



Chartered  
Insurance  
Institute

# E97

## Examination element of M97 Reinsurance

Based on the 2020/2021 syllabus  
examined from 1 May 2020 until 30 April 2021

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## E97 – Examination element of M97 Reinsurance

Based on the 2020/2021 syllabus examined from May 2020 until 30 April 2021

### 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 E97 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their E97 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 M97.

Although the specimen examination in this guide is typical of an E97 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 M97 reading list, which is located on the syllabus in this examination guide and on the CII website at [www.cii.co.uk](http://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-reinsurance-\(m97\)/](http://www.cii.co.uk/learning/qualifications/unit-reinsurance-(m97)/)
- 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 M97 syllabus is published on the CII website at [www.cii.co.uk](http://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 M97 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 know and understand the subject matter. Each learning outcome begins with one of these cognitive skills:

**Know** - Knowledge-based questions require the candidate to recall factual information. Typically questions may ask 'What', 'When' or 'Who'. Questions set on a *know* learning outcome can only test knowledge.

**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 E97 examination is 50 multiple choice questions (MCQs). One hour is allowed for this examination.

The M97 syllabus provided in this examination guide will be examined from 1 May 2020 until 30 April 2021.

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.

E97 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.

# Reinsurance

## Purpose

At the end of this unit, candidates should be able to understand reinsurance and how it operates.

## 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 examination.

Summary of learning outcomes	Number of questions in the examination*
1. Know the purpose of, and the parties involved in, reinsurance	4
2. Understand the different types of reinsurance	3
3. Understand the features and operation of facultative reinsurance	2
4. Understand the features and operation of proportional reinsurance treaties	8
5. Understand the features and operation of non-proportional reinsurance treaties	7
6. Understand the design and placement of reinsurance programmes	8
7. Understand legal issues relating to reinsurance	3
8. Understand reinsurance contract wordings	5
9. Understand the main features and characteristics of the principal reinsurance markets	4
10. Understand the principles and practices of different classes of reinsurance business	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:
 

Mixed assessment consisting of two components, both of which must be passed. One component is a coursework assignment and one is a multiple choice question (MCQ) 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. an MCQ exam consisting of 50 MCQs. 1 hour is allowed for this exam. This exam must be successfully passed within 18 months of enrolment.
- This syllabus will be examined from 1 May 2020 until 30 April 2021.
- 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](http://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

## **1. Know the purpose of, and the parties involved in, reinsurance**

- 1.1 Explain the purpose of reinsurance, including spreading risk, capacity, financial security and capital management.
- 1.2 Identify the different parties involved in reinsurance and their various roles.

## **2. Understand the different types of reinsurance**

- 2.1 Outline the main types of reinsurance.
- 2.2 Explain the difference between reinsurance and retrocession.
- 2.3 Discuss the alternatives to conventional reinsurance.

## **3. Understand the features and operation of facultative reinsurance**

- 3.1 Explain the main features and operation of different types of facultative reinsurance.
- 3.2 Calculate reinsurance premiums and claims recoveries for proportional and non-proportional facultative reinsurance.

## **4. Understand the features and operation of proportional reinsurance treaties**

- 4.1 Explain the main features and operation of different types of proportional reinsurance treaties.
- 4.2 Explain the main accounting methods for proportional reinsurance treaties.
- 4.3 Discuss different types of commission on proportional reinsurance treaties.
- 4.4 Discuss the use of premium and claims reserves.
- 4.5 Calculate reinsurance premiums and claims recoveries for proportional reinsurance treaties.
- 4.6 Discuss the use of cession and event limits in proportional reinsurance treaties.

## **5. Understand the features and operation of non-proportional reinsurance treaties**

- 5.1 Explain the main features and operation of different types of non-proportional reinsurance treaties.
- 5.2 Explain the different bases of cover including risks attaching, losses occurring, claims made and losses discovered.
- 5.3 Discuss the various types of premium calculation used in non-proportional reinsurance treaties.
- 5.4 Calculate reinsurance premiums and claims recoveries for non-proportional reinsurance treaties.
- 5.5 Discuss the purpose and use of reinstatements.
- 5.6 Discuss the use of event limits in non-proportional reinsurance treaties.

