

# P86 – Personal insurances

## Diploma in Insurance

October 2017 Examination Guide

**SPECIAL NOTICE**

**Candidates entered for the April 2018 examination should study this Examination Guide carefully in order to prepare themselves for the examination.**

**Practise in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.**

## P86 – Personal insurances

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## IMPORTANT GUIDANCE FOR CANDIDATES

### Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the examiners that you meet the required levels of knowledge and skill to merit a pass in this unit.

### Before the examination

#### Study the syllabus carefully

This is available online at [www.cii.co.uk](http://www.cii.co.uk) or from Customer Service. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas; however you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

#### Read widely

It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single study text will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

#### Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. However, you should note that there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can purchase copies of the most recent Examination Guides online at [www.cii.co.uk](http://www.cii.co.uk). CII members can download free copies of older Examination Guides online at [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge).

**Know the structure of the examination**

Assessment is by means of a two hour written paper.

The paper consists of 15 compulsory questions and carries a total of 130 marks.

Each question part will clearly show the maximum marks which can be earned.

**Read the current Diploma in Insurance Information for Candidates**

Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current Diploma in Insurance Information for Candidates brochure, which is *essential reading* for all candidates. It is available online at [www.cii.co.uk](http://www.cii.co.uk) or from Customer Service.

## In the examination

### The following will help:

#### Spend your time in accordance with the allocation of marks

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking, so a long answer is a waste of time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

#### Take great care to answer the question that has been set

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to fully understand the question that has been asked before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

#### Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be given. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

#### Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

**Calculators**

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 alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

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## EXAMINER COMMENTS

**Question 1**

The majority of candidates answered this question well.

**Question 2**

A mostly well answered question, although some candidates' answers would have benefitted from a clearer understanding of the maximum cover available or level of excess.

**Question 3**

Most candidates could describe the issue of social deprivation but could not identify how the Association of British Insurers is working to remedy this, therefore achieving fewer than half the marks.

**Question 4**

This was a consistently well answered question once candidates noted that the question related to liability cover only.

**Question 5**

Overall, this question was not answered well. Many candidates were unable to show any knowledge of the operation of Flood Re in the UK insurance market.

**Question 6**

Many candidates gained maximum marks for this question however, some identified instead of outlined the rating factors or listed risk elements, and therefore achieved fewer or no marks at all.

**Question 7**

Part (a) of this question was not well answered. Part (b) answers were stronger however, candidates gained their marks by listing the exclusions, with few able to provide a clear indication of the cover given under this extension.

**Question 8**

The majority of candidates achieved the maximum marks on part (a) of this question and at least half marks on part (b).

**Question 9**

Overall, candidates gained either full marks, or no marks on this question.

**Question 10**

Part (a) was reasonably well answered, with candidates achieving at least four of the six marks available. Candidates answers for part (b) would have benefitted from stating the consequences of loss or damage rather than stating that cover was for loss or damage to credit cards.

**Question 11**

This question was answered well by most candidates.

**Question 12**

Candidates needed to expand their answers much further on the role of the Insurance Fraud Taskforce rather than just mentioning those related to issues of fraud.

**Question 13**

This question was answered well by many candidates, with others failing to note that the question referred to direct business only. Some credit was given for answers relating to aggregator and other third party websites or some other forms of social media.

**Question 14**

The majority of candidates thought this question in some way related to personal accident cover, not sickness, and therefore were unable to gain high marks. The few who understood the concept of the cover available generally described it well.

**Question 15**

Most candidates gained at least four of the five marks available on this question.



# THE CHARTERED INSURANCE INSTITUTE



## P86

### Diploma in Insurance

#### Unit P86 – Personal insurances

October 2017 examination

#### Instructions

- Two hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

## Unit P86 – Personal insurances

### Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper, which contains 15 short answer questions and carries a total of 130 marks.
- Read carefully **all** questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show each step in any calculation, even if you have used a calculator.
- 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.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

**Answer ALL questions in Part I****Note form is acceptable where this conveys all the necessary information**

1. List **six** exclusions, other than general market exclusions, found in a typical payment protection insurance policy. (6)
2. Describe the cover under a medical expenses section of a typical travel insurance policy. (8)
3. Outline the elements included in the Association of British Insurer's financial inclusion action plan, which was formulated to deal with the issues of social exclusion. (8)
4. Explain briefly the cover and exclusions for third party liability under a typical caravan insurance policy. (6)
5. Explain the role and operation of Flood Re in the household insurance market. (8)
6. Outline **five** rating factors, that do not relate to the risk presented or individual claims costs, which increase the premium charged to the customer. (10)
7. (a) Outline the cover for accidental damage automatically included under a standard contents policy. (6)  
(b) Explain the cover and exclusions under the accidental damage extension to a household contents policy. (8)

