



Chartered
Insurance
Institute

IF1

Certificate in Insurance

Unit 1 – Insurance, legal and regulatory

Based on the 2021 syllabus
examined from 1 January 2021 until 31 December 2021

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Unit 1 – Insurance, legal and regulatory

Based on the 2021 syllabus examined from 1 January 2021 until 31 December 2021

Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the IF1 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves two hours 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.

Although the specimen examination in this guide is typical of an IF1 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 IF1 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/learning/qualifications/unit-insurance-legal-and-regulatory-if1/
- 2) Select 'exam guide update' 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 IF1 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 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 skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested. Learning outcomes for IF1 begin with *know* or *understand*. Different skill levels lead to different types of question, examples of which follow.

Know - Knowledge-based questions require the candidate to recall factual information. Typically questions may ask 'What', 'When' or 'Who'. Questions set on a *know* learning outcome can only test knowledge.

Understand - To answer questions based on understanding, the candidate 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 IF1 examination is 100 multiple choice questions (MCQs). 2 hours are allowed for this examination.

The IF1 syllabus provided in this examination guide will be examined from 1 January 2021 until 31 December 2021.

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.

A 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 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.

While no questions involve complex calculations, candidates are permitted to use calculators during the examination. 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, under 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, 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 within the insurance environment.	9
2. Know how to apply the main features of risk and risk management to a given set of circumstances.	2
3. Understand the main features of insurance.	8
4. Know the structure and main features of the insurance market.	14
5. Understand contract and agency.	9
6. Understand the principle of insurable interest.	5
7. Understand the principle of good faith.	11
8. Understand the doctrine of proximate cause and its application to non-complex claims.	2
9. Understand the principle of indemnity and how this is applied to contracts of insurance.	7
10. Understand the principles of contribution and subrogation.	4
11. Understand the main regulatory and legal requirements applicable to the transaction of insurance business.	15
12. Understand consumer protection and dispute resolution.	6
13. Know the main methods of preventing, handling and resolving consumer complaints.	4
14. Understand the CII Code of Ethics and be able to apply the principles to non-complex scenarios.	4

* 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 2021 until 31 December 2021.
- 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/qualifications
 2. Select the appropriate qualification
 3. Select your unit from the list provided
 4. Select qualification update on the right hand side of the page

1. Understand the nature and main features of risk within the insurance environment.

- 1.1 Describe the concepts of risk and risk perception.
- 1.2 Explain the risk management function and process.
- 1.3 Describe the various categories of risk.
- 1.4 Explain the types of risk that can be insured and the types of risk that cannot.
- 1.5 Describe the components of risk.
- 1.6 Understand the relationship between frequency and severity and how they are applied.
- 1.7 Explain the difference between a peril and hazard as they relate to insurance.

2. Know how to apply the main features of risk and risk management to a given set of circumstances.

- 2.1 Apply the main features of risk and risk management to different sets of circumstances/scenarios.

3. Understand the main features of insurance.

- 3.1 Explain the need for insurance.
- 3.2 Explain the basis of insurance as a risk transfer mechanism.
- 3.3 Describe how insurance benefits policyholders and society in general.
- 3.4 Explain the term coinsurance and how this is used in two distinct ways in the insurance market.
- 3.5 Describe what is meant by dual insurance and self-insurance.
- 3.6 Describe the main classes of insurance.
- 3.7 Explain the purpose of Insurance Premium Tax.
- 3.8 State the current rates of Insurance Premium Tax and how it is collected.

4. Know the structure and main features of the insurance market.

- 4.1 Describe the structure of the insurance market and the five main groups of people.
- 4.2 Describe the main categories of insurer in terms of ownership.
- 4.3 Explain the structure of the Lloyd's market and main features.
- 4.4 Describe the London Market.
- 4.5 Describe the distribution channels used for the selling of insurance.
- 4.6 Explain the purpose of reinsurance.
- 4.7 Describe the key roles of professionals in insurance.
- 4.8 Explain the main functions of the principal market organisations.

5. Understand contract and agency.

- 5.1 Describe the essential elements of a valid contract.
- 5.2 Explain conditional and unconditional acceptance of a contract.
- 5.3 Describe consideration which supports the contract.
- 5.4 Explain how contracts can be cancelled or terminated.

- 5.5 Describe methods of creating an agent/principal relationship.
- 5.6 Describe the duties of an agent and the duties of a principal.
- 5.7 Explain the consequences of an agent's actions on the principal.
- 5.8 Describe what should be included in a Terms of Business Agreement (TOBA) between insurers and intermediaries.

6. Understand the principle of insurable interest.

- 6.1 Define insurable interest and its components.
- 6.2 Explain the timing of insurable interest.
- 6.3 Explain how insurable interest can arise.
- 6.4 Explain the application of insurable interest to property and liability insurance contracts.

