



Chartered
Insurance
Institute

FIT

Award for the Foundation Insurance Test

Guide to the Foundation Insurance Test

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

Guide to the Foundation Insurance Test

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

Contents

Introduction to the Guide	3
FIT Syllabus	6
Specimen Test	9
Specimen Test Answers and Learning Outcomes Covered	26

Published in October 2020 by:

The Chartered Insurance Institute

Telephone: 020 8989 8464

Email: customer.serv@cii.co.uk

Copyright ©2020 The Chartered Insurance Institute. All rights reserved.

Guide to the Foundation Insurance Test

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

Introduction

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

Ideally, students should have completed the majority of their studies before attempting the specimen test. Students should allow themselves two hours to complete the test. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the specimen test in this guide is typical of a Foundation Insurance Test, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular test. To prepare properly for the test, 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 Foundation Insurance Test reading list, which is located on the syllabus in this guide and on the CII website at www.cii.co.uk.

Background Information

Questions included in the Foundation Insurance Test undergo a rigorous writing and editing process before reaching a test. 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 test 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-foundation-insurance-test-fit/
- 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 syllabus for the Foundation Insurance Test is published on the CII website at www.cii.co.uk. **Candidates should note that the test 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 test, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The skill level tested in each test 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 the Foundation Insurance Test begin with *understand*.

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.

Test Information

The method of assessment for the Foundation Insurance Test is 100 multiple choice questions (MCQs). 2 hours are allowed for this test.

The Foundation Insurance Test syllabus provided in this test guide will be examined from 1 January 2021 to 31 December 2021.

Candidates will be tested on the basis of English law and practice unless otherwise stated.

The general rule is that legislative and industry changes will not be tested 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 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.

While no questions involve complex calculations, candidates are permitted to use calculators during the test. 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 test from the examination room.

Test Technique: Multiple Choice Questions

The best approach to multiple choice tests 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 Test

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 test performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the test that were answered correctly.

Foundation Insurance Test

Objective

To provide knowledge and understanding of basic insurance products, principles and practice, within the legal and regulatory framework of the insurance industry.

Summary of learning outcomes	Number of questions in the examination*
1. Understand how the insurance market operates.	8
2. Understand risk and insurance in the context of the insurance market.	7
3. Understand insurance legal principles.	17
4. Understand insurance underwriting procedures and their legal significance.	10
5. Understand policy wordings and procedures.	8
6. Understand insurance procedures for claims.	10
7. Understand the conduct of insurance business and wider legal and regulatory requirements.	15
8. Understand personal insurance.	18
9. Understand commercial insurance.	7

* 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 further details of assessment content, along with 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 how the insurance market operates.

- 1.1 Describe the main features and roles within the insurance market.
- 1.2 Describe the types of intermediaries in the insurance market.
- 1.3 Describe the main functions and responsibilities of underwriters.
- 1.4 Describe the main functions and responsibilities of claims staff.
- 1.5 Describe the main functions and responsibilities of delegated authority arrangements.
- 1.6 Describe the additional services available to policyholders.

2. Understand risk and insurance in the context of the insurance market.

- 2.1 Describe what is meant by risk in relation to insurance.
- 2.2 Describe the categories and components of risk.
- 2.3 Describe how insurance operates as a risk transfer mechanism.

3. Understand insurance legal principles.

- 3.1 Describe the essentials of a legal contract of insurance.
- 3.2 Describe the methods of creating an agency.
- 3.3 Describe the principle of insurable interest.
- 3.4 Describe the concepts of good faith and the duty of fair presentation.
- 3.5 Describe the principle of indemnity and how it is modified.
- 3.6 Explain the application of clauses incorporated within insurance policies.

4. Understand insurance underwriting procedures and their legal significance.

- 4.1 Describe the methods used to obtain information on material circumstances.
- 4.2 Explain moral and physical hazard in relation to underwriting.
- 4.3 Describe the formation of an insurance policy.
- 4.4 Explain the relevance of premium payment methods.
- 4.5 Describe the application of Insurance Premium Tax.

5. Understand policy wordings and procedures.

- 5.1 Describe the components of a policy.
- 5.2 Explain the use of typical policy conditions and exclusions and their application.
- 5.3 Describe the procedures and requirements relating to renewals.

