therefore suitable for an aggregator site. This method would also have the advantage of being fast and accessible on a 24/7 basis for prospective customers to obtain policies.

The second distribution method I would recommend would be affinity marketing. BCA would identify a suitable partner (e.g. a charity or interest group) and form a relationship with them for the purpose of promoting BCA's products to the members or supporters of this group. This is quite cost-effective as any advertising spend can be shared with the partner organisation. Although BCA are not interested in creating any new products at present, existing lines could be amended (by way of endorsements or policy limits) to meet any particular needs of the target market, and re-branded in the name of the partner organisation.

- (b) A disadvantage in relation to the aggregator websites is the fact that it may attract poor quality or problematic business. BCA would be wholly reliant on the customer understanding and accurately providing details of the risk through a generic and simplified proposal process. This may lead to incomplete or inaccurate information being provided and thus to key risk factors not being properly identified and investigated meaning BCA plc may accept risks they would have usually declined. Customers using aggregator sites tend to be price, rather than cover, driven and this may lead to a lack of understanding of the cover provided until the time of a claim, when disputes could potentially arise.

A disadvantage of affinity marketing is the fundamental problem of finding a suitable partner that has a sufficiently large and suitable customer or supporter base and which does not already have such a scheme or arrangement in place. Any prospective partner is likely to either make a charge for access to their customer database or demand a share of any profit without accepting any of the risk of loss. Even then, obtaining access to customer details will not guarantee sales. There are also potential reputational risks to both BCA and any partner organisation; to BCA if they chose a partner that does not align with their own core values and to the partner organisation should BCA come into dispute with their supporters over any subsequent claims.

- (c) Tied Agents would represent a suitable alternative distribution method for High Net Worth (HNW) business. Typically these would be Solicitors, Estate Agents or Accountants who agree to refer any insurance enquiries from their own clients to the insurer. They will also usually stock brochures advertising the insurer's products and may collect premiums on behalf of the insurer. Some agents, dependent on their level of authority, will also assist clients in completing proposal forms or submitting claims.

Tied Agents are a suitable distribution channel for HNW business because this is a relatively niche market, which is often reliant on existing professional relationships. Wealthy individuals, who would require the cover advantages of a HNW policy, often have a network of trusted professional advisors with whom they usually deal, those relationships sometimes spanning generations (e.g. the 'family solicitor'). Giving agency status to such professional advisers allows the insurer to trade on these existing relationships and, when looking to arrange their insurance, the customer is more likely to accept the recommendation of their trusted advisor than anyone with whom they do not have a relationship.

- (d) One disadvantage of using Tied Agents is that to generate the required level of business it may be necessary to delegate high levels of authority to them e.g. they may be responsible for not only placing the business, but also for issuing the policy as well as handling claims. This is a great deal of authority for BCA plc to put into third party hands and they may lose an element of control with how they wish to run this book of business. It also means that they cannot capitalise on building a direct business relationship with these high net worth individuals as they will not have any contact. The issue of compliance will also need to be considered and a substantial time and cost commitment may need to be made in terms of training and auditing.

A further disadvantage is that Tied Agents will need to be supplied with brochures and documentation (increasing printing and distribution costs) as well as payment for the work they carry out on behalf of BCA plc. This will represent a further expense, eroding profit margins. Furthermore, as the Tied Agent method is usually based on key relationships between the agents and their customers, the business earned will be vulnerable if those relationships change (e.g. following the retirement of a business partner).

Question 7 – Across more than one Learning Outcome (30 marks)

You are a claims handler for a household insurer. Mr Scott, one of your household insurance policyholders, telephones you to report a claim. He advises you of the following:

- Mr Scott took a three week holiday in a remote location
- Mr Scott's son, William, was asked to make weekly regular visits to his father's home while he was away.
- William only visited the house once, just before his father's return. He discovered that thieves had broken in, stolen contents and vandalised the home
- He attempted to call his father, but was unable to contact him.
- William called his friend, a local tradesman, who secured the building and began to repair the damage caused by the vandalism.
- When Mr Scott returned, he authorised the tradesman to continue the repair.

During the telephone conversation, Mr Scott confirms that an invoice has now been received for the completed repair work and he seeks full payment of this and for his stolen contents.

