Chartered Insurance Institute

E81

Examination element of M81 Insurance broking practice

Based on the 2020/2021 syllabus
examined from 1 May 2020 until 30 April 2021

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Contents

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the E81 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their E81 studies before attempting the specimen examination. Students should allow themselves one hour to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time. The examination must be successfully passed within 18 months of enrolment on M81.

Although the specimen examination in this guide is typical of an E81 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 M81 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/learning/qualifications/diploma-in-insurance-qualification/unit-insurance-broking-practice-m81/**
2) Select 'exam guide update' 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 M81 syllabus is published on the CII website at **www.cii.co.uk. Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The examination syllabus categorises M81 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

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

Understanding - Candidates must be able to link pieces of information together in cause and effect relationships. Typically questions may ask 'Why'. Questions set on an understand learning outcome can test either knowledge or understanding or both.

Examination Information

The method of assessment for the E81 examination is 50 multiple choice questions (MCQs). One hour is allowed for this examination.

The M81 syllabus provided in this examination guide will be examined from 1 May 2020 until 30 April 2021.

Candidates will be examined on the basis of English law and practice unless otherwise stated.

The general rule is that legislative and industry changes will not be examined earlier than 3 months after they come into effect.

E81 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

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

A multiple choice question consists of a problem followed by four options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only one correct or best response to the problem posed.

One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

Candidates are permitted to make rough notes. Candidates are not permitted, in any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate's examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

Insurance broking practice

Chartered Insurance Institute

Purpose

To provide knowledge and understanding of the wide range of technical skills required by a professional insurance broker with specific reference to client care.

Assumed knowledge

It is assumed that the candidate already has knowledge of the fundamental principles of insurance as covered in IF1 Insurance, legal and regulatory or equivalent examinations.

Summary of learning outcomes		Number of questions in the examination*
1.	**Understand the key aspects of the regulatory and legal environment within which insurance brokers operate**	17
2.	**Understand the role of the insurance broker in meeting client needs**	7
3.	**Understand the role of the insurance broker in the negotiation and placing of insurance contracts**	10
4.	**Understand the role of the insurance broker in selecting insurers**	4
5.	**Understand the role of the insurance broker in the design and operation of insurance programmes**	4
6.	**Understand the role of the insurance broker in the claims negotiation, collection and payment process**	5
7.	**Understand the range of services that may be available from insurance brokers and their benefit to clients**	3

* 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:

  Mixed assessment consisting of two components, both of which must be passed. One component is a coursework assignment and one is a multiple choice question (MCQ) examination. The details are:

  1. an online coursework assignment using RevisionMate consisting of 10 questions which sequentially follow the learning outcomes. This must be successfully completed within 6 months of enrolment; and
  2. an MCQ exam consisting of 50 MCQs. 1 hour is allowed for this exam. This exam must be successfully passed within 18 months of enrolment.
- This syllabus will be examined from 1 May 2020 until 30 April 2021.
- Candidates will be examined on the basis of English law and practice unless otherwise stated.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
  1. Visit *www.cii.co.uk/qualifications*
  2. Select the appropriate qualification
  3. Select your unit from the list provided
  4. Select qualification update on the right hand side of the page

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1. Understand the key aspects of the regulatory and legal environment within which insurance brokers operate

1.1 Describe how the law of agency applies to insurance brokers in respect of the various roles they could undertake.

1.2 Describe the key insurance and non-insurance statutory and contract law applicable to insurance brokers, including key policy documentation.

1.3 Define the scope of the Financial Conduct Authority (FCA) and key relevant regulatory definitions.

1.4 Explain how the FCA's objectives and principles translate into rules and guidance.

1.5 Explain the elements of the Insurance: Conduct of Business Sourcebook (ICOBS).

1.6 Explain the importance of the fair treatment of customers.

1.7 Describe the main approach to the regulation of intermediaries in countries outside of the UK.

2. Understand the role of the insurance broker in meeting client needs

2.1 Describe the approach to demands and needs and suitability statements.

2.2 Describe the regulatory and other information brokers disclose to clients and the various forms this can take.

2.3 Explain the delivery of 'contract certainty' and dealing with subjectivities – surveys, proposal forms.

2.4 Explain how complaints are dealt with, the handling of errors and omissions, claims and various forms of compensation.

