

C121 ADVANCED UNDERWRITING

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. Under which of the following circumstances should the class rating approach be used?
- (A) A large number of risks share common characteristics.
 - (B) A large number of risks have various characteristics.
 - (C) Statistical measurement of claims experience is not possible.
 - (D) Both (A) and (C)

2. Which of the following terms is normally used to describe charges added to a base rate for a risk which contains more hazardous features than the average risk in that class?
- (A) Late modifications
 - (B) Loadings
 - (C) Deductions
 - (D) Surcharges
3. Which of the following is NOT a true statement regarding 'management by exception'?
- (A) A set of acceptable boundaries is established for risks within a portfolio.
 - (B) This process results in shorter reports to be analyzed.
 - (C) This process results in no reports to be analyzed.
 - (D) This process can be used by an underwriter to manage a broker's portfolio.
4. Which of the following is NOT a true statement?
- (A) An underwriter's file may be called into court as evidence.
 - (B) Good documentation is the best way to show an underwriter's intent.
 - (C) Ambiguity in policy wordings is normally interpreted in favour of the insurer.
 - (D) Underwriting files should be clearly documented.
5. Which of the following is NOT true of a wrap-up policy?
- (A) All parties related to a construction project are included as Named Insureds.
 - (B) The policy is issued for one particular project.
 - (C) There is no need for each Named Insured to maintain their own liability insurance for projects not related to the wrap-up policy.
 - (D) Both (A) and (C)
6. A report of past claim experience for a risk over a specified period of time is most commonly referred to as a loss
- (A) run.
 - (B) triangle.
 - (C) development factor.
 - (D) history.
7. Which of the following statements is NOT true of loss analysis?
- (A) An underwriter should consider incidents as well as losses.
 - (B) An underwriter's familiarity with a particular industry helps in a statistical analysis.
 - (C) An underwriter should not consider one large loss because it only occurred once.
 - (D) Determining the claims-handling practices of a prior insurer can sometimes assist in loss analysis.
8. Which of the following terms best describes an incremental development factor in a loss triangle?
- (A) An exposure unit
 - (B) A loss development pattern
 - (C) A cumulative factor
 - (D) A link ratio

9. Which of the following statements is true?
- (A) A trend factor is applied to a pure premium rate to estimate a rate in current dollars.
 - (B) Pure premium includes commission and overhead.
 - (C) A median accident date is used to apply a trend factor to the past policy year.
 - (D) A trend factor is applied to only one year following the accident year.
10. A Comprehensive 3-D policy covers intentional fraudulent or dishonest acts committed by
- (A) permanent and contract employees.
 - (B) directors and officers employed by the company.
 - (C) past employees for a 30-day period.
 - (D) All of the above
11. A business purchasing business interruption insurance should forecast its financial results for the next
- (A) year.
 - (B) two years.
 - (C) five years.
 - (D) ten years.
12. Which of the following is NOT a true statement regarding boiler and machinery insurance?
- (A) Loss severity is a greater problem than loss frequency.
 - (B) The policy covers loss from an accident to an object and any resultant property damage.
 - (C) A property policy and boiler and machinery policy often have overlapping coverages.
 - (D) Higher-valued or unique risks are often easier to underwrite.
13. Which of the following is NOT an example of a miscellaneous bond?
- (A) Court and Fiduciary bond
 - (B) Lost Document bond
 - (C) Customs and Excise bond
 - (D) Wrap-up bond
14. The indemnity agreement contained in a Builders Risk Broad Form policy agrees to pay the least of which of the following?
- (A) The replacement cost at the time of loss, insurable interest, amount listed on the declaration page
 - (B) The replacement cost at the effective date of the policy, insurable interest, amount listed on the declaration page
 - (C) The actual cash value at the time of loss, insurable interest, total sum insured
 - (D) The actual cash value at the inception of the policy, insurable interest, amount listed on the insured's inventory list
15. Which of the following would NOT be the subject of an inland marine policy?
- (A) A load of recreational snow machines in transit on a flatbed truck
 - (B) A shipment of lumber in transit aboard a ship
 - (C) An oil pipeline
 - (D) A shipment of wheat in transit on a freight train

