

THE CHARTERED INSURANCE INSTITUTE

P80

Diploma in Insurance

Unit P80 – Underwriting practice

October 2013 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.**

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) State **six** advantages for an insurer in using model wordings as the basis of their policies. (6)
- (b) List the **four** key elements which define the main criteria of the policy terms. (4)
2. State and explain briefly the **two** main types of proportional reinsurance. (9)
3. Outline the purpose of the Claims and Underwriting Exchange, including how it provides useful data for an underwriter. (6)
4. Explain how lineslips operate and how they are used to place business. (10)
5. Identify the **three** financial regulatory bodies granted powers under the Financial Services Act 2012 and outline briefly the responsibility of each. (6)
6. (a) Distinguish between premeditated and opportunistic fraud. (4)
- (b) State whether each of the following are examples of premeditated **or** opportunistic fraud.
 - (i) A staged motor accident whereby the policyholder has purposely induced an innocent motorist to collide with their vehicle. (1)
 - (ii) Exaggerating the effects of whiplash following a road traffic accident. (1)
 - (iii) The fronting of car policies where parents insure a vehicle under their own name, despite the fact that it is used mostly by their son or daughter. (1)
7. (a) Draw a simple line graph which illustrates the standard relationship between frequency and severity, marking the **two** extreme points. (4)
- (b) Explain briefly what the **two** extreme points show and provide an example of each in relation to motor insurance. (4)
- (c) Describe briefly, using examples, how the nature of certain events can affect the frequency and severity of claims arising. (6)

8. Identify **six** main aspects that a property underwriter would consider when setting the risk premium. (4)
9. (a) Outline how terrorism has affected the insurance market. (4)
(b) Explain, using a relevant example, how a reinsurance pool operates. (10)
10. Explain the purpose of risk improvement criteria for commercial risks. (8)
11. List **six** types of information required by reinsurers. (6)
12. Explain briefly the implications of an insurer having too little capital. (9)
13. Identify how an insurer's underwriting strategy will differ depending on whether they write standard personal lines or more complex commercial lines business. (8)
14. Outline how the Data Protection Act 1998 affects underwriters. (6)
15. (a) Explain briefly the term 'law of large numbers' and state its relevance to insurance. (3)
(b) Explain the purpose of the 'common pool'. (6)
(c) Identify an example, in household insurance, where it would be equitable to charge a higher premium to an insured within the common pool. (2)

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