

Underwriting practice

Purpose

At the end of this unit, candidates should be able to understand the principles and practices of underwriting and the environment within which they operate.

Assumed knowledge

It is assumed that the candidate already has knowledge of the fundamental principles of insurance as covered in IF1, Insurance, legal and regulatory or equivalent exams.

Summary of learning outcomes

1. Understand key influences of the regulatory and commercial environment on underwriting.
2. Understand key aspects of underwriting policy and practice.
3. Understand how statistical data is used for underwriting.
4. Understand the principles and practices of risk pricing.
5. Understand risk exposure and control.

Important notes

- Method of assessment: 15 short answer questions. Total of 130 marks. Two hours are allowed for this exam.
- The syllabus is examined on the basis of English law and practice unless otherwise stated.
- The general rule is that the exams are based on the English legislative position six months before the date of the exams.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
 1. Visit www.cii.co.uk/qualifications
 2. Select the appropriate qualification
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1. Understand key influences of the regulatory and commercial environment on underwriting

- 1.1 Explain the implications of regulatory authorisation for the underwriting function.
- 1.2 Explain the relationship between underwriting and capital and solvency requirements.
- 1.3 Explain the principles and requirements of contract certainty.
- 1.4 Discuss the impact of legislation and litigation on underwriting.
- 1.5 Explain the operation of the traditional underwriting cycle.
- 1.6 Discuss the impact of major events and trends on underwriting.

2. Understand key aspects of underwriting policy and practice

- 2.1 Explain corporate underwriting strategy and its influences on underwriting policy.
- 2.2 Discuss the importance of moral and physical hazards in setting an underwriting policy.
- 2.3 Discuss typical criteria for policy cover, terms, conditions and restrictions.
- 2.4 Explain how risks are classified, categorised and improved.
- 2.5 Explain the interaction between underwriting and distribution channels.
- 2.6 Explain the use and implications of granting delegated authority.
- 2.7 Discuss the implications of writing international business.
- 2.8 Describe counter-fraud initiatives.

3. Understand how statistical data is used for underwriting

- 3.1 Explain the relationship between exposure and claims.
- 3.2 Explain the importance of averages.
- 3.3 Calculate commonly used measures of average.
- 3.4 Interpret the distribution of data around the average.
- 3.5 Explain the relationship between frequency and severity.
- 3.6 Explain the basic principles of probability including the difficulty of anticipating less-frequent events.
- 3.7 Calculate the expected value of claims.
- 3.8 Explain the importance of the law of large numbers in sample sizes.
- 3.9 Discuss the limitations of statistical data.

4. Understand the principles and practices of risk pricing

- 4.1 Explain the main elements of the premium.
- 4.2 Explain the burning cost and prospective risk analysis methods of rating.
- 4.3 Explain how claims data is interpreted and used in setting prices.
- 4.4 Explain the significance of IBNR (incurred but not reported) claims.
- 4.5 Explain the importance of liaison between underwriting and claims functions, especially reserving.
- 4.6 Explain the role and significance of the actuary in risk pricing.
- 4.7 Examine the importance of competitor analysis in pricing.
- 4.8 Discuss other risk data that can be used in pricing.

5. Understand risk exposure and control

- 5.1 Explain how exposure to single risks and single events can be measured and managed to balance the account.
- 5.2 Explain the aggregation of risks and the use of catastrophe modelling.
- 5.3 Explain the role of reinsurance in controlling exposure.
- 5.4 Explain the main types of reinsurance and their application.
- 5.5 Explain the importance of the interaction between insurer and reinsurer.
- 5.6 Outline methods other than reinsurance that can be used for limiting exposure.

Reading list

The following list provides details of various publications which may assist with your studies.

Note: The examination will test the syllabus alone.

The reading list is provided for guidance only and is not in itself the subject of the examination.

The publications will help candidates keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/Personal Finance Society members can borrow most of the additional study materials below from Knowledge Services.

CII study texts can be consulted from within the library. For further information on the lending service, please go to www.cii.co.uk/knowledge.

CII study texts

Underwriting practice. London: CII. Study text P8o.

Insurance, legal and regulatory. London: CII. Study text IF1.

Additional reading

Additional reading materials are available through the library or on the Knowledge Services website.

