

THE CHARTERED INSURANCE INSTITUTE

P21

Diploma in Insurance

Unit P21– Commercial insurance contract wording

April 2014 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. Describe the extent of self regulation at Lloyd's of London. (10)

2. Explain what is meant by commercial insurance contracts being contracts 'of the utmost good faith', using case law to support your answer. (10)

3. (a) Outline **three** differences between a standard form wording and a manuscripted wording. (6)
(b) List **four** details on the schedule attached to a standard form wording. (4)

4. (a) Differentiate between a retroactive date and a notification extension clause. (8)
(b) Identify **two** types of insurance which may include such provisions. (2)

5. Explain briefly, the following terms:
(a) Annual aggregate limit. (5)
(b) Policy excess. (5)

6. Identify **five** pieces of information or documentation which an insured would normally be asked to provide when notifying insurers of:
(a) physical damage under a motor policy; (5)
(b) potential liability under a products liability policy. (5)

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7. (a) Distinguish between a reinsurance and a retrocession contract.
- (b) State the terms used to describe the contracting parties in **each** contract. (4)
8. Outline the key features of a profit commission calculation in a reinsurance treaty. (10)

Questions continue over the page

PART II

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

9. (a) Outline the range of different losses to a catastrophe excess of loss treaty that may arise from natural disasters or extreme weather. (8)
- (b) Explain how the words 'loss occurrence' are defined in a property catastrophe excess of loss treaty by the provisions of:
- (i) The hours clause. (12)
- (ii) A freeze extension. (6)
- (c) Identify **one** other catastrophe excess of loss treaty that may include an hours clause, and explain why it is included. (4)
10. (a) Describe the current approach to the interpretation of express terms in an insurance contract, using case law to illustrate your answer. (15)
- (b) Explain why implied terms are of limited significance in insurance contracts, using insurance examples to illustrate your answer. (15)
11. (a) Explain the reasons, with examples, why an exclusion may be applied to a policy. (12)
- (b) Outline the different ways in which the extent of an exclusion may be limited. (8)
- (c) State how a suspensive condition differs from an exclusion, describing the nature of a suspensive condition with reference to *CTN Cash & Carry Ltd v General Accident Fire & Life Assurance Corporation plc* (1989). (10)

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12. (a) Explain briefly the reasons why regulators in many territories impose requirements on commercial insurance contract wordings.
- (b) Describe the various ways regulatory requirements may prescribe the content and form of commercial insurance contract wordings, illustrating your answer with examples from territories around the world. (14)
- (c) Outline why and how the Worldwide Markets Department at Lloyd's of London ensures that it meets regulatory requirements in the territories where it underwrites business. (8)

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