

THE CHARTERED INSURANCE INSTITUTE



E80

Examination element of M80 Underwriting practice

**Based on the 2017/2018 syllabus
examined from 1 May 2017 until 30 April 2018**

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Based on the 2017/2018 syllabus examined from 1 May 2017 until 30 April 2018

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 2017 until 30 April 2018.

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.

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 examinations.

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 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

- **Method of assessment:**
Mixed assessment consisting of two components, both of which must be passed. One component is a coursework assignment and one is a multiple choice examination. The details are:
 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 2017 until 30 April 2018.
- 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

- 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 M8o

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.

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

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

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

Pricing in general insurance. Pietro Parodi. CRC Press, 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. 13th ed. Sweet & Maxwell, 2015.

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).

- Risk control. Ian Searle.
- Risk identification. Ian Searle.
- Recent developments in general insurance underwriting. Massimo Vascotto.
- Recent developments to Solvency II. Brad Baker.
- Insurance accounting (general business). Ian Hutchinson, updated by Alex Barnes.

AIRMIC. www.airmic.com.

Contract certainty: an Airmic guide for risk managers and insurance buyers. AIRMIC. 2009. Available via www.airmic.com (register your details to access).

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

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. Monthly. 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/journalismagazines (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).

Exemplars

Exemplar papers are available for all mixed assessment units. Exemplars are available for both the coursework component and the multiple-choice component.

These are available on the CII website under the unit number before purchasing the unit. They are available under the following link www.cii.co.uk/qualifications/diploma-in-insurance-qualification.

These exemplar papers are also available on the RevisionMate website www.revisionmate.com after you have purchased the unit.

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).

1. In a soft market, insurance companies are **most likely** to experience
 - A. increased premium income and a decrease in exposures.
 - B. increased premium income and an increase in exposures.
 - C. reduced premium income and a decrease in exposures.
 - D. reduced premium income and an increase in exposures.

2. Which body is responsible for monitoring emerging risks to the UK financial system and providing strategic direction for the regulatory regime?
 - A. Financial Conduct Authority.
 - B. Financial Policy Committee.
 - C. HM Treasury.
 - D. Prudential Regulation Authority.

3. Where a firm of insurance brokers is regulated by the Prudential Regulation Authority, into which category of authorisation will the firm **most commonly** be placed?
 - A. Category one.
 - B. Category two.
 - C. Category three.
 - D. Category four.

4. When considering an insurance company's solvency requirements, under the 2005 rules, its capital resources requirement is the higher of its
 - A. base capital requirement and its general insurance capital requirement.
 - B. general insurance capital requirement and its enhanced capital requirement.
 - C. minimum capital requirement and its base capital requirement.
 - D. minimum capital requirement and its enhanced capital requirement.

5. To achieve contract certainty, documentation **must** be received by commercial customers within how many calendar days after the inception of the contract?
 - A. 7 days.
 - B. 14 days.
 - C. 28 days.
 - D. 30 days.

6. Under the Data Protection Act 1998, an insurance underwriter **must** ensure that information held about a customer is
 - A. accurate and relevant only.
 - B. accurate and disclosed only to those authorised to have it only.
 - C. relevant and disclosed only to those authorised to have it only.
 - D. accurate, relevant and disclosed only to those authorised to have it.

