

P21

Diploma in Insurance

Unit P21– Commercial insurance contract wording

April 2015 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 P21 – Commercial insurance contract wording

Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which carries a total of 140 marks, as follows:

Part I	8 compulsory questions	80 marks
Part II	2 questions selected from 4	60 marks

- You should answer **all** questions in Part I and two out of the four questions in Part II.
- You are advised to spend no more than one hour on Part I.
- 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 several lines blank after each part.

PART I

Answer ALL questions in Part I
Each question is worth 10 marks

Note form is acceptable where this conveys all the necessary information

1. Explain briefly what is meant by:
 - (a) The factual matrix. (3)
 - (b) The parol evidence rule. (3)
 - (c) A collateral contract. (4)

2. (a) Identify **three** types of organisation which may have authority to be a coverholder, giving **one** example of a class of business **each** may underwrite. (6)
(b) Outline a coverholder's role and responsibilities. (4)

3. (a) State **two** classes of insurance where a proposal form is used and **two** classes of insurance where an underwriting submission is normally used. (4)
(b) Explain whether it is an implied condition that answers on a proposal form constitute the basis of the insurance contract, referring to both consumer and business contracts. (6)

4. Outline **five** common exclusion clauses under a reinsurance treaty. (10)

5. (a) State **three** key elements of an arbitration clause. (3)
(b) State the usual size of an arbitration panel and the qualifications required of the individual(s) on the panel. (4)
(c) State the grounds on which a court may permit an appeal of a case where the seat of arbitration is in England. (3)

6. (a) Describe briefly how an aggregate excess of loss treaty works, and state **two** ways the limit and retention may be expressed. (6)
- (b) Identify **two** other types of excess of loss treaty, outlining the protection provided by **each**. (4)
7. Distinguish between a 'losses occurring' and a 'causation' basis of attachment, giving **one** example of a class of insurance for **each** basis of attachment. (10)
8. Identify and describe **two** alternatives to a flat or fixed premium on a non-proportional reinsurance contract. (10)

QUESTIONS CONTINUE OVER THE PAGE

PART II

Answer TWO of the following FOUR questions
Each question is worth 30 marks

9. With regard to the extract below from the open market form of the Market Reform Contract (MRC):

<p><u>Open Market MRC</u></p> <p><u>Section 1: Risk Details</u></p> <p>Unique Market Reference:</p> <p>Type: All Risks of Direct Physical Loss or Damage.</p> <p>Insured: ABC Inc.</p> <p>Address: 123 Boulevard, New York, NY 12345, USA.</p> <p>Period: 1st January 2015 to 1st January 2016.</p> <p>Interest: Real and personal property at the offices of the insured in the USA.</p> <p>Premium: \$1,000,000.</p> <p>Limit of Liability: \$10,000,000 any one occurrence and in the annual aggregate</p> <p>Excess/Deductible: Earthquake / Windstorm / Flood: \$2,000. All other perils except for the above: \$1,000.</p> <p>Situation: Offices of the insured in the USA.</p> <p>Conditions: TBA - Wording to be agreed.</p> <p>Subjectivities: TBA - Subject to survey.</p>
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- (a) Identify **six** drafting errors within Section 1: Risk Details, explaining why they need to be rectified. (18)
- (b) Explain what information may be detailed in **three** of the remaining sections of the open market MRC. (12)

10. Identify the regulator of UK (re)insurance companies, brokers and Lloyd's, explaining the respective roles and responsibilities of **each** regulator. (30)
11. (a) (i) Differentiate between policies of exception and policies of inclusion, giving **one** example of **each**. (6)
- (ii) Explain **three** reasons why care must be taken in drafting an exclusion clause. (12)
- (b) (i) Outline **three** reasons why a UK commercial property insurer may apply a terrorism exclusion clause. (9)
- (ii) Outline the effect on the burden of proof of the terrorism clause typically used by the London market. (3)
12. (a) Describe briefly **three** common provisions in an insurance claims handling clause that relate to the rights or duties of the insured. (6)
- (b) With respect to a large commercial insured explain:
- (i) **three** reasons why it may retain the cost of some of its claims itself; (12)
- (ii) **four** methods it may use to retain the cost of these claims. (12)

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