



# Specimen coursework assignment

## M94 – Motor Insurance

The following is a specimen coursework assignment including questions and indicative answers.

It provides guidance to the style and format of coursework questions that will be asked and indicates the length and breadth of answers sought by markers. The answers given are not intended to be the definitive answers; well-reasoned alternative answers will also gain marks.

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## Coursework submission rules and important notes

Before you start your assignment, it is essential that you familiarise yourself with the information in the *Mixed Assessment Support Centre* available on [www.revisionmate.com](http://www.revisionmate.com)

Please note the following information:

- These questions must not be provided to, or discussed with, any other person regardless of whether they are another candidate or not. If you are found to have breached this rule, disciplinary action may be taken against you.
- Important rules relating to referencing all sources including the study text, regulations and citing statute and case law.
- Penalties for contravention of the rules relating to plagiarism and collaboration.
- You must not use Artificial Intelligence (AI) tools to generate content (any part of an assignment response) and submit it as if it was your own work.
- Coursework marking criteria applied by markers to submitted answers.
- Deadlines for submission of coursework answers.
- You must not include your name or CII PIN anywhere in your answer.
- The total marks available are 200. You need to obtain 120 marks to pass this assignment.
- Your answer must be submitted on the correct answer template in Arial font, size 11.
- Answers to a coursework assignment should be a maximum of 10,000 words. The word count does not include diagrams however, it does include text contained within any tables you choose to use. The word count does not include referencing or supplementary material in appendices. **Please be aware that at the point an assignment exceeds the word count by more than 10% the examiner will stop marking.**

## Top tips for answering coursework assignments

- Read the Learning Outcome(s) and related study text chapter for each question before answering it.
- Ensure your answer reflects the context of the question. Your answer must be based on the figures and/or information used in the question.
- Ensure you answer all questions.
- Address all the issues raised in each question.
- Do not group question parts together in your answer. If there are parts (a) and (b), answer them separately.
- Where a question requires you to address several items, the marks available for each item are equally weighted. For example, if 4 items are required and the question is worth 12 marks, each item is worth 3 marks.
- Ensure that the length and breadth of each answer matches the maximum marks available. For example, a 30-mark question requires more breadth than a 10 or 20-mark question.

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The coursework questions link to the Learning Outcomes shown on the M94 syllabus as follows:

Question	Learning Outcome(s)	Chapter(s) in the Study Text	Maximum marks per answer
1	Learning Outcome 1	Chapters 1 & 2	10 marks
2	Learning Outcome 2	Chapter 3	10 marks
3	Learning Outcome 2	Chapter 3	20 marks
4	Learning Outcome 3	Chapter 4	20 marks
5	Learning Outcome 4	Chapters 5 & 6	10 marks
6	Learning Outcome 4	Chapters 5 & 6	30 marks
7	Learning Outcome 5	Chapters 7 & 8	20 marks
8	Across more than one Learning Outcome	Across more than one chapter	30 marks
9	Across more than one Learning Outcome	Across more than one chapter	30 marks
10	Across more than one Learning Outcome	Across more than one chapter	20 marks

## **M94 specimen coursework questions and answers**

### **Question 1 - Learning Outcome 1 (10 marks)**

You are a claims handler for FPW plc, a motor insurer.

Mrs Griffiths, a policyholder of FPW plc, has a third party fire and theft motor insurance policy for her car. Mrs Griffiths notifies you that a third party has recently driven their vehicle into Mrs Griffiths' parked car. The accident occurred on a public road whilst Mrs Griffiths was sitting in her car. The third party was responsible for the accident and both parties exchanged names and addresses.

Mrs Griffiths intends to seek recovery for the cost of the damage to her car. Following the accident, Mrs Griffiths contacted the police, who recorded details of the incident and allocated a reference to the matter, but as it was a road traffic accident with no personal injuries, the police were unable to indicate whether the third party vehicle was insured at the time of the accident.

Explain **two** appropriate options that Mrs Griffiths could pursue to potentially recover the cost of the damage to her car.

(10)

### **Answer to question 1 (Learning Outcome 1)**

- If the third party is uninsured, then Mrs Griffiths could pursue a claim via the MIB Uninsured Drivers Agreement, which operates a mechanism for a party who has a valid claim where a person may be to some extent responsible for a road traffic accident and is found to have no motor insurance policy in force at all, or at the very least, one that is not effective for Road Traffic Act (RTA) purposes. Certainly, there is no evidence of insurance. Clearly, there is no cover under Mrs Griffiths policy for the damage to her own car under her own insurance policy, as the cover is only on a third party, fire and theft basis.



The MIB has a right of recovery against the uninsured driver, in the same way insurers have a right of recovery for their RTA liabilities incurred against the third party driver and/or the third party policyholder.

- It is possible that the third party has provided a false name and address. There is no indication that the third party particulars have been verified.

If a false name/address has been supplied (or at the very least, false details that prevent the third party being traced), then a claim may be pursued via the MIB Untraced Drivers Agreement. The Untraced Drivers Agreement provides compensation to a victim, where the untraced motorist, who, on the balance of probabilities would have been liable.

Since 2003, property claims have been included (and since 2011, no property excess applies).

## **Question 2 - Learning Outcome 2 (10 marks)**

A comprehensive private car motor insurance policy was issued to Miss Jones for her car by HJ plc, a motor insurer.

Miss Jones reports to HJ plc a recent claim which arose from an electrical fault in the car's engine. The electrical fault resulted in severe fire damage to the car. As a result, the car appears to be beyond economical repair.

