M80

Underwriting practice 2021

Chartered Insurance Institute
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Learning Outcome		Assessment Criteria		Indicative Content	
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1 10 Questions	Understand key influences of the regulatory and commercial environment on underwriting	1.1	Explain the implications of regulatory authorisation for the underwriting function.	1.1.1	The role of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) and the various methods of regulating and monitoring they use in relation to different types of companies.
				1.1.2	The impact on the underwriting function.
		1.2	Explain the relationship between underwriting and capital and solvency requirements.	1.2.1	The various capital and solvency requirements and how they depend on the types of insurance business underwritten.
				1.2.2	Managing capital effectively and the consequences of too little or too much capital.
		1.3	Explain the principles and requirements of contract certainty.	1.3.1	The rules of the Contract Certainty Code of Practice.
				1.3.2	What measures an insurance company should take to comply.
				1.3.3	Any consequences of breaches.
		1.4	Discuss the impact of legislation and litigation on underwriting.	1.4.1	Consumer Rights Act 2015.
				1.4.2	Contracts (Rights of third parties) Act 1999.
				1.4.3	Data Protection Act 2018 and GDPR.
				1.4.4	Legislation enforcing insurance and making it requirement by law (road traffic act, employers liability insurance).
				1.4.5	Consumer Insurance (Disclosure and Representations) Act 2012 (CIDRA), Insurance Act 2015 (IA).
				1.4.6	Discrimination Law, EU Gender Directive, Equality Act 2010.
		1.5	Explain the operation of the traditional underwriting cycle.	1.5.1	The difference between a hard and soft market and the characteristics of each.
				1.5.2	The influences on the stages of an underwriting cycle.
				1.5.3	How insurance companies can manage and respond to the underwriting cycle.
		1.6	Discuss the impact of major events and trends on underwriting.	1.6.1	Historic and current events and trends affecting the underwriting function. For example, economic trends, global conflicts, weather related, long term industrial disease, pandemics, manmade.
				1.6.2	How an insurance company can manage and prepare for these events/trends.

	Learning Outcome		Assessment Criteria		Indicative Content
		1.7	Explain the importance of the fair treatment of customers and providing positive customer outcomes.	**1.7.1**	The Financial Conduct Authority's requirements for the fair treatment of customers and how this should be provided by the insurance industry.
				1.7.2	Considering vulnerable customers.
				1.7.3	Providing positive customer experiences.
2 **9** **Questions**	**Understand key aspects of underwriting policy and practice**	**2.1**	Explain corporate underwriting strategy and its influences on underwriting policy.	**2.1.1**	Corporate strategy.
				2.1.2	Underwriting strategy and the different types of it.
				2.1.3	The balance needed between growth and profit.
				2.1.4	Other internal tensions that may come into play and their impact.
				2.1.5	The impact of new entrants to the market.
		2.2	Discuss the importance of moral and physical hazards in setting an underwriting policy.	**2.2.1**	Define physical hazard and illustrate with some examples of this for different lines of business.
				2.2.2	Define moral hazard and how it operates under the 3 scenarios of pre-inception, post-inception and post-loss.
		2.3	Discuss typical criteria for policy cover, terms, conditions and restrictions.	**2.3.1**	The purpose of policy wordings and how they may differ between personal lines and commercial business.
				2.3.2	The purpose of the operative clause.
				2.3.3	The purpose of the exemption or exclusion clauses.
				2.3.4	The purpose of the conditions clause.
				2.3.5	The purpose the schedule.
				2.3.6	The purpose of endorsements and memoranda.
				2.3.7	The purpose of Insurance Act 2015 & how this has impacted warranties & other terms.
				2.3.8	The purpose of excesses both compulsory and voluntary & how they operate.
				2.3.9	The purpose of deductibles and how they operate.
				2.3.10	The purpose of franchises and how they operate.
				2.3.11	The purpose of policy limits and what impacts the limit chosen.

	Learning Outcome		Assessment Criteria		Indicative Content
		2.4	Explain how risks are classified, categorised and improved.	2.4.1	Define how risks are classified giving examples for different Lines of business.
				2.4.2	How risks are categorised.
				2.4.3	Define the underwriting criteria giving examples for different lines of business.
				2.4.4	Risk improvement criteria and why they are important.
				2.4.5	Risk surveys and the purpose of them.
				2.4.6	Analysis of claims trends.
		2.5	Explain the interaction between underwriting and distribution channels.	2.5.1	The different underwriting and distribution channels of intermediaries, direct sales and price comparison websites (aggregators).
				2.5.2	How the choice of distribution channel impacts the insurer.
		2.6	Explain the use and implications of granting delegated authority.	2.6.1	The purpose and advantages of delegated authorities.
				2.6.2	Managing General Agents (MGA).
				2.6.3	How a delegated authority operates.
				2.6.4	The problems a delegated authority may have.
		2.7	Discuss the methods of entering international markets and the implications of writing international business.	2.7.1	The methods and implications of writing international business.
		2.8	Describe counter-fraud initiatives.	2.8.1	The various classes of fraud.
				2.8.2	Different fraud detection methods.
				2.8.3	The different anti-fraud bodies that operate.
				2.8.4	The various anti-fraud databases in use.
				2.8.5	How financial crime can be prevented.
		2.9	Discuss the effect of mergers and acquisitions on underwriting policy and practice.	2.9.1	The effect of mergers and acquisitions on underwriting policy and practice.

