



Chartered
Insurance
Institute

IF1

Certificate in Insurance

Unit 1 – Insurance, legal and regulatory

**Based on the 2022 syllabus
examined from 1 January 2022 until 31 December 2022**

Unit 1 – Insurance, legal and regulatory

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Unit 1 – Insurance, legal and regulatory

Based on the 2022 syllabus examined from 1 January 2022 until 31 December 2022

Introduction

This examination guide has been produced by the Qualifications and Assessment Department at the Chartered Insurance Institute to assist students in their preparation for the IF1 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves two hours to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the specimen examination in this guide is typical of an IF1 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 IF1 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/unit-insurance-legal-and-regulatory-if1/**
- 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 IF1 syllabus is published on the CII website at www.cii.co.uk. **Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Supporting information for the syllabus which contains a detailed overview of the areas covered can be found on the unit page. Select Supporting information for the 2022 syllabus on the right-hand side of the page.

Skill Specification

The skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested. Learning outcomes for IF1 begin with *know* or *understand*. Different skill levels lead to different types of question, examples of which follow.

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

Understand - To answer questions based on understanding, the candidate must be able to link pieces of information together in cause-and-effect relationships. Typically questions may ask 'Why'. Questions set on an *understand* learning outcome can test either knowledge or understanding or both.

Examination Information

The method of assessment for the IF1 examination is 100 multiple choice questions (MCQs). 2 hours are allowed for this examination.

The IF1 syllabus provided in this examination guide will be examined from 1 January 2022 until 31 December 2022.

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.

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

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

While no questions involve complex calculations, candidates are permitted to use calculators during the examination. If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

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

Examination Technique: Multiple Choice Questions

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

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

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

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

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

After the Examination

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

Insurance, legal and regulatory

Objective

To provide knowledge and understanding of the basic principles of insurance, including the main legal principles related to insurance contracts, the main regulatory principles related to insurance business and the key elements to protect consumers.

| Summary of learning outcomes | Number of questions in the examination* |
|--|---|
| 1. Understand the nature and main features of risk within the insurance environment. | 9 |
| 2. Know how to apply the main features of risk and risk management to a given set of circumstances. | 2 |
| 3. Understand the main features of insurance. | 8 |
| 4. Know the structure and main features of the insurance market. | 14 |
| 5. Understand contract and agency. | 9 |
| 6. Understand the principle of insurable interest. | 5 |
| 7. Understand the principle of good faith. | 11 |
| 8. Understand the doctrine of proximate cause and its application to non-complex claims. | 2 |
| 9. Understand the principle of indemnity and how this is applied to contracts of insurance. | 7 |
| 10. Understand the principles of contribution and subrogation. | 4 |
| 11. Understand the main regulatory and legal requirements applicable to the transaction of insurance business. | 15 |
| 12. Understand consumer protection and dispute resolution. | 6 |
| 13. Know the main methods of preventing, handling and resolving consumer complaints. | 4 |
| 14. Understand the CII Code of Ethics and be able to apply the principles to non-complex scenarios. | 4 |

* The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

Important notes

- Method of assessment: 100 multiple choice questions (MCQs). 2 hours are allowed for this examination.
 - This syllabus will be examined from 1 January 2022 until 31 December 2022.
 - 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
 5. This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is a free extension that is available from <https://speechify.com/>. If for accessibility reasons you require this document in an alternative format, please contact us on ukcentreadministration@cii.co.uk to discuss your needs.

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

- 1.1 Describe the concepts of risk and risk perception.
- 1.2 Explain the risk management function and process.
- 1.3 Describe the various categories of risk.
- 1.4 Explain the types of risk that can be insured and the types of risk that cannot.
- 1.5 Describe the components of risk.
- 1.6 Understand the relationship between frequency and severity and how they are applied.
- 1.7 Explain the difference between a peril and hazard as they relate to insurance.

2. Know how to apply the main features of risk and risk management to a given set of circumstances.

- 2.1 Apply the main features of risk and risk management to different sets of circumstances/scenarios.

3. Understand the main features of insurance.

- 3.1 Explain the need for insurance.
- 3.2 Explain the basis of insurance as a risk transfer mechanism.
- 3.3 Describe how insurance benefits policyholders and society in general.
- 3.4 Explain the term coinsurance and how this is used in two distinct ways in the insurance market.
- 3.5 Describe what is meant by dual insurance and self-insurance.
- 3.6 Describe the main classes of insurance.
- 3.7 Explain the purpose of Insurance Premium Tax.
- 3.8 State the current rates of Insurance Premium Tax and how it is collected.

4. Know the structure and main features of the insurance market.

- 4.1 Describe the structure of the insurance market and the five main groups of people.
- 4.2 Describe the main categories of insurer in terms of ownership.
- 4.3 Explain the structure of the Lloyd's market and main features.
- 4.4 Describe the London Market.
- 4.5 Describe the distribution channels used for the selling of insurance.
- 4.6 Explain the purpose of reinsurance.
- 4.7 Describe the key roles of professionals in insurance.
- 4.8 Explain the main functions of the principal market organisations.

