



Chartered  
Insurance  
Institute

# E21

## Diploma in Insurance

### Examination element of M21 Commercial insurance contract wording

Based on the 2023/2024 syllabus  
examined from 1 May 2023 until 30 April 2024

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### Published in February 2023 by:

The Chartered Insurance Institute

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## E21 – Examination element of M21 Commercial insurance contract wording

**Based on the 2023/2024 syllabus examined from 1 May 2023 until 30 April 2024**

### 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 2023/2024 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 2023 until 30 April 2024.

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.

### Before the Examination

Before sitting the examination, please visit the preparation page on the CII website to familiarise yourself with the different requirements for sittings via remote invigilation and at an exam centre [www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/](http://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/)

### 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:
  - 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 2023 until 30 April 2024.
- 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 an extension that is available from <https://speechify.com/>. If for accessibility reasons you require this document in an alternative format, please contact us on [online.exams@cii.co.uk](mailto:online.exams@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:
  - 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 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. 12<sup>th</sup> ed. John Birds. Sweet and Maxwell, 2022.

Colinvaux's law of insurance. 13<sup>th</sup> ed.  
London: Sweet & Maxwell, 2022.

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. 5th ed. Alison Padfield.  
Bloomsbury Professional, 2021.

### 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/learning/elibrary/](http://www.cii.co.uk/learning/elibrary/) (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 ([ciigroup.org/login](http://ciigroup.org/login)) 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. Operational risk is the risk of a loss resulting from
  - A. the financial collapse of a country's economy.
  - B. inadequate or failed internal processes.
  - C. physical threats to a company's overseas operations outside of its control.
  - D. uninsurable war or terrorism exposures.
  
2. In the event of a claim, using the AIRMIC recommended Reservation of Rights letter would enable an insurer to
  - A. deny liability for the claim without a free exchange of information.
  - B. instruct its lawyers immediately to protect its rights.
  - C. investigate the claim to determine whether or not coverage applies without waiving its rights.
  - D. secure a default position with its rights over the claim and therefore limit its liability.
  
3. Macro-prudential regulation can best be described as regulation focusing on safeguarding
  - A. individual clients.
  - B. individual institutions.
  - C. all investors in the Lloyd's market.
  - D. the whole financial system.
  
4. Which body provides professional and technical support to and represents the interests of the Lloyd's underwriting and claims community?
  - A. The Corporation of Lloyd's.
  - B. Lloyd's Market Association.
  - C. London Market Group.
  - D. London Market Group Secretariat.
  
5. Which body is **primarily** responsible for overseeing and driving process change in the London Market to maintain and enhance its position internationally?
  - A. Lloyd's Market Association.
  - B. London Market Group.
  - C. London Market Group Secretariat.
  - D. The Corporation of Lloyd's.
  
6. Which section of a Market Reform Contract states the type of insurance coverage?
  - A. Fiscal and regulatory.
  - B. Information.
  - C. Risk details.
  - D. Subscription agreement.

7. An insured has advised his broker that a burglar alarm system has been installed in one of its major offices. Under which section of a Market Reform Contract should this be noted?
- A. Subscription agreement.
  - B. Information.
  - C. Risk details.
  - D. Security details.
8. If standard clauses apply to each risk bound under a binding authority Market Reform Contract (MRC), they **must** be
- A. attached in full to the MRC.
  - B. cross-referenced in the MRC and readily available to all participating underwriters.
  - C. cross-referenced in the MRC and readily available to the lead underwriter only.
  - D. issued as a separate endorsement.
9. To what extent, if at all, will a change to an insurance contract be subject to the principles of contract certainty?
- A. Any change needs to be clear and documented promptly.
  - B. Changes are outside the scope of the principles.
  - C. Only if the change is increasing coverage.
  - D. Only if the policyholder is domiciled in the UK.
10. Guidance regarding the Market Reform Contract states that any monetary amounts in UK currency should be shown using the
- A. currency code "GBP".
  - B. word "pounds".
  - C. symbol "£".
  - D. words "UK sterling".
11. Under the AIRMIC Reservation of Rights clause, the stated period allowed before the insurer can issue a notice to reserve its rights is
- A. 30 days.
  - B. 60 days.
  - C. 90 days.
  - D. 180 days.