## **6. Understand the design and placement of reinsurance programmes**

- 6.1 Discuss the factors affecting the design of a reinsurance programme, including the significance of modelling and actuarial input.
- 6.2 Discuss how proportional and non-proportional reinsurance can be combined to make an effective reinsurance programme.

- 6.3 Discuss the material information required in the placement of reinsurance programmes.
- 6.4 Explain the use of reciprocity.
- 6.5 Discuss how solvency and security considerations affect reinsurance programmes.

## **7. Understand legal issues relating to reinsurance**

- 7.1 Discuss the legal requirements for the formation of a reinsurance contract.
- 7.2 Discuss the key issues and reinsurance case law relating to the interpretation of contractual documents.

## **8. Understand reinsurance contract wordings**

- 8.1 Discuss the main features of facultative and treaty wordings.
- 8.2 Describe key clauses used in proportional and non-proportional wordings.
- 8.3 Describe the main treaty exclusions and their importance.

## **9. Understand the main features and characteristics of the principal reinsurance markets**

- 9.1 Explain the main features and characteristics of the principal reinsurance markets.
- 9.2 Discuss the characteristics of hard and soft markets.
- 9.3 Discuss the management of the underwriting cycle.

## **10. Understand the principles and practices of different classes of reinsurance business**

- 10.1 Explain the main underwriting considerations for property and casualty reinsurance.
- 10.2 Explain different reinsurance methods applied to property and casualty reinsurance.
- 10.3 Explain the terms and conditions specific to property and casualty reinsurance.
- 10.4 Describe the main underwriting considerations, and terms and conditions specific to marine and aviation reinsurance.
- 10.5 Apply the principles and practices of reinsurance to property, casualty, marine and aviation business.

## 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/PFS members can access most of the additional study materials below via the Knowledge Services webpage at <https://www.cii.co.uk/knowledge-services/>.

New resources are added frequently - for information about obtaining a copy of an article or book chapter, book loans, or help finding resources, please go to <https://www.cii.co.uk/knowledge-services/> or email [knowledge@cii.co.uk](mailto:knowledge@cii.co.uk).

### **CII study texts**

Reinsurance. London: CII. Study text: M97

Insurance, legal and regulatory. London: CII. Study text IF1

### **Books (and ebooks)**

Carter on reinsurance. 5th ed. Robert Carter et al. Witherby, 2013.

Imagining the future: how to stay ahead in the reinsurance game through scenario planning. Paula Jarzabkowski. London: Cass Business School, 2013.

Insurance and reinsurance law and regulation: jurisdictional comparisons. Clive O'Connell. London: Sweet and Maxwell, 2014.

Making a market for acts of God. The practice of risk-trading in the global reinsurance industry. Paula Jarzabkowski. Oxford: Oxford University Press, 2015. \*

Reinsurance arbitrations. Kyriaki Noussia. Heidelberg: Springer-Verlag, 2013. \*

Reinsurance: the nuts and bolts. Keith Riley. London: Witherby, 2012.

'Reinsurance'. Chapter – Insurance disputes. Jonathan Mance, Iain Goldrein, Robert Merkin. 3rd ed. London: Informa, 2011.

Risk theory and reinsurance. Griselda Deelstra, et al. London: Springer, 2014. \*

The law of reinsurance. 2nd ed. Colin Edelman, Andrew Burns. Oxford, OUP, 2013.

### **Factfiles and other online resources**

CII fact files are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Written by subject experts and practitioners, the fact files cover key industry topics as well as less familiar or specialist areas of general insurance, life, and pensions and financial services, with information drawn together in a way not readily available elsewhere. Available online via [www.cii.co.uk/ciifactfiles](http://www.cii.co.uk/ciifactfiles) (CII/PFS members only).