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3 **11 Questions**	**Understand how statistical data is used for underwriting**	**3.1**	Explain the relationship between exposure and claims.	**3.1.1**	The relationship between exposure and claims.
				3.1.2	The risk and rating factors that affect this relationship.
				3.1.3	Other factors that affect this relationship.
		3.2	Explain the importance of averages and how they are calculated.	**3.2.1**	The importance of averages.
				3.2.2	Calculate some commonly used measures of average - arithmetic mean, median and mode.
		3.3	Interpret the distribution of data around the average.	**3.3.1**	Interpret the distribution of data around the average via frequency distributions and comparing subsets of data.
				3.3.2	Different statistical distributions of normal and poisson distributions.
		3.4	Explain the relationship between frequency and severity.	**3.4.1**	The relationship between frequency and severity.
		3.5	Explain the basic principles of probability and how it can be used to calculate expected future claims	**3.5.1**	The principles of probability.
				3.5.2	Notation.
				3.5.3	The application of principles of probability.
				3.5.4	How to predict less frequent and complex events.
				3.5.5	Calculate the expected value of claims.
		3.6	Explain the importance of the law of large numbers in sample sizes.	**3.6.1**	The law of large numbers and the concept of big data.
				3.6.2	The common pool.
				3.6.3	The importance of homogeneous risks to personal and motor risks.
		3.7	Discuss the limitations of statistical data.	**3.7.1**	The limitations of statistical data.

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4 **12 Questions**	**Understand the principles and practices of risk pricing**	**4.1**	Explain the main elements of the premium.	**4.1.1**	The key considerations that an underwriter assesses when setting the risk premium.
				4.1.2	What types of expenses must be included when setting the premium.
				4.1.3	How an insurer's underwriting strategy influences the profitability of its business.
				4.1.4	The main methods of premium calculation.
		4.2	Explain the burning cost and prospective risk analysis methods of rating.	**4.2.1**	The burning cost rating method and its attractiveness.
				4.2.2	The reasons why there are disadvantages to using this method.
				4.2.3	The prospective risk analysis method of rating.
		4.3	Explain how claims data is interpreted and used in setting prices.	**4.3.1**	The significance of the need to ensure credibility of claims data.
				4.3.2	How claims data is analysed to assist with the task of pricing the risk.
				4.3.3	Claims triangulation and its use.
		4.4	Explain the significance of incurred but not reported (IBNR) claims.	**4.4.1**	How IBNR influence the pricing of risks.
		4.5	Explain the importance of liaison between underwriting and claims functions, especially reserving.	**4.5.1**	The key areas in an insurance company where the liaison between underwriting and claims functions is important.
		4.6	Explain the role and significance of the actuary in risk pricing.	**4.6.1**	The role of the actuary in pricing risks.
				4.6.2	The wider role of the actuary.
		4.7	Examine the importance of competitor analysis in pricing.	**4.7.1**	How competition influences pricing decisions.
				4.7.2	How competitor analysis tools help with decisions on pricing.
		4.8	Discuss other risk data that can be used in pricing.	**4.8.1**	Risk Surveys.
				4.8.2	Data Exchanges.
				4.8.3	Natural catastrophe and flood mapping.
				4.8.4	Other publicly available data.

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5 **8 Questions**	**Understand risk exposure and control**	**5.1**	Explain how exposure to single risks and single events can be measured and managed to balance the account.	**5.1.1**	Why establishing the acceptable maximum exposure is an important part of underwriting strategy.
				5.1.2	What methods Insurers use to calculate the maximum exposure on a single risk.
				5.1.3	The role of a risk surveyor and engineer in establishing the EML and the criteria they review.
				5.1.4	Single event exposure and how aggregation can be managed.
		5.2	Explain the aggregation of risks and the use of catastrophe modelling.	**5.2.1**	Recognise how aggregation of risks arises in the major classes of business.
				5.2.2	How catastrophe modelling helps to understand the exposures to catastrophes.
				5.2.3	The features of catastrophe modelling.
		5.3	Explain the role of and main types of reinsurance	**5.3.1**	The benefits of reinsurance in controlling exposure.
				5.3.2	The main types of reinsurance and their application.
				5.3.3	Facultative reinsurance - advantages and disadvantages.
				5.3.4	Treaty reinsurance - advantages and disadvantages.
				5.3.5	Proportional reinsurance - including quota share and surplus.
				5.3.6	Non proportional reinsurance - excess of loss, stop-loss, catastrophe excess of loss.
		5.4	Explain the importance of the interaction between insurer and reinsurer.	**5.4.1**	The impact the reinsurance pricing cycle has on reinsurance underwriting.
				5.4.2	The types of information required by a reinsurer.
				5.4.3	The importance of the interaction between the insurer and reinsurer.
		5.5	Outline methods other than reinsurance that can be used for limiting exposure.	**5.5.1**	Other methods used for limiting exposure.
				5.5.2	Reinsurance pools.
				5.5.3	Coinsurance.
				5.5.4	Self-insurance.
				5.5.5	First loss insurance.