CII Certificate in Insurance - Household insurance products (IF6) Practice Test (Sample)

Study Guide

Everything you need from our exam experts!

Questions

1. **What defines an 'indemnity policy'?**
   - A. A policy that covers the insured for specific perils only
   - B. A policy that offers lifetime coverage with no limits
   - C. A type of insurance that covers the policyholder for losses up to a certain limit
   - D. A policy that provides daily benefits for hospitalization

2. **What does 'market value coverage' refer to?**
   - A. Insurance that pays the insured the book value of an item
   - B. Coverage that pays the current market value of an item at the time of loss
   - C. Insurance that guarantees original purchase price coverage
   - D. Coverage based on the estimated future value of an item

3. **According to the Rehabilitation of Offenders Act 1974, sentences over what duration are never considered spent?**
   - A. Ten years
   - B. Five years
   - C. Two years
   - D. Four years

4. **What is the standard excess that applies to flood cover under the Flood Re scheme?**
   - A. £1,000
   - B. £250
   - C. £500
   - D. £1,500

5. **What is typically required when an insurer is notified of a claim under a household insurance policy?**
   - A. A written statement
   - B. Immediate investigation
   - C. Evidence of the theft
   - D. Notification within a specific time frame

6. Which of the following claims is excluded from the legal expenses extension to a household insurance policy?
   A. Breaches of a contract of employment
   B. Breaches of a contract in relation to the purchase or sale of property
   C. Deliberate or criminal acts
   D. Where goods or services are provided with a value of more than £1,000

7. What is the normal limit for claims on valuables in a household insurance policy?
   A. 20% of the sum insured.
   B. 30% of the sum insured.
   C. 40% of the sum insured.
   D. 50% of the sum insured.

8. Which type of insurance provides financial protection against damage caused by third parties?
   A. Homeowners insurance
   B. Personal liability cover
   C. Contents insurance
   D. Property damage insurance

9. What does loss of use cover in a household insurance policy provide?
   A. Replacement of lost items.
   B. Compensation for additional living expenses.
   C. Reimbursement for legal expenses.
   D. Repair costs for household damage.

10. What type of cover is related to personal possessions taken outside the home?
   A. Building insurance
   B. Contents policy
   C. Personal possessions extension
   D. Liability cover

Answers

1. C
2. B
3. D
4. B
5. D
6. A
7. B
8. B
9. B
10. C

Explanations

1. What defines an 'indemnity policy'?

A. A policy that covers the insured for specific perils only

B. A policy that offers lifetime coverage with no limits

C. A type of insurance that covers the policyholder for losses up to a certain limit

D. A policy that provides daily benefits for hospitalization

An indemnity policy is characterized by its provision of financial compensation to the insured for covered losses up to a specified limit. This means that when a loss occurs, the insurance company will reimburse the policyholder for their financial losses, which are typically up to the amount stipulated in the policy. This is a crucial feature of indemnity policies because it aims to restore the insured to the same financial position they were in prior to the loss, without allowing for profit generation from the insurance claim. Such policies are common in various types of insurance, including property insurance and liability insurance, where coverage is designed to address financial loss rather than provide a predetermined payout or benefits. The other options reflect different types of coverage that do not fit the definition of indemnity policies. For example, a policy covering specific perils only implies limitation based on the types of risks defined in the policy, which does not align with the broad compensatory nature of indemnity. Lifetime coverage without limits would typically describe a type of whole life insurance or a similar permanent insurance policy, rather than an indemnity structure. Lastly, daily benefits for hospitalization are indicative of health insurance policies that provide specific benefit payments, rather than compensating for losses after an event has occurred, which is central to the indemnity

