



Chartered
Insurance
Institute

E05

Examination element of M05 Insurance law

Based on the 2018/2019 syllabus
examined from 1 May 2018 until 30 April 2019

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E05 – Examination element of M05 Insurance law

Based on the 2018/2019 syllabus examined from 1 May 2018 until 30 April 2019

Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the E05 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their E05 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 M05.

Although the specimen examination in this guide is typical of an E05 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 M05 reading list, which is located on the syllabus in this examination guide and on the CII website at www.cii.co.uk.

Background Information

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

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

- 1) Visit www.cii.co.uk/qualifications
- 2) Select the appropriate qualification
- 3) Select your unit 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 M05 syllabus is published on the CII website at www.cii.co.uk. **Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The examination syllabus categorises M05 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 one of these cognitive skills:

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 E05 examination is 50 multiple choice questions (MCQs): 40 standard format and 10 multiple response format. One hour is allowed for this examination.

The M05 syllabus provided in this examination guide will be examined from 1 May 2018 until 30 April 2019.

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.

E05 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 standard format 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 or best 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.

A multiple response format question consists of a problem, followed by between four to six options. For each question more than one option is correct. Candidates must select **all** the correct options to gain the mark.

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.

Insurance law

Purpose

At the end of this unit, candidates should be able to:

- demonstrate a knowledge and understanding of the laws which form the background to the operation of insurance;
- demonstrate a knowledge and understanding of the system within which these laws operate and are administered;
- apply knowledge and skills to practical situations.

Assumed knowledge

It is assumed that the candidate 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 nature and sources of English law and the concept of natural legal persons. | 5 |
| 2. Understand the principles of the law of torts and the characteristics of the main torts. | 4 |
| 3. Understand the law of contract. | 4 |
| 4. Understand the law of agency and its application to insurance. | 4 |
| 5. Understand the main principles governing the formation of insurance contracts. | 9 |
| 6. Understand the classification and interpretation of insurance contract terms, the effects of their breach and other vitiating factors. | 8 |
| 7. Understand the main legal principles governing the making of an insurance claim. | 6 |
| 8. Understand how losses are measured and how the principle of indemnity applies to insurance claims. | 4 |
| 9. Understand how the principles of subrogation and contribution apply to insurance claims. | 6 |

*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 at one of the CII's online centres (paper-based MCQs are available in April and October for those sitting outside the UK). The MCQ exam consists of 40 standard format and 10 multiple response questions. 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 2018 until 30 April 2019.
 - Candidates will be examined on the basis of English law and practice unless otherwise stated.
 - Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
 1. Visit www.cii.co.uk/updates
 2. Select the appropriate qualification
 3. Select your unit on the right hand side of the page