The Insurance Institute of London (IIL) podcast lecture series features leading industry figures and subject experts speaking on current issues and trends impacting insurance and financial services. Available online at <https://www.cii.co.uk/insurance-institute-of-london/> (CII/PFS members only).

Alternative risk transfer (ART). Alan Punter. Insurance-linked securities (ILS). Alan Punter.

Recent developments in reinsurance law. Robert Merkin.

Reinsurance industry in the UK, key trends and opportunities. ©Timetric Forecast Reports. Annual. Available for members at [www.cii.co.uk/forecastreports](http://www.cii.co.uk/forecastreports).

### **Journals and magazines**

The Journal. London: CII. Six issues a year. Archive available online at <https://www.thepfs.org/search-results/?q=the+journal> (CII/PFS members only).

Post magazine. London: Incisive Financial Publishing. Monthly. Contents searchable online at [www.postonline.co.uk](http://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.

Reinsurance practice and the law. London: Informa. Updated regularly. Available online on i-law.com. Access via the CII website on [www.cii.co.uk/lawdatabases](http://www.cii.co.uk/lawdatabases) (members only).

\* Also available as an ebook through Discovery via [www.cii.co.uk/discovery](http://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 MCQ exam 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](http://www.cii.co.uk/qualifications/diploma-in-insurance-qualification).

These exemplar papers are also available on the RevisionMate website ([www.revisionmate.com](http://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](http://www.cii.co.uk/iilrevision) (CII/PFS members only).

1. The **main** reason why an insurer purchases reinsurance is to
  - A. increase its capital.
  - B. reduce the frequency of claims.
  - C. retain a larger share of every risk.
  - D. transfer risk.
  
2. How does the purchase of proportional treaty reinsurance by an insurer benefit original insureds?
  - A. All losses will be paid even if the insurer becomes insolvent.
  - B. It increases the speed of claims settlement to original insureds.
  - C. It provides the insurer with a higher gross acceptance limit to fully insure large risks.
  - D. It reduces the amount of insurance premium required for the original risks.
  
3. What is **usually** the **main** role of a State reinsurance company?
  - A. To accept compulsory reinsurance cessions from domestic insurance companies.
  - B. To provide a tax-efficient method of reinsurance for domestic captive insurance companies.
  - C. To provide financial income for a country by accepting reciprocal business.
  - D. To reinsure a country's government exposure arising from its self-insurance.
  
4. How does a Takaful insurer **usually** obtain reinsurance protection for risks that exceed its normal acceptance limits?
  - A. By arranging facultative reinsurance for each Takaful risk.
  - B. By establishing a captive reinsurance company to reinsure its risks.
  - C. By paying contributions into a collective fund managed by a Retakaful company.
  - D. By requiring all policyholders to pay a premium directly into a collective fund.
  
5. How does a facultative retrocession contract operate?
  - A. By an insurer reinsuring an individual risk with a professional reinsurance company.
  - B. By an insurer entering into a reciprocal exchange with another insurer to each underwrite a fixed proportion of the other party's facultative reinsurance contracts.
  - C. By a reinsurer purchasing an individual retrocession contract to protect a risk that is greater than its normal acceptance limits.
  - D. By a reinsurer retroceding a proportion of all its facultative reinsurance contracts.
  
6. A treaty which reinsures aggregate losses arising in respect of one specific class of business but **NOT** one specific event or cause is known as
  - A. excess of loss.
  - B. quota share.
  - C. stop loss.
  - D. surplus.