6. Understand insurance procedures for claims.

- 6.1 Describe the requirements for a claim to be valid.
- 6.2 Explain why a claim may be partially met or invalid.
- 6.3 Describe the insured's duties after a loss.
- 6.4 Describe the methods of claims settlement.

- 6.5 Explain the detection and impact of fraudulent claims.

7. Understand the conduct of insurance business and wider legal and regulatory requirements.

- 7.1 Describe the main purpose of the financial services regulators, government bodies and other organisations.
- 7.2 Describe the requirements of the Financial Conduct Authority handbook.
- 7.3 Describe the main provisions of the General Insurance compensation arrangements under the Financial Services Compensation Scheme.
- 7.4 Describe the provisions of data protection legislation.
- 7.5 Describe the main regulatory requirements for financial services industry personnel.
- 7.6 Explain the need for effective complaints-handling procedures and dispute resolution.

8. Understand personal insurance.

- 8.1 Describe the basic features and outline of personal lines insurance policy cover.
- 8.2 Describe the types of personal insurance that are compulsory in the UK.

9. Understand commercial insurance.

- 9.1 Describe the basic features and outline of commercial insurance policy cover.
- 9.2 Describe the types of commercial insurance that are compulsory in the UK.

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

Foundation Insurance Test. London: CII. Study text FIT.

Books (and ebooks)

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

A practitioner's guide to the regulation of insurance. 4th ed. John Young (ed). London: Sweet and Maxwell, 2011.

Factfiles and other online resources

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 regulatory framework. Simon Collins.

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.

The insurance manual. Sadler, John. Stourbridge, Worcs: Insurance Publishing & Printing Co. Looseleaf updated annually.

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. Which type of intermediary **normally** transacts business in the Lloyd's market?
 - A. Appointed representatives.
 - B. Independent insurance intermediaries.
 - C. Lloyd's agents.
 - D. Lloyd's brokers.

2. What is the **main** function of an underwriter?
 - A. Making ultimate decisions as to whether a claim is covered by the policy wording.
 - B. Setting premiums and policy terms to build a profitable portfolio of business.
 - C. Undertaking detailed statistical analysis of claims figures and forecasting future loss trends.
 - D. Undertaking surveys of risks presented to the insurer.

3. The **main** function of a loss adjuster is to
 - A. identify, evaluate and control an insurable risk.
 - B. fix the terms, conditions and scope of cover for a risk.
 - C. investigate and negotiate a claim on behalf of the insurer.
 - D. investigate and negotiate a claim on behalf of the insured.

4. Who is responsible for the regulatory conduct of an appointed representative?
 - A. The Motor Insurers' Bureau.
 - B. The Association of British Insurers.
 - C. The British Insurance Brokers' Association.
 - D. The principal insurer.

5. The **main** benefit to an insurer of using a network of repairers to repair customers' motor vehicles is to
 - A. increase customer satisfaction.
 - B. increase excess payments from customers.
 - C. increase insurance premiums.
 - D. reduce insurance premiums for customers.

6. Who is **most likely** to purchase insurance from a direct insurer?
 - A. An intermediary.
 - B. A Lloyd's broker.
 - C. A member of the public.
 - D. A reinsurer.

7. The **primary** function of insurance is to
 - A. act as a risk transfer mechanism.
 - B. minimise claims.
 - C. prevent losses from occurring.
 - D. reduce risk.

8. When an insurance company outsources the handling of claims to an intermediary this is known as
- A. delegated authority.
 - B. reinsurance.
 - C. subrogation.
 - D. uninsured loss recovery.
9. Which type of risk can **always** be insured against?
- A. A fundamental risk.
 - B. A non-financial risk.
 - C. A pure risk.
 - D. A speculative risk.
10. What term is given to the basic principle of insurance that the losses of the few are met by the contributions of the many?
- A. Pooling of risks.
 - B. Risk management.
 - C. Risk transfer mechanism.
 - D. Subrogation.
11. Self-insurance means that
- A. a person or organisation deals with the insurer rather than relying on a broker.
 - B. the policyholder sets up its own insurance company to administer its own insurance.
 - C. the policyholder settles its claims and charges the insurer at the end of the policy year.
 - D. a person or organisation establishes a fund from which losses will be met.
12. A risk which arises from a cause outside the control of any one individual is known as a
- A. fundamental risk.
 - B. particular risk.
 - C. pure risk.
 - D. speculative risk.
13. What is coinsurance?
- A. Where a policyholder arranges duplicate cover with another insurer.
 - B. Where a policy is arranged in joint names.
 - C. Where an insurer arranges cover in excess of its own retention with a reinsurer.
 - D. Where a risk is insured with separate insurers, each taking a stated proportion of the risk.
14. When an insurer transfers a portion of its risk to a third party in return for a premium, this is known as
- A. coinsurance.
 - B. dual insurance.
 - C. reinsurance.
 - D. self-insurance.