3. Understand the role of the insurance broker in the negotiation and placing of insurance contracts

3.1 Explain the broker's duty in the presentation of risk to insurers.

3.2 Explain the principles and objectives of good submission drafting, including the Market Reform Contract.

3.3 Describe good practice in the presentation of quotation and contract information to clients.

3.4 Explain the duties when using sub-broking arrangements and the various forms of introducer.

3.5 Explain the legal duties of wholesale brokers – to the producing broker and to the insured.

4. Understand the role of the insurance broker in selecting insurers

4.1 Explain the main factors to be taken into account when selecting insurers and the importance of the broker in this process.

4.2 Explain the need for an insurer to be licensed to write a particular class of business in the UK.

4.3 Describe the FCA 'scope of service': single insurer, limited panel and 'fair analysis'.

4.4 Explain the general approach to assessing the security of an insurer.

5. Understand the role of the insurance broker in the design and operation of insurance programmes

5.1 Describe the general approach to the design and operation of insurance programmes including the involvement of self-insurance and captives.

5.2 Explain the detail behind complex programmes.

5.3 Explain the use of global markets, including the use of different markets at different stages of the insurance market cycle.

5.4 Describe the operation of schemes, lineslips and delegated authorities.

5.5 Explain post placement activity and administration.

6. Understand the role of the insurance broker in the claims negotiation, collection and payment process

6.1 Explain the duties of the broker in negotiating claims on behalf of clients and the impact of fraud.

6.2 Describe the different methods of dealing with claims.

6.3 Explain the duties of the broker in handling claims records, including disease claims, and the market agreement on employers' liability records.

6.4 Explain the duty of a broker to deal with a claim when the client has been lost.

7. Understand the range of services that may be available from insurance brokers and their benefit to clients

7.1 Explain the fundamentals of risk/risk transfer and the broker's role in the management process.

7.2 Describe captive insurance company services.

7.3 Describe specialist risk consultancy services.

Reading list

The following list provides details of further reading 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 resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII/PFS members can access most of the additional study materials below via the Knowledge Services webpage at *https://www.cii.co.uk/knowledge-services/*.

New resources are added frequently - for information about obtaining a copy of an article or book chapter, book loans, or help finding resources , please go to *https://www.cii.co.uk/knowledge-services/* or email *knowledge@cii.co.uk*.

CII study texts

Insurance broking practice. London: CII. Study text M81.

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

Books (and ebooks)

Bowstead and Reynolds on agency. Peter Watts & FMB Reynolds. 21th ed. London: Thomson Reuters, 2017.

'Claims against insurance brokers'. Chapter 16 in Insurance claims. 4th ed. Alison Padfield. Tottel, 2016.

Insurance brokers: an industry accounting and auditing guide. 5th ed. M Grice, S Ouarbya. London: CCH Wolters Kluwer, 2013.

'Intermediary responsibility'. Chapter: Insurance disputes. 3rd ed. Jonathan Mance et al. Informa, 2011.

'Lloyd's brokers and other agents of the assured'. Chapter in Lloyd's: law and practice. Julian Burling. Oxon: Informa Law, 2014.*

The law of insurance broking. 3rd ed. Christopher Henley. London: Sweet & Maxwell, 2016.

The role of agents in insurance business. Chapter – MacGillivray on insurance law: relating to all risks other than marine. 13th ed. Sweet & Maxwell, 2015.

