



Chartered  
Insurance  
Institute

# E96

## Diploma in Insurance

### Examination element of M96 Liability insurances

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

## E96 – Examination element of M96 Liability insurances

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

### Contents

Introduction to Examination Guide	3
M96 Syllabus	7
Specimen Examination	11
Specimen Examination Answers and Learning Outcomes Covered	21

---

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 at [online.exams@cii.co.uk](mailto:online.exams@cii.co.uk) to discuss your needs.

The CII Qualifications accessibility and special circumstances policy and guidance document can be viewed on the CII Rules and Policies page [www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/rules-and-policies/](http://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/rules-and-policies/)

#### Published in February 2023 by:

The Chartered Insurance Institute

Telephone: 020 8989 8464

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

Copyright © 2023 The Chartered Insurance Institute. All rights reserved.

## E96 – Examination element of M96 Liability insurances

**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 E96 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their E96 studies before attempting the specimen examination. Students should allow themselves one hour to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time. The examination must be successfully passed within 18 months of enrolment on M96.

Although the specimen examination in this guide is typical of an E96 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the M96 reading list, which is located on the syllabus in this examination guide and on the CII website at **[www.cii.co.uk](http://www.cii.co.uk)**.

### Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

- 1) Visit **[www.cii.co.uk/learning/qualifications/unit-liability-insurances-m96/](http://www.cii.co.uk/learning/qualifications/unit-liability-insurances-m96/)**
- 2) Select 'exam guide update' on the right-hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

## Syllabus

The M96 syllabus is published on the CII website at [www.cii.co.uk](http://www.cii.co.uk). **Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

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 M96 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to understand the subject matter. Each learning outcome begins with the following cognitive skill:

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

## Examination Information

The method of assessment for the E96 examination is 50 multiple choice questions. One hour is allowed for this examination.

The M96 syllabus provided in this examination guide will be examined from 1 May 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.

E96 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

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

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

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

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

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

## Examination Technique: Multiple Choice Questions

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

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

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

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

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

### 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.

# Liability insurances

## Purpose

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

## Assumed knowledge

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

Summary of learning outcomes	Number of questions in the examination*
1. Understand the identification, evaluation and management of liability risk.	4
2. Understand the main considerations of liability underwriting.	5
3. Understand the risks, cover and practices of employers' liability insurance.	11
4. Understand the risks, cover and practices of public and products liability insurance.	11
5. Understand the risks, cover and practices of directors' and officers' liability and corporate reimbursement insurance.	9
6. Understand the risks, cover and practices of professional indemnity insurance.	10

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

## Important notes

- Method of assessment:  
Mixed assessment consisting of two components, both of which must be passed. One component is a coursework assignment and one is a multiple choice question (MCQ) examination. The details are:
  - an online coursework assignment using RevisionMate consisting of 10 questions which sequentially follow the learning outcomes. This must be successfully completed within 6 months of enrolment; and
  - an MCQ exam consisting of 50 MCQs. 1 hour is allowed for this exam. This exam must be successfully passed within 18 months of enrolment.
- This syllabus will be examined from 1 May 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 identification, evaluation and management of liability risk.**

- 1.1 Describe the risk management framework for liability risks.
- 1.2 Explain the roles and interests of the various parties involved in the evaluation and management of liability risk.
- 1.3 Understand the importance to underwriters of evaluating the historical claims record and the impact on future pricing.

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

- 2.1 Understand the operative clause under liability insurances.
- 2.2 Describe the framework relating to the underwriting of generic liability risks.
- 2.3 Describe the cover and restrictions under liability policies.
- 2.4 Understand and evaluate the exposure to foreign legal environments.
- 2.5 Describe the underwriting considerations, information and policy wording implications in relation to foreign liability exposures.

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

- 3.1 Explain the relevance of the Health and Safety at Work etc Act 1974 to employers' liability insurance.
- 3.2 Explain the main work of the Health and Safety Executive.
- 3.3 Explain the duties of an employer, how liability arises and how liability is discharged.
- 3.4 Explain disease exposures from workplace hazards.
- 3.5 Explain the legal framework governing employers' liability in the workplace under statute and common law.
- 3.6 Explain the scope of cover of employers' liability insurance.
- 3.7 Explain market practices in relation to employers' liability insurance including compliance with legislation.
- 3.8 Describe key underwriting information under employers' liability insurance.
- 3.9 Describe the common rating bases under employers' liability insurance.