7. Which type of reinsurance contract only indemnifies an insurance company in the event of more than one defined incident occurring?
- A. A finite reinsurance contract.
  - B. A multi-trigger reinsurance contract.
  - C. A reinsurance sidecar.
  - D. A stop loss reinsurance contract.
8. An insurance company underwrites a large risk with a sum insured of £50,000,000. It maintains a £500,000 gross retention and fully utilises its five line surplus treaty. The remainder is reinsured under a proportional facultative reinsurance contract. If a loss of £35,000,000 occurs, how much will the facultative reinsurers pay in settlement?
- A. £32,000,000
  - B. £32,500,000
  - C. £32,900,000
  - D. £34,500,000
9. How does proportional facultative reinsurance protect an insurance company?
- A. By paying all claims in excess of a fixed monetary amount for an individual risk in return for a proportion of the premium income.
  - B. By paying all claims in excess of a fixed monetary amount for a specified class of business in return for a proportion of the premium income.
  - C. By paying a proportion of all claims for an individual risk in return for the same proportion of the original premium income.
  - D. By paying a proportion of all claims for a specified class of business in return for the same proportion of the original premium income.
10. What is the purpose of a cession limit on a proportional reinsurance treaty?
- A. It enables the reinsurer to restrict its exposure in certain geographical locations.
  - B. It increases the opportunity for reciprocity between reinsurers.
  - C. It prevents the reinsured from being overexposed to large losses on individual risks.
  - D. It reduces the reinsurer's liability by acting as a first loss limit.
11. What method of accounting uses premium portfolio transfers?
- A. Clean cut.
  - B. Losses occurring.
  - C. Risks attaching.
  - D. Underwriting year.

12. A sliding scale commission table is included within a proportional treaty wording as follows

If the loss ratio is	The adjusted commission shall be
45% or less	37.5%
Greater than 45% but less than or equal to 55%	30%
Greater than 55% but less than or equal to 65%	22.5%
Greater than 65%	10%

At the end of the treaty period, the incurred losses are £243,000 and the gross written premium after all adjustments is £375,000. How much commission is due?

- A. £37,500  
 B. £84,375  
 C. £112,500  
 D. £140,652
13. What is the purpose of a premium reserve?
- A. To allow a cedant to retain a proportion of the reinsurance premium to pay valid claims if a reinsurer is unable to pay its proportion of a claim.  
 B. To comply with government legislation where a proportion of the premium needs to be retained in a country to reduce premium exchange movement.  
 C. To meet a reinsurer's liability to make a payment following a profit commission calculation.  
 D. To transfer a proportion of unexpired liability from a reinsurer for one year to a reinsurer for the subsequent year.
14. When is a loss reserve **normally** established and adjusted under a reinsurance treaty?
- A. Established at expiry of the period of reinsurance and adjusted quarterly.  
 B. Established at expiry of the period of reinsurance and adjusted annually.  
 C. Established at the treaty's inception date and adjusted quarterly.  
 D. Established at the treaty's inception date and adjusted annually.
15. A recently-established insurer has an 80% quota share reinsurance treaty for its extended warranty business. The reinsurer agrees that the insurer should benefit from a 20% ceding commission for acquisition costs. How much is the reinsurer's retained proportion of the £5,000,000 premium income from this account?
- A. £800,000  
 B. £1,200,000  
 C. £3,200,000  
 D. £4,000,000

16. Where an event limit is subject to fall back on a proportional reinsurance treaty, any amount exceeding the event limit may be
- A. added to the cession limit of the proportional reinsurance treaty.
  - B. added to the reinsured's net retained loss for catastrophe recovery purposes.
  - C. deducted from the cession limit of the proportional reinsurance treaty.
  - D. deducted from the reinsured's net retained loss for catastrophe recovery purposes.
17. Which party, if any, has an obligation to cede risk under a facultative obligatory treaty?
- A. No party.
  - B. The insurer.
  - C. The reinsurer.
  - D. The retrocessionaire.
18. Which type of reinsurance treaty only pays claims in excess of a specified fixed monetary amount for each individual original policy loss?
- A. Aggregate excess of loss.
  - B. Clash excess of loss.
  - C. Risk excess of loss.
  - D. Umbrella excess of loss.
19. For which type of risk is a reinsurance treaty **most likely** to be written on a losses discovered basis?
- A. Cyber crime.
  - B. Environmental liability.
  - C. Industrial disease.
  - D. Terrorism.
20. What clause should be incorporated into a non-proportional treaty wording underwritten on a risks attaching basis, to apportion claims arising from the same loss over consecutive treaty periods?
- A. Aggregate extension clause.
  - B. Claims series event clause.
  - C. Hours clause.
  - D. Interlocking clause.
21. Which type of deduction is **NOT** included in a gross net premium income calculation for an excess of loss reinsurance contract?
- A. Cancellations of original policies.
  - B. Commission payable to intermediaries.
  - C. Premium for inuring reinsurance.
  - D. Return premiums on the underlying business.