7. Understand the principle of good faith.

- 7.1 Explain the principle of good faith and how this applies to contracts of insurance.
- 7.2 Explain how the duty of fair presentation operates in insurance policies and how it can be altered in terms of the policy.
- 7.3 Define material circumstances.
- 7.4 Identify and distinguish between physical and moral hazards in relation to proposal.
- 7.5 Explain an insurer's right to information.
- 7.6 Explain material circumstances that do not require disclosure.
- 7.7 Explain the consequences of non-disclosure or a breach of the duty of fair presentation.

8. Understand the doctrine of proximate cause and its application to non-complex claims.

- 8.1 Explain the meaning of proximate cause.
- 8.2 Apply proximate cause to scenarios that relate to non-complex claims.

9. Understand the principle of indemnity and how this is applied to contracts of insurance.

- 9.1 Define the principle of indemnity.
- 9.2 Explain the settlement options available to insurers which will provide the insured with the necessary indemnity.
- 9.3 Identify and distinguish between indemnity and benefit policies.
- 9.4 Explain what is meant by agreed value policies, first loss policies and new for old cover.
- 9.5 Calculate a non-complex claim payment, subject to the pro rata condition of average.

10. Understand the principles of contribution and subrogation.

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

- 10.2 Explain the principle of subrogation and why it may or may not be pursued in simple circumstances.
- 11. Understand the main regulatory and legal requirements applicable to the transaction of insurance business.**
- 11.1 Explain the reasons for compulsory insurance and describe the types of insurances which are compulsory in the UK.
- 11.2 Explain the application of the Consumer Rights Act 2015 in relation to insurance contracts.
- 11.3 Explain the Contracts (Rights of Third Parties) Act 1999 in relation to insurance contracts.
- 11.4 Explain the role of the financial services regulators in the authorisation, supervision and regulation of insurers and intermediaries.
- 11.5 Describe the financial services regulatory principles for businesses and the Financial Conduct Authority and Prudential Regulation Authority's regulation of individuals in broad outline
- 11.6 Explain the importance of the fair treatment of customers and positive customer outcomes.
- 11.7 Describe the consequences of non-compliance – discipline and enforcement.
- 11.8 Explain the requirements for reporting, record keeping and training and competence.
- 11.9 Describe the scope and effect of the Insurance: Conduct of Business sourcebook (ICOBS) in broad outline.
- 11.10 Describe the EU solvency requirements for insurers and intermediaries and financial services regulatory risk-based capital requirements in broad outline.
- 12. Understand consumer protection and dispute resolution.**
- 12.1 Describe the main provisions of the current data protection legislation.
- 12.2 Describe the main provisions of the current Money Laundering Regulations and their application to insurers and intermediaries.
- 13. Know the main methods of preventing, handling and resolving consumer complaints.**
- 13.1 Describe the financial services regulatory requirements in relation to handling complaints.
- 13.2 Explain the services provided by the Financial Ombudsman Service.
- 13.3 Describe the main provisions of the Financial Services Compensation Scheme, including the range of activities falling within its scope.
- 14. Understand the CII Code of Ethics and be able to apply the principles to non-complex scenarios.**
- 14.1 Explain the five main principles in the CII Code of Ethics.
- 14.2 Apply the main principles in the CII Code of Ethics and identify positive and negative indicators of ethical behaviour to non-complex scenarios.

Reading list

The following list provides details of further reading 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 resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII study texts

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

Books (and ebooks)

Insurance law: an introduction. Robert Merkin. London: Routledge, 2014.*

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

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

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

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

The Insurance Act 2015: a new regime for commercial and marine insurance law. Malcolm Clarke, Baris Soyer (eds.). Abingdon: Informa, 2016.

Factfiles and other online resources

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

The Insurance Institute of London (IIL) podcast lecture series features leading industry figures and subject experts speaking on current issues and trends impacting insurance and financial services. Available online at <https://www.cii.co.uk/insurance-institute-of-london/> (CII/PFS members only).

The Financial Ombudsman Service and general insurance. Peter Tyldesley, Saira Paruk.

The regulatory framework. Simon Collins.

Code of ethics explained. Duncan Minty. CII Faculty lecture, 2014. Available online at www.cii.co.uk/30790

i-law: online database of insurance legal knowledge. Informa. Available online via <https://www.cii.co.uk/insurance-law-database-i-law/> (CII/PFS members only).

Periodicals

The Journal. London: CII. Six issues a year. Archive available online at <https://www.thepfs.org/search-results/?q=the+journal> (CII/PFS members only).

Post magazine. London: Incisive Financial Publishing. Monthly. Contents searchable online at www.postonline.co.uk.

Reference materials

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.

Financial Conduct Authority (FCA) Handbook. Available at www.handbook.fca.org.uk/handbook.

International encyclopedia for insurance law. Wolters Kluwer. Available online via www.cii.co.uk/lawdatabases (CII/PFS members only).

Prudential Regulation Authority (PRA) Rulebook Online. Available at www.prarulebook.co.uk

Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (www.revisionmate.com). Details of how to access Revisionmate are on the first page of your study text.

It is recommended that you only study from the most recent version of the examination guide.

