



Chartered  
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Institute

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# E21

## Diploma in Insurance

### Examination element of M21 Commercial insurance contract wording

Based on the 2022/2023 syllabus  
examined from 1 May 2022 until 30 April 2023

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# E21 – Examination element of M21 Commercial insurance contract wording

Based on the 2022/2023 syllabus examined from 1 May 2022 until 30 April 2023

## 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 E21 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their E21 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 M21.

Although the specimen examination in this guide is typical of an E21 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 M21 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/diploma-in-insurance-qualification/unit-commercial-insurance-contract-wording-m21/](http://www.cii.co.uk/learning/qualifications/diploma-in-insurance-qualification/unit-commercial-insurance-contract-wording-m21/)
- 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 M21 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.

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 2022/2023 syllabus on the right-hand side of the page.

## Skill Specification

The examination syllabus categorises M21 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 E21 examination is 50 multiple choice questions. One hour is allowed for this examination.

The M21 syllabus provided in this examination guide will be examined from 1 May 2022 until 30 April 2023.

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.

E21 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.

# Commercial insurance contract wording

## Purpose

To enable the candidate to understand commercial (re)insurance contract wordings and the legal, regulatory and drafting issues surrounding these wordings.

## 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 environment within which UK commercial (re)insurance contract wordings are created.	12
2. Understand legal factors affecting commercial (re)insurance contract wordings.	12
3. Understand the terms and conditions of commercial (re)insurance contract wordings.	16
4. Understand the different types of reinsurance contract wordings.	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:

  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 2022 until 30 April 2023.
- Candidates will be examined on the basis of English law and practice unless otherwise stated.
- 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](mailto:ukcentreadministration@cii.co.uk) to discuss your needs.
- 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](http://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



**1. Understand the environment within which UK commercial (re)insurance contract wordings are created.**

- 1.1 Explain the regulation of the UK insurance industry in relation to contract wordings.
- 1.2 Explain the role of market organisations in relation to commercial (re)insurance contract wordings.
- 1.3 Explain the key features of the Market Reform Contract (MRC) and contract certainty principles.
- 1.4 Explain how the (re)insurance cycle affects contract wordings.
- 1.5 Explain the internal and external influences on the way in which (re)insurance contract wordings are created.

**2. Understand legal factors affecting commercial (re)insurance contract wordings.**

- 2.1 Explain the legal factors affecting commercial (re)insurance contract wordings.
- 2.2 Explain the legal relationship between the parties to a (re)insurance contract.
- 2.3 Apply the legal principles relating to the interpretation of contracts.
- 2.4 Explain the classification of terms and conditions.
- 2.5 Explain the particular considerations when drafting and reviewing law and jurisdiction clauses.
- 2.6 Describe the roles and responsibilities of the (re)insurer and broker in the preparation of commercial (re)insurance contract wordings.
- 2.7 Describe the use of underwriting agreements in a subscription market.
- 2.8 Explain the role of coverholders and the use of delegated authorities.

**3. Understand the terms and conditions of commercial (re)insurance contract wordings.**

- 3.1 Explain the key components of commercial (re)insurance contract wordings including the importance of using defined terms and consistent language.
- 3.2 Explain how coverage is triggered under an insuring clause.
- 3.3 Explain the operation of exclusion clauses in commercial (re)insurance contract wordings.
- 3.4 Discuss the different ways of defining the amount (re)insured.
- 3.5 Discuss the different ways of defining the amount retained by the (re)insured.
- 3.6 Explain the different provisions of claims notification clauses.
- 3.7 Explain the rights and duties of the (re)insured.
- 3.8 Explain the operation of dispute resolution clauses.
- 3.9 Explain the provisions of cancellation clauses.
- 3.10 Explain the purpose and effect of endorsements.
- 3.11 Apply the principles of commercial (re)insurance contract drafting to various classes of business.

**4. Understand the different types of reinsurance contract wordings.**

- 4.1 Explain the different types of reinsurance.
- 4.2 Describe the use and operation of facultative reinsurance clauses.
- 4.3 Describe and be able to apply the use and operation of proportional treaty and non-proportional treaty reinsurance clauses.
- 4.4 Explain the importance of 'event' definitions in reinsurance wordings.

## 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**

Commercial insurance contract wording. London: CII. Study text M21.

