

## P66

### Diploma in Insurance

#### Unit P66 – Delegated authority

April 2015 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.

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

1. Describe the advantages and the disadvantages for insurers in delegating claims handling authority to a specialist third party claims administrator. **(10)**
  
2. Identify and explain briefly **four** headings that would be expected to be included on a standard lineslip template in use in the Lloyd's market. **(8)**
  
3. Describe group/affinity programmes and master covers, providing examples where relevant. **(12)**
  
4. Explain briefly **two** activities that can be delegated. **(6)**
  
5.
  - (a) Explain why an insurer might want to use a coverholder in a different part of the world from the one in which it is based. **(3)**
  
  - (b) Explain **one** key consideration for an insurer wishing to transact business through a coverholder internationally. **(3)**
  
  - (c) List **six** other matters that an insurer should consider when writing international risks, whether as an open market or through a coverholder. **(6)**
  
6. Explain briefly **two** issues an insurer will need to consider before deciding to delegate authority. **(8)**
  
7. Explain **three** potential roles of a broker in a delegated authority situation when not acting as the coverholder. **(9)**

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8. (a) Describe the term 'exposure management'. (2)
- (b) Explain why it is important to include exposure management in the binder terms. (4)
- (c) Explain the types of information to be captured. (6)
9. Explain the operation of loss funds and the benefits and challenges for insurers, coverholders and the insured. (12)
10. Describe briefly **three** key activities relating to the function of marketing and business development for a delegated authority agreement. (9)
11. (a) Explain any potential conflicts of interest when receiving payment by means of overrides. (6)
- (b) Describe briefly **one** method of managing the potential conflict. (2)
12. (a) Describe briefly **three** key risks for an insurer having entered into a delegated authority agreement. (6)
- (b) Explain briefly how an insurer might be able to protect itself against these **three** key risks. (6)
13. Explain which types of risk are best suited to underwriting under a delegated authority arrangement and which types of risk are not suited, providing examples to support your answer. (10)
14. Explain **three** of the key considerations for a coverholder when setting up a binding authority agreement. (12)

QUESTIONS CONTINUE OVER THE PAGE

## PART II

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

15. The insurer you work for has recently granted a delegated authority scheme to an insurance broker. Your company is keen to ensure that the broker, in their role as coverholder, does not exceed the authority which it has been delegated and wishes to ensure the scheme is monitored closely in the first year of operation.
- (a) Explain the **two** different methods your company could use to manage the delegated authority scheme. (6)
- (b) Explain **three** ways in which the insurer could address underperformance and poor working practices by the coverholder. (9)
- (c) Explain **three** activities the insurer will undertake (other than formal monitoring) to operate the scheme efficiently. (9)
- (d) Explain **two** activities the coverholder will undertake, once the scheme commences, to operate the scheme efficiently. (6)
16. (a) Explain the importance of good capture of underwriting and claims data for the insurer and the coverholder. (10)
- (b) Explain the considerations that should be regularly reviewed and analysed by the coverholder in relation to managing a risk portfolio for a delegated authority agreement. (15)
- (c) Explain the process of internal oversight and peer review for the management of an underwriting portfolio by a coverholder. (5)

- 17.** You work for a Lloyd's broker who also places business with insurers on an open market basis, but your company does not hold any delegated authority itself. Your compliance manager is concerned that your customers are treated fairly wherever business is placed.
- (a)** Explain what is meant by treating customers fairly (TCF) and who is responsible for ensuring this happens. **(6)**
- (b)** Explain how, in the scenario above, TCF can be achieved by the:
- (i)** Insurer. **(8)**
  - (ii)** Coverholder. **(8)**
  - (iii)** Broker (when not holding delegated authority). **(8)**

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