



Chartered
Insurance
Institute

P66

Diploma in Insurance

Unit P66 – Delegated authority

October 2018 examination

Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit P66 – Delegated authority

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 200 marks, as follows:

Part I	14 compulsory questions	140 marks
Part II	2 questions selected from 3	60 marks

- You should answer **all** questions in Part I and two out of the three questions in Part II.
- You are advised to spend no more than two hours on Part I.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

PART I**Answer ALL questions in Part I****Note form is acceptable where this conveys all the necessary information**

1. Explain briefly **four** potential conflicts of interest for an insurance broker when acting as a coverholder-managing general agent. (12)

2. Describe briefly **four** ways in which a coverholder-managing general agent might be remunerated. (12)

3. Describe briefly the **three** main options available for claims handling within a delegated contract. (9)

4. Illustrate, with the use of a diagram, the handling of premium funds by a coverholder-managing general agent. (10)

5. Describe briefly **six** reasons why a contract of delegation might be subject to early cancellation. (12)

6. Describe the implications of the Client Assets Sourcebook (CASS) for a coverholder-managing general agent in relation to the handling of funds. (8)

7. Identify and explain briefly **three** considerations made by a coverholder-managing general agent when setting up an underwriting authority under a binder. (9)

8. Describe briefly **four** of the key topic themes an auditor would be expected to address within the audit template. (12)

9. Explain briefly the following types of delegated authority:
- (a) Consortia. (4)
 - (b) Lineslip. (4)
10. Identify and explain briefly **three** ways in which a coverholder-managing general agent's delegated authority business may be marketed and developed. (9)
11. Explain which types of risk are best suited to underwriting, under a delegated authority arrangement, and which types of risk are not suited, providing **one** example of **each** to support your answer. (10)
12. (a) Describe briefly the **two** types of contract in existence in any delegated authority agreement. (6)
- (b) Explain how the law of agency operates between the parties of a delegated authority agreement. (6)
13. (a) State the formal Lloyd's definition of a service company coverholder-managing general agent. (3)
- (b) Explain briefly the key risk facing a service company in terms of reporting requirements, and state the provision offered by Lloyd's to overcome this. (5)
14. Explain briefly **three** key considerations for an insurer before deciding to delegate. (9)

QUESTIONS CONTINUE OVER THE PAGE

PART II

Answer TWO of the following THREE questions
Each question is worth 30 marks

15. You work for an insurer that has recently entered into a delegated authority agreement with an insurance broker. Your company is keen to ensure that the broker, in their role as coverholder-managing general agent (MGA), does not exceed its delegated authority, and wishes to ensure the scheme is monitored closely in the first year of operation.
- (a) Explain briefly **two** different methods your company could use to manage the delegated authority scheme. (6)
 - (b) Explain briefly **three** ways in which the insurer could address underperformance and poor working practices by the coverholder-MGA. (9)
 - (c) Explain briefly **three** activities the insurer will undertake, other than formal monitoring, to operate the scheme efficiently. (9)
 - (d) Explain briefly **two** activities the coverholder-MGA will undertake, once the scheme commences, to operate the scheme efficiently. (6)
16. You work for a small insurance broker, with two offices, which has ambitions to expand. The company specialises in small commercial business and is considering approaching an insurer to request a delegated underwriting authority for its clients.
- (a) Explain briefly **six** different roles your company could take in relation to delegated authority agreements. (18)
 - (b) State the difference between a retail broker and a wholesale broker. (2)
 - (c) Identify and explain briefly **five** of the headings in a coverholder-managing general agent's business plan. (10)

- 17.** Your company, a Lloyd’s managing agent, is considering offering a delegated authority agreement to a coverholder-managing general agent (MGA). You have been asked to check the Delegated Underwriting Code of Practice, issued by Lloyd’s, to ensure the correct process is followed.
- (a)** Describe the **four** Franchise ‘Minimum Standards for Delegated Underwriting’. **(8)**
 - (b)** Identify and explain briefly the **four** steps for evidencing to Lloyd’s that your company has a clear strategy for the delegated authority agreement. **(16)**
 - (c)** Outline **three** areas that the Lloyd’s managing agent should consider when conducting due diligence on the potential coverholder-MGA. **(6)**

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