### **Books (and ebooks)**

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

Colinvaux's law of insurance. 11<sup>th</sup> ed. London: Sweet & Maxwell, 2016.

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

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

Lloyd's: law and practice. 2nd ed. Julian Burling. Oxon: Informa Law, 2017.\*

The law of insurance contracts. Malcolm A Clarke. 6th ed. London: Informa, 2009.

Insurance claims. 4th ed. Alison Padfield. Bloomsbury Professional, 2016.

### **Online resources**

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 [www.cii.co.uk/insurance-institute-of-london/](http://www.cii.co.uk/insurance-institute-of-london/) (CII/PFS members only).

Contract certainty: an Airmic guide for risk managers and insurance buyers. AIRMIC. 2009. Available via [www.airmic.com](http://www.airmic.com) (register your details to access).

Delivering excellence in insurance claims handling: claims best practice guide. AIRMIC. 2010. Available via [www.airmic.com](http://www.airmic.com) (register your details to access).

Further articles and technical bulletins are available at [www.cii.co.uk/knowledge-services/](http://www.cii.co.uk/knowledge-services/) (CII/PFS members only).

### **Journals and magazines**

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

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

Insurance law monthly. London: Informa. Monthly.

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**

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004.

Colinvaux & Merkin's insurance contract law. Robert M Merkin. Brentford: Sweet & Maxwell. Looseleaf, updated.

Concise encyclopedia of insurance terms. Laurence S. Silver, et al. New York: Routledge, 2010.\*

## 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.

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

1. Which body is the micro-prudential regulator for reinsurers?
  - A. Financial Conduct Authority.
  - B. International Underwriting Association of London.
  - C. Lloyd's.
  - D. Prudential Regulation Authority.
  
2. When providing a copy of an open market Market Reform Contract to a client as an insurance contract, which section **must** always be included?
  - A. Broker remuneration and deductions.
  - B. Fiscal and regulatory.
  - C. Security details.
  - D. Subscription agreement.
  
3. How does a Market Reform Contract (MRC) for binding authorities differ from an open market MRC?
  - A. The broker remuneration section is not required on a MRC for binding authorities.
  - B. Free form information is not required on an open market MRC.
  - C. General Underwriters Agreements are not used on a MRC for binding authorities.
  - D. Reference to the regulator is not required on an open market MRC.
  
4. What impact does post-inception over-placing have on contract certainty, where there are several subscribers to a contract?
  - A. It achieves contract certainty and is mandatory.
  - B. It compromises contract certainty and must be avoided.
  - C. It conflicts with contract certainty and is prohibited.
  - D. It enhances contract certainty and must be encouraged.
  
5. Which body has a secondary objective of facilitating effective competition within the insurance industry?
  - A. Bank of England.
  - B. Financial Conduct Authority.
  - C. HM Treasury.
  - D. Prudential Regulation Authority.

6. Representing the interests of the Lloyd's underwriting and claims community and providing professional and technical support is the **key** aim of
- A. the International Underwriting Association of London.
  - B. the Lloyd's Market Association.
  - C. the London Market Group Secretariat.
  - D. Xchanging.
7. What role does Xchanging provide to the insurance and reinsurance market?
- A. It is responsible for ensuring that insurance and reinsurance companies meet contract certainty requirements.
  - B. It issues guidelines on the content of Market Reform Contracts.
  - C. It produces standard wordings for use by insurance and reinsurance companies.
  - D. It provides premium and claim processing services and policy administration.
8. Which body has a priority of representing members' interests to government, the Financial Conduct Authority, the EU and international bodies to establish a proportionate regulatory framework?
- A. Association of Insurance and Risk Managers in Industry and Commerce (Airmic).
  - B. International Underwriting Association of London.
  - C. London & International Insurance Brokers' Association.
  - D. Xchanging.
9. The **ultimate** responsibility for regulating Lloyd's managing agents lies with the
- A. Council of Lloyd's.
  - B. Financial Conduct Authority.
  - C. Financial Policy Committee.
  - D. Prudential Regulation Authority.
10. Contract certainty is achieved by the complete and final agreement of all terms between which parties?
- A. An insured and an insurance broker.
  - B. An insured and a reinsurer.
  - C. An insurer and an insured.
  - D. An insurer and a reinsurance broker.

