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39	A	B	C	D	E

PRACTICE QUESTIONS

Chartered Insurance Institute (CII)

DLPT26G7

WH1 - Award in General Insurance (Hong Kong)

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for Chartered Insurance Institute (CII) **DLPT26G7**, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, **DLPT26G7**
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1

SINGLE CHOICE

Which one of the following best describes the fundamental principle of insurance?

- ☐ A A mechanism for guaranteeing profits for insurers
- ☒ B A mechanism for transferring the financial consequences of certain risks from one party to another in exchange for payment
- ☐ C A compulsory savings scheme operated by the government
- ☐ D An investment product that always yields a positive return

ANSWER B

WHY Insurance is fundamentally a risk transfer mechanism, whereby the policyholder pays a premium to transfer the financial consequences of specified risks (potential losses) to the insurer. Option A is incorrect because insurers do not guarantee profits; Option C confuses insurance with a savings scheme; and Option D is incorrect because insurance is not an investment product and returns (claims) are not guaranteed.

QUESTION 2

SINGLE CHOICE

Under the principle of utmost good faith (uberrima fides) in insurance, which statement is correct?

- ☐ A Only the insurer is required to act in good faith
- ☐ B Only the policyholder is required to disclose material facts
- ☒ C Both parties to the insurance contract must act honestly and disclose all material facts to each other
- ☐ D Utmost good faith applies only after a claim has occurred

ANSWER C

WHY The principle of utmost good faith requires both parties to an insurance contract — the insurer and the insured — to disclose all material facts honestly to each other before the contract is formed. This duty applies at the time of formation of the contract, not only when a loss arises. Therefore, options A and B are incomplete, and option D misstates when the duty applies.

QUESTION 3

SINGLE CHOICE

When must a person have an insurable interest in the subject matter of an insurance policy?

- ☐ A Only at the time the policy is purchased
- ☐ B Only at the time a claim is made
- ☒ C At the time the policy is purchased and at the time of the loss
- ☐ D It is not required under Hong Kong insurance law

ANSWER C

WHY Under Hong Kong law (and English insurance law principles generally followed in Hong Kong), an insured must have an insurable interest both at the time the policy is taken out and at the time of the loss. If insurable interest is lacking at either point, the policy is unenforceable or the claim is not payable. The requirements for life insurance, however, differ — insurable interest must generally exist only at the time the policy is effected.

QUESTION 4

SINGLE CHOICE

What is meant by the principle of indemnity in general insurance?

- ☒ A The insured is fully restored to the financial position they were in before the loss, no better and no worse
- ☐ B The insured is always compensated for the full insured sum regardless of actual loss
- ☐ C The insurer may choose whether or not to pay a valid claim
- ☐ D The insured can profit from a loss if the sum insured is higher than the loss

ANSWER A

WHY The principle of indemnity aims to place the insured in the same financial position after a loss as they were in immediately before the loss occurred — neither better nor worse. This principle is the foundation of non-life (general) insurance and rules out profit from insurance. Options B and D are contrary to indemnity, and option C misstates the insurer's obligation, which is to indemnify the insured for covered losses.

QUESTION 5

SINGLE CHOICE

In the context of insurance claims, the 'proximate cause' is best described as:

- ☐ A The first cause in time leading to the loss
- ☒ B The dominant, effective cause of the loss which sets the chain of events in motion
- ☐ C Any cause mentioned in the policy wording
- ☐ D The most expensive cause contributing to the loss

ANSWER B

WHY Proximate cause refers to the dominant, effective cause of a loss — the event that sets the chain of operating causes in motion that directly produces the loss. It is not simply the first event in time (option A) and is not automatically every cause listed in the policy (option C). The insurer will only be liable if the proximate cause of the loss is a peril covered by the policy.

QUESTION 6

SINGLE CHOICE

Which type of general insurance policy is designed to protect a business against loss of income resulting from damage to its premises or other property, such as damage caused by fire?

- ☐ A Public liability insurance
- ☒ B Business interruption insurance
- ☐ C Professional indemnity insurance
- ☐ D Marine cargo insurance

ANSWER B

WHY Business interruption insurance (also known as consequential loss or loss of profits insurance) covers the loss of gross profit and increased working expenses a business suffers as a result of damage to its property by an insured peril such as fire. Public liability covers third-party injury/damage claims, professional indemnity covers negligence in professional advice, and marine cargo covers goods in transit — none of which is the focus of this question.

QUESTION 7 SINGLE CHOICE

In the context of general insurance distribution in Hong Kong, which one of the following best describes the role of an insurance broker?

- ☐ A An agent of the insurance company who sells its products
- ☒ B A representative of the insured who arranges insurance on the insured's behalf
- ☐ C A regulator who supervises insurers
- ☐ D An assessor who determines the value of a claim

ANSWER B

WHY An insurance broker acts on behalf of the customer (the prospective insured), arranging insurance coverages that suit the customer's needs and advising them. By contrast, an insurance agent represents the insurer. The Insurance Authority is the regulator in Hong Kong (not a broker), and loss adjusters/assessors deal with claims valuation. This distinction between broker (representing the buyer) and agent (representing the insurer) is fundamental in Hong Kong insurance practice.

QUESTION 8 MULTIPLE CHOICE

Which of the following are fundamental principles of insurance contracts under Hong Kong insurance law? (Choose two.)

- ☐ A Indemnity
- ☒ B Utmost good faith
- ☐ C Freedom to profit from loss
- ☒ D Insurable interest
- ☐ E Speculation

ANSWER B - D

WHY The fundamental principles of insurance contracts include utmost good faith (uberrima fides), insurable interest and indemnity (for general insurance). Speculation and the freedom to profit from a loss are contrary to insurance principles; insurance is not designed to allow the insured to profit, and speculative contracts are generally void. Indemnity is also a key principle but the question asks for the two most directly associated principles relevant to the formation and validity of the contract.

QUESTION 9

MULTIPLE CHOICE

Which of the following are classes of general insurance commonly written in Hong Kong? (Choose two.)

- ☒ **A** Motor vehicle insurance
- ☐ **B** Endowment life insurance
- ☒ **C** Fire and property damage insurance
- ☐ **D** Whole-of-life assurance
- ☐ **E** Annuities

ANSWER **A - C**

WHY Motor vehicle insurance and fire/property damage insurance are both long-established classes of general insurance in Hong Kong. Endowment, whole-of-life and annuities are classes of life insurance, not general insurance. General insurance contracts are typically one-year renewable contracts subject to the principle of indemnity, whereas life insurance involves long-term savings/investment elements.