



Chartered  
Insurance  
Institute

# E96

## Diploma in Insurance

### Examination element of M96 Liability insurances

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

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The Chartered Insurance Institute  
42-48 High Road, South Woodford, London E18 2JP

Telephone: 020 8989 8464

Fax: 020 8530 3052

Email: [customer.serv@cii.co.uk](mailto:customer.serv@cii.co.uk)

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## E96 – Examination element of M96 Liability insurances

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

### Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the E96 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their E96 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 M96.

Although the specimen examination in this guide is typical of an E96 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 M96 reading list, which is located on the syllabus in this examination guide and on the CII website at **[www.cii.co.uk](http://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/unit-liability-insurances-m96/](http://www.cii.co.uk/learning/qualifications/unit-liability-insurances-m96/)**
- 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 M96 syllabus is published on the CII website at [www.cii.co.uk](http://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 M96 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 the following cognitive skill:

**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 E96 examination is 50 multiple choice questions. One hour is allowed for this examination.

The M96 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.

E96 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 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.

# Liability insurances

## Purpose

At the end of this unit, candidates should be able to understand liability insurance.

## 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 identification, evaluation and management of liability risk	4
2. Understand the main considerations of liability underwriting	5
3. Understand the risks, cover and practices of employers' liability insurance	11
4. Understand the risks, cover and practices of public and products liability insurance	11
5. Understand the risks, cover and practices of directors' and officers' liability and corporate reimbursement insurance	9
6. Understand the risks, cover and practices of professional indemnity insurance	10

\* 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:
  - 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
  - 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:
  - Visit [www.cii.co.uk/qualifications](http://www.cii.co.uk/qualifications)
  - Select the appropriate qualification
  - Select your unit from the list provided
  - Select qualification update on the right hand side of the page

## **1. Understand the identification, evaluation and management of liability risk**

- 1.1 Describe the framework for the identification, evaluation and management of liability risk.
- 1.2 Explain the roles and interests of the various parties involved in the evaluation and management of liability risk.
- 1.3 Explain the importance to underwriters of evaluating the historical claims record.

## **2. Understand the main considerations of liability underwriting**

- 2.1 Describe the different triggering events covered under liability insurance.
- 2.2 Describe the framework relating to the underwriting of generic liability risks.
- 2.3 Describe the policy conditions, issues and indemnity limit considerations arising under liability insurances.
- 2.4 Explain the importance of evaluating the exposure to foreign legal environments.
- 2.5 Describe the underwriting considerations, information and policy wording implications in relation to foreign liability exposures.

## **3. Understand the risks, cover and practices of employers' liability insurance**

- 3.1 Explain the relevance of the Health and Safety at Work etc Act 1974 to liability insurance.
- 3.2 Explain the main work of the Health and Safety Executive.
- 3.3 Explain the duties of an employer and how they are discharged.
- 3.4 Explain disease exposures from workplace hazards.
- 3.5 Explain the legal framework governing employers' liability in the workplace under statute and common law.
- 3.6 Explain the scope of cover of employers' liability insurance including:
  - The operative clause.
  - Key definitions.
  - Limit of liability.
  - Legal costs.
  - Common exclusions, conditions and extensions.

- 3.7 Explain market practices in relation to employers' liability insurance including compliance with legislation.
- 3.8 Describe key underwriting information under employers' liability insurance.
- 3.9 Describe the common rating bases under employers' liability insurance.

## **4. Understand the risks, cover and practices of public and products liability insurance**

- 4.1 Explain the risks covered under public and products liability insurance including specialist liability insurance.

- 4.2 Explain the legal framework governing public and products liability insurance.

- 4.3 Explain the scope of cover of public and products liability insurance and specialist liability insurance including:

- The operative clause.
- Key definitions.
- Limit of liability.
- Legal costs.
- Common exclusions, conditions and extensions.

- 4.4 Describe key underwriting information under public and product liability insurance.

- 4.5 Describe the common rating bases under public and products liability insurance.

## **5. Understand the risks, cover and practices of directors' and officers' liability and corporate reimbursement insurance**

- 5.1 Explain the risks covered under directors' and officers' liability insurance and corporate reimbursement insurance including specialist liability insurance.

- 5.2 Explain the legal framework affecting directors' and officers' liability insurance and corporate reimbursement insurance.

