CII IF1 Insurance, Legal and Regulatory 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 Features of Insurance

Page 2 – Learning objectives
Please correct Learning Outcome 3.6 to read:
Describe the main classes of insurance which include property insurance, pecuniary insurance, motor insurance, liability insurance, marine and aviation insurance, health and combined or package policies.
Page 12 – Section 4.3 Heinrich's loss control triangle
Please correct the number of minor injuries to read: 30 (not 29)

Page 21 – New section to be added
Guaranteed Asset Protection (GAP) Insurance
GAP insurance arose as an optional insurance which could be added onto motor insurance to settle any difference between what an insurance policy will pays on a car after a collision and the residual balance remaining on a loan agreement taken out on the car.

Page 28 – Chapter round up
Please add Guaranteed Asset Protection (GAP) insurance to the list of common forms of insurance.

Chapter 2 The Insurance Market

Page 35 – Section 1 The structure of the insurance market
Please add the following sentence to the end of this section: The global nature of today's business environment has led to the development of a global insurance market serving multinational businesses.

Page 44 – New section to be added
Internal auditor
The internal audit role aims to improve the overall risk management of a company. Internal auditors will report in to the senior management and the board and also address issues of corporate governance.

Page 45 – Section 8.8 Compliance officer
Please correct the last paragraph to read: Further responsibilities will be likely to include maintaining the compliance manuals of the firm , identifying training requirements to ensure that compliance needs are met and acting as the Money Laundering Reporting Officer (MLRO).

Page 45 – Section 9.1 Association of British Insurers (ABI)
Please add the following paragraph to the end of this section:
The ABI requires that any vehicles which have been categorised as being 'total loss' must be entered into the Motor Insurance Anti-Fraud and Theft Register (MIAFTR). By notifying the MIAFTR, an insurer has satisfied its duty to inform the DVLA. Information on the MIAFTR is available to all insurance companies and should help to reduce instances of fraud.

Page 47 – New sections to be added
Association of Insurance and Risk Managers in Industry and Commerce (Airmic)
The Association of Insurance and Risk Managers in Industry and Commerce (Airmic) describes itself on its website as an association for everyone with 'responsibility for risk management and insurance for their organisation'. Their aim is to support their members via:

- Training and research
- Information sharing
  - providing a platform for risk management professionals to communicate with one another and to share good practice and information is identified by Airmic as one of their primary functions.
- A programme of events
- Encouraging best practise
- Lobbying activities

Institute of Risk Management (IRM)

The Institute of Risk Management (IRM) was formed in 1986. They offer a risk management diploma course suitable for risk management professionals from all sectors.

An International Certificate in Risk Management was introduced in 2005, and in 2011 a Risk Management in Financial Services qualification was launched.

The IRM also offer various forms of risk management training, publish guidance and research and also set professional standards. The IRM website describes their aims as providing:

- Recognition
- Knowledge
- Networking
- Career support

for risk management professionals.

Page 51 – Chapter round up

Plead add Association of Insurance and Risk Managers in Industry and Commerce (Airmic) and the Institute of Risk Management (IRM) to the list of insurance market organisations.

Chapter 3 Contract and Agency

Page 58 – Learning objectives
Please add the following:

11. Understand the main regulatory and legal requirements applicable to the transaction of insurance business

    11.2 **Explain** the application of the Consumer Rights Act 2015.

    11.3 **Explain** the Contracts (Rights of Third Parties) Act 1999 in relation to insurance contracts.

Page 58 – Section 1 The elements of a contract
Please delete the 1st paragraph

Page 58 Section 1.1 The essential elements of a contract
Please replace the current section with the following:
We can first look at the basic elements which are needed if an insurance contract is to be considered valid. The following must be present:

- **At least two parties** – the insured and the insurer as a minimum.
- **Capacity to contract** – all parties involved are of sound mind and are not minors.
- **Insurable interest** – the insured must have a legally recognised relationship with the subject-matter of the insurance through which they benefits from its safety, well-being or freedom from liability and would be prejudiced by its damage or loss.
- **Duty of disclosure** – this principle places on the proposer the obligation to:
  - **Consumers** – take reasonable care to not make a **misrepresentation** in respect of material information requested by the insurer
  - **Commercial customer** – volunteer and make a **fair presentation** of all material information that they are (or ought to be) aware of

Material information is information that may affect the judgement of a prudent or reasonable underwriter in their assessment of the proposed risk.

