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IF3

Certificate in Insurance

Unit 3 – Insurance underwriting process

Based on the 2022 syllabus
examined from 1 January 2022 until 31 December 2022

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Unit 3 – Insurance underwriting process

Based on the 2022 syllabus examined from 1 January 2022 until 31 December 2022

Introduction

This examination guide has been produced by the Qualifications and Assessment Department at the Chartered Insurance Institute to assist students in their preparation for the IF3 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves two hours 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.

Although the specimen examination in this guide is typical of an IF3 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 IF3 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/learning/qualifications/unit-insurance-underwriting-process-if3/
- 2) Select 'exam guide update' 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 IF3 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 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.

Supporting information for the syllabus which contains a detailed overview of the areas covered can be found on the unit page. Select Supporting information for the 2022 syllabus on the right-hand side of the page.

Skill Specification

The skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested. Learning outcomes for IF3 begin with *understand*.

Understand To answer questions based on understanding, the candidate 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 IF3 examination is 75 multiple choice questions (MCQs). 2 hours are allowed for this examination.

The IF3 syllabus provided in this examination guide will be examined from 1 January 2022 until 31 December 2022.

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.

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 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.

While no questions involve complex calculations, candidates are permitted to use calculators during the examination. 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, under 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.

Insurance underwriting process

Objective

To provide knowledge and understanding of the role of underwriting including identification, assessment and acceptance of risk, rating and relevant financial factors.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the material circumstances relating to the insurance underwriting process.	5
2. Understand underwriting procedures relating to the insurance underwriting process.	15
3. Understand insurance policies in relation to the insurance underwriting process.	10
4. Understand renewals and cancellation in relation to the insurance underwriting process.	3
5. Understand personal insurances in relation to the insurance underwriting process.	3
6. Understand commercial insurances in relation to the insurance underwriting process.	3
7. Understand the main 'support' type insurance services available.	2
8. Understand underwriting considerations in relation to the insurance underwriting process.	13
9. Understand the principles and practices of pricing.	10
10. Understand pricing factors within the context of the insurance underwriting process.	5
11. Understand managing exposure within the context of the insurance underwriting process.	6

* 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: 75 multiple choice questions (MCQs). 2 hours are allowed for this examination.
- This syllabus will be examined from 1 January 2022 until 31 December 2022.
- 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/qualifications
 2. Select the appropriate qualification
 3. Select your unit from the list provided
 4. Select qualification update on the right hand side of the page
 5. This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is a free extension that is available from <https://speechify.com/>. If for accessibility reasons you require this document in an alternative format, please contact us on ukcentreadministration@cii.co.uk to discuss your needs.

1. Understand the material circumstances relating to the insurance underwriting process.

- 1.1 Explain why an underwriter needs to be aware of material circumstances in assessing a risk.
- 1.2 Explain the concept of the duty of fair presentation, to whom it applies and how the duty may be modified.
- 1.3 Define the words peril and hazard as used in the insurance industry and the relationship between them.
- 1.4 Explain the significance of moral and physical hazard for underwriters and how they are manifested.
- 1.5 Describe the methods used by underwriters to obtain material information.

2. Understand underwriting procedures relating to the insurance underwriting process.

- 2.1 Describe the general and specific questions asked of proposers.
- 2.2 Describe the procedure relating to quotations.
- 2.3 Explain the methods by which underwriters gather material information and their legal significance.
- 2.4 Describe the different ways in which premiums are calculated.
- 2.5 Explain the legal significance of procedures relating to the issue of cover notes, policies and certificates of insurance.
- 2.6 Describe the relevance of premium payment for valid cover.
- 2.7 Describe the methods used by insurers to collect premiums including instalment facilities.
- 2.8 Describe the features of Insurance Premium Tax.

3. Understand insurance policies in relation to the insurance underwriting process.

- 3.1 Describe the structure, functions and contents of a policy form.
- 3.2 Explain the meaning and significance of common policy exclusions.
- 3.3 Explain the meaning and significance of common conditions.
- 3.4 Explain how excesses, deductibles and franchises are used.
- 3.5 Explain the distinction between warranties, conditions and representations.