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

- 4.1 Explain the risks covered under public and products liability insurance including specialist liability insurance.
- 4.2 Explain the legal framework governing public and products liability insurance.
- 4.3 Explain the scope of cover of public and products liability insurance.
- 4.4 Explain the scope of cover of specialist liability insurance.
- 4.5 Describe key underwriting information under public and products liability insurance.

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

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

- 5.1 Understand the directors' and officers' liability insurance market.
- 5.2 Explain the legal framework affecting directors' and officers' liability insurance and corporate reimbursement insurance.
- 5.3 Explain the scope of cover under directors' and officers' liability insurance and corporate reimbursement insurance.
- 5.4 Describe key underwriting information under directors' and officers' liability insurance and corporate reimbursement insurance.
- 5.5 Describe the common rating bases under directors' and officers' liability insurance and corporate reimbursement insurance.
- 5.6 Explain legal liability for corporate manslaughter in the UK.

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

- 6.1 Describe how legal liability is covered under professional indemnity insurance.
- 6.2 Explain the risks covered under professional indemnity insurance.
- 6.3 Explain the scope of cover under professional indemnity insurance.
- 6.4 Describe key underwriting information under professional indemnity insurance.
- 6.5 Describe the common rating bases under professional indemnity insurance.
- 6.6 Describe the risks and cover given for policy extensions.



## 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**

Liability insurances. London: CII. Study text M96

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

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

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

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

'Employers' liability insurance'. Chapter – The modern law of insurance. Andrew McGee. 4<sup>th</sup> ed. London: LexisNexis, 2018.

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

'Employers' liability and other compulsory insurances'. Chapter – Birds' modern insurance law. John Birds. 12<sup>th</sup> ed. London: Sweet & Maxwell, 2022.

Health and safety: risk management. 3<sup>rd</sup> ed. Tony Boyle. Wigston: IOSH Services, 2015.\*

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

Munkman on employer's liability. 17<sup>th</sup> ed. Barry Cotter and Daniel Bennett (eds) et al. London: LexisNexis, 2019.

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

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

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

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

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

The law of liability insurance. Malcolm Clarke. New York: Informa, 2014.\*

The non-executive directors' handbook. 5<sup>th</sup> ed. Brian Coyle. London: ICSA Publishing, 2019.

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

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

### **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).

Recent developments in tort I and II. Alan Peck.

Recent developments in quantum. Alan Peck.

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

Civil procedure rules. Alan Peck.

### **Journals and magazines**

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

The Journal. London: CII. Six issues a year. Post magazine. London: Incisive Financial Publishing. Monthly. Contents searchable online at [www.postonline.co.uk](http://www.postonline.co.uk).

Access to further periodical publications is available from the Knowledge website at [www.cii.co.uk/journalmagazines](http://www.cii.co.uk/journalmagazines) (CII/PFS members only).

---

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

## Reference materials

Concise encyclopedia of insurance terms.

Laurence S. Silver, et al. New York:

Routledge, 2010. \*

Dictionary of insurance. C Bennett. 2nd ed.

London: Pearson Education, 2004.

i-law: online database of insurance legal

knowledge. Informa. Available online via

[www.cii.co.uk/insurance-law-database-i-law/](http://www.cii.co.uk/insurance-law-database-i-law/)

(CII/PFS members only).

Insurance: Conduct of Business sourcebook

(ICOBS). Available via

[www.handbook.fca.org.uk/handbook/ICOBS](http://www.handbook.fca.org.uk/handbook/ICOBS).

## Exemplars

Exemplar papers are available for all mixed

assessment units. Exemplars are available

for both the coursework component and the

MCQ exam component.

These are available on the CII website under

the unit number before purchasing the unit.

They are available under the following link

[www.cii.co.uk/qualifications/diploma-in-insurance-qualification](http://www.cii.co.uk/qualifications/diploma-in-insurance-qualification).

These exemplar papers are also available on

the RevisionMate website ([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.