5. Understand contract and agency.

- 5.1 Describe the essential elements of a valid contract.
- 5.2 Explain conditional and unconditional acceptance of a contract.
- 5.3 Describe consideration which supports the contract.
- 5.4 Explain how contracts can be cancelled or terminated.

- 5.5 Describe methods of creating an agent/principal relationship.
- 5.6 Describe the duties of an agent and the duties of a principal.
- 5.7 Explain the consequences of an agent's actions on the principal.
- 5.8 Describe what should be included in a Terms of Business Agreement (TOBA) between insurers and intermediaries.

6. Understand the principle of insurable interest.

- 6.1 Define insurable interest and its components.
- 6.2 Explain the timing of insurable interest.
- 6.3 Explain how insurable interest can arise.
- 6.4 Explain the application of insurable interest to property and liability insurance contracts.

7. Understand the principle of good faith.

- 7.1 Explain the principle of good faith and how this applies to contracts of insurance.
- 7.2 Explain how the duty of fair presentation operates in insurance policies and how it can be altered in terms of the policy.
- 7.3 Define material circumstances.
- 7.4 Identify and distinguish between physical and moral hazards in relation to a proposal.
- 7.5 Explain an insurer's right to information.
- 7.6 Explain material circumstances that do not require disclosure.
- 7.7 Explain the consequences of non-disclosure or a breach of the duty of fair presentation.

8. Understand the doctrine of proximate cause and its application to non-complex claims.

- 8.1 Explain the meaning of proximate cause.
- 8.2 Apply proximate cause to scenarios that relate to non-complex claims.

9. Understand the principle of indemnity and how this is applied to contracts of insurance.

- 9.1 Define the principle of indemnity.
- 9.2 Explain the settlement options available to insurers which will provide the insured with the necessary indemnity.
- 9.3 Identify and distinguish between indemnity and benefit policies.
- 9.4 Explain what is meant by agreed value policies, first loss policies and new for old cover.
- 9.5 Calculate a non-complex claim payment, subject to the pro rata condition of average.

10. Understand the principles of contribution and subrogation.

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

- 10.2 Explain the principle of subrogation and why it may or may not be pursued in simple circumstances.

11. Understand the main regulatory and legal requirements applicable to the transaction of insurance business.

- 11.1 Explain the reasons for compulsory insurance and describe the types of insurances which are compulsory in the UK.
- 11.2 Explain the application of the Consumer Rights Act 2015 in relation to insurance contracts.
- 11.3 Explain the Contracts (Rights of Third Parties) Act 1999 in relation to insurance contracts.
- 11.4 Explain the role of the financial services regulators in the authorisation, supervision and regulation of insurers and intermediaries.
- 11.5 Describe the financial services regulatory principles for businesses and the Financial Conduct Authority and Prudential Regulation Authority's regulation of individuals in broad outline.
- 11.6 Explain the importance of the fair treatment of customers and positive customer outcomes.
- 11.7 Describe the consequences of non-compliance – discipline and enforcement.
- 11.8 Explain the requirements for reporting, record keeping and training and competence.
- 11.9 Describe the scope and effect of the Insurance: Conduct of Business sourcebook (ICOBS) in broad outline.
- 11.10 Describe the solvency requirements for insurers and intermediaries and financial services regulatory risk-based capital requirements in broad outline.

12. Understand consumer protection and dispute resolution.

- 12.1 Describe the main provisions of the current data protection legislation.
- 12.2 Describe the main provisions of the current Money Laundering Regulations and their application to insurers and intermediaries.

13. Know the main methods of preventing, handling and resolving consumer complaints.

- 13.1 Describe the financial services regulatory requirements in relation to handling complaints.
- 13.2 Explain the services provided by the Financial Ombudsman Service.
- 13.3 Describe the main provisions of the Financial Services Compensation Scheme, including the range of activities falling within its scope.

14. Understand the CII Code of Ethics and be able to apply the principles to non-complex scenarios.

- 14.1 Explain the five main principles in the CII Code of Ethics.
- 14.2 Apply the main principles in the CII Code of Ethics and identify positive and negative indicators of ethical behaviour to non-complex scenarios.

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 study texts

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

Books and eBooks

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

Insurance law in the United Kingdom. 3rd ed. John Birds. The Netherlands: Kluwer Law International, 2015.

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

Bird's modern insurance law. 10th ed. John Birds. Sweet and Maxwell, 2016.

MacGillivray on insurance law: relating to all risks other than marine. 13th ed. London: Sweet & Maxwell, 2015.

The Insurance Act 2015: a new regime for commercial and marine insurance law. Malcolm Clarke, Baris Soyer (eds.). Abingdon: Informa, 2016.

Periodicals

The Journal. London: CII. Six issues a year.

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

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.

