

THE CHARTERED INSURANCE INSTITUTE

**P21**

## Diploma in Insurance

### Unit P21– Commercial insurance contract wording

October 2013 examination

#### Instructions

- Two hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**



## Unit P21 – Commercial insurance contract wording

### Instructions to candidates

Read the instructions below before answering any questions

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

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

- You should answer **all** questions in Part I and two out of the four questions in Part II.
- You are advised to spend no more than one hour on Part I.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave several lines blank after each part.

**PART I**

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

**Note form is acceptable where this conveys all the necessary information**

1. Outline **five** common items detailed in the insuring clause of an insurance contract. (10)
2. (a) Define contract certainty. (3)  
(b) Outline the **seven** contract certainty principles. (7)
3. Identify and explain briefly the common features of proportional treaties which must be taken into account in the treaty wording. (10)
4. (a) State **four** ways in which terms may be implied into a contract. (4)  
(b) Explain briefly:
  - (i) the contra proferentem rule; (3)
  - (ii) the principle arising from *Interfoto Picture Library Ltd v Stiletto Visual Programme Ltd* (1989). (3)
5. Describe briefly the new regulatory structure and the **three** new bodies established under the Financial Services Act 2012 and their respective responsibilities. (10)
6. Outline the main elements of an arbitration clause. (10)
7. Differentiate between the rights, duties and liabilities of the following parties under an insurance contract.
  - (a) The insured and an additional insured. (5)
  - (b) The lead insurer and a coinsurer/following insurer. (5)
8. Distinguish between the following treaty clauses and explain their importance.
  - (a) Territorial scope clause. (5)
  - (b) Local jurisdiction clause. (5)

## PART II

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

9. You work for a broker and are checking a junior colleague's draft commercial insurance contract for a UK client.
- (a) The Schedule sets out the temporal scope simply as: 'Period of insurance: 1 July 2013 – 30 June 2014'.
- (i) Outline a redraft of the temporal scope in accordance with London Market Principles and good practice. (6)
- (ii) Explain the reasons why a broker should carefully check the specific time and date of commencement and expiry of a client's insurance contract. (8)
- (b) The Schedule also states: 'Basis of attachment: Claims Made'.
- (i) Explain the reasons why a claims made basis of attachment may be inappropriate for a UK employers' liability insurance contract but appropriate for other classes of insurance. (14)
- (ii) List **two** alternatives for a redraft of the basis of attachment. (2)
10. (a) Discuss the common issues that have arisen in disputes over slips and contract wordings, citing case law in support of your answer. (24)
- (b) Explain how the use of acronyms and subjectivities may cause problems specific to slips. (6)
11. (a) Outline the role of a coverholder and identify **two** parties who may be a coverholder. (10)
- (b) Describe the benefits of binding authorities to insurers and brokers respectively. (10)
- (c) Explain what is meant by an underwriter 'giving away his pen'. Use case law to illustrate the problems that this has caused. (10)
12. Discuss **five** types of clause which are specifically applicable to motor and liability excess of loss treaties, on account of the long-tail feature of these classes of business. (30)

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