

P80

Diploma in Insurance

Unit P80 – Underwriting practice

April 2016 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.

Answer ALL questions**Note form is acceptable where this conveys all the necessary information**

1. Identify the bodies who are responsible for the:
 - (a) Conduct regulation of insurers. (1)
 - (b) Prudential regulation of insurers. (1)
 - (c) Prudential regulation of insurance brokers. (1)
 - (d) Monitoring of emerging risks to the UK financial system as a whole and providing overall strategic direction for the regulatory regime. (1)
 - (e) Prudential and conduct regulation of the Society of Lloyd's. (2)

2. State the **six** consumer outcomes under Treating Customers Fairly. (6)

3.
 - (a) State what an insurer must understand in order to manage their capital effectively. (4)
 - (b) Outline why an insurer may be viewed as having too much capital. (2)
 - (c) Explain the implications of an insurer having too little capital. (7)

4. State **four** benefits of using delegated authority for **each** of the following parties:
 - (a) Intermediaries. (4)
 - (b) Insurers. (4)

5. Explain the meaning of estimated maximum loss and the importance of accurately calculating it. (10)

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6. Outline the **three** actions an insurer may take when faced with aggressive competition in a segment. (9)
7. (a) State **four** areas where an underwriter may call upon the skills of an actuary. (4)
(b) State **three** duties an actuary may undertake if they are working on Solvency II. (3)
8. (a) Draw a simple line graph to illustrate the standard relationship between frequency and severity, labelling the **two** extreme points. (4)
(b) Identify an example from motor insurance claims for **each** of the extreme points. (2)
(c) Identify a **type** of insurance, excluding motor, which **predominantly** gives rise to claims for **each** of the extreme points. (2)
9. Define the term 'risk premium' and explain what an underwriter would consider when setting it. (15)
10. (a) State the importance of using averages when understanding large data sets. (3)
(b) Define and calculate the **three** common measures of average, using the following set of six claim values:
£100, £100, £300, £400, £500, £700 (6)
11. (a) List **three** types of motor insurance fraud. (3)
(b) Explain briefly **two** industry databases used to combat motor insurance fraud. (8)
12. Explain how surplus reinsurance operates. (6)

QUESTIONS CONTINUE OVER THE PAGE

13. Outline the terms 'physical hazard' and 'moral hazard' in relation to insurance, providing an example of a good and poor physical and moral hazard. (10)
14. Outline why, in recent times, governments have encouraged the setting up of reinsurance pools. (6)
15. Draw and label the classic insurance cycle. (6)