Prudential Regulation Authority (PRA) Rulebook Online. Available at www.prarulebook.co.uk

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

Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (www.revisionmate.com). Details of how to access Revisionmate are on the first page of your study text. It is recommended that you only study from the most recent version of the examination guide.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

1. When assessing a property risk, the building materials used for construction would be considered to be which **key** risk component?
 - A. Frequency.
 - B. Hazard.
 - C. Peril.
 - D. Severity.

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

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

4. In relation to general insurance, to be insured a risk **must** be
 - A. avoidable.
 - B. fortuitous.
 - C. inevitable.
 - D. unavoidable.

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

6. A hazard is defined as something which
 - A. can adversely affect the risk to be insured.
 - B. does not affect the risk to be insured.
 - C. is always covered by an insurance policy.
 - D. is always excluded from an insurance policy.

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

8. In relation to insurance, a peril is
- A. an event which may give rise to a loss.
 - B. the chance of an event which may give rise to a loss.
 - C. an internal feature that increases the chance of an event which may give rise to a loss.
 - D. an external feature that increases the chance of an event which may give rise to a loss.
9. What is the presence of flammable composite panels in the construction of a factory building **best** described as?
- A. A fundamental risk.
 - B. A hazard.
 - C. A peril.
 - D. A pure risk.
10. In terms of frequency and severity, the accidental damage to the windscreen is **typically** classified as
- A. high frequency, low severity.
 - B. high frequency, high severity.
 - C. low frequency, low severity.
 - D. low frequency, high severity.
11. Which part of the world **usually** has the highest premium rate for travel insurance including medical and liability?
- A. Australia and New Zealand.
 - B. Europe.
 - C. North America.
 - D. UK.
12. Kita is choosing a European holiday and is considering a city break, a beach holiday, a cruise or a scuba diving course. In respect of travel insurance cover, which is **usually** the highest risk?
- A. The beach holiday.
 - B. The city break.
 - C. The cruise.
 - D. The scuba diving course.
13. A building has a thatched roof, a sprinkler system and an intruder alarm. Which, if any of these would be classed as a physical hazard?
- A. The thatched roof.
 - B. The sprinkler system.
 - C. The intruder alarm.
 - D. None of these.

14. A large company has decided to set aside money to settle frequent small losses that occur. This is known as
- A. coinsurance.
 - B. dual insurance.
 - C. reinsurance.
 - D. self-insurance.
15. In financial terms, why is insurance, as a means of risk transfer, attractive to a policyholder?
- A. The administrative cost of handling claims is borne entirely by the insurer.
 - B. The policyholder is able to swap an unknown future loss with a specified cost now.
 - C. The policyholder's premium is always less than potential future claims.
 - D. The policyholder's cash flow is improved by upfront payment of the premium.
16. Lloyd's syndicate A underwrites 60% of a risk, syndicate B underwrites 25% and syndicate C underwrites the remaining 15%. Collectively the syndicates are acting as
- A. coinsurers.
 - B. composite insurers.
 - C. dual insurers.
 - D. reinsurers.
17. Dual insurance exists when
- A. more than one insurer underwrites the same policy.
 - B. more than one policy covers the same risk.
 - C. part of the risk is carried by a reinsurer.
 - D. part of the risk is carried by the insured.
18. What are the two rates used when calculating Insurance Premium Tax for general insurance?
- A. 3.5% and 15%.
 - B. 3.5% and 20%.
 - C. 6% and 15%.
 - D. 12% and 20%.
19. Policies that refer to cover on a comprehensive or third party basis are **most commonly** examples of which class of insurance?
- A. Motor insurance.
 - B. Pecuniary insurance.
 - C. Property insurance.
 - D. Travel insurance.

20. The type of insurance policy that provides cover in the event of the misappropriation of goods by an employee is
- A. an employers' liability insurance policy.
 - B. a fidelity guarantee insurance policy.
 - C. professional indemnity policy.
 - D. a theft insurance policy.
21. The **main** benefit to an individual when insuring her house is that
- A. it reduces the chance of damage to the property.
 - B. maintenance costs are covered.
 - C. mortgage payments are lower.
 - D. the risk of a loss is transferred.
22. Insurance Premium Tax applies to
- A. insurers' premium income.
 - B. life insurance premiums only.
 - C. some general insurance premiums.
 - D. all insurance premiums.
23. When a solicitor acts negligently in their professional capacity. Which type of insurance policy will protect an individual if they suffer a loss?
- A. Business interruption.
 - B. Product liability.
 - C. Professional indemnity.
 - D. Public liability.
24. What are public limited companies who carry risk within the Lloyd's market otherwise known as?
- A. Corporate members.
 - B. Lloyd's agents.
 - C. Lloyd's syndicates.
 - D. Underwriting names.
25. Helen works for an insurer providing financial and statistical theories to management, including suggested premium rating and the calculation of the company's financial status. Helen is **most likely** to be a member of the
- A. British Insurance Brokers Association.
 - B. Chartered Institute of Loss Adjusters.
 - C. Institute and Faculty of Actuaries.
 - D. International Underwriting Association of London.

