

Underwriting management

Objective: To develop in the candidate:

- an understanding of and the ability to apply the requirements for managing a general insurance underwriting account through selection of class of business and design of products;
- a knowledge of setting the underwriting policy for those products;
- a knowledge of establishing the price and managing the exposures;
- a knowledge of the implementation of operational controls, budgeting and monitoring results;
- the ability to apply knowledge and skills to practical situations;
- the ability to synthesise different aspects of the syllabus and apply them to given scenarios.

Assumed knowledge and applications skills:

It is assumed that the candidate will have knowledge of the provisions of Financial Services Authority regulation as covered in P01 Insurance practice and regulation, IF1 Insurance, legal and regulatory or an equivalent qualification.

Notes:

- **The syllabus will be based on English law and practice.**
- **The April session will test the legal position as of 31st August of the preceding year.**
- **The October session will test the legal position as of 28th February of the same year.**

1. The Environment

1.1 The Financial Services Authority

Candidates should be able to:

- *discuss* the implications of FSA authorisation for the underwriting function.

1.2 Capital and solvency

Candidates should be able to:

- *describe* the relationship between the underwriting function and an insurer's capital and solvency requirement.

1.3 Statutory and legislative influences

Candidates should be able to:

- *discuss* the statutory and legislative issues affecting the underwriting function.

1.4 Non-statutory issues

Candidates should be able to:

- *discuss* the non-statutory issues affecting the underwriting function.

1.5 International business

Candidates should be able to:

- *explain* the issues and implications for an underwriter of underwriting business internationally.

1.6 The underwriting cycle

Candidates should be able to:

- *explain* what the underwriting cycle is, how it operates and its implications for an underwriter.

2. Structure of the underwriting portfolio

2.1 Underwriting policy and corporate objectives

Candidates should be able to:

- *describe* the relationship between the underwriting policy and a company's corporate objectives.

2.2 Distribution channels

Candidates should be able to:

- *explain* the importance of distribution channels and their impact on the underwriting function.

2.3 Contribution of research

Candidates should be able to:

- *describe* the contribution of research to underwriting policy, including the following:
 - customer segmentation;
 - cover to be provided;
 - demand for a product;
 - competitive positioning.

2.4 Resource capability

Candidates should be able to:

- *describe* the impact on underwriting of resource capability with respect to expertise and systems.

2.5 Entry and exit costs

Candidates should be able to:

- *outline* the factors, including cost, taken into account when entering and exiting classes of business and markets.

2.6 Reserving policy

Candidates should be able to:

- *explain* the significance of reserving policy and practice and the implications for portfolio underwriting management.

2.7 Product mix

Candidates should be able to:

- *explain* the impact of product mix on portfolio underwriting.

3. Underwriting policy and practice

3.1 Underwriting considerations

Candidates should be able to:

- *outline* the considerations to be taken into account when establishing criteria for:
 - policy terms;
 - use of excesses, deductibles, loadings and incentives;
 - first loss;
 - scheme underwriting.

3.2 Internal and external constraints

Candidates should be able to:

- *identify* and *discuss* the internal and external constraints, including prevailing market conditions, on:
 - what is covered;
 - limits to cover;
 - market position;
 - new business growth;
 - retention.

3.3 Liaison with claims function

Candidates should be able to:

- *discuss* the importance of liaison with the claims management function.

3.4 Risk

Candidates should be able to:

- *discuss* the impact on the underwriting function of the establishment and significance of:
 - classification and categorisation of risk;
 - acceptance and renewal underwriting criteria;
 - risk improvement and survey criteria.

3.5 Exposure

Candidates should be able to:

- *describe* the importance of identifying exposure to single risks and single events.

3.6 Binding authorities and line slips

Candidates should be able to:

- *discuss* the implications of using binding authorities and line slips.

4. Pricing

4.1 Available data

Candidates should be able to:

- *identify* the source, availability and nature of data essential to the pricing decision.

4.2 Statistical data

Candidates should be able to:

- *explain* the different statistical methods available and how they are used in underwriting;
- *discuss* the suitability and interpretation of statistical results.