- 5.3 Explain the scope of cover under directors' and officers' liability insurance, corporate reimbursement insurance and specialist liability insurance including:

- The operative clause.
- Key definitions.
- Limit of liability.
- Legal costs.
- Common exclusions, conditions and extensions.

- 5.4 Describe key underwriting information under directors' and officers' liability insurance and corporate reimbursement insurance including specialist liability insurance.

- 5.5 Describe the common rating bases under directors' and officers' liability insurance and corporate reimbursement insurance.

- 5.6 Explain legal liability for corporate manslaughter in the UK.

## **6. Understand the risks, cover and practices of professional indemnity insurance**

- 6.1 Describe how legal liability is covered under professional indemnity insurance.

- 6.2 Explain the risks covered under professional indemnity insurance including cyber liability.



- 6.3 Explain the scope of cover of professional indemnity insurance including:
- The operative clause.
  - Key definitions.
  - Limit of liability.
  - Legal costs.
  - Common exclusions, conditions and extensions.
  - Cyber liability.
- 6.4 Describe key underwriting information under professional indemnity insurance including cyber liability.
- 6.5 Describe the common rating bases under professional indemnity insurance.
- 6.6 Describe the risks and cover given for fidelity liability.

## 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](mailto:knowledge@cii.co.uk).

### CII study texts

Liability insurances. London: CII. Study text M96

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

### Books (and ebooks)

Directors' and officers' liability insurance. Research Study Group 234A. London: IIL, 2010.

Drafting insurance contracts: certainty, clarity, law and practice. Christopher Henley. London: Leadenhall press, 2010.

'Employers' liability insurance'. Chapter – The modern law of insurance. Andrew McGee. 3rd ed. London: LexisNexis, 2011.

'Employers' liability'. Chapter – Insurance disputes. Jonathan Mance, Iain Goldrein, Robert Merkin. 3rd ed. London: Informa, 2011.

'Employers' liability and other compulsory insurances'. Chapter – Birds' modern insurance law. John Birds. 10<sup>th</sup> ed. London: Sweet & Maxwell, 2016.

Health and safety: risk management. 3<sup>rd</sup> ed. Tony Boyle. Wigston: IOSH Services, 2010.\*

'Liability insurance'. Chapter – Birds' modern insurance law. John Birds. 10<sup>th</sup> ed. London: Sweet & Maxwell, 2016.

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

Munkman on employer's liability. 16th ed. Barry Cotter and Daniel Bennett (eds) et al. London: LexisNexis, 2013.

Product recall, liability and insurance. M Kendall. London: Globe Business Publishing, 2012.

Professional indemnity insurance. 2<sup>nd</sup> ed. Mark Cannon, Brendan McGurk. Oxford: Oxford University Press, 2016.

Professional indemnity insurance law. W I B Enright, Digby C Jess. 2<sup>nd</sup> ed. London: Sweet and Maxwell, 2007.

'Professional liability'. Chapter – Insurance disputes. Jonathan Mance, Iain Goldrein, Robert Merkin. 3<sup>rd</sup> ed. London: Informa, 2011.

The handbook of health and safety practice. Jeremy Stranks. 7<sup>th</sup> ed. Harlow: Pearson, 2005.

The law of liability insurance. Malcolm Clarke. New York: Informa, 2013.\*

The non-executive directors' handbook. 4<sup>th</sup> ed. Brian Coyle. London: ICSA Publishing, 2016.

Tort law and liability insurance. Gerhard Wagner. Wien: Springer, 2005.

Tort law: text, cases and materials. Jenny Steele. 3<sup>rd</sup> ed. Oxford: Oxford University Press, 2014.

### 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](http://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).

Recent developments in tort I and II. Alan Peck.

Recent developments in quantum. Alan Peck.

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

Civil procedure rules. Alan Peck.

### Journals and magazines

Insurance times. London: Newsquest Specialist Media. Weekly. Contents searchable online at [www.insurancetimes.co.uk](http://www.insurancetimes.co.uk).

The Journal. London: CII. Six issues a year. Archive available online at <https://www.thepfs.org/search-results/?q=the+journal> (CII/PFS members only).

Post magazine. London: Incisive Financial Publishing. Monthly. Contents searchable online at [www.postonline.co.uk](http://www.postonline.co.uk).

