

SQA Advanced Unit specification: general information

Unit title: Insurance: Legal and Regulatory Requirements

Unit code: HR2Y 46

Superclass: AL

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Version: 01

Unit purpose

This Unit is designed to introduce candidates to the basic principles of insurance, including the main legal principles relating to insurance contracts, the main regulatory principles related to insurance business and the key elements to protect customers. It is primarily intended for candidates seeking employment, or who are already employed in the insurance sector.

On completion of the Unit the candidate should be able to:

- 1 Describe the main features of risk and insurance.
- 2 Describe the structure and main functions of the insurance market.
- 3 Describe the main legal principles governing insurance contracts.
- 4 Describe the main regulatory and legal requirements applicable to the transaction of insurance contracts.
- 5 Describe the main methods of preventing, handling and resolving consumer complaints.

Recommended prior knowledge and skills

Candidates should have good communication skills. This could be demonstrated by the achievement of the Core Skill Communication at SCQF level 5. It is not necessary for candidates to have prior knowledge of the insurance industry.

Credit points and level

1 SQA Credit at SCQF level 6: (8 SCQF credit points at SCQF level 6*)

**SCQF credit points are used to allocate credit to qualifications in the Scottish Credit and Qualifications Framework (SCQF). Each qualification in the Framework is allocated a number of*

SQA Advanced Unit Specification

SCQF credit points at an SCQF level. There are 12 SCQF levels, ranging from National 1 to Doctorates.

Core Skills

There are opportunities to develop the Core Skill of *Communication* at SCQF level 6 in this Unit, although there is no automatic certification of Core Skills or Core Skills components.

Context for delivery

If this Unit is delivered as part of a Group Award, it is recommended that it should be taught and assessed within the subject area of the Group Award to which it contributes.

Assessment

This Unit may be assessed by two instruments of assessment. Outcomes 1 and 2 could be assessed in one instrument of assessment and Outcomes 3, 4 and 5 could also be assessed in one instrument of assessment. However, it would also be possible to break this assessment down into five assessment events that assess each Outcome separately.

Assessment should be carried out under open-book controlled conditions. If the assessment of Outcomes 1 and 2 is combined it is recommended that the assessment be completed within one and a half hours. If the assessment of Outcomes 3, 4 and 5 is combined it is likely that this will take 2 hours. If each Outcome is assessed separately then it is recommended that each assessment be completed within 45 minutes.

SQA Advanced Unit specification: statement of standards

Unit title: Insurance: Legal and Regulatory Requirements

Unit code: HR2Y 46

The sections of the Unit stating the Outcomes, Knowledge and/or Skills, and Evidence Requirements are mandatory.

Where evidence for Outcomes is assessed on a sample basis, the whole of the content listed in the Knowledge and/or Skills section must be taught and available for assessment. Candidates should not know in advance the items on which they will be assessed and different items should be sampled on each assessment occasion.

Outcome 1

Describe the main features of risk and insurance

Knowledge and/or Skills

- ◆ Features of risk
- ◆ Features of insurance

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can describe:

- ◆ the features of risk making reference to four of the following:
 - concept and perception
 - how different risks are categorised
 - the risk management function and process
 - the relationship between frequency and severity of loss
 - the types of risk that can be insured; and the types of risk that cannot
 - what is meant by a peril and a hazard and the difference between the two, as they relate to insurance
- ◆ the features of insurance making reference to three of the following:
 - the basis of insurance as a risk transfer mechanism
 - how insurance operates by the pooling of risks
 - how insurance benefits policyholders and society in general
 - co-insurance, dual insurance and self-insurance
 - the main classes of insurance in outline

The assessment will be carried out under open-book controlled conditions.

Assessment Guidelines

The assessment of this Outcome can be combined with Outcome 2 as part of a single instrument of assessment covering the two Outcomes. If this method is used it is recommended that the combined assessment take one and a half hours to complete.

Evidence may be presented in responses to specific questions.

Outcome 2

Describe the structure and main functions of the insurance industry

Knowledge and/or Skills

- ◆ Structure of the insurance market
- ◆ Functions of the insurance profession
- ◆ The role of insurance organisations and representative bodies

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can describe the:

- ◆ Structure of the insurance market, making reference to three of the following:
 - The way in which the insurance market is structured on a global and UK basis
 - The main functions of the different types of insurers
 - The structure and main functions of the Lloyd's and London market
 - The main functions and services of intermediaries in the insurance market
 - The different distribution channels used for the selling of insurance
 - The basic purpose of reinsurance
- ◆ The functions of the insurance profession, including three of the following:
 - underwriters
 - claims personnel
 - loss adjusters, loss assessors, surveyors and forensic services
 - actuaries
 - risk managers
 - compliance officers
- ◆ The role of four insurance organisations and representative bodies from:
 - The Association of British Insurers
 - The Chartered Insurance Institute
 - The Chartered Institute of Loss Adjusters
 - British Insurance Brokers Association
 - Faculty and Institute of Actuaries
 - International Underwriting Association of London
 - London and International Insurance Brokers' Association
 - Institute of Insurance Brokers
 - Lloyd's Market Association
 - Motor Insurers' Bureau

The assessment should be carried out under open-book controlled conditions.

