



Chartered
Insurance
Institute

IF3

Certificate in Insurance

Unit 3 – Insurance underwriting process

Based on the 2021 syllabus
examined from 1 January 2021 until 31 December 2021

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Unit 3 – Insurance underwriting process

Based on the 2021 syllabus examined from 1 January 2021 until 31 December 2021

Introduction

This examination guide has been produced by the Examinations 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.

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 2021 until 31 December 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.

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 2021 until 31 December 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
 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. 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.*

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 (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).

Recent developments in general insurance underwriting. Massimo Vascotto.

Principles and trends in general insurance underwriting. Massimo Vascotto.

Recent developments to Solvency II. Brad Baker.

The regulatory framework. Simon Collins.

Additional articles and technical bulletins are available under the Underwriting section of the website at www.cii.co.uk/knowledge/underwriting.

Periodicals

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.

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.

The insurance manual. Stourbridge, West Midlands: Insurance Publishing & Printing Co. Looseleaf, updated.

The insurance manual. Sadler, John. Stourbridge, Worcs: Insurance Publishing & Printing Co. Looseleaf updated annually.

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.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at www.cii.co.uk/iilrevision (CII/PFS members only).

1. What is the relationship between a peril and a hazard?
 - A. A peril gives rise to a loss and a hazard influences the operation of the peril.
 - B. A peril is an insured loss and a hazard is an uninsured loss.
 - C. A peril is the end cause of a loss and a hazard is the proximate cause of a loss.
 - D. A peril is the physical nature of a risk and a hazard is the moral nature of a risk.

2. A material circumstance is best described as a circumstance that
 - A. has no bearing on physical hazard.
 - B. has no bearing on moral hazard.
 - C. may influence an underwriting decision.
 - D. must be on the Association of British Insurers' approved list.

3. An insurer may occasionally delegate underwriting in order to
 - A. speed up the process and reduce administrative costs.
 - B. reduce the risk of non-disclosure.
 - C. comply with the requirements of the Association of British Insurers.
 - D. ensure that only good quality risks are accepted.

4. At the renewal of an insurance policy, policyholders are **always** obliged under common law to
 - A. renew the policy with the same insurer.
 - B. increase the sum insured in line with inflation.
 - C. disclose any changes to material circumstances.
 - D. complete a new proposal form.

5. In relation to fire insurance and the consideration of hazard, metal fire doors and fire resistant walls are considered to be
 - A. good moral hazards.
 - B. good physical hazards.
 - C. poor moral hazards.
 - D. poor physical hazards.

6. During the period that a quotation was valid, the proposer accepted the quoted terms in writing. In what circumstances, if any, is the insurer **legally** permitted to withdraw these terms?
 - A. Only if the basis of the risk has changed.
 - B. Only if the insurer decided to withdraw from this section of the market.
 - C. Only if this type of cover is widely available in the marketplace.
 - D. In no circumstances.

7. When the annual premium for a motor insurance policy is payable by instalments using direct debit, what payment frequency is **most likely** to be involved?
- A. Weekly.
 - B. Monthly.
 - C. Quarterly.
 - D. Half-yearly.
8. In a proposal form, **risk** specific questions are those
- A. that are common to most general insurance risks.
 - B. that pertain to the particular details of a proposed risk.
 - C. that relate to matters evaluating whether information is material or not.
 - D. where the proposer warrants the answer to be correct.
9. What is the **main** consequence of an insurer offering a high standard sum insured under a household contents insurance policy?
- A. It reduces the possibility of underinsurance.
 - B. It increases reliance on the average clause.
 - C. It reduces the number of claims that are handled.
 - D. It increases the incidence of subrogation.
10. What is the **usual** premium base for an employers' liability policy?
- A. The limit of indemnity.
 - B. The sum insured.
 - C. The turnover.
 - D. The wage roll.
11. What is the **most common** basis of premium calculation for public liability insurance and products liability insurance?
- A. Business value.
 - B. Limit of indemnity.
 - C. Profit.
 - D. Turnover.
12. Michael has a household contents policy and makes a claim early in the period of insurance. Why is it **NOT** necessary that he has received a copy of the policy to make a claim?
- A. Consumer Insurance (Disclosure & Representations) Act 2012 specifies that it is not necessary.
 - B. A cover note would have been issued.
 - C. The policy is only evidence of the contract, not the contract itself.
 - D. This is not a requirement with compulsory insurances.

