

THE CHARTERED INSURANCE INSTITUTE



E05

Examination element of M05 Insurance law

**Based on the 2017/2018 syllabus
examined from 1 May 2017 until 30 April 2018**

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Contents

Introduction to Examination Guide	3
E05 Syllabus	7
Specimen Examination	13
Specimen Examination Answers and Learning Outcomes Covered	22

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E05 – Examination element of M05 Insurance law

Based on the 2017/2018 syllabus examined from 1 May 2017 until 30 April 2018

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 2017 until 30 April 2018.

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 law and legal systems.	3
2. Understand the concept of legal personality.	2
3. Understand the principles of the law of tort and the characteristics of the main torts.	4
4. Understand the law of contract.	4
5. Understand the law of agency and its application to insurance.	4
6. Understand the main principles governing the formation of insurance contracts.	9
7. Understand how the terms of insurance contracts are classified and the effect of a breach of an insurance contract term by the insured and of other vitiating factors.	8
8. Understand the main legal principles governing the making of an insurance claim.	6
9. Understand how losses are measured and how the principle of indemnity applies to insurance claims.	4
10. 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 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. a multiple-choice question (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 examination. This exam must be successfully passed within 18 months of enrolment.

- This syllabus will be examined from 1 May 2017 until 30 April 2018.

- 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 law and legal systems

- 1.1 Describe the classifications of law and the main branches of public and private law.
- 1.2 Describe the characteristics of English law and the UK legal system.
- 1.3 Describe the development of common law and of equity.
- 1.4 Describe the two main sources of law: legislation and judicial precedent (case law).
- 1.5 Outline the minor sources of law.
- 1.6 Describe delegated legislation and statutory interpretation.
- 1.7 Describe the effect of supra-national legislation, such as European law, on national systems.
- 1.8 Describe the structure of the courts, the judiciary and the system of precedent.
- 1.9 Describe the elements of civil procedure and methods for the funding of litigation.

2. Understand the concept of legal personality

- 2.1 Describe the status and capacity of natural legal persons and corporations.
- 2.2 Describe the main types of corporation and their characteristics.
- 2.3 Describe unincorporated associations and their characteristics.
- 2.4 Describe the characteristics of partnerships, the Crown and trade unions.

3. Understand the principles of the law of tort and the characteristics of the main torts

- 3.1 Describe the nature and classification of torts.
- 3.2 Explain the law of negligence: duty of care, breach of duty and rules concerning damage, including liability for economic loss and psychiatric injury.
- 3.3 Explain general characteristics of the other main torts: trespass, nuisance, the rule in *Rylands v. Fletcher*, breach of statutory duty and defamation.
- 3.4 Explain the application of tort and liability law in the context of employers' liability, liability for defective products and liability for dangerous or defective premises.
- 3.5 Explain the main defences, remedies and rules governing limitation of actions in tort.

4. Understand the law of contract

- 4.1 Explain the nature of contractual liability and classification of contracts.
- 4.2 Explain the rules governing the formation of a contract.
- 4.3 Explain how contract terms are classified under the general law.
- 4.4 Explain elements which affect the validity of contracts.
- 4.5 Explain the circumstances in which a contract may be discharged.
- 4.6 Explain remedies for breach of contract.
- 4.7 Explain the doctrine of privity of contract and the effect of the Contracts (Rights of Third Parties) Act 1999.
- 4.8 Explain the assignment of contractual rights and duties.
- 4.9 Explain assignment in the context of insurance and apply this to problem situations.

5. Understand the law of agency and its application to insurance

- 5.1 Explain the nature of agency and how an agency relationship can be created.
- 5.2 Explain the relationships between agents, principals and third parties.
- 5.3 Explain the nature of an agent's rights, responsibilities, authority and duties.
- 5.4 Explain the termination of agency and its effects.
- 5.5 Explain how the principles of agency law apply to insurance.
- 5.6 Apply the principles of agency law to problem situations.

6. Understand the main principles governing the formation of insurance contracts

- 6.1 Explain how the general principles of contract law apply to insurance.
- 6.2 Explain the concept and nature of insurable interest.
- 6.3 Explain the application of the law on insurable interest to the main classes of insurance and apply the law to problem situations.
- 6.4 Explain potential reform of the law relating to insurable interest.
- 6.5 Explain the doctrine of good faith.
- 6.6 Explain the duty of fair presentation in the context of non-consumer insurance and apply its principles to problem situations.
- 6.7 Explain breach of the duty of fair presentation in the context of non-consumer insurance and apply its principles to problem situations.
- 6.8 Explain the duty to take reasonable care not to make a misrepresentation in consumer insurance and apply its principles to problem situations.
- 6.9 Explain the breach of the duty to take reasonable care not to make a misrepresentation in consumer insurance consequences and remedies and apply this to problem situations.