Access to further periodical publications is available from the Knowledge website at [www.cii.co.uk/journalmagazines](http://www.cii.co.uk/journalmagazines) (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. 2<sup>nd</sup> ed. London: Pearson Education, 2004.

i-law: online database of insurance legal knowledge. Informa. Available online via <https://www.cii.co.uk/insurance-law-database-i-law/> (CII/PFS members only).

Insurance: Conduct of Business sourcebook (ICOBS). Available via [www.handbook.fca.org.uk/handbook/ICOBS](http://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](http://www.cii.co.uk/qualifications/diploma-in-insurance-qualification).

These exemplar papers are also available on the RevisionMate website ([www.revisionmate.com](http://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](http://www.cii.co.uk/iilrevision) (CII/PFS members only).

1. The process of analysing and evaluating liability risks is
  - A. partly qualitative and partly subjective.
  - B. partly quantitative and partly subjective.
  - C. wholly quantitative.
  - D. wholly subjective.
2. When a new liability policy is arranged on the basis of a broker's presentation, who is responsible for ensuring the accuracy of the information provided?
  - A. The broker and the proposer.
  - B. The broker and the underwriter.
  - C. The proposer and the risk surveyor.
  - D. The risk surveyor and the underwriter.
3. Where an underwriter instructs a loss control surveyor, the surveyor's **primary** purpose is to
  - A. assist the insured with compliance of all aspects of health and safety legislation.
  - B. assist the underwriter in understanding the risk.
  - C. ensure all unsafe working practices are eliminated.
  - D. impose a robust risk management plan for all areas of the business.
4. A UK liability underwriter is reviewing an employers' liability risk. If the underwriter uses the triangulation method to review the claims record, this
  - A. only requires two years of claims history to produce a valid result.
  - B. takes into account changes in legislation.
  - C. takes into account inflation for incurred claims values.
  - D. will demonstrate any latency exposure.
5. The operative clause trigger with the longest latency exposure would be
  - A. causation.
  - B. claims made.
  - C. losses discovered.
  - D. manifestation.
6. An underwriter is assessing an expected claims cost under a liability portfolio. He should be aware that severity losses **usually** comprise of
  - A. a large single incident which results in multiple long tail disease claims.
  - B. large injury claims involving significant continuing disability.
  - C. long-tail disease claims.
  - D. small injury claims and short-tail disease claims.

7. A layered excess of loss products liability insurance programme is arranged for a large corporation. In these circumstances
- A. costs cover is always arranged on a proportional basis.
  - B. insurers are most likely to include a drop-down provision.
  - C. reinstatement of the limits of indemnity must be arranged layer by layer.
  - D. the aggregate limit of liability during the period of insurance includes actual claims payments and all claims reserves.
8. An employers' liability insurer provides cover for a UK-domiciled business with employees working in the US. Under which section of the policy would the insurer be exposed to claims brought by the employee in the US?
- A. Choice of law.
  - B. Geographical scope.
  - C. Law applicable to the claim.
  - D. Territorial limits.
9. When arranging cover locally for an overseas liability risk, what method should be used to bring the cover up to the monetary amount of indemnity provided in the insured's own territory?
- A. Admitted.
  - B. Difference in conditions.
  - C. Difference in limits.
  - D. Non-admitted.
10. To supplement existing general health and safety provisions, the Health and Safety Executive can introduce
- A. approved codes of practice, changes in legislation and guidance notes.
  - B. approved codes of practice, guidance notes and regulations.
  - C. approved codes of practice and regulations only.
  - D. guidance notes and regulations only.
11. Under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) 1995, who will **usually** investigate ill health reports submitted by employers?
- A. The employers' liability insurer.
  - B. The Employment Medical Advisory Service.
  - C. The local authority.
  - D. A risk surveyor.
12. An employer will be legally liable to pay damages for an employee's mental ill health upon
- A. first presentation of symptoms, if wholly caused by his working environment.
  - B. first presentation of symptoms, whether partly or wholly caused by his working environment.
  - C. secondary presentation of symptoms, where the employer knew of and failed to alleviate work factors contributing to his illness.
  - D. secondary presentation of symptoms, where the employer knew of and failed to eliminate all work factors contributing to his illness.