8. (a) List **three** risk factors revealed on a household buildings proposal form which may cause the insurer to request a survey of the property. (3)
- (b) Describe the information relating to physical and moral hazard that would typically be included in the surveyor's report. (12)
9. State the **six** key features of the Financial Ombudsman Service process for complaints resolution. (6)
10. (a) List **six** items that are defined as 'money' under the money and credit cards extension to a typical household contents policy. (6)
- (b) Explain briefly the cover provided under the credit cards section of this extension. (6)
11. Explain the cover and exclusions under the pedal cycle's extension of a typical household contents policy. (8)
12. Describe briefly the role of the Insurance Fraud Taskforce. (6)
13. Explain the **four** styles of website which a personal lines insurer could use to interact directly with customers and potential customers. (12)
14. Outline the cover and state the **three** exclusions applicable to the 'sickness' section of a typical personal accident and sickness policy. (6)
15. List **five** main risk assessment factors used in pet insurance. (5)

## TEST SPECIFICATION

<b>October 2017 Examination – P86 Personal insurances</b>	
<b>Question</b>	<b>Syllabus learning outcome(s) being examined</b>
1	3 – Understand the policy coverage, underwriting and rating considerations of other personal insurance products
2	3 – Understand the policy coverage, underwriting and rating considerations of other personal insurance products
3	5 – Understand the main aspects of the business environment of personal insurances
4	3 – Understand the policy coverage, underwriting and rating considerations of other personal insurance products
5	2 – Understand the policy cover, underwriting and rating considerations of household insurances
6	2 – Understand the policy cover, underwriting and rating considerations of household insurances
7	2 – Understand the policy cover, underwriting and rating considerations of household insurances
8	1 – Understand the general market practices of personal insurances 2 – Understand the policy cover, underwriting and rating considerations of household insurances
9	4 – Understand the claims notification, investigation and settlement procedures for personal insurances, including relevant case law
10	2 – Understand the policy cover, underwriting and rating considerations of household insurances
11	2 – Understand the policy cover, underwriting and rating considerations of household insurances
12	5 – Understand the main aspects of the business environment of personal insurances
13	5 – Understand the main aspects of the business environment of personal insurances
14	3 – Understand the policy coverage, underwriting and rating considerations of other personal insurance products
15	3 – Understand the policy coverage, underwriting and rating considerations of other personal insurance products

**NOTE ON MODEL ANSWERS**

The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

**Model answer for Question 1**

*Any six of the following:*

- Known unemployment.
- Deliberate acts.
- Resignation or voluntary redundancy.
- War.
- Pregnancy.
- HIV.
- Pre-existing medical conditions.

**Model answer for Question 2**

- It covers medical treatment including surgical fees, hospital charges and emergency dental fees.
- Any additional travel and accommodation expenses incurred by the patient or members of the insured's travelling party.
- Any additional cost of bringing the patient home including air ambulances or repatriation costs.
- A sum insured up to £10 million will apply.
- An excess of £50 usually applies to avoid payment for minor ailments.
- A medical emergency service is included which has a multi-lingual helpline.

**Model answer for Question 3**

- Raising awareness of the need for insurance working in partnership with the Government, business, charities and other interest groups.
- Better financial education through support for the Personal Finance Education Group and initiatives by other bodies such as the Citizens Advice Bureau.
- Improving access through task forces and working groups involving charities, insurers and brokers to find industry led solutions for those having difficulty obtaining cover.
- Promoting affordable insurance, working with housing associations, local authorities and credit unions, and developing easier ways for those on irregular incomes to pay for cover; for example, by allowing people to pay weekly premiums for their insurance, possibly along with their rent.

#### Model answer for Question 4

For injury or death of a third party or damage to their property for which the insured or a member of their family is legally liable. A limit of up to £2.5 million may apply.

Exclusions applicable include:

- Loss or injury to insured's employees.
- Loss or injury to member of the insured's household.
- Loss or injury while the caravan is being towed.
- Contractual liabilities.

#### Model answer for Question 5

- The Flood Re scheme was devised between the insurance industry and the Government to combat issues of climate change.
- Flood Re is a reinsurance arrangement. Claims are met by the insurer, but reimbursement will be sought from Flood Re.
- It only covers properties built before 2009.
- Premiums are based on the council tax band.
- Excesses are limited to £500.
- It affects the domestic market only. Different rules are in place for properties used as bed and breakfasts, farmhouses, buy to let etc.
- It is funded by ceded premiums and industry levy.
- The Government is responsible for distributing any available resources to Flood Re policyholders should claims exceed that level.

