

## P66

### Diploma in Insurance

#### Unit P66 – Delegated authority

April 2017 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.**



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## 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) Describe briefly the operation of a lineslip contract. (4)
- (b) Describe briefly **one** benefit for **each** party to a lineslip contract. (4)
- (c) Explain briefly the difference between bulking and non-bulking of risks on a lineslip. (2)
  
2. (a) Explain briefly **three** reasons why a broker may be involved in a contract of delegation. (6)
- (b) Describe **one** potential challenge for a broker who is a coverholder and explain how this challenge can be managed operationally. (6)
  
3. (a) Identify **three** of the Financial Conduct Authority's key drivers for Treating Customers Fairly. (3)
- (b) Explain, for **each** of the **three** key drivers identified in **part (a)** above, how they apply from a delegated authority perspective. (6)
  
4. Identify and explain **two** methods of remuneration to a coverholder which may cause a conflict of interest and explain why this conflict may arise. (10)
  
5. Describe **two** types of delegated underwriting authority contract that can be offered to a coverholder by an insurer who wishes to retain an element of control in the underwriting process. (10)
  
6. Explain briefly **six** considerations that a coverholder should regularly review when conducting internal audit and regular internal management reporting. (12)

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7. (a) Describe exposure management and explain why it is important in a delegated authority context. (6)
- (b) Explain briefly how a coverholder, on behalf of an insurer, might manage exposure in relation to property risk. (3)
8. (a) Explain **three** benefits to the insurer for delegating claims handling to an independent third party claims administrator. (6)
- (b) Explain **three** disadvantages to the insurer for delegating claims handling to an independent third party claims administrator. (6)
9. Explain the importance of contractual transparency for all parties in a delegated authority contract. (8)
10. Explain, when issuing documentation, why record keeping is essential from both a portfolio management and a regulatory perspective. (10)
11. (a) Describe the operation of **two** types of loss fund. (6)
- (b) State **one** benefit of a loss fund for **each** of the following:
- (i) Coverholder. (1)
- (ii) Insurer. (1)
- (iii) Insured. (1)
12. Explain **three** important considerations relating to the Insurance Conduct of Business Sourcebook (ICOBS) in the context of delegated authority. (9)

QUESTIONS CONTINUE OVER THE PAGE

13. (a) Explain the reputational risk for an insurer when delegating authority to a coverholder. (8)
- (b) Explain briefly how an insurer's reputational risk can be managed. (4)
14. The Financial Conduct Authority conducted a thematic review of delegated authority use in the general insurance market, which led to a report published in June 2015.
- Describe **four** of the areas of concern highlighted by this report. (8)

**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 an underwriting manager for an insurer who operates a number of delegated underwriting authorities. On reviewing the authorities, you discover one of your delegated authority agreements, a full binding authority, is operating at a loss and you have some concerns that the coverholder's service levels in relation to the underwriting process are not being met. This coverholder, one of your larger supporting insurance brokers, places a high volume of business with you on an open market basis.
- (a) Explain how pre-agreed service levels would assist in the effective operational management of the underwriting process in this delegated underwriting authority agreement. **(6)**
- (b) Describe **two** performance and operational control indicators, other than profitability and service levels, you would look at when reviewing this delegated underwriting authority agreement. **(8)**
- (c) Describe briefly **two** methods of monitoring the coverholder. **(6)**
- (d) Explain, giving reasons, the most appropriate course of action you would take with the insurer following your review. **(10)**
- 16.** You are the Claims Manager for an insurance broker who is also a coverholder with several delegated underwriting authority agreements in place. Your company receives brokerage from each of the agreements as well as several other methods of remuneration. In order to improve the claims service you offer your clients, you are considering requesting delegated claims authority from one of the insurers, alongside the underwriting authority.
- (a) Explain **two** restrictions the insurer is likely to impose on you if it agrees to your request, in order to retain an element of control. **(8)**
- (b) Identify and explain briefly **four** disadvantages for the insurer and **two** disadvantages for you, as the coverholder, in operating a delegated claims authority. **(12)**
- (c) Describe **one** potential conflict of interest if you are granted claims authority and explain briefly how this conflict could be mitigated. **(5)**
- (d) Identify **five** elements essential to the process of good claims handling. **(5)**



- 17.** You are an underwriting manager for an insurer. One of your largest insurance brokers, specialising in personal lines, has requested a delegated underwriting authority and has submitted a business plan for your consideration. The broker has an affinity relationship with a holiday operator who has a large database of clients requiring travel insurance. You have not granted them coverholder status in the past. The broker does operate a small number of delegated authority agreements with other insurers, but none for travel insurance.
- (a)** Identify and explain **five** key considerations when deciding whether or not to delegate authority to the insurance broker. **(20)**
- (b)** Identify **five** topics you would expect to see in the coverholder's business plan and explain briefly why **each** topic is important. **(10)**

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