13. Why may an employers' liability underwriter be concerned about a nano technology risk?
- A. It can lead to industrial deafness.
  - B. It has the potential to be a catastrophe hazard.
  - C. It is always a frequency hazard.
  - D. It may lead to an asbestos-type exposure.
14. Under the Employers' Liability (Compulsory Insurance) Regulations 1998, what is the **minimum** indemnity limit for a holding company which has three subsidiary companies?
- A. £5,000,000
  - B. £10,000,000
  - C. £15,000,000
  - D. £20,000,000
15. Most employers' liability policies define an employee as including an individual doing similar work to a contracted employee and who is subject to
- A. a similar degree of control in the method of doing the work.
  - B. a similar level of remuneration.
  - C. the same period of service.
  - D. the same statutory rights to holiday and sick pay.
16. Which type of employers' liability insurance arrangement is a broker **most likely** to recommend for an employer, whose entire workforce of 5,000 employees is located in a single building?
- A. An admitted policy with a minimum statutory requirement.
  - B. A policy with a claims-made trigger.
  - C. A primary policy and an excess layer policy.
  - D. A retrospective employers' liability insurance policy.
17. A manufacturing company has a small number of its own catering staff at its head office location. How is the company's employers' liability insurance policy **most likely** to treat the risk to employees engaged in the catering activity?
- A. It would be excluded from policy cover.
  - B. It would be included in the policy cover.
  - C. The exposure is shared equally with the company's public liability insurer.
  - D. There will be a sub-limit of indemnity for claims arising from this activity.
18. In accordance with which regulation does an employer have a legal duty to display the approved health and safety poster in a prominent position in each workplace or to ensure the employee is given a copy of the information in a leaflet?
- A. Enterprise and Regulatory Reform Act 2013.
  - B. Health and Safety at Work Act 1974.
  - C. Health and Safety Information for Employees Regulations 2009.
  - D. Provision and Use of Work Equipment Regulations 1998.

19. What type of industrial disease claim would an underwriter be **most concerned** about when considering a new employers' liability policy for a business in the metal refining industry?
- A. Byssinosis.
  - B. Mesothelioma.
  - C. Occupational asthma.
  - D. Silicosis.
20. An employers' liability excess layer insurance policy is rated on the insured's
- A. aggregation exposure only.
  - B. aggregation exposure and trade risk exposure only.
  - C. aggregation exposure, the limit of indemnity and trade risk exposure only.
  - D. aggregation exposure, the limit of indemnity, trade risk exposure and the turnover of the business.
21. A public and products liability policy **typically** provides cover in the absence of bodily injury or property damage for
- A. advice for a fee.
  - B. breach of contract.
  - C. nuisance.
  - D. wrong description of products.
22. An underwriter is reviewing a proposed public liability insurance policy for multi-tenanted premises and has determined the risk to be low. The risk is **most likely** to be
- A. an industrial estate.
  - B. a manufacturing plant.
  - C. an office complex.
  - D. a shopping centre.
23. To what extent, if at all, does a public and products liability policy provide cover for damage to non-tangible property and non-intellectual rights?
- A. Cover is always excluded.
  - B. Cover is included for both but they are subject to an aggregate limit of indemnity.
  - C. Non-tangible property is covered, but non-intellectual rights are excluded.
  - D. Non-tangible property is usually excluded and limited cover is included for non-intellectual rights.
24. Under the Environment Act 1995, who is **usually** liable for the cost of cleaning up contaminated land if the party responsible for the contamination **CANNOT** be traced?
- A. The bank whose capital is secured against the land.
  - B. The current owners of the land.
  - C. The environmental agency.
  - D. The local authority.