4.3 Risk premium

Candidates should be able to:

- *outline* the interpretation, importance, effect and nature of risk premium, including burning cost and reinsurance costs.

4.4 Principles of retrospective rating

Candidates should be able to:

- *explain* the principles and effect of retrospective rating.

4.5 Pricing factors

Candidates should be able to:

- *discuss* the effect of the following on pricing:
 - expenses;
 - return on capital;
 - capital asset pricing model;
 - investment income;
 - tax;
 - intermediary remuneration;
 - competitor analysis.

4.6 Interpretation of claims information

Candidates should be able to:

- *explain* the interpretation and use of claims information in relation to:
 - setting the price;
 - setting reserves;
 - statutory requirements.

5. Management of exposures

5.1 Measuring exposures

Candidates should be able to:

- *discuss* the measuring of exposure to single risks, single events and catastrophe.

5.2 Seasonal and cyclical influences

Candidates should be able to:

- *describe* the significance of seasonal and cyclical influences and establishing maxima for assessing exposure.

5.3 Aggregation

Candidates should be able to:

- *explain* the aggregation of exposures from single risks or single events;
- *explain* the aggregation of losses, including cross class aggregation in any one year.

5.4 Enabling capacity

Candidates should be able to:

- *discuss* the stabilisation of claims ratio and/or profit balance between classes of business and the desirability of spreading risk, including reference to:
 - use of layered covers and deductibles;
 - gross and net acceptance limits;
 - co-insurance;
 - alternative financial instruments;
 - availability of reinsurance.

6. Implementation of operational controls

6.1 Authority limits

Candidates should be able to:

- *explain* the use of authority limits as an operational control in underwriting.

6.2 Auditing underwriting policy

Candidates should be able to:

- *explain* the approaches to and importance of auditing the implementation and operation of underwriting policy.

7. Budgeting and monitoring results

7.1 Monitoring

Candidates should be able to:

- *describe* the reasons for monitoring and the identification of what is to be monitored;
- *discuss* the techniques for monitoring underwriting results;
- *discuss* how the information derived from monitoring may be used.

7.2 Trends

Candidates should be able to:

- *discuss* the effect and implications of trends in claims costs.

7.3 Premium changes

Candidates should be able to:

- *discuss* the effect on premium of changes in rating and exposures.

7.4 Allowances

Candidates should be able to:

- *discuss* the practical allowance for:
 - pipeline premiums;
 - IBNR claims.

Reading list

The following list provides details of various publications which may assist with your studies. Periodicals and publications listed will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

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.

CII/Personal Finance Society members can borrow most of these additional study materials from CII Knowledge Services and may be able to purchase some at a special discount. For further information on lending and discounts go to www.cii.co.uk/knowledge.

Underwriting management. London: CII. Coursebook 815.

Actuarial practice in general insurance. D G Hart, R A Buchanan, B A Howe. 7th ed. Sydney: Institute of Actuaries of Australia, 2007. Recommended by the UK Institute of Actuaries as a basic text for actuarial students.

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004. Also available online at www.cii.co.uk/knowledge/doi (CII/Personal Finance Society members only).

Reinsurance underwriting. Robert Kiln, Stephen Kiln. 2nd ed. London: LLP, 1996.

Periodicals

The Journal. London: CII. Six issues a year. Also available online (CII/Personal Finance Society members only) at www.cii.co.uk/knowledge/journal.

Post Magazine. London: Incisive Financial Publishing. Weekly.

Technical Focus. Underwriting Faculty. London: CII Knowledge Services. Six issues a year. Available online at www.cii.co.uk/knowledge/underwriting (CII/Personal Finance Society members only).

Websites

CII Knowledge Services – www.cii.co.uk/knowledge

Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers. You are strongly advised to study guides for the last two sittings. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on 020 8989 8464. Older examination guides are available (for members only) at www.cii.co.uk/knowledge/examguides.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. You will also find advice at www.cii.co.uk/knowledge/careersupport (CII/Personal Finance Society members only).

For a more interactive approach, you should consider: *Winning the brain game*. London: CII, 2006. CD-ROM.