New materials are added frequently – for information about new books and articles in your area of interest, please visit www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

Books (and ebooks)

Insurance theory and practice. Rob Thoys. Routledge, 2010. Also available as an ebook via www.cii.co.uk/knowledge (CII/Personal Finance Society members only).

'Insurance intermediaries: underwriting agents' in Colinvaux's law of insurance. Robert Merkin. London: Sweet & Maxwell, 2014.

The law of insurance contracts. Malcolm A Clarke. 6th ed. London: Informa, 2009.

Drafting insurance contracts: certainty, clarity, law and practice. Christopher Henley. London: Leadhall press, 2010.

Reinsurance: the nuts and bolts. Keith Riley. London: Witherby, 2012.

Reinsurance underwriting. Robert Kiln, Stephen Kiln. 2nd ed. London: LLP, 1996.

'Reinsurance contracts, markets and participants' in Reinsurance practice and the law. Barlow Lyde & Gilbert LLP. London: Informa, 2009.

Actuarial practice of general insurance. D G Hart, R A Buchanan, B A Howe. 7th ed. Sydney: Institute of Actuaries of Australia, 2007.

International financial reporting standards: a practical guide. Hennie Van Greuning, Darrel Scott and Simonet Terblanche. World Bank Publications, 2011.

Corporate finance law: principles and policy. Louise Gullifer, Jennifer Payne. Oxford: Hart Publishing, 2011.

Bank and insurance capital management. Frans De Weert. Chichester: Wiley, 2011.

Solvency II: stakeholder communications and change. Gabrielle O'Donovan. Gower, 2011.

Capital structure and corporate financing decisions: theory, evidence, and practice H. Kent Baker and Gerald S. Martin. Wiley, 2011. Also available as an ebook via www.cii.co.uk/knowledge (CII/Personal Finance society members only).

Executive's guide to solvency II. David Buckham, Jason Wahl and Stuart Rose. Wiley, 2011. Also available as an ebook via www.cii.co.uk/knowledge (CII/ Personal Finance society members only).

The law of insolvency. Ian Fletcher and Letitia Crabb. 4th ed. London: Sweet & Maxwell, 2009.

The Financial Times guide to using the financial pages. 6th ed. Romesh Vaitilingam. Prentice Hall/Financial Times, 2010.

The FT guide to mastering operational risk. Tony Blunden & Jon Thirlwell. Harlow: FT/Prentice Hall, 2010.

Holistic risk management in practice. P Hopkin. London: Witherby, 2002.

Factfiles and other online resources

CII factfiles are written by subject matter experts within the insurance and financial services industry. They are updated annually, and interim update bulletins are included where necessary to take into account any major changes during the year. All are available online via www.cii.co.uk/knowledge (CII/Personal Finance Society members only).

- Alternative risk transfer. David Kaye; updated by Ian Searle.
- Risk control. Ian Searle.
- Risk identification. Ian Searle.
- Enterprise risk management. Ian Searle.
- Recent developments to Solvency II. Brad Baker.
- Insurance accounting (general business). Ian Hutchinson.
- Insurance in the single market. Paul Clarke.

AIRMIC. www.airmic.com.

Institute of Risk Management www.theirm.org.

Further articles and technical bulletins are available at www.cii.co.uk/knowledge (CII and Personal Finance Society members only).

Journals and magazines

The Journal. London: CII. Six issues a year. Also available online (CII/Personal Finance Society members only) via www.cii.co.uk/knowledge.

Post magazine. London: Incisive Financial Publishing. Weekly.

The Economist. London: Economist Newspaper. Weekly.

Financial times. London: Financial Times. Daily. Also available online at www.ft.com.

Reference materials

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004. Also available as an ebook via www.cii.co.uk/knowledge (CII/Personal Finance Society members only).

International Financial Reporting Standards. IFRS Foundation. London: IFRS Foundation. Annual.

Lamont's glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available online via www.cii.co.uk/knowledge (CII/Personal Finance Society members only).

Manual of accounting. 4v. PriceWaterhouseCoopers. Haywards Heath: Bloomsbury Professional. Annual.

Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers.

You are strongly advised to study guides for the last two sittings. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Alternatively, if you have a current study text enrolment, the latest exam guides are available via www.revisionmate.com.

Older guides are available (for members only) via www.cii.co.uk/knowledge.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at www.cii.co.uk/knowledge/iilrevision (CII/Personal Finance Society members only).