Miss Jones confirms that a car fire extinguisher was used in an attempt to put out the fire and belongings inside the car were also completely destroyed in the fire

Identify, with justification, **five** policy considerations, that HJ plc may take into account in deciding the basis of settlement for the claim presented. (10)

## **Answer to Question 2 (Learning Outcome 2)**

Five considerations with justification are as follows:

- The comprehensive motor policy may specifically exclude mechanical, electrical, and electronic or computer breakdown, but any resultant fire damage to the car from this electrical failure would be covered. This means that the engine fault (e.g. a broken electrical wire) which caused the fire would not be covered. However the resultant fire damage to the car would be covered, provided reasonable steps have been taken by Miss Jones to maintain the vehicle in a roadworthy condition.
- With severe damage to the vehicle, all the indications are that it is beyond economical repair, but this would be determined by the insurer's engineer. A typical policy operative clause will clearly state that the insurer will at their option, pay for the damage to be repaired or replace what is stolen or damaged, or pay the amount of the loss or the damage. This is of course, subject to indemnity being granted.
- The insurer would deduct any fire excess or other compulsory/voluntary excesses applicable from the settlement figure. Most motor policies are subject to an excess.



Voluntary excesses are in addition to standard compulsory excesses and may apply here.

- The insurer would normally look to reimburse any damaged personal effects, which were in the car and damaged as a result of the fire, especially under a comprehensive policy, subject to proof. This will be subject to a usual limit of around £100 - £150. This will cover items such as coats, spectacles and CDs, etc. but will normally exclude money, stamps, tickets and the like.
- If this is a new car, the insurer will typically have a new car replacement option in the policy. This option provides the insured, in the event of a total loss claim, with a new car of the same make and model, if the vehicle was registered as new in the policyholder's name less than one year prior to the loss or damage (fire, in this instance) and the repair costs will exceed 60% of the manufacturer's list price. If the fire can be attributed to a manufacturing defect, the insurer may look to make a recovery from the manufacturer under the tort of negligence.

### **Question 3 - Learning Outcome 2 (20 marks)**

Mr Rogers, an employee of XYZ plc, an engineering company, has a company car provided by his employers. XYZ plc have a current comprehensive motor fleet insurance policy. The car provided by XYZ plc has unfortunately broken down, Mr Rogers decides to use his comprehensively insured private car to travel to a business meeting at a client's premises. Mr Rogers' private car is insured with another insurer.

Whilst driving to the business meeting, Mr Rogers causes a collision with a third party vehicle. The third party vehicle is driven by the third party, Miss Smith and insured on a comprehensive motor policy, Both cars are damaged in the collision. Miss Smith's motor insurer indemnify her for the damage to her vehicle and seek recovery of their outlay, being the cost of repairing the damage to her car.

- (a) Explain the extent of third party cover which may be available under XYZ plc's motor fleet policy in respect of a claim made by Miss Smith's motor insurer. (8)
- (b) Explain the extent of third party cover which may be available under Mr Rogers' private car policy in respect of a claim made by Miss Smith's motor insurer. (8)
- (c) Explain the extent of cover which may be available under Mr Rogers' private car policy for the damage to his car. (4)

### **Answer to Question 3 (Learning Outcome 2)**

- (a) XYZ plc's (XYZ) motor fleet policy will typically provide contingent liability cover as this is common in the market. XYZ plc can incur vicarious liability (one party becomes liable for the actions of another) for allowing an employee to use their own vehicle for XYZ's business purposes.

Contingent liability cover can also provide for situations where one party (XYZ), relies on another (Mr Rogers), to arrange insurance. Mr Rogers's private car



insurance policy may, for example, only cover social, domestic and pleasure use, thereby excluding business use. Protection for vicarious liability to the employer (e.g. XYZ) is provided should Mr Rogers's policy be invalid. Contingent liability cover is therefore a “safety net” and covers third party liabilities, where there may be no other motor insurance policy operating.

With the motor fleet contingent liability cover in place, XYZ plc's insurer would look to deal with the third party claim. As indicated above, contingent liability cover does extend to indemnify Mr Rogers, in a vicarious liability situation, should Miss Smith's insurers take action against him., Should XYZ plc not be vicariously liable for Mr Rogers (if, for example, XYZ plc had expressly stated that Mr Rogers was not to use his own vehicle for the purposes of his employer's business), then there would be no third party cover under XYZ's motor fleet policy.

The motor fleet policy may also have an occasional business use extension. This provides the same level of cover for employees' vehicles, as is available under the fleet policy issued to XYZ plc. This will often occur on those occasions where an employee's own car needs to be insured for business use but the employee's own policy does not cover such use, or where it's impracticable to be arranged. This extension is limited solely to the business use of XYZ plc, as it excludes social domestic and pleasure, and would be inoperative if there were any other policy covering the loss/liability. it would extend to the damage to Mr Rogers's car, (in addition to Miss Smith's insurer's claim).

- (b) Mr Rogers' private car insurance documents will detail the use of the car and restrictions applicable. Many policies are restricted to 'Use for social domestic and pleasure purposes excluding use for any business purposes'. There will be an exception contained within the policy wording that 'the policy does not provide insurance where any car covered is being used for purposes that are not permitted by your certificate of motor insurance'. Should Mr Rogers's motor insurance certificate exclude business use, there will be no cover under the policy for travel to a business meeting and the motor insurers may be able to decline indemnity. However, in accordance with the requirements of the Road Traffic Act 1988, the insurers will be obliged to consider any statutory third party liabilities.

“Use” outside the scope of the policy wording is not specifically referenced in the Road Traffic Act 1988, but is accommodated in Article 75 of the Domestic Regulations Agreement (MIB). If the use is outside the scope of the policy cover, then the insurer will have Article 75 insurer status and be obliged to consider any Road Traffic Act third party liabilities that arise.

The policy issued in respect of Mr Rogers' car may, however, have been extended to include 'personal business use' (often known as Class 1 cover). If this is the case, then Mr Rogers' motor insurers would potentially be able to indemnify Mr Rogers for any third party losses.

- (c) If Mr Rogers' comprehensive motor policy does extend to cover business use on behalf of his employer (XYZ), then it will provide cover for damage to his own car (subject to use being included as detailed above). There will generally be an own damage excess applicable (compulsory, voluntary or both) which Mr Rogers will have to meet.



Mr Rogers is entitled to be indemnified, and the insurer has the choice whether they pay for the damage to be repaired, replace what is damaged or pay cash equivalent to the cost of repairing Mr Rogers' car.