- (a) Explain, with justification, the extent of cover and settlement considerations for the following elements of Mr Scott's claim;
- i. Securing the building (4)
 - ii. Repair work (10)
 - iii. Stolen contents (6)
- (b) Discuss the potential impact on Mr Scott's claim if his holiday had been for four months. (10)

Answer to question 7 – Across more than one Learning Outcome (30 marks)

- (a) i. **Securing the building** - The policy would usually cover the cost of emergency repairs, even where the cost has been incurred without insurer's express agreement, provided the work was necessary to prevent further loss or damage. In this situation, Mr Scott's son has been appointed his father's agent in safeguarding the property and, once aware of the loss, has acted in his father's best interests in seeking to secure the premises. This is also in the interest of insurers. Policyholders are placed under a duty to mitigate their loss, which William's actions have achieved. I would therefore expect the insurer to reimburse the cost of securing the premises less any applicable excess.
- ii. **Repair Work** - Although the son would have been regarded as having authority from his father to instruct work to secure the premises, he may have exceeded that authority in authorising any additional repairs to. However, his decision has then been endorsed by Mr Scott (by telling the tradesman to continue).

Apart from necessary emergency work (see above), the policy will not automatically cover costs incurred without the insurer's consent.

It is usual that prior authorisation from insurers is sought before commencing repair work that falls outside the definition of "emergency repairs" to enable the insurer to manage the claim effectively and allow them to instruct approved repairers with whom they may have a service level agreements and discounted rates in place. Equally, it also allows for the assessment of the claim to insure no elements of betterment or fraud are involved.

In these circumstances, I would query the nature and extent of the work authorised. If the work was limited to that necessary to make the property habitable upon Mr Scott's return, then I would consider that this still falls under the heading of emergency work and the costs related to this should reasonably be accepted.

However, if the work carried out was not vital to make the property habitable, then the insurer could refuse to pay. I note though, that the work is being carried out by a family friend. Before taking a decision, therefore, I would check the rate that has been agreed. If the work has been carried out at below the usual commercial rate then I would be inclined to accept the costs. It would not be economic to dispute the charges. However, if the rate was excessive, I would probably only offer a contribution towards the cost, based on the normal commercial rate for repair. It is likely that no further excess would apply to the claim for buildings damage as it has been deducted from the emergency repair costs.

iii. **Stolen Contents** - In relation to the settlement for the stolen contents, Mr Scott's claim should be settled, providing he can supply proof of loss for the items for which he is claiming. The amount of cover provided for contents would be depend on the sum insured shown on his policy for contents, and any single article and inner policy limits that may apply.

Subject to the adequacy of the sums insured, the claim would be settled on a "new for old basis" in respect of all items with the exception of household linen and clothing which are subject to a deduction for wear and tear. If items stolen include those, e.g. electrical equipment, for which the insurer normally used preferred suppliers it is likely that the insurer would source the replacement items for Mr Scott directly from these companies as service levels and discounted prices can be taken advantage of.

- (b) If Mr Scott's holiday had been for four months then it is likely that he may have invalidated his cover for these types of losses

Most household policies include exclusions which become operative when the property is left 'unoccupied' for 90 days. Occasionally insurers will stipulate even shorter time periods, for example after 30 days or 60 days of the property being unoccupied. Cover in relation to malicious persons or vandals for loss or damage will be excluded when your home is unoccupied for more than a specified period of time, usually 60 days. Equally, theft or attempted theft including for loss or damage, including contents, would also be excluded when your home is unoccupied for this period. The property during this time will be at a higher risk for burglaries, vandalism and potentially attract issues with squatters.

It also may be a requirement of the policy that when the insured does go away it is checked regularly, usually at least weekly.

In view of the fact that a four month holiday would be in the region of 100 days, and William had not been carrying out the weekly visits to check the property as instructed, the potential impact is that the insurer will not make payment for any claims arising from this incident.

Question 8 - Across more than one Learning Outcome (20 marks)

You are an insurance broker. One of your UK clients has a household and contents insurance policy providing cover for their property. There is a policy extension providing legal expenses cover.

A delivery vehicle reversed into your client's garden wall, causing some structural damage. Later that day, strong winds caused the wall to collapse.

