

## P66

### Diploma in Insurance

#### Unit P66 – Delegated authority

October 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 briefly **three** challenges faced by an insurer where authority has been delegated to a coverholder in the UK or the USA, in relation to bribery. (6)
  - (b) Describe briefly how the insurer could mitigate against **two** of the challenges identified in **part (a)** above. (4)
  
2.
  - (a) Explain the key advantage a Lloyd's syndicate has in using a Lloyd's service company, compared to an insurance company choosing to set up a branch office in another country to write risks from another country. (4)
  - (b) Identify **six** practical steps that Lloyd's suggest managing agents consider before setting up a service company. (6)
  
3. Describe the role of the insurance broker in relation to:
  - (a) the movement of funds and data; (4)
  - (b) identifying coverholders; (3)
  - (c) facilitation of the agreement process. (3)
  
4. Explain why a coverholder should understand the insurer's claims philosophy when operating a delegated authority on behalf of the insurer. (10)
  
5. Identify and explain **three** performance and operational control measures, other than comparison to the service level agreement, which an insurer could use to assess the performance of a coverholder when monitoring the operation of the binder. (12)

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6. (a) Identify **four** blocks of information in which the Lloyd's coverholder reporting standards require coverholders to group their data when centrally reporting. (4)
- (b) State **four** benefits of the Lloyd's coverholder reporting standards. (4)
7. Explain how the following actions contribute to good claims handling and management where a coverholder has delegated claims authority:
- (a) Subrogation and recovery management. (5)
- (b) Internal audit and review. (4)
- (c) Post loss risk management feedback. (3)
8. (a) Describe briefly the aim of Solvency II in relation to capital adequacy in the European insurance industry. (4)
- (b) Identify **four** types of risk faced by insurance organisations, other than insurance related risks, and provide an example of **each**. (8)
9. Explain the role of reputational risk management in protecting the brand of an insurer when delegating authority to a coverholder. (10)
10. Identify and explain briefly **four** practical issues that an insurer will need to consider if it decides not to renew a contract of delegation with a coverholder. (12)
11. Describe how contracts of delegation can provide an insurer with underwriting control in a binding authority agreement with a coverholder. (8)
12. Distinguish between the **two** contracts in place when delegated authority is involved. (8)

QUESTIONS CONTINUE OVER THE PAGE

13. Explain briefly how a coverholder could manage an underwriting portfolio in relation to:
- (a) business plan and underwriting strategy; (3)
  - (b) considerations when a number of binding authorities are available; (3)
  - (c) data capture and management information. (3)
14. Identify **nine** key areas covered on Lloyd's online application and authorisation system for coverholders (ATLAS). (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 the Manager of a UK-based insurance broker that has signed a contract to provide insurance solutions for a federation of small commercial businesses which has several hundred members based in the UK with very similar risk profiles.

You have requested a delegated underwriting authority from an insurer to offer to the members of the federation. You are considering how best to make an application to the non-Lloyd's insurer who you feel is best suited to provide you with a binding authority.

- (a)** Identify and explain **four** practical steps you will need to take in order to offer the members of the federation cover on the binding authority. **(20)**
- (b)** Explain, with justification, how the insurer would benefit from the arrangement. **(10)**

- 16.** You are an underwriting manager of a UK-based insurer who is looking to write business in other countries.

Senior management have ruled out the possibility of developing a network of offices and employing new staff based overseas, and has asked you to consider finding a suitable coverholder to partner with. Senior management have also asked you to consider how you could ensure that service levels are monitored and controlled once authority has been delegated to a coverholder in a different country to protect your reputation and brand.

- (a)** Explain the international considerations you will need to take into account before making any decision to look for a suitable coverholder. **(15)**
- (b)** Identify and explain briefly **five** key areas that you might include in a service level agreement. **(15)**



- 17.** You are the Claims Manager of a UK-based insurance broker who has been granted an underwriting and claims authority agreement with an insurer.

In order to satisfy the insurer's Claims Manager that your claims team are fully competent and ready to operate the claims authority agreement, you have been asked to design a training programme for your claims team to ensure they are all aware of the legal and regulatory environment in which they will be operating.

- (a)** Explain with justification, **five** of the most important legal and regulatory issues that would be included in your training programme for your claims staff. **(20)**
- (b)** Identify and describe **two** activities, other than claims and underwriting, that could also be delegated by an insurer to a coverholder. **(10)**

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