- **Intention** to create legal relations on specific terms – thus, generally speaking, social or domestic promises do not satisfy this requirement, whilst commercially-oriented discussions do. The term *consensus ad idem* is sometimes used to describe the required meeting of minds.
- **Offer and acceptance** – an offer made by one party is accepted by the other within the specified timescale. Under the insurance industry's Contract Certainty Codes of Practice, June 2007, contracts certainty is achieved by the complete and final agreement of all terms between the insured and the insurer by the time they enter into the contract, with contract documentation provided promptly thereafter.
- **Consideration** (in England & Wales) – consideration is the payment or promise of payment of the premium by the insured and the insurer's promise to pay the claim should the insured event occur.

Note. The CII syllabus focuses primarily on the factors **offer**, **acceptance** and **consideration**.

Page 59 – Section 1.1.1 Validity factors

Please delete the first bullet point (capacity)

Page 64 – Section 3.1 Termination of a contract by the policy holder

Please replace the penultimate paragraph with the following:

The **Deregulation Act 2015** amended the Road Traffic Act (RTA) 1988, which previously required policy holders to return the certificate of insurance to the insurer when a policy is cancelled. The Deregulation Act 2015 removes this obligation to surrender the certificate following the cancellation of a policy of insurance.

Page 64 – New section to be added

3.3 Contracts which may be avoided by the insurer

A voidable contract is a contract which one party may set aside. This is a different situation to that which exists when an insurer avoids a claim because the policyholder has not fulfilled a condition necessary for the claim, but where the policy remains in force.

Property transferred before avoidance is usually irrecoverable from a third party.

It may be possible in certain circumstances for an insurer to set aside a contract where the insured has not disclosed or has misrepresented information to the insurer.

Page 64 – Section 4 The Unfair Terms in Consumer Contract Regulations 1999

Please delete this section and replace with the following:

4 The Consumer Rights Act 2015

Learning objective	11.2 **Explain** the application of the Consumer Rights Act 2015in relation to insurance contracts.

The development of a **mass market** for complex goods in the last century meant that the consumer can no longer always rely on their own judgement when buying sophisticated goods or services. **Consumer interests** are now served by two main areas:

- **Consumer protection agencies**, which include government departments (the Competition and Markets Authority) and independent bodies (the Consumers' Association); and
- **Legislation**.

Public policy sometimes requires that the freedom of contract should be modified. For example, the **Consumer Credit Act 1974** and the **Unfair Contract Terms Act 1977** both regulate the extent to which contracts can contain certain terms.

The **Unfair Contract Terms in Consumer Contracts Regulations 1999** overlaps with the Unfair Contracts Act 1977. It aims to provide consumers with protection against confusing policies which might mislead them. Part 5 of the Act describes 'unfair terms' as being:

'A contractual term which has not been individually negotiated shall be regarded as unfair if, contrary to the requirements of good faith, it causes a significant imbalance in the parties' rights and obligations arising under the contract to the detriment of the consumer'.

Written language used in a contract is required to be plain and intelligible and where it is not, then the interpretation most favourable to the consumer is taken. Any term deemed to be unfair will not be binding on a consumer although the contract will continue to be binding if possible without the unfair term.

The regulation applies to consumer insurer contracts in the same way that it applies to all consumer contracts. It applies where an individual isn't acting professionally or in a business.

The Consumer Rights Act 2015 came into force on October 1st 2015 and simplifies consumer law. Amongst other things, the act covers:

- Clarifying what constitutes 'unfair terms' in consumer notices and consumer contracts (replacing the terms under the Unfair Terms in Consumer Contracts Regulations 1999)
- How a service should be like those that have been agreed
- What should happen when a service doesn't meet up with that which has been agreed upon

Consumer contracts or notices:

Under the terms of the Consumer Rights Act, any unfair terms in a consumer contract or notice must be expressed in plain and intelligible language and be 'prominent' and transparent to the average customer.

Schedule 2 of the Act describes a **'grey list'** of contract terms which may be regarded as unfair. These include use of terms which 'have the object or effect of excluding or hindering the consumer's right to take legal action or exercise any other legal remedy, in particular by:

(a) requiring the consumer to take disputes exclusively to arbitration not covered by legal provisions,

(b) unduly restricting the evidence available to the consumer, or

(c) imposing on the consumer a burden of proof which, according to the applicable law, should lie with another party to the contract.'

