

THE CHARTERED INSURANCE INSTITUTE



E80

**Examination element of M80 Underwriting
practice**

**Based on the 2016/2017 syllabus
examined until 30 April 2017**

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Published in February 2016 by:

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the E80 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their E80 studies before attempting the specimen examination. Students should allow themselves one hour to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time. The examination must be successfully passed within 18 months of enrolment on M80.

Although the specimen examination in this guide is typical of an E80 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the M80 reading list, which is located on the syllabus in this examination guide and on the CII website at www.cii.co.uk.

Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

- 1) Visit www.cii.co.uk/qualifications
- 2) Select the appropriate qualification
- 3) Select your unit on the right hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

Syllabus

The M80 syllabus is published on the CII website at www.cii.co.uk. **Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The examination syllabus categorises M80 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to understand the subject matter. Each learning outcome begins with one of these cognitive skills:

Understanding - Candidates must be able to link pieces of information together in cause and effect relationships. Typically questions may ask 'Why'. Questions set on an understand learning outcome can test either knowledge or understanding or both.

Examination Information

The method of assessment for the E80 examination is 50 multiple choice questions (MCQs). One hour is allowed for this examination.

The M80 syllabus provided in this examination guide will be examined from 1 May 2016 until 30 April 2017.

Candidates will be examined on the basis of English law and practice unless otherwise stated.

The general rule is that legislative and industry changes will not be examined earlier than 3 months after they come into effect.

Please note that the Insurance Act 2015, which comes into effect on 12 August 2016, will be reflective in examinations and the specimen paper from 1 October 2016.

E80 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

When preparing for the examination, candidates should ensure that they are aware of what typically constitutes each type of product listed in the syllabus and ascertain whether the products with which they come into contact during the normal course of their work deviate from the norm, since questions in the examination test generic product knowledge.

A multiple choice question consists of a problem followed by four options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only one correct or best response to the problem posed.

One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

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.

Candidates are permitted to make rough notes. Candidates are not permitted, in any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate's examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

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	Number of questions in the examination*
1. Understand key influences of the regulatory and commercial environment on underwriting.	10
2. Understand key aspects of underwriting policy and practice.	9
3. Understand how statistical data is used for underwriting.	11
4. Understand the principles and practices of risk pricing.	12
5. Understand risk exposure and control.	8

*The test specification (relevant to the M80 multiple choice question exam only) has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

Important notes

M80

- **Method of assessment**

Mixed assessment for M80 of which both elements must be individually passed. This consists of:

1. an online coursework assignment using RevisionMate consisting of 10 questions which sequentially follow the learning outcomes. This must be successfully completed within 6 months of enrolment; and
2. a multiple-choice question (MCQ) exam at one of the CII's online centres (paper based MCQs are available in April and October for those sitting outside the UK). The MCQ exam consists of 50 MCQs. 1 hour is allowed for this examination. This exam must be successfully passed within 18 months of enrolment.

- This syllabus will be examined from 1 May 2016 until 30 April 2017.
- Candidates will be examined on the basis of English law and practice unless otherwise stated.
- 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/updates
 2. Select the appropriate qualification
 3. Select your unit on the right hand side of the page

P80

- **Method of assessment:** 15 short answer questions. Total of 130 marks. Two hours are allowed for this exam.
- Candidates will be 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
 3. Select your unit on the right hand side of the page

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 you 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 you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

CII study texts

Underwriting practice. London: CII. Study text M8oP8o.

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

Books (and ebooks)

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

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

Bowstead and Reynolds on agency. Peter Watts & FMB Reynolds. 20th ed. London: Thomson Reuters, 2014.

Capital requirements, disclosure, and supervision in the European insurance industry: new challenges towards Solvency II. Maria Grazia Starita, Irma Malafrente. Palgrave Macmillan, 2014.