Winning client trust : the retail distribution review and the UK financial services industry's battle for their clients' hearts and minds. Chris Davies. London: Ecademy Press, 2011.*

Fact files and other online resources

CII fact files are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Written by subject experts and practitioners, the fact files cover key industry topics as well as less familiar or specialist areas of general insurance, life, and pensions and financial services, with information drawn together in a way not readily available elsewhere. Available online via *www.cii.co.uk/ciifactfiles* (CII/PFS members only).

The Insurance Institute of London (IIL) podcast lecture series features leading industry figures and subject experts speaking on current issues and trends impacting insurance and financial services. Available online at *https://www.cii.co.uk/insurance-institute-of-london/* (CII/PFS members only).

Insurance accounting (general business). Ian Hutchinson, updated by Alex Barnes.

Recent developments to Solvency II. Brad Baker.

Risk transfer. Ian Searle.

The professional liability of insurance brokers. Christopher Henley, updated by Simon Kemp and Michelle Radom.

Journals and magazines

Financial adviser. London: FT Business. Weekly. Available online at *www.ftadviser.com*.

Insurance day. London: Informa. Daily except weekends. Articles searchable online at *www.insuranceday.com*.

Insurance age. Incisive media. Monthly. Contents searchable online at *www.insuranceage.co.uk*.

Insurance times. London: Newsquest Specialist Media. Weekly. Contents searchable online at *www.insurancetimes.co.uk*.

Money marketing. London: Centaur Communications. Weekly. Available online at *www.moneymarketing.co.uk*.

* Also available as an ebook through Discovery via *www.cii.co.uk/discovery* (CII/PFS members only).

Post magazine. London: Incisive Financial Publishing. Monthly. Contents searchable online at www.postonline.co.uk.

Access to further periodical publications is available from the Knowledge website at www.cii.co.uk/journalsmagazines (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.

Financial Conduct Authority (FCA) Handbook. Available at www.handbook.fca.org.uk/handbook.

Insurance broking practice and the law. Available within Informa i-law: an online database of legal knowledge. Available via www.cii.co.uk/research-databases (CII/PFS members only).

Insurance: Conduct of Business sourcebook (ICOBS). Available via www.handbook.fca.org.uk/handbook/ICOBS.

Exemplars

Exemplar papers are available for all mixed assessment units. Exemplars are available for both the coursework component and the MCQ exam component.

These are available on the CII website under the unit number before purchasing the unit. They are available under the following link www.cii.co.uk/qualifications/diploma-in-insurance-qualification.

These exemplar papers are also available on the RevisionMate website (www.revisionmate.com) after you have purchased the unit.

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. An underwriter grants delegated authority to a broker to be a coverholder for a binding authority. In these circumstances, for whom is the broker acting as an agent?

A. The coverholder only.
B. The insured only.
C. The insurer only.
D. The coverholder, the insured and the insurer.

2. What is the position under the law of agency, where reinsurance has been arranged?

A. The insured becomes the client of the reinsurance broker.
B. The insurer becomes the client of the reinsurance broker.
C. The reinsurance broker becomes the client of the insured.
D. The reinsurance broker becomes the client of the insurer.

3. An insurance broker suspects that an insurance transaction he has placed may be used for money laundering purposes. Under what statute will he have committed a criminal offence if he fails to report his suspicion?

A. The Bribery Act 2010.
B. The Consumer Insurance (Disclosure and Representations) Act 2012.
C. The Financial Services Act 2012.
D. The Proceeds of Crime Act 2002.

4. In what circumstances would a broker be found liable under the principle of tort for an error in the placing of an insurance policy?

A. Information was disclosed to the insurer that was in the public domain.
B. Quotations were not obtained from all available insurers.
C. Relevant information was deliberately withheld from underwriters.
D. There was insufficient care in the advice that was given to his client.

5. What should the producing broker be aware of when negotiating a Terms of Business Agreement with a sub-broker?

A. Each broker is responsible for making its own regulatory status disclosure to clients.
B. Each broker must provide every insured with a Terms of Business Agreement.
C. The producing broker is responsible for conducting due diligence on the sub-broker.
D. The sub-broker must provide quotations to proposers.