To meet the principle of indemnity, the insurer will not pay more than the market value of the car at the time of the loss (if it is beyond economic repair). If the car is subject to a hire purchase or leasing agreement, his insurer will make any payment for the total loss of his car to the hire purchase or leasing company.

### Question 4 - Learning Outcome 3 (20 marks)

You are an underwriter for an insurer who is targeting new customers as potential policyholders. In order to create a mechanism which will appeal to these customers, the insurer is considering the automation of its motor insurance processes. This automation will minimise paper based documentation and replace it with electronically issued documentation.

- (a) Identify, with justification, **four** benefits of automating the motor insurance processes for new customers. (12)
- (b) Explain, with justification, **two** potential steps that may be taken to meet the regulatory challenges that may arise from automating the motor insurance processes. (8)

### Answer to Question 4 (Learning Outcome 3)

- (a)
- Documents issued electronically offer a means of access and delivery which benefits the policyholder, who does not need to receive them by post. The policyholder will swiftly receive the policy booklet, schedule and Insurance certificate, wherever they are, provided they can access their emails or the insurer's website. Automating the motor policy enables a policyholder to store and access their documents on a variety of electronic devices.
  - It is advantageous to the customer as they can access their policy documentation in a portal. It also makes the delivery of certificates of motor insurance easier for the policyholder, encouraging compliance.
  - Replacing a paper based proposal form with a statement of facts could promote consistency. This consistency may arise as answers to the insurer's questions are given by electronic means or over the telephone. Insurers must however ensure transparency in their communications and will need to incorporate a helpline/chatline on their website.
  - Automating the policy process should ensure compliance, security, an audit trail and better data analysis. By ensuring the insurer's system automatically diarises documents, cover notes will be automatically renewed as necessary and there is less reliance on human intervention to chase up outstanding documents.



- Saves time and facilitates a swifter mechanism for the transfer of insurance documents.
- (b) As certificates of motor insurance can be transmitted electronically, (as an attachment to an email or through access to the insurer's website), the insurer must be satisfied that the systems are secure & the policyholder must agree to receive the certificates in such a manner.
- Specifically, customers' sensitive personal data must continue to be protected in accordance with The Data Protection Act 1998/GDPR regulations. If issued by access to the website, the certificate of motor insurance must be available there and we must tell the customer where it is and how to access it. The insurer's website must remain available. In the light of the General Data Protection Regulations (implemented in 2018), the insurer must be clear how individual customers data is may be used and obtain suitable consent for the processing of such data.
  - Again, to meet data protection requirements, the system must be password protected to ensure the policyholder's records cannot be accessed by unauthorised persons. Electronically issued documents, unlike paper-based documents, if suitably managed cannot be mishandled, lost, stolen or copied and shared with unauthorised individuals. However, electronic methods may be exposed to cyber-attacks.

### **Question 5 - Learning Outcome 4 (10 marks)**

You are a senior underwriter for GNY plc, a motor insurer that underwrites and operates a scheme for private car risks for older drivers that have been claims free for at least three years.

GNY plc intends to introduce motor car insurance for younger drivers. You have been asked by the Chief Executive of GNY plc to identify how profitability can be maintained by the introduction of suitable underwriting criteria for younger drivers.

Identify, with justification, **five** underwriting risk acceptance factors you would suggest, to accommodate motor risks in urban areas

### **Answer to Question 5 (Learning Outcome 4)**

- **Driving Licences**  
For drivers under 25 – they must have held a full driving licence for at least two years, for example, without motoring convictions. This raises a suggestion that such drivers are safer drivers.
- **Driving restrictions**  
Young drivers (e.g. under 25) may have policies in their own name, but without any additional (named) drivers. Need to have some history of claims free driving (whether as a policyholder or a named driver).
- **Use**  
It may be beneficial to restrict the extent of use to only social, domestic and pleasure purposes, plus commuting, thereby minimising exposure.



- **Times of use**  
Times of use could be controlled by telematics – if vehicles are to be used only for SDP, then younger drivers may be monitored, to ensure driving is restricted to before late evening/after early morning. This would potentially minimise the possibility of drink/drug use.
- **Vehicles**  
High performance vehicles and those makes/models of cars that may sometimes modified (especially by younger drivers) are to be outside the underwriting parameters.

## **Question 6 - Learning Outcome 4 (20 marks)**

You are an underwriter for a motor insurer. The director of a policyholder, Mrs Davis, of Davis Caterers Ltd, a family business, has approached you to review their motor insurance arrangements. Davis Caterers Ltd have had their fleet motor business insured with your insurer for a while.

Davis Caterers Ltd is a catering business, based in a large city and has five permanent employees; but may often uses temporary staff, usually when catering for a large event is required. They specialise in events such as weddings, funerals and parties, generally within a 30/40 mile radius of their base.

The business is based in an outbuilding which is situated alongside their home where they live with their children.

The catering business owns a number of vehicles which include two cars for the family's personal use, four vans for use in catering, four motorcycles for deliveries and two cars used by their children who are aged 19 and 25 years. In addition, Mrs Davis owns a high performance convertible sports car which is only used during the summer.

Apart from the convertible sports car which is garaged, all vehicles are kept in the open at the premises overnight.

Currently, all the Davis Caterers Ltd vehicles are comprehensively insured on a motor fleet basis with open driving, except for the convertible sports car which is limited to drivers aged 25 years and above.

One of the permanent employees had two speeding convictions last year, for which they received a total of 6 endorsement points on their driving licence. Additionally, a member of staff, who is regularly engaged by the business on a temporary basis, has a diagnosis of epilepsy.

- (a) Explain with justification **five** significant rating factors that the insurer would take into account when determining acceptance, premium and policy terms and conditions for Davis Caterers Ltd. (15)
- (b) Explain, with justification, **five** underwriting requirements which would make the insurance risk more attractive to you. (15)



## Answer to Question 6 (Learning Outcome 4)

**(a)**

**Area of use**— If the vehicle is being used in an area of high traffic density (like a city) there is likely to be a higher frequency of claims. In addition, urban areas experience more crime rates than rural areas (motor theft and vandalism).