Capital structure and corporate financing decisions: theory, evidence, and practice H. Kent Baker and Gerald S. Martin. Wiley, 2011.*

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

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

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

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

Insurance theory and practice. Rob Thoys. Routledge, 2010.*

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

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

Pricing in general insurance. Pietro Parodi. CRC Press, 2015.

ORSA: Design and implementation. Bogie Azdemir. London: Risk Books, 2015.

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

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

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

Risk management for insurers: risk control, economic capital, and Solvency II. Rene Doff. 3rd ed. London: Risk Books, 2015.

Solvency II handbook: practical approaches to implementation. Rene Dorf. London: Risk Books, 2014.

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

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

The Financial Times guide to using the financial pages. 6th ed. Romesh Vaitilingam. Prentice Hall/Financial Times, 2011.

The role of agents in insurance business. Chapter – MacGillivray on insurance law: relating to all risks other than marine. 12th ed. Sweet & Maxwell, 2014.

Ebooks

The following ebooks are available through Discovery via www.cii.co.uk/discovery (CII/PFS members only):

Big data revolution: what farmers, doctors and insurance agents teach us about discovering big data patterns. Rob Thomas, Patrick McSharry. Wiley, 2015.

Fundamental aspects of operational risk and insurance analytics: a handbook of operational risk. Marcelo G. Cruz. Wiley, 2015.

Fundamentals of risk management: understanding, evaluating and implementing effective risk management. Paul Hopkin, Kogan Page, 2014.

Handbook in Monte Carlo simulation: applications in financial engineering, risk management and economics. Paolo Bradimarte. Hoboken: Wiley, 2014.

Risk modelling in general insurance: from principles to practice. Roger J. Gray, Susan M. Pitts. Cambridge: Cambridge University Press, 2012.

Treatises on Solvency II. Meinrad Dreher. Heidelberg: Springer, 2015.

Factfiles and other online resources

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via www.cii.co.uk/ciifactfiles (CII/PFS members only).

- Alternative risk transfer. David Kaye; updated by Ian Searle.
- Risk control. Ian Searle.
- Risk identification. 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.

Digital innovation in insurance. Big data and cloud computing. ©Timetric Insight Report. July 2015. Available online at www.cii.co.uk/insightreports

Institute of Risk Management www.theirm.org.

Insurers' engagement with Social Media. ©Timetric Insight Report. March, 2015. Available for members at www.cii.co.uk/insightreports (CII/PFS members only).

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

Journals and magazines

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

Post magazine. London: Incisive Financial Publishing. Weekly. Also available online at www.postonline.co.uk.

The Economist. London: Economist Newspaper. Weekly.

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

Further periodical publications are available at www.cii.co.uk/journalmagazines (CII/PFS members only).

Reference materials

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004.

Concise encyclopedia of insurance terms. Laurence S. Silver, et al. New York: Routledge, 2010.*

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/lamont (CII/PFS members only).

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

* Also available as an ebook through Discovery via www.cii.co.uk/discovery (CII/PFS members only).

Examination guides

An examination guide, which includes a specimen paper, is available to purchase via www.cii.co.uk.

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (www.revisionmate.com). Details of how to access Revisionmate are on the first page of your study text.

It is recommended that you only study from the most recent versions of the examination guides.

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/iilrevision (CII/PFS members only).

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 from 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 via www.cii.co.uk/pastexamguides (CII/PFS members only).

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 (IIL) holds a lecture on revision techniques for CII written exams approximately three times a year. The slides from their most recent lectures can be found at www.cii.co.uk/iilwrittenrevision (CII/PFS members only).

1. An underwriter working for a large insurer is considering her own position under the Financial Conduct Authority's Training and Competence Sourcebook. She should be aware that
 - A. a regular review of her competence should take place.
 - B. she is expected to have a working knowledge of the other departments within the firm.
 - C. she should take an external examination at least every three years.
 - D. there is no requirement for her competency to be supervised.

