

CII IF2 General Insurance Business Update

This Update is for candidates taking the examination **between 1 May 2016 and 30 September 2016** and using the BPP Learning Media 2015 edition Study Text.

Candidates sitting the examination on or after 1 October 2016 will need to purchase the 2016/17 edition because the Insurance Act 2015 will be examined from this date.

Chapter 1 Introduction to General Insurance

Page 3 – Section 1.2 Risk management

Please correct the section title to read: Insurance and risk management and add a new 1st bullet point:

- **Risk** is the loss we could suffer, the asset we could lose or the liability that may arise, normally expressed in financial terms

Chapter 2 The Insurance Market

Page 25 – Section 1.1 Utmost good faith

Please replace the last sentence of this section with the following:

The position for commercial customers is also changing in the near future following the publication on 17 July 2014 of the *Law Commission report Insurance Contract Law; Business Disclosure; Warranties; Insurers' Remedies for Fraudulent Claims; and Late Payment* along with the subsequent **Insurance Act 2015** that became law on **12 February 2015** and becomes effective 18 months later on **12 August 2016**.

Page 26 – Non-disclosure by commercial customers

Please replace this section with the following:

The Consumer Insurance (Disclosure and Representations) Act 2012 only applies to consumers, not to commercial customers, consequently the historical rules continued to apply for commercial customers. The current position is that where a commercial customer fails to disclose a material fact the insurer is entitled to avoid the policy.

As we have noted, however, this situation is changing as a result of the **Insurance Act 2015** that gained Royal assent on **12 February 2015** and comes into effect from **12 August 2016**. The Act replaces the duty of disclosure for commercial customers by a duty of fair representation that follows ongoing case law developments and places a greater onus on the insurer to actively engage in the determination of material facts. As for consumers, the aim is to distinguish between innocent, negligent or dishonest behaviour for commercial customers (through what they describe as attribution of knowledge) to introduce proportionate remedies, as currently applied to consumers, and consider to what extent any misrepresentation induced an insurer to enter a contract.

From 1 August 2016, commercial insurers will no longer be able to rely on a passive approach to disclosure as they can at present and will need to more actively engage in the material fact-finding process. The consequences of any misrepresentation will also change from that date to the following.

Nature	Outcome
Innocent (honest and reasonable)	Pay the claim in full
Negligent or careless	
• Where the insurer would have entered the contract at a higher premium	Proportionate remedy
• Where the insurer would have entered the contract on different terms	Apply those terms
• Where the insurer would not have entered the contract	Avoid the policy and repay the premiums
Deliberate or reckless, without care	Avoid the policy and retain the premiums



For emphasis, please note that this treatment only applies from 1 August 2016, before that date misrepresentation by commercial customer results in the contract being void.

Implications for insurance policies

Following both the Consumer Insurance (Disclosure and Representations) Act 2012 and the Insurance Act 2015 it is not now possible for insurers to incorporate a basis of contract clause making all representations part of the contract of insurance, insurers must now rely on the details that they have specifically gathered.

Chapter 3 Underwriting and Premium Assessment

Page 46 – Section 2.2 Terms of Business Agreements

Please amend the following text to the end of this section:

TOBAs with personal clients needed to be modified when the Consumer Insurance (Disclosures and Representations) Act 2012 took effect, those with commercial clients will need to be modified when the Insurance Act 2015 comes into effect on 12 August 2016.

Page 60 – Section 5.3.3 Insurance Premium Tax

The standard IPT rate is now 9.5% so please update the example on page 61:

The IPT payable will be:

$$\text{IPT} = \text{Net premium} \times 9.5\% = £480.00 \times 9.5\% = £45.60$$

So the gross premium charged will be:

$$\begin{aligned} \text{Gross premium} &= \text{Net premium} + \text{IPT} \\ &= £480.00 + £45.60 = £525.60 \end{aligned}$$

Chapter 4 Policy Documentation and Wording

Page 75 – Section 2.7 Conditions

In the 2nd bullet point please replace utmost good faith with the duty of disclosure.

In the Precedent to the contract bullet point please replace utmost good faith with the duty of disclosure.

Please add the following sentence to the end of the penultimate paragraph: A similar rule will apply to commercial customers when the Insurance Act 2015 takes effect on 12 August 2016.

Page 82 – Section 4.10.2 Rights of the insured

Please replace the note under the bullet point list with the following:

Since 30 June 2015 following the **Deregulation Act 2015**, when a motor insurance policy is cancelled at the request of the insured the policyholder is no longer required to return the certificate or make a statutory declaration acknowledging that the policy has ceased to have effect, previously the cancellation was only effective from the date the insurer received back the certificate of insurance from the policyholder. This change reflects the expanded use of the Motor Insurance database (MID) (covered in detail in the next chapter) that contains details of all registered vehicles in the UK along with their insurance details. Insurers can now control their statutory liability under the Road Traffic Act 1988 by promptly updating the MID for new policies, renewals and cancellations. Certificates still need to be issued for new contracts and renewals but delivery is no longer required for the policy to take effect.

Page 84 – Section 5.1.3 Breach of warranty

Please replace the last sentence of the penultimate paragraph with the following:

It does not yet apply to commercial policies, although this position will change when the Insurance Act 2015 comes into force on 12 August 2016.

Chapter 5 Claims and Claims Handling

Section 4.1.2 Consequences of non-disclosure

Please add the following text below the 1st paragraph

ABI figures for 2014 regarding fraudulent claims numbers and costs reveal the following.