The Consumer Rights Act includes information which makes clear that a financial services contract may not 'include a term under which a trader reserves the right to alter unilaterally the conditions of a contract of indeterminate duration if:

(a) the trader is required to inform the consumer with reasonable notice, and

(b) the consumer is free to dissolve the contract.

An extensive list of factors which would make a contract 'unfair' are included on the grey list. Significant among these are the inclusion of:

- A term which has the object or effect of requiring that, where the consumer decides not to conclude or perform the contract, the consumer must pay the trader a disproportionately high sum in compensation or for services which have not been supplied.
- A term which has the object or effect of permitting the trader to determine the characteristics of the subject matter of the contract after the consumer has become bound by it.
- A term which has the object or effect of giving the trader the discretion to decide the price payable under the contract after the consumer has become bound by it, where no price or method of determining the price is agreed when the consumer becomes bound.

If an insurer fails to follow the instruction given in the grey list then a number of remedies are possible including action by the Financial Conduct Authority (FCA) or the Competition and Markets Authority (CMA) to amend a contract and to require compensation to be paid where unfair terms have resulted in consumer loss.

4.1 The Third Parties (Rights Against Insurers) Act 2010

If an insured party were to become insolvent, a third party with valid rights might face delays and expense to recover money from the insurance company. Creditors might get paid rather than parties who are rightfully owed. The Third Parties (Rights Against Insurers) Act 2010 set out to simplify this process. The terms of the Act apply where an insured insolvent party incurs a liability to a third party which is covered by insurance.

Page 66 – Section 7.1 Agency

Please delete the last paragraph

Page 68 – New sections to be added

7.3.3 The duties of an agent to their principal

An agent is required to act dutifully and in good faith for their principal communicating with their principal and complying with their reasonable instructions. In general terms, the agent should:

- act with skill and care where the agent must exercise the skills for which they were employed
- perform duties within terms set out in an agreement
- obey instructions given by the principal
- act in good faith
- account for all transactions carried out on behalf of principals

7.3.4 The duties of a principal to their agent

A contract between an agent and principal will generally establish the duties of a principal including:

- reimbursing the agent for agreed amounts and reasonable expenses
- Indemnifying the agent against liabilities incurred while carrying out their agreed duties

Chapter 5 Utmost Good Faith

Page 88 – Learning outcomes

Please add the following paragraph to the end of this section:

The need for disclosure has been modified by the Consumer Insurance Disclosure and Representations Act 2012 (CIDRA) for consumer insurance contracts. Changes will also be made in the near future for non-consumer contracts under changes brought in by the Insurance Act 2015.

Page 89 – Section 1 The principle of utmost good faith

Please replace the 5th paragraph on page 89 with the following 5 paragraphs:

This quote has been widely-accepted as an accurate statement of the common law position on good faith, and therefore this duty applies to all insurance contracts.

'The overall effect of the Consumer Insurance Disclosure and Representations Act 2012 (CIDRA), on the role played by 'utmost good faith', is that for consumer (i.e. non-commercial) insurance, the role of 'utmost good faith' in allowing an insurer to avoid an insurance contract due to non-disclosure of material facts has been modified.

The right to avoid a consumer insurance contract if utmost good faith had not been observed has been removed.

The principle of **utmost good faith** thus, still exists for consumer contracts after the introduction of CIDRA 2012, but it will no longer form the basis for decisions about whether an insurer can avoid paying an insurance claim.

The Insurance Act 2015 will make the same changes to non-consumer contracts, but its impact will not be tested on this current syllabus.

Page 91 – Section 2.2 Insurance: Conduct of Business Sourcebook (ICOBS) and disclosure

Directly above the **Note** please add the following parapgraphs:

ICOBS 8.1.2 also describes it as being unreasonable to reject a claim:

'for breach of warranty or condition unless the circumstances of the claim are connected to the breach and unless (for a **pure protection contract**):

(a) under a 'life of another' contract, the warranty relates to a statement of fact concerning the life to be assured and, if the statement had been made by the life to be assured under an 'own life' contract, the **insurer** could have rejected the claim under this **rule**; or

(b) the warranty is material to the risk and was drawn to the **customer's** attention before the conclusion of the contract.'