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. A claim for a new windscreen is an example of an event that is
 - A. high frequency and high severity.
 - B. high frequency and low severity.
 - C. low frequency and high severity.
 - D. low frequency and low severity.

2. The **main** elements of risk are
 - A. certainty and predictability.
 - B. certainty and unpredictability.
 - C. uncertainty and predictability.
 - D. uncertainty and unpredictability.

3. The **key** components of risk management are
 - A. analysis, control and insurable interest.
 - B. identification, analysis and control.
 - C. identification, analysis and frequency.
 - D. identification, control and predictability.

4. Which type of risk arises from a cause outside the control of any one individual and affects a large number of people?
 - A. A fundamental risk.
 - B. A particular risk.
 - C. A pure risk.
 - D. A speculative risk.

5. The risk of a commercial company losing an important contract to a competitor is **NOT generally** insurable because the risk is
 - A. fundamental.
 - B. particular.
 - C. pure.
 - D. speculative.

6. **Key** components in assessing the level of risk are
 - A. certainty and predictability.
 - B. frequency and severity.
 - C. insurable interest and indemnity.
 - D. uncertainty and predictability.

7. In relation to insurance, a poor hazard is **usually**
 - A. a risk that can only be covered under special terms.
 - B. something which an underwriter must remove before a proposal can be accepted.
 - C. something which increases the risk of a loss arising under a policy.
 - D. something which is listed within a policy as an event for which cover is provided.

8. A tsunami is an example of an event that is
- A. high frequency and high severity.
 - B. high frequency and low severity.
 - C. low frequency and high severity.
 - D. low frequency and low severity.
9. Following a review, a large company has decided to restrict its purchase of non-compulsory insurance to amounts in excess of a certain level. This decision represents an increase in the company's
- A. moral hazard.
 - B. risk retention.
 - C. risk transfer.
 - D. uninsurable risks.
10. What is the **main** purpose of Insurance Premium Tax?
- A. To support customers of insolvent insurers.
 - B. To raise revenue for the government.
 - C. A charge levied to join the Association of British Insurers.
 - D. A charge levied to be a Chartered Insurance Institute member.
11. The **main** reason a window cleaner purchases insurance for public liability is to provide him with
- A. a fund to pay any claims.
 - B. insurance that is required for his trade.
 - C. more trade as he can show he is risk adverse.
 - D. peace of mind.
12. A company manufactures ink cartridges, but due to a manufacturing fault the cartridges leak, causing damage to external property. What type of policy would cover the manufacturer against a claim?
- A. A business interruption policy.
 - B. A material damage policy.
 - C. A product liability policy.
 - D. A public liability policy.
13. The **main** benefit to an individual when insuring her house is that
- A. it reduces the chance of damage to the property.
 - B. maintenance costs are covered.
 - C. mortgage payments are lower.
 - D. the risk of a loss is transferred.

14. A person who is risk averse will **generally** transfer risk away through the use of
- A. insurance.
 - B. risk assessment.
 - C. risk surveys.
 - D. savings and investment.
15. A risk is co-insured between two insurers. If one insurer becomes insolvent and **CANNOT** pay a valid claim, what is the responsibility of the other insurer?
- A. It has no responsibility as the contract is void.
 - B. It is only responsible for its signed percentage.
 - C. If it is a compulsory insurance it must settle the claim in full.
 - D. It must always settle the claim in full.
16. An individual purchases travel insurance for when he goes on holiday without realising that his household policy also covers some similar elements. This is known as
- A. coinsurance.
 - B. dual insurance.
 - C. reinsurance.
 - D. self-insurance.
17. Mark receives policy documentation for his motor insurance policy which shows the premium as £100 and shows an additional amount for Insurance Premium Tax (IPT). How much IPT will be charged on the premium?
- A. £5
 - B. £12
 - C. £15
 - D. £25
18. Which type of insurance company by definition accepts more than one class of insurance business?
- A. A captive insurance company.
 - B. A composite insurance company.
 - C. A mutual insurance company.
 - D. A proprietary insurance company.
19. The **main** financial advantage for an insurer that operates on a direct basis is that it
- A. can charge higher premiums.
 - B. does not have to pay commission charges.
 - C. incurs smaller advertising costs.
 - D. receives fewer claims.

20. Which individuals provide financial backing for Lloyd's syndicates?
- A. Managing agents.
 - B. Members' agents.
 - C. Names.
 - D. Underwriters.
21. The third party which sometimes collects premiums from the insured on behalf of the insurer is the
- A. intermediary.
 - B. reinsurer.
 - C. risk manager.
 - D. underwriter.
22. What type of business does a reinsurer **usually** accept?
- A. Business from individuals who have already insured the risk with an insurer.
 - B. Business from non-insurance companies which have large insurance needs.
 - C. Business originally underwritten by an insurer.
 - D. Business which an insurer has refused to underwrite.
23. An electrical fault has caused insured fire damage in excess of £10,000. Which expert would the insured **normally** appoint to negotiate with the insurer on his behalf?
- A. Electrical engineer.
 - B. Forensic scientist.
 - C. Loss adjuster.
 - D. Loss assessor.
24. Lloyd's is
- A. an insurance company.
 - B. an insurance market.
 - C. an insurance syndicate.
 - D. a Government body.
25. Why might a company use an intermediary when considering the purchase of insurance?
- A. To acquire protection against the insolvency of an insurer.
 - B. To pay reduced Insurance Premium Tax.
 - C. To ensure that the premium can be written-off against Insurance Premium Tax.
 - D. To obtain advice on the type of policy that best suits its needs.
26. The London Market is predominantly associated with the placing of what type of risks?
- A. Aviation liability insurance risks only.
 - B. Complex international insurance and reinsurance programmes.
 - C. Marine liability insurance risks only.
 - D. Motor fleet insurance risks up to a premium of £500,000.