4. Understand renewals and cancellation in relation to the insurance underwriting process.

- 4.1 Describe the legal significance of procedures relating to renewals.
- 4.2 Explain how cancellation clauses operate.

5. Understand personal insurances in relation to the insurance underwriting process.

- 5.1 Describe the basic features and typical policy cover of motor insurance, health insurance, household insurance, travel insurance and extended warranties.

6. Understand commercial insurances in relation to the insurance underwriting process.

- 6.1 Describe the basic features and typical policy cover of property insurance, pecuniary insurance, cyber insurance and liability insurance.

7. Understand the main 'support' type insurance services available.

- 7.1 Describe the basic features of additional 'support' type insurance services available with specific reference to help lines, authorised repairers and suppliers, risk control/advice and uninsured loss recovery services.

8. Understand underwriting considerations in relation to the insurance underwriting process.

- 8.1 Describe the key underwriting criteria for motor insurance, health insurance and personal insurances.
- 8.2 Describe the key underwriting criteria for commercial property insurance, including fire and special perils, theft insurance, glass insurance and money insurance.
- 8.3 Describe the key underwriting criteria for pecuniary insurances, including legal expense insurance and business interruption insurance.
- 8.4 Describe the key underwriting criteria for liability insurance, including employers' liability, public liability, pollution liability, products liability and professional indemnity.
- 8.5 Describe the key underwriting criteria for extended warranties.
- 8.6 Describe the procedures commonly used to discourage individuals from making fraudulent claims.
- 8.7 Describe the procedures commonly used to detect fraudulent claims.
- 8.8 Explain the consequences of fraudulent claims for the insurer, their insureds and the fraudulent claimant.
- 8.9 Explain the effect on insurance of data protection legislation.
- 8.10 Explain the importance of the fair treatment of customers and positive customer outcomes.

9. Understand the principles and practices of pricing.

- 9.1 Describe the sources, availability and types of data essential to the underwriting process.
- 9.2 Explain the importance of claims information on underwriting terms/premium rates.

- 9.3 Explain the nature of risk in terms of frequency and severity of claims.
- 9.4 Explain the significance of the claims loss ratio on premiums/acceptance of risk.
- 9.5 Explain the distinction between underwriting year, policy year, accounting year and calendar year.
- 10. Understand pricing factors within the context of the insurance underwriting process.**
- 10.1 Define risk premium and its key features.
- 10.2 Describe the reporting factors of expenses, return on capital, investment income, tax and intermediary remuneration.
- 11. Understand managing exposure within the context of the insurance underwriting process.**
- 11.1 Describe the basic factors influencing the market cycle.
- 11.2 Describe the principles of risk accumulation.
- 11.3 Describe the basic reinsurance considerations including the types of reinsurance.

Reading list

The following list provides details of further reading 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 resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII study texts

Insurance underwriting process. London: CII. Study text IF3.

Books and eBooks

Bird's modern insurance law. 10th ed. John Birds. Sweet and Maxwell, 2016.

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

'Insurance intermediaries: underwriting agents' in Colinvaux's law of insurance. 11th ed. Prof. Robert Merkin. London: Sweet & Maxwell, 2016.

Insurance law in the United Kingdom. 3rd ed. John Birds. The Netherlands: Kluwer Law International, 2015.

Pricing in general insurance. Pietro Parodi. CRC Press, 2015.*

Periodicals

The Journal. London: CII. Six issues a year.

Post magazine. London: Incisive Financial Publishing. Monthly. Contents searchable online at www.postonline.co.uk.

Reference materials

Concise encyclopedia of insurance terms. Laurence S. Silver, et al. New York: Routledge, 2010.*

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004.

* Also available as an ebook through eLibrary via www.cii.co.uk/eLibrary (CII/PFS members only).

Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (www.revisionmate.com). Details of how to access Revisionmate are on the first page of your study text. It is recommended that you only study from the most recent version of the examination guide.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

1. Why are material circumstances important to an insurer?
 - A. Declaration of material circumstances makes the contract binding.
 - B. Material circumstances are the sole basis of the premium calculation.
 - C. Material circumstances determine which perils are covered.
 - D. Material circumstances may influence the insurer's judgement.