There needs to be an analysis of the claims that have taken place over the last few years – is it due to geographical factors (urban location/density of traffic/greater theft & fraud exposure)? Davis Caterers Ltd are based in a major city and therefore the premium should reflect this. All events for their business take place within a relatively small radius of their base and so the risk exposure is not extreme but there will be high traffic density.

Whilst the post coding of addresses offers insurers a guide for underwriting purposes, it is one of a number of factors that are considered for motor fleet underwriting purposes.

**Drivers** – The age & claims experience of the drivers is a significant rating factor in motor insurance and can have a large influence on the premium. Young drivers generally have a higher accident frequency.

Also drivers approaching an older age, may also be an increased risk. Mr & Mrs Davis have two children who are 19 and 25 years old. The children may both incur a higher premium and an accidental damage excess likely to be in the region of £250 in the event of having an accident. However, the 25-year-old is likely to escape having a young driver's excess applied. While the Equality Act 2010 prohibits age discrimination, there is an exception with insurers who can continue to use age as a factor in assessing risk. One of the employees has two recent speeding convictions for which he received 6 endorsement points on his licence. Neither of these convictions are classed as 'spent'

**Employees/Temporary staff:** Noticeably, a number of staff are utilised on an ad hoc basis. It is not clear whether they are actually "employees", but the inference is that they are contractors, where their accident, claims and even conviction history may not be particularly clear. Another of the temporary staff, has a diagnosis of epilepsy. The Equality Act 2010 prohibits an insurer from discriminating in respect of disabilities, unless they can prove that there is an increased risk associated with the condition. In practice, most insurers will be satisfied provided that any notifiable disability has been notified to the DVLA and a licence has been issued.

**Classification of Vehicle** – The type and classification of vehicle is important as it is the subject matter of the insurance. Each individual vehicle is assessed according to a number of factors, rating performance and anticipated repair costs, and allocated to a specific group etc. Davis Caterers Ltd have four motor cycles, used for deliveries for their catering business. Undoubtedly, the accident risk is increased especially as the bikes appear to be used for food deliveries. Motorcycles are also more vulnerable to theft and have greater vulnerability for passenger death and injury. Whilst it is unlikely that the motorcycles are used for business purposes, there may be an exclusion for the carrying of passengers.

Davis Caterers Ltd also have four vans used for commercial purposes, As events that Davis Caterers Ltd service tend to take place within a 30 miles radius, it seems probable



that both vans would be used in a small goods vehicle capacity although this will need to be checked.

**Driving limitation** –Mrs Davis' high performance convertible sports car may have open driving, a less than restrictive driving parameter. The rest of the vehicles are insured on an open driving basis. This is far more beneficial for the four vans and the motorcycles used for business. Although Davis Caterers Ltd have five permanent employees, they often use temporary /staff, depending on the size of the individual event, so the drivers of the vehicles are likely to change frequently and the business needs the flexibility that open driving cover provides.

However, there needs to be regular licence checks for all staff and perhaps an age restriction on certain types of vehicle. Additionally, claims history will have to be monitored and could result in an accidental damage excess being imposed, when certain staff are driving.

**(b)**

**Increase the security on the vehicles or keep them in a garage (if available) or in a secure compound**– We are not told how many garages Davis Caterers has have at their premises, which is pertinent here, in view of the number of vehicles owned by the business, including the high performance convertible sports car. We are told that all other vehicles, except the sports car, are kept in the open on the premises overnight. Would need to ensure that they are not left on the road within the boundary of the premises.

As their property would appear to be large and situated in a city, it may well attract thieves. All vehicles should be alarmed and the motorcycles have steering locks fitted, plus anchorage points overnight to be utilised and ideally kept in a secure building. Consideration could be given to tracking devices being fitted in all vehicles.

**Change the high performance convertible sports car to named driver only** – As Mr Davis is the only one who drives the sports car in the summer it would make the risk more attractive to insurers to just have him named in the policy to drive this vehicle. Another possibility is to restrict drivers to any over 25 years, perhaps claims free for X years.

**Car laid up section of the policy** – This is a benefit whereby cover can be suspended under the policy if the vehicle is undergoing restoration or repair. Policies tend to stipulate that the vehicle must be kept in a locked garage if this benefit is used. As Mr Davis only uses the high-performance sports car in summer and it is kept in a locked garage when not used, it may be possible to apply this premium reduction option. As the risk is then reduced for the insurer, a credit is then calculated at X% of the pro-rata premium because the vehicle remains on cover with the insurer but for a much lower risk than when the vehicle is on the road. The suspension of all cover does mean that the third party section of the policy becomes inoperative - Mr Davis would need to make a SORN declaration.

**Introduce or Increase excesses on the policy** – If voluntary, this will provide a premium discount for Davis Caterers Ltd. If compulsory, then the exposure for the



insurer would be reduced and smaller claims that fall within the excess sum will not affect the insurers' accidental damage claims spend. Moreover, the excess may be applied to fire and theft claims and also (increased for) windscreen claims.

**Utilise Telematics** –This is used by insurers as a method of calculating premiums for vehicles. For example, 'Pay as you drive' - insurance suitable for drivers who rarely travel in the rush hour or late at night and can be particularly attractive to young drivers who otherwise face high premiums.

The premium is initially estimated on a declaration of expected mileage and times of travel and then is adjusted. This type of insurance could definitely benefit the two Davis children; the 19-year-old, and maybe also the 25-year-old child, as the risk would be more attractive for the insurer, plus any other young drivers.

The other type of telematics, ('pay how you drive'), could also lessen the risk. Information is recorded of driver behaviour such as acceleration, deceleration, braking and changes in direction. This could be useful for the commercial motors and motorcycles to assist in improving driver behaviour. Employees are, without telematics, known to not look after work vehicles as well as they might do their own vehicles.

## **Question 7 - Learning Outcome 5 (20 marks)**

Mr Wilkins is the owner of a classic car, which is insured on an agreed value basis with the insurer.