26. A mutual insurer is owned by
- A. board of directors.
 - B. employees.
 - C. policyholders.
 - D. shareholders.
27. Direct insurance companies operate via the telephone or internet directly to
- A. advisers.
 - B. reinsurers.
 - C. brokers.
 - D. consumers.
28. A policyholder will employ a loss assessor **primarily** to
- A. advise on risk management issues.
 - B. negotiate renewal terms.
 - C. prepare and present an insurance claim.
 - D. review his insurance cover before purchase.
29. An insurer who has accepted a risk too large to retain can choose to insure part of the risk with
- A. an assignee.
 - B. a cedant.
 - C. a coinsurer.
 - D. a reinsurer.
30. What is the Chartered Insurance Institute?
- A. An arbitration authority.
 - B. A professional body.
 - C. A regulatory body.
 - D. A trade association.
31. After investigating a liability claim for injury, from whom does the loss adjuster **usually** receive payment of fees?
- A. The insured.
 - B. The insurer.
 - C. The negligent third party.
 - D. The third party insurer.
32. Who is **specifically** responsible for identifying areas within a business where potential losses could be controlled or eliminated?
- A. An actuary.
 - B. A loss adjuster.
 - C. A loss assessor.
 - D. A risk manager.

33. Which type of insurer does **NOT** provide insurance to the general public?
- A. A captive insurer.
 - B. A composite insurer.
 - C. A mutual insurer.
 - D. A proprietary insurer.
34. Which type of insurer is wholly and directly owned by its shareholders?
- A. A captive insurer.
 - B. A Lloyd's syndicate.
 - C. A mutual insurer.
 - D. A proprietary insurer.
35. From whom could an individual obtain assistance in determining the best provider of the insurance required?
- A. The Association of British Insurers.
 - B. The British Insurance Brokers' Association.
 - C. An insurance broker.
 - D. An underwriter.
36. The **main** distinguishing feature of a tied agent is that they
- A. represent only one insurer.
 - B. represent no more than six insurers.
 - C. sell only one type of insurance.
 - D. sell no more than six types of insurance.
37. Protection and Indemnity clubs within the London market underwrite which class of insurance?
- A. Aviation.
 - B. Liability.
 - C. Marine.
 - D. Property.
38. An insurance broker recommends and arranges a policy for his client and collects the premium on behalf of the insurer. The broker subsequently advises the client on how to make a claim. At what point in this scenario is the insurer the broker's principal?
- A. When the policy is recommended.
 - B. When the policy is arranged.
 - C. When the premium is collected.
 - D. When advising on how to make a claim.

39. Afonso is a registered insurance broker working for a large broking company. When he advises Tony on insurance for his new car, Afonso is acting as the agent of
- A. the car dealer.
 - B. his employer.
 - C. the insurer.
 - D. Tony.
40. If a principal agrees to be bound by the actions of an agent who has acted outside the terms of the agency agreement, what type of agency has been created?
- A. Agency by apparent authority.
 - B. Agency by consent.
 - C. Agency by necessity.
 - D. Agency by ratification.
41. Who, if anyone, may terminate a household insurance policy?
- A. The insured only.
 - B. The insurer only.
 - C. Both the insured and the insurer.
 - D. Neither the insured nor the insurer.
42. An agent, acting within the terms of the agency agreement, enters his principal into a contract with a client. How, if at all, can the principal avoid the contract?
- A. The principal cannot avoid the contract as he is bound by it.
 - B. The principal may invoke the undisclosed principal rule.
 - C. The principal can terminate the agency retrospectively.
 - D. The principal can refuse to ratify the contract.
43. The essential components of a valid contract of insurance are
- A. invitation to treat, acceptance and consideration.
 - B. invitation to treat, offer and acceptance.
 - C. invitation to treat, offer and consideration.
 - D. offer, acceptance and consideration.
44. Under a Terms of Business agreement, an insurer and intermediary would **NOT** be deemed to be in default for failure to perform an action if the failure is caused by
- A. force majeure.
 - B. fraud by a junior employee.
 - C. a misunderstanding of the agreement resulting in a material breach.
 - D. payment not made within the terms of credit.