2. What does 'market value coverage' refer to?

A. Insurance that pays the insured the book value of an item

B. Coverage that pays the current market value of an item at the time of loss

C. Insurance that guarantees original purchase price coverage

D. Coverage based on the estimated future value of an item

Market value coverage refers to the type of insurance that compensates the insured for the current market value of an item at the time of loss. This means that if a covered item is damaged or destroyed, the insurance payout will reflect the amount for which the item could be sold or purchased on the open market immediately before the loss occurred. This approach is aligned with the principle of indemnity in insurance, which aims to restore the insured to their financial position prior to the loss, rather than providing a profit or advantage. This is particularly relevant in the context of household insurance, where items may depreciate over time, and their replacement cost may differ significantly from their original purchase price. Choosing this coverage can vary significantly from other types, such as guaranteed replacement cost coverage, which would provide the full cost to replace the item regardless of market fluctuations, or book value coverage, which focuses on the value of an asset as recorded in the company's financial statements, often ignoring depreciation in a real-world selling context.

3. According to the Rehabilitation of Offenders Act 1974, sentences over what duration are never considered spent?

A. Ten years

B. Five years

C. Two years

D. Four years

The correct answer is based on the stipulations of the Rehabilitation of Offenders Act 1974, which allows individuals with certain criminal convictions to have those convictions 'spent' after a defined period. Under this legislation, sentences that exceed a specific duration are never considered spent, meaning that they remain a matter of public record and continue to affect an individual's ability to obtain certain positions or licenses. For custodial sentences, any imprisonment lasting over four years will always be considered unspent. This means that regardless of how much time has passed, individuals who have received a sentence over four years must disclose this information in relevant legal and occupational contexts, unlike those receiving shorter sentences, which may become spent after a defined rehabilitation period. Understanding this nuance is critical for professionals in the insurance sector, as they must take into account potential risks associated with individuals who have certain criminal backgrounds when assessing applications for insurance or other financial products.

4. What is the standard excess that applies to flood cover under the Flood Re scheme?

A. £1,000

B. £250

C. £500

D. £1,500

The standard excess that applies to flood cover under the Flood Re scheme is set at £250. This means that in the event of a flood-related claim, the policyholder would be responsible for the first £250 of any claim, while the remainder would be covered by the insurance policy. The rationale behind having a standard excess is to ensure that policyholders share some of the risk and costs associated with their claims, which can help keep insurance premiums affordable. The Flood Re scheme was established to provide more accessible flood insurance for homeowners in high-risk areas, and the relatively low excess is intended to alleviate some of the financial burden on these households. In the context of the Flood Re scheme, the standard excess is a key component that is designed to balance the need for protection against flood risks with the practical realities of insurance costs. This makes flood insurance more manageable for those who may otherwise struggle to find affordable options due to their location.

5. What is typically required when an insurer is notified of a claim under a household insurance policy?

A. A written statement

B. Immediate investigation

C. Evidence of the theft

D. Notification within a specific time frame

When an insurer is notified of a claim under a household insurance policy, a critical requirement is the notification within a specific time frame. Most insurance policies stipulate that the policyholder must inform the insurer of a claim as soon as possible, or within a specified period defined in the policy documentation. This requirement is essential because it allows the insurer to begin the claims process promptly, conduct necessary investigations, and prevent any potential loss of evidence or deterioration of conditions surrounding the claim. Timely notification helps to establish the circumstances surrounding the claim while they are still fresh in the minds of those involved and allows for a more efficient handling of the claim. Delays in notification may lead to complications, such as difficulties in validating the claim or overcoming challenges associated with gathering evidence after a significant lapse of time. This is why adhering to the time frame set by the insurer is crucial in the claims process.

6. Which of the following claims is excluded from the legal expenses extension to a household insurance policy?

A. Breaches of a contract of employment

B. Breaches of a contract in relation to the purchase or sale of property

C. Deliberate or criminal acts

D. Where goods or services are provided with a value of more than £1,000

The legal expenses extension to a household insurance policy typically aims to cover legal costs associated with various disputes. However, it explicitly excludes certain types of claims that are deemed to pose higher risks or fall outside the intended scope of coverage. In this case, breaches of a contract of employment are indeed excluded from this extension. This exclusion is in place primarily because employment disputes tend to be complex and are governed by specific employment laws. Insurers aim to mitigate the risk associated with such potentially lengthy and costly legal battles by excluding these claims from the policy. The other options relate to scenarios more aligned with typical household disputes that can be insured. Breaches of contracts for property transactions, criminal acts, and cases involving high-value goods or services are aspects for which legal assistance might be deemed necessary and thus are not excluded, placing them within the realm of covered claims under the legal expenses extension.

