THE CHARTERED INSURANCE INSTITUTE

P80

Diploma in Insurance

Unit P80 – Underwriting practice

April 2015 examination

Instructions

- Two 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.**

5061

Unit P80 – Underwriting practice

Instructions to candidates

Read the instructions below before answering any questions

• **Two hours** are allowed for this paper, which contains 15 short answer questions and carries a total of 130 marks.

• 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.

Answer ALL questions

Note form is acceptable where this conveys all the necessary information

1. **(a)** Outline the main principles contained within the Contract Certainty Code of Practice. **(8)**

(b) Outline the importance of contract certainty to an underwriter. **(6)**

2. **(a)** Outline how a major man-made incident can give rise to legislation, providing **one** example. **(4)**

(b) Identify **two** other risks which are considered man-made. **(2)**

3. **(a)** State what a regulated firm is expected to ensure under the Training and Competence sourcebook of the Financial Conduct Authority's Handbook. **(5)**

(b) List **four** ways in which companies may deliver training. **(4)**

4. Explain briefly why reinsurance is particularly susceptible to market cycles. **(6)**

5. Explain potential problems with providing delegated authority and how these may be overcome. **(15)**

6. Explain briefly how personal motor risks are categorised, including **two** examples of factors used. **(6)**

7. **(a)** State **two** types of exclusion clauses contained in most insurance policies, providing an example of **each**. **(5)**

(b) Outline why such clauses are applied. **(5)**

8. **(a)** The table below represents the frequency of different premiums for motor policies. **Showing your calculations**, use frequency distributions to calculate the mean. **(6)**

Premium value (£)	Frequency (f)
100	40
250	60
300	80
350	20
500	5

(b) **(i)** Draw a poisson distribution which represents years of driving experience across a large motor book of business. **(2)**

(ii) State what the poisson distribution shows and identify the key patterns in this example. **(4)**

9. Explain the role of reinsurance in controlling exposure. **(8)**

10. Explain briefly the terms 'IBNR' and 'IBNER' and the significance of **each** to underwriters. **(9)**

11. State the meaning of the term 'ROCE' and outline how an actuary assists in achieving the required ROCE. **(6)**

12. **(a)** State how you could complete a competitor product comparison. **(3)**

(b) List **three** elements of the product, other than pricing, which you may compare. **(3)**

QUESTIONS CONTINUE OVER THE PAGE

13. **(a)** List **three** ways probability can be expressed. **(3)**

(b) Explain briefly the term relative frequency with respect to calculating the probability of loss. **(5)**

(c) Identify **three** instances where relative frequency is not suitable for calculating the probability of loss. **(3)**

14. Identify the specific type of reinsurance referred to in the examples below, stating how much the reinsured would pay where the loss event is £100,000.

(a) Reinsured retains 30% of premium and losses on all risks. **(2)**

(b) Reinsured retains £20,000 of expected losses on a particular risk and has lines up to £120,000. **(2)**

(c) Reinsured retains first £10,000 of losses and reinsurer agrees to pay up to £50,000 in excess of that. **(2)**

15. List **six** pieces of mandatory information which insurers need to provide for the Employers' Liability Tracing Office database. **(6)**