13. When a premium is paid by monthly direct debit why is an additional charge **usually** levied by the insurer?
- A. To cover the loss of interest.
 - B. To cover the risk of non-payment.
 - C. The Consumer Credit Act 1974 requires it.
 - D. The Insurance Act 2015 requires it.
14. A valid employers' liability insurance certificate **must** contain the insured's
- A. address.
 - B. name.
 - C. number of employees.
 - D. occupation.
15. For a contract of insurance to be valid the premium **must**
- A. be quoted.
 - B. be paid or agreed to be paid.
 - C. be shown on the certificate.
 - D. include Insurance Premium Tax.
16. Who pays Insurance Premium Tax?
- A. Both the insurer and the insured.
 - B. The insured only.
 - C. The insured's intermediary.
 - D. The insurer only.
17. What is the current rate of Insurance Premium Tax, if any, for the majority of insurance policies?
- A. Nil.
 - B. 6%
 - C. 12%
 - D. 20%
18. In a proposal form, what type of questions would a proposer's name, address and occupation be classified as?
- A. Express.
 - B. General.
 - C. Objective.
 - D. Specific.
19. Which Act regulates the payment of insurance premiums by instalments?
- A. The Consumer Credit Act 1974.
 - B. The Financial Services and Markets Act 2000.
 - C. The Sale and Supply of Goods to Consumers Regulations 2002.
 - D. The Sale of Goods Act 1979.

20. Chris is completing a proposal form and has been advised that he is **legally** obliged to declare all material circumstances. If he is unsure whether information is material or not, he should
- A. disclose it fully.
 - B. not disclose it.
 - C. only disclose it if it is specifically addressed by one of the questions.
 - D. only disclose it if it relates to a criminal offence.
21. What can an insurer of frozen food apply to exclude a loss arising from a short failure of the electricity supply lasting 30 minutes or less, but which will cover the whole loss if the supply failure exceeds 30 minutes?
- A. An aggregate.
 - B. A deductible.
 - C. An excess.
 - D. A franchise.
22. Which component of a policy is personal and specific to an insured?
- A. The operative clause.
 - B. The policy conditions.
 - C. The policy schedule.
 - D. The recital clause.
23. The **main** purpose of the recital clause in a household insurance policy is to
- A. list all of the general exclusions of the contract.
 - B. make the proposal form the basis of the contract.
 - C. show the details of cover provided by the contract.
 - D. state the renewal date of the contract.
24. Conditions that are covered by common law and therefore do **NOT** need to appear in an insurance policy are known as
- A. express conditions.
 - B. general conditions.
 - C. implied conditions.
 - D. legal conditions.
25. An exclusion in an insurer's household insurance policy is deemed a general exclusion, but **NOT** a market exclusion. This means the exclusion
- A. applies to a particular section of the policy, but does not apply across the entire policy.
 - B. applies to all sections of the policy, but has not generally been adopted by other insurers.
 - C. relates to a pure risk rather than to a speculative risk.
 - D. operates under case law precedent rather than under the provision of statute.