It is involved in a recent accident and suffers damage in an accident for which Mr Wilkins makes a claim under his comprehensive motor insurance policy.

As a result of the accident, the car is undriveable with parts and bodywork damage. The insurer arranged for their recommended repairer to collect the car from the scene of the accident and take it to their workshop, where the insurer's motor engineer approved the vehicle repair.

Mr Wilkins has received his car back from the approved repairer, but is unhappy with the quality of the repair work carried out. Additionally, Mr Wilkins has discovered that non-proprietary parts have been used by the approved repairer in the repair. In particular, he feels that the value of his car has been diminished due to the unsatisfactory level of repair. Mr Wilkins submits a complaint to the insurer.

- (a) Explain, with justification, **two** policy considerations that are relevant to this claim. (8)
- (b) Identify, with justification, **two** options available to the insurers to further consider the complaint internally. (6)
- (c) Explain, with justification, **two** options available to Mr Wilkins, should his complaint not be resolved by the claims department of the vehicle insurer, to his satisfaction. (6)



## Answer to Question 7 (Learning Outcome 5)

- (a) An operative clause of a typical private car policy states that the insurer will choose the option to repair, replace or pay up to the market value of the vehicle insured. The insurer has exercised their right to repair the vehicle and is therefore responsible for ensuring any deficiencies in the repair are put right as part of their contractual commitment. In this instance Mr Wilkins has received the vehicle back from the recommended repairer and is unhappy at the quality of the work carried out.

He feels that the value of his vehicle has diminished due to poor paint work. Once the insurer has chosen to undertake the repairs, this becomes a contract of reinstatement and they must put the vehicle back in the same position it was pre-accident.

However, most motor policies exclude diminution of value following accidental damage to the policyholder's vehicle and if this is correct, then Mr Wilkins may struggle to argue that he is contractually entitled to question the level of repair.

It is possible that there may have been a less than satisfactory standard of repair, in which case Mr Wilkins may have a reasonable argument for saying that he has not been fully indemnified

- (b)
- The first thing the insurer would do is arrange for a motor engineer to re-inspect the repaired vehicle and then, if appropriate, arrange for it to be taken back to the recommended repairer and have them try and rectify the issue with the paintwork. This would normally be done with no extra expense to the insurer by the recommended repairer. If the paintwork is rectified, then Mr Wilkins would then have no grounds for complaint, in respect of the bodywork
  - Aside from the potential problem, there is also the question of the approved repairer fitting non-proprietary parts. This is a prestigious vehicle and some vehicles are more susceptible than others to losing their value once repaired. There are two potential problems here - one is that indemnity may not have been fully granted to Mr Wilkins, especially as the vehicle insured is a "classic car.

The other issue is that the policy wording may allow the fitting of such parts and the circumstances in which they should be fitted. The difficulty is that with a classic car, it may not be possible to obtain genuine, guaranteed parts for a vehicle that could be unusual or perhaps unique. If the relevant policy wording includes a non-proprietary clause, then the insurer may be obliged to fit such parts, but may be able to fit guaranteed and bespoke parts to the vehicle as an ex gratia gesture, perhaps with a contribution to the cost by Mr Wilkins.



- (c) If the complaint has not been resolved to Mr Wilkin's satisfaction, the following two options will be open to him:
- **Seeking a decision from the senior management/CEO of the insurer**  
Mr Wilkins could endeavour to exhaust all internal appeal procedures that may be available to him through his insurer. Often, an insurer will have a specialist team to review complaints, with a view to making a "final" decision, to facilitate a referral to the Financial Ombudsman Service (see below), if that is required
  - **Escalating the complaint to the Financial Ombudsman Service (FOS)**  
Provided all avenues have been exhausted between Mr Wilkin's and his insurer, he may decide to refer the case to the FOS. The FOS is an entirely independent mechanism for resolving disputes. The Ombudsman only deals with disputes from private individuals, micro-enterprises, etc.

As Mr Wilkins is a private individual, he is eligible to take his complaint to the FOS. Mr Wilkins would escalate the complaint to the insurer and he would have needed to reject their final decision in order for the FOS to then become involved. The insurer is bound by the FOS's decision, but Mr Wilkins does not have to accept their decision. This is a good option for Mr Wilkins as he does not need to immediately consider litigation or ADR (Alternative Dispute Resolution).

## **Question 8 – Across more than one Learning Outcome (30 marks)**

You are a claims handler for AB plc, a UK-based motor insurer. KJ plc own a small commercial vehicle, insured on a commercial motor policy with AB plc, on a named driver basis. You receive a claim from KJ plc following a recent accident.

Gary, an employee of KJ plc who is not a named driver, is driving his employer's vehicle in connection with KJ plc's business, delivering packages. The vehicle then crashes into an oncoming vehicle on a public road. Both vehicles are damaged beyond economic repair.

The driver of the oncoming vehicle alleges that he has suffered whiplash as a result of the crash. Gary believes that the third party driver was not wearing a seatbelt at the time of the accident. The insurer of the third party seeks compensation from KJ plc for the vehicle damage and the third party driver also seeks compensation from KJ plc for his personal injury. KJ plc notifies AB plc of the accident and submits a claim.

- (a) Identify with justification **four** items of information AB plc could seek to assist with consideration of the claim. (12)
- (b) Explain the position of AB plc under the insurance policy they have issued in respect of the third party claims. (6)
- (c) Explain any recovery rights that AB plc might have against KJ plc. (12)



## Answer to Question 8 (Across more than one Learning Outcome)

### (a) **Statement from the employee, Gary.**

Gary's first hand evidence will be crucial to the extent of injuries sustained by the third party driver and whether they were wearing a seat belt. Whilst Gary may have completed the "accident circumstances" section on an accident report form, a full statement of the events immediately preceding the collision, plus what happened after the impact, would obviously assist.

### **Statements from any witnesses who were present at the scene of the accident.**

If there were any witnesses (independent or otherwise), then full and detailed statements secured from them would also be beneficial. This should help to determine the seat belt usage by the third party (although there's always the possibility that a "biased" view would be given, by those witnesses who know the third party). However, overall, such statements are more likely to be worthwhile.