Claim type	Number detected	Increase from 2013	Cost £m	Increase from 2013
Motor	67,000	+12%	835	+3%
Liability	19,800	+75%	330	+20%
Property	24,533	-29%	108	-21%
Others	18,667	+13%	47	-20%
Total	130,000	+9%	1,320	+3%

Motor insurance claims clearly represent the most significant area, both in terms of number of claims and claims cost.

The ABI believe that the increase in the number of liability insurance fraud claims reflects a greater focus on detection on the part of insurers in respect of such claims, particularly 'slip and trip' claims and industrial deafness. The ABI also believe that the decrease in fraudulent property claims is genuine and reflects the industry is strong effort at deterrence.

Chapter 6 Property Insurance

Page 137 – Section 5.2 Standard cover

Please add the following text to the end of the 1st bullet point: typically covered to £500,000 or more

In bullet point 2 please increase the indemnity limit in the 3rd sub bullet to £500 (from £250)

Chapter 7 Motor Insurance

Page 151 – Section 2.2.4 Comprehensive

- Please update the 3rd bullet point to read: Clothes and personal belongings to a fairly modest sum, typically £250, although £1,000 is not uncommon, (subject to them not being covered by any other policy).

Chapter 8 Health Insurance

Page 173 – Section 1.3.4 Exclusions

Please add: Aviation of any form (except travelling as a passenger in a fully licenced passenger-carrying aircraft) to the list of high risk pastimes on page 173.

Chapter 10 Pecuniary Insurance

Page 217 – Section 1.2.2 Commercial legal protection policy

Please delete the Contract disputes and Tax and regulatory disputes from the table

Page 218 – Section 1.4 Optional policy extensions

Please add the following bullet point: Taxation disputes with HMRC in relation to issues such as PAYE, NI, VAT, Corporation tax etc.

Chapter 11 Combined and Package Policies

Page 239 – Section 1.2.2 Contents insurance

In the table please update the single item valuables limit method:

No single valuable limit may exceed either a:

- Set percentage, typically 5% of the total value of the contents insured
- Specified sum, typically £1,500

Individual items that have a greater value will typically be accepted by the insurer only if they are separately identified and evidence supporting their value is provided

Page 240 – Optional (non-automatic) contents extension

- Please replace the last bullet point with the following: **Temporary increase in sums insured** – It is possible to increase the level of cover at certain times of year (e.g. Christmas) or to cater for special events, such as weddings, when there may be more visitors and valuables in the home. An extension covering children's belongings at college may also be included

Page 245 – Section 1.4.6 Caravans

Please add the following text directly below the table:

Caravan cover applies anywhere in the UK and usually includes a Europe-wide extension for up to 30, 60 or 90 days, including any channel crossing.

Please add the following as an exclusion:

- We should note that whilst capable of being covered as an extension to a household policy, caravans are now most commonly covered by stand-alone policies.

Chapter 13 Security and Confidentiality

Page 294 – Section 3.1.2 Computer data

Please add the following as a final bullet point:

- The need for such access restrictions continues to increase as a result of the growth in the use of mobile technology such as laptops, smart phones and tablets.

Page 295 – Section 3.2.2 Computer data

Please add the following sentence to the end of the 1st paragraph: In larger companies operating with a centralised server this function tends to be centralised and automated using a variety of backup alternatives.

Page 296 – Section 4 Relevance to insurers

Please add the following as a final bullet point:

- Cyber crime

Page 298 – New section to be added

4.6 Cyber crime

Cyber crime is a generic term that refers to be use computer networks or devices for criminal purposes such as fraud, bribery and identity theft. These activities increasingly use malware, hacking and/or phishing, threatening the security of systems and exposing the system user to the potential loss of data.

The expansion of this threat has given rise to a growing demand for some form of cyber insurance, however in such a new area where the potential scales and frequencies of losses are so uncertain there are few insurers prepared to cover such risks. This is an area where we may, however, anticipate new developments as technology continues to improve.

Chapter 14 Customer Service

Page 314 – Section 2.3 Claims Handling

Please add the following sentence to the end of the 1st bullet: This requirement has been supplemented by the **Consumer Rights Act 2015** requiring that consumer claims are handled 'within a reasonable time'.

Page 317 – Section 2.5.5 Time limit rules

In the **final response** bullet point please replace the last two sub bullets:

- Inform the client that if they remain dissatisfied with the response they may refer their complaint to the Financial Ombudsman Service. The firm have the right to require that this must be done **within six months**, however they must make it clear with specific wording whether they wish to apply or waive that right.
- Enclose a copy of the Financial Ombudsman Services' explanatory leaflet and provide the FOS website address.

Please also replace the penultimate paragraph:

In assessing compliance of the complaints handling procedures, the FCA will consider, along with other factors, the speed and quality of the response and the monitoring of the progress of the complaint, and the FCA reserves the right to modify the procedures and time limits as they see fit on the basis of their observations.

Page 318 – Section 2.5.7 The Financial Ombudsman Service

Please correct the 2nd bullet point to read:

- Six months after the date of the final response, longer if the insurer chooses to waive this right (timeframe must be made clear by specific text in final response)

Please correct the paragraph directly below to read:

Although the FOS may, to an extent, waive this time limit requirement in exceptional circumstances and allow a longer time period, however the FCA has prescribed that the FOS may not consider complaint that would be legally considered time-barred (i.e. something that has happened more than six years ago).