27. Which insurers make up the London Market?
- A. Reinsurers and Lloyd's syndicates only.
 - B. Lloyd's syndicates and captive insurers only.
 - C. Insurers, reinsurers, Lloyd's syndicates and protection and indemnity club members.
 - D. Insurers, reinsurers, Lloyd's syndicates and captive insurers.
28. What type of insurer is owned by a non-insurance parent company and is established with the express purpose of providing insurance cover for the parent company's own risks?
- A. A captive insurer.
 - B. A Lloyd's syndicate.
 - C. A mutual insurer.
 - D. A proprietary insurer.
29. An insurer owned entirely by its policyholders is a
- A. captive insurer.
 - B. coinsurer.
 - C. mutual insurer.
 - D. tied agent.
30. An entity that enables potential policyholders to complete a single online proposal and obtain quotes from several different insurers **NOT** associated with the entity is known as
- A. a data controller.
 - B. an insurance aggregator.
 - C. a mutual insurer.
 - D. a tied agent.
31. Which organisation provides information and technical services to underwriting businesses in the Lloyd's market?
- A. British Insurance Brokers' Association.
 - B. Lloyd's Market Association.
 - C. London and International Insurance Brokers' Association.
 - D. London Market Regional Committee.
32. What element of an insurance contract is **likely** to be affected by purchasing insurance direct from a UK insurer?
- A. The amount of Insurance Premium Tax payable.
 - B. The complaints process.
 - C. The premium payable.
 - D. The protection should the insurer fail.

33. What is meant by consideration in the context of a valid contract between two parties?
- A. Each party's duty to act fairly towards the other.
 - B. Each party's duty to act with good faith.
 - C. Each party's legal capacity to enter into the contract.
 - D. Each party's side of the bargain which supports the contract.
34. Corrine offers to supply filing cabinets to Debra, who accepts the offer. What further action is required in order that a **legally** enforceable contract exists between them?
- A. Another person needs to witness the agreement.
 - B. Debra needs to agree to pay Corrine for the filing cabinets.
 - C. The filing cabinets need to be delivered to Debra.
 - D. The terms of the agreement need to be written down.
35. Who may terminate a private medical insurance contract?
- A. The insured only.
 - B. The insured's general practitioner (GP) or medical consultant.
 - C. The insurer only.
 - D. Both the insured and insurer.
36. If an insured has paid a premium to an agent authorised by the insurer to collect premiums on its behalf and the agent then fails to pass on the premium to the insurer, what is the legal situation?
- A. The insured is not covered until such time as the premium is paid to the insurer.
 - B. The insured must pay a pro rata premium directly to the insurer to ensure cover continues.
 - C. The insurer is deemed to have received the premium and the insured is fully covered.
 - D. The premium will be paid to the insurer out of a central fund set up for that purpose.
37. A person to whom an offer has been made, tells the person making the offer that she is willing to accept it if some changes are made. Under contract law, this is known as
- A. a conditional acceptance.
 - B. an implied acceptance.
 - C. an invitation to treat.
 - D. a unilateral contract.
38. What, if anything, should be stated in respect of commission in a Terms of Business Agreement between an insurer and an intermediary?
- A. No reference to commission is required.
 - B. Reference only needs to be made to commission if the rate is more than normal market levels.
 - C. The amount of commission does not need to be shown, but the classes of insurance it is payable on must be identified.
 - D. The rate of commission and when it becomes payable.

39. Where a principal agrees to honour the obligations of an unauthorised act conducted by an agent, this is an agency created by
- A. apparent authority.
 - B. consent.
 - C. necessity.
 - D. ratification.
40. Where an agent collects premiums on behalf of a principal, the agent is obliged to
- A. issue monthly bank statements to the principal.
 - B. keep the principal's money separate from the agent's money.
 - C. pay Insurance Premium Tax on all premium receipts.
 - D. provide written receipts for premiums received.
41. What form of consideration is a principal **most likely** to provide to an agent under an agency contract?
- A. Access to the insurer's rating database.
 - B. Commission on net premium receipts.
 - C. Delegated authority to grant cover.
 - D. The insurer's pre-printed documentation and stationery.
42. Which insurance principle will **NOT** permit Jack's car to be insured by his neighbour?
- A. Contribution.
 - B. Indemnity.
 - C. Insurable interest.
 - D. Subrogation.
43. Paul has a fire insurance policy fully covering a building. The building is destroyed by an insured peril two weeks after Paul had sold it to Colin. What will Paul receive, if anything, from his fire insurer?
- A. Nothing.
 - B. The rebuilding cost, less the sale price.
 - C. The rebuilding cost only.
 - D. The sum insured.
44. When purchasing a life insurance policy, Ann **must** be able to demonstrate insurable interest at which point in time?
- A. At the point of purchase only.
 - B. At the point of purchase and the claims stage.
 - C. At the claims stage only.
 - D. At renewal only.