7. A consumer made a misrepresentation when applying for an insurance policy, the insurer has discovered this at the time of a claim, but has decided to pay the claim in full. Which type of misrepresentation is **most likely** to have taken place?
- A. Careless.
 - B. Deliberate.
 - C. Fraudulent.
 - D. Reasonable.
8. In the underwriting cycle, an insurer has experienced a period of increased competition which has given rise to lower premiums. What is the **most likely** immediate impact to the insurer?
- A. Higher capacity.
 - B. Lower capacity.
 - C. Higher profits.
 - D. Lower profits.
9. Insurers **must** provide the Employers' Liability Tracing Office (ELTO) with policy information within what **maximum** period following the inception of a policy?
- A. 7 days.
 - B. 30 days.
 - C. 60 days.
 - D. 90 days.
10. Which body has responsibility for the conduct of the Society of Lloyd's?
- A. Financial Conduct Authority.
 - B. Financial Policy Committee.
 - C. HM Treasury.
 - D. Prudential Regulation Authority.
11. What are the **most common** forms of moral hazard?
- A. Pre-inception and post-inception only.
 - B. Pre-inception and post-loss only.
 - C. Post-inception and post-loss only.
 - D. Pre and post-inception and post-loss.
12. Within an insurance policy, which section details the type of event insured?
- A. Conditions clause.
 - B. Exemptions clause.
 - C. Operative clause.
 - D. Schedule.

13. In the UK, what are Standard Industrial Classification codes **most commonly** used for?
- A. Compiling health and safety statistics.
 - B. Determining financial adequacy requirements.
 - C. Establishing claims reserves in line with regulatory requirements.
 - D. Undertaking reinsurance and coinsurance negotiations.
14. Which term is used to describe a situation where a product becomes less differentiated, so that buyers care less about who they buy it from?
- A. Commoditisation.
 - B. Correlation.
 - C. Disintermediation.
 - D. Intermediation.
15. Under a delegated authority, the **usual** frequency for a bordereaux to be submitted to insurers is
- A. daily.
 - B. weekly.
 - C. monthly.
 - D. every three months.
16. What are the **main** risks facing an insurer when writing international business?
- A. Financial and political only.
 - B. Financial and cultural only.
 - C. Political and cultural only.
 - D. Financial, political and cultural.
17. Which type of crime could be committed by law-abiding citizens who consider it to be a victimless crime with little chance of detection?
- A. Commercial liability fraud.
 - B. Data theft.
 - C. Opportunistic fraud.
 - D. Pre-meditated fraud.
18. For what **maximum** period, if any, are details of incidents which may give rise to a claim held on the Claims and Underwriting Exchange?
- A. 3 years.
 - B. 6 years.
 - C. 10 years.
 - D. An unlimited period.

19. Where an insured regularly delays paying his premium, this is an example of what form(s) of moral hazard?
- A. Post-inception only.
 - B. Post-inception and post-loss only.
 - C. Pre-inception and post-inception only.
 - D. Pre-inception, post-inception, and post-loss.
20. What is **typically** used to indicate an insurer's underlying risk for its book of insurance?
- A. Capital adequacy.
 - B. Exposure measure.
 - C. Key performance indicators.
 - D. Liquidity ratio.
21. Which type(s) of average should be used for measuring preferences?
- A. Mode only.
 - B. Median only.
 - C. Mean only.
 - D. Mode or median.
22. Which type(s) of average can **most commonly** be distorted as a result of outliers in the data set?
- A. Mode only.
 - B. Median only.
 - C. Mean only.
 - D. Mode or median.
23. What is the **typical** appearance of a graphical representation of a normal distribution?
- A. A bell-shaped curve.
 - B. A concave curve.
 - C. A convex curve.
 - D. A curve which falls and then rises.
24. A data set comprises the following values: 1, 4, 4, 6, 6, 8, 9, 10. When analysing these values, What can be deduced?
- A. The mean is 6.
 - B. The median will be higher than 6.
 - C. The mode is 10.
 - D. The mode will be higher than the median.

25. The calculation used in a data set to reveal how far the data varies around the mean is known as the
- A. correlation value.
 - B. covariance value.
 - C. frequency measure.
 - D. standard deviation.
26. An insurance underwriter is able to calculate the expected value of claims by combining
- A. frequency and severity only.
 - B. frequency with their associated probability only.
 - C. severity with their associated probability only.
 - D. frequency and severity with associated probability.
27. Which technique, employed by insurance underwriters, involves generating a large number of statistically-simulated scenarios of claim frequencies, claim amounts and the timing of future claims?
- A. Relative frequency analysis.
 - B. Standard deviation modelling.
 - C. Stochastic modelling.
 - D. Subjective probability analysis.

