



DIPLOMA EXAMS

Diploma Exams Indicative Questions & Answer Guidance

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Introduction

The purpose of this paper is provide CILA members, who preparing to sit the Diploma examinations, with guidance on the nature of questions and the content of acceptable answers.

These are not model answers – the examination requires that candidates provide short essay based responses.

There are ten questions in each paper meaning candidates have only TWELVE minutes to answer each question. The anticipated responses take account of the limited time and the need for candidates to read, consider and construct their answer.

The following questions are NOT taken from examination papers but do represent what you can expect to find within the examinations.

**Sample Question:**

Explain the effects of the Consumer Insurance (Disclosure and Representations) Act 2012 in terms of disclosure of material facts and misrepresentation. Your answer does not need to include remedies available to Insurers.

**Elements to include in your response:**

- The Act applies to Consumers not to businesses.
- The Act removed the duty on consumers to disclose material facts that a prudent underwriter would take into account when calculating the premium or policy terms.
- Instead the Act places a requirement on the proposer to take reasonable care not to make a misrepresentation.
- Misrepresentations are evaluated to establish whether they are careless, reckless or deliberate.
- If the misrepresentation does not fall within these categories, the insurer has no rights to restrict or reject payment in the event of a claim, even if they consider the misrepresentation to be material.
- In the event that the misrepresentation is careless, reckless or deliberate remedies are available to Insurers.

**Sample Question:**

The Insurance Act 2015 allows Insurers and businesses to opt out of the requirements of the Act. Explain the principles of utmost good faith, where the opt out has been invoked.

**Elements to include in your response:**

- The policyholder has a duty to disclose all material facts.
- A material fact is a fact that a prudent underwriter would take into account when calculating the premium or policy.
- A breach of the doctrine of good faith can result in contracts being voided and or other penalties being imposed.
- The duty applies to both the Insurer and the Insured.
- The duty applies at the time of proposal and at renewal.
- The opt out negates the duty of fair presentation.
- The opt out only applies to commercial risks



Sample Question:

Explain the consequences of a Careless Misrepresentation in a Consumer Insurance contract.



Elements to include in your response:

- If the qualifying misrepresentation was careless the following apply in relation to any claim.
- The insurer’s remedies are based on what it would have done if the consumer had complied with the duty set out in section 2(2) of the act:
- *If the insurer would not have entered into the consumer insurance contract on any terms, the insurer may avoid the contract and refuse all claims, but must return the premiums paid.*
- *If the insurer would have entered into the consumer insurance contract, but on different terms (excluding terms relating to the premium), the contract is to be treated as if it had been entered into on those different terms if the insurer so require*
- *In addition, if the insurer would have entered into the consumer insurance contract (whether the terms relating to matters other than the premium would have been the same or different), but would have charged a higher premium, the insurer may reduce proportionately the amount to be paid on a claim.*
- *“Reduce proportionately” means that the insurer need pay on the claim only X% of what it would otherwise have been under an obligation to pay under the terms of the contract (or, if applicable, under the different terms provided for by virtue of paragraph 6), where—*

$$X = \frac{\text{Premium actually charged}}{\text{Higher premium}} \times 100$$



Sample Question:

You are handling a domestic/consumer Claim provide three material facts that you would reasonably anticipate an Insurer would require the correct answer to. Explain, briefly for each material fact why it is relevant.



Elements to include in your response:

- The following facts are material as they assist the insurer in establishing whether to accept a risk, the terms including premium and restrictions such as an excess.
- The existence of a water course within 200m of the home. This is relevant because the policy would cover flood. Insurers use this information to assist in establishing the likelihood of a flood.
- Losses suffered within the last five years whether insured or otherwise. This will provide an indication of the frequency of losses and the proposer’s attention to taking care.
- Whether the proposer has any criminal convictions involving dishonesty. This will provide an insight into the proposer’s ethical and moral approach. For example someone convicted of fraud is likely to be a poor risk.