26. An insurer is advised that a break-in has occurred but the insured has failed to report the incident to the police. What part of the insurance policy has been breached?
- A. The conditions.
 - B. The exclusions.
 - C. The preamble.
 - D. The schedule.
27. An insured property suffers extensive water damage. A claims handler notes that the insured has **NOT** complied with the minimum security requirement. What action would be taken?
- A. The claim would be paid but the policy would be cancelled.
 - B. The claim would be avoided and the policy would be cancelled.
 - C. The claim would be paid and the policy would remain in force.
 - D. The claim would be avoided but the policy would remain in force.
28. In which section of an insurance policy does an insurer provide details of the different sums insured under the policy?
- A. The heading.
 - B. The operative clause.
 - C. The policy schedule.
 - D. The preamble.
29. The amount of any claim which is the responsibility of the insured and which the insurer will deduct from any claim payment is known as
- A. a condition.
 - B. an excess.
 - C. a franchise.
 - D. a warranty.
30. What is the **usual** length of the notice period, if any, under a standard cancellation clause of a household policy?
- A. There is no notice period.
 - B. 7 days.
 - C. 14 days.
 - D. 28 days.
31. Alicia has a household insurance policy that is renewable on 1 July with 15 days of grace. If Alicia paid the renewal premium on 9 July, from which date would the cover apply?
- A. 1 July.
 - B. 9 July.
 - C. 16 July.
 - D. 24 July.

32. A customer's buildings insurance policy is due for renewal in three months' time. In what circumstances, if any, is the existing insurer legally required to offer renewal terms?
- A. In no circumstances.
 - B. Only if there is an associated mortgage.
 - C. Only if the insurer is a member of the Association of British Insurers.
 - D. In all circumstances.
33. Which regulation requires insurers to cancel add-on policies at the same time, if the **main** policy is cancelled mid-term?
- A. The Consumer Credit Act 1974.
 - B. The Consumer Rights Act 2015.
 - C. The General Data Protection Regulation (GDPR).
 - D. The Insurance Act 2015.
34. What limit, if any, is **usually** placed on the number of claims that can be made under a motor insurance policy in any one policy year?
- A. A limit that is always agreed at the start of the policy year.
 - B. A limit that is renegotiated at renewal depending on previous claims experience.
 - C. There is no limit on the number of claims that can be made.
 - D. A limit which can vary according to the age of the insured.
35. Under a standard travel insurance policy, what is the **minimum** level of cover **usually** provided for medical treatment and expenses incurred whilst abroad?
- A. £50,000
 - B. £100,000
 - C. £250,000
 - D. £1,000,000
36. Which type of insurance policy would cover an insured for the cost of repairs following an electrical defect in a television?
- A. A commercial all risks insurance policy.
 - B. A personal all risks insurance policy.
 - C. An extended warranty insurance policy.
 - D. A products liability insurance policy.
37. What is the implication of writing professional indemnity insurance on a **claims made** basis?
- A. More than one claim is needed for the policy to be effective.
 - B. New claims must always be submitted to the current insurer.
 - C. Previous claims are the sole underwriting criteria.
 - D. New claims must always be submitted to the previous insurer.

38. Cover for theft under a commercial insurance policy is **usually** subject to
- A. forcible and violent entry only to a secured building.
 - B. forcible and violent entry to or exit from a secured building.
 - C. theft notwithstanding forcible and violent entry to or exit from a secured building.
 - D. forcible and violent exit only from a secured building.
39. What does products liability insurance **principally** cover?
- A. The cost of recalling defective goods.
 - B. Claims made against the insured as a result of defective goods.
 - C. Claims made against the insured by employees for injuries received whilst at work.
 - D. Financial damages incurred as a result of incorrect professional advice.
40. The **main** advantage to a motor insurer of operating an authorised repairer scheme is that it
- A. can charge an additional premium for the scheme.
 - B. can reduce the liability of any third party who may have caused damage.
 - C. can refuse to release a vehicle until any excess has been paid.
 - D. will have more control over the costs incurred.
41. For which class of insurance is an underwriter **most likely** to request a risk survey?
- A. Commercial insurance.
 - B. Household buildings insurance.
 - C. Motor insurance.
 - D. Medical expenses insurance.
42. If an insurer wishes to check the claims history of an individual proposing motor insurance, it would refer to the
- A. Claims and Underwriting Exchange.
 - B. Financial Conduct Authority.
 - C. Motor Insurers' Bureau.
 - D. Motor Insurers Database.
43. Which factor is **usually** the **most** important when an underwriter is determining whether he will accept a proposal for professional indemnity insurance?
- A. The location of the practice.
 - B. The claims history of the practice.
 - C. The fees charged by the practice.
 - D. The number of directors.

