



C120 UNDERWRITING ESSENTIALS

IMPORTANT

The time allowed for this exam is 3 hours.

Total marks: 200

You must hand in this paper and any paper used for rough work to the supervisor when you leave the examination room. Failure to do so may result in disqualification.

Section A: Multiple-Choice Questions

Question 1. For the following multiple-choice questions, fill in the circle of the letter that identifies the most correct answer.

Example: (A) (B) ● (D)

DO NOT MARK THE ANSWERS ON THESE PAGES.
USE THE FIRST PAGE OF YOUR ANSWER BOOK.

1. An underwriter is best described as a professional
 - (A) who sells insurance at a price likely to generate a profit.
 - (B) whose prime concern is implementing an insurer's strategic plan.
 - (C) who invests shareholder's capital by accepting or rejecting risk to implement an insurer's strategic plan.
 - (D) who is primarily concerned with protecting shareholders capital by avoiding poor risks.

2. Concerning the tools of an underwriter, the knowledge needed includes
 - (A) the environment.
 - (B) the product.
 - (C) the risk.
 - (D) All of the above.

3. Which of the following is an indication of the moral hazard of a risk?
- (A) The territory in which the risk is located
 - (B) Poor financial condition
 - (C) Type of building construction
 - (D) Available fire protection
4. Concerning policy wordings, the concept of “contra proferentum” indicates that
- (A) coverage ambiguity will be decided in favour of the insured.
 - (B) the insurer has subrogation rights against negligent third parties.
 - (C) the insured has a legal obligation to participate in his or her own defense.
 - (D) insurers must settle claims diligently.
5. To indemnify means to
- (A) replace all property lost or damaged.
 - (B) ensure all property is repaired or replaced up to its full replacement value.
 - (C) ensure that the insured is fully compensated for his or her purchase price of any property lost or damaged.
 - (D) return someone after a loss to the same financial position enjoyed immediately before the loss.
6. When underwriting a new risk,
- (A) there is no need to investigate claims that were denied by a prior insurer.
 - (B) only claims denied by the immediately preceding insurer require review.
 - (C) all denied claims should be investigated.
 - (D) denied claims should be reviewed only if time permits.
7. Expert systems are best suited for assessing
- (A) smaller, more homogeneous risks.
 - (B) larger, more complex risks.
 - (C) any type of risk provided accurate data is used.
 - (D) risks that require 100% insurance to value.
8. The acronym COPE stands for
- (A) Criminal Offense and Penalty Enforcement
 - (B) Construction, Occupancy, Protection, Exposure
 - (C) Construction, Occupancy, Pricing, Exposure
 - (D) Crime, Occupancy, Protection, Exposure

9. Tenants legal liability is required to protect
- (A) building owners against damage caused by negligent tenants who have inadequate insurance of their own.
 - (B) tenants in case building owners fail to provide required insurance on the building and its fixtures.
 - (C) tenants in the event there is a dispute concerning building value.
 - (D) tenants against his or her liability for damages caused by an insured peril to the premises he or she occupies.
10. Civil Law determines legal liability in THREE (3) ways. They are
- (A) negligence, tort, or breach of contract.
 - (B) negligence, nuisance, or breach of contract.
 - (C) negligence, criminal intent, or breach of contract
 - (D) negligence, tort, or nuisance.
11. Concerning negligence, the ABC rule requires that the following be established:
- (A) that a duty of care exists, that the duty was breached and that the breach caused the damage.
 - (B) that a duty of care exists, that there was criminal neglect and that it caused the damage.
 - (C) that the defendant was not a reasonable person.
 - (D) that there was a contractual obligation.
12. Which of the following would be considered invitees?
- (A) A relative who you welcome into your home
 - (B) Snowmobilers using a neighbour's farmland without the neighbour's knowledge
 - (C) A political canvasser who has come to your home
 - (D) Clients who come to your office to apply for insurance
13. An insurer will generally not issue a personal umbrella policy if the primary policy is underwritten by another insurer because
- (A) the insurer will want to provide a package discount.
 - (B) brokers prefer to place all coverage through the same insurer.
 - (C) it is then possible to reduce the primary coverage.
 - (D) the umbrella insurer would have little ability to have the insured reduce liability exposures.
14. Crown corporations provide compulsory automobile insurance in
- (A) British Columbia, Saskatchewan and Newfoundland
 - (B) British Columbia, Saskatchewan and Manitoba
 - (C) Saskatchewan, Manitoba and Prince Edward Island
 - (D) None of the Above

15. It might be said that an automobile policy need not be underwritten at renewal time as
- (A) there should be continued underwriting with every mid-term change to the policy.
 - (B) regulators prohibit underwriting at renewal time.
 - (C) pricing should already be appropriate for the risk.
 - (D) insurers need to minimize their expenses.
16. A non-owned automobile policy is designed to protect
- (A) employees if they are struck by non-owned vehicles.
 - (B) an employer when their employees operate their own vehicles, on behalf of the employer.
 - (C) employers when operating their own vehicles.
 - (D) employees when operating any vehicles not owned by their employer.
17. Concerning automobile insurance, the CLEAR system was developed to
- (A) ensure proper rating of vehicles with aftermarket equipment.
 - (B) ensure proper rating of vehicles based on their list new price.
 - (C) ensure proper rating of vehicles based upon their actual loss costs and passenger injury.
 - (D) encourage the purchase of physical damage coverage.
18. Pure premium is defined as
- (A) the premium required to pay claims.
 - (B) the premium required to pay claims and underwriting expense.
 - (C) the premium required to pay claims and all administrative expenses.
 - (D) the premium required to pay claims, administrative expenses and allow for a profit.
19. Rates are developed by
- (A) underwriters in consultation with insurance brokers.
 - (B) the marketing department.
 - (C) actuaries.
 - (D) claims adjusters.
20. The process of rate discrimination attempts to
- (A) identify the probable frequency and severity of loss of risks within a rating class.
 - (B) exclude risks belonging to classes containing excessive numbers of risk.
 - (C) identify risks within a class that are least in need of insurance.
 - (D) none of the above.
21. The best exposure base for the rating of premises liability for a record store would be the
- (A) square footage of the building.
 - (B) number of customers entering the premises.
 - (C) amount of street frontage involved.
 - (D) number of hours during which the store is open.