Your client asked for your advice regarding their options.

- (a) Discuss **two** possible options available to your client to meet the cost of reinstating their garden wall. (8)
- (b) Explain, with justification **two** disadvantages of **each** of the options you have discussed in (a) above. (8)
- (c) Identify, with justification, **two** relevant cases that the involved insurers may consider when investigating the reinstatement of the garden wall. (4)

Answer to question 8 - Across more than one Learning Outcome (20 marks)

- (a) Two possible options available to my client are:

Firstly, they could make a claim under their household buildings insurance policy. The usual definition of buildings includes walls at the address shown on the policy schedule and therefore the wall is covered by the policy. Perils covered by a standard buildings policy usually include impact by any vehicle or animal. Equally, damage caused by high winds would fall under the peril of storm which is also covered by standard household insurance. Therefore, cover under the policy is available irrespective of which peril is deemed to be the proximate cause (impact and/or storm damage), providing the wall was at his home address. The client should notify the insurer of the incident and their intention to make a claim in the normal manner.

Alternatively, they could make a claim directly against the driver of the delivery van which caused the damage.

The client would need to have obtained details of the insurer of the vehicle, or at least the vehicle registration number, to enable them to pursue this option. They would then need to contact the third party's insurer and provide details of the claim which would then be investigated by that insurer to establish liability.

It is worth noting however, that the value of this option could be affected by the immobile property agreement which is still occasionally used. This requires buildings insurers to pay $\frac{1}{4}$ of the cost of repairing the damage to walls, with the motor insurer paying the remaining $\frac{3}{4}$ subject to an upper monetary limit (*CII Study Text, M86 Personal Insurances 2015, P8/14*). If this agreement is triggered, a claim would still be recorded under the client's own household policy.

- (b) i. Two disadvantages for the client of making a claim under their household buildings insurance policy would be:

Firstly, they would be required to pay the excess that is applicable to the buildings section of their policy. Therefore, they would bear a part of the loss and would suffer financially. Although it is possible that this excess may be recoverable if the third party insurer admits liability and is able to make a full recovery from insurer of the delivery van if liability is established. (Subject to the immobile property agreement described above not being invoked.)

Secondly, the claim would be noted against their policy, and any no claims discount which applied to the buildings section would be reduced resulting in a higher premium at next renewal and affecting their claims loss ratio. Equally, this may be reversed following the operation of the principle of subrogation by the client's own insurers.

- ii. Two disadvantages for the client of making a claim directly against the driver of the delivery van would be:

Firstly, there is likely to be a delay in payment as it would be usual for the third party insurer to thoroughly investigate the incident in order to establish the negligence of their insured. This is likely to be especially complex in these circumstances given the rapid, subsequent storm damage to the wall.

Secondly, this route would be more complicated and require a greater time investment on the part of the client and may ultimately, given the suspected intervention of the peril of storm, not result in any payment whatsoever.

- (c) Two relevant cases that the insurers may consider are:

Roth v South Easthope Farmers Mutual Insurance Co. (1918) in which a similar event occurred. Lightning damage weakened a wall. Shortly afterwards high winds blew

the wall down. The judge found that the proximate cause was the lightning damage as only a short period of time had passed between the two events.

Conversely, in **Gaskarth v Law Mutual Insurance Company (1876)**, fire damaged a wall leaving it in a weakened state. A few days later a gale blew the wall down. The judge found that the fire was not the proximate cause of the damage.

The insurer would need to decide which precedent to follow. If they followed Roth v South Easthope they would have to pay to have the wall repaired or replaced. There should not be any betterment or depreciation. The insurers could then seek subrogation from the negligent driver as the proximate cause would be held to be impact as a result of reversing into the wall.

If they followed Gaskarth v Law Mutual the property section would apply, as the passage of time had reduced the effect of the impact to the wall caused by the driver reversing and was not therefore the proximate cause. The claim would be dealt with under the storm peril of the buildings policy.

Question 9 - Across more than one Learning Outcome (30 marks)

You are the Underwriting Manager for a UK household insurer. You have been asked to brief your claims department colleagues on two issues, which were identified in a recent claims audit. These two issues are uncertainty concerning policy wording coverage and weakness in the classification of claims.