22. An excess of loss treaty premium is set at 3.4% of gross net written premium with a minimum and deposit premium of £300,000. At the end of the treaty period the gross net written premium is calculated at £11,500,000. How much adjustment premium is due?
- A. £10,200
  - B. £91,000
  - C. £300,000
  - D. £391,000
23. The **most common** method for calculating reinstatement premium under a property excess of loss treaty is
- A. 100% as to time and 100% as to amount.
  - B. 100% as to time and pro rata as to amount.
  - C. pro rata as to time and 100% as to amount.
  - D. pro rata as to time and pro rata as to amount.
24. Under a standard hours clause, which party chooses the time from which a loss occurrence begins?
- A. The broker.
  - B. The original insured.
  - C. The reinsured.
  - D. The reinsurer.
25. What two **key** factors will a rating agency consider when assessing a reinsurer's financial strength?
- A. Adequacy of technical reserves and management experience.
  - B. Amount of capital and adequacy of technical reserves.
  - C. Amount of capital and class of business underwritten.
  - D. Liquidity and management experience.
26. When an insurer is designing its reinsurance programme, its **main** priority will be to ensure that
- A. it achieves sufficient protection against its highest anticipated loss.
  - B. it is able to achieve sufficient commission to cover all its administrative expenses.
  - C. it maintains the highest possible net retention.
  - D. reinsurance exclusions do not apply to any of its business.
27. An effective property reinsurance programme can be achieved when
- A. excess of loss reinsurance claim settlements are included in proportional treaties' profit commission calculations.
  - B. event excess of loss reinsurance protects an insurer's gross acceptances and surplus reinsurance protects its subsequent net retention.
  - C. proportional reinsurance claim settlements are used to pay the reinstatement premium for excess of loss reinsurance treaties.
  - D. proportional reinsurance protects an insurer's gross acceptances and event excess of loss reinsurance protects its subsequent net retention.

28. An insurer has a 50% quota share treaty and a per risk excess of loss treaty for £9,000,000 excess of £1,000,000. The quota share treaty inures to the benefit of the excess of loss treaty. What is the **maximum** exposure to the quota share treaty for any one claim under an original risk with a policy limit of £3,000,000?
- A. £500,000
  - B. £1,000,000
  - C. £1,500,000
  - D. £2,000,000
29. An insurer wants to maximise its gross underwriting capacity for property risks whilst restricting its net retention for windstorm and flood losses. What reinsurances should it purchase to retain a greater proportion of its premium income?
- A. A quota share treaty and event excess of loss treaties.
  - B. A quota share treaty and risk excess of loss treaties.
  - C. A surplus treaty and event excess of loss treaties.
  - D. A surplus treaty and risk excess of loss treaties.
30. Under which section of a reinsurance Market Reform Contract will a reinsurance broker include statements of material circumstances about an insurer's business?
- A. Fiscal and regulatory.
  - B. Information.
  - C. Security details.
  - D. Subscription agreement.
31. When an insurer is arranging a reciprocal exchange, it will **usually** enter into an arrangement with another insurer who underwrites business that
- A. has a similar premium income and accumulation exposure of risk.
  - B. has similar profitability and geographical spread of business.
  - C. has similar profitability but a different geographical spread of business.
  - D. is non-accumulating and is prepared to exchange similar volumes of premium income.
32. The strength of a reinsurer's financial security will be given the greatest consideration by an insurer when obtaining a
- A. cargo facultative risk.
  - B. liability treaty reinsurance programme.
  - C. marine hull facultative risk.
  - D. property treaty reinsurance programme.