45. What is the **most common** way that insurable interest in a car arises?
- A. Being a passenger in the car.
 - B. Being involved in a car accident.
 - C. Driving the car.
 - D. Owning the car.
46. To whom does the duty of good faith apply in insurance contracts?
- A. The proposer only.
 - B. The insurer only.
 - C. Both the proposer and the insurer.
 - D. Any interested third party.
47. Tony owns an electrical shop and is arranging insurance with a new insurer. His shop is of non-standard construction and is protected by a central station alarm. He has had two burglaries in the last 12 months. Police have warned that the theft of LED televisions has increased substantially in recent months. Which of these facts does Tony **NOT** need to disclose to the new insurer?
- A. The construction of the premises.
 - B. The type of stock sold.
 - C. The presence of the central station alarm.
 - D. The two previous burglaries.
48. Under the policy conditions of a **typical** motor insurance policy, when does the duty of the insured to disclose any material changes exist?
- A. At the renewal date only.
 - B. During the 14 days before and after the renewal date.
 - C. During the first year only.
 - D. Throughout the duration of the policy.
49. Eddie takes out a whole of life policy with insurer X and an annual personal accident and sickness policy with insurer Y. He is diagnosed 10 months later with a heart condition that will require surgery in 6 months' time. Which of his insurers, if either, should he notify of this health change at the anniversary dates of his policies?
- A. Both insurers.
 - B. Insurer X only.
 - C. Insurer Y only.
 - D. Neither insurer.

50. Joe lives in a converted, thatched roof, timber-built barn situated in a rural location. Two years ago he was convicted and fined for handling stolen goods. He applies to his insurer, a specialist underwriter of timber and thatch properties for household insurance, but his proposal is still declined. What is the **most likely** cause for this declination?
- A. His conviction and fine two years ago.
 - B. The construction of the property.
 - C. The remote location of the property.
 - D. The property is a conversion.
51. Ruth is opening a florist shop within an area previously affected by riots. The shop suffered no damage, is protected by a sprinkler system and is sited only 50 metres away from a police station. Which of these facts, if any, **must** she disclose to the insurer when submitting a proposal for commercial insurance?
- A. None of the facts.
 - B. The proximity of the police station.
 - C. The presence of the sprinkler system.
 - D. The previous riots in the area.
52. When David submitted a proposal for private medical insurance, he forgot to answer one of the medical questions. The insurer did **NOT** query the missing information and the policy is now in force. This is **NOT** regarded as non-disclosure because
- A. David could not be expected to know the answer.
 - B. David intended to provide the insurer with the information.
 - C. the insurer did not request a medical report from David's general practitioner (GP).
 - D. the insurer has waived its right to the information.
53. An insurer proves an insured deliberately answered a question of fact wrongly on the proposal form to reduce the premium. What is the insurer legally entitled to do on discovery of this information?
- A. Apply additional terms from inception only.
 - B. Apply additional terms from the date of discovery only.
 - C. Avoid the policy ab initio.
 - D. Avoid the policy from the date of discovery only.
54. Relevant facts are considered by an underwriter to
- A. analyse the likely frequency and severity of catastrophic events that might impact on a class of business.
 - B. assess the level of risk of an insurance proposal to determine the cover that can be offered and at what premium.
 - C. negotiate and settle a claim made by the insured under an insurance policy.
 - D. provide the statistical analysis required to comply with reporting requirements to the industry regulator.

55. Tom wishes to insure his joinery business. The premises are heated by an unguarded wood-burning stove, large stocks of flammable paints and solvents are held and there has been a history of malicious damage attacks on the premises. The premises are located within a vulnerable flood area although no flooding has occurred. Which of these facts does Tom **NOT** need to disclose to his insurer?
- A. Malicious damage attacks.
 - B. Method of heating.
 - C. Stock level of flammable liquids.
 - D. Vulnerable flood area location.
56. Who, if anyone, has a duty of fair presentation when a commercial insurance policy is renewed?
- A. The duty of fair presentation does not apply at renewal.
 - B. The insurer only.
 - C. The policyholder only.
 - D. Both the insurer and the policyholder.
57. When an insurer refers to the proximate cause of a loss, what cause is actually being referred to?
- A. The direct cause.
 - B. The dominant cause.
 - C. The indirect cause.
 - D. The remote cause.
58. Julie falls from her horse and sustains minor injuries. Several days later she goes to hospital and subsequently dies from an infection. What is the proximate cause of her death?
- A. The fall from her horse.
 - B. Her stay in hospital.
 - C. The infection.
 - D. Riding her horse.
59. Matt's portfolio of insurance policies includes private car, household, legal expenses and mortgage protection. Which of these can be termed a benefit policy?
- A. Household.
 - B. Legal expenses.
 - C. Mortgage protection.
 - D. Private car.
60. The placing of an insured in the same financial position after a loss as he was in immediately prior to the loss is the definition of which insurance principle?
- A. Contribution.
 - B. Indemnity.
 - C. Insurable interest.
 - D. Subrogation.

