THE CHARTERED INSURANCE INSTITUTE **P80**

Diploma in Insurance

Unit P80 – Underwriting practice

October 2012 examination

Instructions

- Two hours are allowed for this paper.
- Do not begin writing until the invigilator instructs you to.
- Read the instructions on page 3 carefully before answering any questions.
- Provide the information requested on the answer book and 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 book and this question paper must both be handed in personally by you to the invigilator before you leave the examination room. Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.

© The Chartered Insurance Institute 2012

Unit P80 – Underwriting practice

Instructions to candidates

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.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- 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.
- 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.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

Answer ALL questions

Note form is acceptable where this conveys all the necessary information

1.	State	ate five external influences which affect the underwriting cycle.				
2.	(a)	Explain the meaning of estimated maximum loss (EML) and its importance in a property account.	(8)			
	(b)	Outline the criteria that a surveyor will consider in establishing the correct EML.	(4)			
3.	Expl	ain what is meant by 'opportunistic fraud', giving five examples.	(7)			
4.	(a)	Define the term contract certainty.	(3)			
	(b)	In order to comply with contract certainty, state the period in which the policy documentation has to be produced, once the contract is in place.	(2)			
5.	Desc it car	ribe the key features of 'catastrophe modelling' and explain, giving examples, how to be used to assist the insurers in making decisions.				
6.	You are a property insurance underwriter renewing a policy for a factory manufacturing fireworks, located within half a mile of the fire station.					
	In th Subs burg	e last year, the property suffered a theft which the insured were late reporting. equently, following the surveyor's risk improvement recommendations, new ar alarms were fitted.				
	(a)	When considering this risk, identify:				
		 (i) two good physical hazards; (ii) the poor physical hazard; (iii) the good moral hazard; (iv) the poor moral hazard. 	(2) (1) (1) (1)			
	(b)	Outline briefly the difficulties underwriters face when considering moral hazards.				
7.	Give each	three examples of compulsory insurance and state the relevant legislation for of them.				
8.	(a)	Describe corporate strategy and explain briefly how it is used by an organisation.				
	(b)	Outline how underwriting strategy differs from corporate strategy.				

(2)

(5)

- 9. (a) Explain the meaning of relative frequency.
 - (b) A fire insurance company has incurred 79 claims in the last year as follows.

Claims	costs ((£ 000)	Frequency	
0	<	50	5	
50	<	100	25	
100	<	150	32	
150	<	200	12	
	>	200	5	
	Total		79	

- • •

Calculate the relative frequency using the data provided in the table above. You do not need to show each step of your calculation.

10.	(a)	List four objectives of the Financial Services Authority (FSA) under the Financial Services and Markets Act 2000.	(4)	
	(b)	Explain briefly how the FSA achieves the objectives identified in (a) above.	(8)	
11.	. XYZ Insurance Company has suffered a reduction in premium income due to t aggressive competition that exists in the market. Describe the options available to XYZ to respond to this competition and the area			
	other	than premium, that it could focus on in order to retain customers.	(15)	
12.	(a)	Define 'regression' in the context of numerical analysis of risk.	(2)	
	(b)	Give the equation for regression.	(2)	
	(c)	Name the method used for determining 'the line of best fit'.	(1)	
13.	Distinguish between excess of loss reinsurance and stop loss reinsurance.			
14.	(a)	State three main elements that should be considered by an insurer when setting the premium.	(3)	
	(b)	List four examples of rating factors that insurers may take into consideration when assessing an appropriate premium for a private motor insurance policy.	(4)	
15.	(a)	State the purpose of conditions clauses in insurance policies.	(4)	
	(b)	Outling three examples of conditions deuses and give the reasons for each of	.,	
	(a)	them.	(3)	

2616

BLANK PAGE