### **Database enquiries.**

Bearing in mind that there may be a dispute as to liability and it is asserted that the third party was not wearing a seat belt, there is always a possibility that may be an element of exaggeration of the third party injury claim, or even worse, that such a claim is fictitious.

Databases such as CUEPI may reveal whether the third party has previously claimed for injuries etc and perhaps give an indication of the third party's claims history. Moreover, MIAFTR will assist in identifying whether the third party vehicle had previously been a total loss.

### **Vehicle examination**

To determine the extent of KJ plc vehicular damage sustained in the accident (and whether the vehicle is beyond economical repair), an engineer's examination and report will clearly assist.

The extent and area of damage may also assist with the question of liability. The same benefits will also apply if the third party vehicle is examined by a vehicle engineer.

(b) Gary is not a named driver under the policy. KJ plc has a vicarious liability on behalf of Gary, due to the relationship of master and servant. KJ plc are, therefore, legally liable for the actions of Gary. The claimant in this case also has the option of bringing the action against the employee or the employer. Often, it is easier to pursue the employer who would normally have insurance in place or the means to meet the claim. The very fact that Gary is driving the vehicle on his employer's business means he was not acting outside his employment contract.

Gary is not insured to drive this vehicle meaning AB plc have the right to decline the claim and refuse to pay for the accidental damage sustained to KJ plc's vehicle. As the vehicle belonging to KJ plc was a total loss, this will leave KJ plc to bear themselves what may be a significant loss.

The vehicle that Gary was driving crashed into an oncoming third party vehicle. If any liability attaches to Gary, AB plc would not be able to escape their legal liability under the Road Traffic



Act 1988 (RTA). As this incident occurred on a public road, AB plc would have a legal liability under the RTA to deal with the third-party claim subject to the minimum legal requirements by law. This is currently set at unlimited liability for third party death and bodily injury and £1.2m in respect of third party property damage. AB plc are considered to be the RTA insurer.

(c) As indicated, KJ plc have a vicarious liability in respect of Gary, their employee, even though he was driving the vehicle when he was an unnamed driver, as the relationship is that of employer and employee. This means that they are still legally liable on Gary's behalf. AB plc would potentially be able to seek reimbursement under the RTA of any money they have to pay out in respect of third party damages, back from KJ plc, but this would be subject to a letter of consent and indemnity being signed by a senior representative of KJ plc. The wording in the RTA makes provision for this under Section 148, subsections 3 & 4.

However, such attempts are not always successful. Certainly, any attempt by AB plc to recover their third party outlay as RTA insurer from Gary is likely to be fruitless.

This gives AB plc the right to recover from KJ plc who 'caused or permitted the use which gave right to the liability'. There are more likely to be funds available from KJ plc than from Gary. There is a problem if the employee, Gary was acting outside the scope of his employment contract, in which case KJ plc cannot be vicariously liable. However, Gary was delivering packages and was performing a task on behalf of his employer.

Typically, a motor policy will contain a condition which states that if the vehicle insurer has to make a payment as a result of the laws of the country where the policy applies and would not have made such a payment, but for those laws, then they may pursue recovery from the policyholder or the person who incurred the liability.

### **Question 9 - Across more than one Learning Outcome (30 marks)**

Anne is 17 years old and has just passed her vehicle driving test. Her mother, Julie, who owns a new vehicle, arranges to have it comprehensively insured with MB plc, a UK-based motor insurer. Julie is shown on the schedule of insurance as the main driver, with Anne as a named driver.

A couple of months after inception of the policy with MB plc, Anne was driving the vehicle when it was involved in an accident involving another vehicle. This accident resulted in extensive damage to both vehicles and personal injury to the driver of the other vehicle. At the time, the vehicle driven by Anne was proceeding along a main road, when the third party vehicle emerged from a side road on the right. During the course of the claims investigation, it is established that Anne drives her mother's vehicle to work regularly and uses it on social occasions.

Julie submits a claim to MB plc, seeking indemnity for the damage to her vehicle. The third-party driver also submits a claim to MB plc for compensation for the personal injury that they sustained.

MB plc's motor engineer's report states that Julie's vehicle is beyond economic repair. MB plc learns that the police are to prosecute Anne for exceeding the speed limit at the time of the accident.



- (a) Discuss the issues that arise, following the underwriting information established after the claim is reported by Julie to MB plc. (12)
- (b) Explain, with justification, the liability of MB plc for the own vehicle damage claim. (12)
- (c) Discuss the extent of liability of MB plc for the third-party damage and third party personal injury. (6)

## **Answer to question 9 (Across more than one Learning Outcome)**

- (a) Julie may be responsible for 'fronting'. Fronting occurs when an older, more experienced, driver falsely insures a vehicle in their own name, suppressing the knowledge that the main driver is a younger, riskier driver. This practice has the result of achieving a lower premium than if the younger riskier driver is declared as the main user of the vehicle. Fronting is a breach of the insurance principle of good faith and if established may result in the insurer voiding the policy for misrepresentation or non-disclosure, as a breach of utmost good faith.

Julie's daughter Anne uses the vehicle regularly to drive to work and on social occasions. However, it is not clear whether this would constitute "main use". Anne is just 17 years old and as a young driver who has only just passed her test. We know that if the policy was rated on her being the main driver it would likely be a higher premium.

However, what is not known is whether the regular use by Anne would make her the "main" user. It is possible that Julie uses the vehicle on all other occasions. Moreover, it is not clear how the relevant questions (on "use") at the time the policy was incepted have been answered. Are the pertinent questions (i.e. on the proposal form) clear in their wording? If they are not clear, then they may be construed against the insurer, MB plc and the insurer may have no grounds to take further action.

If the relevant questions are not ambiguous, then it would appear that Julie may have misrepresented the risk and may not have revealed the true situation with the insurer, MB plc, when the policy was taken out. As this is a consumer policy the Consumer Insurance (Disclosure and Representation) Act 2012 will apply. This Act abolishes the former duty imposed on consumers to volunteer material facts and consumers are instead required to take reasonable care not to make a misrepresentation.