45. Alex, a web designer, is asked by Lukas for a quotation. Alex provides the quotation with full terms and conditions and Lukas accepts. This is known as
- A. conditional acceptance.
 - B. consideration.
 - C. contribution.
 - D. unconditional acceptance.
46. A promise to pay and provide a service is known as what to support the contract?
- A. Consideration.
 - B. Estoppel.
 - C. Invitation to treat.
 - D. Offer.
47. John borrows Vinu's car on the condition that he arranges comprehensive insurance cover on the vehicle for himself. John's broker informs him that he is unable to do so as he has no financial relationship with the vehicle. This is an example of the application of the
- A. contra proferentem rule.
 - B. material damage proviso.
 - C. principle of good faith.
 - D. principle of insurable interest.
48. When **must** insurable interest **first** exist in order for a private motor insurance policy to be enforceable by law?
- A. At the time of the quotation.
 - B. At the time the proposal form is completed.
 - C. At the time the policy goes on risk.
 - D. At the time of a claim.
49. If a condition under a tenancy agreement states that the tenant is responsible for damage to the building, the tenant therefore has insurable interest as a result of
- A. common law.
 - B. contract.
 - C. estoppel.
 - D. statute.
50. What is insurable interest?
- A. The financial interest which a person has in an item.
 - B. The interest from an investment, the loss of which can be insured against.
 - C. The interest payable on insurance instalments.
 - D. The investment income received from insurance premiums.

51. Prior to the inception of a motor insurance policy, an insurer provided the policyholder with a list of exclusions but failed to warn of an additional exclusion which subsequently appeared in the policy document. What principle of insurance has the insurer breached?
- A. Caveat emptor.
 - B. Good faith.
 - C. Proximate cause.
 - D. Subrogation.
52. When Norman applied for a theft insurance policy, he advised the insurer that he only had a single Yale lock on the main entrance to the property to be insured. This information is an example of
- A. best advice.
 - B. common interest.
 - C. contract consideration.
 - D. material circumstances.
53. Paul has been banned for driving whilst under the influence of illegal drugs. Following the completion of his ban he has applied for new motor insurance cover. Underwriters are likely to regard this information as
- A. a poor physical hazard.
 - B. a poor moral hazard.
 - C. irrelevant to the consideration of the level risk.
 - D. irrelevant as this is a spent conviction.
54. In connection with an insurance policy, at what point does the duty of disclosure **first** arise?
- A. At the beginning of negotiations.
 - B. On the making of an offer.
 - C. On the acceptance of an offer.
 - D. At policy inception.
55. In what circumstances may an insurer have the right to avoid paying a claim and to void a household contents insurance policy from inception?
- A. When a premium instalment is not paid.
 - B. When a second insurer is used by the insured.
 - C. When a deliberately undisclosed material circumstance is discovered.
 - D. When the value of contents is mistakenly underestimated by the insured.
56. An insurer is in the process of settling a claim and has already made three interim payments of £300,000 each. Prior to payment of the final amount of £300,000, the loss adjuster discovers that the insured deliberately withheld material circumstance relevant to the claim. What, if anything, is the **maximum** amount the insurer can recover from the insured?
- A. Nil.
 - B. £300,000
 - C. £600,000
 - D. £900,000

57. An insurer is deemed to have waived its rights regarding the disclosure of information on a proposal form when the proposer has neglected to
- A. advise of a material circumstance that improves the risk.
 - B. advise of a material circumstance that is a fact of law.
 - C. advise of a material circumstance that is common knowledge.
 - D. fully complete the form and the insurer has not requested further details.
58. Why does passing an advanced driving test **NOT** need to be disclosed as a material circumstance?
- A. Insurers can obtain this information on the Motor Insurance Database.
 - B. It is not a factor relevant to the level of risk posed by the driver.
 - C. It lessens the risk posed by the driver.
 - D. It is an exemption of the Road Traffic Act 1988.
59. In terms of the duty of fair presentation, what is the difference, if any, between a non-life policy and a life policy?
- A. There is no difference.
 - B. It only applies at inception for a life policy.
 - C. It only applies at inception for a non-life policy.
 - D. It applies continuously for a life policy.
60. The insurance principle which imposes a duty on the parties of a contract 'not to misrepresent any matter relating to the insurance' is known as
- A. assignment.
 - B. good faith.
 - C. insurable interest.
 - D. legal personality.
61. Following a football match, 200 rival fans riot in the street setting fire to cars and breaking shop windows. The window of a boutique is broken and smoke from a burning car outside damages the stock. What is the proximate cause of the stock damage?
- A. The football match.
 - B. The riot.
 - C. The fire from the cars.
 - D. The breakage of the boutique window.
62. The proximate cause of a loss will **always** be the
- A. dominant cause.
 - B. first cause.
 - C. last cause.
 - D. only cause.

63. Under a household insurance policy, the reinstatement basis of cover is more commonly known as
A. agreed value cover.
B. first loss cover.
C. new for old cover.
D. underinsurance cover.
64. A farmer loses a building containing livestock feed during a lightning strike. The loss adjuster advises the insurer that the building is adequately insured, however the livestock feed is only insured for 80% of market value. The claim is paid with no deduction for underinsurance. This is an example of the application of the
A. first loss basis of cover.
B. principle of contribution.
C. special condition of average.
D. subrogation waiver.
65. Which insurance principle seeks to place the insured in the same position after an insured loss as existed **immediately** before?
A. Contribution.
B. Indemnity.
C. Subrogation.
D. Utmost good faith.
66. Hiroshi effects two personal accident insurance policies. In respect of loss of limb cover, the first policy provides £25,000 and the second policy provides £30,000. What is the **total** amount that Hiroshi will receive in the event of a valid loss of limb claim?
A. £25,000
B. £27,500
C. £30,000
D. £55,000
67. Assuming that the sum insured is adequate, what is the measure of indemnity used in the case of the total loss of a building?
A. The cost of reconstruction at the time of the loss.
B. The cost of reconstruction at the time of policy inception.
C. The original purchase price.
D. The original purchase price less an allowance for wear and tear.
68. If an insured suffers a loss covered under her insurance policy, the measure of indemnity will ensure that she will be
A. able to make a profit from the loss.
B. in a worse financial position than before the loss.
C. placed in the same financial position as she was before the loss.
D. provided with replacement items.