-
15. Motor insurance windscreen claims can be classed as
- A. high frequency, high severity.
 - B. high frequency, low severity.
 - C. low frequency, high severity.
 - D. low frequency, low severity.
16. What are the potential consequences of an insured's deliberate non-disclosure of relevant information becoming apparent when a claim is made?
- A. The insurer must pay the claim then cancel the policy.
 - B. The policy is voidable from inception at the insurer's option.
 - C. The policy is voidable from inception at the policyholder's option.
 - D. The insurer can only avoid the claim but must continue the policy.
17. What forms the insured's consideration for an insurance contract?
- A. The acceptance of the policy terms and conditions.
 - B. The agreement to comply with any warranties imposed by the insurer.
 - C. The disclosure of relevant information.
 - D. The payment of, or the promise to pay, the premium.
18. Which insurance principle describes a policyholder's duty to disclose relevant information?
- A. Contribution.
 - B. Indemnity.
 - C. Insurable interest.
 - D. Good faith.
19. After a car crashes into Paul's house, his insurer pays to reinstate the damage and recovers its outlay from the driver's insurer. This recovery is an example of
- A. arbitration.
 - B. indemnity.
 - C. ratification.
 - D. subrogation.
20. Whilst assisting a client to complete a proposal form for a household insurance policy, a broker **must** explain the customer's duty to disclose
- A. facts of law.
 - B. relevant information when asked.
 - C. facts which lessen the risk.
 - D. spent convictions.

21. The disclosure of all relevant information enables an underwriter to
- A. arrange adequate reinsurance.
 - B. automatically accept a proposal.
 - C. fully assess the level of risk.
 - D. guarantee the payment of future claims.
22. Stock with a sum insured of £30,000 is insured under a commercial policy and is subject to average. A fire completely destroys the stock, which has a replacement value of £40,000. What settlement figure will the insurer pay?
- A. £10,000
 - B. £22,500
 - C. £30,000
 - D. £40,000
23. An insurance policy has a renewal date of 30 June. The insurer advises the insured of the renewal terms on the 7 June, subject to confirmation of no changes affecting the insured risk. The insured informs the insurer on 14 June that he will renew and that there are no changes. He pays the premium on 28 June. On what date did acceptance of this insurance contract take place?
- A. 7 June.
 - B. 14 June.
 - C. 28 June.
 - D. 30 June.
24. What type of agency relationship is created by an insurer agreeing to pay an intermediary a commission on all insurance premium transactions?
- A. Apparent authority.
 - B. Consent.
 - C. Necessity.
 - D. Ratification.
25. Why does a mortgage lender have an insurable interest in a borrower's property?
- A. The mortgage lender is always responsible for arranging buildings insurance on behalf of the borrower.
 - B. The mortgage lender always suffers a financial loss if the property sustains damage.
 - C. The mortgage lender has a financial interest in the property in relation to the amount of the loan.
 - D. The mortgage lender is granted insurable interest by the Financial Conduct Authority.

