

C122 PRACTICAL ISSUES IN UNDERWRITING MANAGEMENT

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. With over 200 insurers in Canada, and no single insurer controlling the market,
- (A) foreign-owned insurers have largely abandoned the Canadian market.
 - (B) competition is tight.
 - (C) there is no room for innovation.
 - (D) profitability is assured.

2. Innovative products affect an insurer's strategy because
 - (A) they disturb the insurer's existing clientele.
 - (B) they allow the insurer to market to its competitors' customers.
 - (C) policyholders never like new coverages.
 - (D) traditional products are seen as old-fashioned.

3. Alternative risk transfer vehicles
 - (A) arose because of excess capital in the traditional insurance market.
 - (B) run on ethanol or electric fuels.
 - (C) are impractical for extremely large risks.
 - (D) include captives, reciprocals, and self-insured retentions.

4. An insurer that writes policies for the public at large and assesses them a levy to pay outstanding losses at the end of its financial year is known as a
 - (A) stock mutual company.
 - (B) premium assessment mutual.
 - (C) cooperative stock mutual.
 - (D) shareholders mutual company.

5. Monoline underwriters
 - (A) are employed by companies organized on non-traditional lines.
 - (B) handle specialty-lines business only.
 - (C) apply skills specific to a single line of business.
 - (D) underwrite personal injury risks only.

6. A company that balances authority and responsibility
 - (A) requires all underwriting decisions to be made by senior underwriters.
 - (B) holds underwriters accountable for all decisions on their portfolio of accounts regardless of who made them.
 - (C) allocates all underwriters equal authority.
 - (D) assigns authority and responsibility to ease the decision-making process.

7. Insurers who distribute their products through intermediaries are known as
 - (A) direct writers.
 - (B) broker markets.
 - (C) wholesale markets.
 - (D) sub-standard markets.

8. An insurer performs a due diligence review to determine
 - (A) which producers it would like to work with from among a group of identified candidates.
 - (B) whether a proposed product will be successful.
 - (C) if its employees are operating efficiently.
 - (D) if it is in compliance with provincial or federal regulations.

9. An insurer considering appointing a new broker is interested in that broker's ownership because
- (A) support from another insurer could create a conflict of interest.
 - (B) non-insurance investors may present a problem in the direction and management of the producer.
 - (C) a parent company may exercise control rather than the broker the insurer is in discussion with.
 - (D) all of the above
10. When an insurer discovers that a producer it is considering appointing already deals with one of its competitors, the insurer
- (A) immediately withdraws from the negotiations.
 - (B) offers the producer greater commission incentives to place business with it instead of its competitor.
 - (C) investigates further to determine if it can compete with the other insurer.
 - (D) considers the broker for program business only.
11. Ideally, an insurer devises strategy and goal statements that are SMART—that is,
- (A) part of a well thought-out plan.
 - (B) workable in a reasonable timeframe.
 - (C) specific, measurable, attainable, realistic, and time-based.
 - (D) sensible, malleable, ambitious, rigorous, and transparent.
12. When planning for the insurance market cycle, an insurer will consider what the market is doing at present so that the insurer can
- (A) pursue mergers and acquisitions in the larger business world.
 - (B) take advantage of departures of other insurers from the marketplace.
 - (C) (A) and (B)
 - (D) take the opportunity to restructure itself.
13. Which of the following statements is true?
- (A) Facultative and treaty reinsurance fulfil the same function.
 - (B) Treaty reinsurance requires the reinsurer to review each risk submitted: facultative reinsurance does not.
 - (C) Facultative reinsurance requires the reinsurer to review each risk submitted: treaty reinsurance does not.
 - (D) Reinsurers tend to leave the underwriting of facultative reinsurance to the insurer.
14. A **reinsurance trust agreement** is
- (A) used when the reinsurer has doubts about the ceding insurer's underwriting.
 - (B) a consortium of unlicensed reinsurers conducting business together.
 - (C) a requirement for an unlicensed reinsurer to deposit assets in a trust account equal to the unearned reinsurance premiums for the risks it has assumed.
 - (D) required for an unlicensed reinsurer to deposit assets in a trust account to cover the reinsurance risk it has assumed.

15. A reinsurance arrangement that protects the ceding insurer's overall underwriting results after the application of other specific reinsurance is known as
- (A) stop loss reinsurance.
 - (B) profit reinsurance.
 - (C) proportional reinsurance.
 - (D) pro rata reinsurance.
16. A facultative obligatory treaty is a form of reinsurance under which the
- (A) ceding insurer has the option to cede a defined class of risk to the reinsurer and the reinsurer must accept the risk.
 - (B) ceding insurer must cede a defined class of risk to the reinsurer and the reinsurer has option to accept the risk.
 - (C) ceding insurer is required to place its business with a particular reinsurer.
 - (D) reinsurer has no control over which classes of risks are ceded.
17. When an insurer grants a managing general agent the authority to underwrite and distribute program business on its behalf, the insurer should make sure that
- (A) the agent's underwriting authority is clearly stated.
 - (B) controls are in place to ensure that underwriting authority is not exceeded.
 - (C) auditing is carried out on a regular basis.
 - (D) all of the above
18. To best ensure the success of a program, the insurer should
- (A) assign overall program underwriting to head office staff.
 - (B) review the program as infrequently as possible, preferably at renewal only.
 - (C) assign dedicated underwriting resources to the program.
 - (D) let the managing general agent handle everything.
19. When arranging reinsurance for new program business, an insurer wants to deal with a reinsurer experienced in writing programs so that
- (A) the insurer has access to the reinsurer's technical underwriting assistance and rating intelligence.
 - (B) there is unlikely to be difficulty in reinsuring poor business.
 - (C) retentions and reinsurance structure can be tailored specifically to the program.
 - (D) (A) and (C)
20. A company audit is an internal audit typically performed by the insurer's
- (A) Board of Directors.
 - (B) Internal Audit department.
 - (C) Accounting department.
 - (D) Claims department.
21. An internal audit typically focuses on
- (A) procedures and controls used in the technical insurance departments.
 - (B) all aspects of the insurer's operations.
 - (C) income and expense abuses.
 - (D) technical insurance matters and computer security.

