

## P80

### Diploma in Insurance

#### Unit P80 – Underwriting practice

October 2015 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. List **six** types of information typically requested by a treaty reinsurer so that they can adequately assess the underlying risks. (6)
  
2. (a) Explain briefly why employers' liability insurance is compulsory. (2)  
  
(b) State **three** policy conditions, with an example of **each**, which insurers are unable to rely on to avoid liability under the Employers' Liability (Compulsory Insurance) Regulations 1998. (6)
  
3. Explain the Financial Conduct Authority's approach to regulation. (10)
  
4. An underwriter will need to analyse credible data to price a risk appropriately.  
  
When considering risk premium, outline the **two** main features of claims data that an underwriter should consider. (7)
  
5. Outline **six** practical considerations that an underwriter may need to be aware of when deciding to write international business. (6)
  
6. Outline the types of information which a claims handler could give to an underwriter in respect of:
  - (a) emerging trends on an account; (7)
  - (b) an individual open claim. (4)

7. (a) Identify **two** measures of exposure for a household risk. (2)
- (b) Identify **two** rating factors used by household insurers to calculate the buildings premium. (2)
- (c) Identify a characteristic which would warrant, for **each** rating factor:
- (i) a premium discount; (2)
- (ii) a premium load. (2)
8. Explain briefly the concept of the 'common pool'. (7)
9. You are analysing a property risk. The number of claims expected to arise next year has been calculated at 2.7 and the premium due for next year is £2,500. You have also been given the following probabilities for the cost of claims next year:

Cost of claim (x)	Probability P (x)
£100	0.42
£600	0.30
£750	0.20
£1,250	0.08
<b>Total</b>	<b>1.00</b>

Calculate, **showing all your workings**:

- (a) the cost per claim expected to arise next year; (3)
- (b) the total value of claims expected to arise next year; (2)
- (c) the expected loss ratio at the end of next year. (3)
10. (a) State the **two** main purposes of risk improvement from a commercial insurer's perspective. (2)
- (b) Explain how risk surveys can be used to improve a risk. (12)

**QUESTIONS CONTINUE OVER THE PAGE**

11. State **six** sources of **publically** available data an underwriter might use to assist their understanding and pricing of a risk. (6)
12. Explain briefly how corporate objectives are incorporated into an underwriting strategy. (8)
13. (a) Define aggregation of risk. (2)
- (b) Explain how an underwriter can identify and control potential aggregations of risks to single events, in relation to property insurance. (10)
14. (a) State the situations where facultative reinsurance could be used. (5)
- (b) State the disadvantages of facultative reinsurance. (7)
15. (a) List **four** 'protected characteristics' that are covered under the Equality Act 2010. (4)
- (b) List **three** types of discrimination, other than direct discrimination. (3)