1. Statistical analysis and quantitative forecasting are **most appropriate** when underwriting which type of liability risks?
  - A. Catastrophe.
  - B. Frequency.
  - C. Latency.
  - D. Severity.
  
2. What is the **main** responsibility of a manufacturing company's risk manager in relation to a liability risk?
  - A. Assessing the impact.
  - B. Collecting risk data for the underwriter.
  - C. Eliminating the impact.
  - D. Arranging insurance for all risks.
  
3. A commercial liability underwriter is calculating a burning rate percentage for a risk. What data is needed to perform this calculation?
  - A. Claims paid and claims frequency.
  - B. Total claims and claims frequency.
  - C. Total claims and wage roll.
  - D. Claims paid and wage roll.
  
4. A public liability underwriter is assessing a shopping centre risk. Although the centre is well maintained, there have been numerous slip and trip accidents. What element of hazard will the underwriter be **most** concerned about?
  - A. Frequency.
  - B. Latency.
  - C. Severity.
  - D. Workplace.
  
5. An insurer, who wishes to limit its exposure to latent public and products liability claims, would **typically** issue a policy based on which trigger?
  - A. Claims made.
  - B. Losses discovered.
  - C. Manifestation.
  - D. Occurrence.

6. A UK-based manufacturer with a French manufacturing subsidiary sells goods within the EU. An American tourist purchases a product whilst on holiday in Spain and during the holiday suffers an injury whilst using the product. The product was manufactured in France. If a personal injury claim is made, **usually** which country's law would be applicable to the claim?
- A. France.
  - B. Spain.
  - C. UK.
  - D. USA.
7. A **typical** reason for a policyholder to purchase an admitted liability policy is to
- A. always operate on a fully-insured basis solely within a home territory.
  - B. ensure that all claims can be considered under home legislation.
  - C. ensure their policy is fully licensed and compliant within their home territory.
  - D. overcome situations where the insurer is unlicensed to write business in a particular overseas country.
8. A child was injured in an accident at a horse-riding school. During the claims investigation it was established that the school was at fault and did **NOT** adhere to a policy condition. How is the public liability insurer **most likely** to respond to the claim?
- A. Decline the claim and keep the policy in force.
  - B. Decline the claim and void the policy immediately.
  - C. Pay the claim but not invite renewal.
  - D. Pay the claim and consider making a recovery against the insured for breach of contract.
9. When seeking to determine the likely claims cost for a new employers' liability risk, which type of losses are **most likely** to be difficult for a liability underwriter to predict?
- A. Catastrophe losses.
  - B. Frequency losses.
  - C. Latency losses.
  - D. Severity losses.
10. A Health and Safety Inspector has served an improvement notice on an employer for a breach of health and safety regulations. What is the **minimum** number of days after the issue of the notice that they **must** remedy the breach?
- A. 7 days.
  - B. 14 days.
  - C. 21 days.
  - D. 30 days.

11. Under the Health and Safety at Work etc. Act 1974, the duty of every employer to ensure the health, safety and welfare at work of all its employees is a duty based upon
- A. either an absolute duty or so far as reasonably practicable.
  - B. an absolute duty only.
  - C. so far as reasonably practicable only.
  - D. strict liability.
12. Employees exposed to coal dust are at risk of contracting what type of industrial disease?
- A. Byssinosis.
  - B. Dermatitis.
  - C. Mesothelioma.
  - D. Pneumoconiosis.
13. A commercial company determines that it needs employers' liability cover with a limit of £10,000,000. It already has a policy which provides the **minimum** limit required by Employer's Liability (Compulsory Insurance) Regulations 1998. What additional limit of indemnity will the firm need to obtain?
- A. £3,000,000
  - B. £5,000,000
  - C. £8,000,000
  - D. £9,000,000
14. When an employers' liability insurance policy includes a claims notification condition, what would the policyholder **typically NOT** be required to do in the event of a claim?
- A. Appoint an expert to investigate liability and report on the claim.
  - B. Immediately notify the claim or occurrence which could result in a claim.
  - C. Pass all communications from third parties to the insurer in relation to the claim.
  - D. Provide the insurer with all the help and information required in respect of the claim.
15. An employee was injured at work and has a valid claim against his employer, who has since ceased trading following insolvency. How is the employee **most likely** to be compensated for his injury?
- A. An ex gratia payment from the employers' liability insurer on risk at the time of the injury.
  - B. A payment from the employers' liability insurer on risk at the time of the injury.
  - C. As an ordinary creditor in insolvency proceedings.
  - D. Under the Financial Services Compensation Scheme for statutory classes of insurance.