61. Nigel's five-year-old car is written off following an accident which was his fault. He submits a claim for the replacement costs of a brand new car to his insurer. Why will the insurer only offer him the market value of his car immediately before the accident settlement?
- A. This is a statutory requirement.
 - B. His premium was not based on a new car value.
 - C. The accident was his fault.
 - D. This is the extent of his financial interest.
62. Gavin's machine, which is adequately insured on an indemnity basis, is destroyed by an insured peril. A new machine costs £1,000 and a similar second-hand machine £700. In both cases the cost of transport and installation is £100. How much will Gavin receive?
- A. £700
 - B. £800
 - C. £1,000
 - D. £1,100
63. An aircraft is insured on an agreed value basis of £20,000,000. At policy inception the market value is £18,000,000, which then increases to £21,000,000 on the day the aircraft crashes and is a total loss. However, when the claim is agreed it has fallen to £19,000,000. How much is the airline entitled to receive for the loss?
- A. £18,000,000
 - B. £19,000,000
 - C. £20,000,000
 - D. £21,000,000
64. Simon's garage buildings are valued at £200,000 and insured for £150,000 under an insurance policy which is subject to average. If he suffers a £50,000 insured loss, how much will his insurer pay?
- A. £12,500
 - B. £33,333
 - C. £37,500
 - D. £50,000
65. Lillian holds personal accident, whole of life, endowment and purchase protection policies. Which of these can be described as an indemnity policy?
- A. Endowment.
 - B. Personal accident.
 - C. Purchase protection.
 - D. Whole of life.

66. Colin's cottage is valued at £100,000 and is covered by two fire insurance policies, one with a sum insured of £50,000 and the other with a sum insured of £100,000. Under the principle of contribution, what **maximum** payment will Colin receive from the first policy if a fire causes damage costing £60,000 to repair?
- A. £20,000
 - B. £25,000
 - C. £30,000
 - D. £50,000
67. An insurer pays for the repair of damage to a policyholder's car caused by a vandal, who is later identified. What option can the insurer exercise to recover the claim paid?
- A. The arbitration clause.
 - B. The average clause.
 - C. The contribution condition.
 - D. Its subrogation rights.
68. By exercising its right of subrogation, an insurer can
- A. deduct an amount for wear and tear.
 - B. ensure that the insured bears part of the loss.
 - C. recover costs from a third party.
 - D. request a contribution from another insurer.
69. A private medical insurance policy includes a clause that allows the insurer to recover payment from a third party for private medical treatment expenses that arise as a result of accidental injury caused by the third party. Under which insurance principle is this clause allowing the insurer to assume the rights of the insured?
- A. Contribution.
 - B. Reinstatement.
 - C. Subrogation.
 - D. Tort.
70. Why does the regulator approve individuals to perform controlled functions?
- A. To comply with EU solvency requirements.
 - B. To comply with Insurance Premium Tax legislation.
 - C. To ensure that they are fit and proper.
 - D. To ensure that they comply with the Chartered Insurance Institute's Code of Ethics.
71. Eddie works for a firm providing insurance advice. Under Financial Conduct Authority regulations, if Eddie leaves the firm, for how long **must** records of training and competence be kept?
- A. 3 months.
 - B. 6 months.
 - C. 3 years.
 - D. 6 years.

72. A firm submits information to the Financial Conduct Authority about the number of appointed representatives it has and details about the way they are monitored. This data relates to which part of the Retail Mediation Activities Return?
- A. Accounting information.
 - B. Conduct of Business data.
 - C. Product sales data.
 - D. Threshold conditions.
73. Why is it important for insurers to ensure the fair treatment of customers?
- A. It is a contractual requirement.
 - B. It is a regulatory requirement.
 - C. It is a requirement of the Lloyd's Market Association.
 - D. It is a requirement of the London and International Insurance Brokers' Association.
74. The Consumer Rights Act 2015 is designed to protect the
- A. aggregator.
 - B. broker.
 - C. insurer.
 - D. policyholder.
75. An approved person working for a Lloyd's broker fails to comply with the relevant regulatory requirements. Against whom can enforcement action be taken?
- A. Lloyd's only.
 - B. The approved person only.
 - C. The broker only.
 - D. The broker and the approved person.
76. If a personal lines insurance policy contains a term which has **NOT** been individually negotiated and causes significant detriment to the policyholder, this is **likely** to be in breach of the
- A. Contracts (Rights of Third Parties) Act 1999.
 - B. Data Protection Act 2018.
 - C. Money Laundering Regulations.
 - D. Consumer Rights Act 2015.
77. Why is motor insurance compulsory?
- A. To ensure the Government has a minimum level of income from Insurance Premium Tax.
 - B. To protect innocent victims of road accidents.
 - C. To protect the insurance industry by securing jobs.
 - D. To protect the motor repair industry by securing jobs.