12. A UK insurer's financial rating has been downgraded because of a combination of catastrophe underwriting losses and poor investment returns. As a consequence, the intensity of supervision of the insurer may be increased by the
- A. Bank of England.
  - B. Financial Conduct Authority.
  - C. Financial Policy Committee.
  - D. Prudential Regulation Authority.
13. When might a policy schedule **NOT** be included in the contractual documentation to be issued to an insured for an insurance placed using the Market Reform Contract (MRC)?
- A. If a completed and signed proposal form is attached to the MRC.
  - B. If the contract is for a compulsory class of insurance.
  - C. If the insurance is for a period of less than three months.
  - D. If the risk details section of the MRC has been completed fully and correctly.
14. Who are the parties to a contract of insurance bound under a binding authority?
- A. Insured and insurer only.
  - B. Insurer and coverholder only.
  - C. Insured, insurer and reinsurer.
  - D. Insured, insurer and coverholder.
15. Why is a choice of jurisdiction clause important in an insurance contract?
- A. To ensure that it is clear which country's law applies.
  - B. To ensure that the parties observe current contract law.
  - C. To provide the option of alternative dispute resolution.
  - D. To reduce the risk of a dispute being heard in a law district unfair to one party.
16. Which third party may acquire the right to enforce the terms of a contract, even if there is no express provision stating this right, and the party is **NOT** named in the contract itself?
- A. A beneficiary of a trust.
  - B. A broker in a coverholder arrangement.
  - C. A coinsurer on a subscription agreement.
  - D. A legatee of a will.
17. In respect of a commercial insurance contract wording, what does the factual matrix clarify?
- A. The contextual meaning of the terms.
  - B. The definitions of the terms.
  - C. The intentions of the proposer.
  - D. The relative bargaining strengths of the parties.

18. What type of condition requires that an insured does **NOT** admit a motor accident was his fault?
- A. A claims co-operation condition.
  - B. A condition precedent to the contract.
  - C. A condition precedent to liability.
  - D. A suspensive condition.
19. How does the inclusion of a warranty in an insurance contract differ from the inclusion of a warranty in a general contract, if at all?
- A. In an insurance contract a warranty is an important term and a breach may have significant impact.
  - B. In an insurance contract a warranty is a minor term and a breach leads to a claim for damages.
  - C. In a general contract a warranty is an important term and a breach may have significant impact.
  - D. There is no difference.
20. Why would it be good practice for a broker to draft a contract wording in advance of inception of the period of insurance of a complex commercial risk?
- A. To allow time for the broker to agree the cover with the insurer.
  - B. To allow time for the broker to agree a binding authority agreement with the insurer.
  - C. To meet the regulatory requirements of the Financial Conduct Authority.
  - D. To meet the rules in the Contract Certainty Code of Practice.
21. Within the terms of the General Underwriters Agreement, which party will **typically** agree a premium adjustment following a quarterly declaration of turnover?
- A. The broker as coverholder.
  - B. The slip leader on behalf of all other underwriters.
  - C. The slip leader and agreement parties on behalf of all other underwriters.
  - D. Each of the underwriters for their own participation.
22. Which law always applies under the General Underwriters Agreement?
- A. English law.
  - B. EU law.
  - C. The law as specified in the original insurance contract.
  - D. The law where the slip leader's head office is based.

23. Under a Lloyd's binding authority agreement, an approved overseas coverholder acts as agent for
- A. the Corporation of Lloyd's.
  - B. each insured.
  - C. the Lloyd's underwriters.
  - D. the London placing broker.
24. Why may the choice of law in an insurance contract be invalidated by a court?
- A. If it contravenes public policy and is unfair to one contract party.
  - B. If the courts in that particular jurisdiction may be temporarily overburdened.
  - C. If it has an expensive legal system and legal fees are excluded from the insurance contract wording.
  - D. If the insured has moved its head office to another geographical location.
25. When negotiating an insurance contract, an insured drafts a clause that it wants included and the insurer permits its inclusion. If there is a dispute later and the clause is found to be ambiguous, against whom, if anyone, will the clause **normally** be interpreted?
- A. It will be interpreted against the insurer.
  - B. It will be interpreted against the insured.
  - C. It will be disregarded.
  - D. The court will interpret it in whichever way causes least harm.
26. Where an insured retains some of the risk through coinsurance, how is the insurer's exposure **most commonly** determined?
- A. The insured will pay a percentage of the loss subject to an upper limit.
  - B. The insured will pay a percentage of the loss without an upper limit.
  - C. The insured will pay a fixed amount of the loss subject to an upper limit.
  - D. The insured will pay a fixed amount of the loss without an upper limit.
27. A commercial insurance contract wording shows several words in italics. This generally indicates that the
- A. wording is a draft version and the agreed wording is pending finalisation.
  - B. wording is a standard form contract with the exception of the italicised words.
  - C. words are terms which are defined elsewhere in the contract wording.
  - D. words represent warranties and breach of these terms will have serious consequences.