44. When an insurer is considering an income protection insurance proposal, it will **usually** place the applicant into a particular premium rating class based on his
- A. age.
 - B. level of earnings.
 - C. lifestyle.
 - D. occupation.
45. An 18-year-old individual is applying for motor insurance. In relation to which type(s) of policy cover is his age **likely** to influence the premium rating?
- A. Third party cover only.
 - B. Third party, fire and theft cover only.
 - C. Comprehensive cover only.
 - D. All types of cover.
46. The buildings sum insured for a fire insurance policy should ideally be linked to the
- A. purchase price only.
 - B. purchase price plus inflation.
 - C. rebuilding costs.
 - D. current market value.
47. For which class of insurance is it an underwriting requirement to know the length of the indemnity period and the potential loss of revenue?
- A. Business interruption insurance.
 - B. Products liability insurance.
 - C. Public liability insurance.
 - D. Theft insurance.
48. What is the **main** criteria for underwriting extended warranty insurance for domestic electrical appliances?
- A. Age of insured appliance.
 - B. Country of manufacture.
 - C. Postal code of insured.
 - D. Type and value of appliance.
49. What method of settlement does an insurer **typically** use to deter fraudulent household goods claims?
- A. Agreed value.
 - B. Cash reimbursement.
 - C. First loss.
 - D. Replacement.

50. Under the Disability Discrimination Act 1995, an insurer is permitted to decline a travel insurance application due to the proposer's disability, but only if the
- A. proposer is over State Pension age.
 - B. proposer is travelling alone.
 - C. decision is supported by appropriate risk-related data.
 - D. requested cover extends beyond EU limits.
51. For what reason will an insurance company appoint a data controller?
- A. To enable the insurance company to use the various registers of claims.
 - B. To monitor the amount of data input by each employee.
 - C. To oversee the information technology department.
 - D. To satisfy the requirements of data protection legislation.
52. A firm of solicitors is applying for professional indemnity insurance. When rating the **risk**, what information is the underwriter **most likely** to find useful?
- A. The age of the senior partner.
 - B. The location of the office.
 - C. The number of support staff.
 - D. The fees earned by the practice.
53. An insurer will **usually** make an insurance policy void without refunding the premium if the policyholder
- A. arranges identical cover elsewhere.
 - B. loses insurable interest.
 - C. submits a fraudulent claim.
 - D. receives a criminal conviction.
54. What **main** source of information is used by motor insurers to discourage fraudulent claims?
- A. The Claims and Underwriting Exchange.
 - B. The Driver and Vehicle Licensing Agency (DVLA).
 - C. The Motor Insurance Repair Research Centre.
 - D. The Motor Insurers' Bureau.
55. What factor would contribute to two different companies with identical wage rolls paying **significantly** different premiums for employers' liability insurance?
- A. The geographical location.
 - B. Any no claims discounts.
 - C. The number of directors.
 - D. The type of business.