- 69.** What type of insurance contract is a personal accident policy?
- A.** Agreed value.
 - B.** Benefit.
 - C.** First loss.
 - D.** Indemnity.
- 70.** Which insurance principle gives an insurer the right to call upon other insurers to share in the settling of a claim?
- A.** Average.
 - B.** Contribution.
 - C.** Good faith.
 - D.** Subrogation.
- 71.** A building valued at £250,000 is jointly owned by Karen and Delsin, who each individually arrange insurance on it. Karen insures the building for £100,000, whilst Delsin insures it for £150,000. How much of the valid claim is each insurer liable to pay if a loss of £55,000 occurs?
- A.** Karen's insurer is liable for £22,000 and Delsin's for £33,000.
 - B.** Karen's insurer is liable for £27,500 and Delsin's for £27,500.
 - C.** Karen's insurer is liable for £33,000 and Delsin's for £22,000.
 - D.** Karen's insurer is liable for £55,000 and Delsin's for £55,000.
- 72.** Under which insurance principle can an insurer assume the rights of the insured against a negligent third party to recover money paid out under a claim?
- A.** Arbitration.
 - B.** Average.
 - C.** Contribution.
 - D.** Subrogation.
- 73.** When a claim is made under a standard fire insurance policy, at what stage can an insurer begin to exercise subrogation rights?
- A.** As soon as a valid claim is notified.
 - B.** As soon as any negligent third party admits liability.
 - C.** As soon as settlement has been agreed.
 - D.** As soon as the insured has been paid.
- 74.** A factory owner needs to take out employers' liability insurance because it is a
- A.** common law requirement.
 - B.** health and safety requirement.
 - C.** statutory requirement.
 - D.** trade union requirement.

75. The Insurance: Conduct of Business sourcebook (ICOBS) is issued and regulated by the
- A. Association of British Insurers.
 - B. Chartered Insurance Institute.
 - C. Financial Conduct Authority.
 - D. Financial Ombudsman Service.
76. A Norwegian insurer wants to set up an office in the City of London. In order for the insurer to be authorised to transact insurance business, approval **must** be obtained from the
- A. Department for Business, Energy & Industrial Strategy.
 - B. Prudential Regulation Authority.
 - C. Foreign and Commonwealth Office.
 - D. Home Office.
77. What financial indicator does the Prudential Regulation Authority monitor to determine the continued viability of an insurer?
- A. The gearing ratio.
 - B. The loss ratio.
 - C. The share price.
 - D. The solvency margin.
78. For which type of establishment is public liability insurance compulsory by statute?
- A. A horse-riding school.
 - B. A sports centre.
 - C. A swimming pool.
 - D. A theme park.
79. Which type of insurance is compulsory by statute for a manufacturing company that employs salaried staff?
- A. Employers' liability insurance.
 - B. Fidelity guarantee insurance.
 - C. Products liability insurance.
 - D. Public liability insurance.
80. An intermediary gives advice on employers' liability, public liability and professional indemnity insurance. Which of these areas are regulated by the Financial Conduct Authority?
- A. Employers' liability and public liability insurance only.
 - B. Employers' liability and professional indemnity insurance only.
 - C. Professional indemnity and public liability insurance only.
 - D. Employers' liability, public liability and professional indemnity insurance.

81. The Prudential Regulation Authority's Principles for Businesses states that a firm **must** maintain financial resources that are
- A. adequate.
 - B. easy to liquidate.
 - C. equal to its liabilities.
 - D. less than its liabilities.
82. The Financial Services Act 2012 allows for financial penalties, public censure, civil remedies and criminal prosecutions for non-compliance in certain circumstances by the
- A. Association of British Insurers.
 - B. Financial Conduct Authority.
 - C. Financial Ombudsman Service.
 - D. Lloyd's Market Association.
83. Under the Financial Conduct Authority's regulations for training and competence, an individual in the front office of an intermediary that deals with private customers can only carry out unsupervised work once
- A. they have been with the firm for a minimum period.
 - B. they have been assessed as competent.
 - C. they have completed the relevant examinations.
 - D. they have declared they are confident in the role.
84. When considering an insurance contract, the Consumer Rights Act 2015 applies to individuals and
- A. brokers.
 - B. insurers.
 - C. reinsurers.
 - D. trade bodies.
85. Which concept is reformed by the Contracts (Right of Third Parties) Act 1999?
- A. Estoppel.
 - B. Privity of contract.
 - C. Proximate cause.
 - D. Subrogation.
86. The three Solvency II pillars are
- A. capital adequacy, systems of governance and supervisory reporting.
 - B. categories of insurer, distribution and market organisations.
 - C. risk perception, frequency and severity.
 - D. risk transfer mechanisms, coinsurance and reinsurance.