26. A comprehensive motor insurance policy incepted on 25 January. On 24 April the policyholder is involved in an accident and the car is declared unrepairable. The insurer settles the claim on 15 June. When **must** insurable interest exist?
- A. 25 January only.
 - B. 24 April only.
 - C. 25 January to 24 April only.
 - D. 25 January to 15 June.
27. Indemnity should place the insured in the same financial position after a loss as they were
- A. when the proposal form was completed.
 - B. when the insurance policy was incepted.
 - C. immediately before the loss occurred.
 - D. immediately after the claim was proved valid.
28. Why is the sum insured on valuable paintings **normally** based on an agreed value?
- A. The true financial value of the paintings is difficult to establish so a value is fixed at inception.
 - B. To allow for an increase in the financial value of the paintings after inception.
 - C. To ensure that the settlement figure allows for depreciation.
 - D. To ensure that the insured will be in the same financial position after a loss as he was in immediately before its occurrence.
29. Contribution arises when
- A. the policyholder agrees to pay a pro rata percentage of any claim if he is underinsured.
 - B. the insurer makes an ex gratia payment towards a loss falling outside the terms of cover.
 - C. the policyholder agrees to a higher excess in return for a reduced premium.
 - D. two or more insurers cover the same risk and each take a share of any claim that arises.
30. The duty of accountability owed by an agent to his principal requires that the agent **must**
- A. allow the principal unrestricted access to all the agent's accounting records.
 - B. justify decisions to the principal regarding all insurance transactions.
 - C. maintain accurate records of all monetary transactions carried out for the principal.
 - D. make available reports and accounts of all companies used for the principal's business.
31. In the event of a valid claim, the average condition operates when
- A. more than one insurance policy covers the same risk.
 - B. the sum insured exceeds the market value.
 - C. the sum insured is less than the actual value.
 - D. a first loss insurance policy is in operation.

32. A property insurance contract is void from inception if there was a
- A. breach of good faith.
 - B. breach of a policy condition precedent to liability.
 - C. breach of warranty.
 - D. lack of insurable interest.
33. The contribution condition in an insurance policy **always** modifies the common law position by
- A. allowing the insurer to recover its loss from a third party.
 - B. limiting each insurer's liability to its share of the loss.
 - C. making each insurer liable for 50% of the loss.
 - D. making each insurer liable for the full extent of the loss.
34. What document do insurers often use to obtain important information?
- A. Key facts document.
 - B. Proposal form.
 - C. Renewal notice.
 - D. Statement of demands and needs.
35. What type of moral hazard would particularly affect an underwriter's decision regarding a quotation for theft insurance at a goods warehouse?
- A. Confirmation that the building is of non-combustible construction.
 - B. Existence of a security alarm on the premises.
 - C. The proposer having a fraud conviction.
 - D. The proposer having a speeding conviction.
36. What rate of Insurance Premium Tax, if any, would be payable on a personal travel insurance policy?
- A. None.
 - B. 12%
 - C. 20%
 - D. 25%
37. An insured has obtained property insurance on his retail unit for the past five years with the same insurer and no claims have occurred. The Environment Agency updates its flood information and includes the property within a river's flood risk area. At renewal the insurer will **most likely** consider this information as
- A. an increased moral hazard only.
 - B. an increased physical hazard only.
 - C. an increased physical and moral hazard.
 - D. having no effect on the physical or moral hazard.

38. A plumber requests a public liability insurance quote for his business with an inception date of 31 May. An insurer provides a quote on 20 May, valid for 14 days. On 28 May the plumber advises the insurer that he would like to take up the quotation and that he has just informed his current insurer of a loss that has occurred. What action is the insurer **most likely** to take?
- A. Confirm insurance coverage for the quoted insurance premium but impose additional policy exclusions.
 - B. Decline to provide insurance coverage.
 - C. Provide an alternative quotation taking into account the loss that has occurred.
 - D. Unconditionally confirm insurance coverage on the quoted terms.
39. A household insurer will **usually** obtain information from a proposer by
- A. asking the proposer specific questions via the telephone or internet.
 - B. completing a demands and needs statement with the proposer.
 - C. obtaining a surveyor's valuation report.
 - D. requesting information from the previous insurer.
40. What rate of Insurance Premium Tax, if any, would be payable on the addition of a motor vehicle to an existing motor policy?
- A. None.
 - B. 9.5%
 - C. 12%
 - D. 20%
41. An insurance company provides a quotation for a motor insurance policy to a proposer on the 1 September 2020, the proposer accepts the quotation and agrees to pay the premium by credit card on the 14 September. The insurer is increasing all motor premiums from the 10 September. What will happen to the original premium quotation offered to the proposer?
- A. It will decrease.
 - B. It will remain the same.
 - C. It will increase.
 - D. It will be withdrawn.
42. What is the **main** reason for an insurance company to request a survey?
- A. To review future marketing opportunities.
 - B. It is a Financial Conduct Authority requirement on all classes of insurance.
 - C. To comply with data protection legislation.
 - D. To provide additional information on the risk to be insured.