You have decided to include in your briefing the following:

- Damage to personal clothing and damage to antique jewellery.
- Loss of money and loss of a postage stamp collection.
- Damage to a sofa caused by a pet dog and damage caused to a sofa by a child.
- Storm damage to a garden statue and storm damage to a garden fence.
- Accidental damage to a television and accidental damage to a camera away from the home.

(a) Explain, with justification, the differences in policy cover between each of the two items in **each** of the bullet points above. *Your answer must include reference to the relevant policy sections that provide cover.* (20)

(b) Explain, with justification, **two** significant reasons why appropriate classification of claims, identified as a weakness in the recent claims audit, is important to the insurer. (10)

Answer to question 9 - Across more than one Learning Outcome (30 marks)

Briefing to claims department concerning policy wording and weaknesses in the classification of claims.

The purpose of this document is to explain the differences in policy cover between two similar items/causes of claim and to confirm the policy sections under which cover is provided.

- (a) Damage to personal clothing (*contents/personal possessions*) and damage to antique jewellery (*contents/personal possessions*).

Personal clothing will be found under the contents section of a household policy – the usual definition for contents is “*household goods and personal possessions belonging to the insured, or which are the responsibility of the insured, members of their household or resident domestic employees*” (CII (CII Study Text, P86 Personal Insurances 2015, P86 3/2). The intention under this section is to include items whilst in the home. Under the policy there may also be a Personal Possessions extension to cover items which are worn by or about a person whilst taken out of the home so equally clothing and antique jewellery can also be covered under this section. It is necessary to carefully confirm the location of loss as this will determine the section under which cover will apply.

Other issues which will need to be considered are:

For personal clothing, you need to be aware that a deduction should be made for wear and tear even when a policy is written on a New for Old basis.

For antique jewellery, this is not as clear – in theory New for Old cover would apply but this is not appropriate for an antique item. If the antique jewellery is insured on a specified item basis, this is the measure of settlement. If this is covered under an unspecified item basis, the insured should be put back in a position that they enjoyed before the claim – a settlement figure needs to be agreed which would not take into account any sentimental value. Dependent on the exact nature of the jewellery and the exact damage incurred (e.g. damage to one earring of a pair) the “pairs and sets clause” may need to be considered when settling the claim.

- (b) Loss of money (*money/credit card extension*) and loss of a postage stamp collection. (*contents*)

For the loss of money, check that a loss of money section (automatic) extension applies. If this is the case, loss of money cover is accidental loss and is therefore wider than the usual cover afforded under the contents section.

Cover will usually include: Cash and bank notes; Cheques and postal orders; Bankers drafts and unused postage stamps (but not stamp collections).

Money should be held for social, domestic or charitable purposes and does not include business money. An excess of between £25 and £50 will often apply and the loss should have been reported to the police within 24 hours of the loss being discovered. Proof should be provided to substantiate the claim.

The loss of postage stamp collection will be covered under the valuables section of the household contents policy. It may be specified on the policy. The measure of indemnity could be difficult to calculate and an expert valuation may need to be sought.

- (c) Damage to a sofa caused by a pet dog (*contents*) and damage caused by a child. (*contents*)

We are assuming here that the sofa belongs to our insured. Under a standard household contents policy, scratching and general scuffing and dents will normally be excluded, whether this is by a pet or a child, however, provided accidental damage cover applies damage caused by the child to the sofa will be considered under the policy. Damage caused by pets will not normally be covered. Although some insurers only exclude chewing, scratching or fouling by domestic pets ((CII Study Text, P86 Personal Insurances 2015, P3/10) so the exact nature of the damage cause would need to be ascertained.

If the scratching has been caused by the child, you need to check that this is not deliberate (malicious) damage as technically this is not insured.

You need to be aware of the Pairs and Sets Clause which would mean that, if this applied, we would only be concerned with replacing the damaged sofa on a New For Old basis – we would not be responsible for replacing any matching chairs or sofa.

You need to be aware of the FOS ruling here and possibly offer 50% contribution to help replace the damaged items if the insured can prove that no matching items are available.

A check would also need to be made to ensure that the client has not paid any additional premium to remove the pairs and sets clause as this option is sometimes available to policyholder.