22. One example of a long-tail situation arises when losses are incurred during the policy period
- (A) and result in claims requiring immediate payment.
 - (B) and the expected payout is immediately known.
 - (C) but are not discovered and reported until later.
 - (D) and are denied by insurers when presented as claims.
23. A monoline underwriter is one who
- (A) is responsible for one of the insurer's accounts.
 - (B) specializes in many lines of insurance.
 - (C) underwrites single, but generally complex accounts.
 - (D) is responsible for one line of insurance for each of the insurer's accounts.
24. Facultative reinsurance may be appropriate when
- (A) a risk is of sufficiently poor quality.
 - (B) there is concern a risk might be underpriced.
 - (C) the amount of insurance requested is beyond the limit in the underwriting line guide.
 - (D) the underwriter doesn't understand the risk under consideration.
25. A soft market is said to occur when
- (A) competition among insurers is keen and premiums are falling.
 - (B) it is difficult to find a market for insurance risks.
 - (C) insurers appoint new brokers.
 - (D) there is an expansion in the reinsurance market.
26. The Underwriters' Laboratory of Canada is primarily concerned with
- (A) establishing rate groups used in rating automobiles.
 - (B) the provision of building inspections.
 - (C) testing products for public safety.
 - (D) providing statistics used in rate making.
27. A centralized insurer
- (A) places greater underwriting authority in the hands of underwriters in branch offices.
 - (B) places greater underwriting authority in the hands of underwriters in Head Office.
 - (C) develops field representatives authorized to make more underwriting decisions.
 - (D) has a line guide that is usually less detailed than the guides for a decentralized insurer.
28. "Captive" insurance companies
- (A) are usually created to write a parent company's own insurance.
 - (B) are so named because of the captive agents they employ.
 - (C) usually thrive in a soft market.
 - (D) result from company take-overs.

29. Requiring ever more information to analyze a risk instead of making a decision has been referred to as
- (A) sound decision making.
 - (B) paralysis by analysis.
 - (C) maintaining good customer focus.
 - (D) keeping clients interests up front.
30. In dealing with brokers, best results are usually achieved when treating them as
- (A) partners.
 - (B) friends.
 - (C) subordinates
 - (D) adversaries.

(2 marks each = 60 marks)

Section B: Narrative Questions

- Question 2. (a) Using an example, provide an overview of how policy wordings evolve. (8 marks)
- (b) Define the term **contra proferentum**. (2 marks)
- (c) Describe the THREE (3) unique features that differentiate insurance contracts from other contracts. Provide examples. (10 marks)
- Question 3. Using the physical risk assessment factors as expressed by the acronym COPE, explain how an underwriter would assess a single family dwelling risk. (20 marks)
- Question 4. (a) What information is required to underwrite a new application for automobile insurance? (8 marks)
- (b) Explain and provide an example of when a non-owned automobile policy would be required. (6 marks)
- (c) Explain how the CLEAR system is used by automobile insurance underwriters. (6 marks)
- Question 5. (a) Discuss the pros and cons of the centralized and decentralized approach to insure organizations. (10 marks)
- (b) Discuss the evolution of privacy concerns as an issue in Canada and the impact on underwriters. (10 marks)

Section C: Application Question

- Question 6. Best Buy Brokers from Calgary has submitted to you an automobile insurance application for Barbara Lindsey. Barbara resides in Edmonton and has reportedly been licensed 15 years accident and conviction free. Also reported as a driver is her 18 year old son Stewart. He is reportedly licensed for 2 years and is accident and conviction free. The vehicle to be insured is a 1999 Chevrolet Camaro.
- (a) From the information provided discuss the concerns that you have. (8 marks)
 - (b) What additional information would you require to complete your assessment of the risk? (6 marks)
 - (c) Identify the possible sources for the additional information. (6 marks)
- Question 7. Best Buy Brokers has submitted an application for Nuts and Bolts Hardware, who operate a hardware store on a busy street in Toronto. The applicant owns the building that includes a residential apartment on the second floor. The building also includes a second store on the main floor that is rented to Marvin Malloy who operates a men's retail clothing store. You have been asked to provide premises liability coverage.
- (a) What duty of care does Nuts and Bolts owe its customers? (4 marks)
 - (b) Identify the potential exposures along with any additional information you require to underwrite this risk. (16 marks)
- Question 8. You are employed by an insurer that has just established a boiler and machinery unit. One other individual and you have agreed to staff the new unit. You have three years of experience in underwriting boiler and machinery that you previously acquired while working for another insurer. In your first week as a boiler and machinery underwriter, you are presented with a risk that involves a boiler manufactured and installed in an apartment building to specifications different from those you have encountered previously.
- (a) In underwriting this risk, what other people or organizations might you contact for assistance? What kind of information might they provide? (16 marks)
 - (b) What are the pros and cons of being a monoline underwriter in this situation? (4 marks)