11. Which part of the Financial Conduct Authority's Handbook contains the Principles for Businesses?
- A. Business Standards.
  - B. High Level Standards.
  - C. Prudential Standards.
  - D. Regulatory Processes.
12. Which organisation's remit includes setting, maintaining and promoting the common vision of London as the market of choice for global insurance?
- A. Association of Insurance and Risk Managers in Industry and Commerce (Airmic).
  - B. Lloyd's.
  - C. London Market Group.
  - D. Xchanging.
13. Which clause is required in an insurance contract when there is more than one participating insurer?
- A. Interests of third party beneficiaries.
  - B. Privity of contract.
  - C. Rights of additional insureds.
  - D. Several liability of the insurers.
14. The parties to an insurance policy avoid the risk of a collateral contract changing the underlying meaning of the policy by including
- A. an entire agreement clause.
  - B. an operative clause.
  - C. a suspensive condition.
  - D. a warranty.
15. Where an express term is disputed in an insurance contract, the test of its interpretation will **usually** be considered to be that of
- A. an expert on an arbitration panel.
  - B. a high court judge.
  - C. a qualified insurance practitioner.
  - D. a reasonable person.

- 16.** A binding authority exists between an insurer and a coverholder. What is the legal relationship between the parties involved?
- A.** The coverholder is the agent of the insurer.
  - B.** The coverholder is the principal of the insurer.
  - C.** The insurer is the agent of the coverholder.
  - D.** The insured is the principal of the coverholder.
- 17.** In insurance contract law, a warranty may be a promise made by the insured in relation to
- A.** past facts only.
  - B.** past facts or present facts only.
  - C.** present facts or the continuance of a state of affairs only.
  - D.** past facts, present facts or the continuance of a state of affairs.
- 18.** A commercial reinsurance contract between an English reinsurer and a Chinese insurer states that exclusive English jurisdiction applies. What does this mean in the event of a dispute between the parties to the contract?
- A.** All parties must go to the Chinese courts.
  - B.** All parties must go to the English courts.
  - C.** All parties must apply English law, but can go to any court.
  - D.** The claimant may choose either the Chinese or English courts as the clause is invalidly drafted.
- 19.** A coverholder binds a risk that is outside its authority. Who is responsible for the payment of any resulting claim?
- A.** The coverholder but he can seek recovery from the insured.
  - B.** The coverholder but he can seek recovery from the insurer.
  - C.** The insured but he can seek recovery from the coverholder.
  - D.** The insurer but he can seek recovery from the coverholder.
- 20.** When, if at all, is it possible for an underwriter to opt-out of the General Underwriters Agreement?
- A.** At inception of cover only.
  - B.** At inception of cover and during the currency of cover.
  - C.** During the currency of cover only.
  - D.** It is not possible to opt-out.

- 21.** What is the legal position in respect of the duty of care of a lead underwriter and the liability of the following underwriters?
- A.** The lead underwriter does not owe the following underwriters a duty of care and each following underwriter is jointly liable.
  - B.** The lead underwriter does not owe the following underwriters a duty of care and each following underwriter is severally liable.
  - C.** The lead underwriter owes the following underwriters a duty of care and each following underwriter is jointly liable.
  - D.** The lead underwriter owes the following underwriters a duty of care and each following underwriter is severally liable.
- 22.** Under the General Underwriters Agreement, which party(ies) **must** agree to Part 3 Alterations?
- A.** All underwriters.
  - B.** The lead underwriter only.
  - C.** The lead underwriter and the broker only.
  - D.** The lead underwriter, the insured and the broker.
- 23.** Which party(ies) to an insurance contract have a duty to make a fair presentation of the risk to be covered?
- A.** The insurer only.
  - B.** The insured only.
  - C.** The insured and the insurer.
  - D.** The broker and the insurer.
- 24.** Company X is specified as the named insured on a commercial insurance contract and its subsidiary company, company Y, is noted as an additional insured. Which company(ies) has the duty of notifying the insurer of material changes affecting company Y and the right to claim indemnity from the insurer for losses sustained by company Y?
- A.** Company X in both circumstances.
  - B.** Company X in respect of the material changes and company Y in respect of the claim for indemnity.
  - C.** Company Y in respect of the material changes and company X in respect of the claim for indemnity.
  - D.** Both company X and company Y in both circumstances.

