

# Insurance, legal and regulatory

**Objective:** To provide knowledge and understanding of the basic principles of insurance, including the main legal principles related to insurance contracts, the main regulatory principles related to insurance business and the key elements to protect consumers.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the nature and main features of risk and insurance	18
2. Know the structure and main features of the insurance market	24
3. Understand the main legal principles governing insurance contracts	40
4. Understand the main regulatory and legal requirements applicable to the transaction of insurance business	16
5. Know the main methods of preventing, handling and resolving consumer complaints	2

\*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:** 100 multiple choice questions (MCQs). 2 hours are allowed for this examination.
- This syllabus will be examined from 1 January 2010 until 31 August 2011.
- Candidates will be examined on the basis of English law and practice unless otherwise stated.
- Candidates should refer to the CII update website [www.cii.co.uk/updates](http://www.cii.co.uk/updates) for the latest information on changes to law and practice and when they will be examined.

## 1. Understand the nature and main features of risk and insurance

### The nature and main features of risk

- 1.1 The concept of risk and risk perception;
- 1.2 How different risks are categorised;
- 1.3 The risk management function and process;
- 1.4 The relationship between frequency and severity of loss;
- 1.5 The types of risk that can be insured and the types of risk that cannot;
- 1.6 What is meant by a peril and a hazard and the difference between the two, as they relate to insurance;
- 1.7 How the principles defined in learning outcome 1 are applied to a given set of circumstances.

### The nature and main features of insurance

- 1.8 The basis of insurance as a risk transfer mechanism;
- 1.9 How insurance operates by the pooling of risks;
- 1.10 How insurance benefits policyholders and society in general;
- 1.11 What is meant by co-insurance, dual insurance and self-insurance;
- 1.12 The main classes of insurance in outline.

## 2. Know the structure and main features of the insurance market

### The insurance market

- 2.1 The way in which the insurance market is structured on a global and UK basis;
- 2.2 The main features of the different types of insurers;
- 2.3 The structure and main features of the Lloyd's and London market;
- 2.4 The main features and services of intermediaries in the insurance market;
- 2.5 The different distribution channels used for the selling of insurance;
- 2.6 The basic purpose of reinsurance.

### The insurance profession

- 2.7 The main functions of underwriters;
- 2.8 The main functions of claims personnel;
- 2.9 The main functions of loss adjusters, loss assessors, surveyors and forensic services;
- 2.10 The main functions of actuaries;
- 2.11 The main functions of risk managers;
- 2.12 The main functions of compliance officers.

### Insurance organisations and representative bodies

- 2.13 The functions of the following organisations and bodies:
  - Association of British Insurers (ABI);
  - Chartered Insurance Institute (CII);
  - Chartered Institute of Loss Adjusters (CILA);
  - British Insurance Brokers' Association (BIBA);
  - Faculty and Institute of Actuaries;
  - International Underwriting Association of London (IUA);
  - London & International Insurance Brokers' Association (LIIBA);
  - Institute of Insurance Brokers (IIB);
  - Lloyd's Market Association (LMA);
  - Motor Insurers' Bureau (MIB).

## 3. Understand the main legal principles governing insurance contracts

### Contract

- 3.1 The essentials of a valid contract of insurance;
- 3.2 How contracts of insurance can be terminated.

### Agency

- 3.3 The methods of creating an agent/principal relationship;
- 3.4 The duties of an agent to his principal and the duties of a principal to his agent;
- 3.5 The consequences of an agent's actions on his principal;
- 3.6 The scope of what should be included in a Terms of Business Agreement (TOBA) between an insurer and intermediary.

### Insurable interest

- 3.7 The requirements for insurable interest in insurance contracts.

### Utmost good faith

- 3.8 How the principle of utmost good faith applies to contracts of insurance;
- 3.9 How the duty of disclosure operates in non-life insurance contracts, how it is modified by policy wordings and the contrast with life assurance contracts;
- 3.10 The definition of a material fact and examples of such facts in connection with non-life proposals and how insurers may limit their entitlement to information by their wordings;
- 3.11 The consequences of non-disclosure or misrepresentation of material facts.

### Proximate cause

- 3.12 How the principle of proximate cause is applied to non-complex claims.