7. Understand how the terms of insurance contracts are classified and the effect of a breach of an insurance contract term by the insured and of other vitiating factors

- 7.1 Explain the classification of insurance contract terms.
- 7.2 Explain the nature of warranties, conditions and other insurance contract terms and apply the law on these to problem situations.
- 7.3 Explain the effect of breach of warranty or condition and apply the law to problem situations.
- 7.4 Explain the effect of the regulatory rules on the law of warranties and conditions and apply the rules to problem situations.
- 7.5 Explain void and illegal insurance contracts and apply the law to problem situations.
- 7.6 Explain the distinction between joint and composite and apply the law to problem situations.

8. Understand the main legal principles governing the making of an insurance claim

- 8.1 Describe the parties who can claim on or benefit from an insurance contract and apply the law to problem situations.
- 8.2 Explain the rules governing notice and proof of loss and apply them to problem situations.
- 8.3 Explain the principles governing the construction of insurance contracts and apply them to problem situations.
- 8.4 Explain the doctrine of proximate cause.
- 8.5 Explain the doctrine of proximate cause in the context of 'chains of events', concurrent causes and efforts to avoid or reduce loss and apply the law to problem situations.

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

- 9.1 Explain the principle of indemnity.
- 9.2 Explain the measure of indemnity in various classes of insurance and apply the law and practice to problem situations.
- 9.3 Explain the factors which limit, reduce, extend or modify the principle of indemnity and apply the law and practice to problem situations.
- 9.4 Explain the methods of providing indemnity and apply the law and practice to problem situations.
- 9.5 Explain the doctrine of salvage and abandonment and apply the law and practice to problem situations.
- 9.6 Explain the effect of claim payments on policy cover and apply the law and practice to problem situations.

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

- 10.1 Explain the doctrine of subrogation as a corollary of principle of indemnity.
- 10.2 Explain the source of subrogation rights and apply the law to problem situations.
- 10.3 Explain abandonment and salvage and apply the law and practice to problem situations.
- 10.4 Explain how subrogation rights may be modified or denied and apply the law and practice to problem situations.
- 10.5 Explain the nature of double insurance and contribution and how contribution arises at common law.
- 10.6 Explain the operation of contribution at common law and the effect of common contribution conditions.
- 10.7 Explain methods of ascertaining the ratio of contribution.
- 10.8 Apply the principle of contribution to the main lines of insurance and to problem situations.
- 10.9 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 Mo5.

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.

Causation in insurance contract law. Meixian Song. Abingdon: Informa Law from Routledge, 2014.*

Claims handling law and practice. Richard West et al. London: Witherby, 2008.

Casebook on torts. Richard Kidner. 12th ed. Oxford: Oxford University Press, 2012.

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

Company law. J Charlesworth et al. London: Sweet and Maxwell, 2011.

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

Essential law for your business: a practical guide to all legal and financial requirements. Patricia Clayton. 13th ed. London: Kogan Page, 2009.

Insurance and reinsurance law review. Peter Rogan. Law Business Review, 2012.

Insurance and the law of obligations. Robert M. Merkin, Jenny Steele. Oxford: Oxford University Press, 2013.*

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

Insurance law in the United Kingdom. 3rd ed. John Birds. The Netherlands: Kluwer Law International, 2015.

Insurance law: text and materials. Ray Hodgkin. 2nd ed. London: Cavendish, 2002.

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.

Public companies and equity finance. Alexis Mavrikakis. Guildford: College of Law, 2012.

Palmer's limited liability partnership law. 2nd ed. Geoffrey Morse (ed). London: Sweet and Maxwell, 2011.

Smith and Keenan's English law: text and cases. Charles Wild and Stuart Weinstein. 17th ed. Harlow, England: Pearson Education, 2013.

Principles of European Insurance contract law: a model optional instrument. Mandeep Lakhani, Helmut Heiss. Munich: Sellier European Law Publishers, 2011.*

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

The modern law of insurance. Andrew McGee. LexisNexis, 2011.