33. Which legal principle applies to all reinsurance contracts irrespective of the class of original insurance business?
- A. The reinsurance contract is a contract of indemnity.
  - B. The reinsurance contract must be in written form.
  - C. The reinsurer must have an insurable interest in the subject matter of the original insurance contract.
  - D. The reinsurer's premium must be adequate for the risk accepted.
34. A reinsurer is entering a defence under the provisions of the Limitation Act 1980. This means that
- A. both the court and the reinsurer have the right to invoke time-barring rules.
  - B. if time-barring rules apply, the cause of action is always extinguished.
  - C. the reinsured will not succeed with a claim made more than three years after an error or omission occurred.
  - D. the reinsurance claim was submitted more than six years after the original claims settlement.
35. A reinsurer discovers that a reinsured was in breach of its duty to make a fair presentation of a facultative risk prior to inception. The reinsurer does **NOT** consider the breach to be deliberate or reckless. In what circumstances, if any, can the reinsurer avoid the contract?
- A. In any circumstances at the reinsurer's discretion.
  - B. Only during a suspension period while the reinsured prepares a resubmission of the risk.
  - C. Only if the reinsurer would have initially declined the risk.
  - D. In no circumstances.
36. A treaty reinsurance wording differs to a facultative reinsurance wording because it
- A. always follows the terms of the original insurance.
  - B. does not state the name of the original insured.
  - C. is always subject to the law of the insurer's country.
  - D. never contains a claims co-operation clause.
37. Which exclusion prevents a reinsurer from providing coverage or paying claims in the event of a government prohibiting trade with an individual or country?
- A. Punitive damages exclusion.
  - B. Sanctions exclusion.
  - C. Terrorism exclusion.
  - D. War exclusion.
38. A reinsured agrees to reassume an amount of aggregate losses in excess of a specified amount subject to a specified limit. Within which clause will this provision be found?
- A. Aggregate extension clause.
  - B. Claims series clause.
  - C. Extended claims reporting clause.
  - D. Loss corridor clause.

39. Errors and omissions clauses **usually** provide that, in the event of an inadvertent or innocent mistake, coverage will **NOT** be declined unless the
- A. mistake relates to a disclosure made prior to the inception of the reinsurance.
  - B. mistake relates to a warranty as to a current or existing state of affairs.
  - C. reinsured's position has been prejudiced.
  - D. reinsurer's position has been prejudiced.
40. When can an inspection of records clause be invoked by a reinsurer?
- A. At any time after expiry of the reinsurance contract, as long as there are outstanding claims.
  - B. At any time after inception of the reinsurance contract, as long as there are no outstanding claims.
  - C. At anytime, as long as there is unexpired liability under the reinsurance contract.
  - D. At any time during the reinsurance contract period.
41. What are the advantages of the Bermudian market for a new reinsurance company?
- A. Favourable tax laws and quick regulatory approval.
  - B. Favourable tax laws and enhanced investment income.
  - C. Quick regulatory approval and enhanced investment income.
  - D. Quick regulatory approval and a well-established civil code.
42. Hard reinsurance markets are characterised by
- A. capacity shortage, decreased pricing and less restrictive terms and conditions.
  - B. capacity shortage, increased pricing and more restrictive terms and conditions.
  - C. capacity surplus, decreased pricing and more restrictive terms and conditions.
  - D. capacity surplus, increased pricing and less restrictive terms and conditions.
43. Advances in actuarial modelling and analysis have assisted in managing the reinsurance cycle by
- A. increasing the technical input to the pricing process.
  - B. reducing reserves and incurred but not reported provisions.
  - C. sourcing new capital.
  - D. understanding alternatives to conventional reinsurances.
44. A larger reinsurer is **more likely** to withstand market cycle fluctuations due to
- A. lower cost of capital and greater diversity of products.
  - B. lower cost of capital and a more specialised products portfolio.
  - C. higher cost of capital and greater diversity of products.
  - D. higher cost of capital and a more specialised products portfolio.