- 1. Understand the nature and sources of English law and the concept of natural legal persons**
 - 1.1 Describe the classifications and characteristics of English law.
 - 1.2 Describe the sources of English law.
 - 1.3 Describe the structures and procedures of the courts.
 - 1.4 Describe the status and capacity of natural legal persons.
 - 1.5 Describe the main types of corporation and their characteristics.
- 2. Understand the principles of the law of torts and the characteristics of the main torts**
 - 2.1 Describe the nature and classification of torts.
 - 2.2 Explain the law of negligence and the other main torts
 - 2.3 Explain how the law of torts apply to employers' liability, products liability and occupiers' liability.
 - 2.4 Explain the main defences, remedies and limitations of actions in tort.
- 3. Understand the law of contract**
 - 3.1 Explain the nature of contractual liability and classification of contracts.
 - 3.2 Explain the formation of a contract.
 - 3.3 Explain how contract terms are classified under the general law.
 - 3.4 Explain defective contracts.
 - 3.5 Explain the circumstances in which a contract may be discharged.
 - 3.6 Explain the remedies for breach of contract.
 - 3.7 Explain the doctrine of privity of contract.
 - 3.8 Explain the assignment of contractual rights and duties.
 - 3.9 Explain assignment in the context of insurance and apply this to practical situations.
- 4. Understand the law of agency and its application to insurance**
 - 4.1 Explain the nature of agency and how an agency relationship can be created.
 - 4.2 Explain the relationships between agents, principals and third parties.
 - 4.3 Explain the nature of an agent's rights, responsibilities, authority and duties.
 - 4.4 Explain the termination of agency and its effects.
 - 4.5 Explain how the principles of agency law apply to insurance.
 - 4.6 Apply the principles of agency law to practical situations.
- 5. Understand the main principles governing the formation of insurance contracts**
 - 5.1 Explain how the principles of contract law apply to the formation of insurance contracts.
 - 5.2 Explain the concept and key elements of insurable interest.
 - 5.3 Explain how the law of insurable interest applies to the main classes of insurance and apply the law to practical situations.
 - 5.4 Explain the duty of fair presentation in non-consumer insurance and apply the principles to practical situations.
 - 5.5 Explain the effects of breach of the duty of fair presentation in non-consumer insurance and apply the principles to practical situations.
 - 5.6 Explain the duty to take reasonable care not to make a misrepresentation in consumer insurance and apply the principles to practical situations.
 - 5.7 Explain the effects of breach of the duty to take reasonable care not to make a misrepresentation in consumer insurance and apply the principles to practical situations.
- 6. Understand the classification and interpretation of insurance contract terms, the effects of their breach and other vitiating factors**
 - 6.1 Explain the classification and interpretation of insurance contract terms.
 - 6.2 Explain how warranties and conditions are formed in insurance contracts and apply the law to practical situations.
 - 6.3 Explain the effect of breach of warranty or condition and apply the law to practical situations.
 - 6.4 Explain how illegality arises in insurance contracts and apply the law to practical situations.
- 7. Understand the main legal principles governing the making of an insurance claim**
 - 7.1 Describe the parties who can claim on or benefit from an insurance contract and apply the law to practical situations.
 - 7.2 Explain the rules governing notice and proof of loss and apply the law to practical situations.
 - 7.3 Explain the insured's contractual duty to mitigate or prevent an insured loss and apply the law to practical situations.
 - 7.4 Explain the doctrine of proximate cause and apply it to practical situations.

8. Understand how losses are measured and how the principle of indemnity applies to insurance claims

- 8.1 Explain the principle of indemnity.
- 8.2 Explain the measure of indemnity in various classes of insurance and apply the law to practical situations.
- 8.3 Explain the factors which limit, reduce, extend or modify the principle of indemnity and apply the law to practical situations.
- 8.4 Explain the methods of providing indemnity and apply the law to practical situations.
- 8.5 Explain the doctrine of salvage and abandonment and apply the law to practical situations.
- 8.6 Explain the effect of claim payments on policy cover and apply the law to practical situations.

9. Understand how the principles of subrogation and contribution apply to insurance claims

- 9.1 Explain the doctrine of subrogation in insurance.
- 9.2 Explain the source of subrogation rights and apply the law to practical situations.
- 9.3 Explain abandonment and salvage and apply the law to practical situations.
- 9.4 Explain how subrogation rights may be modified or denied and apply the law to practical situations.
- 9.5 Explain the nature of double insurance and operation of contribution.
- 9.6 Explain methods of ascertaining the ratio of contribution.
- 9.7 Apply the principle of contribution to the main lines of insurance and to practical situations.
- 9.8 Explain the effect of market agreements on rights of contribution.

Reading list

The following list provides details of various publications 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 publications will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

CII study texts

Insurance law. London: CII. Study text M05.

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

Books (and ebooks)

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

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

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

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

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

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

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

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

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

Factfiles

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via www.cii.co.uk/ciifactfiles (CII/PFS members only).

- Recent developments in tort I and II. Alan Peck.
- Civil procedure rules. Alan Peck.
- The regulatory framework. Simon Collins.

Journals and magazines

The Journal. London: CII. Six issues a year. Also available online via www.cii.co.uk/knowledge (CII/PFS members only).