2. Why is the Financial Conduct Authority **most likely** to invoke its right to pre-approve an insurer's new product?
 - A. It is concerned that it represents unfair risks to policyholders.
 - B. It is concerned that the product is priced above that of market competitors.
 - C. The insurer has declared the intention to target the product at high net worth individuals.
 - D. The insurer has failed to submit full documented details.

3. What is the **most likely** objective of an insurer operating a self-auditing process with peer checks?
 - A. To enable identified corrective action to take place at the earliest opportunity.
 - B. To enable training programmes to be developed to cover new products and processes.
 - C. To improve inter-departmental service level agreements.
 - D. To maximise cost-saving opportunities and improve product terms and conditions.

4. Firm X writes liability insurance and firm Y writes commercial property insurance. When considering the capital requirements of each firm, it is reasonable to assume that, compared to firm Y, firm X requires a
 - A. greater capital allocation but can benefit from more favourable investment opportunities.
 - B. greater capital allocation but must adopt a more risk-averse investment strategy.
 - C. lower capital allocation but can benefit from more favourable short-term investment opportunities.
 - D. lower capital allocation but must adopt a more risk-averse short-term investment strategy.

5. Jack entered into an insurance contract and received his documentation 10 working days later. How did this specifically satisfy the requirements of the Contract Certainty Code of Practice?
 - A. The contract included cover for legal representation.
 - B. The contract was entered into before its inception date.
 - C. Jack had chosen to pay monthly premiums.
 - D. Jack had sought clarity of certain contract terms.

6. Meg needed liability insurance to cover her consultancy business. She was recommended a standard policy which met her needs and incorporated standard industry exclusions. Which, if either, of the Consumer Rights Act 2015, or the Contracts (Rights of Third Parties) Act 1999 are **likely** to apply to Meg's policy?
- A. Both Consumer Rights and Rights of Third Parties.
 - B. Rights of Third Parties only.
 - C. Consumer Rights only.
 - D. Neither Consumer Rights nor Rights of Third Parties.
7. The underwriting cycle is moving from hard market to soft market conditions. What does this mean with regard to capital available for investment and the overall amount of risk an underwriter is able to accept?
- A. Both capital available for investment and acceptance of risk will increase.
 - B. Both capital available for investment and acceptance of risk will reduce.
 - C. Capital available for investment will increase but acceptance of risk will reduce.
 - D. Capital available for investment will reduce but acceptance of risk will increase.
8. Insurers X and Y operate in different market places. Insurer X is currently experiencing soft market conditions whilst insurer Y is experiencing hard market conditions. Insurer X is therefore **more likely** than insurer Y to be
- A. able to reduce its reinsurance needs.
 - B. contracting the scope of its cover.
 - C. depleting its reserves.
 - D. experiencing reducing expense ratios.
9. What is the consequence to an insurer which is experiencing a soft market during the traditional underwriting cycle?
- A. Falling expense ratios are likely to be in evidence.
 - B. Reinsurers' minimum premium levels are likely to increase.
 - C. Reinsurance costs are likely to fall proportionately in line with premium income.
 - D. Rising expense ratios are likely to be in evidence.
10. During a lengthy hard market phase, what is an underwriter **most likely** to experience when considering the ongoing relationship of cover provided to premium income?
- A. The ability to achieve higher profits due to obtaining higher premium income levels for the same level of cover.
 - B. Both premium income and cover levels reducing in equal proportions.
 - C. Demand to reduce premiums whilst maintaining existing cover levels.
 - D. The need to increase investment to maintain its competitive position at existing premium and cover levels.