The remedy MB plc can take depends on the nature of the misrepresentation. If it is honest and reasonable, the Insurer must pay the claim (as this is not a qualifying misrepresentation). If it is careless, then the insurer has a compensatory remedy based on what it would have done had the consumer answered the question accurately. If the representation was deliberate or reckless, then the insurer is entitled to treat the policy as void and may decline all claims.

Subject to the clarity of the questions, it appears that Julie will be found to have been either careless or deliberate in misrepresenting the facts. It depends what explanation she gives to MB plc. For instance, she may say as the owner of the vehicle she believed she was the main user and not her daughter. The accuracy of such a response from Julie will hinge on the precise extent of use by the daughter, Anne.



If MB plc decides to void the policy for deliberate misrepresentation, the premium may be returned and MB plc will not deal with the accidental damage claim for Julie's vehicle.

If MB plc decides not to void the policy on the basis that the misrepresentation has been careless, and charge an additional premium, Julie would be expected to pay the additional premium before the accidental damage claim is dealt with by the insurer. Alternatively, the insurer may consider opting to deduct the amount owed in premium from the claim.

A 'proportional' view may be taken by MB plc and offer to pay an amount proportionate to the actual premium paid in relation to the correct premium had the policyholder not made the misrepresentation (if the misrepresentation is treated as careless). In this case, if it was decided that Julie had paid half of the true premium, they could offer to settle the claim based on half of the value of the accidental damage claim.

We are told that the insured vehicle is a total loss and so the MB plc would appoint a motor engineer to inspect the vehicle and then await receipt of the inspection report which would describe the condition and mileage of the vehicle, together with the pre-accident market value and salvage value.

- (b) Whilst it is not clear, Julie's vehicle may be a total loss and if so, claims are divided between actual or constructive. An actual total loss is when the vehicle is destroyed completely beyond repair.

A constructive total loss is where it is uneconomical to repair so the cost to repair exceeds the market value of the vehicle. Any claim involving Anne as the driver would be subject to both a young driver's excess and an inexperienced driver's excess.

MB plc would then register the vehicle on MIAFTR2 and make checks to see if there is any hire purchase on the vehicle.

If anyone else has a financial interest in the vehicle, then this amount owing to them will need to be paid before any remaining money is paid to Julie as the policyholder. Assuming that indemnity is to be granted, then the insurer will make an offer which will be the market value of the vehicle, less any excess. We know that Anne is both a young driver and an inexperienced driver, having only recently passed her test, and so these excesses will be cumulative and deducted from the market value.

The insurer will, usually, retain the salvage and sell it after the claim is settled, normally via a salvage agent, and retain any salvage value. Sometimes the insurer will allow the policyholder to retain the salvage but this will only be agreed if the category of salvage is such that the vehicle will be allowed back on the road once repaired (Category C - where the vehicle is repairable but costs exceed the market value or Category D - all other repairable vehicles). Category A is scrap only and Category B must not go back on the road either and can only be broken down for spare parts.

It is noticeable that Julie's vehicle was "new" at the time of inception of the policy. The accident appears to have occurred shortly after inception of the policy. Most motor policies contain a replacement vehicle condition, where if within one year of registration of the vehicle, it is damaged and the cost involved in the repair will exceed



60% of the manufacturer's UK list price (including car tax and VAT), then the insurer will replace with the same make and model, provided that one is available.

It is also possible that Julie's vehicle is repairable, in which case the vehicle will usually be taken to one of MB plc's approved repairers to be repaired, subject to any excess. As Anne was driving at the time, there will be a young driver/inexperienced driver's excess that will apply, assuming that indemnity is granted and irrespective of the method of indemnity ( e.g. repair, replacement vehicle etc).

(c) If the insurer decides that the misrepresentation has been careless and then decides to charge the additional premium appropriate to have Anne as the main user of the vehicle, then the additional premium will have to be paid, to ensure full policy cover is in place in respect of liability for the third-party injury and for third party property damage. The insurer will pay for both the third-party damage and the third party injury claim subject to any relevant financial limits.

However, if MB plc decide that the misrepresentation made by Julie is reckless, then as previously discussed they are entitled to void the policy. By voiding the policy for misrepresentation or non-disclosure they do have a Road Traffic Act (RTA) liability.

An insurer's potential third party liabilities are unlimited for death or personal injury and up to £1.2 million for third party property damage.

Bearing in mind that Anne was driving along the main road and the third party vehicle emerged from a side road, primary liability at least will rest with the third party. At worst, it seems that Anne may be found to have been contributory negligent, as she was apparently speeding in the vehicle.

## **Question 10 - Across more than one Learning Outcome (20 marks)**

You are the Underwriting Manager for SR plc, a motor insurer. SR plc's insurance portfolio includes a specific scheme for prestigious vehicles, including limousines, used for private hire purposes, which includes transporting high profile individuals. These high-performance cars are a significant part of SR plc's portfolio and each has a value in excess of £100,000

Over the last ten years, this scheme has had a good claims history. However, you are aware that there is now an increase in frequency and severity of incidents involving such vehicles used by private hire operators, insured under the scheme. These accidents have included injuries to high profile individuals.

The scheme's profitability has recently reduced due to these accidents. You are to address the declining profitability. Explain, with justification, **five** significant underwriting actions that could be taken to improve the profitability of this scheme.



## Answer to Question 10 (Across more than one Learning Outcome)

### **Limiting mileage on certain specialist/prestige vehicles**

A mileage limitation on such vehicles would potentially reduce the exposure and any requests for mileage above the limit would have to be made beforehand, which could result in an additional premium.

### **Excesses**

Increase the compulsory accidental damage excess, especially for limousines. Apply an (increased) excess for younger driver (e.g. under 25). Excesses could also be applied for fire and theft claims for good measure.

### **Certain types of ADAS to be fitted as standard**

It would be beneficial to have certain types of ADAS as standard. Those that may be particularly useful are automatic braking, coupled with sensors which assist with collision avoidance systems and blind spot detection. This could be a policy requirement.