Post magazine. London: Incisive Financial Publishing. Monthly. Also available online at www.postonline.co.uk.

Insurance law monthly. London: Informa. Monthly.

Reference materials

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.*

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/lawdatabases (CII/PFS members only).

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

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.

These exemplar papers are also available on the RevisionMate website www.revisionmate.com after you have purchased the unit.

Exam technique/study skills

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

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at www.cii.co.uk/iilrevision (CII/PFS members only).

1. The final court of appeal for a number of commonwealth countries is the
 - A. Crown Court.
 - B. High Court.
 - C. Judicial Committee of the Privy Council.
 - D. Supreme Court.

2. The Marine Insurance Act 1906 is an example of
 - A. a codifying act.
 - B. delegated legislation.
 - C. international legislation.
 - D. a retrospective act.

3. A 'litigation friend' ('next friend') is responsible for litigation costs awarded against a claimant who is a
 - A. bankrupt.
 - B. company.
 - C. partnership.
 - D. minor.

4. One of the requirements for the rule in Rylands v Fletcher to operate, is that there **must** be
 - A. a defamatory statement.
 - B. fault or negligence by the defendant.
 - C. a negligent misstatement.
 - D. a non-natural use of land by the defendant.

5. For which tort is the claimant **never** required to prove that he has suffered loss or damage?
 - A. Negligence.
 - B. Nuisance.
 - C. Slander.
 - D. Trespass.

6. Katy's mother bought her an iron, which turned out to be defective and caused a fire. It resulted in damage to Katy's personal property amounting to £500 and also caused severe burns to Katy's right hand. In order to achieve a recovery at law, which legal action should be pursued?
 - A. Katy's mother should sue the seller in tort based on the principle of negligence.
 - B. Katy should sue her mother based on the principle of vicarious liability.
 - C. Katy should sue the manufacturer based on the provisions of the Consumer Protection Act 1987.
 - D. Katy should sue the seller for breach of contract in selling a defective electrical product.

7. An insurance policy would **automatically** be illegal and void if it is
- A. an employer's liability policy for a company without any employees.
 - B. a household contents policy covering a gun collection.
 - C. a life assurance policy taken out by a person who has no insurable interest in the life insured.
 - D. a marine cargo policy taken out by a person who is not the owner of the cargo.
8. With regard to formation of a contract, consideration **must** always be a
- A. benefit to the person receiving it or a detriment to the person giving it.
 - B. detriment to the person receiving it or a benefit to the person giving it.
 - C. benefit to both the person giving it and the person receiving it.
 - D. detriment to both the person giving it and the person receiving it.
9. Adam had a contract with a specialist storage company to store some valuable paintings, but damp storage conditions resulted in damage to the paintings. Although Adam's contract did **NOT** expressly state the storage requirements had to be suitable, he successfully sued the storage company on the basis that the contract terms were implied
- A. by custom.
 - B. by EU regulation.
 - C. in fact.
 - D. in law.
10. An insurance broker grants cover for motor insurance to a 21-year-old proposer. However, the broker's authority is restricted to only granting cover to drivers aged 23 years and over. What basis, if at all, is the insurer bound to cover the 21-year-old?
- A. Agency by estoppel.
 - B. Apparent authority.
 - C. Implied actual authority.
 - D. The insurer is not bound.
11. Whilst Tim was on holiday, unknown to him his agent made a contract on his behalf. Tim is happy to ratify the contract but he does want to change a minor term. The services under the contract are scheduled to be carried out next week. What is the legal position regarding ratification of the contract?
- A. Tim cannot ratify the contract as it was made without his knowledge.
 - B. Tim cannot ratify the contract excluding the minor term as the whole contract must be ratified.
 - C. Tim can ratify the contract and change the term as it is only a minor term.
 - D. Tim can ratify the contract and change the minor term if this is done within reasonable time.