- (d) Storm damage to the garden statue (*contents*) and storm damage to a garden fence (*buildings*).

Increasingly, it is usual for policyholders to have large items of garden furniture and equipment. Loss or damage to contents of the garden including garden ornaments and furniture is generally covered for the same perils that apply to the contents covered by the policy.

Cover is limited to between £500 and £ 2000. Storm damage to garden fences (and gates and hedges) is normally an exclusion under a household policy as they are very susceptible to weather conditions and there would be no cover.

Damage to the garden statue should be covered under the policy on a replacement basis subject to the specified limit and any applicable excess.

(e) Accidental damage to a television (*contents*) and accidental damage to a camera away from the home. (*personal possessions*)

In addition to the listed perils on a household contents policy, accidental damage to home entertainment will be included as standard. This includes accidental damage to televisions, games consoles, radio, audio and computer equipment and receiving aerials and dishes. This cover is available irrespective of whether accidental damage cover has been chosen for the general contents.

Accidental damage to a camera away from the home cover would be provided dependent upon whether a personal possessions extension applies to the policy. If there is an extension, the camera will be included subject to the territorial limits of the policy. Cover normally applies within the UK and for up to 60 days anywhere in the world.

Subject to the policy being on a New for Old basis, the television will be replaced with a new television. We should encourage our client to allow us to provide a replacement television from one of our preferred suppliers as this will be more economical and guarantees a level of service. If our client prefers to use their own supplier, they are perfectly entitled to do so and, in accordance with FOS rulings, they should not be penalised for doing so. This needs to be negotiated carefully and considerately. The exact nature of the damage should be established to ensure that no exclusions apply e.g. the accidental damage should not have been caused by cleaning, repair or restoration.

The camera will also be replaced on a New for Old basis. We need to check that this is not a business item as this would be excluded from cover and that the value of the claim did not exceed the relevant single article limit.

Two significant reasons why the appropriate classification of claims is important to the insurer are:

- (1) If claims are not recorded against the correct category, this will distort the claims history for the individual peril or account, which will have implications across the insurers' entire book of business and for individual policyholders too. An example of this would be if escape of water claims were persistently recorded as flood damage claims - the claims data would then incorrectly indicate that flood claims were more prevalent than escape of water claims. The cost of claims for flood damage would be inflated, and those for escape of water over-reported. This data would be used for underwriting purposes and may lead to compulsory excesses being applied to the flood peril incorrectly. It may also flag policies for review when

these are not required.

Another example would be where claims covering multiple sections of a policy e.g. a theft claim involving payments against buildings, contents and personal possessions sections of a policy are coded to only section e.g. buildings. This would then show erroneous claims data for the buildings section. Underwriters may then increase the rate for this section which could result in policies becoming uncompetitive and the insurer could lose market share simply due to the incorrect classification of claims which could ultimately have a huge impact on the overall performance of the insurer.

(2) Another significant reason why claims should be coded correctly is to ensure that external organisations are provided with accurate data e.g. the Claims and Underwriting Exchange industry database. Claims under household (and other) insurance policies are entered onto this system by participating insurers and it is then used to verify claims history provided by policyholders at the point of inception or claim. Any inaccuracies between the information provided by policyholders and that recorded on the system are investigated to ensure that no fraud or increased moral hazard is present. If the claims are incorrectly coded by insurers, the data on the system will be incorrect which will increase the number of “false positives” requiring investigation by underwriters, and cause needless enquiries to be made of policyholders which could result in reputational damage for the insurer.

Question 10 - Across more than one Learning Outcome (20 marks)

You are a claims manager for a household insurer. The household insurer specialises in properties of standard construction but can accommodate non-standard construction risks.

One of your policyholders, Mr Tucker, has inherited a property and has insured it under a household buildings policy with you.

In his proposal for insurance, Mr Tucker omitted to advise that his property was built of concrete, a non-standard construction material. Eight months after inception of the policy the property is extensively damaged by fire.

Mr Tucker submits a claim and is informed by your claims department that his claim is not covered under the terms of his policy.

Mr Tucker contacts you to make a complaint regarding this decision.