43. If an insured wants to spread the cost of her insurance policy over the period of the policy, she will **usually** pay by
- A. bank transfer.
 - B. cash.
 - C. direct debit.
 - D. standing order.
44. If an express warranty is written into a contract of insurance, what does this **usually** mean?
- A. It gives notice extending cover beyond that provided under a standard insurance policy.
 - B. It gives notice guaranteeing a minimum level of service under the insurance policy.
 - C. It is a term detailing the maximum time in which an insurer must respond to a valid claim.
 - D. It is a term which an insured must strictly comply with.
45. Precedent to liability is **most likely** to be stated within the
- A. average clause.
 - B. claims condition.
 - C. operative clause.
 - D. subrogation clause.
46. Which section of the insurance policy is always specific to the insured?
- A. Conditions.
 - B. Coverage.
 - C. Exclusions.
 - D. Schedule.
47. The requirement for a household insurer to issue a specific document in good time relates to a
- A. certificate of insurance.
 - B. declaration.
 - C. proposal form.
 - D. renewal notice.
48. An insurer will **NOT** pay a claim when the loss was caused by
- A. an excluded peril under the insurance policy.
 - B. a peril stated in the operative clause of the insurance policy.
 - C. a peril which commenced during the period of insurance whose duration continues past the renewal date.
 - D. an unbroken chain of events where the proximate cause is an insured peril.

-
49. In the event of an insurer requesting cancellation of a home insurance policy, when does the period of notice of cancellation start from?
- A. The date the insurer issues the letter.
 - B. The date the insured receives the letter.
 - C. The date the insured confirms receipt of the letter.
 - D. The date the insurer receives the insureds confirmation.
50. An insurance policy states that an insured should notify his insurer as soon as possible after a loss has occurred. This is known as
- A. a condition precedent to the contract.
 - B. an express duty.
 - C. an implied duty.
 - D. a warranty.
51. What provision will an insurer **normally** insert into a commercial insurance policy to ensure that small losses are avoided?
- A. An average condition.
 - B. Contribution.
 - C. A deductible.
 - D. Subrogation.
52. Daniel has a policy which incorporates a franchise of £100. If he has a valid claim of £300, how much, if anything, will his insurer pay?
- A. Nil.
 - B. £100
 - C. £200
 - D. £300
53. What action will an insurer **most likely** take if an insured fails to comply with a claim notification provision, which is a condition precedent to liability?
- A. The claim will be declined and the insurer will cancel the policy.
 - B. The insurer will cancel the policy and return the premium.
 - C. The claim may be declined but the insurer will not cancel the policy.
 - D. The insurer will reduce the amount of the paid claim.
54. A storm causes a tree to fall on power lines which spark and cause fire damage to an adjacent building. The building is subsequently boarded up. Thieves then steal the lead from the roof of the building. What is the proximate cause of the loss of the lead?
- A. Falling tree.
 - B. Fire.
 - C. Storm.
 - D. Theft.

55. Underinsurance occurs when the
- A. sum insured is a pre-agreed value.
 - B. sum insured is based on a first loss value.
 - C. value at risk is less than the sum insured.
 - D. value at risk is more than the sum insured.
56. The Claims and Underwriting Exchange **primarily** provides a database relating to
- A. commercial property claims.
 - B. location exposure factors.
 - C. personal lines claims.
 - D. premium rating factors.
57. Steve submits a claim for fire damage to goods in his warehouse. The settlement he receives is considerably less than the amount claimed. What is the **most likely** reason for this?
- A. Average has been applied as there was underinsurance.
 - B. Contribution has been applied.
 - C. An exclusion has been applied.
 - D. The policy is subject to a franchise.
58. Lorraine has a standard household contents insurance policy with cover on a new for old basis. Her recently-purchased television has been stolen. How is the insurer **most likely** to settle her claim?
- A. Cash payment based on the original purchase price.
 - B. Cash payment based on the current purchase price.
 - C. Replacement with a new television from the insurer's preferred supplier.
 - D. Replacement with a television of a similar age.
59. What effect do fraudulent claims have on an insurer?
- A. They reduce claims reserves.
 - B. They reduce claims settlements.
 - C. They reduce loss adjusters' expenses.
 - D. They reduce profits.
60. For what type of liability claim is a medical report **always** required?
- A. Employers' liability.
 - B. Products liability.
 - C. Professional indemnity.
 - D. Public liability.
61. Under data protection legislation, personal data is defined as information that relates to
- A. a living individual who can be identified from that information only.
 - B. a living individual or a corporation that can be identified from that information only.
 - C. an individual, living or deceased, who can be identified from that information only.
 - D. an individual, living or deceased, or a corporation that can be identified from that information.