78. Insurance intermediaries conduct business within the terms set by the
- A. Association of British Insurers.
 - B. British Insurance Brokers' Association.
 - C. Financial Ombudsman Service.
 - D. Insurance: Conduct of Business sourcebook (ICOBS).
79. The nature and extent of the regulator's supervisory relationship with an intermediary depends on the
- A. amount of annual brokerage income of the intermediary.
 - B. geographical scope of the intermediary's operations.
 - C. level of risk the regulator considers the intermediary presents to its statutory objectives.
 - D. number of awards made against the intermediary by the Financial Ombudsman Service.
80. What legal provision is contained within the Contracts (Rights of Third Parties) Act 1999?
- A. It allows a third party to claim directly against an insurer, where the negligent insured has become bankrupt.
 - B. It allows an onerous contract term to be set aside where it is considered to be unfair and to the detriment of a consumer.
 - C. It allows an insurer, having indemnified a policyholder for loss or damage by riot, to seek recovery of its costs from the police.
 - D. It allows for a third party, who is a named beneficiary under an insurance policy, to enforce the policy against the insurer.
81. The high-level standards applying to insurance product sales in the Insurance: Conduct of Business sourcebook (ICOBS) concern
- A. advertising accuracy, data protection and regulatory compliance.
 - B. disclosure of information, policy standards and termination of contracts.
 - C. financial security, professional indemnity insurance and underwriting standards.
 - D. suitability of advice, product disclosure and claims handling.
82. The regulator insists on enhanced capital requirement to
- A. ensure Insurance Premium Tax levels are consistent.
 - B. meet Association of British Insurers' requirements.
 - C. minimise the risk of an insurance company becoming insolvent.
 - D. protect shareholders of insurance companies.
83. The regulator has powers to supervise insurers
- A. by the voluntary consent of insurance market participants.
 - B. under the Data Protection Act 2018.
 - C. under the Financial Services Act 2012.
 - D. under insurance directives from the Association of British Insurers.

84. An approved person is an individual who **must**
- A. describe the essential elements of a valid contract.
 - B. explain the consequences of non-disclosure or misrepresentation of relevant information.
 - C. identify and distinguish between indemnity and benefit policies.
 - D. perform one or more controlled functions.
85. Under which Act was the Assets Recovery Agency established?
- A. Criminal Justice Act 1993.
 - B. Data Protection Act 2018.
 - C. Proceeds of Crimes Act 2002.
 - D. Serious Crimes Act 2007.
86. Where the regulator's rules oblige a firm to appoint a Money Laundering Reporting Officer, the person appointed **must**
- A. be a qualified solicitor or accountant.
 - B. have a relevant financial services qualification.
 - C. have served at least five years with the firm.
 - D. have a suitable level of seniority and resources.
87. If an insurer fails to ensure the security of customer's data, which organisation will impose a penalty?
- A. The Association of British Insurers.
 - B. The Financial Ombudsman Service.
 - C. The Information Commissioner's Office.
 - D. The National Crime Agency.
88. In order to comply with the Proceeds of Crime Act 2002, a business transacting insurance **must** appoint a
- A. Data Protection committee.
 - B. Financial Ombudsman.
 - C. Compliance officer.
 - D. Money Laundering Reporting Officer.
89. What is money laundering?
- A. A legal way of using funds from criminal activity to help the community.
 - B. An illegal way of concealing the illegitimate proceeds of crime.
 - C. An investment option used to reduce risk.
 - D. An investment option used to eliminate bad debt.

90. What is the **main** purpose of an insurer's privacy notice?
- A. To advise customers on the way in which their data will be used and how long it will be stored for.
 - B. To provide customers with access to a website portal to view policy information.
 - C. To provide customers with details of the data they must submit when making a claim.
 - D. To provide customers with details of the data they must submit when making a complaint.
91. What Act gives individuals protection to ensure that information collected about them is accurate?
- A. Contract (Rights of Third Parties) Act 1999.
 - B. Data Protection Act 2018.
 - C. Financial Services and Markets Act 2000.
 - D. Proceeds of Crime Act 2002.
92. In which circumstances, if any, may an insurer levy a charge to investigate a complaint?
- A. The insurer can levy a charge at its own discretion.
 - B. The insurer can only levy a charge where notice to this effect is included within its Terms of Business Agreement.
 - C. The insurer can only levy a charge where the complaint has been referred to the Financial Ombudsman Service.
 - D. The insurer cannot levy a charge in any circumstances.
93. The **main** function of the Financial Ombudsman Service is to arbitrate in disputes regarding claims settlements between
- A. large commercial policyholders and brokers.
 - B. large commercial policyholders and insurers.
 - C. private policyholders and insurers.
 - D. private policyholders and the regulator.
94. An insurer ceases trading with liabilities far outweighing its assets. Which organisation will compensate the insurer's policyholders?
- A. The Association of British Insurers.
 - B. The Chartered Insurance Institute.
 - C. The Financial Ombudsman Service.
 - D. The Financial Services Compensation Scheme.
95. What are an insurer's responsibilities, if any, after a consumer has referred an unresolved complaint to the Financial Ombudsman Service (FOS) for resolution?
- A. It has no further responsibilities.
 - B. It must continue to negotiate a resolution with the consumer.
 - C. It must negotiate with the FOS.
 - D. It must co-operate with the FOS and comply promptly with any award made by it.