### Indemnity

- 3.13 The definition of indemnity and which types of policy are policies of indemnity;
- 3.14 How the indemnity principle is applied to contracts of insurance;
- 3.15 What is meant by agreed value, new for old, reinstatement and first-loss policies;
- 3.16 How average is applied to non-complex cases of underinsurance.

### Contribution

- 3.17 The principle of contribution and when and how it applies to the sharing of claim payments between insurers in straightforward property cases.

### Subrogation

- 3.18 The principle of subrogation and why it may or may not be pursued in simple circumstances.

## 4. Understand the main regulatory and legal requirements applicable to the transaction of insurance business

### Compulsory insurances

- 4.1 The reasons for compulsory insurance and the types of insurances which are compulsory in the UK.

### Key legal requirements

- 4.2 The impact of the Unfair Terms in Consumer Contract Regulations 1999 in relation to insurance contracts;
- 4.3 The impact of the Contracts (Rights of Third Parties) Act 1999 in relation to insurance contracts.

### Financial Services Authority

- 4.4 The role of the FSA in the authorisation, supervision and regulation of insurers;
- 4.5 The role of the FSA in the authorisation, supervision and regulation of intermediaries;
- 4.6 The FSA principles for businesses and the approved person regime in broad outline;
- 4.7 The importance of treating customers fairly;
- 4.8 The consequences of non-compliance – discipline and enforcement;
- 4.9 The requirements for reporting, record keeping and training and competence;
- 4.10 The scope and effect of the Insurance: Conduct of Business sourcebook (ICOBS) in broad outline.

### Capital adequacy

- 4.11 The EU solvency requirements for insurers and intermediaries and FSA risk-based capital requirements in broad outline.

### Data protection

- 4.12 The main provisions of the current Data Protection legislation.

### Anti-money laundering

- 4.13 The main provisions of the current Money Laundering Regulations and their application to insurers and intermediaries;
- 4.14 The main provisions of the Proceeds of Crime Act 2002 as they apply to the transaction of insurance business.

### Insurance Premium Tax

- 4.15 The purpose, current rates and method of collection of Insurance Premium Tax.

## 5. Know the main methods of preventing, handling and resolving consumer complaints

### Ethical standards

- 5.1 The scope and operation of the CII code of ethics in broad outline.

### Complaints procedures

- 5.2 The FSA requirements in relation to complaints handling;
- 5.3 The services provided by the Financial Ombudsman Service.

### Compensation services

- 5.4 The main provisions of the Financial Services Compensation Scheme, including the range of activities falling within its scope.

## Reading list

The following list provides details of various publications which may assist with your studies. Periodicals and publications will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

**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.

CII/Personal Finance Society members can borrow most of the additional study materials below from CII Knowledge Services. For further information on the lending service go to [www.knowledge.cii.co.uk](http://www.knowledge.cii.co.uk).

Insurance, legal and regulatory. London: CII. Coursebook IF1.

The regulation of general insurance and protection business. Tony Wiltshire. London: CII Knowledge Services. Updated as necessary. Available online (CII/PFS members only) at [www.cii.co.uk/knowledge/factfiles](http://www.cii.co.uk/knowledge/factfiles).

## Reference works

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004. Also available online (CII/PFS members only) at [www.cii.co.uk/knowledge/dictionaries](http://www.cii.co.uk/knowledge/dictionaries).

The insurance manual. Stourbridge, West Midlands: Insurance Publishing & Printing Co. Looseleaf, updated.

Kluwer's handbook of insurance. Kingston upon Thames, Surrey: Croner. CCH. Looseleaf updated.

Insurance law handbook. Barlow Lyde & Gilbert. 4th ed. Haywards Heath, West Sussex: Tottel, 2008.

## Periodicals

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

Post Magazine. London: Incisive Financial Publishing. Weekly.

## Examination guides

You are strongly advised to study these before the examination. Please visit [www.cii.co.uk](http://www.cii.co.uk) to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

## Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. You will also find advice at [www.cii.co.uk/knowledge/careersupport](http://www.cii.co.uk/knowledge/careersupport) (CII/PFS members only).

For a more interactive approach, you should consider: Winning the brain game. London: CII, 2006. CD-ROM.