11. An underwriter has received two applications for business interruption insurance. Firm X indicates greater availability of alternative suppliers than firm Y, whilst firm X has provided far less detail regarding maintenance of its machinery than firm Y. What is the underwriter **most likely** to conclude when considering moral and physical hazard?
- A. Firm X represents a greater moral hazard than firm Y, but a lesser physical hazard.
 - B. Firm X represents a lesser post-loss moral hazard than firm Y, but a greater physical hazard.
 - C. Firm Y represents a greater pre-inception risk than firm X, but a less post-inception risk.
 - D. Firm Y represents a lesser physical hazard than firm X, but a greater post-loss risk.
12. An insured provided all required information satisfactorily and promptly at application stage, but has subsequently delayed the production of updated reports and requested postponements to site inspection visits. With regard to physical and moral hazard, what would this indicate to the underwriter?
- A. Pre-inception and post-inception moral hazards.
 - B. Pre-inception physical and post-inception moral hazards.
 - C. Post-inception moral and physical hazards only.
 - D. Post-inception moral and physical hazards plus potential post-loss moral hazard.
13. Rob's insurance policy includes a clause allowing him to cancel the policy during the term and be allowed a premium rebate in certain circumstances. It is therefore **likely** that this condition
- A. allows reinstatement within a stated timescale.
 - B. also allows cancellation by the insurer.
 - C. reflects non-standard industry practice.
 - D. reflects the underwriter's specific moral hazard concerns.
14. What should an insurance broker be aware of when considering becoming a Managing General Agent?
- A. It will effectively hold the underwriting pen of the insurer.
 - B. It will have additional responsibilities to the regulator.
 - C. It will have the financial responsibility of funding claims.
 - D. It will not be permitted to carry out marketing of insurance products.
15. Why would an underwriter **typically** have delegated authority to a specialist coverholder?
- A. To comply with Financial Conduct Authority regulations.
 - B. To enable acceptance of risks in other parts of the EU.
 - C. To maximise profitability and reduce reinsurance costs.
 - D. To reduce its commission rates paid to intermediaries.

16. An underwriter has delegated authority to a firm which has several members of staff. The binding authority **must** therefore always
- A. clearly state that one employee takes full responsibility for underwriting decisions made by the firm.
 - B. document the training required before any underwriting authority can be exercised.
 - C. include the requirement that those with underwriting authority cannot undertake any marketing activities.
 - D. specify which employees have underwriting authority and the levels applicable to each.
17. With regard to the rise in illegal intermediaries, what is the **usual** role of the Insurance Fraud Enforcement Department?
- A. To identify altered client information and invalid policy documents.
 - B. To prove links between clients applying for large sums insured quickly followed by a claim.
 - C. To recognise multiple claims in the names of bogus policyholders.
 - D. To trace the progress of high value claim payments through money laundering processes.
18. Dan works for the Insurance Fraud Investigators' Group and Liz for the Insurance Fraud Enforcement Department. Consequently, Dan is **more likely** than Liz to be responsible for
- A. co-ordinating investigations into potential frauds between insurers.
 - B. discovering ghost broking activities and providing evidence for prosecution.
 - C. identifying emerging fraud risks and potential counter-measures.
 - D. sharing intelligence amongst insurers and loss adjusters.
19. In order to combat the issue of professional enablers, what **must** insurers find ways to identify?
- A. Claims such as those where criminal gangs have deliberately caused vehicles to crash.
 - B. Individuals or groups who continue to progress claims known to be fraudulent.
 - C. Policies specifically taken out for money laundering purposes.
 - D. Policyholders who have deliberately failed to disclose previous claims.
20. A set of data comprises the following values: 3, 5, 10, 14, 22, 25, 28, 35 and 42. What can be deduced from this data?
- A. The mean is 21.
 - B. The median is 22.
 - C. The median and mean have the same value.
 - D. The mode will be the midpoint of the median and mean.
21. Between one and five claims are expected to arise next year, with respective probabilities of 0.1, 0.1, 0.3, 0.2 and 0.3. For data comparison purposes, what is the expected number of claims?
- A. 3.3
 - B. 3.5
 - C. 3.7
 - D. 3.9