16. Which of the following types of liability policy normally provides additional limits of insurance without broadening coverage?
- (A) Excess
 - (B) Umbrella
 - (C) Professional
 - (D) Both (A) and (B)
17. Which of the following is NOT a form of Aircraft Hull and Liability first-party coverage?
- (A) Hull damage coverage while the aircraft is not in motion
 - (B) Hull damage coverage whether or not the aircraft is in flight
 - (C) Property damage caused by an accident involving the aircraft
 - (D) All risks coverage while the aircraft is not in flight
18. Which of the following situations would normally be covered under event cancellation insurance?
- (A) Advertising costs spent by the organizer of a boxing match when the fight is cancelled due to power outage in the arena.
 - (B) A fundraising auction in a church hall is postponed pending availability of the auctioneer.
 - (C) The organizer of a rock concert decides to cancel the event because he no longer believes he will make a profit.
 - (D) Both (A) and (C)
19. Which of the following is usually the best source of financial information for an underwriter in assessing the financial health of a company?
- (A) The company's business plans
 - (B) The company's annual or quarterly reports to shareholders
 - (C) Financial reports from Standard & Poor or Dun & Bradstreet
 - (D) The company's prospectuses
20. Which of the following is NOT true of audited financial statements?
- (A) All audited statements include a report by the auditor.
 - (B) They are the most reliable type of financial statements.
 - (C) One of three kinds of opinion is offered in the auditor's standard report.
 - (D) The auditor's standard report normally conforms to GAAP.
21. Which of the following is an example of a tangible asset on a balance sheet?
- (A) A bank debt
 - (B) A mortgage
 - (C) An account receivable
 - (D) A trademark
22. Which of the following is NOT a true statement regarding financial ratios?
- (A) The current ratio is calculated by dividing current assets by current liabilities.
 - (B) Liquidity ratios are a reflection of shareholder value.
 - (C) The current ratio is a common form of liquidity ratio.
 - (D) Figures from the balance sheet are used to determine the current ratio.

23. Which of the following is NOT a method of alternative risk financing?
- (A) Reinsurance
 - (B) Reciprocal
 - (C) Self-insured retention
 - (D) Captive insurance companies
24. Which of the following is an advantage for an insurer in agreeing to front for a captive?
- (A) The insurer may get the opportunity to insure other parts of the corporate parent's risk.
 - (B) The insurer receives a fronting fee from the captive.
 - (C) The insured maintains control of the adjusting process in the event of a claim.
 - (D) Both (A) and (B)
25. Which of the following resources should an underwriter utilize when analyzing an international risk?
- (A) The underwriter's knowledge of foreign exposures
 - (B) The risk manager
 - (C) The broker
 - (D) All of the above
26. When dealing with international insurance, which of the following best describes insurance written on locally approved policy forms issued by a licensed insurer?
- (A) Non-admitted paper
 - (B) Admitted paper
 - (C) Self insured retention
 - (D) Reciprocal
27. A Canadian company wishing to supplement insurance coverage purchased in a foreign country might consider
- (A) double limits coverage.
 - (B) difference-in-conditions coverage.
 - (C) insolvency coverage.
 - (D) admitted coverage.
28. Which of the following statements is NOT true of reinsurance?
- (A) The cedant receives the risk transfer from the insurer.
 - (B) A ceding commission is paid by the reinsurer to the insurer.
 - (C) Reinsurance is a contract between an insurer and a reinsurer.
 - (D) Retrocession is the transfer of risk from one reinsurer to another reinsurer.
29. On a proportional surplus treaty, if the reinsurer's capacity of \$4,000,000 represents four lines of the insurer's maximum retention, the insurer's line would be
- (A) \$ 4,000,000
 - (B) \$ 1,000,000
 - (C) \$16,000,000
 - (D) None of the above

30. Which of the following is always included in a facultative reinsurance certificate?

- (A) Original policy limits
- (B) Insurer's limits
- (C) Reinsurance limits
- (D) All of the above

(2 marks each = 60 marks)