#### Model answer for Question 6

*Any five of the following:*

- Contingencies – adjustment in case of unexpected increases in frequency or severity of claims, including catastrophe.
- Inflation – long tail claims may result in increased settlement costs.
- Reinsurance – reinsurance will be taken to protect the account.
- Expenses – administration, marketing and staff costs.
- Commission – for products sold through an intermediary.
- Profit – as a business, the insurer will expect to make profits.

**Model answer for Question 7**

- (a) Cover is for accidental damage to glass and mirrors including ceramic hobs, glass tops and fixed glass in furniture. Accidental damage to home entertainment equipment including televisions, games consoles, audio and video equipment, computers and receiving aerials.
- (b) The cover is defined as damage caused by external means, other than a deliberate act by a member of the insured household.

Exclusions are:

- Damage by paying guests or tenants.
- Wear and tear.
- Damage to clothing, money, contact lens, pedal cycles, food in freezer.
- Damage by domestic pets.
- Damage caused by cleaning.
- Loss in value.
- Policy excess.

**Model answer for Question 8**

- (a) *Any three of the following:*
- High sum insured.
  - Flood exposure.
  - High proportion of valuables.
  - Poor claims history.
  - Thatched property.
- (b)
- A full description of the risk – location, construction, occupation, sums insured and security devices.
  - An overall assessment of the level of risk – whether cover should be offered, estimated maximum loss (EML) and peril likely to cause such a loss.
  - Recommendations or requirements for risk improvements – use of a safe or other security features.
  - The adequacy of the sum insured – an opportunity for surveyor to comment on whether the sum insured seems reasonable.

**Model answer for Question 9**

- Insurer's own complaints' process must have been exhausted before referral to the Financial Ombudsman Service (FOS).
- Complaints can be heard from all eligible complainants (consumers, micro enterprises, charities).
- The complaint must be made within six months of completion of the insurer's complaints process.
- The maximum award the FOS may make which is binding on insurers is of £150,000.
- FOS Findings are binding on insurers but not on the insured.
- The FOS ombudsmen are not bound by the law only.



**Model answer for Question 10**

(a) *Any six of the following:*

- Cash including bank notes.
- Cheques.
- Postal orders.
- Bankers' drafts.
- Unused postage stamps.
- Gift tokens.
- Season tickets.

(b)

- Cover against financial loss following theft or loss of credit or debit card.
- They must be personal credit or debit cards, not those of an employer.
- The sum insured may be up to £1,000.
- It excludes losses that are not reported to the police or card issuer within 24 hours.
- An excess of £50 usually applies.

**Model answer for Question 11**

- The pedal cycle's extension covers pedal cycles and their accessories belonging to a member of the insureds household.
- The sum insured will either be per cycle or a fixed limit of up to £5,000 per cycle for all cycles in the household.
- Most insurers make a deduction for wear and tear.
- Sums insured may be index-linked.

Exclusions are:

- Accessories unless the cycle is lost/damaged at the same time.
- Use for racing, pacemaking or trials.
- Theft from the home unless forcible and violent entry occurred.
- Cover is also subject to an excess.

**Model answer for Question 12**

The Insurance Fraud Taskforce was established to investigate the causes of fraudulent behaviour and recommend actions to reduce levels of fraud. The protection and interests of honest customers is central to its work. It considers fraud in both claims and underwriting processes and aims to reduce premiums.

Its focus is on the claims management industry, drivers of policyholder behaviour, fraud deterrents in the claims process and the role of fraud data sharing.

**Model answer for Question 13**

- Brochure sites – provides information relating to products and services and telephone numbers to allow the consumer to contact the insurer.
- Webform sites – allows the consumer to enter key information in order that the insurer can provide a quotation by e-mail in response.
- Interactive sites – the customer can key in all information to obtain an immediate quotation. If the quote is acceptable, the customer will be able to complete the purchase online.
- Full service sites – allows the customer to process their own mid-term amendments, renewals and to notify claims.

**Model answer for Question 14**

This provides a weekly benefit if the insured is temporarily and totally unable to engage in their usual occupation due to sickness or disease. Cover is subject to a franchise which is usually seven days. The payment period is usually limited to 6, 12 or 24 consecutive months.

Exclusions are:

- Waiting period of 21 days will often apply.
- AIDS/HIV.
- Geographical limits.

**Model answer for Question 15**

*Any five of the following:*

- Age.
- Breed.
- Gender.
- Extent of cover.
- Sum insured for vet's fees.
- Loss history.