Subrogation: law and practice. Charles Mitchel et al. Oxford: Oxford University Press, 2007.

Subrogation and contribution in insurance practice. RM Walmsley. London: Witherby, 2001.

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

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

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

Ebooks

The following ebooks are available through Discovery via www.cii.co.uk/discovery (CII/PFS members only):

Business law. David Kelly, Ruby Hammer, John Henty. Taylor and Francis, 2014.

Critical company law. 2nd ed. Lorraine Talbot. London: Routledge, 2016.

Research handbook on the economics of insurance law. Peter Siegelman, Daniel Schwarcz. Cheltenham: Edward Elgar Publishing, 2015.

Tort law and the Legislature: common law, statute and the dynamics of legal change. Jenny Steel, et al. Oxford: Hart Publishing, 2013.

Tort law: challenging orthodoxy. Erika Chamberlain, et al. Oxford: Hart Publishing, 2013.

Tort law defences. James Goudkamp. Oxford: Hart Publishing, 2013.

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.

Reservation of rights. AIRMIC. 2009. Available via www.airmic.com (register your details to access).

Contract certainty: an Airmic guide for risk managers and insurance buyers. AIRMIC. 2009. Available via www.airmic.com (register your details to access).

Delivering excellence in insurance claims handling: claims best practice guide. AIRMIC. 2010. Available via www.airmic.com (register your details to access).

Further articles and technical bulletins are available at www.cii.co.uk/knowledge (CII/PFS members only).

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 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 multiple-choice 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. Which two branches of civil law have **most** relevance in the context of insurance?
 - A. Contract and property.
 - B. Contract and torts.
 - C. Property and trusts.
 - D. Torts and trusts.

2. Minor civil cases relating to personal injury claims are **usually** dealt with by the
 - A. county courts.
 - B. Court of Appeal.
 - C. divisional courts of the High Court.
 - D. magistrates courts.

3. A general partner in a limited partnership is a partner who has
 - A. limited liability for the firm's debts.
 - B. no liability for the firm's debts.
 - C. the option of either limited or unlimited liability for the firm's debts.
 - D. unlimited liability for the firm's debts.

4. A characteristic of a limited company is that
 - A. all members play an active role in management of the business.
 - B. details of its financial accounts may be kept private.
 - C. it must be in business with a view of profit.
 - D. its activities are defined in the memorandum of association.

5. In negligence, what standard of care would be required of a newly-qualified electrician?
 - A. The standard for the profession only.
 - B. The standard for the profession but with an allowance for the electrician's level of inexperience.
 - C. The standard of a prudent man.
 - D. The standard of a reasonable man.

6. One of the requirements for a claimant to succeed in an action for trespass to the person is
 - A. intention.
 - B. negligence.
 - C. prescription.
 - D. recklessness.

7. What is the **main** common law remedy for the tort of nuisance?
 - A. Exemplary damages.
 - B. An injunction.
 - C. Nominal damages.
 - D. Unliquidated damages.

8. A gardener who was entitled to £2,000 under a contract with a private client assigned her rights under the contract to one of her plant suppliers. To be legally valid as a statutory assignment, this assignment **must** be
- A. absolute.
 - B. a contract under seal.
 - C. in writing and signed by the debtor.
 - D. supported by consideration.
9. After what period of time does an action for breach of a simple contract become statute-barred if the action is **NOT** in respect of personal injuries?
- A. 1 year.
 - B. 3 years.
 - C. 6 years.
 - D. 12 years.
10. A gratuitous promise is contractually valid and binding on the promisor when it is
- A. accepted by a minor.
 - B. a domestic or social arrangement.
 - C. presented in writing.
 - D. in the form of a deed.
11. An agent may be able to protect his rights to remuneration and indemnity by
- A. accepting commission from both parties to a transaction.
 - B. accounting for the principal's money separately.
 - C. exercising a lien on the principal's property.
 - D. signing his name on a negotiable instrument.
12. A secretary regularly books accommodation at a hotel on behalf of her employer. On one occasion, she also booked a hotel room for her husband and herself without her employer's permission. Based on what principle of agency law, could the employer be legally liable to the hotel for payment of the room charge?
- A. Breach of warranty of authority.
 - B. Implied actual authority.
 - C. Ostensible authority.
 - D. Ratification by an undisclosed principal.
13. An agent for a disclosed principal commits the tort of deceit by knowingly making false statements to a third party. Who, if anyone, is legally liable if the third party suffers a financial loss as a result of these statements?
- A. No one.
 - B. The agent only.
 - C. The principal only.
 - D. Both the agent and the principal.