22. An underwriter has determined its exposure for an identified household risk and the risk factors associated with it. In order to assess the risk over time, the underwriter
- A. has a duty to compare the premium with similar risks in the market place.
 - B. has everything needed to cover the next five years.
 - C. must agree the conclusions with the potential policyholder.
 - D. must clearly define the claim events to be included in the policy.
23. In what circumstances is the mode **normally** a more relevant measure of average than the median?
- A. The data relates to monetary values rather than periods of time.
 - B. The middle value is an unfair representation of the full dataset.
 - C. More than three sets of data are being compared.
 - D. There is no obvious middle value.
24. A list of insurance data comprises values of 10, 20, 20, 30, 40, 60 and 60. What can be deduced from this?
- A. The arithmetic mean is half of the modal average.
 - B. The arithmetic mean is the same as the median average.
 - C. The median average is greater than 35.
 - D. The modal average is both 20 and 60.
25. The value of the premiums charged by a large retail insurer has been accurately plotted as a normal distribution curve. When interpreting this data, what indication should this give to the underwriter?
- A. The higher the premium paid, the greater the level of profitability.
 - B. The lower the premium paid, the lower the average age of the policyholder.
 - C. The majority of policyholders are paying premiums which are close to the average.
 - D. The number of policyholders increases as the premium level decreases.
26. Over time, the standard deviation of claims in a specific insurance class has increased. What should this indicate to the underwriter?
- A. The incidence of fraud is reducing.
 - B. The number of claims is reducing.
 - C. Profitability is increasing.
 - D. The volatility of claims experience is increasing.
27. When considering the probability of claims events, underwriter X is using the relative frequency method and underwriter Y the stochastic model. What does this indicate?
- A. Underwriter X is assuming that historic data will be repeated and underwriter Y is relying on simulated scenarios.
 - B. Underwriter X is setting up a new class of business and underwriter Y is considering latent claims.
 - C. Underwriter Y's claims are likely to be of greater frequency and lower value than underwriter X's.
 - D. Underwriter Y's data is more reliable than underwriter X's and covers a longer historic period.

28. An underwriter is obliged to analyse claims experience based on a large number of claims, rather than a homogeneous database. This is **most likely** to produce results which are
- A. aligned to the probability of future claims but which are not easily sub-divided.
 - B. both aligned to the probability of future claims and easily sub-divided.
 - C. less aligned to anticipated trends but more capable of indicating ongoing profitability.
 - D. more aligned to anticipated trends but less capable of indicating ongoing profitability.
29. A list of insurance data comprises values of 5, 10, 10, 20 and 30. What does this indicate?
- A. The median average is 15.
 - B. The modal average is 20.
 - C. The median average is the same as the modal average.
 - D. The modal average is the same as the arithmetic mean.
30. Between one and six claims are expected to arise next year, with respective probabilities of 0.2, 0.3, 0.1, 0.3, 0.2 and 0.1. For data comparison purposes, what is the expected number of claims?
- A. 3.3
 - B. 3.5
 - C. 3.7
 - D. 3.9
31. When compared to the burning cost method of premium calculation, the prospective risk analysis method
- A. fails to allow for the re-evaluation of historic claims to current-day values.
 - B. has a greater potential to underestimate the value of future large claims.
 - C. makes greater use of claims triangulations to adjust for incomplete data.
 - D. more appropriately adjusts claims experience in line with current cover and risks.
32. Underwriter X is required to seek a greater return on capital employed than underwriter Y. In comparison, what does this indicate about the risk class being considered by underwriter X?
- A. It is more volatile than that of underwriter Y.
 - B. It is of a shorter term nature than that of underwriter Y.
 - C. It is subject to greater legislative requirements than that of underwriter Y.
 - D. It is subject to lower premium levels than that of underwriter Y.
33. Analysis of historical data regarding a motor fleet risk shows that the burning cost has continued to increase. What does this indicate?
- A. The average number of annual claims has decreased but the average claim value has increased.
 - B. The fleet size has increased annually at a greater rate than the value of incurred claims.
 - C. The number of annual claims has increased but the total value has decreased.
 - D. The total level of incurred claims has increased in relation to the fleet size.