28. The following data is available about an insurer's expected claims.

Number of Claims	Probability
1	0.1
2	0.2
3	0.3
4	0.3
5	0.1

What is the expected value of the claims?

- A. Equitable premium.
 - B. Franchise.
 - C. Policy excess.
 - D. Policy levy.
29. What does an insurer charge that **specifically** reflects the risk that a customer brings to the insurer's pool?
- A. Equitable premium.
 - B. Franchise.
 - C. Policy excess.
 - D. Policy levy.

30. What should an insurance underwriter do to avoid the unreliability of past data when considering future claims analysis?
- A. Assume an uplift in figures to allow for inflation.
 - B. Make an allowance for claims reductions in all circumstances.
 - C. Use competitor analysis tools.
 - D. Use sound judgement based on experience.
31. What action would an insurer **most likely** take to quickly grow a portfolio of business in the household insurance market?
- A. Charge premiums above their competitors while maintaining profitability.
 - B. Charge premiums below their competitors and compromise profitability.
 - C. Provide much wider cover than their competitors while maintaining profitability.
 - D. Provide less cover than their competitors and compromise profitability.
32. What is a major drawback in using the burning cost method when calculating an insurance premium?
- A. The figures used represent the ultimate value of claims.
 - B. Full allowance is not made for either claims or general inflation.
 - C. It takes into account only the insured's claims experience.
 - D. The rating method is not easy to understand.
33. For which classes of business would an underwriter **most likely** use claims triangulation to assist in determining the past, present and future value of claims?
- A. Commercial property and motor.
 - B. Employers' and public liability.
 - C. Household and private Motor.
 - D. Personal accident and income protection.
34. When building the expenses element on a motor insurance portfolio, what would the underwriter **typically** include as a fixed expense?
- A. Insurance Premium Tax.
 - B. Intermediary commission.
 - C. IT costs.
 - D. Motor Insurers' Bureau levy.
35. What type of risk is **best** suited to using the burning cost method as a means of premium calculation?
- A. A large fleet of taxis with a high frequency of generally medium-sized claims.
 - B. An individual car policy on a luxury high value car with a low frequency of high value claims.
 - C. A large FTSE 100 company's property portfolio with a high frequency of claims with a wide range of values.
 - D. A small provincial property company with a low frequency of low value claims.

36. When reviewing the last five years' claims data for a UK-based household portfolio, what other factor should an underwriter take into account when setting premium levels?
- A. Competitors' rates.
 - B. Exchange rates.
 - C. Inflation.
 - D. Sales volumes.
37. When considering the overall claims experience of the portfolio, what account, if any, should the underwriter take of incurred but not reported (IBNR) and incurred but not enough reserved (IBNER) information?
- A. Exclude IBNER only.
 - B. Include IBNR only.
 - C. Exclude both IBNR and IBNER.
 - D. Include both IBNR and IBNER.
38. A claims handler receives a query regarding the extent of cover provided by the policy. **Typically** the query would be referred to the
- A. actuary.
 - B. policy administration centre.
 - C. sales call centre.
 - D. underwriter.
39. How would an actuary assist an underwriter in respect of an individual risk analysis on a large and complex commercial risk?
- A. Advise on Solvency II requirements.
 - B. Calculate a burning cost premium.
 - C. Calculate the return on capital employed (ROCE).
 - D. Make claims projections.
40. Insurers X and Y are both operating in a market where competition is fierce and is **likely** to continue for the longer term. While Insurer X is still running a profitable account, insurer Y is faced with mounting losses. What action is insurer Y **most likely** to take?
- A. Increase prices.
 - B. Pull out of the market.
 - C. Relax underwriting requirements.
 - D. Widen policy cover.
41. What mechanism does the market research specialist Defaqto use to depict comparisons in different insurers' policy covers, terms and conditions?
- A. Coloured graphics.
 - B. Letters.
 - C. Numbers.
 - D. Star rating.