14. Two **key** elements of insurable interest are that the policyholder **must** have
- A. a current interest and a legal interest.
 - B. a current interest and a sole interest.
 - C. an expectancy of an interest and a financial interest.
 - D. an expectancy of an interest and a sole interest.
15. When is insurable interest required in respect of a life insurance contract?
- A. At both the time the contract is made and when a claim arises on death or maturity of the policy.
 - B. Only at the time the contract is made.
 - C. Only when a claim arises on death or maturity of the policy.
 - D. Throughout the duration of the contract.
16. During the period of insurance of a commercial policy, the policyholder acquires a subsidiary company for which cover is required under the policy. What specific legal duty of disclosure, applies, if any, in respect of this subsidiary company at the date of acquisition?
- A. The duty to disclose all material facts relating to the additional risk.
 - B. The duty to make a fair representation of the additional risk.
 - C. The duty to take reasonable care not to misrepresent the additional risk.
 - D. None, as the duty of disclosure only applies at the renewal date.
17. In consumer insurance law, a proposer for personal accident insurance is under a duty to
- A. disclose all material facts relating to the contract.
 - B. make a fair representation of the risk.
 - C. take reasonable care not to make a misrepresentation.
 - D. warrant that all answers on the proposal form are accurate.
18. The subject matter of an insurance policy **CANNOT** be
- A. a future inheritance.
 - B. a loss of profits.
 - C. intangible property.
 - D. the life of another person.
19. Mia wishes to effect a life insurance policy on her husband's life and also a policy on her adult son's life. What is the **maximum** sum insured, if any, legally allowable under each policy?
- A. An unlimited amount in respect of both policies.
 - B. An unlimited amount in respect of Mia's husband and a nominal amount in respect of her son for funeral expenses only.
 - C. An unlimited amount in respect of Mia's husband and she is not legally allowed to insure the life of her son.
 - D. Mia is not legally allowed for her to insure the life of either her husband or her son.

20. The risk manager of a large construction company forgot to notify his property insurer that one of the contracts his company was accepting would involve hazardous work. In the event of a claim arising from this one contract, the insurer may have the statutory legal remedy of
- A. applying any different terms relating to hazardous work as if the insurance policy had contained these terms in the first place.
 - B. applying any different terms relating to hazardous work with effect from the date of the claim.
 - C. terminating the insurance policy from inception and keeping the premium.
 - D. terminating the insurance policy from the date of starting the hazardous work.
21. What principle or rule is given special treatment by law for employers' liability insurance?
- A. The applicability of basis of contract clauses.
 - B. The avoidance of liability for breach of condition nor warranty.
 - C. The effect of a lack of insurable interest.
 - D. The range of remedies following a misrepresentation.
22. An example of a continuing warranty in an insurance contract is one that may require
- A. an ongoing duty of disclosure throughout the period of a professional indemnity policy.
 - B. a quarterly declaration of sendings to enable the calculation of a marine cargo premium adjustment.
 - C. a security alarm system being operational whenever a property is unattended.
 - D. no admission of liability being made in the event of a gradual pollution claim.
23. Where, if at all, is the use of basis of the contract clauses legally permitted?
- A. In consumer insurance policies only.
 - B. In non-consumer insurance policies only.
 - C. In both consumer and non-consumer insurance policies.
 - D. In neither consumer nor non-consumer insurance policies.
24. On what basis is an insurance policy void if a proposer bought pet insurance for his tortoise which he thought was in hibernation, but in fact the tortoise had already died?
- A. Anticipatory breach.
 - B. Fundamental mistake.
 - C. Illegality.
 - D. Misrepresentation.
25. A policyholder makes a claim for damage to his motor vehicle. After investigation, the insurer discovers the vehicle was being used by the policyholder in a criminal act. In these circumstances, the insurance policy is
- A. valid and the claim will be paid.
 - B. valid but the claim will be rejected.
 - C. void.
 - D. voidable at the option of the insurer.