**Sample Question:**

In the law of Torts explain the circumstances and the relevance of the case of *Donoghue v Stevenson (1932)*

**Elements to include in your response:**

- This case established who a duty of care is owed to when considering the tort of negligence.
- The case concerned the purchase of a bottle of ginger beer which contained a decomposed snail.
- The bottle was given by the purchaser to a friend who then drank some of the ginger beer.
- The drinker had no contractual relationship with the seller of the bottle and could not sue in contract.
- The judge decided that there was a duty of care owed by the seller to the drinker.
- The judge described what he referred to as the Neighbour Test – a neighbour is anyone affected by my actions or inactions and who I should have in my reasonable contemplation when doing something or failing to do something.

**Sample Question:**

Explain what is meant by “Fire” as meant by an insurance peril

**Elements to include in your response:**

- Actual ignition – explain that this does not include simply heat or smoke.
- Something on fire that should not be on fire – give an example such as stored coal compared with coal placed and deliberately ignited in a fire place.
- The principle of the fire breaking its bounds. Again provide an example of say a furnace – damage internally over a period of time within the confines of the furnace compared to damage when the flames escape fortuitously from the confines of the furnace.

**Sample Question:**

Explain the principle of proximate cause using relevant case law

**Elements to include in your response:**

- Proximate cause relates to the actual cause of the loss or damage.
- Policies usually cover certain Perils and the proximate cause of the loss or damage must be one of the insured perils.
- Highlight the case of Pawsey v Scottish Union (1908).
- Explain what happens when the proximate cause of the loss is not an insured peril.

**Sample Question:**

Explain the principle of contribution using relevant case law

**Elements to include in your response:**

- Use the King & Queen Granaries case.
- Explain that:
 - There must be two or more policies in force
 - Both or all must cover the property affected
 - The proximate cause must be covered by both or all of the policies
 - The policies must insure the same interest in the property
- Explain that there are different ways of apportioning the loss between the Insurers such as Sum Insured Method and Independent Liability Method. NB There is no need nor time to explain these methods!

**Sample Question:**

Explain the principle of subrogation using relevant case law

**Elements to include in your response:**

- Relates to recovery of monies paid by the insurer from another party who has a liability for the loss/damage.
- Explain that this is a corollary of indemnity as it means the policyholder cannot recover from the insurer and then from another party.
- Highlight that the common law right is that insurers can pursue the third party only once the claim is paid.
- Explain that the insurance policy usually has a condition enabling the insurer to proceed with the subrogation action prior to payment.
- Ensure that you highlight that if the policy does not cover the entire loss then the policyholder is entitled to the first monies recovered.

**Sample Question:**

Explain the role of three of the following: The Chartered Insurance Institute (CII), The Association of British Insurers, BIBA and AIRMIC

**Elements to include in your response:**

In such a question you only have time to provide a brief description. The important elements are:

- Apart from the Chartered Insurance Institute all (in this question) are TRADE BODIES.
- Trade bodies represent the interests of their industry.
- Trade Bodies' members are businesses.
- Trade Bodies lobby the Government and regulators on behalf of their members.
- The CII is an institute of individual members.
- The CII set the professional and ethical standards for its members.
- The CII provide professional qualifications.
- The CII have a Charter objective of gaining the public trust in Insurance.



Sample Question:

Explain, briefly, using examples what is meant by customer loyalty and why customer loyalty is beneficial to insurance companies



Elements to include in your response:

- Customer loyalty is when a customer chooses to repeatedly use the same company for a service or product over a period of time.
- An example of customer loyalty would be the continued renewal of a car insurance policy each year with the same insurer despite other choices being available.
- Customer loyalty is beneficial to insurance companies as:
 - Loyal customers can be less price sensitive so a lower price from a competitor is less attractive.
 - It is less expensive to retain customers than it is to find and attract new customers through marketing.
 - Complex risks can be difficult and costly to underwrite, it is therefore easier\less expensive to renew such risks rather than undertaking complex underwriting enquiries to secure new business.
 - Loyal customers are more likely to buy additional products.



Sample Question:

Identify and briefly explain five problems of negative word of mouth (WOM) reviews for a business



Elements to include in your response:

- Those with negative experiences are likely to tell more people of their poor experience than those with positive experiences.
- Negative comments are more likely to be remembered by recipients.
- Recipients are far more likely to be influenced by negative comments.
- Social media can speed the spread of negative feedback very rapidly.
- All the above has a negative effect on staff and the success of the business.