16. Which Act amended part of the Health and Safety at Work etc, Act 1974 and allows more freedom for employer's to defend employer's liability claims?
- A. Compensation Act 2006.
  - B. Corporate Manslaughter and Corporate Homicide Act 2007.
  - C. Disability Discrimination Act 1995.
  - D. Enterprise and Regulatory Reform Act 2013.
17. When a liability underwriter is applying a specific exclusion to an employers' liability insurance policy, it should **only** refer to a
- A. specific type of disease.
  - B. particular type of injury.
  - C. particular activity of the employee.
  - D. specific activity of the employer.
18. An employers' duty to employ competent employees under Health and Safety at Work regulations, will relate to
- A. any possible injuries the employee may cause.
  - B. any skills the employee has which can increase company profit.
  - C. the employee's ability to earn commission and bonuses.
  - D. the employee's technical knowledge.
19. When rating a new employers' liability risk why would the underwriter **most likely** be interested in the breakdown between manual and clerical employees' wages?
- A. Manual employees present a higher risk than clerical employees and different rates will be applied.
  - B. Manual employees always earn higher salaries than clerical employees.
  - C. Clerical employees always earn higher salaries than manual employees.
  - D. Clerical employees present a higher moral hazard than manual employees and different rates will be applied.
20. Under a specialist cyber liability insurance policy, what first party cover is available?
- A. Damage to the policyholder's website from an intentional virus attack.
  - B. Damage to the policyholder's website from a negligent employee.
  - C. Infringement of intellectual property rights.
  - D. Loss of third party data from a negligent employee.

21. A policyholder has incurred clean-up costs imposed by a regulatory authority following sudden and accidental pollution. How, if at all, would a standard UK public liability policy **typically** provide for these costs?
- A. As a collateral warranty.
  - B. As an exclusion and the costs would not be covered.
  - C. As an extension.
  - D. As a policy condition.
22. Under a standard public liability policy, which three costs would **NOT** be covered in respect to damage under the Environmental Damage (Prevention and Remediation) Regulations 2009?
- A. Compensatory, complementary and defence costs.
  - B. Mitigation, compensatory and complementary costs.
  - C. Mitigation, compensatory and defence costs.
  - D. Mitigation, complementary and defence costs.
23. Why is it important to understand the correct legal nature of an unincorporated entity when determining its liability for bodily injury?
- A. An unincorporated entity always has no distinct legal entity from its shareholders and therefore both will always be liable.
  - B. It is a corporate personality and therefore will never be liable.
  - C. An unincorporated entity has individual members who are jointly and severally liable for their own torts as opposed to the entity itself.
  - D. Unincorporated entities can always be sued in the entity's name.
24. Which type of business is required by UK law to have public liability insurance?
- A. A children's nursery.
  - B. A horse rescue centre.
  - C. A horse riding establishment.
  - D. A water utility company.
25. What is a possible defence available to a manufacturer being sued under the Consumer Protection Act 1987?
- A. A full disclaimer was issued with the product.
  - B. The defect did not exist in the product at the time it was produced.
  - C. The manufacturer did not approve the design of the product.
  - D. The supply of the product was in the course of business.

26. A hotel guest asked the manager of a hotel she was staying in to look after her purse and jewellery for safekeeping. Whilst in the custody and control of the hotel, cash of £200 and jewellery valued at £500 was stolen. What is the **maximum** amount the hotel can be held liable for in respect of the guest's stolen property under the Hotel Proprietors Act 1956?
- A. £50
  - B. £100
  - C. £500
  - D. £700
27. A claim is presented from a member of the public for his wrongful arrest in a clothing store. Under the clothing store's public and product liability policy, where would a claims handler **first** refer to see if this claim is covered?
- A. The choice of law clause.
  - B. The operative clause.
  - C. The policy conditions.
  - D. The policy extensions.
28. An engineering company approaches an insurer for a public liability insurance quotation. The company derives 40% of its turnover from its work on offshore oil rigs. In these circumstances, under a standard policy wording, on what basis is the insurer **most likely** to offer cover for this risk?
- A. Offer cover but apply a specific increased deductible for the offshore work.
  - B. Offer cover subject to the insured arranging reinsurance.
  - C. Offer cover for the whole risk.
  - D. Offer cover subject to suitable employee travel insurance being in place.
29. An insurer receives a public liability proposal from a children's nursery which is responsible for 10 children. What is the **most likely** alternative method to turnover of rating the premium in these circumstances?
- A. Estimated wages.
  - B. Number of children.
  - C. Qualification of staff.
  - D. Seating capacity of the nursery.