22. Internal audits serve
- (A) as tools for training, communication, and competition.
 - (B) to identify how well employees are following management guidelines.
 - (C) to eliminate wasted time and resources.
 - (D) all of the above
23. Preparation and research prior to an internal audit results in a more successful audit for
- (A) the audit team.
 - (B) the provincial regulator.
 - (C) the insurer's senior management.
 - (D) future audits.
24. Federal government audits are conducted by the Office of the Superintendent of Financial Institutions to ensure
- (A) that an insurer has a proper balance of income and expenses.
 - (B) employment for bureaucrats.
 - (C) consumer protection.
 - (D) insolvency of insurers.
25. Identifying and approving best practices from among generally accepted practices that insurers use to manage exposure to risks inherent in the insurance business is the business of
- (A) Underwriter's Laboratories of Canada.
 - (B) the Office of the Superintendent of Financial Institutions.
 - (C) the Insurance Bureau of Canada.
 - (D) municipal governments.
26. Audits to determine if a member insurer is operating according to the standards and rules of operation of the Facility Association are performed by the
- (A) Office of the Superintendent of Financial Institutions.
 - (B) Insurance Bureau of Canada.
 - (C) Facility Association.
 - (D) provincial government departments in charge of insurance.
27. Insurers sometimes arrange for outside consultants to perform audits because
- (A) consultants perform more efficiently than internal auditors.
 - (B) the Office of the Superintendent of Financial Institutions requires them to do so.
 - (C) the licensing authority requires objective independent corroboration of the insurer's operations.
 - (D) consultants can objectively perform an independent review of the insurer's business practices.
28. Reinsurers use audits of ceding insurers
- (A) to identify areas of strength and weakness.
 - (B) to help in monitoring and working with the insurer.
 - (C) to protect the ultimate policyholder.
 - (D) (A) and (B)

29. The division of the book of business by premium size so that conclusions can be drawn about the type and performance of various segments of the book is called
- (A) the top ten list.
 - (B) PIF count.
 - (C) premium stratification.
 - (D) income diversification.
30. An insurer wants to balance its book of business because
- (A) it makes the insurer less susceptible to swings in the insurance market cycle.
 - (B) it is common for all lines of insurance to be equally competitive in the insurance marketplace.
 - (C) licensing regulations require them to do so.
 - (D) it makes the company more attractive to investors.

(2 marks each = 60 marks)

Section B: Narrative Questions

- Question 2. (a) Briefly discuss the regulation of reinsurers. (8 marks)
- (b) List EIGHT (8) major regulatory issues addressed in provincial insurance legislation. (8 marks)
- (c) What is the Canadian Council of Insurance Regulators? (4 marks)
- Question 3. Briefly describe the mandate or work of each of the following groups and how their work affects underwriters.
- (a) Office of Critical Infrastructure Protection and Emergency Preparedness (4 marks)
 - (b) Canadian Standards Association (4 marks)
 - (c) Council of Canadian Fire Marshals and Fire Commissioners (4 marks)
 - (d) Canada Safety Council (4 marks)
 - (e) Canadian Coalition Against Insurance Fraud (4 marks)
- Question 4. (a) Explain what a budget is. (5 marks)
- (b) How does the budgeting process work? (10 marks)
- (c) Describe how budget variances are detected and what is done about the variance(s). (5 marks)

- Question 5. (a) Identify FIVE (5) reasons an insurer might have for writing program business. (5 marks)
- (b) When identifying candidates for program business, what TWO (2) pitfalls will an insurer wish to avoid? Why? (6 marks)
- (c) What is the difference between group business and program business? Give an example of each. (6 marks)
- (d) Identify THREE (3) categories into which the analysis of a program's chance of success is generally organized. (3 marks)

Section C: Application Questions

- Question 6. Responding to consumer dissatisfaction with automobile insurance premiums, the provincial regulator has imposed a rate rollback on all mandatory automobile insurance coverages and disallowed all rating classes based on age, sex, or marital status.
- (a) How could the management of a private insurer writing automobile insurance respond to these changes and what action(s) would be associated with the response? (10 marks)
- (b) For one insurer, the new regulations result in its writing far more automobile insurance than it had planned, raising minimum capital test (MCT) concerns. Why is the insurer concerned, and what can it do? Define all terms in your answer. (10 marks)
- Question 7. Alpha 1 Insurance wishes to set up business as a federally licensed general insurer. The Board of Directors has assigned you the task of arranging licensing. Explain in detail what is involved in the process. (20 marks)
- Question 8. You have been hired as the underwriting manager by Trustus Insurance Company, a small regional carrier. Trustus's core business is personal lines property and automobile and farm business. Though the company is profitable, Trustus believes the book of business could be more efficiently managed and the profits improved. Your mandate is to effect these improvements. How would you accomplish this? (20 marks)