87. At which stage of a policy's lifecycle does the Financial Conduct Authority expect an insurer to treat the customer fairly?
- A. At the proposal stage.
 - B. At inception of the policy.
 - C. At the time of a claim.
 - D. During the whole lifecycle.
88. An insurer wishes to use a motor policyholder's personal data in connection with a proposed direct marketing campaign. Under the Data Protection Act 2018, it **CANNOT** proceed with the mailing unless it
- A. ensures that all data is held electronically.
 - B. ensures that the policy is still valid.
 - C. guarantees the policyholder's anonymity.
 - D. gives the policyholder permission to opt in or out of the mailing.
89. A transaction which is suspected of involving money laundering has been reported to and validated by a firm's Money Laundering Reporting Officer (MLRO). To which organisation should the MLRO report this matter?
- A. The Department for Business, Energy & Industrial Strategy.
 - B. HM Revenue & Customs.
 - C. The Serious Fraud Office.
 - D. The National Crime Agency.
90. What is the principle purpose of the Proceeds of Crime Act (2002)?
- A. To empower authorities to confiscate funds where it is believed that such funds have been obtained unlawfully.
 - B. To enable retrieved goods which have been obtained by theft or deception to be returned to their rightful owners.
 - C. To evaluate the annual loss to the British economy from organised criminal activities.
 - D. To facilitate the conviction of persons suspected of money laundering activities.
91. Which of the recognised stages of money laundering are covered by the current Money Laundering Regulations?
- A. Placement only.
 - B. Placement and layering only.
 - C. Layering and integration only.
 - D. Placement, layering and integration.
92. Under the Financial Conduct Authority's complaints-handling requirements, eligible complainants are defined as any
- A. person able to refer a complaint to the Financial Services Compensation Scheme.
 - B. personal lines policyholder only.
 - C. private individual only.
 - D. consumers or micro businesses.

93. Under the general insurance compensation arrangements of the Financial Services Compensation Scheme, for what **total** percentage of a compulsory third party motor insurance claim may compensation be provided?
- A. 70%
 - B. 80%
 - C. 90%
 - D. 100%
94. The Financial Ombudsman Service was set up to assist insurance
- A. brokers.
 - B. companies.
 - C. intermediaries.
 - D. policyholders.
95. John has a complaint against his insurer and has received the insurer's final response letter upholding their original decision. How long does he have to refer his complaint to the Financial Ombudsman Service?
- A. One month.
 - B. Six months.
 - C. One year.
 - D. Three years.
96. An insurer's underwriting manager is proposing to introduce a new household insurance scheme for civil servants which will **NOT** be available to individuals of a particular religious or political belief. What is the significance of this proposal, if any, in the context of the Chartered Insurance Institute's Code of Ethics?
- A. It is a negative indicator of compliance with the Code of Ethics.
 - B. It is a positive indicator of compliance with the Code of Ethics.
 - C. It is of no significance as marketing strategy is not covered by the Code of Ethics.
 - D. It is of no significance as underwriting strategy is not covered by the Code of Ethics.
97. What are the **main** elements covered in the Chartered Insurance Institutes Code of Ethics relating to provision of a high standard of service?
- A. Accuracy, transparency and suitability.
 - B. Accuracy, price competitiveness and suitability.
 - C. Non discrimination, price competitiveness and accuracy.
 - D. Non discrimination, transparency, suitability.

- 98.** What are the **key** elements of the Chartered Insurance Institute's Code of Ethics relating to treating people fairly?
- A.** Claim settlements are to be negotiated fairly and claim payments should be made promptly.
 - B.** A cooling-off period should be provided and premiums returned to customers who choose not to complete an insurance purchase.
 - C.** Discrimination based on race, sex, religion, age or disability should be prevented.
 - D.** Insurers should observe the principle of good faith at all times.
- 99.** An insurance broker's administration manager has discovered that the firm has no complaints-handling system in place. What, if anything, is he required to do to comply with the Chartered Insurance Institute's Code of Ethics?
- A.** He need take no action as insurance brokers are exempt from the provisions of the Code of Ethics.
 - B.** He should assess working practices and satisfy himself that there is no area in which a complaint may arise.
 - C.** He should establish a written complaints-handling system to address complaints sent through social media channels only.
 - D.** He should establish a written complaints-handling system applicable to all complaints, however submitted, and ensure that it is followed.
- 100.** A claims handler is investigating a major fire claim at a policyholder's warehouse. He unexpectedly receives the offer of a foreign holiday as a goodwill gesture from the policyholder who is grateful for his efforts. What should the claims handler do to comply with the Chartered Insurance Institute's Code of Ethics?
- A.** Accept the offer and continue handling the claim.
 - B.** Accept the offer and pass all further handling of the claim to a colleague.
 - C.** Reject the offer until the validity of the claim has been established and the claim has been settled.
 - D.** Reject the offer entirely.