12. Alice acted as an agent for Ted in a house clearance sale and has successfully claimed commission by implied agreement. What does this indicate about the commission?
- A. It was agreed as it was based on a verbal agreement.
 - B. It was agreed as it was detailed in an agency contract.
 - C. It was not agreed, but Alice had a lien on Ted's property.
 - D. It was not agreed, but Alice's work was in her usual line of business for which she would normally be paid.
13. In respect of consumer contracts the practical application of the doctrine of utmost good faith means that the
- A. broker has a duty to the proposer to find the widest coverage at the best price.
 - B. insured and the insurer have a duty of confidentiality regarding contract information.
 - C. proposer and the broker have a joint duty to disclose all material facts relating to the contract.
 - D. proposer and the insurer have a duty to deal honestly and openly in negotiations leading to formation of the contract.
14. Stuart has a joint mortgage with his wife of £60,000 and a personal loan of £5,000, but no other debts. How much insurable interest does his wife have in his life?
- A. A maximum of £30,000.
 - B. A maximum of £60,000.
 - C. A maximum of £65,000.
 - D. An unlimited amount.
15. A proposer for property insurance did **NOT** inform the insurer that his business premises were protected by a burglar alarm. What are the implications, if any, of this omission once the insurer is on risk and the premium is paid?
- A. None, as it is a factor that lessens the risk.
 - B. The insurer is obliged to refund a proportion of the premium.
 - C. The insurer can avoid the policy, but must refund the premium.
 - D. The insurer is obliged to quote revised terms to the proposer.
16. When effecting a household contents insurance policy, the proposer deliberately provided the insurer with misleading information and so the insurer avoided the policy. In what circumstances, if any, is the insurer obliged to return the premium to the policyholder?
- A. In no circumstances.
 - B. The premium exceeds a de minimis amount.
 - C. The premium was paid on day one of the policy period.
 - D. Retaining the premium would be unfair to the policyholder.

17. Under English Law, the right to insure the life of another person arises if there is
- A. the consent of the Law Commission.
 - B. the consent of the life assured.
 - C. a financial relationship recognised at law.
 - D. a relationship characterised by a close bond of natural affection.
18. The Consumer Insurance (Disclosure and Representations) Act 2012 abolished the duty of disclosure in consumer insurance. A consumer's duty is now to take reasonable care **NOT** to make a
- A. fraudulent statement.
 - B. misrepresentation.
 - C. qualifying disclosure.
 - D. representation.
19. Under English law, an element of statutory control over the wording of consumer insurance policies is imposed by the
- A. Consumer Insurance (Disclosure and Representations) Act 2012.
 - B. Consumer Protection Act 1987.
 - C. Consumer Rights Act 2015.
 - D. Unfair Contract Terms Act 1977.
20. To what extent, if at all, does the duty of good faith apply to employers' liability insurance?
- A. It applies in exactly the same way as it does to all other non-consumer insurances.
 - B. It does not apply as it is a compulsory class of insurance.
 - C. It only applies at inception of the policy but not at subsequent renewal.
 - D. It only applies to large companies, defined as those with more than 50 employees.
21. A life insurance policy would **automatically** be void for illegality if
- A. the insured committed suicide.
 - B. there is no insurable interest.
 - C. the premium had not been paid.
 - D. the insurer became insolvent.
22. The contractual term stating that a life insurance policy will **NOT** come into effect until the premium is paid is an example of
- A. a condition precedent to contract.
 - B. a condition precedent to liability.
 - C. a continuous warranty.
 - D. an implied warranty.

