P81

THE CHARTERED INSURANCE INSTITUTE

DIPLOMA

APRIL 2010 EXAMINATION PAPER

UNIT P81
INSURANCE BROKING 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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P81– Insurance broking 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 three key factors an insurance broker must take into account when assessing whether an insurance policy is suitable to meet a customer's demands and needs. **(3)**

(b) State two of the three items an insurance broker should record on the suitability statement, following a recommendation. **(2)**

2. **(a)** State four reasons why a company may decide to self-insure when actively retaining a risk. **(4)**

(b) **(i)** Define alternative risk transfer (ART). **(2)**

(ii) Explain, giving an example, how an insurance broker or a reinsurer can gain extra capacity to transfer the risk of a low frequency, high severity event, other than from the traditional insurance and reinsurance market place. **(5)**

3. **(a)** Most complaints, errors and omissions (E&O) arise when a policy does not do what the client expected. Describe two main ways in which such problems can be avoided by insurance brokers. **(4)**

(b) The Financial Services Authority (FSA) requires registered intermediaries to have a formal procedure for dealing with complaints. State the two actions that should be followed by intermediaries in relation to these procedures. **(2)**

(c) The FSA has made E&O insurance compulsory for regulated insurance intermediaries.

(i) Describe what E&O policies are designed for. **(2)**

(ii) Identify four occasions when an insurance broker's E&O policy would not provide cover. **(4)**

4. **(a)** You have been asked to place a large property risk. To gather enough capacity you are using a subscription market and need to decide who to use as a leader.

   (i) Describe the function and role of the leading market. **(3)**

   (ii) State why it is important to find the right leader in this situation. **(1)**

   (b) In addition, you are considering the use of an excess layer.

   (i) Describe briefly the operation of a primary and an excess layer when considering the design of your insurance programme. **(3)**

   (ii) State the main difference between an umbrella policy and an excess layer. **(2)**

5. One of your UK-based clients purchased a composite insurance policy through you; covering buildings, contents, travel and motor risks. Following renewal, he calls to ask you what taxes he is being charged.

   Identify two taxes that his insurance premium will attract, state at what level they are set, and to which element(s) of the composite insurance policy they will apply. **(4)**

6. There is a current trend amongst many brokers to change from day-to-day claims processing to a claims advocacy approach.

   (a) Describe the process of claims advocacy, giving an example of a type of claim where this approach is common. **(3)**

   (b) Explain two main reasons for this trend. **(4)**

7. **(a)** Explain, with an example, the term 'delegated authority'. **(3)**

(b) State what a 'lineslip' is, how it operates, and how it differs from standard risk placement. **(3)**

(c) **(i)** State the two main benefits for an insurance broker in arranging a facility or scheme with an underwriter, even if no delegated authority exists. **(2)**

(ii) Identify two types of risk which would particularly suit such a facility or scheme. **(2)**

8. Describe briefly six of the Financial Services Authority's eleven Principles of Business. **(12)**

9. You are preparing a submission for a commercial risk and all the prospective underwriters have asked for a summary in your submission which states clearly the details of cover being requested and the risk itself.

(a) List five details of cover that you will include. **(5)**

(b) List five of the risk details that you will include. **(5)**

10. **(a)** In terms of an insurance contract, define 'subjectivity' and provide an example. **(4)**

(b) In order to comply with contract certainty, explain what should be made clear to the client in relation to any subjectivity that may be imposed. **(4)**

(c) State what you should do if your client informs you that they are unable to comply with the subjectivity imposed. **(2)**

11. The Financial Services Authority (FSA) has published six improved outcomes in an initiative to provide guidance to insurance brokers in relation to treating customers fairly (TCF).

The first outcome states that consumers can be confident that they are dealing with firms, where the fair treatment of customers is central to the corporate culture.

(a) State four of the remaining five improved outcomes that the FSA is aiming to achieve through TCF. **(4)**

(b) Describe briefly four different ways in which your company could demonstrate that TCF is an integral part of its culture. **(4)**

12. **(a)** You have recently joined a new insurance broking firm with the aim of developing a specialist risk consultancy service. The company you have joined already offers a motor fleet risk management service.

State six other risk management services you might offer the insurance broker's commercial clients. **(6)**

(b) Identify and describe four motor fleet risk management activities that may be offered by the firm or, more likely, contracted out as part of the motor fleet risk management service. **(8)**

13. **(a)** Explain how the Financial Services Authority (FSA) defines 'contract certainty'. **(3)**

(b) In relation to contract certainty, state how the FSA defines the word 'promptly' for both retail consumers and commercial customers. **(2)**

14. State the five requirements of the general law of agency as they apply to insurance brokers. **(5)**

15. **(a)** State four simple ways in which the financial security of a particular insurer could be assessed before deciding to trade with it. **(4)**

(b) Assuming that your company is happy with the insurer's security, list four other factors that may be taken into account when assessing which insurers to trade with. **(4)**

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