6. What type of organisation is regulated **solely** by the Financial Conduct Authority?

A. A captive insurance company.
B. An insurance brokerage.
C. An insurance company.
D. A reinsurance company.

7. Which class of business is **NOT** defined by the Financial Conduct Authority as a non-investment insurance contract?

A. Critical illness.
B. Employers' liability.
C. Long-term care.
D. Payment protection insurance.

8. A distance contract is one in which the

A. broker and the insured are domiciled in separate countries.
B. broker and the insured never met to discuss the proposed policy.
C. rules contained in the Financial Conduct Authority handbook have been breached.
D. rules contained in the Insurance: Conduct of Business sourcebook (ICOBS) have been breached.

9. How can the insurance market's adoption of the Financial Conduct Authority's Principles for Businesses be demonstrated?

A. Contract certainty has been embedded into market procedures.
B. Customers are being recommended the cheapest policies available.
C. The need for reinsurance in the market place has reduced.
D. Regulation of the market is more rules based.

10. A firm of insurance brokers can demonstrate that it follows the Financial Conduct Authority's commission disclosure regime by

A. automatically disclosing commission to every new consumer prior to the insurance contract's inception.
B. enclosing with each commercial policy a note of the average rate of commission earned by the brokerage.
C. only disclosing commission to every new consumer within 28 days of inception.
D. stating in a covering letter to commercial customers that they have the right to request commission information.

11. An insurance broker arranges high net worth insurance for a client in respect of a residential property. What automatic cancellation rights, if any, apply to the insured?

A. 7-day cancellation rights are applicable.
B. 14-day cancellation rights are applicable.
C. 30-day cancellation rights are applicable.
D. Cancellation rights do not apply.

12. Max leads an insurance broker's sales team whilst Rita deals entirely with customer claims. How are they impacted by the Insurance: Conduct of Business sourcebook (ICOBS) requirements concerning inducements?

A. Neither can accept an inducement if it affects, in any way, their duty of care to the customer.
B. Neither can accept either insurer or customer hospitality in any circumstances.
C. Only Max is permitted to receive tangible goods.
D. Only Rita is permitted to receive tangible goods.

13. To which type of business does the Insurance: Conduct of Business sourcebook (ICOBS) **NOT** apply?

A. Consumer insurance contracts.
B. Large commercial insurance contracts.
C. Reinsurance contracts.
D. Small commercial insurance contracts.

14. An insurance broker has received a proposer's quotation from an insurer. To ensure that the responsibilities for the fair treatment of customers are met, what **must** the insurance broker do?

A. Ensure that he fully understands the quotation before passing it on to the proposer.
B. Ensure that the lowest insurance premium is quoted.
C. Obtain a written response from the proposer to pass to the insurer.
D. Pass it to the proposer with no added comments.

15. Who **normally** regulates the US branch of a UK insurance broker?

A. The Bureau of Consumer Protection for the relevant state.
B. The Financial Conduct Authority.
C. The Insurance Commissioner for the relevant state.
D. The Prudential Regulation Authority.

16. When the Financial Conduct Authority switched from a rules-based approach to regulation to a principles-based approach, what **main** impact did this have on brokers?

A. There were fewer prescriptive administrative requirements to meet.
B. They could delegate their compliance responsibilities to specialist outsourcers.
C. They could spend less time interpreting and assessing day-to-day situations.
D. They were subject to less stringent enforcement penalties.

17. A firm of insurance brokers following the rules and guidance contained within the Insurance: Conduct of Business sourcebook (ICOBS), should be able to demonstrate to the Financial Conduct Authority that

A. all relevant information is being disclosed to insurers.
B. commission payments are being disclosed to all proposers.
C. insurance advice is always given to proposers.
D. it focuses on outcomes rather than processes.

