

P66

Diploma in Insurance

Unit P66 – Delegated authority

October 2014 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 P66 – Delegated authority

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. Identify and explain briefly the **three** main options available for claims handling within a delegated contract. (9)

2. Identify **nine** headings that would be expected to be included as part of the service level agreement between an insurer and a coverholder. (9)

3. Explain the **four** main potential conflicts of interest for a broker when operating a delegated authority. (12)

4. Explain **three** key considerations for an insurer before deciding to delegate. (9)

5. Illustrate, with the use of a diagram, the underwriting process. (12)

6. Describe the implications of CASS for a coverholder in terms of handling funds. (8)

7. Identify and describe briefly **four** ways in which a coverholder can be paid. (12)

8. Describe briefly **four** of the topic areas an auditor would be expected to address within the audit template. (12)

9. Explain the following types of delegated authority:
- (a) Binding authority. (4)
 - (b) Mastercover. (4)
10. Identify **two** benefits and **one** risk, of entering into a delegated authority contract for **each** of the following parties:
- (a) Insurer. (3)
 - (b) Coverholder. (3)
 - (c) Broker. (3)
11. Explain the types of risks that are most suited to a delegated authority agreement and the types of risks which would not be suitable. (10)
12. (a) Describe the **two** types of contract in existence in any delegated authority agreement. (6)
- (b) Explain how the law of agency operates between the parties of a delegated authority agreement. (6)
13. (a) State the formal Lloyd's definition of a service company coverholder. (3)
- (b) Explain the key risk facing a service company in terms of reporting requirements and state the provision offered by Lloyd's to overcome this. (5)
14. Illustrate, with the use of a diagram, the handling of premium funds by a coverholder. (10)

QUESTIONS CONTINUE OVER THE PAGE

PART II

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

15. The company you work for, a small insurance broker with ambitions to expand, is considering approaching an insurer to discuss the establishment of a delegated underwriting authority for its clients.
- (a) Explain the **six** different roles your company could take in relation to delegated authority agreements. (18)
 - (b) State the difference between a retail broker and a wholesale broker. (2)
 - (c) Identify and explain briefly **five** of the headings in a coverholder's business plan. (10)
16. (a) Explain the elements in the process of good claims handling, using a diagram to support your answer. (20)
- (b) Explain the benefits of good claims handling to the cover holder and the parties in a contract of insurance. (5)
 - (c) Explain the importance for the coverholder of understanding the insurer's claims philosophy. (5)
17. Your company, a Lloyd's managing agent, is considering offering a delegated authority to a coverholder. You have been asked to check the Delegated Underwriting Code of Practice, issued by Lloyd's, to ensure the correct process is followed.
- (a) Describe the franchise 'Minimum Standards for Delegated Underwriting'. (5)
 - (b) Identify and explain the **four** steps for evidencing to Lloyd's that your company has a clear strategy. (20)
 - (c) Identify **five** areas that the Lloyd's managing agent should consider when conducting due diligence on the potential coverholder. (5)

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