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Insurance Legal and Regulatory (IF1) Exam

CII IF1

Version Demo

Total Demo Questions: 7

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Topic Break Down

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QUESTION NO: 1

John has a whole of life policy and has recently been diagnosed with cancer. When, if at all. must he disclose this to his insurer?

A. Immediately, irrespective of prognosis.

B. He does not need to disclose this.

C. Immediately, but only if the diagnosis is terminal.

D. At the date of the next premium payment.

ANSWER: B

Explanation:

He does not need to disclose this. For an individual life insurance contract, the consumer's duty is to take reasonable care not to make a misrepresentation in response to the insurer's questions before the contract is entered into, and before a qualifying variation is agreed. A diagnosis received after the whole of life policy has started is not, by itself, a fact that John must volunteer to the insurer during the policy term. The insurer assessed the relevant health risk from the information requested and answered when cover was arranged. The Consumer Insurance (Disclosure and Representations) Act 2012 deliberately replaced the former broad pre-contract duty of disclosure for consumers with a duty centred on answering the insurer's questions honestly and with reasonable care. This approach means a policyholder is not ordinarily subject to an ongoing obligation to report later changes in health simply because premiums continue to be paid. The position could differ only where John seeks a contractual change that involves fresh underwriting, such as increasing cover, because the insurer may then ask new health questions. The legal framework is set out in the Consumer Insurance (Disclosure and Representations) Act 2012, section 2; further consumer-insurance guidance is available from the Association of British Insurers.

QUESTION NO: 2

A policyholder sells her insured shop premises and transfers ownership to a purchaser. She then asks the insurer to pay her for fire damage which occurs after completion of the sale. There has been no assignment of the policy and no agreement by the insurer to cover the purchaser. Why is the policyholder's claim unlikely to succeed?

A. She no longer has an insurable interest at the time of the loss.

B. A fire claim can only be made by the mortgage lender.

C. Property insurance can never be assigned with an insurer's consent.

D. The insurer is only liable where a policyholder remains in occupation of the premises.

ANSWER: A

Explanation:

The policyholder no longer has an insurable interest in the premises at the time of the loss. Property insurance is a contract of indemnity, so the claimant must have suffered, or be liable to suffer, a financial loss from the insured damage.

After completion, the seller no longer owns the shop and would not normally suffer the loss caused by fire damage. Insurance policies are also personal contracts and do not automatically transfer to a purchaser when insured property is sold. The purchaser would need its own cover or an insurer-approved assignment where permitted.

QUESTION NO: 3

A broker collects premiums on behalf of an insurer and subsequently goes into liquidation. Various premiums are outstanding to the insurer, despite policyholders having paid the broker What action is the insurer most likely to take?

A. Write to the liquidator to register the debt.

B. Cancel the policies from inception for non-payment.

C. Apply for a second payment from the policyholders.

D. Offer a discounted premium payment to the policyholders.

ANSWER: A

Explanation:

Write to the liquidator to register the debt. is correct because, once the broker enters liquidation, the insurer must pursue any unpaid sums through the formal insolvency process. The liquidator takes control of the broker's assets and is responsible for identifying creditors, assessing claims and distributing available funds in accordance with the statutory order of priority. The insurer should therefore submit details of the outstanding premiums, ordinarily by lodging a proof of debt or otherwise registering its claim with the liquidator. This establishes the insurer's claim in the liquidation and enables it to participate in any distribution from the insolvent estate.

Insurance intermediaries that hold money for customers or insurers are generally subject to the FCA's client-money rules. These rules require appropriate segregation, reconciliation and protection of client money, which may affect how funds held by the failed broker are identified and returned. Nevertheless, where premiums remain due to the insurer, engaging with the liquidator is the practical and legally appropriate route for recovering the debt. See the FCA's Client Assets sourcebook: insurance distribution activity and the UK Government's guidance on proving a debt in an insolvency.