25. The Association of British Travel Agents (ABTA) **requires** that its members provide protection to their customers through
- A. contract exclusions for foreign jurisdictions.
  - B. an indemnity provision with its service suppliers.
  - C. the purchase of a bond from an authorised financial provider.
  - D. the purchase of third party liability insurance.
26. The definition of bodily injury under a standard public and products liability policy **usually** includes
- A. death and disease only.
  - B. death and illness only.
  - C. death, disease and illness.
  - D. death, illness and wrongful eviction.
27. A manufacturer has a product in circulation that is found to be dangerous. The manufacturer wishes to recall the product silently to avoid reputational damage. In these circumstances, the manufacturer would be in breach of its requirements under the
- A. Consumer Protection Act 1987.
  - B. Consumer Rights Act 2015.
  - C. General Product Safety (GPS) Regulations 2005.
  - D. Sale and Supply of Goods Act 1994.
28. Public and products liability policies **typically** operate on the basis of
- A. a claims-made trigger.
  - B. a losses-discovered trigger.
  - C. a manifestation trigger.
  - D. an occurrence trigger.
29. A public and products liability underwriter is reviewing a proposal for a hotel. In these circumstances, the underwriter may **typically** rate the proposal based on turnover and the
- A. number of beds.
  - B. number of staff.
  - C. qualifications of management.
  - D. total wage roll.
30. When, if at all, would a liability underwriter adjust the premium of a manufacturing risk for public and products liability cover?
- A. Every quarter.
  - B. At the mid-year point only.
  - C. At the end of the policy year only.
  - D. It would never be adjusted.



31. Common exclusions under a public and products liability policy **typically** include
- A. injury to employees only.
  - B. injury to employees and advice given for a fee only.
  - C. injury to employees, advice given for a fee and offshore operations only.
  - D. injury to employees, advice given for a fee, offshore operations and product recall.
32. What effect did the Higgs Report have on the composition of the board of a listed company?
- A. Directors must have five years' specific industry experience to become a board member.
  - B. A minimum number of independent non-executive directors on the board is no longer required.
  - C. 50% of a company's board of directors are required to take on outside directorships.
  - D. At least 50% of the board must comprise of independent non-executive directors.
33. Under the Bribery Act 2010, what is the **maximum** penalty for offences committed by a company director?
- A. 5 years and a £100,000 fine.
  - B. 5 years and unlimited fines.
  - C. 10 years and a £100,000 fine.
  - D. 10 years and unlimited fines.
34. Which type of company director is one that has been formally appointed to the office?
- A. A de facto director.
  - B. A de jure director.
  - C. An independent director.
  - D. A shadow director.
35. What is the **main** effect of the Companies Act 2006 on the duties of the directors of a company?
- A. It codifies directors' duties and made them more objective.
  - B. It increases the number of common law duties of directors.
  - C. It introduces a statutory requirement for directors' and officers' liability insurance.
  - D. It made the personal accountability of directors subject to a limit of £5,000,000.
36. Which insurance policy may cover the financial consequences of a company director's dishonesty?
- A. A directors' and officers' liability policy.
  - B. A fidelity policy.
  - C. A legal expenses policy.
  - D. A theft policy.
37. Under s214 of the Insolvency Act 1986, from what category of director can a liquidator seek a personal contribution for wrongful trading?
- A. Any director or shadow director.
  - B. A full-time or executive director only.
  - C. An independent or non-executive director only.
  - D. A shadow director only.

38. For what **main** reason would a directors' and officers' liability insurer seek information concerning the likelihood of claims arising from past events in relation to a proposed new risk?
- A. To ascertain whether the insurers from previous years can be approached for a contribution towards claims.
  - B. It may be exposed to claims as cover would be provided on a claims-made basis.
  - C. To index link the reserves for specific claims in line with inflation.
  - D. The previous aggregate limits of liability may already be partially eroded.
39. The premium rating for directors' and officers' liability insurance is **typically** based upon the
- A. limit of indemnity and the net profit.
  - B. limit of indemnity and the number of directors.
  - C. number of employees and the net profit.
  - D. number of employees and the number of directors.
40. How can a corporate manslaughter conviction against an organisation lead to a civil liability claim by shareholders against an individual director under a directors' and officers' liability policy?
- A. Shareholders may demand compensation for a criminal fine imposed against the company.
  - B. Shareholders may be obliged to exercise rights under their preference shares in the company.
  - C. Shareholders may seek indemnity for an injury to an employee incurred by the company.
  - D. Shareholders may sue for a fall in their investments following damage to the company's brand.
41. For a professional indemnity risk, what is the best benchmark for an underwriter to use when assessing the competence of the partners or directors?
- A. The requirements laid down in the relevant regulatory field and any imposed by law.
  - B. The requirements that the partners or directors set for themselves and the other partners or directors on the board.
  - C. The standards the company sets itself within its Memorandum of Understanding and the company values statement.
  - D. The standards, including any examinations laid down by the relevant professional body of that particular profession, and their relevant experience.
42. Professional persons owe a duty of care to their clients and customers under
- A. common law and contract only.
  - B. common law and tort only.
  - C. common law, contract and tort only.
  - D. common law, contract, statute and tort.