- (a) Explain, with justification, **two** underwriting actions you would have anticipated the underwriter to have taken if the non-standard construction had been disclosed to them in the proposal for insurance.

(8)

- (b) Discuss, with justification, your potential response to Mr Tucker’s complaint.

(12)

Answer to question 10 - Across more than one Learning Outcome (20 marks)

(a) There would have been several underwriting actions that the underwriter would have taken, had the non-standard construction of the property been made apparent.

Firstly, the premium could have been increased by using the standard risk model and then placing an appropriate loading onto the rate, to reflect the risk brought by the materials used to construct the building. This would ensure there is sufficient premium to cover a risk of this nature. It is indicated that the underwriters can accommodate this type of non-standard risk, and they are likely to have a specialist model for buildings of this structure or may have access to surveyors' reports to make a decision on how to rate this correctly.

Secondly, they could have applied an increase to the overall excess for the buildings policy e.g. £1,000. This would have the effect of reducing the insurers' exposure in the event of a claim under the peril of fire which is likely to produce a significant claim on the policy. The first amount of any claim payable would be paid by Mr Tucker. Given the increased risk presented by the materials used in the construction of this property, insurers would be justified in setting this higher than that of the standard policy as properties built from concrete are more complex and therefore expensive to repair/rebuild than those of standard construction.

(b) My response will be taken in accordance with the theme of Treating Customer's Fairly (TCF) which sets out various outcomes including requiring the insurer to demonstrate that they have a corporate culture committed to providing fair outcomes for policyholders. I will need to ensure whether the claims department has acted fairly in reaching their decision.

TCF also expects that insurers will provide customers with clear information at all stages of the transaction and it would also be necessary to ensure that clear, relevant questions about non-standard construction had been asked at the time of inception of the cover. If this was the case, I would then need to assess the non-disclosure of the policyholder in respect of the nature of the construction of the building which was non-standard.

The Consumer Insurance (Disclosures & Representations) Act 2012 (CIDRA) provides remedies for the insurer for cases of non-disclosure dependent on whether the nature of the non-disclosure.

The evidence suggests that Mr Tucker's non-disclosure was either honest and reasonable or careless. He has inherited this property so would not have had information from a pre-purchase survey; he may not even have visited the property before. In these circumstances the claims department's decision does not seem fair.

If the policy would still have been accepted on the same terms had the disclosure been made, then CIDRA would require the insurer to honour the claim in full and the insurer would be considered to have acted unfairly in declining Mr Tucker's claim.

As noted in the question, it is likely that this risk would have been acceptable to the insurer, but would have been subject to some amended terms or premium (as explained in (a))

M86 Specimen coursework assignment



above). Given these circumstances, CIDRA would require the insurer to adopt a proportionate response. For example, if Mr Tucker paid only £100 but a 25% premium loading would have applied, he has paid only 80% of the total premium due and thus it would have been reasonable for the claims department to agree to settle 80% of the claim. Their decision to decline the entire claim in this instance would again be considered unfair.

Therefore, unless clear evidence could be found to show that Mr Tucker was aware of the non-standard construction of his property prior to the claim and had deliberately withheld this from insurers, my response would be to apologise for the initial decision taken and agree to pay most, if not all, of his claim.

Reference list:

Valerie Jackson Bsc, FCII, Chartered Insurance Practitioner (2015), *CII M86 Study guide*, The Chartered Insurance Institute.

Question deconstruction and answer planning

The following three plans are based on 10, 20 and 30 mark questions respectively.

Question 1 - Learning Outcome 1 (10 marks)

TC plc, a UK-based commercial property owner, has a portfolio of small offices in the UK, which are insured on a traditional risk transfer basis. TC plc is currently negotiating to purchase a high value office block in the UK. TC plc's UK-based insurance broker needs to place the high value office block with a suitable insurance organisation.

Explain, with justification, **two** types of insurance organisation that the insurance broker might consider suitable to cover this risk. (10)

Question deconstruction

- Review learning outcome 1 in the course material and the relevant information in the study text.
- Highlight the instructions within the question (which are circled in red above).
- What is the context? UK-based and high value office block.
- The question asks for two types of insurance organisations. This means that you should spend an equal amount of time and effort in your answer in relation to each type of insurance organisation.

