

P97

Diploma in Insurance

Unit P97 – Reinsurance

April 2013 examination

Instructions

- Three 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.**

Unit P97 – Reinsurance

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 200 marks, as follows:

Part I	14 compulsory questions	140 marks
Part II	2 questions selected from 3	60 marks

- You should answer all questions in Part I and two out of the three questions in Part II.
- You are advised to spend no more than two hours on Part I.
- 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.

PART I**Answer ALL questions in Part I****Note form is acceptable where this conveys all the necessary information**

1. List **eight** types of organisations that may buy reinsurance/retrocession. (8)
2. Explain facultative obligatory reinsurance and why it might be used by the insurer. (12)
3. State the information required for the placement of an excess of loss treaty for an established insurer. (10)
4. Explain briefly **five** factors that affect the level of commissions a reinsurer is willing to pay under a proportional treaty. (10)
5. Explain briefly **three** reasons why facultative reinsurance might be used for an aviation account. (6)
6. Explain the characteristics of the risk attaching during (or policies issued and renewed) basis. (10)
7. State **eight** possible changes which may be renegotiated at renewal in respect of an existing proportional treaty. (8)
8. Describe briefly the circumstances that might cause a reduction in reinsurance capacity. (10)
9. Explain, in the context of property reinsurance, the following.
 - (a) Estimated maximum loss. (4)
 - (b) Maximum probable loss. (4)

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10. Describe the advantages and disadvantages to the reinsured of the modern tendency to replace proportional treaties by non-proportional treaties. (15)
11. (a) State **three** main claims clauses that a reinsurer could incorporate into the contract. (3)
- (b) Explain briefly how **each** of the clauses in (a) above could help to exert more control over the reinsured. (9)
12. State **seven** usual exclusions specific to workers' compensation/employers' liability business. (7)
13. Describe briefly **three** advantages and **three** disadvantages to the reinsured of combining different classes of casualty business under one reinsurance treaty. (12)
14. Outline what a letter of credit is in the context of reinsurance and explain when it might be used. (12)

Questions continue over the page

PART II

Answer TWO of the following THREE questions
Each question is worth 30 marks

15. You are the Outwards Reinsurance Manager for a marine insurance company and are responsible for purchasing excess of loss programmes.
- (a) Explain why your company would purchase reinsurance to protect its marine cargo account and identify any particular risks this class may pose to reinsurers. (12)
- (b) In your programme you have decided to include the aggregate voyage extension clause.
Describe the provisions of the clause and explain the reasons behind your decision. (9)
- (c) The Board of your company are concerned that should there be a number of hurricanes in the Gulf of Mexico the aggregate exposures would be too large for the company.
Outline **three** ways this exposure could be managed along with the cost implications of each method. (9)
16. Personal accident insurance has certain characteristics that may present issues for reinsurers.
- (a) State the underwriting information required by reinsurers. (12)
- (b) Describe how accumulations can arise in this class of business. (8)
- (c) Describe the most common types of reinsurance purchased to protect against possible accumulations. (10)

17. The Property Insurance Company has a 75% quota share treaty with 100% limit of £2,000,000, retaining 25%, and a four line surplus treaty subject to a maximum cession of £8,000,000.

They have a table of limits on a sum insured basis for different types of risks within their property portfolio.

Risk Class	100% Quota Share Limit (£)
A	2,000,000
B	1,000,000
C	500,000

- (a) Explain briefly the factors that influence how an insurance company classes a certain type of risk. (5)
- (b) Using the information in the table below calculate, **showing all your workings**:
- (i) how The Property Insurance Company cedes risks 1-5, across their retention, the quota share and the surplus treaty; (10)
- (ii) how the losses are apportioned to the retention and proportional treaties. (10)

Risk Number	Risk Class	Sum Insured (£)	Loss (£)
1	A	10,000,000	8,000,000
2	A	8,000,000	6,000,000
3	A	1,600,000	400,000
4	B	2,000,000	1,500,000
5	C	1,500,000	200,000

- (c) Assuming the reinsured had applied an estimated maximum loss (EML) of 75% to Risk 1 before ceding to the treaty:
- (i) calculate how the EML amount would be apportioned across the retention and proportional placements; (3)
- (ii) calculate how the loss of £8,000,000 would be apportioned across the retention and proportional placements. (2)