Assessment Guidelines

The assessment of this Outcome can be combined with Outcome 1 as part of a single instrument of assessment covering the two Outcomes. If this method is used it is recommended that the combined assessment take one and a half hours to complete. Evidence may be presented in responses to specific questions.

Outcome 3

Describe the main legal principles governing insurance contracts

Knowledge and/or Skills

- ◆ Insurance contracts
- ◆ Legal principles

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can describe:

- ◆ the essentials of a valid insurance contract including the termination of a contract
- ◆ the legal principles governing insurance contracts making reference to four of the following:
 - methods of creating an agent/principal relationship including the duties of both agent and principal;
 - the requirements of insurable interest;
 - the principle of utmost good faith;
 - how the principle of proximate cause is applied in non-complex claims;
 - the definition of indemnity;
 - the principle of contribution and when and how it applies to the sharing of claim payments between insurers in straightforward property cases;
 - the principle of subrogation and why it may or may not be pursued in simple circumstance

The assessment will be carried out under open-book controlled conditions.

Assessment Guidelines

The assessment of this Outcome can be combined with Outcomes 4 and 5 as part of a single instrument of assessment covering the three Outcomes. If this method is used it is recommended that the combined assessment take two hours to complete.

Evidence may be presented in responses to specific questions.

Outcome 4

Describe the main regulatory and legal requirements applicable to the transaction of insurance contracts

Knowledge and/or skills

- ◆ Compulsory insurances
- ◆ Key legal requirements
- ◆ Financial Services Authority (FSA)
- ◆ Capital adequacy
- ◆ Data Protection
- ◆ Anti-money laundering
- ◆ Insurance Premium Tax

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can describe:

- ◆ The reasons for compulsory insurance and the types of insurances which are compulsory in the UK
- ◆ The key legal requirements, in particular the impact of:
 - the Unfair Terms in Consumer Contract Regulations 1999 in relation to insurance contracts
 - the Contracts (Right of Third Parties) Act 1999 in relation to insurance contracts
- ◆ The role of the Financial Services Authority making reference to three of the following:
 - the authorisation, supervision and regulation of insurers
 - the authorisation, supervision and regulation of intermediaries
 - principles for business and the approved person regime in broad outline
 - the importance of treating customers fairly
 - the consequences of non-compliance — discipline and enforcement
 - the requirements for reporting, record keeping and training and competence
 - the scope and effects of the Insurance: Conduct of Business Sourcebook in broad outline
- ◆ The EU solvency requirements for insurers and intermediaries and FSA risk-based capital requirements in broad outline
- ◆ The main provisions of the current Data Protection legislation
- ◆ The main provisions of the current Money Laundering Regulations and their application to insurers and intermediaries
- ◆ The main provisions of the Proceeds of Crime Act 2002 as they apply to the transaction of insurance business
- ◆ The purpose, current rates and method of collection of Insurance Premium Tax

The assessment will be carried out under open-book controlled conditions.

Assessment Guidelines

The assessment of this Outcome can be combined with Outcomes 3 and 5 as part of a single instrument of assessment covering the three Outcomes. If this method is used it is recommended that the combined assessment take two hours to complete.

Evidence may be presented in responses to specific questions.

Outcome 5

Describe the main methods of preventing, handling and resolving consumer complaints

Knowledge and/or skills

- ◆ Ethical standards
- ◆ Complaints procedures
- ◆ Compensation services

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can describe:

SQA Advanced Unit Specification

- ◆ the scope and operation of the CII Code of Ethics and Conduct in broad outline
- ◆ the FSA requirements in relation to complaints handling
- ◆ the services provided by the Financial Ombudsman Service
- ◆ the main provisions of the Financial Services Compensation Scheme, including the range of activities falling within its scope

The assessment will be carried out under open-book controlled conditions.

Assessment Guidelines

The assessment of this Outcome can be combined with Outcomes 3 and 4 as part of a single instrument of assessment covering the three Outcomes. If this method is used it is recommended that the combined assessment take two hours to complete.

Evidence may be presented in responses to specific questions.

SQA Advanced Unit specification: support notes

Unit title: Insurance: Legal and Regulatory Requirements

This part of the Unit specification is offered as guidance. The support notes are not mandatory.