Page 92 – Section 2.3 The Consumer Disclosure and Representations Act 2012 (CIDRA) and its application to non-business insurance

Please replace the 1st paragraph with the following:

The policy holder's position (for non-business insurance) has amended following the Consumer Insurance (Disclosure and Representations) Act 2012, with the law now placing the onus on the insurer to make sure they have asked all relevant questions in order to gather all material matters (when dealing with non-professional consumers) – the onus on the proposer now is to be open and honest in their responses. CIDRA only applies only when dealing with consumers acting in a non-professional capacity.

Page 93 – Section 4.1 General insurance

Please replace the 2nd bullet point with the following:

Prosecutions, convictions sustained or pending. (The Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012 details when offences are required to be disclosed)

Page 97 – Section 7 Material facts not requiring disclosure

Please replace the last bullet point with the following

- Spent convictions as defined by Section 139 of the Legal Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO) which amends the Rehabilitation of Offenders Act, 1974. Two types of rehabilitation period exist: those for sentences with no buffer period which begin at the date of conviction and those for sentences with a buffer period which are made up of a buffer period plus the sentence.

Where a buffer exists (only for those over 18 at the time of conviction) the buffer periods are:

- Community orders: one year
- Prison sentence of six months or less: two years
- Prison sentence between 6 months and 30 months four years
- Prison sentence between 30 months and 48 months seven years
- Prison sentence over 48 months never spent

Section 8 – Consequences of non-disclosure or misrepresentation of material facts

Please replace the last paragraph on page 97 and the remainder of this section with the following:

8.1 Consequences of a qualifying misrepresentation under the Consuner Insurance (Disclosure and Representations) Act 2012

Under CIDRA the duty of the (non-professional) consumer becomes simply to answer insurer's questions honestly and reasonably. CIDRA describes the circumstances under which an insurer has remedy against a consumer for a misrepresentation made by that consumer prior to the contract being entered into.

Qualifying misrepresentations: definition and remedies (*Note:* A **"qualifying misrepresentation"** is one for which the insurer has a remedy against the consumer).

An insurer has a remedy against a consumer for a misrepresentation made by the consumer before a consumer insurance contract was entered into or varied only if:

(a) the consumer made the misrepresentation in breach of the duty of the consumer to take reasonable care not to make a misrepresentation to the insurer; and

(b) the insurer shows that without the misrepresentation, that insurer would not have entered into the contract (or agreed to the variation) at all, or would have done so only on different terms.

A qualifying misrepresentation under the terms of CIDRA is either:(a)**deliberate or reckless**, if the consumer knew that it was untrue or misleading, or did not care whether or not it was untrue or misleading, and knew that the matter to which the misrepresentation related was relevant to the insurer, or did not care whether or not it was relevant to the insurer

or

(b) **careless**, if it is not deliberate or reckless

The insurer is responsible for showing whether a qualifying misrepresentation was deliberate or reckless.

If the qualifying misrepresentation was deliberate or reckless, then the insurer:

- may avoid the contract and refuse all claims, and
- need not return any of the premiums paid, except to the extent (if any) that it would be unfair to the consumer to retain them

If the qualifying misrepresentation was careless but the insurer would have entered into the contract on different terms, then the insurer may treat the contract as if entered into on those different terms. Where the insurer would then have charged a higher premium, they may 'reduce proportionately' the amount to be paid on the claim.

This is done by only paying X% of the claim where:

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

Example

An individual has made a qualifying breach which was neither deliberate nor reckless resulting in an annual premium of £400 when it would have been more fairly assessed as £560. If a claim is made for £7,280 the actual claim payment made would be:

$$X = \frac{£400}{£560} \times 100 = 71.4\%$$

Actual claim payment = 0.714 x £7,280 = £5,198

Chapter 9 The Legal and Regulatory Requirements of Insurance

Page 142 – Section 2.1 The Prudential Regulation Authority (PRA)

Please replace the paragraph at the top of pasge 142 with the following:

The PRA has a role which is defined by **three statutory objectives:**

- A general objective to promote the safety and soundness of firms
- An objective specifically for insurers, to contribute to the securing of an appropriate degree of protection for policy holders.
- A secondary objective to facilitate effective competition (*note*: this is secondary to its general objective)

Page 142 – Section 2.2 Proactive Intervention Framework (PIF)

Please replace Stages 1 – 5 with the following:

Stage 1: Low risk to viability of firm

Normal supervision with plans being required for stressed conditions.