2. Janie has completed a household insurance proposal form to insure the property she has just purchased. In respect of the insurance contract, apart from Janie, who else has a duty of disclosure?
 - A. The estate agent.
 - B. The insurer.
 - C. The mortgage lender.
 - D. The solicitor.

3. A peril can be defined as
 - A. a combination of hazards.
 - B. something which gives rise to a loss.
 - C. something which influences the outcome of a loss.
 - D. the subject matter of the insurance.

4. When applying for household contents insurance, why might the address of the property be **particularly** relevant?
 - A. The address is likely to form part of the rating process.
 - B. The insurer may wish to check the electoral register.
 - C. The property may be close to the insurer's branch office.
 - D. The property may be subject to a mortgage.

5. Maurice submits a motor insurance proposal form to an insurer for a quotation. In the proposal form, he discloses three previous convictions for motoring offences; two for speeding and one for reckless driving. In terms of hazard, these convictions indicate that Maurice is a
 - A. good moral hazard.
 - B. good physical hazard.
 - C. poor moral hazard.
 - D. poor physical hazard.

6. In order to confirm the material circumstances relating to a complicated commercial insurance risk, the underwriter will enlist the services of
 - A. an actuary.
 - B. a compliance officer.
 - C. a loss adjuster.
 - D. a risk surveyor.

7. An insurer provides Anna with a motor insurance quotation which states that it is valid for 14 days. When is the **latest** that Anna can accept the quotation?
- A. During the 14-day period only.
 - B. After the 14-day period only.
 - C. After the 14-day period, for as long as the material circumstances remain unchanged.
 - D. After the 14-day period, until the quotation is specifically withdrawn by the insurer.
8. Under which class of insurance would an insurer ask the proposer for her annual gross profit?
- A. Business interruption insurance.
 - B. Employers' liability insurance.
 - C. Money insurance.
 - D. Theft insurance.
9. When requesting a quotation for standard motor insurance, an individual will **usually** be asked for
- A. a copy of his driving licence.
 - B. a copy of the log book.
 - C. his previous claims history.
 - D. proof of the vehicle's value.
10. An employers' liability insurance policy is rated at £2.50% on declared wages of £100,000. What is the annual premium for the policy **before** the application of Insurance Premium Tax?
- A. £250
 - B. £2,500
 - C. £25,000
 - D. £250,000
11. When calculating the premium for a large manufacturer's products liability insurance policy, which factor is **most relevant**?
- A. The number of employees.
 - B. The sum insured.
 - C. The turnover.
 - D. The wage roll.
12. An insurer calculates household insurance premiums on the basis of 2% for the initial £100,000 of the sum insured and £1.30 per mille for any **additional** sum insured above £100,000. **Excluding** Insurance Premium Tax, what will be the premium for a sum insured of £150,000?
- A. £2,065
 - B. £2,650
 - C. £4,950
 - D. £6,700

13. Luke has arranged a household contents insurance policy with a direct insurer and paid the premium, but has **NOT** received the policy documentation. In the event of a claim, what is Luke's legal position?
- A. A copy of the proposal form will be required before the claim will be considered.
 - B. He cannot make a claim without producing the policy documentation.
 - C. Proof of premium payment will be required.
 - D. The claim will be met subject to the usual claims processes.
14. Which document can provide the legal evidence that a motor insurance policy is in force?
- A. The cover note.
 - B. The policy booklet.
 - C. The proposal form.
 - D. The quotation.
15. Insurance premium payment, or a promise to pay the insurance premium, forms which part of an insurance contract?
- A. The acceptance made by the insured.
 - B. The agreement made by the insured.
 - C. The consideration made by the insured.
 - D. The offer made by the insured.
16. If an insured is allowed to pay his insurance policy premium by instalments, what is the method that is **normally** used by an insurer to collect the agreed premium?
- A. Direct debit.
 - B. Postdated cheques.
 - C. Regular credit card payments.
 - D. Standing order.
17. Insurance Premium Tax applies to **most** general insurances when the insured risk is located
- A. in the UK, excluding Northern Ireland.
 - B. anywhere in the UK, excluding the Channel Islands and the Isle of Man.
 - C. anywhere in the EU.
 - D. anywhere in the world.
18. Maria works as an accountant and wishes to buy professional indemnity insurance for her business. In order for an insurer to assess the premium and terms required she will need to submit a completed
- A. claim form.
 - B. medical questionnaire.
 - C. proposal form.
 - D. statement of fact.