18. A broker's suitability statement has met all regulatory requirements and fulfilled its purpose. This means that the

A. broker can now approach an insurer with all relevant information.
B. broker can now make a recommendation of an insurer.
C. proposer can be assured that he is purchasing the cheapest policy on the market.
D. proposer can now make an informed choice about whether to proceed.

19. The case of Merrett v Babb (2001) has prompted a number of firms of insurance brokers to include wording in their Terms of Business Agreements which indicates that

A. any claims must be made against the firm itself rather than its directors or employees.
B. any conflict of interest may result in the firm withdrawing its services.
C. the firm's liability cannot exceed the maximum level covered under its relevant indemnity policy.
D. the use of sub-agents will be disclosed in advance of cover being arranged.

20. When an insurance broker prepares a detailed Service Level Agreement, it will include

A. claim settlement targets.
B. details of the insurance placing process that will be performed for the client.
C. a list of insurance markets that the broker will approach.
D. targets for insurance premium amounts.

21. An insurer has imposed a subjectivity clause on an insurance policy, but the client is finding it difficult to comply within the specified timeframe. Upon discovery, what action should the insurance broker take?

A. Agree a practical amendment with the insurer.
B. Immediately cancel the insurance policy.
C. Provide a new statement of facts to the client.
D. Seek new quotations from alternative insurers.

22. The client and the insurer each know the required outcome from a proposed insurance policy, but contract certainty has still to be delivered. What does this indicate?

A. Not all the terms under the policy have been agreed.
B. The policyholder is a commercial customer.
C. The policyholder is a consumer.
D. The policy is operating within the cancellation period.

23. An employee at a firm of insurance brokers has received a complaint but believes he can resolve it himself, to the client's satisfaction, without involving others. He should be aware that he

A. cannot deal with the complaint if it related to his own actions.
B. has 24 hours to resolve the issue or it must be formally logged.
C. has 3 business days to resolve the issue or it must be treated as a complex complaint.
D. is only permitted to make a response if the complaint relates to his own actions.

24. An insurance broker's professional indemnity policy will **NOT normally** provide cover for claims consequent upon

A. an action taken whilst working as agent of the insurer.
B. an error or omission which has been referred to the Financial Ombudsman Service.
C. insolvency of the insurer.
D. a situation where no written record was kept.

25. An introducer of business to an insurance broker should be aware that he

A. is directly responsible for complying with the Financial Conduct Authority's principles and rules.
B. is expected to give opinions to potential customers regarding the products he promotes.
C. may be classified as an appointed representative.
D. will always be paid a commission.

26. A proposer contacts his insurance broker because he does **NOT** understand all of the insurer's questions on a questionnaire. What action **should** the insurance broker take?

A. Complete the questionnaire on behalf of the proposer.
B. Contact the insurer for clarification regarding the information that is required.
C. Provide the insurer with the proposer's contact details so that direct contact can be made with the proposer and complete answers obtained.
D. Tell the proposer to contact the insurer's helpline to seek advice on answering the questions.

27. In the course of preparing a risk presentation, the broker removes the insured losses of a business that has been sold from the main claims experience disclosure. How does this affect the presentation?

A. It is only acceptable if the claims experience is below the market average.
B. It is only acceptable when the business was sold more than three years previously.
C. It would be acceptable if details were provided separately with comment about larger losses.
D. It would be acceptable if the losses occurred under a property policy, but not under a liability policy.

28. A broker needs to refer to the Subscription Agreement section of the Market Reform Contract when

A. confirming the current level of brokerage and fees.
B. extending coverage to an additional location.
C. processing a post-placement amendment or transaction.
D. verifying each insurer's share of the risk.

29. One of the **main** principles of good submission drafting is that

A. it is better to go into lengthy detail than to be concise.
B. the insurer's best interests need to be taken into account.
C. the key features of the risk should be explained positively.
D. the presentation should never be made using data rooms.

