

THE CHARTERED INSURANCE INSTITUTE

P66

Diploma in Insurance

Unit P66 – Delegated authority

April 2014 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. Define the following terms:
 - (a) Lineslip. (2)
 - (b) Bulking/non-bulking. (2)
 - (c) Bordereau. (2)

2. Explain briefly the following types of delegated authorities:
 - (a) Consortiums. (4)
 - (b) Affinity programmes. (4)

3. Explain **three** of the activities that can be delegated to a coverholder by an insurer. (12)

4. An insurance broking company has just signed a delegated authority agreement with an insurer.
 - (a) Define conflicts of interest. (2)
 - (b) Explain the potential conflicts of interest that may arise for the insurance broking company. (8)

5.
 - (a) Outline **three** Lloyd's of London byelaws that relate directly to delegated underwriting. (6)
 - (b) Describe briefly **three** ways in which delegation is permitted at Lloyd's of London. (6)

6. (a) Explain why an insurer might use a coverholder located in another jurisdiction. (5)
- (b) Identify **five** issues that an insurer should consider when writing risks in another country either through a delegated scheme or on an open market basis. (5)
7. Identify **ten** headings from the coverholder undertaking that must be submitted to Lloyd's of London as part of the coverholder application process. (10)
8. Explain briefly **four** possible roles an insurance broker might adopt in a delegated authority situation. (12)
9. As a Lloyd's of London managing general agent, you are considering setting up a service company.
- (a) Define a service company. (2)
- (b) State the purpose of the Service Company Code of Practice. (2)
- (c) Identify **six** practical steps that Lloyd's of London suggests a managing general agent considers before setting up a service company. (6)
10. (a) Explain contracts of delegation and contracts of insurance. (6)
- (b) Describe **three** ways that a standard lineslip differs from a standard binding authority contract. (3)
- (c) Describe contract certainty, as given by the London Market Group Contract Certainty Code of Practice. (4)

Questions continue over the page

11. The insurance broking company you work for is considering requesting a delegated underwriting authority from an insurer. You have been asked to analyse your client base in order to identify which clients might be best suited to a delegated underwriting authority.

Describe the relative suitability of the following:

- (a) Homogeneous v heterogeneous. (7)
- (b) Small value v high volume. (5)
12. Explain the benefits and challenges of delegating claims handling to an independent third party administrator for **each** of the following:
- (a) Insurer. (8)
- (b) Coverholder. (4)
13. (a) Explain briefly the benefit for the coverholder in providing leverage to the insurer's brand. (2)
- (b) Explain the importance of contractual transparency between coverholder and the insured. (4)
14. Describe **four** of the five steps a coverholder must follow when handling premium funds. (8)

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. The insurance company you work for has been approached by a prospective coverholder in order to enter into a delegated authority agreement. You have been asked to consider the prospective coverholder's approach and report back to your senior management.
- (a) Discuss the different contract options available to your company for delegating underwriting authority to a coverholder. (15)
- (b) Describe **three** of the different options available for delegating claims authority. (9)
- (c) Explain briefly **three** cost implications that will need to be considered by your company before it signs any agreement. (6)
16. You are the Manager of a coverholder's claims department. The insurer has provided a loss fund for which you are responsible.
- (a) Identify the typical data that should be reported accurately and in a timely fashion to the insurer in the event of a claim. (10)
- (b) Explain how loss funds operate, illustrating the process. (10)
- (c) Discuss the benefits and challenges for the insurer and coverholder for the operation of loss funds. (10)

17. The insurance broking company you work for operates a number of delegated underwriting agreements with different insurers and with variable levels of authority. You have been tasked to review the way that each agreement is monitored.
- (a) Describe how you would expect the following to be monitored:
- (i) Service levels. (8)
 - (ii) Profitability. (8)
- (b) Identify the **two** methods by which the management of a delegated authority can be monitored externally, explaining the benefits to the insurer of using these methods. (8)
- (c) Describe briefly **two** options an insurer can consider imposing following a poor monitoring report. (6)

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