19. An insurer provides a quotation for motor insurance, which is valid for 14 days, on a vehicle with a 1.4 litre engine. On day 10, the proposer changes the vehicle to one with a 1.6 litre engine and accepts the original quotation the following day. What is the insurer's legal position?
- A. The insurer is bound to honour the original quotation.
 - B. The insurer is bound to honour the original quotation, but may charge an additional premium.
 - C. The insurer is not bound to honour the original quotation, unless the proposer submits a new proposal form.
 - D. The insurer is not bound to honour the original quotation.
20. Samantha has a personal accident insurance policy that provides a temporary total disablement benefit of £200 per week. The policy has a compulsory one week excess. If Samantha breaks her ankle in a riding accident and is disabled for six weeks, how much benefit, if any, will she receive?
- A. None.
 - B. £200
 - C. £1,000
 - D. £1,200
21. Which part of an insurance policy contains a detailed account of the extent of cover?
- A. The heading.
 - B. The operative clause.
 - C. The recital clause.
 - D. The schedule.
22. The declaration on a proposal form states that
- A. all disputes in respect of cover will be referred to mediation.
 - B. the information provided is correct to the best of the proposer's knowledge and belief.
 - C. the proposer and the insurer are forming a contract for cover in return for a premium.
 - D. the proposer has an insurable interest in the property to be insured.
23. An exclusion that applies to **only** part of an insurance policy is known as a
- A. general exception.
 - B. market exception.
 - C. market specific exception.
 - D. specific exception.
24. Why is there a contractual liability exclusion under all general insurance policies?
- A. Contractual liability extends an insured's position beyond the common law position.
 - B. Contractual liability should be specifically insured elsewhere.
 - C. The exclusion limits an insurer's liability to a proportion of any claim with any other insurer that also excludes the risk.
 - D. The exclusion provides an insurer with recovery rights against its own insured.

25. In which part of the UK will insurers **NOT** cover damage caused by a riot?
- A. England.
 - B. Northern Ireland.
 - C. Scotland.
 - D. Wales.
26. What policy condition allows the insurer to take over and deal with the recovery of monies from a negligent third party, prior to the settlement of any claim, in the name of the policyholder?
- A. Cancellation.
 - B. Contribution.
 - C. Notification.
 - D. Subrogation.
27. A clothes manufacturer has a theft insurance policy which contains a requirement from the insurer that the manufacturer will keep a security guard at the premises from 6pm to 6am, 7 days a week. This undertaking is known as
- A. a condition precedent to the contract.
 - B. an express warranty.
 - C. an implied warranty.
 - D. a representation.
28. Under a contract of insurance, good faith is an example of
- A. an arbitration condition.
 - B. an express warranty.
 - C. an implied condition.
 - D. a written representation.
29. In which part of a standard household insurance policy will details of the risk address be found?
- A. The operative clause.
 - B. The policy conditions.
 - C. The policy schedule.
 - D. The recital clause.
30. A company obtains a quotation for engineering insurance which states that cover is subject to a deductible of £50,000. This means that
- A. a deposit premium of £50,000 is required.
 - B. any claim over £50,000 would be paid in full.
 - C. all claims are subject to a maximum payment of £50,000.
 - D. the company would be liable for the first £50,000 of any claim.
31. What is an insurer's obligation, if any, with regard to the issue of renewal notices?
- A. An insurer is not legally required to issue renewal notices.
 - B. An insurer has a statutory duty to issue renewal notices for all insurance policies.
 - C. An insurer has a statutory duty to issue renewal notices only for compulsory insurance.
 - D. An insurer must issue renewal notices within one month of the renewal date.