Answer plan

- Explain your two likely organisations. For example, a proprietary insurer who has or can get reinsurance and a Lloyd's syndicate who can share the risk if appropriate.
- Discuss each organisation and how they would each be able to cover the risk.
- As this is a 10 mark question, your answer should be shorter than the answers to either a 20 or 30 mark question.

Question 2 - Learning Outcome 2 (20 marks)

SD plc, a UK-based insurer, has offices located in twelve countries. Its innovative approach and exceptionally good performance has led to rapid expansion.

Competitors are now targeting SD plc's customers and this has led to a reduction in SD plc's operating performance. SD plc has recognised this competitive environment and has therefore decided to recruit a new Chief Executive Officer (CEO) to drive the business forward.

- (a) Identify, with justification, the most appropriate management style the new CEO, of SD plc, might use. (5)
- (b) Analyse two advantages and three disadvantages of the style that you have identified for SD plc, given the scenario above. (15)

Question deconstruction

- Review learning outcome 2 in the course material and the relevant information in the study text.
- Highlight the instructions within the question (which are circled in red above).
- Consider the context which includes the planned appointment of a new CEO, historic innovation and growth; and recent competition.
- The 15 marks in part (b) are awarded for relevant advantages and disadvantages which are clearly linked to the chosen management style.

Answer plan

- Part (a): You need to **identify** and **justify** the most appropriate style. This needs to be linked to the scenario so that the style chosen is appropriate for SD plc.
- Part (b): For the style listed above you now need to analyse in depth two advantages and three disadvantages. You must make reference to the scenario when looking at these. Marks are allocated for the advantages and disadvantages (which are justified), followed by a brief conclusion.
As this is a 20 mark question, your answer should be longer than the answer to a 10 mark question but shorter than the answer to a 30 mark question.

Question 5 - Learning Outcome 5 (30 marks)

CG plc, a UK-based insurance broker, is evaluating a manufacturing company as a potential long-term customer, using the manufacturing company's financial statements for last year. This evaluation is focused on the income statement/profit and loss account, balance sheet and cash flow statement.

The manufacturing company reported an annual profit of £400 million in 2015, with a net cash outflow of £250 million in the same period. The company has expanded its business in the last six months, in an environment where products become obsolete quickly. It responded to this fast changing environment, by acquiring £150 million of new production machinery in 2015. The company gives its customers considerable time to pay their bills.

- (a) **Analyse** the potential risks to CG plc if the manufacturing company becomes their customer, based on the above information. (20)
- (b) **Identify**, with **justification**, **five** additional items of financial information that CG plc would find helpful in arriving at a final decision. (10)

Question deconstruction

Review learning outcome 5 in the course material and the relevant information in the study text.

- Highlight the instructions within the question (which are circled in red above).
- Consideration of the context which is the long-term financial viability of a potential customer. The scenario also tells you the following limited information relating to 2015:
 - Profit of £400m in 2015.
 - Cash outflow of £250m in 2015.
 - Expanded business in the last 6 months, but products becoming obsolete quickly.
 - Acquired £150m of new production machinery in 2015.
 - Customers have considerable time to pay bills.

Answer plan

- Part (a) is worth 20 marks and part (b) is worth 10 marks, so each needs to be answered accordingly in length and depth.
In part (a) each of the profit, cash outflow, expanded business, new machinery acquisition and customers' bill payment needs to be analysed in detail. Make conclusions about the potential risks.
- In part (b) identify with justification the additional financial information required. There should be a sentence or two for each justification. The financial information should fill the gaps from the scenario.
As this is a 30 mark question, your answer should be longer than the answers to 10 and 20 mark questions.

Glossary of key words

Analyse

Find the relevant facts and examine these in depth. Examine the relationship between various facts and make conclusions or recommendations.

Describe

Give an account in words of (someone or something) including all relevant, characteristics, qualities or events.

Discuss

To consider something in detail; examining the different ideas and opinions about something, for example to weigh up alternative views.

Explain

To make something clear and easy to understand with reasoning and/or justification.

Identify

Recognise and name.

Justify

Support an argument or conclusion. Prove or show grounds for a decision.

Recommend with reasons

Provide reasons in favour.

State

Express main points in brief, clear form.