28. Which type of policy may have a special requirement regarding the period of insurance and need **NOT** have a fixed expiry date?
- A. Contractors' all risks.
  - B. Directors' and officers' liability.
  - C. Motor fleet insurance.
  - D. Group personal accident.
29. Which type of policy trigger is the **most common** for professional indemnity insurance?
- A. Causation basis.
  - B. Claims made basis.
  - C. Incurred but not reported basis.
  - D. Losses occurring basis.
30. Why are claims arising from the inhalation of asbestos dust **typically** excluded from a general third party liability policy in the UK?
- A. They are insurable under an insurance pool.
  - B. They are likely to be of a higher frequency or severity than is commercially acceptable.
  - C. They are risks which are an inevitable consequence of the business.
  - D. They are usually covered by a different type of insurance policy.
31. When an underwriter includes a write-back in a commercial insurance contract wording, he is seeking to
- A. offer limited cover for something otherwise excluded.
  - B. increase the policy limits.
  - C. limit cover which would otherwise be offered in full.
  - D. remove an excess or deductible.
32. An insured has a policy in two sections covering property damage and liabilities and each section has its own limit and excess. If the policy also has a combined single limit, this will mean that
- A. any loss must impact both sections of the policy before it will respond.
  - B. only the largest limit will apply to a loss involving both sections.
  - C. only one overall limit applies should both sections of the policy be triggered.
  - D. the insured can only choose one section of the policy to claim from.

33. A large supermarket chain experiences a high number of low severity claims arising from customers slipping in their UK stores. It has an arrangement with its insurer that it can handle smaller claims below a certain value in-house. What method for notifying these claims, if any, would be **most appropriate**?
- A. As soon as reasonably practicable.
  - B. By bordereaux at regular intervals.
  - C. Immediately by email.
  - D. No notification would be required.
34. What is the usual effect of triggering a fraudulent claims clause in a commercial insurance contract?
- A. An additional deductible will automatically apply to the contract.
  - B. All benefits under the contract for the fraudulent claim will be forfeited.
  - C. Subrogation will be pursued against the insured.
  - D. The contract is void from the date of the discovery of the fraud.
35. If the parties to an insurance contract want to select the individual who will make a ruling on any dispute arising under the contract, which method of dispute resolution should they insert into the contract?
- A. Arbitration.
  - B. Facilitation.
  - C. Litigation.
  - D. Mediation.
36. Under the International Chamber of Commerce's rules, when can the outcome of an arbitration ruling be challenged, if at all?
- A. In no circumstances.
  - B. Only if both parties agree.
  - C. Only if a court orders that a challenge should be granted.
  - D. In all circumstances.
37. What return of premium **usually** applies, if any, when an insurer cancels an insurance policy during the term of the policy?
- A. A full refund.
  - B. A payment with reference to a short-rate cancellation table.
  - C. A pro-rata refund.
  - D. No return of premium is payable.



38. When, if at all, does an endorsement override the original wording of a commercial contract?
- A. Only if it ends with the words "All other terms and conditions remain unaltered".
  - B. Only if an additional premium is charged for the alteration.
  - C. The original contract wording always takes precedence.
  - D. When it is agreed by the parties to the contract.
39. Where a large commercial insured uses its own captive insurer to transfer risk to, in relation to its insurance programme this will **usually** represent
- A. a binding authority.
  - B. coinsurance.
  - C. a franchise.
  - D. a self-insured retention.
40. A technical term appears several times in a commercial insurance wording. When the term appears in the wording **NOT** in an underlined, italicised or emboldened type, it should be interpreted
- A. in line with its definition elsewhere in the contract.
  - B. in accordance with insurance industry practice.
  - C. in accordance with its meaning in an approved dictionary.
  - D. in line with its everyday meaning.
41. What are the obligations, if any, on the parties under facultative reinsurance?
- A. The insurer is obliged to cede all risks of a particular type or class to the reinsurer and the reinsurer is obliged to accept those risks.
  - B. The insurer is obliged to cede all risks of a particular type or class to the reinsurer but there is no obligation on the reinsurer to accept those risks.
  - C. There is no obligation on the insurer to cede a particular risk, but if it is of a particular type or class, the reinsurer is obliged to accept it.
  - D. There is no obligation on the insurer to cede a particular risk, or on the reinsurer to accept it.
42. Which claims clause gives facultative reinsurers the right to appoint loss adjusters to act on their behalf when a claim under the original insurance contract is reported to the reinsured?
- A. Claims control.
  - B. Claims notification.
  - C. Loss reserves.
  - D. Payment of claims.