32. Policy renewal is more cost-effective for an insurer than new insurance business because
- A. discounts can be offered.
 - B. it can be conducted over the telephone.
 - C. premiums will always be increased annually.
 - D. there are no marketing costs involved.
33. Ahmed has a private motor insurance policy that is due for renewal in two months' time. He sold his car three weeks ago, but forgot to notify his insurer. If he telephones his insurer today, when will the cancellation take effect?
- A. From the date of the sale of the car.
 - B. From the time Ahmed telephones the insurer.
 - C. From the time that Ahmed receives payment from the purchaser of the vehicle.
 - D. From the date the current certificate of motor insurance expires.
34. An amateur football team wants to insure its players in case they are injured in one of its football matches. What type of insurance policy will be required?
- A. An employers' liability insurance policy.
 - B. A group income protection insurance policy.
 - C. A group personal accident insurance policy.
 - D. A public liability insurance policy.
35. What is the **minimum** level of insurance cover that is required to protect an insured's car against malicious damage?
- A. Road Traffic Act only.
 - B. Third party only.
 - C. Third party, fire and theft.
 - D. Comprehensive.
36. From whom would an insurer specialising in extended warranty insurance obtain the majority of its new business?
- A. Independent financial advisers.
 - B. Insurance brokers.
 - C. Lloyd's underwriters.
 - D. Retailers.
37. A standard all risks insurance policy covers all perils that are insurable under a standard fire and special perils policy and
- A. accidental damage.
 - B. earthquake.
 - C. malicious damage.
 - D. riot.

38. A farmer **specifically** wants cover for loss of income should a fire destroy his grain store. Which insurance policy would meet his needs?
- A. A business interruption insurance policy.
 - B. A creditor insurance policy.
 - C. A fidelity guarantee insurance policy.
 - D. A money insurance policy.
39. Steve is a solicitor who could be sued for damages if he gives wrongful advice to a client. What compulsory insurance **must** he have in order to protect himself against such claims?
- A. Fidelity guarantee insurance.
 - B. Legal expenses insurance.
 - C. Professional indemnity insurance.
 - D. Public liability insurance.
40. The **main** function of an uninsured loss recovery service is to recover
- A. motor vehicles that have been involved in an accident on behalf of the insured.
 - B. uninsured losses from a third party on behalf of the insured.
 - C. uninsured losses from an insurer on behalf of another insurer.
 - D. unpaid insurance premiums on behalf of an insurer.
41. Identification, evaluation and control are the three stages involved in risk
- A. eradication.
 - B. management.
 - C. premium.
 - D. transfer.
42. Apart from the destination, what is the **most** important underwriting factor when considering annual travel insurance?
- A. The cost of the anticipated travel.
 - B. Any pre-existing medical conditions.
 - C. The travel agency used.
 - D. The value of the personal items to be taken on the trip.
43. When considering a proposal for fire insurance, the two **most** important underwriting factors are the
- A. age and design of the building.
 - B. construction and use of the building.
 - C. geographical location and size of the building.
 - D. occupation and previous claims history of the proposer.

44. Carl is completing a proposal form for insurance for his laundrette. The proposal includes a question requesting details of whether the laundrette could operate from another site in the event of an insured peril occurring. To which type of insurance is the proposal form referring?
- A. Business interruption insurance.
 - B. Extended warranty insurance.
 - C. Money insurance.
 - D. Professional indemnity insurance.
45. What is the **principal** consideration when underwriting employers' liability insurance for a company?
- A. The company's degree of contact with the public.
 - B. The number of employees working for the company.
 - C. The trade of the company.
 - D. The turnover of the company.
46. For which class of insurance is the premium calculation **most influenced** by the risk of an electrical breakdown?
- A. Business interruption insurance.
 - B. Commercial theft insurance.
 - C. Extended warranty insurance.
 - D. Property all risks insurance.
47. Within what period of time **must** an insurance company **usually** provide a response to a data subject access request?
- A. 7 days.
 - B. 21 days.
 - C. 1 month.
 - D. 3 months.
48. Under a household insurance policy, the insurer **generally** dissuades the insured from making a claim for an item that does **NOT** exist by
- A. asking for proof of purchase of the item.
 - B. insisting on photographic evidence of the item.
 - C. stipulating that a loss adjuster will always be appointed.
 - D. stipulating that a loss assessor will always be appointed.
49. Other than the use of the building, what is the **main** underwriting consideration for glass insurance?
- A. The construction of the building.
 - B. The geographical area.
 - C. The level of security in the building.
 - D. The previous claims history of the proposer.