7. What is the normal limit for claims on valuables in a household insurance policy?

A. 20% of the sum insured.

B. 30% of the sum insured.

C. 40% of the sum insured.

D. 50% of the sum insured.

In a household insurance policy, the standard limit for claims on valuables is typically set at 30% of the sum insured for the entire policy. This percentage reflects a balance between providing adequate coverage for valuable items like jewelry, artwork, or collectibles while also managing the insurer's risk exposure. Setting the limit at this level helps to ensure that policyholders can claim a reasonable amount for their valuables without inflated sums that might lead to moral hazard, where insured individuals may take less care of their valuable items. This limit can vary by insurer or specific policy provisions, but 30% is a common industry standard. It is important for policyholders to review and understand their policy’s terms, as they may have options to increase coverage for high-value items if needed.

8. Which type of insurance provides financial protection against damage caused by third parties?

A. Homeowners insurance

B. Personal liability cover

C. Contents insurance

D. Property damage insurance

Personal liability cover is designed specifically to provide financial protection against claims made by third parties for damages or injuries that occur on the policyholder's property or as a result of their actions. This type of insurance is critical for safeguarding individuals against legal and financial repercussions stemming from an incident that they may be held legally responsible for. For example, if a guest is injured in a policyholder's home and decides to sue for medical expenses, personal liability cover would help to cover those costs as well as any legal fees associated with defending the claim. This insurance is an essential component of overall risk management for homeowners and renters, as it offers peace of mind that they are protected from potential financial burdens arising from unforeseen incidents involving others. Homeowners insurance primarily focuses on protecting the dwelling itself and often includes some personal liability coverage; however, its main purpose is not exclusively to cover third-party risks. Contents insurance is aimed at protecting the policyholder's personal belongings within the home but does not address liability for damages to others. Property damage insurance, while it may cover damages to one's own property, typically doesn't provide the breadth of coverage specifically for liabilities owed to third parties.

9. What does loss of use cover in a household insurance policy provide?

A. Replacement of lost items.

B. Compensation for additional living expenses.

C. Reimbursement for legal expenses.

D. Repair costs for household damage.

Loss of use coverage in a household insurance policy is designed to help policyholders manage the costs they incur when their home becomes uninhabitable due to a covered peril, such as fire or severe water damage. More specifically, this coverage provides compensation for additional living expenses that the insured must pay while their home is being repaired or rebuilt. For example, if a homeowner has to stay in a hotel, eat out, or incur extra costs related to temporary housing, loss of use coverage would reimburse those expenses, thereby alleviating financial stress during a challenging time. This coverage ensures that the policyholder can maintain their standard of living, despite the disruption caused by loss of their home. In contrast, options related to replacing lost items, repairing household damage, or reimbursing legal expenses do not encompass the specific nature of loss of use, which is fundamentally about covering additional living costs rather than direct property loss or damage.

10. What type of cover is related to personal possessions taken outside the home?

A. Building insurance

B. Contents policy

C. Personal possessions extension

D. Liability cover

Personal possessions taken outside the home are specifically covered under a personal possessions extension. This type of cover allows policyholders to have additional protection for items that they take away from their residential property, such as jewelry, cameras, or other valuables. It's designed to cover loss or damage to these items while they are outside the home, which wouldn’t typically be included in a standard contents policy. A building insurance policy focuses on the structure of the home itself and does not cover personal belongings, including those taken outside. A contents policy primarily covers belongings within the home, but without the specific extension, items taken outside may not be protected. Liability cover pertains to legal responsibilities for injury or damage to third parties and does not provide coverage for personal belongings. Thus, the personal possessions extension is the appropriate choice for insuring items when they are outside the home.