

## P21

### Diploma in Insurance

#### Unit P21 – Commercial insurance contract wording

October 2017 examination

#### Instructions

- Two hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- Read the instructions on page 3 carefully before answering any questions.
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**



## Unit P21 – Commercial insurance contract wording

### Instructions to candidates

#### Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which carries a total of 140 marks, as follows:

Part I	8 compulsory questions	80 marks
Part II	2 questions selected from 4	60 marks
- You should answer **all** questions in Part I and two out of the four questions in Part II.
- You are advised to spend no more than one hour on Part I.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave several lines blank after each part.

## PART I

Answer ALL questions in Part I  
Each question is worth 10 marks

Note form is acceptable where this conveys all the necessary information

1. Describe the entities that regulate the UK insurance market, including Lloyd's. (10)
  
2. (a) State the parties to a retrocession contract. (2)  
(b) Give **four** examples of conditions a facultative reinsurer may impose varying the 'back-to-back' cover of the original policy. (8)
  
3. (a) Distinguish between a manuscript contract wording and a standard form. (4)  
(b) Describe briefly basis of contract clauses and describe how they would be interpreted under the Insurance Act 2015. (6)
  
4. (a) Explain briefly what is meant by a 'long tail' risk. (4)  
(b) Describe briefly **one** coverage trigger and **one** other feature of a wording that would be desirable for a long tail risk from the perspective of the:
  - (i) insurer; (3)
  - (ii) insured. (3)
  
5. (a) Describe briefly the use of the Electronic Endorsement EMRC. (4)  
(b) Outline **two** differences between a General Underwriters Agreement (GUA) Stamp A and a GUA Stamp B on an endorsement. (4)  
(c) Explain briefly whether the lead underwriter's liability on a GUA is joint or several. (2)

6. (a) Explain the operation of a limits clause. (6)
- (b) Outline how a limits clause could operate in a property damage policy and a personal accident policy. (4)
7. (a) Describe the rights of an insurer following a fraudulent claim for an insurance contract subject to English law. (7)
- (b) Explain briefly why local legislation on fraudulent claims should be checked when drafting a fraudulent claim clause. (3)
8. Describe the provisions of the following treaty reinsurance clauses:
- (a) Access to records clause. (5)
- (b) Special acceptances clause. (5)

QUESTIONS CONTINUE OVER THE PAGE

## PART II

Answer TWO of the following FOUR questions

Each question is worth 30 marks

9. (a) Describe briefly the role of Xchanging in the insurance market. (4)
- (b) Discuss difficulties that may result from omitting the subscription agreement clauses from a Market Reform Contract (MRC) when binding a risk with several insurers. You should refer to **one** example of case law in your answer. (26)
10. A Lloyd's syndicate is launching a new cyber attack product to be underwritten within its property division.
- (a) Give **two** reasons why the insurer should seek their treaty reinsurers' agreement before underwriting the new product. (6)
- (b) Discuss why it would be advantageous to include a deductible in the cyber insurance contract wording. (9)
- (c) Explain how the insurer could gain recognition and approval of the cyber insurance contract wording using various organisations in the London insurance market. (15)
11. The reinstatement clause in a reinsurance treaty states that the reinsured must 'notify the reinsurer without delay for any loss that could exceed the policy limit'. The treaty reinsurer is disputing a claim on the policy because the reinsured took 20 days to advise a loss that exhausts the reinsurance treaty limit for the first time.
- (a) Explain briefly why it would be important for the reinsurer to be notified promptly of a loss to their policy. (4)
- (b) Discuss whether the interpretation of the reinsurer is 'reasonable' with reference to the factual matrix and case law. (18)
- (c) The reinsurer finally agrees to settle the claim and needs to calculate a reinstatement premium. The policy has a limit of USD 5,000,000 with two reinstatements at pro-rata additional premium as to amount and pro-rata as to time. The contract premium is USD 60,000 and the loss occurred 60 days before expiry of the policy.
- Calculate the total limit available under the policy and estimate the additional premium payable to the reinsurer. (8)

12. (a) Describe briefly **one** claims clause that might be used by a treaty reinsurer. (6)
- (b) Discuss the provisions and use of a Portfolio Transfer Clause. (12)
- (c) Describe **two** clauses that allow an insurer to retain monies otherwise owed to a reinsurer. (12)

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