

## P66

### Diploma in Insurance

#### Unit P66 – Delegated authority

October 2017 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.

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

1. (a) Identify **five** types of delegated authority agreement. (5)  
(b) Identify **five** activities that can be delegated. (5)
  
2. (a) Describe the purpose of the Lloyd's ATLAS system. (5)  
(b) Identify **five** key areas covered by the application form on ATLAS. (5)
  
3. (a) Explain briefly why a standard binding authority contract has a different format to an open market contract. (4)  
(b) Identify the **three** different parts of a binding authority contract document. (3)
  
4. (a) Define the term run-off period for a naturally expiring binder and explain what dictates its length. (5)  
(b) Explain the role the insurer should adopt through the run-off period. (5)
  
5. Explain the need for good processes in relation to claims related complaints handling. (10)
  
6. Describe **three** of the minimum standards for managing agents, as identified by the Lloyd's franchise Minimum Standards for Delegated Underwriting. (9)

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7. (a) Identify **five** compliance outcomes a regulator may seek to ensure, by placing requirements on insurers and, by definition, their coverholder-managing general agents (MGAs). (5)
- (b) Explain briefly the most basic safety mechanism a coverholder-MGA can adopt to ensure regulatory compliance. (3)
- (c) Explain briefly the key role of the compliance function of an insurer which has a large number of coverholder-MGAs. (3)
8. (a) Explain how the contract of delegation can assist the coverholder-managing general agent (MGA) when issuing documentation. (5)
- (b) Explain briefly the benefit for an insurer when a locally based coverholder-MGA issues documentation. (3)
9. Explain how the delegated authority document assists with the performance and operational control of delegated authority. (8)
10. Explain, with justification, the most likely way in which an insurer will first identify any problems with the operation of a binder. (5)
11. (a) Describe briefly **five** benefits of Lloyd's central reporting standards. (10)
- (b) Identify **four** of the blocks of information in which data is grouped by the Lloyd's central reporting standards. (4)
12. (a) Identify the **five** practical steps which need to be taken to set up a delegated authority agreement. (5)
- (b) Explain briefly **one** activity a broker might undertake for **each** of the **five** steps identified in **part (a)** above. (10)

QUESTIONS CONTINUE OVER THE PAGE

13. You are a Lloyd's managing agent considering setting up a service company.
- (a) Identify **five** practical steps that Lloyd's suggest you should follow prior to establishment. (5)
  - (b) Explain how the Lloyd's service company should operate once established. (6)
14. (a) Explain the legal position of **each** party in a contract of delegation where the broker is acting as a coverholder-managing general agent. (6)
- (b) Identify **six** potential remedies available to the principal if an agent fails in their duty. (6)

**Part II questions can be found on pages 8 and 9**

**PART II**

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

- 15.** You are the Manager for a managing general agent, BAC plc, which operates a number of delegated underwriting authorities. BAC plc's business has grown significantly over the last two years and you are considering seeking new capacity to write more business.

Your company currently operates a number of binders, some of which are for affinity groups, each for a distinct risk type, including small commercial, buildings, property owners and motor risks.

As a consequence of the growth in business, you are looking to employ more staff to support the existing team who are becoming increasingly stretched in terms of their work load. In addition, you are considering outsourcing parts of the business to assist with staff work load.

- (a)** Explain how a well written coverholder-managing general agent (MGA) business plan will assist you in obtaining more capacity to write business. **(5)**
- (b)** Explain, with justification, the **five** most significant topics you would include in your coverholder (MGA) business plan, which would assist you in obtaining more capacity from an insurer. **(15)**
- (c)** Explain **five** important considerations you would need to make when considering the future management of any new delegated authority agreements. **(10)**



16. You are the Underwriting Manager of a leading and respected insurer, looking to increase the volume of business they write and diversify their product portfolio without increasing their fixed cost base.

Traditionally, the insurer has operated in the open market, writing their smaller risks on a direct basis and their larger risks exclusively through insurance brokers.

You are considering approaching a number of your key brokers to discuss the possibility of offering them delegated underwriting authority agreements. Your compliance manager has expressed concern about delegating underwriting authority.

- (a) Describe **three** ways in which underwriting authority could be delegated to a coverholder-managing general agent (MGA) providing different levels of control for the insurer. (9)
- (b) Explain **one** advantage and **one** disadvantage for the insurer and the coverholder (MGA) for **each** of the **three** ways identified in **part (a)** above. (12)
- (c) Explain **three** ways in which your marketing and business development team could work with a potential coverholder (MGA) to analyse the market and maximise the business potential. (9)

17. You are the Finance Director of an insurer. The Underwriting Director has asked if they can work with you to understand the cost implications to the business of offering a large delegated underwriting authority to a coverholder-managing general agent (MGA). The delegated authority would replace your entire low value property portfolio which is currently written on a direct basis.

You agree to work with the Underwriting Director to jointly look at the operational and financial implications of replacing your low value property portfolio with a delegated authority agreement.

When considering the delegation of the new underwriting authority, you and the Underwriting Director, quickly realise that there are compliance and regulatory considerations and approach the Compliance Director to work with you.

- (a) Identify and explain briefly **three** key financial considerations when deciding whether or not to delegate authority to the coverholder (MGA). (9)
- (b) Identify and explain **four** key operational considerations when deciding whether or not to delegate authority to the coverholder (MGA). (12)
- (c) Identify and explain briefly **three** key compliance and regulatory considerations when deciding whether or not to delegate authority to the coverholder (MGA). (9)

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