

## P66

### Diploma in Insurance

#### Unit P66 – Delegated authority

October 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.

## PART I

## Answer ALL questions in Part I

Note form is acceptable where this conveys all the necessary information

1. Explain the specific CASS rule which deals with intermediaries holding funds. (9)
  
2. Explain the reputational risks faced by an insurer when delegating authority to a coverholder and identify **two** ways in which reputational risk could be managed by the insurer. (12)
  
3. Describe **one** way in which **each** of the following parties to a delegated authority might identify a suitable partner with which to enter into a delegated authority contract:
  - (a) Insurer. (3)
  - (b) Broker. (3)
  - (c) Coverholder. (3)
  
4. Describe the **two** main contracts in which delegated underwriting guidelines would be set out and explain the key reason why an insurer would wish to have some measure of control over the underwriting process. (9)
  
5. Describe how the Contract Certainty Code of Practice defines contract certainty and explain the guidelines specifically set out for binding authorities. (12)
  
6. Identify and describe briefly **six** reasons for the early cancellation of a contract of delegation. (12)
  
7. Identify and explain briefly **three** considerations made by a coverholder when setting up an underwriting authority under a binder. (9)

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8. Identify and explain **four** elements found in a good claims handling process. (12)
9. Identify and explain briefly **three** ways in which a coverholder's delegated authority business may be marketed and developed. (9)
10. Explain the importance of good data capture for both the insurer and the coverholder. (8)
11. Explain briefly **four** reasons why both an insurer and a coverholder will be interested in monitoring the profitability of a delegated authority. (8)
12. (a) Describe briefly the purpose of a Lloyd's service company. (3)
- (b) Identify the practical steps that Lloyd's suggest managing agents consider before setting up a service company. (7)
13. Explain briefly the important considerations found in the Insurance (Conduct of Business) Rules (ICOBS) that specifically relate to delegated authority for the following:
- (a) A broker. (3)
- (b) An insurer. (3)
- (c) A claims handler. (3)
14. Explain **four** activities, other than underwriting, which an insurer may delegate to a coverholder. (12)

QUESTIONS CONTINUE OVER THE PAGE

## PART II

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

- 15.** Your employer is an experienced insurer operating several delegated authority agreements. You have identified a new potential coverholder and are in the process of creating a detailed delegated authority document that sets out the parameters of the agreement.

In order to ensure adequate operational controls are in place to allow performance to be measured:

- (a) Describe **five** topics included in the service level agreement. **(15)**
- (b) Explain the provisions that you will include in the authority document under the following headings:
- (i) Profitability. **(5)**
  - (ii) Business growth. **(5)**
  - (iii) Staff attrition. **(5)**
- 16.** (a) Explain the elements of the underwriting process for a coverholder with delegated underwriting authority. **(18)**
- (b) Describe the activity of exposure management and explain why it is so important to an insurer in a delegated underwriting situation. **(6)**
- (c) Describe the types of data to be captured in relation to any risk being underwritten on a delegated authority and explain the importance of accuracy. **(6)**

17. (a) Describe the different ways in which the following parties in a delegated authority chain might satisfy the Financial Conduct Authority's (FCA) requirement in terms of treating customers fairly (TCF).
- (i) Insurers. (5)
  - (ii) Coverholders. (5)
  - (iii) Brokers (not holding authority). (5)
- (b) Identify **five** of the FCA's key drivers in relation to TCF and explain briefly the 'good' and 'bad' signs surrounding their implementation. (15)

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