26. Which term of a consumer insurance contract, if never fulfilled by the policyholder, would **automatically** result in the entire insurance contract being void?
- A. A condition precedent to the contract.
 - B. A condition precedent to liability.
 - C. An express warranty.
 - D. An implied warranty.
27. What remedy is available to an insurer where a commercial policyholder has breached a collateral condition concerning a minor matter?
- A. Avoid the policy ab initio.
 - B. Apply terms retrospectively.
 - C. Claim for damages.
 - D. Repudiate any future claim.
28. The basis of burden of proof that a named insured peril was the proximate cause of the loss falls upon the
- A. policyholder to prove on the balance of probabilities.
 - B. policyholder to prove beyond reasonable doubt.
 - C. insurer to prove on the balance of probabilities.
 - D. insurer to prove beyond reasonable doubt.
29. When two perils are described as interdependent, this means that they combine to cause a loss
- A. and either peril would cause some loss without the other.
 - B. but neither peril can be an uninsured or an excepted peril.
 - C. but neither peril would cause some loss on its own.
 - D. but only one peril is operating or imminent.
30. What is the effect of a clause in an insurance contract that excludes losses directly or indirectly caused by acts of terrorism?
- A. Terrorism cover cannot be provided by a separate buy-back policy.
 - B. Terrorism is an uninsured peril in relation to concurrent causes.
 - C. Terrorism must be the proximate cause of the loss in order for the exclusion to operate.
 - D. Terrorism need only be a remote cause of the loss in order for the exclusion to operate.
31. Under the Consumer Rights Act 2015, a contract term in an insurance policy will be considered unfair to the policyholder if it
- A. causes a significant imbalance in the parties' rights and obligations to the detriment of the policyholder.
 - B. defines a particularly narrow scope of cover in relation to the premium paid by the policyholder.
 - C. is a standard term that the policyholder does not have the opportunity to individually negotiate.
 - D. is ambiguous and one interpretation of the term is detrimental to the policyholder.

32. A broker, acting for a commercial policyholder, is reviewing a policy wording drawn up by an insurer. The broker proposes an additional clause for insertion into the policy, which the insurer agrees to incorporate. Against which party to the contract will the clause be construed in the event of its ambiguity?
- A. The broker and the insurer equally.
 - B. The broker and the policyholder equally.
 - C. The insurer only.
 - D. The policyholder only.
33. A policy condition requiring the policyholder to give notice of a loss and also any incident or event which may give rise to a claim, is **most** relevant in an insurance policy covering
- A. personal accident.
 - B. professional liabilities.
 - C. property damage.
 - D. travel risks.
34. A fire destroys a business premises and the policyholder receives payment of the full sum insured from his property insurer. If the premises are rebuilt on the same site during the current policy period, new insurance for the premises will be arranged under
- A. a new policy at new terms.
 - B. an endorsement to the existing policy for an additional premium.
 - C. the existing policy subject to a reinstatement premium.
 - D. the existing policy at no additional premium.
35. Which insurance policy can make a deduction for betterment?
- A. An agreed value policy for a vintage car.
 - B. A new for old household contents insurance policy.
 - C. A personal accident insurance policy.
 - D. A property insurance policy for business machinery.
36. Which insurance principle is supported by the following formula to calculate the liability of the insurer?
- $$\frac{\text{Sum insured at the time of loss} \times \text{amount of loss}}{\text{Value at risk at the time of loss}}$$
- A. Contribution using the independent liability method.
 - B. The Elcock principle for partial losses under an agreed value policy.
 - C. The pro rata condition of average.
 - D. Subrogation where the recovery from the third party is less than the loss.

37. It is usual for an insurer to insert a subrogation waiver clause into a contract to agree with a policyholder that the insurer will **NOT** exercise subrogation rights against
- A. other insurers.
 - B. reinsurers.
 - C. subsidiary companies of the policyholder.
 - D. any third parties.
38. A policyholder's motor vehicle has suffered damage caused by a negligent third party. The damage cost £900 to repair with the insurer making payment of £800 after deduction of the £100 policy excess. The insurer recovered £500 from the negligent motorist. How will this £500 recovery be distributed?
- A. The policyholder is entitled to £100 and the insurer £400.
 - B. The policyholder is entitled to £200 and the insurer £300.
 - C. The policyholder is entitled to the full £500.
 - D. The insurer is entitled to the full £500.
39. The maximum liability method of calculating contribution operates, but with unfair results, if only one of the relevant policies
- A. has additional named insureds.
 - B. includes a subrogation clause.
 - C. is a policy of indemnity.
 - D. is subject to a policy excess.
40. Two property insurance policies cover the same loss but the policy terms and conditions differ. Following a claim, which method of calculating contribution is **most likely** to be used, if any?
- A. No method would be used.
 - B. The independent liability method.
 - C. The maximum liability method.
 - D. The reinstatement method.