34. An underwriter is interpreting claims data for risks X and Y, where only risk Y has a long-tail exposure. What is the interpretation for risk Y **likely** to include?
- A. Analysis of severity of loss, rather than frequency of loss figures.
 - B. A greater reliance of externally-produced statistics.
 - C. Less focus on homogeneous risks.
 - D. Past claims experience over a longer period.
35. An underwriter is analysing the value of both paid and outstanding claims against the premium related to the period of insurance which has already run. What is the underwriter calculating?
- A. Claims triangulation.
 - B. Loss frequency.
 - C. Loss ratio.
 - D. Performance benchmark.
36. Underwriter X is considering claims data for the past 5 years and underwriter Y for the past 10 years. What is this **most likely** to indicate?
- A. Only underwriter X is considering homogeneous risks.
 - B. Only underwriter Y is fully able to analyse closed files.
 - C. Underwriter X's claims values are typically lower than underwriter Y's.
 - D. Underwriter Y's risks typically take longer to run off than underwriter X's.
37. An underwriter's assessment of incurred but not reported (IBNR) claims has **most** impact on the insurer's ability to
- A. establish the level of reserves required to meet ultimate claims values.
 - B. obtain appropriate reinsurance facilities for long-tail exposures.
 - C. recognise the potential impact of catastrophe losses.
 - D. set competitive premium levels for homogeneous risks.
38. The importance of effective liaison between the underwriter and the claims department regarding claims backlogs **primarily** relates to the
- A. application of appropriate inflationary factors.
 - B. most appropriate allocation of claims codings.
 - C. need to treat customers fairly.
 - D. ongoing viability of loss ratio data.
39. What is the **primary** aim of an insurance provider having effective liaison between its underwriting and claims function regarding the allocation of claims codings?
- A. To avoid the payment of claims which are outside the scope of the policy.
 - B. To enable the most appropriate reinsurance facilities to be obtained.
 - C. To ensure risks continue to be appropriately rated.
 - D. To establish the required level of ongoing reserves provision.

40. When considering claims projections, including incurred but not reported (IBNR) exposures, how may an actuary be **primarily** useful in assisting the underwriter?
- A. By creating modelling solutions to assess the level of ongoing potential claims.
 - B. By identifying ways to improve the return on capital employed.
 - C. By negotiating appropriate reinsurance arrangements.
 - D. By using the actuary's expertise to maximise the profitability of the claims portfolio.
41. Alan, Beth and Clive are an actuary, compliance manager and underwriting manager respectively. Who would be **primarily** responsible for a pricing adjustment following an analysis of competitors operating in the same market place?
- A. Alan only.
 - B. Alan and Beth.
 - C. Clive only.
 - D. Clive and Beth.
42. When comparing the burning cost method of premium calculation with prospective risk analysis, the burning cost method
- A. has a greater need to incorporate claims triangulation adjustments despite an overall more simplistic approach.
 - B. is more suited to the analysis of homogeneous data despite a general tendency to base calculations on incomplete years.
 - C. makes a more accurate allowance for changes in claims frequencies but disregards the impact of changes in claims types.
 - D. makes greater allowance for claims inflation but excludes general inflation.
43. An underwriter is considering a risk in a geographical area classified as within acceptable criteria according to the CRESTA system. However, the underwriter has been obliged to decline the proposal due to the risk zoning guidelines of the insurer. What is this **most likely** to indicate?
- A. Exposure in this location is already near maximum capacity.
 - B. The insurer already covers other risks for this proposer.
 - C. Reinsurance costs are too prohibitive.
 - D. This location has recently been subject to civil unrest.
44. An insurer has incurred aggregated risk under both its personal accident and travel insurance accounts across a defined geographical area. This situation can reasonably be illustrated by the occurrence of a
- A. delay to return flights and lost luggage due to severe snow storms.
 - B. family's involvement in a car accident whilst driving a hired car on holiday.
 - C. food poisoning outbreak at a resort hotel.
 - D. major flood in a popular tourist region.