Stage 2: Moderate risk to viability of firm

The intensity of supervision will increase and the PRA will review the insurer's risk profile and regulatory capital. Additional reporting requirements may be imposed and the insurer's activities may be restricted until remedial action has been shown to be satisfactorily imposed.

Stage 3: Material risk to viability of firm

The insurer will need to submit a recovery plan addressing issues identified. The PRA may also require other measures such as management changes, capital distribution restrictions. The PRA may also remove the insurers ability to carry out new business. At this stage the PRA will co-ordintae with the FSCS.

Stage 4: Imminent risk to viability of firm

The PRA will generally remove the insurer's authorisation to write new business at this stage and plans will be put into place for an orderly liquidation if needed.

Stage 5: Resolution winding-up the firm is under way

The PRA will trigger and monitor insolvency proceedings.

Page 146 – Section 2.8 PRA supervision

Please replace this section with the following:

The PRA will monitor authorised insurance companies to ensure that regulatory and capital requirements are being met by insurance companies.

The PRA will tailor its activities to the individual circumstances of each insurer, and the PRA will focus its attention most onto those insurers requiring most supervision.

The PRA describe their approach to '**low impact insurers'** as being that of taking a **baseline level** approach to supervisory monitoring. The PRA says that these low impact insurers will pose no capacity to inflict serious harm on the stability of the UK system individually. The PRA will analyse such firms on an individual portfolio basis analysing insurer returns using automated tools. Where a risk materialises then the PRA will examine an individual insurer on a case by case basis. The Proactive Intervention Framework (PIF) shown in section 2.2 shows the stages that the PRA will generally follow in its supervision of insurance firms.

The PRA has various enforcement powers available to it if any problems are identified, although it prefers to intervene early and use remedial action in conjunction with the firm where possible.

If remedial action has not succeeded, the PRA has a number of powers at its disposal, including:

- Public censure
- Financial penalties
- Prohibiting individuals from performing functions in relation to regulated activities
- Varying or ultimately withdrawing authorisation

Page 152 – New section to be added

5.5 Senior Managers and Senior Insurance Managers Regime (SIMR)

Solvency II introduced need for insurance firms falling within its scope to assess the fit and proper status of 'Key Function Holders' (KFHs). KFHs as a group did not fall under the definitions of controlled function by either the PRA or the FCA. The aim was to focus on higher levels of personal responsibility. (note: proposals have been made for measures to be introduced for non-solvency II insurers non-Directive firms (NFDs))

The Senior Insurance Manger's Regime (SIMR) came into being on March 7th 2016 and applies to the most senior executive management and directors subject to regulatory approval.

Solvency II insurance firms should apply to the PRA for approval of PRA designated Senior Insurance Management Functions (SIMF). SIMR aims to provide a more focussed set of senior insurance management functions for those individuals who have a significant influence over an insurance company.

A timetable for the transition to the new Senior Insurance Managers Regime had the following deadlines:

- **Jan 1 2016** – Solvency II firms should have governance maps in place, including a list of Key Function Holders
- **Feb 8 2016** – Firms must submit grand fathering notification to PRA to detail the individuals who are currently approved with a PRA approved person function and will be grandfathered to the new SIMR regime.
- **March 7 2016** – SIMR comes into effect
- **Sept 7 2016 -** Solvency II firms must have notified PRA of all Key Function Holders

Firms must submit applications to the PRA for pre-approval of key functions.

Page 156 – Section 8.2 Reporting complaints to the FCA

Please replace the 4th paragraph with the following:

Firms must report to the FCA every six months, within 15 days of the close of the period, on the number of complaints received from eligible complainants and how they have been handled. The report must show the number of eligible complaints and the details of how complaints have been resolved.

Please delete the last paragraph.

Page 162 – New section to be added

10.11.6 Guarenteed Asset Protection (GAP) insurance – the FCA competition remedy

The FCA published a study on Guaranteed Asset Protection (GAP) insurance in which concerns were raised about market competition. Following the study, the FCA concluded that valid concerns existed and a policy statement was issued which included a number of rules (in June 2015)designed to empower customers when they make decisions to purchase add on GAP insurance and to limit the competitive advantage of point of sale distributors.