43. A teacher at a private college approaches her trade union in relation to an employment dispute. The trade union appoints a solicitor to act on the teacher's behalf and the solicitor provides poor advice resulting in a financial loss to her. Which professional indemnity policy(ies) will **ultimately** cover the loss arising from the poor legal advice the teacher received?
- A. The college's policy only.
  - B. The solicitor's policy only.
  - C. The college's policy and the trade union's policy.
  - D. The solicitor's policy and the trade union's policy.
44. Due to stipulations within the trade body, retrospective date restrictions under a professional indemnity policy **must** be removed for which professionals?
- A. Chartered accountants.
  - B. Chartered insurance brokers.
  - C. Chartered insurers.
  - D. Chartered surveyors.
45. A professional indemnity insurance policy **usually** excludes
- A. claimant's costs and court attendance expenses.
  - B. death, disease or bodily injury to an employee.
  - C. losses occurring after the policy's retroactive date.
  - D. unliquidated damages.
46. When a professional indemnity policy has a discovery period condition, it **normally** means that the insurer will
- A. continue to remain liable for a fixed period of time for claims that become apparent after the expiry date.
  - B. continue to remain liable until expiry of all exposure for all losses that occurred during the period of insurance.
  - C. only pay claims that are discovered during the period of insurance.
  - D. only pay losses occurring and discovered during the period of insurance.
47. Why does a proposal form for professional indemnity insurance include questions about the proposer's contract control?
- A. It indicates whether contracts are in hard copy or electronic format.
  - B. It will help defend a claim if contract terms are properly recorded and retained.
  - C. The insurer can assess the burning cost of claims compared to contract volumes.
  - D. The insurer can assist with the drafting of the proposer's professional contracts.
48. When a professional indemnity insurance policy is rated by considering a firm's gross fees, the insurer is **most likely** to require information regarding
- A. all clients from whom fees have been paid over the past 3 years.
  - B. the largest 5 contracts undertaken in the last 3 years.
  - C. the firm's total number of employees and their individual annual salaries over the past 5 years.
  - D. the professional experience of all employees over the past 10 years.

- 49.** Fidelity liability insurance provides cover against a financial loss sustained by a firm as a result of
- A.** failing to take reasonable care when carrying out a client's instructions.
  - B.** failing to take required legal action before the period of limitation expires.
  - C.** a fraudulent act by an employee.
  - D.** negligent professional advice to a client.
- 50.** A major underwriting rating factor for a professional indemnity insurance risk is the
- A.** firm being well-established and its size increasing steadily over the last 10 years.
  - B.** insured's request for policy cover on a claims-made basis.
  - C.** number of support staff employed by the firm in areas such as human resources.
  - D.** relevant qualifications and experience of the partners or directors.

## Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 4			Learning Outcome 6		
1	B	1.1	21	C	4.3	41	D	6.4
2	A	1.2	22	C	4.1	42	D	6.1
3	B	1.2	23	D	4.1	43	B	6.2
4	D	1.3	24	B	4.2	44	D	6.3
4 questions			25	C	4.2	45	B	6.3
			26	C	4.3	46	A	6.3
Learning Outcome 2			27	C	4.2	47	B	6.4
5	A	2.1	28	D	4.3	48	B	6.5
6	B	2.2	29	A	4.4	49	C	6.6
7	B	2.3	30	C	4.5	50	D	6.5
8	C	2.4	31	D	4.3	10 questions		
9	C	2.5	11 questions					
5 questions								
			Learning Outcome 5					
Learning Outcome 3			32	D	5.1			
10	B	3.1	33	D	5.2			
11	B	3.2	34	B	5.2			
12	C	3.3	35	A	5.2			
13	D	3.4	36	B	5.3			
14	A	3.5	37	A	5.3			
15	A	3.6	38	B	5.4			
16	C	3.6	39	B	5.5			
17	B	3.6	40	D	5.6			
18	C	3.7	9 questions					
19	C	3.8						
20	C	3.9						
11 questions								