23. Why may an insurer insert a continuing warranty into an insurance policy?
- A. To avoid paying a loss if it is caused by a peril stated in the policy.
 - B. To enable an insurer to charge an additional premium if the warranty is breached.
 - C. To ensure that a full sum insured is declared to avoid underinsurance.
 - D. To ensure that measures are taken to improve risk management.
24. When an insured breaches a suspensive condition, for how long, if at all, is policy cover invalid?
- A. It is never invalid, but the insurer is entitled to damages.
 - B. It is valid on condition that the insured describes the risk in reasonable time.
 - C. It is invalid only for the period that the insured continues to breach the condition.
 - D. It is permanently invalid as the policy is terminated from the date of the breach of the condition.
25. Two policies were incepted and both were in joint names. Policy X was arranged by a lessor and lessee and policy Y was taken out by a married couple who have an equal share in their home. What are the **likely** types of policy X and policy Y?
- A. Policy X is a composite policy and policy Y is a joint policy.
 - B. Policy X is a joint policy and policy Y is a composite policy.
 - C. Both policy X and policy Y are composite.
 - D. Both policy X and policy Y are joint.
26. A clause in a company's professional liability policy enables the insurer to avoid paying for any losses when an insured admits responsibility for the loss. This type of clause is
- A. a condition precedent to contract.
 - B. a condition precedent to liability.
 - C. an express warranty.
 - D. an implied warranty.
27. A warranty in a household buildings insurance policy states that the chimney of the property should be professionally swept every year prior to winter use. A loss occurs as a result of severe winds and the chimney is damaged. How is the insurer legally entitled to respond to the claim for property damage to the chimney if the insured has breached the warranty?
- A. Avoid the claim but keep the policy in force.
 - B. Reduce the claim payment pro rata.
 - C. Reject the claim and terminate the policy.
 - D. Settle the claim in full.

28. A policyholder has a fire insurance policy which excludes storm and other perils. A fire broke out due to faulty machinery overheating. At the same time as the fire, a violent storm blew the roof off the buildings and caused a power cut so that the fire alarm did not operate. This led to a more serious fire than would have occurred otherwise. For what damage, if any, would the fire insurers be liable?
- A. The fire damage only.
 - B. The fire damage only less a reduction for the fire alarm being non-operational.
 - C. The fire damage and the storm damage as they are concurrent causes.
 - D. No damage.
29. Joe has been injured in a motor accident. Under section 151 of the Road Traffic Act 1988, he has the right to make a direct claim against the insurer of the negligent driver, Sally, if he
- A. is a minor and has no contractual capacity.
 - B. has an unsatisfied court judgment against Sally.
 - C. has already had a claim against the Motor Insurers' Bureau rejected.
 - D. was wearing a seat belt at the time of the accident and no contributory negligence applies.
30. If an insurance claim is disputed and causation is an issue, what approach will a court take when looking to identify the proximate cause of the loss?
- A. It will accept the decision of the jury as guided on points of law by the judge.
 - B. It will follow decisions made by international courts.
 - C. It will rely on the common understanding of causation by a normal person.
 - D. It will require proof of causation by scientific and/or technical means.
31. Dan's insurer identified fire as the proximate cause of his insurance claim although the loss resulted from a series of perils. This indicates the insurer has judged that the fire **must** be the
- A. only insured peril.
 - B. most dominant of the perils.
 - C. first of the series of perils.
 - D. last of the series of perils.
32. Ian's speedboat suffered damage during a storm. The insurer identified that a design fault on the boat was a second and concurrent cause of the damage. Neither the storm nor the design fault would have caused the loss on its own. Ian's marine insurance policy provided cover against storm damage but the design fault was an uninsured peril. How, if at all, would Ian's insurer be liable for the claim?
- A. It would be liable for one half of the claim.
 - B. It would be liable for the claim in full.
 - C. It would only be liable for the portion of the claim caused by the storm.
 - D. It would not be liable for the claim at all.