The FCA defines a Gap contract as 'a contract of insurance covering a policyholder, in the event of a total loss to a vehicle, against the difference between:

- The amount claimed under the policyholder's vehicle policy in respect of that loss; and
- An amount defined in, or calculated in accordance with, the GAP contract

Under the FCA rules: 'before a GAP contract is concluded, a firm must give the customer the following information:

- The total premium of the GAP contract, separate from any other prices
- The significant features and benefits, significant and unusual exclusions or limitations and cross-references to the relevant policy document provisions
- Whether or not the GAP contract is sold in connection with the vehicle finance, that GAP contracts are sold by other distributors
- The duration of the policy
- Whether the GAP contract is optional or compulsory
- Whether the GAP contract can be concluded by the firm (under prescribed FCA conditions); and
- The information is provided to the customer.

The rules also require that:

'Information must be communicated to the customer in a clear accurate manner and in writing or another durable medium made available and accessible to the customer.

This information must be drawn to the customer's attention and must be clearly identified as key information that the customer should read.'

In addition, the rules require that at least 2 clear days must pass before a GAP contract is concluded unless the customer initiates the conclusion of the GAP contract, or consents to the earlier conclusion of the contract and confirm that they understand the restrictions.

If a policy summary is used, then the rules give a prescribed form that must be followed.

Page 164 Pillar 3 – Reporting

Please replace the bullet points with the following:

- **Solvency and Financial Condition Report (SFCR)** – this is a public report which must be reported to the National Competent Authority (NCA) annually. Information in the SFCR is both qualitative and quantitative.; and
- **Regulator Supervisory Report (RSR)** – this is a private report between a firm and its national supervisor, which is not publicly disclosed. Information in the RSR is both qualitative and quantitative.

Page 164 – Section 11.1.1 The PRA role in Solvency II

Please replace this section with the following text:

The PRA has UK responsibility for administering these requirements and importantly **monitoring** firms using reports submitted by firms and information directly requested from firms. Quantitative reports submitted by insurance companies will include firm and group financial accounts reporting, premium claims and expenses. Qualitative reports will include information on the insurance firm's risk profile, governance business performance and solvency valuations. Reports are generally required annually, although certain quantitative reports will be required quarterly by the PRA or more frequently if monitoring highlights concerns.

Where firms fall short of requirements, the PRA has a number of sanctions available to it including requiring the firm to report more frequently or provide additional information, restricting a firm's ability to collect premiums or take new business. If a company does not meet its Solvency requirements the PRA is ultimately prepared to wind the firm up.

Chapter 10 Consumer Protection, Crime and Taxation

Page 183 – Section 4.5 Complaints resolved the next day

Please add the following paragraph to theend of this section:

Note: from 30th June 2016, the period whereby reporting rules do not reply has been extended to three business days following the day that the complaint was made.

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Page 184 – Section 4.6 Time limit rules

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

The final response should:

- Summarise the complaint and set out the results of the investigation
- Openly acknowledge any mistakes made
- Detail any settlement offer made
- Inform the consumer that they have the right to refer the complaint to the ombudsmen within six months of the final response
- Give links to the FOS website
- Include FOS contact details and a copy of the FOS leaflet.

Page 187 – Section 5.2 Compensation limits

Please replace the table with the following:

	Compensation limits
Liability subject to compulsory insurance (such as third party motor insurance)	100%
Professional indemnity insurance	100%
Claim arising from death or incapacity of the policyholder due to injury, sickness or infirmity	100%
Other forms of policy (no upper limit)	90%

Page 187 – Section 6 Insurance Premium Tax

The Insurance Premium Tax is 9.5% so please update the Example as follows:

The IPT payable will be:

IPT = £480.00 × 9.5% = £45.60

So the gross premium charged will be:

Gross premium = £525.60 = (£480.00 + £45.60)

Note. If the question provides the total amount of premium paid including the insurance premium tax, then the tax calculation for the basic rate **9.5% is 19/219**, and the higher rate **20% is 1/6**.

If thus the above question had said that the tax paid was £508.80 and asked how much tax was paid, then the calculation would have been:

Tax paid = 19/219 × £525.60 = £45.60