96. The Financial Services Compensation Scheme is funded from
- A. general taxation.
 - B. a levy on authorised firms.
 - C. a percentage levy on investment and pension funds.
 - D. proceeds of Insurance Premium Tax.
97. Jack is a broker and has acquired a large new commercial client who insists on settling all transactions in cash. He suspects an element of money laundering may be taking place. What **must** Jack do in compliance with the Chartered Insurance Institute's Code of Ethics?
- A. Disclose his concerns to the insurers and let them decide whether to continue trading with the client.
 - B. Discontinue trading with the client.
 - C. Maintain client confidentiality by not reporting his concerns and continue to trade.
 - D. Report his concerns to the relevant authorities.
98. What factors would show a positive indication of adherence to the Chartered Insurance Institutes Code of Ethics?
- A. A business culture which seeks to ensure that all business attitude and behaviour result in highly satisfied customer service.
 - B. Consistently achieving or exceeding business targets.
 - C. Operating a speedy and efficient complaints handling system.
 - D. Maintaining a highly motivated and trained workforce.
99. What is the essential purpose of the Chartered Insurance Institute's Code of Ethics?
- A. To encourage insurers to exercise restraint in awarding or setting executives' pay and bonuses.
 - B. To influence insurers' investment strategy towards environmentally responsible and recurring sustainable investments.
 - C. To meet standards which inform decision making, business relationships and general behaviour.
 - D. To reduce the prospect of mis-selling insurance products.
100. In order to comply with the Chartered Insurance Institute's Code of Ethics on financial prudence, a firm **must** ensure that
- A. all premiums are collected by year end.
 - B. the members of its finance department do not have any debts.
 - C. there is more than one financial officer on site.
 - D. adequate financial resources are maintained.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 5			Learning Outcome 10		
1	B	1.6	33	D	5.3	66	A	10.1
2	D	1.1	34	B	5.1	67	D	10.2
3	B	1.2	35	D	5.4	68	C	10.2
4	A	1.3	36	C	5.7	69	C	10.2
5	D	1.4	37	A	5.2	4 Questions		
6	B	1.5	38	D	5.8	Learning Outcome 11		
7	C	1.7	39	D	5.5	70	C	11.5
8	C	1.6	40	B	5.6	71	C	11.8
8 Questions			41	B	5.3	72	B	11.8
Learning Outcome 2			9 Questions			73	B	11.6
9	B	2.1	Learning Outcome 6			74	D	11.2
1 Questions			42	C	6.1	75	D	11.7
Learning Outcome 3			43	A	6.4	76	D	11.2
10	B	3.7	44	A	6.2	77	B	11.1
11	D	3.1	45	D	6.3	78	D	11.9
12	C	3.6	4 Questions			79	C	11.4
13	D	3.3	Learning Outcome 7			80	D	11.3
14	A	3.2	46	C	7.1	81	D	11.9
15	B	3.4	47	C	7.5	82	C	11.10
16	B	3.5	48	D	7.2	83	C	11.4
17	B	3.8	49	C	7.2	84	D	11.5
8 Questions			50	A	7.4	15 Questions		
Learning Outcome 4			51	A	7.5	Learning Outcome 12		
18	B	4.2	52	D	7.7	85	C	12.2
19	B	4.5	53	C	7.7	86	D	12.2
20	C	4.3	54	B	7.3	87	C	12.1
21	A	4.5	55	D	7.6	88	D	12.2
22	C	4.6	56	D	7.2	89	B	12.2
23	D	4.7	11 Questions			90	A	12.1
24	B	4.3	Learning Outcome 8			91	B	12.1
25	D	4.5	57	B	8.1	7 Questions		
26	B	4.4	58	C	8.2	Learning Outcome 13		
27	C	4.4	2 Questions			92	D	13.1
28	A	4.2	Learning Outcome 9			93	C	13.2
29	C	4.2	59	C	9.3	94	D	13.3
30	B	4.1	60	B	9.1	95	D	13.1
31	B	4.8	61	D	9.1	96	B	13.3
32	C	4.5	62	B	9.2	5 Questions		
15 Questions			63	C	9.4	Learning Outcome 14		
			64	C	9.5	97	D	14.2
			65	C	9.3	98	A	14.2
			7 Questions			99	C	14.1
						100	D	14.1
						4 Questions		