50. What is the Claims and Underwriting Exchange?
- A. A call centre that provides claim forms and proposal forms.
 - B. A committee through which insurers exchange claims and underwriting information.
 - C. A database that contains information on personal lines claims.
 - D. A register of stolen artefacts.
51. An insurer realises that a receipt, submitted in connection with a claim, has been tampered with by the insured to increase the amount shown. In this situation the insurer is **most likely** to
- A. pay the original amount and ignore the tampering by the insured.
 - B. report the matter to the Financial Conduct Authority.
 - C. take no action and pay the amount claimed.
 - D. void the insurance policy and refuse to make any payments.
52. How do fraudulent claims have an adverse affect on an insurer?
- A. Fines can be imposed by the Financial Ombudsman Service if it has made insufficient effort to combat fraud.
 - B. Its claims costs will rise, impacting on its premiums and making it less competitive.
 - C. It will be blacklisted by the Financial Conduct Authority.
 - D. It will be subject to time-consuming investigations by the Financial Action Task Force.
53. The Equality Act 2010 stipulates that insurers are **only** able to impose special underwriting terms or decline an insurance risk when
- A. agreed individually with the Financial Conduct Authority.
 - B. data or information provided by a reliable source justifies the action taken.
 - C. the insured has incurred a claim during the period of insurance as a direct result of a disability.
 - D. the previous insurer provided restricted cover to reflect a disability.
54. What document would an underwriter use to obtain **key** information during the underwriting process?
- A. A certificate of insurance.
 - B. A cover note.
 - C. A policy document.
 - D. A proposal form.
55. Before quoting for a motor insurance policy, the underwriter is **most likely** to research the database of the
- A. Association of British Insurers.
 - B. Financial Conduct Authority.
 - C. MIAFTR².
 - D. Motor Insurers' Bureau.

56. Lapse flow analysis relates to
- A. business that has been lost.
 - B. declined proposals.
 - C. policies renewed after the renewal date.
 - D. proposals currently being processed.
57. An insurer may examine a company's financial accounts when considering a proposal for which class of business?
- A. Business interruption insurance.
 - B. Fire insurance.
 - C. Medical expenses insurance.
 - D. Motor fleet insurance.
58. What information will an underwriter **usually** require to assess profitability for a specific class of business?
- A. The geographical spread of claims.
 - B. The loss ratio of his portfolio.
 - C. The number of claims.
 - D. The investment income accounts.
59. Why is it important that an insurer accurately reserves for claims?
- A. To ensure that future premiums are paid.
 - B. To ensure that future claims costs are met by the premiums.
 - C. To prevent fraudulent claims.
 - D. To reduce the number of claims.
60. A ship travelling across the Atlantic Ocean suffers an explosion on board and sinks. In terms of frequency and severity, how would the risk be described?
- A. High frequency, high severity.
 - B. High frequency, low severity.
 - C. Low frequency, high severity.
 - D. Low frequency, low severity.
61. If an insurance policy has a loss ratio of 103%, how much will be paid out in claims by the insurer for every £100 of premium received?
- A. £3
 - B. £30
 - C. £97
 - D. £103
62. An insurer calculates a claims loss ratio by dividing the
- A. claims incurred by the premium received and converting the result to a percentage.
 - B. claims incurred by the sum insured and converting the result to a percentage.
 - C. premium received by the claims incurred and converting the result to a percentage.
 - D. sum insured by the claims incurred and converting the result to a percentage.

63. Patrick has an insurance policy with a renewal date of 1 July each year. In 2018, the renewal premium was £1,500 and in 2019 the renewal premium was £2,000. What was the total premium paid during the 2019 underwriting year?
- A. £1,500
 - B. £1,750
 - C. £2,000
 - D. £3,500
64. The period of cover for a single insurance policy from its inception through to its first renewal date is called
- A. an accounting year.
 - B. a calendar year.
 - C. a policy year.
 - D. an underwriting year.
65. Under which **main** class of insurance is the risk premium **most likely** to be adjusted to allow for the cost of latent claims?
- A. Business interruption insurance.
 - B. Fire insurance.
 - C. Health insurance.
 - D. Liability insurance.
66. An insurer expects premium income of £1,000,000 for a class of insurance. Future claims are expected to be £250,000 with an incurred but not reported (IBNR) of 10%. Based on this information, what is the risk premium?
- A. £275,000
 - B. £350,000
 - C. £725,000
 - D. £1,000,000
67. With regard to the risk premium, to what does frequency refer?
- A. The average time between claims.
 - B. The number of claims which are forecast.
 - C. The number of instalments in which the premium is paid.
 - D. The number of policies written.
68. An insurer has a return on capital employed of 10%. What does this mean?
- A. Claims are 10% of the capital employed.
 - B. Investment income is 10% of the capital employed.
 - C. Premiums are 10% of the capital employed.
 - D. Profit is 10% of the capital employed.