### **Strict criteria for drivers' d/licences + number/type of convictions(plus limits on points)**

To minimise the risk of unacceptable driving behaviour, only experienced drivers should be employed by the operators with no convictions (or possibly only speeding convictions) when transporting high profile individuals. No agency drivers to be used on private hire. Drivers under 21 (or even 25) to be excluded.

The type of driving licence held by the driver must be appropriate to the vehicle being driven and this must be checked regularly. Utilise the MyLicence facility to secure such details

### **Increase the risk management requirements for scheme policyholders:**

Demonstrable evidence of driving licence checks, driver training, journey planners, drivers to take regular breaks etc. Having a risk manager or even a team to implement such requirements will obviously help and may be a policy requirement. Potential premium discounts to be considered, if incidence frequency and severity rate decreases.



## Question deconstruction and answer planning

The following three plans are based on 10, 20 and 30 mark questions respectively.

### Question 1 - Learning Outcome 1 (10 marks)

TC plc, a UK-based commercial property owner, has a portfolio of small offices in the UK, which are insured on a traditional risk transfer basis. TC plc is currently negotiating to purchase a high value office block in the UK. TC plc's UK-based insurance broker needs to place the high value office block with a suitable insurance organisation.

Explain, with justification, **two** types of insurance organisation that the insurance broker might consider suitable to cover this risk. (10)

### **Question deconstruction**

- Review learning outcome 1 in the course material and the relevant information in the study text.
- Highlight the instructions within the question (which are circled in red above).
- What is the context? UK-based and high value office block.
- The question asks for two types of insurance organisations. This means that you should spend an equal amount of time and effort in your answer in relation to each type of insurance organisation.

### **Answer plan**

- Explain your two likely organisations. For example, a proprietary insurer who has or can get reinsurance and a Lloyd's syndicate who can share the risk if appropriate.
  - Discuss each organisation and how they would each be able to cover the risk.
  - As this is a 10 mark question, your answer should be shorter than the answers to either a 20 or 30 mark question.
-



## Question 2 - Learning Outcome 2 (20 marks)

SD plc, a UK-based insurer, has offices located in twelve countries. Its innovative approach and exceptionally good performance has led to rapid expansion.

Competitors are now targeting SD plc's customers and this has led to a reduction in SD plc's operating performance. SD plc has recognised this competitive environment and has therefore decided to recruit a new Chief Executive Officer (CEO) to drive the business forward.

- (a) Identify, with justification, the most appropriate management style the new CEO, of SD plc, might use. (5)
- (b) Analyse two advantages and three disadvantages of the style that you have identified for SD plc, given the scenario above. (15)

### Question deconstruction

- Review learning outcome 2 in the course material and the relevant information in the study text.
- Highlight the instructions within the question (which are circled in red above).
- Consider the context which includes the planned appointment of a new CEO, historic innovation and growth; and recent competition.
- The 15 marks in part (b) are awarded for relevant advantages and disadvantages which are clearly linked to the chosen management style.

### Answer plan

- Part (a): You need to **identify** and **justify** the most appropriate style. This needs to be linked to the scenario so that the style chosen is appropriate for SD plc.
- Part (b): For the style listed above you now need to analyse in depth two advantages and three disadvantages. You must make reference to the scenario when looking at these. Marks are allocated for the advantages and disadvantages (which are justified), followed by a brief conclusion.  
As this is a 20 mark question, your answer should be longer than the answer to a 10 mark question but shorter than the answer to a 30 mark question.

## Question 5 - Learning Outcome 5 (30 marks)

CG plc, a UK-based insurance broker, is evaluating a manufacturing company as a potential long-term customer, using the manufacturing company's financial statements for last year. This evaluation is focused on the income statement/profit and loss account, balance sheet and cash flow statement.

The manufacturing company reported an annual profit of £400 million in 2015, with a net cash outflow of £250 million in the same period. The company has expanded its business in the last six months, in an environment where products become obsolete quickly. It responded to

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this fast changing environment, by acquiring £150 million of new production machinery in 2015. The company gives its customers considerable time to pay their bills.

- (a) Analyse the potential risks to CG plc if the manufacturing company becomes their customer, based on the above information. (20)
- (b) Identify, with justification, five additional items of financial information that CG plc would find helpful in arriving at a final decision. (10)

## Question deconstruction

Review learning outcome 5 in the course material and the relevant information in the study text.

- Highlight the instructions within the question (which are circled in red above).
- Consideration of the context which is the long-term financial viability of a potential customer. The scenario also tells you the following limited information relating to 2015:
  - Profit of £400m in 2015.
  - Cash outflow of £250m in 2015.
  - Expanded business in the last 6 months, but products becoming obsolete quickly.
  - Acquired £150m of new production machinery in 2015.
  - Customers have considerable time to pay bills.

## Answer plan

- Part (a) is worth 20 marks and part (b) is worth 10 marks, so each needs to be answered accordingly in length and depth.  
In part (a) each of the profit, cash outflow, expanded business, new machinery acquisition and customers' bill payment needs to be analysed in detail. Make conclusions about the potential risks.
- In part (b) identify with justification the additional financial information required. There should be a sentence or two for each justification. The financial information should fill the gaps from the scenario.  
As this is a 30 mark question, your answer should be longer than the answers to 10 and 20 mark questions.



## Glossary of key words

### Analyse

Find the relevant facts and examine these in depth. Examine the relationship between various facts and make conclusions or recommendations.

### Construct

To build or make something; construct a table.

### Describe

Give an account in words (someone or something) including all relevant characteristics, qualities or events.

### Devise

To plan or create a method, procedure or system.

### Discuss

To consider something in detail; examining the different ideas and opinions about something, for example to weigh up alternative views.

### Explain

To make something clear and easy to understand with reasoning and/or justification.

### Identify

Recognise and name.

### Justify

Support an argument or conclusion. Prove or show grounds for a decision.

### Outline

Give a general description briefly showing the essential features.

### Recommend with reasons

Provide reasons in favour.

### State

Express main points in brief, clear form.