30. Why would it be important for a merchant bank to consider purchasing a higher limit of indemnity for public liability insurance?
- A. The aggregate limit of indemnity may be inadequate if there is a high frequency of claims during the period of insurance.
  - B. Visitors may be high earners whose loss of income and ongoing care costs could exceed the limit of indemnity.
  - C. In the event of an armed robbery, there is the potential for a significant number of employees to submit claims for stress.
  - D. Defence costs are always provided within the limit of indemnity and will always reduce the limit of indemnity available for damages awarded.
31. A directors' and officers' liability policy is **commonly** extended to provide cover for which employees, if any?
- A. None, as it cannot be extended.
  - B. Employees acting in a managerial or supervisory capacity only.
  - C. Employees acting in a technical capacity only.
  - D. All employees.
32. What is a de facto director?
- A. One who always acts in a non-executive capacity.
  - B. One who acts as a director but is not formally appointed.
  - C. One who directs or instructs directors of a company.
  - D. One who is formally appointed to office.
33. What percentage of a UK-listed company's main board should consist of independent non-executive directors?
- A. A minimum of 20%.
  - B. A maximum of 25%.
  - C. A minimum of 50%.
  - D. A maximum of 75%.
34. Cover for directors' and officers' liability is **typically** arranged on the basis of a limit which is expressed as
- A. any one loss.
  - B. any one occurrence.
  - C. a total aggregate of liability.
  - D. unlimited liability.

35. When a company no longer trades, a run-off directors' and officers' liability policy may continue to provide cover for the standard statutory **minimum** period of
- A. two years.
  - B. three years.
  - C. six years.
  - D. seven years.
36. Under a standard directors' and officers' liability policy the discovery period allows the policyholder to pay a pre-agreed premium so that for a set period, the policyholder can notify claims for circumstances occurring
- A. prior to expiration of the policy.
  - B. after the expiration of the policy up to a 12 month cut-off period.
  - C. after the expiration of the policy up to a 30 days cut-off period.
  - D. in relation to non-executive directors only for an agreed fixed period of time.
37. When assessing the directors' and officers' risk posed by any UK company in the telecoms sector, what **typically** will a directors' and officers' liability underwriter be **most concerned** about?
- A. Employment practices liability claims.
  - B. The geographical locations of operation.
  - C. Potential unfair competitive practices.
  - D. The staff turnover rate per year.
38. The rate that an underwriter will apply to achieve the premium for a directors' and officers' liability risk is **typically** based on the
- A. estimated wages and salaries and geographical area of operation.
  - B. estimated wages and salaries and qualifications of the senior staff.
  - C. geographical area of operation and limit of indemnity chosen.
  - D. qualifications of the senior staff and limit of indemnity chosen.
39. With regard to a potential prosecution for relevant offences, what is the current implication of the Corporate Manslaughter and Corporate Homicide Act 2007?
- A. Individual directors can no longer be prosecuted in their own right.
  - B. Individual directors can now be prosecuted in their own right.
  - C. Organisations can no longer be prosecuted in their own right.
  - D. Organisations can now be prosecuted in their own right.