**Sample Question:**

Provide three examples of how private individuals can be segmented according to their characteristics and for each customer characteristic explain how that can influence customer expectations of customer service and their perceptions of the service they have received.

**Elements to include in your response:**

- **Demographics:** explain the factors such as age, education, occupation and cultural background. These factors enable companies to segment their markets and identify particular groups that share behaviours, for example Baby Boomers (born between 1946 and 1964) or the Millennials (born between 1980 and 2000). Due to changes in society norms over time, these groups will have different expectations and perceptions of customer service. For example, millennials may expect a greater use of technology in the service compared to Baby Boomers who might require a more personal, face to face, service.
- **Vulnerable consumers:** The Financial Conduct Authority (FCA) identified a range of consumer groups that may be vulnerable in a financial services context. The groups are detailed in the FCA's Occasional Paper Series No. 8 published in 2015. Some of the key groups they mention are the very young, the very old, people with mental illnesses and those with low numeracy and literacy skills. Explain also why it is necessary to be careful when segmenting in this manner. For example, the young may be inexperienced with financial services and require products to be explained more clearly.
- **Motivational factors:** these factors explain why a consumer buys a product. Here you can use examples such as the legal compulsion to buy motor insurance or indeed drone use insurance. For example, customers buying to meet a legal need may only require the service they receive to meet a minimum standard.

**Sample Question:**

Explain briefly what is meant by ethics

**Elements to include in your response:**

- Ethics is the application of general ethical principles to the actions and decisions of businesses and the conduct of their personnel. – Thompson, Strickland, Gamble, Peteraf, Janes & Sutton.
- Ethics relates to an organisation's manner of conduct and their relationship with key stakeholders.
- Key stakeholders can include, shareholders, client and customers.
- Generally an organisation's ethical standards reflect the society's standards of right or wrong, good or harmful, acceptable or not acceptable, moral or immoral (e.g. dishonesty, bribery).
- The relevance of the ethical standards can vary according to the industry, business and professions. – An example being that it is of particular importance that loss adjusters avoid bribery or inducements.
- The dominant internal culture of an organisation can have a significant material influence on the behaviour of staff Enron being an example of this.

**Sample Question:**

Compare and contrast ethical universalism and ethical relativism.

**Elements to include in your response:**

- Universalism takes the view that a common understanding exists across the world.
- It works on the theory that cultures hold the same views on important concepts of what is considered right or wrong.
- These important concepts are exemplified by truthfulness, honesty and integrity.
- This means a world with universally understood ethical principles and basic moral standards that are shared and practised throughout.
- This makes business simpler as the same ethical considerations can be applied wherever an organisation operates.
- Ethical relativism suggests that there are many or multiple sets of standards or ethical norms across the world.
- This is reflected in and relates to different societies, cultures, ways of living and of conducting business.
- The result is that what is considered as ethical behaviour in one location or society is not necessarily the same elsewhere.
- This means that there is increased complexity for an organisation. For example the organisation may support one cultural norm in one territory and a different one in another territory.
- Examples could be given such as attitudes towards working mothers, child labour, working hours and even bribery.

**Sample Question:****Explain what is meant by CSR****Elements to include in your response:**

- CSR relates to corporate social responsibility.
- There are contrasting arguments, firstly that the business exists to make a profit for its owners/shareholders.
- Secondly that the business should also take responsibility for wider wellbeing of others. This could include, staff, their families, the local community and even society at large.
- It is argued that if the organisation simply takes profit as its mission it can be bad for business. This is due to reputational damage and damage to relationships.
- Taking wider responsibility can be beneficial as it can promote a positive image and create a good reputation.
- Explain that there may be a balance between short term objectives (profit) and long term objectives – improving the wellbeing of all interested parties.

Summary

The intention of this paper is to provide a sample of the type of questions that you can expect to see within the Diploma examinations. You will note that the answers are generally short and you are strongly advised to provide hard facts in succinct, short sentences.

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