



THE CHARTERED INSURANCE INSTITUTE

DIPLOMA

OCTOBER 2009 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. State the four main statutory objectives given to the Financial Services Authority by the Financial Services and Markets Act 2000. (4)

2. (a) All businesses must try to exceed their liabilities with their assets. Explain briefly why the liabilities of insurance companies are sometimes less certain than those of other businesses. (2)
(b) Outline how insurance companies make sure that they have sufficient assets available to meet their liabilities. (4)

3. List four key elements you would expect to find in a corporate underwriting strategy. (4)

4. The insurance market cycle is a movement between hard and soft markets.
(a) List four influences on the cycle. (4)
(b) Give four key features of each end of the cycle. (8)

5. State four key underwriting characteristics of:
(a) personal lines products; (4)
(b) commercial lines products. (4)

6. (a) State what the ‘burning cost’ method of rating is. (2)
- (b) You are an underwriter looking to rate an employer’s liability risk. You have been presented with the following claims and wage roll figures for the past five years.

Underwriting year	Wage roll (£)	Incurred claims (£)
2004	20,000,000	120,000
2005	21,600,000	135,000
2006	22,100,000	210,000
2007	23,000,000	100,000
2008	24,500,000	110,000
Total	111,200,000	675,000

- (i) State the formula to calculate the burning cost. (1)
- (ii) Calculate, using this formula, the burning cost for each year and the total over five years. (6)
7. Give five examples of information provided by the claims department which would be useful to underwriters. (10)
8. Accurate classification is essential for profitable underwriting.
- (a) List three classes of underwriting account. (3)
- (b) Within each underwriting account, state two classes of business. (6)
- (c) State three types of businesses that a package policy could apply to. (3)

- 9.** You work in the actuarial department of a property insurance company. You have been asked to identify the amount of exposure on a single risk to determine whether there is sufficient capacity to accept the risk.
- Outline two methods used to calculate the maximum exposure on a single risk in property insurance. **(12)**
- 10.** A loss event can be described by looking at a combination of its frequency and severity.
- (a) Draw a simple line graph to illustrate the standard relationship between frequency and severity, marking the two extreme points. **(4)**
- (b) In relation to motor insurance business, give one example of:
- (i) a low frequency/high severity claim; **(1)**
- (ii) a high frequency/low severity claim. **(1)**
- (c) Explain briefly how underwriters make use of frequency and severity when pricing risks. **(4)**
- 11.** Using an example, explain how a reinsurance pool operates. **(10)**
- 12.** (a) Explain briefly the term ‘money laundering’. **(2)**
- (b) Outline how the Financial Services Authority expects insurance companies to prevent money laundering. **(8)**
- 13.** (a) Describe ‘conditions clauses’ in relation to policy wordings. **(2)**
- (b) As an underwriter, you have been asked to set conditions on a policy. Outline the criteria you would use in setting these conditions. **(6)**

- 14.** (a) Describe what is meant by the term 'claims triangulation'. (2)
- (b) Explain briefly what claims triangulation is used for. (5)
- 15.** (a) Explain briefly the term 'risk categorisation'. (2)
- (b) Illustrate risk categorisation using the example of private car rating groups. (6)