62. The Prudential Regulation Authority is
- A. a rule book that applies specifically to the sales and administration process for general insurance.
 - B. a non-statutory body representing the interests of insurance brokers.
 - C. responsible for the regulation and supervision of financial institutions in the UK.
 - D. the principal body representing insurers carrying out life and non-life business in the UK.
63. It is a regulatory requirement that an insurer handles complaints consistently, fairly and
- A. immediately.
 - B. promptly.
 - C. within 7 days of receipt.
 - D. within 30 days of receipt.
64. What is the **primary** function of the Association of British Insurers?
- A. To maintain confidence in the UK financial system ensuring financial stability and protection for consumers.
 - B. To promote high standards of integrity, technical competence and business capability in the financial services profession.
 - C. To represent and protect the best interests of insurance intermediary firms and members.
 - D. To act as the voice of the UK's insurance, investment and long-term savings industry.
65. How many days right to cancel period do the Insurance: Conduct of Business sourcebook (ICOBS) require to be provided under a household insurance policy?
- A. 7 days.
 - B. 14 days.
 - C. 28 days.
 - D. 30 days.
66. An insurer receives duplicate premium payments from a newly insured customer followed shortly by a request for the overpayment to be returned. The accounts clerk is suspicious of the duplicate payment. Whom should he inform of his suspicion?
- A. The compliance officer.
 - B. The finance director.
 - C. The Money Laundering Reporting Officer.
 - D. The underwriter.
67. The Financial Ombudsman Service will only become involved with insurance disputes when
- A. an intermediary has not arranged the insurance policy.
 - B. the insured is a consumer or small commercial company.
 - C. the insured is a public limited company.
 - D. the insurance policy is still current.

68. An insurer **must** protect information held on individual policyholders because it is a requirement of
- A. the Association of British Insurers.
 - B. data protection legislation.
 - C. the Financial Conduct Authority.
 - D. money laundering regulations.
69. A household insurer becomes insolvent. What percentage of each valid unpaid claim will the Financial Services Compensation Scheme pay to policyholders?
- A. 75%
 - B. 80%
 - C. 90%
 - D. 100%
70. What is the **main** reason for individuals being issued with passwords for the computer systems that they use?
- A. To maintain confidentiality.
 - B. To maintain software integrity.
 - C. To prevent loss of data due to viruses.
 - D. To register those who use the computer.
71. In addition to a utility bill and a council tax bill, what other proof of address is acceptable under the current Money Laundering Regulations for client verification?
- A. A credit card statement.
 - B. A driving licence.
 - C. An employee identity card.
 - D. A travel pass.
72. Under data protection legislation, the definition of sensitive categories of personal data includes
- A. address.
 - B. name.
 - C. occupation.
 - D. political beliefs.
73. An intermediary employs 5 staff to arrange the sale of insurance products. How many hours continuing professional development per year is required to comply with the Insurance Distribution Directive?
- A. 5 hours.
 - B. 10 hours.
 - C. 15 hours.
 - D. 20 hours.