Specimen Examination Answers and Learning Outcomes Covered

| Question | Answer | Learning Outcome | Question | Answer | Learning Outcome | Question | Answer | Learning Outcome |
|---------------------------|--------|------------------|---------------------------|--------|------------------|----------------------------|--------|------------------|
| Learning Outcome 1 | | | Learning Outcome 5 | | | Learning Outcome 10 | | |
| 1 | B | 1.5 | 38 | C | 5.6 | 70 | B | 10.1 |
| 2 | A | 1.2 | 39 | D | 5.6 | 71 | A | 10.1 |
| 3 | D | 1.3 | 40 | D | 5.5 | 72 | D | 10.2 |
| 4 | B | 1.4 | 41 | C | 5.4 | 73 | A | 10.2 |
| 5 | D | 1.6 | 42 | A | 5.7 | 4 Questions | | |
| 6 | A | 1.7 | 43 | D | 5.1 | | | |
| 7 | D | 1.1 | 44 | A | 5.8 | Learning Outcome 11 | | |
| 8 | A | 1.7 | 45 | D | 5.2 | 74 | C | 11.1 |
| 9 | B | 1.7 | 46 | A | 5.3 | 75 | C | 11.9 |
| 10 | A | 1.5 | 9 Questions | | | 76 | B | 11.4 |
| 10 Questions | | | | | | 77 | D | 11.4 |
| | | | Learning Outcome 6 | | | 78 | A | 11.1 |
| Learning Outcome 2 | | | 47 | D | 6.4 | 79 | A | 11.1 |
| 11 | C | 2.1 | 48 | C | 6.2 | 80 | D | 11.4 |
| 12 | D | 2.1 | 49 | B | 6.3 | 81 | A | 11.5 |
| 13 | A | 2.1 | 50 | A | 6.1 | 82 | B | 11.7 |
| 3 Questions | | | 4 Questions | | | 83 | B | 11.8 |
| | | | | | | 84 | B | 11.2 |
| Learning Outcome 3 | | | Learning Outcome 7 | | | 85 | B | 11.3 |
| 14 | D | 3.5 | 51 | B | 7.1 | 86 | A | 11.10 |
| 15 | B | 3.2 | 52 | D | 7.3 | 87 | D | 11.6 |
| 16 | A | 3.4 | 53 | B | 7.4 | 14 Questions | | |
| 17 | B | 3.5 | 54 | A | 7.2 | | | |
| 18 | D | 3.7 | 55 | C | 7.7 | Learning Outcome 12 | | |
| 19 | A | 3.6 | 56 | D | 7.7 | 88 | D | 12.1 |
| 20 | B | 3.6 | 57 | D | 7.5 | 89 | D | 12.2 |
| 21 | D | 3.3 | 58 | C | 7.6 | 90 | A | 12.2 |
| 22 | C | 3.8 | 59 | B | 7.2 | 91 | D | 12.2 |
| 23 | A | 3.1 | 60 | B | 7.1 | 4 Questions | | |
| 10 Questions | | | 10 Questions | | | | | |
| | | | | | | | | |
| Learning Outcome 4 | | | | | | Learning Outcome 13 | | |
| 24 | A | 4.3 | Learning Outcome 8 | | | 92 | D | 13.1 |
| 25 | C | 4.8 | 61 | B | 8.2 | 93 | D | 13.3 |
| 26 | C | 4.2 | 62 | A | 8.1 | 94 | D | 13.2 |
| 27 | D | 4.5 | 2 Questions | | | 95 | B | 13.2 |
| 28 | C | 4.7 | | | | 4 Questions | | |
| 29 | D | 4.6 | Learning Outcome 9 | | | | | |
| 30 | B | 4.8 | 63 | C | 9.4 | Learning Outcome 14 | | |
| 31 | B | 4.7 | 64 | C | 9.5 | 96 | A | 14.2 |
| 32 | D | 4.7 | 65 | B | 9.1 | 97 | A | 14.1 |
| 33 | C | 4.2 | 66 | D | 9.3 | 98 | C | 14.1 |
| 34 | D | 4.2 | 67 | A | 9.2 | 99 | D | 14.2 |
| 35 | C | 4.5 | 68 | C | 9.1 | 100 | D | 14.2 |
| 36 | A | 4.1 | 69 | B | 9.3 | 5 Questions | | |
| 37 | C | 4.4 | 7 Questions | | | | | |
| 14 Questions | | | | | | | | |
| | | | | | | | | |