



THE CHARTERED INSURANCE INSTITUTE

DIPLOMA

APRIL 2010 EXAMINATION PAPER

**UNIT P80
UNDERWRITING PRACTICE**

INSTRUCTIONS

- Two hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- You are allowed to write on the inside pages of this question paper but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- **The answer booklet and this question paper must be handed in personally by you to the invigilator before you leave the examination. Failure to do this may result in your paper not being marked and you may be prevented from entering this examination in future.**

READ THE INSTRUCTIONS OVERLEAF CAREFULLY BEFORE ANSWERING ANY QUESTIONS.

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P80 – Underwriting practice

CANDIDATE INSTRUCTIONS

READ THE INSTRUCTIONS BELOW BEFORE ANSWERING ANY QUESTIONS.

Two hours are allowed for this paper, which contains 15 short answer questions and carries a total of 130 marks.

The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.

Answer each question on a new page. If the question has more than one part, leave several lines blank after each part.

It is important to show each step in any calculation, even if you have used a calculator.

You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.

Answer ALL questions.

Note form is acceptable where this conveys all the necessary information.

1. (a) State the definition of contract certainty as provided in the Contract Certainty Code of Practice. (2)
- (b) Outline the importance of contract certainty to the:
 - (i) underwriter; (4)
 - (ii) intermediary; (1)
 - (iii) policyholder. (1)

2. Underwriters often utilise historic claims experience data to provide an indication of the likely future claims experience, and calculate a suitable premium. Explain why household and motor risks are particularly suitable for this method of setting premiums. (8)

3. Outline the risks and benefits to insurers of using binding authorities. (12)

4. (a) Using an example, explain briefly the term 'premeditated insurance fraud'. (3)
- (b) List three major databases created by insurers in the UK to share information, in order to effectively fight against insurance fraud. (3)

5. (a) Define aggregation of risk. (2)
- (b) Give one example of a potential aggregation of risk for each of the following classes of business.
- (i) Motor insurance. (1)
- (ii) Property damage insurance. (1)
- (iii) Travel insurance. (1)
6. Other than price, list six possible factors that may influence the insurance buying decision of a prospective policyholder. (6)
7. Outline briefly six reasons why it is essential for reinsurers to obtain quality information from insurers, before offering reinsurance protection. (6)
8. (a) Explain the term 'relative frequency' in relation to calculating the probability of a loss event. (3)
- (b) State the assumption that is made by this method of calculating probabilities. (2)
- (c) Identify three instances when this method is not suitable for calculating probabilities. (3)
9. Explain briefly five possible strategic reasons why a UK insurer would consider writing international business. (10)

- 10.** Outline the main aims an underwriter seeks to achieve when drafting a policy wording. **(12)**
- 11. (a)** State the three main elements that make up the premium that an underwriter would charge. **(3)**
- (b)** Distinguish between ‘minimum premium’ and ‘adjustable premium’. **(6)**
- 12. (a)** Give three examples of the rating factors used to calculate premiums for each of the following classes of insurance.
- (i)** Property insurance. **(3)**
- (ii)** Liability insurance. **(3)**
- (iii)** Private car insurance. **(3)**
- (b)** State an example of a measure of exposure risk for each of the following types of insurance.
- (i)** Household insurance. **(1)**
- (ii)** Employers’ liability insurance. **(1)**
- (iii)** Commercial property insurance. **(1)**
- (iv)** Motor fleet insurance. **(1)**
- 13. (a)** Identify three possible options available to an insurer which finds itself with surplus capital. **(3)**
- (b)** Describe briefly how the insurer might decide on which option to choose. **(3)**

- 14.** You are an underwriter and have been presented with a risk for a well-managed major manufacturer, with a total sum insured of £100 million. However, the maximum capacity you are prepared to retain on this risk is £50 million.

Define briefly facultative reinsurance and explain how this arrangement can allow you to write this risk.

(12)

- 15. (a)** Define latent claims, giving an example.

(3)

(b) Explain briefly why these types of claims are difficult to predict.

(6)

