

P66

Diploma in Insurance

Unit P66 – Delegated authority

April 2016 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. (a) Explain the potential risk to the brand of an insurer when delegating authority to a coverholder or third party administrator. (6)
- (b) Identify the **three** key stages when an insurer will need to conduct risk management in relation to managing reputational risk in a delegated authority arrangement. (3)
2. Explain briefly the **four** potential conflicts of interest faced by a broker acting as a coverholder when operating a delegated authority on behalf of an insurer. (12)
3. Explain the **two** types of legal contract in existence within a delegated authority arrangement, with reference to the law of contract. (8)
4. (a) Explain the purpose of the Lloyd's annual compliance return. (4)
- (b) Identify **four** headings that would be included in the Lloyd's annual compliance return. (4)
- (c) Explain briefly **one** benefit for the Lloyd's managing agent of the compliance return regarding the monitoring and management of a binder. (2)
- (d) Explain briefly **one** disadvantage for the Lloyd's managing agent of the compliance return regarding the monitoring and management of a binder. (2)
5. Identify and explain briefly **five** suitability criteria an insurer might consider when deciding to delegate authority to a potential coverholder. (10)
6. Identify and describe briefly **four** ways in which a coverholder can be remunerated. (12)

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7. Explain contract certainty and its application to delegated authority contracts. (10)
8. Explain **three** practical issues an insurer should consider if a contract of delegation is not being renewed. (9)
9. (a) Describe briefly exposure management. (3)
- (b) Explain briefly why exposure management is important in a delegated underwriting agreement. (3)
- (c) Identify the types of data that may be captured for a delegated property underwriting agreement, in order to manage exposure. (3)
10. (a) Identify and explain briefly the **two** ways in which the claims authority granted to a coverholder can be restricted by an insurer. (4)
- (b) State **two** advantages and **two** disadvantages for the insurer of delegating claims authority to a coverholder. (4)
- (c) State **two** advantages and **two** disadvantages for the coverholder of accepting delegated claims authority from an insurer. (4)
11. Explain the importance of a coverholder or third party administrator understanding the insurer's claims philosophy when claims authority has been delegated. (6)
12. (a) Explain the importance of contractual transparency between a coverholder and an insurer from a regulatory perspective. (5)
- (b) Explain how a contract of delegation can support the coverholder when issuing documentation. (5)

QUESTIONS CONTINUE OVER THE PAGE

13. Discuss **two** of the major financial crime related activities which a coverholder could be engaged in when handling funds. (12)
14. Explain briefly **three** areas where service levels may become subject to review by an insurer who is monitoring the performance of a coverholder. (9)

Part II questions can be found on pages 8 and 9

PART II

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

- 15.** You are a manager within an insurance broker, responsible for a delegated underwriting and claims agreement which has been delegated to you by an insurer. A number of your staff, who formed part of the coverholder team, have left your company over the last year.

Before the insurer conducts their annual audit review of the agreement, you also wish to conduct a full internal monitoring review.

- (a)** Identify and explain briefly **eight** considerations that you would review in order to effectively manage the delegated authority. **(16)**
- (b)** Explain the importance to the business and the insurer of retaining staff who form part of the coverholder team. **(8)**
- (c)** Identify and explain briefly the options available to the insurer if their audit of the agreement is not satisfactory. **(6)**

- 16.** You are the Lead Managing Agent of an insurer operating in Lloyd's. You have been approached by a potential coverholder to request a delegated underwriting authority. You now need to carefully consider the proposal and, if you decide to proceed, you will need to evidence to Lloyd's that you have a clear strategy.

- (a)** Explain the considerations you will undertake as part of the business rationale when conducting due diligence in order to agree to the new coverholder arrangement. **(10)**
- (b)** Explain briefly why Lloyd's has an approval process for new delegated authority agreements. **(5)**
- (c)** Explain the steps you would include in a document to evidence to Lloyd's that you have a clear strategy in proceeding with the underwriting authority arrangement. **(15)**

17. You are the Manager of a small broking company who has just been granted an underwriting agreement with an insurer. The insurer has not granted you any claims authority. Your company specialises in arranging the insurances of small specialist companies and you have a number of binders already.

Having reviewed the binder conditions, you now turn your attention to implementing the business plan.

- (a) Explain **five** key considerations that you now need to consider when implementing your delegated underwriting authority plan. (20)
- (b) Explain the challenges you may face when operating several delegated authority agreements. (5)
- (c) Explain the benefits and disadvantages for your organisation of not holding any claims authority. (5)

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