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

- 41.** A persuasive precedent may be set by
- A. a decision made in the lower courts.
 - B. a decision made by the Judicial Committee of the Privy Council.
 - C. a local custom.
 - D. obiter dicta of senior judges in a high-level decision.
 - E. the ratio decidendi of a previous case with similar issues.
- 42.** What are the **key** characteristics of a legal partnership?
- A. All partners must agree to the appointment of a new partner.
 - B. It is in business with a view to making a profit.
 - C. The death of a partner does not affect continuation of the partnership.
 - D. The liability of its partners is always limited.
- 43.** Which torts are actionable per se?
- A. Assault.
 - B. Conversion.
 - C. False imprisonment.
 - D. Negligent misstatement.
 - E. Private nuisance.
- 44.** An employers' liability insurance policy can be classified as being a type of
- A. bilateral contract.
 - B. collateral contract.
 - C. contract under seal.
 - D. simple contract.
 - E. unilateral contract.
- 45.** When may an agent be legally allowed to delegate contractual duties to a sub agent without the express permission of the principal?
- A. In accordance with trade custom.
 - B. Only if the sub agent is based overseas.
 - C. Out of necessity.
 - D. Whenever it is cheaper to do so.

46. Under statutory provisions, what legal remedy is available to an insurer where a qualifying misrepresentation, which is careless, has been made?
- A. Amend the contract terms from those originally agreed.
 - B. Avoid the contract and keep any premium paid.
 - C. Maintain the contract but avoid any claims relating to the misrepresentation.
 - D. Proportionately reduce the amount to be paid on a claim if a higher premium would have been charged.
47. An insurance contract would **automatically** become void in the event of
- A. bankruptcy of an agent.
 - B. frustration.
 - C. illegality.
 - D. misrepresentation.
48. Which rules apply to deal with issues regarding inconsistencies or contradictions in policy wordings?
- A. An express term overrules or modifies any implied term.
 - B. An implied term overrules or modifies any express term.
 - C. Handwritten endorsements take priority over printed words in a policy document.
 - D. A policy document takes priority over a proposal form.
49. Which items are **most commonly** insured on an agreed value basis?
- A. Antiques.
 - B. Golf clubs.
 - C. Household appliances.
 - D. Ships.
 - E. Works of art.
50. The operation of the principle of subrogation, and the way in which any recovery from a third party is shared between the policyholder and the insurers, depends on
- A. the amount of the recovery in relation to the loss.
 - B. the time when subrogation rights arise.
 - C. whether the insurance covers the loss in full.
 - D. whether there is a non contribution clause.

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 7			Learning Outcomes 1-10		
1	B	1.1	21	B	7.4	41	A,B,D	1.8
2	A	1.8	22	C	7.2	42	A,B	2.4
2 questions			23	D	7.4	43	A,B,C	3.3
			24	B	7.5	44	A,D	4.1
Learning Outcome 2			25	C	7.5	45	A,C	5.3
3	D	2.4	26	A	7.3	46	A,D	6.9
4	D	2.2	27	C	7.3	47	B,C	7.5
2 questions			7 questions			48	A,C,D	8.3
						49	A,D,E	9.3
Learning Outcome 3			Learning Outcome 8			50	A,C	10.1
5	A	3.2	28	A	8.4	10 questions		
6	A	3.3	29	C	8.5			
7	D	3.5	30	D	8.5			
3 questions			31	A	8.3			
			32	D	8.3			
Learning Outcome 4			33	B	8.2			
8	A	4.8	6 questions					
9	C	4.6						
10	D	4.4	Learning Outcome 9					
3 questions			34	A	9.6			
			35	D	9.2			
Learning Outcome 5			36	C	9.3			
11	C	5.3	3 questions					
12	C	5.3						
13	D	5.6	Learning Outcome 10					
3 questions			37	C	10.2			
			38	D	10.2			
Learning Outcome 6			39	D	10.7			
14	A	6.2	40	B	10.8			
15	B	6.3	4 questions					
16	B	6.6						
17	C	6.8						
18	A	6.2						
19	C	6.3						
20	A	6.7						
7 questions								