40. What are the **main** reasons that capacity has reduced and premiums have increased recently within the Directors' & Officers' (D&O) insurance market?
- A. A number of insurers have exited the market due to sizeable losses.
  - B. Due to increased regulation imposed by the Financial Conduct Authority only certain insurers are now permitted to underwrite D&O insurance.
  - C. All non-executive directors have to arrange their own individual policies to cover all directorships held.
  - D. D&O insurance cover is compulsory for all listed companies which has reduced the availability in the market.
41. A manufacturing company has purchased a firm of consulting design engineers that have been trading for the last five years. The manufacturing company notify their liability insurers of this on a mid-term basis. As a consequence, the liability underwriter will assess, in particular, the cover previously purchased by the consulting design engineers for
- A. employers' liability.
  - B. product liability.
  - C. professional indemnity.
  - D. public liability.
42. Where a property surveyor acted for a lender and was subsequently found negligent in his valuation of a property, what damages in law would he be liable for?
- A. The difference between the negligent valuation and the correct valuation only.
  - B. The difference between the negligent valuation and the correct valuation plus any subsequent reduction in property values.
  - C. A refund of the valuation fee only.
  - D. A refund of the valuation fee plus any liquidated damages.
43. Under the Companies Act 2006, to what extent, if at all, are accountants able to limit their financial liability for audit work?
- A. They are able to limit their liability by agreement.
  - B. They are able to limit their liability up to a limit of £3,000,000.
  - C. They are able to limit their liability up to a limit of £5,000,000.
  - D. They are not able to limit their liability in any circumstances.
44. How would the limit of indemnity and defence costs be **typically** arranged under a professional indemnity insurance policy for a firm of independent financial advisers?
- A. Always as a limit applicable to any one claim, inclusive of defence costs.
  - B. Always as a limit applicable to any one claim, excluding defence costs.
  - C. As an aggregate limit inclusive of defence costs.
  - D. As an occurrence limit exclusive of defence costs.

45. It is **usual** for professional indemnity policies to exclude
- A. claimants' costs and war risks.
  - B. defence costs and sonic bangs.
  - C. financial losses and pollution.
  - D. liquidated damages and liability for bodily injury.
46. Within a professional indemnity policy, where does it state that cover is on a claims made basis?
- A. Endorsements.
  - B. General conditions.
  - C. Operative clause.
  - D. Recital clause.
47. When considering a proposal for professional indemnity insurance, an underwriter is **least likely** to be interested in
- A. employee behaviour.
  - B. employee wages.
  - C. previous claims history.
  - D. previous insurance history.
48. What are two **common** bases for rating a professional indemnity risk?
- A. Amount of indemnity and gross fees.
  - B. Geographical areas of operation and jurisdiction to be covered.
  - C. Turnover and gross assets.
  - D. Wages and salaries.
49. A professional will always be deemed to have been negligent, if they
- A. have not exercised the exceptional ability expected of a specialist in their profession.
  - B. have not followed all of the strict codes of conduct imposed by their governing bodies.
  - C. cannot demonstrate that they hold official qualifications.
  - D. have not exercised the prudence and skill as would be expected from an average member of their profession.
50. The Finance Director of an architectural partnership has been made aware by the external auditor of a misappropriation of funds by an employee. Which insurance policy is **most likely** to contain an extension to respond to any claim arising from these circumstances?
- A. Directors' and officers' liability.
  - B. Employers' liability.
  - C. Professional indemnity.
  - D. Public liability.

## Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 4			Learning Outcome 6		
1	B	1.2	20	A	4.4	41	C	6.4
2	A	1.2	21	C	4.4	42	A	6.2
3	C	1.3	22	B	4.2	43	A	6.2
4	A	1.1	23	C	4.1	44	C	6.3
4 questions			24	C	4.2	45	D	6.3
			25	B	4.2	46	C	6.3
Learning Outcome 2			26	D	4.2	47	B	6.4
5	A	2.1	27	B	4.3	48	A	6.5
6	B	2.4	28	A	4.3	49	D	6.1
7	C	2.5	29	B	4.6	50	C	6.6
8	D	2.3	30	B	4.5	10 questions		
9	C	2.2	11 questions					
5 questions								
			Learning Outcome 5					
Learning Outcome 3			31	B	5.3			
10	C	3.2	32	B	5.2			
11	A	3.1	33	C	5.2			
12	D	3.4	34	C	5.3			
13	B	3.5	35	C	5.5			
14	A	3.6	36	A	5.5			
15	B	3.7	37	C	5.4			
16	D	3.1	38	C	5.5			
17	D	3.8	39	D	5.6			
18	A	3.3	40	A	5.1			
19	A	3.9	10 questions					
10 questions								