45. Which type of exposure occurring over a number of years will be of **most concern** to a public liability reinsurer considering underwriting a treaty for a UK-based reinsured with a large number of local authority risks?
- A. Abuse.
  - B. Gradual pollution.
  - C. Noise.
  - D. Subsidence.
46. Which class of business has the most certainty around the **maximum** potential exposure for any one claim where the injury involved is a fatality?
- A. Employers' liability.
  - B. Medical malpractice.
  - C. Motor liability.
  - D. Personal accident.
47. An insured pharmaceutical company is sued in respect of two unrelated drugs. Settlements are agreed with two claimants who took drug A and three claimants who took drug B. The pharmaceutical company's insurer pays the claimants and submits a claim to its reinsurer. The relevant reinsurance treaty includes a claims series clause. How many reinsurance excess(es) are **likely** to be applied?
- A. One reinsurance excess(es).
  - B. Two reinsurance excess(es).
  - C. Three reinsurance excess(es).
  - D. Five reinsurance excess(es).
48. Total loss only reinsurance is a type of contract written for which class of business?
- A. Aviation liability.
  - B. Marine hull.
  - C. Motor.
  - D. Property.
49. Under which class of business, if any, would a reinsurer be obliged to pay claims where the UK-based original insured is in breach of a fundamental policy condition?
- A. None.
  - B. Financial institutions.
  - C. Motor third party liability.
  - D. Public liability.

50. What is the **main** purpose of stop loss cover?

- A. To provide additional capacity for a large risk where the reinsured's proportional treaty will not provide sufficient cover.
- B. To provide automatic cover for risks arising from more than one class of business.
- C. To restrict the reinsured's annual aggregate losses to a predetermined percentage of its annual premium.
- D. To restrict the reinsured's exposure to a particular risk from an under estimation of the estimated maximum loss.

## Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
<b>Learning Outcome 1</b>			<b>Learning Outcome 5</b>			<b>Learning Outcome 8</b>		
1	D	1.1	18	C	5.1	36	B	8.1
2	C	1.1	19	B	5.2	37	B	8.3
3	A	1.2	20	D	5.2	38	D	8.2
4	C	1.2	21	B	5.3	39	D	8.2
<b>4 questions</b>			22	B	5.4	40	C	8.2
			23	B	5.5	<b>5 questions</b>		
<b>Learning Outcome 2</b>			24	C	5.6			
5	C	2.2	<b>7 questions</b>			<b>Learning Outcome 9</b>		
6	C	2.1				41	A	9.1
7	B	2.3	<b>Learning Outcome 6</b>			42	B	9.2
<b>3 questions</b>			25	B	6.5	43	A	9.3
			26	A	6.1	44	A	9.3
<b>Learning Outcome 3</b>			27	D	6.2	<b>4 questions</b>		
8	C	3.2	28	C	6.2			
9	C	3.1	29	C	6.2	<b>Learning Outcome 10</b>		
<b>2 questions</b>			30	B	6.3	45	A	10.1
			31	C	6.4	46	D	10.1
<b>Learning Outcome 4</b>			32	B	6.5	47	B	10.3
10	A	4.6	<b>8 questions</b>			48	B	10.4
11	A	4.2				49	C	10.5
12	B	4.3	<b>Learning Outcome 7</b>			50	C	10.2
13	A	4.4	33	A	7.1	<b>6 questions</b>		
14	B	4.4	34	D	7.2			
15	C	4.5	35	C	7.1			
16	B	4.6	<b>3 questions</b>					
17	A	4.1						
<b>8 questions</b>								