74. Under the Senior Managers & Certification Regime, how often, if at all, do firms need to certify that Senior Managers are suitable to fulfil their roles?
- A. At least once a year.
 - B. At least twice a year.
 - C. Certification is not required.
 - D. Only if requested by the Financial Conduct Authority.
75. Extended warranty insurance is **usually** purchased when what type of product is sold?
- A. Carpets.
 - B. Electrical goods.
 - C. Furniture.
 - D. Jewellery.
76. Which type of motor insurance cover provides indemnity for accidental damage to the insured's own vehicle?
- A. Road Traffic Act only.
 - B. Third party only.
 - C. Third party, fire and theft only.
 - D. Comprehensive.
77. How much will a household insurer **typically** deduct from a subsidence claim in respect of the policy excess?
- A. £100
 - B. £250
 - C. £500
 - D. £1,000
78. What is the **minimum** amount of liability for loss or damage to property caused by a motor vehicle?
- A. £100,000
 - B. £1,200,000
 - C. £10,000,000
 - D. an unlimited amount.
79. A comprehensive private motor policy would **normally** exclude
- A. personal belongings and clothing.
 - B. medical expenses.
 - C. loss or damage to accessories for the insured vehicle left in the policyholder's garage.
 - D. loss of use and loss or damage resulting from deception.

-
80. Under a stand-alone legal expenses insurance policy, what is the overall policy limit?
- A. £50,000
 - B. £100,000
 - C. £500,000
 - D. £1,000,000
81. Under a household insurance policy, the definition of a small craft is a vessel up to a **maximum** length of
- A. 12 feet.
 - B. 15 feet.
 - C. 20 feet.
 - D. 23 feet.
82. Most insurers will cover damage to a caravan and its contents as an optional extension under which **main** class of insurance?
- A. Extended warranty insurance.
 - B. Household insurance.
 - C. Motor insurance.
 - D. Travel insurance.
83. How are claims paid under a dental cash plan?
- A. A cash payment for dental treatment in accordance with a scale of benefits.
 - B. A cash payment in full for all dental treatment.
 - C. A cash payment for all dental treatment once a claim exceeds a fixed monetary amount.
 - D. A deduction of a fixed monetary amount from cash payments for all dental treatment.
84. For what **maximum** number of years will a domestic goods extended warranty policy **usually** provide cover?
- A. One.
 - B. Two.
 - C. Three.
 - D. Five.
85. What cover, if any, is **usually** provided under a comprehensive private motor insurance policy in respect of a caravan whilst it is attached to the insured vehicle?
- A. None.
 - B. Third party only.
 - C. Third party, fire and theft only.
 - D. Comprehensive.

86. A travel insurance policy will indemnify the insured in the event of
- A. cancellation due to childbirth.
 - B. cancellation of the insured's flight.
 - C. a change of mind on whether to travel.
 - D. a delay caused by industrial action advised at the time of the booking.
87. In what way does a travel insurance policy for a holiday in the UK differ from a travel insurance policy for a holiday in Europe?
- A. Loss of valuables must be reported to the police as soon as possible.
 - B. A lower sum insured for medical expenses.
 - C. No cover for failure of a tour organiser.
 - D. No cover for holiday cancellation due to jury service.
88. The **primary** purpose of a private medical insurance policy is to provide
- A. a weekly benefit to the insured following incapacity through illness or injury.
 - B. a lump-sum benefit to the insured in the event of death or loss of limb.
 - C. payment for medical treatment received outside of National Health Service (NHS) facilities.
 - D. payment for nursing home facilities in retirement or old age.
89. A policyholder puts his foot through the ceiling whilst he is in his loft. Under which section of his home insurance policy will the claim be covered?
- A. Accidental damage to buildings.
 - B. Accidental damage to contents.
 - C. Occupier's liability.
 - D. Owner's liability.
90. What cover is **usually** provided by an extended warranty insurance policy?
- A. Breakdown of the insured appliance due to an electrical power cut.
 - B. Fire damage to the insured appliance.
 - C. Mechanical and electrical breakdown of the insured appliance.
 - D. Theft of the insured appliance.
91. When an insurer calculates a personal accident premium, what is the **main** rating factor?
- A. Age.
 - B. Address.
 - C. Occupation.
 - D. Claims history.
92. What insurance **must** a solicitor have in force to practise?
- A. Fire and special perils on office contents.
 - B. Legal expenses.
 - C. Professional indemnity.
 - D. Public liability.