25. Which part of an insurance contract states that the insured has paid or promised to pay for the insurance cover?
- A. The due diligence condition.
  - B. The premium payment condition.
  - C. The recital clause.
  - D. The signature clause.
26. What provision may be used in a contract wording to restrict the effect of a total exclusion?
- A. Reinsurance assumed.
  - B. Retrocession.
  - C. A suspensive condition.
  - D. A write-back.
27. A liability policy specifies a limit of indemnity of £3,000,000 for public liability, £3,000,000 for products liability and a combined single limit of £5,000,000. What **maximum** amount will the insurer pay?
- A. £3,000,000
  - B. £5,000,000
  - C. £6,000,000
  - D. £11,000,000
28. How does the existence of a coinsurance clause **normally** impact on the payment of a loss under an insurance policy?
- A. The amount of the loss is subject to a sub-limit of liability.
  - B. It requires the insurer to pay the full amount of the loss.
  - C. The loss is only payable by the insured if the loss exceeds a minimum threshold.
  - D. A percentage of the loss will be paid rather than a fixed monetary amount.
29. Which type of contract wording is one that has been individually drafted for a specific risk?
- A. Combined.
  - B. Manuscripted.
  - C. Scheduled.
  - D. Standard.
30. The temporal scope of an insurance policy will be found within its
- A. basis of attachment.
  - B. insuring clause.
  - C. preamble.
  - D. recital clause.



31. Which basis of attachment **usually** applies to policies with retroactive dates?
- A. Claims made only.
  - B. Claims made and losses occurring.
  - C. Claims made and causation basis.
  - D. Losses occurring and causation basis.
32. Which type of insurance policy is an all risks policy?
- A. Causation basis.
  - B. Compulsory insurance.
  - C. Policy of exception.
  - D. Policy of inclusion.
33. How is the limit of liability **most likely** to be stated by an insurer that wants to restrict its exposure to a specific peril?
- A. A combined single limit.
  - B. A policy aggregate limit.
  - C. A probable maximum loss limit.
  - D. A sub-limit.
34. When does an insurer pay claims under an insurance policy that is subject to an aggregate excess?
- A. Only at the end of the policy period providing that the combined total of individual losses exceeds the stated excess.
  - B. Only if a number of individual losses are all above the monetary amount during the policy period.
  - C. Only if a number of individual losses are all below the monetary amount but collectively exceed the excess.
  - D. Only where a single loss or a combination of losses exceed the monetary amount during the policy period.
35. Which policy clause states that an insured **must NOT** make any payment to a third party without the prior written consent of the insurer?
- A. Claims control.
  - B. Claims notification.
  - C. Ex gratia payment.
  - D. Non-admission.

36. Which type of clause within an insurance contract requires that an insured should take reasonable precautions against a loss occurring?
- A. Due diligence.
  - B. Non-admission.
  - C. Recital.
  - D. Subrogation.
37. In what circumstances, if any, can an appeal be successfully brought against an arbitration decision?
- A. In no circumstances.
  - B. In all circumstances.
  - C. Only where the appeal is based on a point of law.
  - D. Only where a judicial review has granted leave for the appeal to take place.
38. Which party(ies), if any, to an insurance contract is **typically** permitted to serve notice of cancellation under a tacit renewal clause?
- A. The insured only.
  - B. The insurer only.
  - C. Both the insured and the insurer.
  - D. Neither the insured nor the insurer.
39. The usual effect of adding an endorsement to an insurance policy wording is that it
- A. changes the basis of attachment.
  - B. extends the basis of coverage.
  - C. overrides the existing policy wording.
  - D. will impose a warranty or exclusion.
40. An insurer is aware that an insured's claim is fraudulent and has decided to terminate the insurance policy by serving notice on the insured. At which point is the policy **usually** terminated?
- A. At inception.
  - B. At expiration of the policy period.
  - C. From the date of the fraudulent act.
  - D. From the date that the insured receives notice of termination.