43. A proportional reinsurance treaty has a clause giving either party the right to terminate the contract with three months' notice. What is the **normal** impact on a risk ceded to the treaty on the same day as the reinsurer gave notice of termination?
- A. The risk is on cover for the subsequent three months only.
  - B. The risk is on cover in the usual way.
  - C. The risk does not attach to the treaty.
  - D. The risk may be added but the terms and premium separately agreed.
44. What is the basis of cover if the commencement and termination clause of an annual reinsurance treaty states that the contract shall be in respect of policies issued or renewed during the period of the contract?
- A. Accounting year.
  - B. Calendar year.
  - C. Reinsurance year.
  - D. Underwriting year.
45. When would an event limitation clause with an aggregate limit be imposed by a reinsurer?
- A. For risks in US states where court awards are high.
  - B. For overseas risks exposed to volatile currency fluctuation.
  - C. For risks exposed to latency.
  - D. For risks exposed to high severity losses.
46. Under a 80% quota share reinsurance treaty, the reinsured retains
- A. 20% of each risk and cedes 80% to the reinsurer.
  - B. 80% of each risk and cedes 20% to the reinsurer.
  - C. one line and cedes four lines to the reinsurer.
  - D. four lines and cedes one line to the reinsurer.
47. What is the benefit to a reinsurer of using burning cost premiums within a non-proportional treaty?
- A. It allows for interest to be paid if the premium is paid late.
  - B. It allows for the premium to be adjusted based on loss experience in the current year.
  - C. It obtains the whole year's premium in advance.
  - D. It prevents any no claims bonus being paid.

- 48.** For which class of insurance is the claims series clause used by reinsurers to enable them to aggregate claims from one specific cause?
- A.** Employers' Liability.
  - B.** Property.
  - C.** Products Liability.
  - D.** Workers' Compensation.
- 49.** What is the purpose of the currency fluctuation clause on a non-proportional reinsurance treaty?
- A.** To ensure that there is no currency fluctuation risk by using only one currency.
  - B.** To enable the reinsurer and reinsured to share the risk of currency fluctuation.
  - C.** To impose the currency fluctuation risk on the reinsured.
  - D.** To impose the currency fluctuation risk on the reinsurer.
- 50.** When a cedant has a typical hours clause in a contract, what, if any, limitation does it have on choosing which period comprises one loss occurrence?
- A.** The period will be determined by the reinsurer in all cases.
  - B.** The period can start no earlier than the first recorded individual loss.
  - C.** The period must finish on the date of the last recorded individual loss.
  - D.** The period will be determined by statute.

## Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 3			Learning Outcome 4		
1	B	1.5	25	B	3.1	41	D	4.1
2	C	1.2	26	B	3.5	42	A	4.2
3	D	1.1	27	C	3.1	43	B	4.3
4	B	1.2	28	A	3.1	44	D	4.3
5	B	1.2	29	B	3.2	45	D	4.4
6	C	1.3	30	B	3.2	46	A	4.4
7	B	1.3	31	A	3.4	47	B	4.3
8	B	1.3	32	C	3.5	48	C	4.2
9	A	1.3	33	B	3.6	49	B	4.2
10	A	1.3	34	B	3.7	50	B	4.4
11	C	1.2	35	A	3.8	10 Questions		
12	D	1.1	36	A	3.8			
13	D	1.3	37	C	3.9			
13 Questions			38	D	3.10			
			39	D	3.5			
Learning Outcome 2			40	D	3.1			
14	A	2.2	16 Questions					
15	D	2.5						
16	A	2.2						
17	A	2.3						
18	C	2.4						
19	A	2.4						
20	A	2.6						
21	B	2.7						
22	A	2.7						
23	C	2.8						
24	A	2.5						
11 Questions								