THE CHARTERED INSURANCE INSTITUTE **P80**

Diploma in Insurance

Unit P80 – Underwriting practice

April 2013 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.

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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 the responsibilities insurers may give to managing general agents.		
2.	(a)	Explain briefly the term IBNR.	(2)
	(b)	Explain briefly the circumstances under which the late notification of claims is likely to occur.	(4)
3.	(a)	Outline the importance of branding in selling personal lines insurance.	(4)
	(b)	Explain briefly the options available to insurers when branding their products.	(5)
	(c)	State four key factors an insurer should consider when making this choice.	(4)

4. (a) Consider the following three loss events occurring in a jewellery shop.

The probability of fire is 0.06, the probability of flood is 0.3 and the probability of theft is 0.6.

Rank these **three** potential loss events according to how likely they are to occur (from most likely first to least likely).

(b) Use the information below to calculate the expected value of each row and the total expected value. You do not need to show your workings.

Number of claims (x)	Probability P(x)
1	0.44
2	0.5
3	0.06
Total	1.00

(4)

(3)

5. You are the Underwriting Manager responsible for a large motor account. You have been asked to attend a meeting with a trainee underwriter who has just joined the company.

Explain, using examples, how and why risks are **classified** and **categorised** within your account.

(14)

(6)

6. Explain briefly the meaning and purpose of 'facultative reinsurance'.

7.		e four main areas where an underwriter will call upon the skills of an actuary and ribe briefly the actuary's role in each.	(8)	
8.	Industrial diseases may take a long time to diagnose and obtaining compensation under employers' liability policies may be complicated, especially where an employer has ceased trading.			
	Expl	ain briefly how the UK insurance industry deals with such problems.	(6)	
9.	Explain the potential implications for an insurer which could arise as a result of their claims and underwriting functions failing to interact closely.			
10.	(a)	Define the following terms in relation to market share and profit.		
		(i) Critical mass.	(2)	
		(ii) Loss leading.	(2)	
	(b)	State when an established insurer might decide to reduce its market share.	(2)	
11.		ne the benefits for both an insurer and an intermediary of transacting business ugh a binding authority.	(10)	
12.	You are the Investment Manager of an insurance company which finds itself holding surplus capital.			
	(a)	State four options available to the insurer.	(4)	
	(b)	Outline how the insurer might decide on which option to choose.	(4)	
13.	Explain the meaning of homogenous risks and their importance in a motor account.		(10)	
14.	List six factors that may impact on the future overall cost of claims.		(6)	
15.	(a)	Explain the difficulties faced by treaty reinsurers in relation to the reinsurance pricing cycle and how they manage it.	(7)	
	(b)	Examine the main considerations for a treaty reinsurer during a soft reinsurance market.	(7)	

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