42. In addition to compensation claims for personal injury and illness incidents against individuals and businesses, what classes of business does the Claims and Underwriting Exchange (CUE) hold on its database?
- A. Commercial and private motor only.
 - B. Commercial property and business interruption.
 - C. Household and motor.
 - D. Travel and personal accident.
43. Where a commercial property underwriter uses a surveyor to make an assessment of the estimated maximum loss (EML) at a single location, this will be expressed as a percentage of
- A. claims over last three years.
 - B. insured's turnover.
 - C. premium.
 - D. sums insured.
44. What would be an advantage and disadvantage respectively of an insurer using facultative reinsurance?
- A. Acceptance by the reinsurer is guaranteed and labour-intensive administration.
 - B. Easy administration and the reinsurer can exercise influence over underwriting criteria.
 - C. Large, unusual risks are easily accommodated and expensive to administer.
 - D. Risks benefit from individual consideration and expensive to administer.
45. Insurer X's chief underwriter has used a catastrophe model to gauge the likely impact on the portfolio due to flood claims. What level of certainty of future flood losses is this model **likely** to provide?
- A. Excellent.
 - B. Good.
 - C. Average.
 - D. Low.
46. What are the **principal** benefits to an underwriter of buying reinsurance?
- A. Increased premiums, enhanced levels of cover and protection against catastrophic events.
 - B. Lowered premiums, enhanced levels of cover and protection against catastrophic events.
 - C. Stability of underwriting result, increased underwriting capacity and protection against catastrophic events.
 - D. Stability of underwriting result, reduced underwriting capacity and protection against catastrophic events.

47. Insurer X buys reinsurance protection for 25% of his portfolio and insurer Y chooses a reinsurance arrangement that covers all amounts above a predetermined level. What types of reinsurance are insurers X and Y buying?
- A. X is buying facultative and Y is buying surplus.
 - B. X is buying quota share and Y is buying excess of loss.
 - C. X is buying quota share and Y is buying stop loss.
 - D. X is buying surplus and Y is buying quota share.
48. Stop loss reinsurance provide protection for
- A. a portfolio of business for a specified period.
 - B. a portfolio of business over a 12 month period.
 - C. a specific risk for a specified period.
 - D. specific risks over a 12 month period.
49. In addition to portfolio analysis and claims experience, what other information would a reinsurer **typically** require when providing a quotation?
- A. Claims-handling expenses, return on capital employed (ROCE) and management expenses.
 - B. Company structure, branch and intermediary network.
 - C. Underwriting strategy, details of general management and trading results for the last three years.
 - D. Underwriting strategy, risk appetite and acceptance criteria and geographical scope.
50. Pool Re provides catastrophe reinsurance protection for
- A. aircraft.
 - B. earthquake.
 - C. flood.
 - D. terrorism.

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	D	1.5	20	B	3.1	43	D	5.1
2	B	1.1	21	A	3.2	44	D	5.3
3	D	1.1	22	C	3.3	45	D	5.2
4	D	1.2	23	A	3.4	46	C	5.3
5	D	1.3	24	A	3.3	47	B	5.4
6	D	1.4	25	D	3.4	48	B	5.4
7	D	1.4	26	D	3.5	49	D	5.5
8	D	1.5	27	C	3.6	50	D	5.6
9	D	1.6	28	D	3.7	8 questions		
10	A	1.1	29	A	3.8			
10 questions			30	D	3.9			
			11 questions					
Learning Outcome 2								
11	D	2.2	Learning Outcome 4					
12	C	2.3	31	B	4.1			
13	A	2.4	32	B	4.2			
14	A	2.5	33	B	4.3			
15	C	2.6	34	C	4.1			
16	D	2.7	35	A	4.2			
17	C	2.8	36	C	4.3			
18	B	2.8	37	D	4.4			
19	A	2.2	38	D	4.5			
9 questions			39	D	4.6			
			40	B	4.7			
			41	D	4.7			
			42	C	4.8			
			12 questions					