While the exact time allocated to this Unit is at the discretion of the centre, the notional design length is 40 hours.

Guidance on the content and context for this Unit

This Unit is primarily intended for candidates who expect to take up a career or further study in insurance.

The Unit is designed to introduce candidates to the basic principles of insurance, including the main legal principles relating to insurance contracts, the main regulatory principles related to insurance business and the key elements to protect customers.

On completion of the Unit the candidate should be able to describe the nature and main functions of risk and insurance, the structure and main functions of the insurance market, the main legal principles governing insurance contracts and the main regulatory and legal requirements applicable to the transaction of insurance contracts and to describe the main methods of preventing, handling and resolving consumer complaints. It has been designed to prepare candidates who wish to apply for positions of employment or who are already in employment in the general insurance sector.

This Unit may be used to prepare candidates for the Chartered Insurance Institute's (CII) Certificate in Insurance.

The Unit content and assessment should relate to legislation and practice that is current at the time of delivery.

Outcome 1 covers the main features of risk and insurance, including the following topics:

- ◆ The main features of risk
 - The concept of risk and perception
 - How different risks are categorised
 - The risk management function and process
 - The relationship between frequency and severity of loss
 - The types of risk that can be insured and the types of risk that cannot
 - What is meant by a peril and a hazard and the difference between the two, as they relate to insurance
 - How the principles defined in Outcome 1 are applied to a given set of circumstances
- ◆ The main features of insurance
 - The basis of insurance as a risk transfer mechanism
 - How insurance operates by the pooling of risks
 - How insurance benefits policyholders and society in general
 - What is meant by co-insurance, dual insurance and self-insurance
 - The main classes of insurance in outline

SQA Advanced Unit Specification

Outcome 2 covers the structure and main functions of the insurance market.

- ◆ Structure of the insurance market
 - The way in which the insurance market is structured on a global and UK basis
 - The main functions of the different types of insurers
 - The structure and main functions of the Lloyd's and London market
 - The main functions and services of intermediaries in the insurance market
 - The different distribution channels used for the selling of insurance
 - The basic purpose of reinsurance
- ◆ Functions of the insurance profession
 - The main functions of underwriters
 - The main functions of claims personnel
 - The main functions of loss adjusters, loss assessors, surveyors and forensic services
 - The main functions of actuaries
 - The main functions of risk managers
 - The main functions of compliance officers
- ◆ The role of insurance organisations and representative bodies
 - The Association of British Insurers
 - The Chartered Insurance Institute
 - The Chartered Institute of Loss Adjusters
 - British Insurance Brokers Association
 - Faculty and Institute of Actuaries
 - International Underwriting Association of London
 - London and International Insurance Brokers' Association
 - Institute of Insurance Brokers
 - Lloyd's Market Association
 - Motor Insurers' Bureau

Outcome 3 covers the main legal principles governing insurance contracts.

- ◆ Contract
 - The essentials of a valid contract of insurance
 - How contracts of insurance can be terminated
- ◆ Agency
 - The methods of creating an agent/principal relationship
 - The duties of an agent to his principal and the duties of a principal to his agent
 - The consequences of an agent's actions on his principal
 - The scope of what should be included in a Terms of Business Agreement between an insurer and intermediary
- ◆ Insurable Interest
 - The requirements for insurable interest in insurance contracts
- ◆ Utmost good faith
 - How the principle of utmost good faith applies to contracts of insurance
 - How the duty of disclosure operates in non-life insurance contracts, how it is modified by policy wordings and the contrast with life assurance contracts
 - The definition of a material fact and examples of such facts in connection with non-life proposals and how insurers may limit their entitlement to information by their wordings
 - The consequences of non-disclosure or misrepresentation of material facts
- ◆ Proximate cause
 - How the principle of proximate cause is applied to non-complex claims
- ◆ Indemnity
 - The definition of indemnity and which types of policy are policies of indemnity

SQA Advanced Unit Specification

- How the indemnity principle is applied to contracts of insurance
- What is meant by agreed value, new for old, reinstatement and first-loss policies
- How average is applied to non-complex cases of underinsurance
- ◆ Contribution
 - The principle of contribution and when and how it applies to the sharing of claim payments between insurers in straightforward property cases
- ◆ Subrogation
 - The principle of subrogation and why it may or may not be pursued in simple circumstances

Outcome 4 covers the main regulatory and legal requirements applicable to the transaction of insurance contracts. It is expected that the following topics be covered:

