



Chartered
Insurance
Institute

P66

Diploma in Insurance

Unit P66 – Delegated authority

April 2018 examination

Instructions

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

Unit P66 – Delegated authority

Instructions to candidates

Read the instructions below before answering any questions

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

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

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

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

1. Explain **four** ways a coverholder-managing general agent can create revenue. **(12)**

2. Identify and outline **five** considerations a coverholder-managing general agent should review regularly when managing the operation of a delegated underwriting authority agreement. **(10)**

3.
 - (a) Define the term service company. **(3)**

 - (b) Explain briefly what a Lloyds managing agent must confirm when setting up a service company as part of the application process, in relation to reporting of data. **(3)**

4.
 - (a) Define the term consortium. **(3)**

 - (b) Explain briefly the potential difference between a consortium agreement and the contents of a lineslip. **(3)**

5. Explain the importance of good record keeping for a coverholder-managing general agent, in relation to issuing documentation. **(10)**

6. Describe the main mechanisms used by an insurer to monitor coverholder-managing general agent management of a delegated authority. **(8)**

7.
 - (a) Explain briefly why international business is important to insurers in relation to delegated authority business. **(3)**

 - (b) Identify and explain briefly **three** matters an insurer should consider when writing international risks via a coverholder-managing general agent. **(6)**

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8. Explain briefly **four** matters a Lloyd's managing agent should consider before final sign-off of a new coverholder-managing general agent. (8)
9. Explain **three** matters that those with underwriting authority, under a binder, should consider when setting up a binder. (12)
10. Explain **three** roles a broker could take in the delegated authority process, other than being the coverholder-managing general agent. (12)
11. (a) Explain briefly how claims handling authority might be delegated in a typical delegated authority agreement. (4)
- (b) Explain briefly **three** matters which would automatically be referred to insurers, under a typical delegated authority agreement, where an element of claims handling authority has been delegated. (6)
12. (a) Explain why an insurer would compare potential profitability forecasts with actual performance when monitoring a delegated authority agreement. (8)
- (b) Explain why an insurer would compare potential business growth forecasts with actual performance when monitoring a delegated authority agreement. (5)
13. (a) Explain briefly **three** benefits for an insurer of delegating claims handling to a third party administrator (TPA). (6)
- (b) Explain briefly **four** disadvantages for an insurer of delegating claims handling to a TPA. (8)
14. (a) Describe briefly contract certainty as defined by the London Market Group. (4)
- (b) Explain the London Market Group's guidelines on contract certainty in relation to binding authorities, and the consequences of poorly constructed wordings. (6)

QUESTIONS CONTINUE OVER THE PAGE

PART II

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

- 15.** You are a manager for an insurance broker specialising in commercial business who is considering requesting a delegated underwriting and claims authority agreement from one of your insurers, a large, well known insurer. You have a profitable and extensive portfolio of risks placed with this insurer on an open market basis, although, at present, you only place your larger commercial risks with this insurer, choosing to place your smaller commercial risks with a range of other insurers.

A proportion of your clients choose to insure their commercial risks with your insurance broker, due to affinity relationships you hold with trade and membership groups.

Before preparing a business plan to present to the insurer, you have conducted research into two specific areas with your marketing manager and your head of compliance. The areas you have most concern with are how you will market and develop the business once the delegated authority is granted and secondly, how you will handle the practical flow of premium and claims funds.

- (a)** Explain how you might market the delegated authority business to take advantage of the existing and potential opportunities both internally and externally. **(12)**
- (b)** Explain briefly the importance of contractual transparency for you as a coverholder and for the insurer should the delegated authority proceed. **(5)**
- (c)** Explain the flow of premiums and claims funds and the importance of dedicated accounts. **(13)**

- 16.** You are the Underwriting Manager for a new managing general agent (MGA). Prior to your appointment, you were a senior underwriter for the insurer who the MGA has entered into a delegated underwriting authority with.

The Chief Executive Officer (CEO) of the MGA has asked you to prepare a training programme for all staff involved in operating the delegated authority. In particular, the CEO of the MGA has asked you to focus on the underwriting process to ensure best practice is achieved.

The CEO has also asked you to establish a robust monitoring procedure to ensure that the delegated authority is well managed.

- (a)** Explain the key elements of the underwriting process which you would incorporate in your training programme, including a diagram of the underwriting process. **(15)**
- (b)** Explain **five** areas where service levels could be set to allow performance and operational control to be monitored and managed. **(15)**

- 17.** You have recently been appointed as underwriting manager for the property division of a UK-based insurer. The property division distributes its products on an open market basis through a network of brokers and also to a small number of large property management companies. The property division has the strategic objective of increasing the amount of business written by 50% over the next three years, whilst maintaining its current cost base. The property division has not ruled out writing risks in overseas territories despite their lack of experience.

You have experience of delegated authority agreements and decide to write a business plan which would see you enter into several delegated authority agreements.

- (a)** Explain briefly the benefits for the property division of offering delegated authority agreements. **(5)**
- (b)** Explain briefly the challenges you might face if you decide to distribute your products through delegated authority agreements. **(5)**
- (c)** Describe the practical steps you would need to take to set-up, and then operate a delegated authority with another party on an ongoing basis. **(20)**

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