30. A consumer has received quotations from separate brokers. Broker X followed up the request for a quotation by telephoning the consumer and explaining all terms and conditions, whereas broker Y provided similar explanations in writing only. In accordance with the regulations

A. both X and Y must now make contact with the previous insurer.
B. both X and Y must now meet with the consumer, face-to-face.
C. only X can now place the consumer on risk.
D. only Y has demonstrated good practice.

31. When a retail broker is using a wholesale broker to place a risk, there is **unlikely** to be a

A. contract between the wholesale broker and the insured.
B. contract between the retail broker and the wholesale broker.
C. duty of care by the retail broker to the insured.
D. duty of care by the wholesale broker to the retail broker.

32. What requirements apply when an insurance broker needs to use the services of a wholesale broker to access a particular market?

A. The insurance broker can only use a wholesale broker with whom it has a binding authority.
B. The insurance broker must obtain the proposer's agreement before engaging the wholesale broker.
C. The wholesale broker can only be used for specified business categories as defined by the Financial Conduct Authority.
D. The wholesale broker can only be used if a written agreement exists between the proposer and the wholesale broker.

33. In which document should an insurance broker summarise the reasons for recommending a particular insurer to a proposer?

A. Initial Disclosure Document.
B. Market Reform Contract.
C. Suitability Statement.
D. Terms of Business Agreement.

34. What is the **main** difference between an introducer and a sub-broker?

A. The insured will only have a contractual relationship with the introducer.
B. The insurer will only pay commission to the introducer.
C. Only the introducer must be regulated by the Financial Conduct Authority.
D. Only the sub-broker must be regulated by the Financial Conduct Authority.

35. What is the basis of fair analysis of the market in the selection of insurers by an insurance broker?

A. All insurers must be considered by the broker.
B. At least five insurers must be approached to underwrite all categories of business.
C. Only one insurer can be used for each category of business.
D. The broker will have a panel of insurers which are used to place business.

36. Before placing a UK insurance risk, why **must** an insurance broker make sure that an insurer is licensed to underwrite the applicable class of business?

A. A regulated insurance broker can only place an insurance risk with a regulated insurer.
B. A regulated insurance broker can only place an insurance risk with an insurer based in the UK.
C. The Financial Services Compensation Scheme only applies to insurers who are members of the Association of British Insurers.
D. The Financial Services Compensation Scheme only applies to insurers who are registered with the Claims and Underwriting Exchange.

37. An insurance broker will meet its Financial Conduct Authority requirement to disclose its scope of broking services by informing a client of

A. how a client can make contact with the firm.
B. how the firm selects insurers when placing a risk.
C. the classes of insurance business that it regularly places.
D. the firm's target levels for customer service.

38. Insurance brokers have a duty to recommend insurers to a client which

A. are based in the UK.
B. are considered to be financially sound.
C. check the creditworthiness of the client.
D. offer the lowest price to the client.

39. When considering the insurance market cycle, an insurance broker should be aware that

A. catastrophe losses never affect market cycles.
B. different classes of business normally have their own cycle.
C. insurance markets throughout the world always operate in a synchronised way.
D. investment income is not subject to its own cycle.

40. What is a lineslip?

A. An underwriting facility which allows an insurance broker to offer risks of a specified category to insurers who are free to quote or reject each risk.
B. An underwriting facility which allows risks that meet specified criteria to be automatically insured under the scheme.
C. The document that is used to notify insurers of risks that have been bound under a scheme.
D. The section on a Market Reform Contract where insurers' participations on a risk are recorded.

41. A firm of insurance brokers underwrites risks under a delegated authority. As a consequence, the firm **must**

A. demonstrate that there is no conflict of interest between underwriting staff and those dealing with clients.
B. establish a subsidiary firm, owned jointly with the delegating insurer.
C. introduce rating structures separate to those provided by the delegating insurer.
D. obtain additional authorisation from the Prudential Regulation Authority.

42. For what reason is peer review often used in respect of outgoing letters to clients?

A. It helps to avoid errors and omissions.
B. It is a requirement of the regulator.
C. It is a warranty under professional indemnity policies.
D. It reduces the volume of work within a brokerage.