- ◆ Compulsory insurances
 - The reasons for compulsory insurance and the types of insurances which are compulsory in the UK
- ◆ Key legal requirements
 - The impact of the Unfair Terms in Consumer Contract Regulations 1999 in relation to insurance contracts
 - The impact of the Contracts (Right of Third Parties) Act 1999 in relation to insurance contracts
- ◆ Financial Services Authority
 - The role of the FSA in the authorisation, supervision and regulation of insurers
 - The role of the FSA in the authorisation, supervision and regulation of intermediaries
 - The FSA principles for business and the approved person regime in broad outline
 - The importance of treating customers fairly
 - The consequences of non-compliance — discipline and enforcement
 - The requirements for reporting, record keeping and training and competence
 - The scope and effects of the Insurance: Conduct of Business Sourcebook in broad outline
- ◆ Capital adequacy
 - The EU solvency requirements for insurers and intermediaries and FSA risk-based capital requirements in broad outline
- ◆ Data protection
 - The main provisions of the Data Protection legislation
- ◆ Anti-money laundering
 - The main provisions of the current Money Laundering Regulations and their application to insurers and intermediaries
 - The main provisions of the Proceeds of Crime Act 2002 as they apply to the transaction of insurance business
- ◆ Insurance Premium Tax
 - The purpose, current rates and method of collection of Insurance Premium Tax

Outcome 5 covers the main methods of preventing, handling and resolving consumer complaints. It is expected that candidates will cover the following topics:

- ◆ Ethical standards
 - The scope and operation of the CII code of ethics in broad outline
- ◆ Complaints procedures
 - The FSA requirements in relation to complaints handling
 - The services provided by the Financial Ombudsman Service
- ◆ Compensation services
 - The main provisions of the Financial Services Compensation Scheme, including the range of activities falling within its scope

Guidance on the delivery and assessment of this Unit

This Unit is likely to form part of a Professional Development Award for new or potential entrants to the general insurance sector. It can also be used to formalise the training of existing employees within the general insurance sector. As added value to candidates it may be used as preparation towards the CII Certificate in Insurance

Delivery of this Unit will allow candidates to acquire the underpinning knowledge relevant to the subject area. In this respect the Unit is ideally suited to distance learning. However, candidates must be able to apply the knowledge they have acquired to identify and understand the legal basis and regulations within the general insurance industry. Assessment may be combined for Outcomes 1 and 2 and for Outcomes 3, 4 and 5. Alternatively, each Outcome may be assessed separately.

Assessment will be carried out under open-book controlled conditions.

Opportunities for developing Core Skills

There are opportunities to develop the Core Skill of *Communication* at SCQF level 6 in this Unit, although there is no automatic certification of Core Skills or Core Skills components.

Candidates are expected to read, understand and evaluate written communication. The material may deal with topics and vocabulary which are unfamiliar to candidates.

Candidates can provide written evidence to meet the Evidence Requirements for all Outcomes. Candidates could provide a response in which all essential ideas/information and supporting details is presented in a logical and effective order.

Open learning

This Unit could be delivered by distance learning. However, it would require planning by the centre to ensure the authenticity of candidate evidence. Arrangements would have to be made to ensure that evidence is generated under the assessment conditions specified for each Outcome.

Further advice can be found on SQA's website — www.sqa.org.uk

Equality and inclusion

This unit specification has been designed to ensure that there are no unnecessary barriers to learning or assessment. The individual needs of learners should be taken into account when planning learning experiences, selecting assessment methods or considering alternative evidence.

Further advice can be found on our website www.sqa.org.uk/assessmentarrangements.

History of changes to Unit

Version	Description of change	Date

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SQA acknowledges the valuable contribution that Scotland's colleges have made to the development of SQA Advanced Qualifications.

FURTHER INFORMATION: Call SQA's Customer Contact Centre on 44 (0) 141 500 5030 or 0345 279 1000. Alternatively, complete our [Centre Feedback Form](#).

General information for candidates

Unit title: Insurance: Legal and Regulatory Requirements

This Unit is designed to introduce you to the basic principles of insurance, including the main legal principles relating to insurance contracts, the main regulatory principles related to insurance business and the key elements to protect customers.

In Outcome 1 you will become familiar with the nature and main features of risk and insurance.

Outcome 2 looks at the structure and main features of the insurance market.

Outcome 3 looks at the main legal principles governing insurance contracts.

In Outcome 4 you will learn about the main regulatory and legal requirements applicable to the transaction of insurance contracts.

In Outcome 5 you will look at the main methods of preventing, handling and resolving consumer complaints.

The assessments may take the form of restricted response questions, with all assessments being carried out under open-book controlled conditions. The assessment of Outcomes may be combined — Outcomes 1 and 2 may be assessed together and Outcomes 3, 4 and 5 could be jointly assessed.

The Unit content will prepare you for positions of employment in the general insurance sector. If you are already in employment in the general insurance sector this Unit may help you progress in your chosen career.

You may choose to use this Unit to prepare for CII online examinations. You should refer to the CII website for further information.