Section B: Narrative Questions

- Question 2. (a) Identify FOUR (4) ways in which an inspection by an insurer's loss control department can assist an underwriter's analysis of a risk. (4 marks)
- (b) Define the following terms:
- (i) Self-insured retention (2 marks)
 - (ii) Deductible (2 marks)
- (c) When analysing a risk, list FIVE (5) ways in which an underwriter can reduce potential loss exposure. (5 marks)
- (d) When analyzing a risk's past losses, what might an underwriter conclude when noting a sudden change in loss frequency or loss severity, and what action might be warranted? Use examples in your answer. (4 marks)
- (e) What would a high inventory turnover for a commercial risk indicate to an underwriter? (3 marks)
- Question 3. (a) Briefly explain how arranging data in the form of a loss triangle can assist an underwriter in analysing the following:
- (i) reporting patterns (4 marks)
 - (ii) exposure units (2 marks)
 - (iii) coverage (2 marks)
- (b) In business interruption insurance, discuss the features of the Profits form and the Gross Earnings form in the following areas:
- (i) basic coverage provided (include an example) (4 marks)
 - (ii) indemnity period (4 marks)
- (c) Briefly explain why an insurer should use treaty reinsurance instead of facultative reinsurance whenever possible. (4 marks)

- Question 4. (a) Provide a definition for a **bond** as used in suretyship. (6 marks)
- (b) (i) Explain the difference between coverage provided by a claims-made professional liability policy and an occurrence-based professional liability policy. Provide an example. (6 marks)
- (ii) Which of the above policies can be underwritten and priced with more confidence? Explain the reason for your answer. (2 marks)
- (c) Briefly explain the circumstances under which a commercial insured would be 'trading dollars' with an insurer. (6 marks)
- Question 5. (a) Explain the value of a loss prevention inspection for a boiler and machinery underwriter. (5 marks)
- (b) As an underwriter, what information would you require in order to consider livestock mortality insurance for a professional race horse? (8 marks)
- (c) List THREE (3) conditions which an underwriter could impose upon a company for liability claims which fall below its self-insured retention threshold. (4 marks)
- (d) List THREE (3) advantages for an insurer in using non-proportional reinsurance rather than proportional reinsurance. (3 marks)

Section C: Application Questions

- Question 6. You are an underwriter in the commercial lines department of a large insurer. A broker calls to ask if you will consider providing Directors and Officers Insurance for Radio Hut, a small local manufacturer of electronic equipment.
- (a) Why might Radio Hut need directors and officers insurance and what are the main coverages likely provided by your policy? (6 marks)
- (b) List TWO (2) important variables that you will consider in determining what limit is required. (2 marks)
- (c) How will the information contained in Radio Hut's annual report and financial statements assist in your analysis? (4 marks)
- (d) What are some factors you would consider in analysing the strength of the company management in relation to the Directors and Officers exposure? (4 marks)
- (e) You recently read in a business magazine that Radio Hut is considering selling to a larger competitor. Why is news of this possible acquisition a concern to you? (4 marks)

- Question 7. Jason Construction Limited has recently taken on a new project. As general contractor for a multi-level fitness centre to be built in a business park, the company will be involved with many sub-contractors, architects and engineers throughout the term of the building project. Jason's broker calls you, a commercial underwriter, to discuss the possibility of covering the exposures under a wrap-up policy.
- (a) Explain the reason why you would recommend a wrap-up policy for Jason Construction, and list the main points of coverage. (6 marks)
 - (b) List TWO (2) advantages of a wrap-up policy for your insurer. (2 marks)
 - (c) List TWO (2) disadvantages of a wrap-up policy. (2 marks)
 - (d) List TEN (10) questions you would ask in order to analyze this risk for wrap-up coverage. (10 marks)
- Question 8. You are asked to underwrite an umbrella policy in the name of Bob's Bakery. Attached to the application are several financial reports, including a balance sheet and an income statement.
- (a) Describe the main issues of concern as you analyze the application for this umbrella risk. What additional documentation should you obtain? (8 marks)
 - (b) What is the main function of the income statement which is attached to the application and how will you use the income statement in your financial analysis? (10 marks)
 - (c) What is the basic equation represented by the income statement? (2 marks)