69. An insurer has a premium income of £250,000 and claims totalling £100,000. If the capital employed by the insurer is £1,000,000, what is the return on capital employed?
- A. 10%
 - B. 15%
 - C. 25%
 - D. 40%
70. In the event of an increased capacity for underwriting risks, the price of insurance would be expected to
- A. fall.
 - B. remain the same.
 - C. fluctuate.
 - D. rise.
71. If an insurer's **maximum** retention is based on the estimated maximum loss of a risk, and if a risk is valued at £500,000 with an estimated maximum loss of 60%, what amount of the risk would the insurer be able to retain?
- A. £100,000
 - B. £300,000
 - C. £500,000
 - D. £800,000
72. A large factory complex is insured against fire with a total sum insured of £1,000,000. The complex comprises of factory A and factory B, which are half a mile apart. Factory A is insured for £600,000 and factory B is insured for £400,000. In percentage terms, what is the insurer's estimated maximum loss for any one fire?
- A. 40%
 - B. 50%
 - C. 60%
 - D. 100%
73. If an insurer wishes to protect its insurance portfolio from the effects of a large claim, the insurer should
- A. aggregate.
 - B. reinsure.
 - C. retrocede.
 - D. self-insure.
74. What is the **earliest** stage that an insurer can claim under a reinsurance contract?
- A. After dealing with all third party liability claims.
 - B. Following payments made for losses.
 - C. Once a loss adjuster has been appointed.
 - D. Prior to payments made for losses.

75. An insurer has arranged reinsurance on a risk. This means that the insurer has
- A. issued an excess of loss.
 - B. reinstated a lapsed policy.
 - C. renewed a policy.
 - D. transferred part of its risk exposure.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 4			Learning Outcome 9		
1	D	1.1	31	A	4.1	54	D	9.1
2	B	1.2	32	D	4.1	55	C	9.1
3	B	1.3	33	B	4.2	56	A	9.1
4	A	1.4	3 Questions			57	A	9.1
5	C	1.4				58	B	9.2
6	D	1.5	Learning Outcome 5			59	B	9.2
6 Questions			34	C	5.1	60	C	9.3
			35	D	5.1	61	D	9.4
Learning Outcome 2			36	D	5.1	62	A	9.4
7	A	2.2	3 Questions			63	B	9.5
8	A	2.1				64	C	9.5
9	C	2.1	Learning Outcome 6			11 Questions		
10	B	2.4	37	A	6.1			
11	C	2.4	38	A	6.1	Learning Outcome 10		
12	A	2.4	39	C	6.1	65	D	10.1
13	D	2.5	3 Questions			66	A	10.1
14	A	2.5				67	B	10.1
15	C	2.6	Learning Outcome 7			68	D	10.2
16	A	2.7	40	B	7.1	69	B	10.2
17	B	2.8	41	B	7.1	5 Questions		
18	C	2.3	2 Questions					
19	D	2.2				Learning Outcome 11		
13 Questions			Learning Outcome 8			70	A	11.1
			42	B	8.1	71	B	11.1
Learning Outcome 3			43	B	8.2	72	C	11.2
20	C	3.4	44	A	8.3	73	B	11.3
21	B	3.1	45	C	8.4	74	B	11.3
22	B	3.1	46	C	8.5	75	D	11.3
23	D	3.2	47	C	8.9	6 Questions		
24	A	3.2	48	A	8.6			
25	B	3.2	49	B	8.7			
26	D	3.3	50	C	8.7			
27	B	3.5	51	D	8.8			
28	C	3.5	52	B	8.8			
29	C	3.1	53	B	8.10			
30	D	3.4	12 Questions					
11 Questions								