QUESTION NO: 4

The main function of an insurance broker is to

A. negotiate claims.

B. act as the agent of the insurer.

C. provide independent advice to clients.

D. introduce business lo a particular insurer.

ANSWER: C

Explanation:

"provide independent advice to clients." is correct because an insurance broker's core role is to act for the customer in arranging insurance, using market knowledge to identify suitable cover and help the client make an informed decision. This client-focused role includes understanding the customer's demands and needs, assessing the risks to be insured, explaining appropriate insurance solutions, and arranging cover with an insurer or insurers. The broker's advice should be based on the customer's circumstances rather than being confined to promoting one insurer's products. In the UK regulatory framework, insurance distribution activities are subject to the FCA's Insurance Conduct of Business Sourcebook (ICOBS), which requires firms to act honestly, fairly and professionally in accordance with customers' best interests. A broker may have particular authorities or agency arrangements for operational purposes, but its defining function remains providing the client with professional, impartial market advice and arranging suitable insurance protection. This distinction is central to understanding the role of an independent intermediary. See the FCA's ICOBS handbook and the British Insurance Brokers' Association's overview of insurance and brokers.

QUESTION NO: 5

A manufacturing company is arranging a commercial property policy. Its risk manager knows that a new production process will substantially increase the quantity of flammable materials stored at the premises. What is the most appropriate way for the company to meet its duty of fair presentation?

A. Disclose the change clearly to the insurer before the policy is concluded.

B. Disclose the change only if the insurer asks a question about flammable materials.

C. Record the change internally and disclose it only if a fire occurs.

D. Wait until the next renewal because the premises are already insured.

ANSWER: A

Explanation:

The company should disclose the increased flammable-material exposure in a manner that is reasonably clear and accessible to the insurer. Under the Insurance Act 2015, a non-consumer insured must make a fair presentation of the risk by disclosing every material circumstance which it knows or ought to know, or by giving sufficient information to put a prudent insurer on notice that it needs to make further enquiries.

The change is material because it may affect the likelihood and severity of a fire loss and could influence the insurer's underwriting decision, premium or terms. Merely retaining the information in internal records, or providing it in a disorganised mass of documents, would not meet the required standard.

QUESTION NO: 6

The main purpose of the fair treatment of customers initiative is to

A. make firms more competitive.

B. ensure all firms have a similar service standard.

C. apply fixed times for responding to claims and complaints.

D. build consumer confidence in the financial services industry.

ANSWER: D

Explanation:

The main purpose of the fair treatment of customers initiative is to **build consumer confidence in the financial services industry.** The Financial Conduct Authority's approach to treating customers fairly is intended to make sure that customers can be confident they are dealing with firms where fair treatment is central to the firm's culture and business practices. This means firms should consistently consider customer interests throughout the product lifecycle, including product design, sales, communications, advice, claims handling and complaint handling. Fair treatment supports trust because customers should receive suitable products and services, clear information, an appropriate standard of service, and reasonable treatment when they need to claim or complain. The initiative is therefore broader than setting uniform operational standards or prescribing fixed response periods. It is an outcomes-focused regulatory principle that helps create a market in which consumers are more willing to engage with financial services and have confidence that firms will act fairly. The FCA's consumer-protection objective also includes securing an appropriate degree of protection for consumers, reinforcing the connection between fair customer outcomes and confidence in the market. See the FCA's Treating customers fairly guidance and its statutory objectives.

QUESTION NO: 7

A commercial property policy contains a warranty requiring an intruder alarm to be operational whenever the premises are closed. The alarm is disconnected for two days while it is being repaired. It is restored to working order before a fire causes damage to the premises. How does the earlier breach affect the fire claim?

A. The insurer remains liable because the breach had been remedied before the loss.

B. The insurer may avoid the policy from its inception.

C. The insurer is permanently discharged from liability after any breach of warranty.

D. The insurer may refuse the claim because every policy warranty applies to every type of loss.

ANSWER: A

Explanation:

The insurer remains liable for the fire claim, provided that the warranty has been remedied before the loss. Under the Insurance Act 2015, a breach of warranty suspends the insurer's liability while the breach continues; it does not automatically discharge the insurer from all future liability.

Here, the alarm was working again before the fire occurred. The insurer's liability therefore revives when the breach is remedied. In addition, the warranty concerns protection against intrusion, so an insurer could not rely on a breach of that term to refuse a fire claim where the breach could not have increased the risk of fire loss.