45. Underwriter X is concerned about possible fluctuations in claims costs, whilst underwriter Y is looking to increase current capacity in order to accept larger or more unusual risks. Prudent action would be for underwriter X and underwriter Y to both
- A. commission an expenses review.
 - B. purchase reinsurance.
 - C. seek guidance from the Claims and Underwriting Exchange.
 - D. switch to a risk aggregation policy.
46. Both insurer X and insurer Y have set the same financial limit up to which risks can be accepted in a particular class of business. However, insurer X regularly exceeds this limit. What is this **most likely** to indicate?
- A. Insurer X focuses on larger risks whereas insurer Y focuses on more unusual risks.
 - B. Insurer X is expanding business in new overseas territories whereas insurer Y operates mainly in the EU.
 - C. Insurer X makes more effective use of reinsurance facilities whereas insurer Y declines cover.
 - D. insurer X regularly coinsures whereas insurer Y has a quota share reinsurance arrangement.
47. A reinsured retains the first £400,000 of each and every loss arising from a particular event and has purchased an excess of loss reinsurance treaty to cover the next £800,000. In the event of a claim for £600,000, what is the respective liability of the reinsured and the reinsurer?
- A. Nil and £600,000.
 - B. £200,000 and £400,000.
 - C. £400,000 and £200,000.
 - D. £600,000 and Nil.
48. Underwriter X's insurance needs are typically met by facultative reinsurance whereas underwriter Y typically uses treaty reinsurance. This indicates that, compared to underwriter X, underwriter Y is **most likely** to
- A. experience more pressure from the reinsurer to improve the risk.
 - B. incur more labour-intensive administrative issues.
 - C. lose more potential profit under its accounts.
 - D. reduce the need to arrange individual reinsurance contracts.
49. In a period where new reinsurers have started to enter the market, the interaction between insurers and reinsurers can **typically** be said to reflect
- A. increasing reinsurance prices and negotiating power in favour of the reinsurer.
 - B. increasing reinsurance prices and negotiating power swaying towards the insurer.
 - C. reducing reinsurance prices and negotiating power in favour of the reinsurer.
 - D. reducing reinsurance prices and negotiating power swaying towards the insurer.

50. An insurer has found that the cost of reinsuring its property account is prohibitive. What is the insurer is **most likely** to consider as an alternative way of limiting its risk exposure?
- A. Coinsurance.
 - B. Dual insurance.
 - C. First-loss insurance.
 - D. Self-insurance.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 3			Learning Outcome 5		
1	A	1.1	20	B	3.3	43	A	5.1
2	A	1.1	21	B	3.7	44	D	5.2
3	A	1.1	22	D	3.1	45	B	5.3
4	A	1.2	23	B	3.2	46	C	5.3
5	B	1.3	24	D	3.3	47	C	5.4
6	D	1.4	25	C	3.4	48	D	5.4
7	B	1.5	26	D	3.4	49	D	5.5
8	C	1.5	27	A	3.6	50	A	5.6
9	D	1.5	28	A	3.8	8 questions		
10	A	1.5	29	C	3.3			
10 questions			30	D	3.7			
			11 questions					
Learning Outcome 2			Learning Outcome 4					
11	A	2.2	31	D	4.2			
12	D	2.2	32	A	4.1			
13	B	2.3	33	D	4.2			
14	A	2.6	34	D	4.3			
15	B	2.6	35	C	4.3			
16	D	2.6	36	D	4.3			
17	A	2.8	37	A	4.4			
18	D	2.8	38	D	4.5			
19	B	2.8	39	C	4.5			
9 questions			40	A	4.6			
			41	C	4.7			
			42	A	4.2			
			12 questions					