

P80

Diploma in Insurance

Unit P80 – Underwriting practice

April 2014 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.**

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 **six** areas other than price which insurers may use to attract and retain customers. (6)

2. Outline:
 - (a) the main advantages of treaty reinsurance; (6)
 - (b) the main disadvantages of treaty reinsurance. (2)

3.
 - (a) State the strategic objective of the Financial Conduct Authority and its **three** operational objectives. (5)
 - (b) State the two strategic objectives of the Prudential Regulation Authority. (2)

4. As an underwriter, you have been asked to use historic claims data to forecast future claims.

Describe the key factors you should consider to satisfy yourself of the credibility of the data. (8)

5.
 - (a) State **six** strategic reasons why a UK insurer would consider writing international business. (6)
 - (b) Identify **three** areas of the world which represent emerging global opportunities for UK insurers and give a reason for **each** of them. (6)

6. (a) Calculate, **showing all your workings**, the **expected total value of claims** for 2013, using the 2012 data provided below: (7)

| Cost of claim (x) | Probability P (x) |
|-------------------|-------------------|
| £250 | 0.90 |
| £700 | 0.09 |
| £2,000 | 0.01 |
| Total | 1.00 |

| Number of claims (x) | Probability P (x) |
|----------------------|-------------------|
| 1 | 0.50 |
| 2 | 0.47 |
| 3 | 0.03 |
| Total | 1.00 |

- (b) State why the expected total value of claims is an important figure for an underwriter. (2)
7. Describe the remedies available to an insurer where it has been induced to enter into a contract through misrepresentation. (9)
8. Describe briefly **four** techniques used by insurers to counter fraudulent claims. (8)
9. Outline the purpose of 'claims triangulations' and how they are used. (12)
10. The insurance market cycle is a movement between hard and soft markets.
State **four** key features of **each** end of the cycle. (8)

Questions continue over the page

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- 11.** As a property underwriter, you need to be aware of maximum capacity.
Explain how exposure to single risks and single events are identified and measured. **(14)**
- 12.** (a) State **four** Principles of Businesses which are particularly relevant when considering the regulatory theme of Treating Customers Fairly (TCF). **(4)**
- (b) Outline the duties imposed on the management of a firm to achieve TCF. **(2)**
- 13.** (a) Identify **three** classes of business and state an example of a measure of exposure for **each**. **(3)**
- (b) List **four** rating factors which are used by household insurers to calculate a buildings premium. **(4)**
- (c) Explain briefly the term 'minimum premium'. **(3)**
- 14.** Outline the key features of insurance premium tax in the UK. **(6)**
- 15.** (a) Identify, as an underwriter, the criteria you would consider when an insured requests a voluntary excess on a policy. **(4)**
- (b) Outline the operation of a franchise on a policy. **(3)**