93. Under a business interruption insurance policy, the sum insured is **usually** the
- A. gross profit.
 - B. net profit only.
 - C. payroll only.
 - D. turnover.
94. What insurance cover **must** be effected by an insurance intermediary with a number of offices?
- A. Employers' liability insurance only.
 - B. Employers' liability and professional indemnity insurance.
 - C. Employers' liability and property insurance.
 - D. Employers' liability and public liability insurance.
95. For which type of insurance **must** a certificate of insurance be accessible at a private company's place of business?
- A. Employers' liability.
 - B. Products liability.
 - C. Professional indemnity.
 - D. Public liability.
96. Products liability insurance covers an insured against legal liability for
- A. damage to a customer's property caused by the insured.
 - B. damage to an employee's property whilst on its premises.
 - C. injury or property damage arising from goods that it manufactures.
 - D. recalling defective products that it has manufactured.
97. What type of insurance claim will **always** be settled by payment to an injured party who is **NOT** the insured?
- A. Dental insurance.
 - B. Employers' liability insurance.
 - C. Personal accident insurance.
 - D. Travel insurance.
98. Dorothy is being sued by a customer who was injured in an accident in her shop. Dorothy's defence costs and any damages will be covered by her
- A. business interruption insurance.
 - B. personal accident and sickness insurance.
 - C. professional indemnity insurance.
 - D. public liability insurance.

99. A fully-loaded lorry, which is insured comprehensively, is involved in an accident with another vehicle and the lorry's insurer accepts that the lorry driver was responsible for the accident. However, the insurer would **NOT** be liable for
- A. damage to the lorry.
 - B. damage to the goods that the lorry was transporting.
 - C. injuries to a passenger in the third party vehicle.
 - D. injuries to the lorry driver.
100. The owner of a new ladies' fashion boutique intends to have three friends serving customers. What insurance **must** be in place when the boutique opens?
- A. All risks cover on stock.
 - B. Employers' liability.
 - C. Loss of profits.
 - D. Public liability.

Specimen Test Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 4			Learning Outcome 7		
1	D	1.1	34	B	4.1	61	A	7.4
2	B	1.3	35	C	4.2	62	C	7.1
3	C	1.4	36	C	4.5	63	B	7.6
4	D	1.2	37	B	4.2	64	D	7.1
5	A	1.6	38	C	4.3	65	B	7.2
6	C	1.1	39	A	4.1	66	C	7.5
7	A	1.1	40	C	4.5	67	B	7.6
8	A	1.5	41	B	4.3	68	B	7.4
8 Questions			42	D	4.1	69	C	7.3
Learning Outcome 2			43	C	4.4	70	A	7.4
9	C	2.2	10 Questions			71	B	7.5
10	A	2.3	Learning Outcome 5			72	D	7.4
11	D	2.3	44	D	5.2	73	C	7.2
12	A	2.1	45	B	5.2	74	A	7.2
13	D	2.3	46	D	5.1	14 Questions		
14	C	2.3	47	D	5.3	Learning Outcome 8		
15	B	2.2	48	A	5.2	75	B	8.1
7 Questions			49	A	5.2	76	D	8.2
Learning Outcome 3			50	B	5.2	77	D	8.1
16	B	3.4	7 Questions			78	B	8.2
17	D	3.1	Learning Outcome 6			79	D	8.2
18	D	3.4	51	C	6.2	80	B	8.1
19	D	3.6	52	D	6.2	81	D	8.1
20	B	3.4	53	C	6.3	82	B	8.1
21	C	3.4	54	D	6.1	83	A	8.1
22	B	3.6	55	D	6.2	84	D	8.1
23	B	3.1	56	C	6.5	85	B	8.2
24	B	3.2	57	A	6.2	86	B	8.1
25	C	3.3	58	C	6.4	87	B	8.1
26	C	3.3	59	D	6.5	88	C	8.1
27	C	3.5	60	A	6.3	89	A	8.1
28	A	3.5	10 Questions			90	C	8.1
29	D	3.6				91	C	8.1
30	C	3.2				17 Questions		
31	C	3.6				Learning Outcome 9		
32	D	3.3				92	C	9.2
33	B	3.6				93	A	9.1
18 Questions						94	B	9.2
			95	A	9.2			
			96	C	9.1			
			97	B	9.2			
			98	D	9.2			
			99	B	9.1			
			100	B	9.2			
			9 Questions					