- 41.** How does a surplus treaty operate?
- A.** It reinsures a fixed proportion of every risk.
  - B.** It always has a maximum limit for any one cession.
  - C.** The reinsured is obliged to cede all risks of a particular type.
  - D.** The reinsurer's liability is a multiple of the cedant's retention.
- 42.** When a facultative reinsurance contract is described as giving back-to-back cover, this means
- A.** there is a sunset clause on the reinsurance contract.
  - B.** there is no gap between the expiring reinsurance contract and the renewal contract.
  - C.** the reinsurance is placed on the same terms and conditions as the original placement.
  - D.** the reinsurance protection is arranged in a layered programme.
- 43.** Which clause within a reinsurance contract states that the reinsurer has no liability to provide coverage, where doing so would be in violation of political or economic restrictions?
- A.** Claims control clause.
  - B.** Currency fluctuation clause.
  - C.** Sanctions clause.
  - D.** Law and jurisdiction clause.
- 44.** A reinsurer underwrites a proportional treaty on a continuous basis. If it wants to close off its accounts for any one year before claims have been fully settled, which clause should the reinsurer ensure is within the contract?
- A.** Accounting clause.
  - B.** Cash loss clause.
  - C.** Loss portfolio clause.
  - D.** Loss settlement clause.
- 45.** What is the effect of the several liability clause in a reinsurance agreement?
- A.** The reinsurers' liability is joint and a reinsurer is obliged to pay the share of a defaulting co-reinsurer.
  - B.** The reinsurers' liability is separate and a reinsurer is not obliged to pay the share of a defaulting co-reinsurer.
  - C.** It stipulates the cession limit for each acceptance.
  - D.** It states each reinsurer's liability for its specific participation in the reinsurance agreement.

46. When a proportional treaty contract operates on a balance of account basis, what does the cedant pay to the reinsurer?
- A. Ceding commission.
  - B. Claims settlements.
  - C. A fixed proportion of the original premium.
  - D. Profit commission.
47. In which type of reinsurance contract should an interlocking clause be included?
- A. A facultative contract only.
  - B. A retrocession treaty only.
  - C. A treaty written on a risks attaching basis only.
  - D. A treaty written on a losses occurring basis only.
48. Why would a reinsurer providing cover on a risks attaching basis impose a warranty restricting the period of the original risk to 12 months plus odd time?
- A. To limit the period of time during which claims may arise.
  - B. To trace the premium and claims information.
  - C. If the premium rating may be inadequate for a risk of longer duration.
  - D. If the taxes and other deductions outside of reinsurer's control may be subject to change.
49. A reinsured makes a recovery from a third party of £60,000 in relation to a loss, of which it has already collected £500,000 from reinsurers. The limit and retention are both £1,000,000. What amount, if any, should be reimbursed to reinsurers?
- A. Nil.
  - B. £20,000
  - C. £40,000
  - D. £60,000
50. If a catastrophe lasts longer than the period stated in the hours clause within a reinsurance treaty, the reinsured may select the periods in which the most damage occurred provided that
- A. no period commences before the earliest recorded loss only.
  - B. no period commences before the earliest recorded loss and no two periods overlap.
  - C. no period ends before the last recorded loss and no two periods overlap.
  - D. no two periods overlap only.

## Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
<b>Learning Outcome 1</b>			<b>Learning Outcome 3</b>			<b>Learning Outcome 4</b>		
1	D	1.1	24	A	3.7	41	D	4.1
2	C	1.3	25	C	3.2	42	C	4.2
3	C	1.3	26	D	3.4	43	C	4.2
4	B	1.3	27	B	3.5	44	C	4.3
5	D	1.1	28	D	3.5	45	B	4.3
6	B	1.2	29	B	3.2	46	C	4.3
7	D	1.2	30	B	3.2	47	C	4.2
8	C	1.2	31	A	3.2	48	A	4.4
9	B	1.1	32	C	3.3	49	B	4.4
10	C	1.3	33	D	3.5	50	B	4.4
11	B	1.1	34	D	3.6	<b>10 Questions</b>		
12	C	1.2	35	D	3.7			
<b>12 Questions</b>			36	A	3.7			
			37	C	3.8			
<b>Learning Outcome 2</b>			38	C	3.9			
13	D	2.2	39	C	3.11			
14	A	2.3	40	C	3.7			
15	D	2.3	<b>17 Questions</b>					
16	A	2.8						
17	D	2.4						
18	B	2.5						
19	D	2.8						
20	B	2.7						
21	D	2.8						
22	A	2.7						
23	B	2.2	<b>11 Questions</b>					