56. An insurance policy shows a gross premium of £1,000, settled claims of £300 and outstanding claims of £200. What is the incurred loss ratio?
- A. 25%
 - B. 30%
 - C. 33%
 - D. 50%
57. Regarding a risk profile that is high frequency and low severity, an insurer will expect
- A. many high value claims.
 - B. many small value claims.
 - C. only a few high value claims.
 - D. only a few small value claims.
58. Claims data for a particular insurance policy is being grouped according to the date of loss, with losses occurring in 2017 grouped separately from those occurring in 2016. What **main** type of monitoring period is **most likely** to be in operation?
- A. Accounting year.
 - B. Calendar year.
 - C. Policy year.
 - D. Underwriting year.
59. Operational data is **mainly** used by insurers to monitor the
- A. organisation's overall business performance.
 - B. success of different departments within the organisation.
 - C. effectiveness of general procedures and practices.
 - D. control of the insurance risk.
60. What is the **main** source of data that will determine the rate for an insurer's private car portfolio?
- A. Its own past claims history across similar risks.
 - B. Competitors' terms, rates and excesses.
 - C. Driver and Vehicle Licensing Authority (DVLA) statistical information.
 - D. Motor Insurers' Bureau claims experience.
61. Why is the accurate analysis of an insurer's past claims so important?
- A. It is essential for the profitability of the underwriting account.
 - B. It provides an analysis of the efficiency of claims service levels.
 - C. It provides indications of excessive risk accumulation.
 - D. The claims history guides coinsurance considerations.

62. What **main** factor influences the risk premium element of a set of insurance premium rates?
- A. Claims costs.
 - B. Taxation liabilities.
 - C. Administrative expenses.
 - D. Investment return.
63. How are claims allocated when monitored on a calendar year basis?
- A. Proportionately depending on the time of year.
 - B. They are based on the date of loss.
 - C. They are based on unearned premium income.
 - D. To the next full year starting 1 January.
64. In terms of the frequency and severity of risk, an accident involving an aircraft carrier would be classified as
- A. high frequency, high severity.
 - B. high frequency, low severity.
 - C. low frequency, high severity.
 - D. low frequency, low severity.
65. Actual loss ratios relate to values that
- A. have been adjusted for inflation.
 - B. have not had any adjustments factored in.
 - C. measure average losses over a given period.
 - D. take into account reinsurance costs.
66. The ultimate cost in claims of a risk being accepted is defined as a
- A. loss ratio.
 - B. material fact.
 - C. reinsurance.
 - D. risk premium.
67. An insurer transacting which class of insurance will need to account for Insurance Premium Tax at the rate of 20%?
- A. Health insurance.
 - B. Motor insurance.
 - C. Personal travel insurance.
 - D. Extended warranty insurance.
68. Which organisation makes a charge to insurers to pay the claims from victims of uninsured drivers?
- A. The Claims and Underwriting Exchange.
 - B. The Financial Conduct Authority.
 - C. The Financial Services Compensation Scheme.
 - D. The Motor Insurers' Bureau.

69. In relation to the premium, costs that alter depending on the nature of each risk are known as
- A. calculated expenses.
 - B. fluctuating expenses.
 - C. proportioned expenses.
 - D. variable expenses.
70. Which **key** method is used by an insurer to protect itself against loss exposures arising from a single event?
- A. Premium reviews.
 - B. Policy endorsements.
 - C. Reinsurance cover.
 - D. External risk surveillance.
71. A reduction in the availability of a particular type of insurance cover will **generally** cause
- A. a fall in premiums.
 - B. an increase in premiums.
 - C. a limit on reinsurance options.
 - D. a reduction in the insurer's profits.
72. The underwriting cycle refers to the
- A. administration process from proposal to policy issue.
 - B. training of underwriters to assess higher risks.
 - C. movement of underwriters between different roles in the company.
 - D. changes in market capacity and its bearing on underwriting acceptance criteria.
73. When assessing the maximum exposure for any one risk relating to fire damage, a surveyor will calculate the
- A. estimated maximum loss.
 - B. estimated minimum loss.
 - C. expected maximum loss.
 - D. expected minimum loss.
74. XYZ Insurance Ltd wants to protect its fire insurance account against the impact of large one-off losses. What form of reinsurance should it purchase?
- A. Excess of loss.
 - B. Loss ratio coverage.
 - C. Quota share.
 - D. Stop loss.

75. An insurer wishing to accept a risk which exceeds its normal underwriting limits is **most likely** to
- A. exclude cover for catastrophic risks.
 - B. insist on a large excess.
 - C. make use of a reinsurance facility.
 - D. place special conditions on the policy.

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