43. A broker is negotiating a household insurance claim with the insurer. What is the **primary** responsibility of the broker?

A. Agree the claim settlement with the insurer.
B. Agree interpretation of the policy wording with the insurer.
C. Ensure the fair treatment of the insured.
D. Ensure the insurer settles the claim quickly.

44. A client exaggerated the value of a claim and forwarded it to his broker, who passed the claim to the insurer and pursued it on behalf of the client. The broker's action will only be considered a criminal offence if the

A. broker failed to treat his client fairly.
B. broker was aware that the claim was inflated.
C. client had effected the policy with the intention of making a claim.
D. client had previously inflated a claim through a different broker.

45. What is the first action that a broker should take upon notification by the policyholder of a claim?

A. Appoint a loss adjuster.
B. Notify the insurer.
C. Request payment of the policy excess.
D. Send a policy wording to the insured.

46. Broker X is handling a London market liability claim and broker Y is handling a marine claim involving Lloyd's underwriters. Which broker, if either, is responsible for maintaining the electronic claims file?

A. Both brokers.
B. Broker X only.
C. Broker Y only.
D. Neither broker X nor broker Y.

47. A claim has been submitted by a client two years after the insurance broker ceased to act for that client, in relation to a loss which occurred three years ago under a policy arranged by the broker. What is the legal position regarding the broker's responsibility for handling this claim?

A. It depends on the status of the client's new broker.
B. It depends on the Terms of Business Agreement.
C. The broker has no responsibility in any circumstances.
D. The broker will automatically be responsible and must negotiate the claim.

48. A landlord has just installed a sprinkler system on the premises he owns and amended the lease to make the tenant responsible for damage to the buildings. These two actions are **best** described as

A. risk minimisation in both cases.
B. risk minimisation and risk transfer respectively.
C. risk prevention in both cases.
D. risk prevention and risk reduction respectively.

49. What is the difference between a captive insurance company and any other type of insurance company?

A. A captive insurer is always owned by its parent company.
B. A captive insurer is not regulated.
C. A captive insurer can only be registered in an offshore location.
D. A captive insurer must be established in the same country as the parent company.

50. What is one of the **main** differences between an underwriting surveyor and a risk management surveyor?

A. A risk management surveyor provides detailed recommendations.
B. A risk management surveyor will be seeking the most competitive terms, particularly in a hard market.
C. An underwriting surveyor will consider historic surveys.
D. An underwriting surveyor will be solely concerned with business interruption reviews.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			**Learning Outcome 3**			**Learning Outcome 6**		
1	C	1.1	25	C	3.4	43	C	6.1
2	B	1.1	26	B	3.1	44	B	6.1
3	D	1.2	27	C	3.1	45	B	6.2
4	D	1.2	28	C	3.2	46	A	6.3
5	A	1.2	29	C	3.2	47	B	6.4
6	B	1.3	30	D	3.3	**5 questions**		
7	C	1.3	31	A	3.5			
8	B	1.3	32	B	3.5	**Learning Outcome 7**		
9	A	1.4	33	C	3.3	48	B	7.1
10	D	1.4	34	D	3.4	49	A	7.2
11	B	1.5	**10 questions**			50	A	7.3
12	A	1.5				**3 questions**		
13	C	1.5	**Learning Outcome 4**					
14	A	1.6	35	D	4.1			
15	C	1.7	36	A	4.2			
16	A	1.4	37	B	4.3			
17	D	1.5	38	B	4.4			
17 questions			**4 questions**					
Learning Outcome 2			**Learning Outcome 5**					
18	D	2.1	39	B	5.3			
19	A	2.2	40	A	5.4			
20	B	2.2	41	A	5.4			
21	A	2.3	42	A	5.5			
22	A	2.3	**4 questions**					
23	C	2.4						
24	C	2.4						
7 questions								