33. Harry owns a vintage car which he insures on an agreed value basis. An expert valuation was accepted at inception. When the car was subsequently written off, why did Harry receive less than indemnity?
- A. The loss adjuster appointed by the insurer subsequently disputed the expert's valuation.
 - B. An equivalent replacement was available at a lower price.
 - C. The market value of an equivalent car had decreased.
 - D. The market value of an equivalent car had increased.
34. When Fred's yacht ran aground on rocks, but was **NOT** totally destroyed, he abandoned his rights to the yacht to his insurer but did **NOT** serve a formal notice of abandonment on the insurer. If Fred submits a claim, the insurer is entitled to classify it as
- A. an actual total loss.
 - B. a constructive total loss.
 - C. a partial loss.
 - D. salvage.
35. Which type of insurance **CANNOT** have its annual limit of liability exhausted by a series of partial losses?
- A. An employers' liability policy.
 - B. Motor third party bodily injury cover.
 - C. A theft cover on stock.
 - D. A products liability policy.
36. Following the case of *Lister v. Romford Ice and Cold Storage Ltd (1957)*, insurers generally agreed to
- A. give up their subrogation rights against workers who negligently injure their fellow employees in the course of employment.
 - B. pursue subrogation rights against directors on the grounds of vicarious liability.
 - C. use the independent liability method for the calculation of contribution.
 - D. waive their subrogation rights between subsidiary and associated companies of an insured.
37. Tina has an insurance policy which contains a contribution condition known as an escape clause. She takes out a second policy with another insurer, but despite the cover under the two policies overlapping, the original policy is **NOT** avoided using the escape clause. This is because
- A. both policies have an escape clause so they will both contribute equally.
 - B. statute law prohibits the use of escape clauses.
 - C. Tina has notified both insurers of the double insurance.
 - D. Tina has obtained the consent of her insurers.
38. An insurer is entitled to make a profit following an insured loss when
- A. the property is abandoned by the insured.
 - B. contribution is received from another insurer.
 - C. subrogation rights are exercised.
 - D. settlement is by way of indemnity.

- 39.** Two policies with different insurers cover the same loss of £12,000. The limit of liability is £20,000 under policy X and £40,000 under policy Y. Neither policy is subject to average or has a non contribution clause, but policy X is subject to a £4,000 excess. Using the independent liability method of calculating contribution, what amount will policy X contribute towards the claim payment?
- A.** £2,000
 - B.** £4,000
 - C.** £4,800
 - D.** £7,200
- 40.** An insurer has paid a policyholder for fire damage to his home caused by an electrician's faulty work, less the policy excess. How should any subrogation action for damages be brought against the negligent electrician and for what amount(s)?
- A.** By the insurer and the insured separately in their own names for the amount of the claim payment and the policy excess respectively.
 - B.** By the insurer only in its own name for the amount of the claim payment and the policy excess.
 - C.** By the insurer in the name of the insured for the amount of the claim payment only.
 - D.** By the insurer in the name of the insured for the amount of the claim payment and the policy excess.

For Questions 41-50 more than 1 option is correct. You must select all the correct options to gain the mark.

41. The effect of the European Communities Act 1972 on statutory interpretation is that English courts **must**
- A. adopt a literal approach.
 - B. adopt a purposive approach.
 - C. apply domestic legislation in line with European Community obligations.
 - D. take into account judgments from the European Court of Justice.
42. A 17-year-old in full-time education can
- A. be fully responsible for his criminal actions.
 - B. be a beneficiary of a trust.
 - C. be a member of a jury.
 - D. make a valid will.
 - E. own a house outright.
43. Following a motor accident, an insured may be able to claim for special damages for
- A. damage to clothing.
 - B. injury to feelings.
 - C. loss of earnings.
 - D. medical expenses.
 - E. pain and suffering.
44. In contract law, acceptance of an offer
- A. may be achieved by taking no action.
 - B. may be implied by conduct.
 - C. may vary the terms of the offer.
 - D. must be made in writing.
 - E. must exactly match the terms of the offer.
45. An agency will be **automatically** terminated
- A. by lapse of time if the agreement was created for a specific period of time.
 - B. by mutual agreement of the parties.
 - C. by performance of the task specified in the agreement.
 - D. on bankruptcy of the agent.
 - E. on death of the principal.

