

## P97

### Diploma in Insurance

#### Unit P97 – Reinsurance

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 P97 – Reinsurance

### 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 briefly how reinsurance provides cash flow advantages to the reinsured. (6)
  
2. (a) State **five** disadvantages of facultative reinsurance to the reinsured. (5)  
(b) State **five** advantages of proportional treaty reinsurance to the reinsured. (5)
  
3. Explain retrocession and, using examples, outline the factors influencing the retrocession market. (12)
  
4. Explain the purpose and use of common account protection. (8)
  
5. Outline **ten** circumstances where an insurer would effect a quota share treaty. (10)
  
6. (a) Explain the use and operation of reverse profit commission. (5)  
(b) Outline the **five** key points included in a typical reverse profit commission clause. (5)
  
7. Outline **ten** factors that determine the type of reinsurance treaty that an insurer would choose. (10)
  
8. Explain the purpose and key points of an arbitration clause. (12)

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9. Explain the circumstances and legal significance of *Vesta v Butcher* (1989) concerning the formation of insurance contracts. (6)
10. Explain how terrorism risks are dealt with in the UK reinsurance market. (10)
11. Outline the factors that a reinsurance underwriter has to consider when writing a property excess of loss treaty. (10)
12. Outline the information required by a reinsurer when writing a proportional reinsurance of workers' compensation business. (14)
13. Identify **five** advantages and **two** disadvantages of excess of loss treaties to the reinsurer compared to proportional treaties. (7)
14. Outline the considerations that a facultative energy reinsurer would take into account in respect of the following when deciding the extent of cover to be offered:
- (a) Towage. (3)
  - (b) Oceanographic and meteorological risk. (3)
  - (c) Impact of currents. (3)
  - (d) Engineering risk. (3)
  - (e) Fire risks. (3)

QUESTIONS CONTINUE OVER THE PAGE

**PART II**

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

- 15. (a)** You have been approached by XYZ Insurance Company (XYZ) who are considering starting a new reinsurance underwriting department.
- Prepare a report for XYZ, with examples to support your advice, on the potential benefits to the company of underwriting reinsurance business. **(18)**
- (b)** XYZ is interested in finding out more about the reinsurance marketplace.
- Describe the types of organisation that XYZ will be competing against to gain reinsurance business. **(12)**
- 16.** You are the Reinsurance Manager of 7Cs Insurance Company that underwrites a worldwide portfolio of marine hull and marine cargo risks.
- (a)** Discuss the marine hull and cargo risk exposures and the types of reinsurance appropriate for this account. **(27)**
- (b)** Identify the main reinsurance markets that you would approach in order to obtain quotations for the reinsurances suggested in **part (a)** above. **(3)**

17. The ABC Insurance Company (ABC) has the following reinsurance programme for its commercial property business:

- Nine lines 1st surplus treaty with a maximum total cession of £18,000,000.
- Ten lines 2nd surplus treaty with a maximum total cession of £20,000,000.
- The treaty limits are on a sum insured basis.
- Proportional facultative reinsurance is used when additional capacity is required.

The retention of ABC is scaled in its table of limits according to risk classification from £400,000 to £2,000,000.

ABC has accepted the following risks and the retention for each is in accordance with the table of limits as follows:

Risk	Sum insured (£)	Retention (£)
A	50,000,000	2,000,000
B	35,000,000	1,000,000
C	2,000,000	400,000
D	16,000,000	1,500,000

- (a) Calculate, **showing all your workings**, how much of **each** risk is ceded to the 1st and 2nd surplus treaties and the requirement for facultative reinsurance. (12)
- (b) (i) Risk A suffers a claim of £45,000,000. Calculate, **showing all your workings**, the amount recovered from **each** reinsurance arrangement. (6)
- (ii) Recalculate, **showing all your workings**, the amounts that would be recovered from **each** reinsurance arrangement if the facultative reinsurance for Risk A had been placed on an excess of loss basis. (6)
- (c) Explain briefly how facultative reinsurance on a proportional basis differs from facultative reinsurance on an excess of loss basis. (4)
- (d) Explain briefly, with a comparison using the figures given in this question, why surplus reinsurers would prefer 'proportional' to 'excess of loss' facultative reinsurance in terms of premium and claims. (2)

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