

# P80

## Diploma in Insurance

### Unit P80 – Underwriting practice

October 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.

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**Answer ALL questions****Note form is acceptable where this conveys all the necessary information**

1. Explain how catastrophe modelling can be used to assist insurers in making decisions. (9)
  
2. Explain briefly the following terms and when they may be used:
  - (a) co-insurance; (4)
  - (b) self-insurance. (5)
  
3.
  - (a) Define the term money laundering and state how it could arise through the use of a general insurance policy. (4)
  - (b) Explain briefly what the UK regulators specify insurance companies must do to reduce the risk of money laundering. (6)
  
4. Identify the **three** stages at which moral hazard may occur, including **two** examples for **each** stage. (9)
  
5. Describe the types of expenses which an underwriter should consider when setting the premium on a risk. (12)
  
6. Outline the key features of the Financial Services Compensation Scheme. (6)

7. (a) The following numbers represent the length of time in days that is taken to settle 12 **motor** claims made in 2013:  
32, 3, 4, 4, 1, 1, 15, 4, 2, 3, 2, 16
- (i) Calculate, **showing all your workings**, the arithmetic mean. (2)
- (ii) Identify the median. (1)
- (iii) Identify the mode. (1)
- (b) You are told that the arithmetic mean for settlement of 12 **household** claims is six days.
- Outline **two** measures that you could use with the averages in order to gain a more accurate understanding of the underlying data. (4)
8. Explain the drawbacks of the burning cost method of premium calculation and how these are overcome by prospective risk analysis. (12)
9. Explain the operation of a stochastic model and when it would be used. (8)
10. Describe the statutory requirements for 'capital' imposed on UK authorised insurers. (10)
11. Explain briefly the term 'subjective probability' and how it can be applied. (6)
12. Summarise how the distribution of household insurance has changed over the last 20 years. (12)

QUESTIONS CONTINUE OVER THE PAGE

- 13.** Explain briefly the main roles of a reinsurance broker. **(6)**
- 14.** Explain the term 'corporate strategy'. **(6)**
- 15.** Outline the reasons why it is important for underwriters and claims handlers to liaise in respect of policy wordings. **(7)**

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