46. Which material circumstances do **NOT** need to be disclosed by a manufacturing company in an insurance proposal?
- A. Factors which lessen the risk.
 - B. Details about a trade which the insurers regularly underwrite.
 - C. Information which the insurer's risk survey should have revealed.
 - D. Unusual features of a risk that the insurer's standard survey would not reveal.
47. Common law rules for the interpretation of insurance policies include the
- A. application of a technical or legal meaning.
 - B. contra proferentum rule.
 - C. mischief rule.
 - D. golden rule.
48. What legal remedies, are available to an insured who has suffered a loss as a result of an insurer's unreasonably late payment of a claim?
- A. Contractual damages.
 - B. Interest on any sums due under the policy.
 - C. Punitive damages.
 - D. Specific performance.
49. Which insurance terms and conditions can reduce a policyholder's entitlement to a full indemnity following a loss?
- A. An average clause.
 - B. An insuring clause.
 - C. A policy excess.
 - D. A subrogation clause.
50. An insurer's subrogation rights may arise
- A. following an ex gratia payment.
 - B. in contract.
 - C. in tort.
 - D. under estoppel.
 - E. under statute.

Specimen Examination Answers and Learning Outcomes Covered

| Question | Answer | Learning Outcome | Question | Answer | Learning Outcome | Question | Answer | Learning Outcome |
|---------------------------|--------|------------------|---------------------------|--------|------------------|---------------------------------|---------|------------------|
| Standard Format | | | | | | Multiple Response Format | | |
| Learning Outcome 1 | | | Learning Outcome 6 | | | Learning Outcomes 1-9 | | |
| 1 | C | 1.3 | 21 | B | 6.4 | 41 | B,C,D | 1.2 |
| 2 | A | 1.1 | 22 | A | 6.1 | 42 | A,B | 1.4 |
| 3 | D | 1.3 | 23 | D | 6.2 | 43 | A,C,D | 2.4 |
| 3 questions | | | 24 | C | 6.3 | 44 | B,E | 3.2 |
| | | | 25 | A | 6.3 | 45 | A,B,C,E | 4.4 |
| Learning Outcome 2 | | | 26 | B | 6.1 | 46 | A,B,C | 5.4 |
| 4 | D | 2.2 | 27 | D | 6.3 | 47 | A,B | 6.1 |
| 5 | D | 2.2 | 7 questions | | | 48 | A,B | 7.2 |
| 6 | C | 2.3 | | | | 49 | A,C | 8.3 |
| 3 questions | | | Learning Outcome 7 | | | 50 | B,C,E | 9.1 |
| | | | 28 | A | 7.4 | 10 questions | | |
| Learning Outcome 3 | | | 29 | B | 7.1 | | | |
| 7 | C | 3.4 | 30 | C | 7.4 | | | |
| 8 | A | 3.2 | 31 | B | 7.4 | | | |
| 9 | C | 3.3 | 32 | B | 7.4 | | | |
| 3 questions | | | 5 questions | | | | | |
| | | | | | | | | |
| Learning Outcome 4 | | | Learning Outcome 8 | | | | | |
| 10 | B | 4.5 | 33 | D | 8.3 | | | |
| 11 | B | 4.2 | 34 | C | 8.5 | | | |
| 12 | D | 4.3 | 35 | B | 8.6 | | | |
| 3 questions | | | 3 questions | | | | | |
| | | | | | | | | |
| Learning Outcome 5 | | | Learning Outcome 9 | | | | | |
| 13 | D | 5.6 | 36 | A | 9.4 | | | |
| 14 | D | 5.3 | 37 | D | 9.5 | | | |
| 15 | A | 5.5 | 38 | A | 9.3 | | | |
| 16 | D | 5.7 | 39 | C | 9.7 | | | |
| 17 | C | 5.3 | 40 | D | 9.2 | | | |
| 18 | B | 5.6 | 5 questions | | | | | |
| 19 | C | 5.1 | | | | | | |
| 20 | A | 5.4 | | | | | | |
| 8 questions | | | | | | | | |