

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)

<p>DO NOT MARK THE ANSWERS ON THESE PAGES.</p> <hr/> <p>USE THE FIRST PAGE OF YOUR ANSWER BOOK.</p>

1. Which of the following is NOT normally regulated by provincial legislation?
 - (A) Control of an insurer's advertising
 - (B) Approval of classes of business written
 - (C) Monitoring the solvency of federally incorporated insurers
 - (D) Review of insurance contract wordings

2. Which of the following actions may be taken by a provincial regulator against an insurer whose underwriters fail to comply with their company-filed underwriting rules?
 - (A) Winding down the company
 - (B) Imposing a fine on the company
 - (C) Prosecuting the company
 - (D) (B) and (C)

3. Which of the following actions should an insurer consider if it anticipates that pending automobile regulatory changes could result in a negative impact on its return on equity?
 - (A) Increase the number of automobile policies in force.
 - (B) Reduce the number of automobile policies in force and reduce the premium volume.
 - (C) Increase the number of policies in force and reduce the premium volume.
 - (D) Reduce the number of policies in force and increase the premium volume.

4. Which of the following regulators is responsible for incorporating new Canadian insurance companies?
 - (A) The Canadian Insurance Services Regulatory Organization
 - (B) The Insurance Bureau of Canada
 - (C) The Canadian Council of Insurance Regulators
 - (D) The Office of the Superintendent of Financial Institutions

5. The Minimum Capital Test is used by the Office of the Superintendent of Financial Institutions (OSFI) to ensure that
 - (A) insurers are adhering to their investment policies.
 - (B) insurers have sufficient assets to cover their liabilities.
 - (C) insurers are tracking and managing earthquake exposure.
 - (D) (A) and (B)

6. Which of the following is usually considered an advantage for a Canadian insurer with foreign ownership?
 - (A) The foreign parent may be a source of additional capital.
 - (B) The Canadian branch may be required to use the foreign parent company's operational structure.
 - (C) The foreign parent may influence the type of business written.
 - (D) (A) and (C)

7. A reduction in automobile claims frequency may be a result of the following:
 - (A) Underwriters have improved their risk selection.
 - (B) Gas prices have increased.
 - (C) Consumers are concerned about increasing insurance premiums.
 - (D) All of the above

8. An insurer owned and controlled by its insured is best described as a
 - (A) reciprocal.
 - (B) reinsurer.
 - (C) parent.
 - (D) captive.

9. Which of the following statements is true of environmental legislation?
- (A) Liability may be imposed against the current or previous property owner.
 - (B) Liability may only be imposed against the current property owner.
 - (C) Negligence must be proven before liability for pollution can be assigned.
 - (D) Liability for pollution cannot be imposed if the methods used for waste disposal were approved at the time.
10. Which of the following statements is true of the Property and Casualty Insurance Compensation Corporation (PACICC)?
- (A) The Corporation protects policyholders from financial loss if their insurer becomes insolvent.
 - (B) Member insurers may be required to provide additional funds due to another insurer's insolvency.
 - (C) Membership is voluntary for property and casualty insurers.
 - (D) (A) and (B)
11. Which of the following is NOT a responsibility of the Board of Directors for a stock insurer?
- (A) The investment policy
 - (B) Deciding what types of insurance will be sold
 - (C) Carrying out the policies set by the Board of Directors
 - (D) Deciding in which territories the insurer will operate
12. Which of the following is NOT normally included in the functions of a senior underwriter working in an insurer's head office?
- (A) Answering complex underwriting questions from field underwriters
 - (B) Setting policies, procedures, and strategy for field offices
 - (C) Training field underwriters
 - (D) Performing audits in field offices
13. The main responsibility of an insurer's Marketing Department is to
- (A) conduct audits of the Underwriting department.
 - (B) create advertising programs for the insurer.
 - (C) identify and manage relationships with producers.
 - (D) underwrite business submitted by a group of producers.
14. Which of the following is NOT permitted by law?
- (A) A broker returns part of the commission as rebate to the client.
 - (B) A broker charges the client a fee for placing the business with an insurer.
 - (C) A broker moves an entire book of business from one insurer to another.
 - (D) (A) and (B)
15. An intermediary used by brokers or agents who are unable to place a risk with their regular insurers is most commonly known as a
- (A) captive.
 - (B) wholesaler.
 - (C) managing general agent.
 - (D) retailer.

16. Which of the following statements is most true?
- (A) It is wise for an insurer to deal with a very small group of brokers who have high premium volumes with the insurer.
 - (B) It is wise for an insurer to deal with a very large group of brokers who have low premium volumes with the insurer.
 - (C) If a broker binds coverage for an applicant on behalf of an insurer, then embezzles the premium, the applicant will normally be covered by the insurer.
 - (D) If a broker binds coverage for an applicant on behalf of an insurer, then embezzles the premium, the applicant will not normally be covered by the insurer.
17. In provinces that prohibit the commingling of funds, a broker normally deposits premium collected on behalf of an insurer into the
- (A) broker's operating account.
 - (B) insurer's trust account.
 - (C) insurer's operating account.
 - (D) broker's trust account.
18. The tools, activities, and business decisions required to implement a strategy are called
- (A) tactics.
 - (B) missions.
 - (C) strengths.
 - (D) opportunities.
19. The two main parts of a budget are the
- (A) revenue and expenses.
 - (B) profit and loss.
 - (C) head office plan and regional plan.
 - (D) threats and opportunities.
20. The ratio of the number of quotes by an insurer that result in binding coverage to the total number of quotes issued is called the
- (A) refusal ratio.
 - (B) coverage ratio.
 - (C) loss ratio.
 - (D) hit ratio.
21. Which of the following items would normally be included in an insurer's premium budget?
- (A) Computer upgrades
 - (B) Sales from a new producer
 - (C) Commissions paid to a new producer
 - (D) Travel costs for a marketing representative
22. If a monthly budget review identifies a deteriorating loss ratio in a major line of business, the insurer's strategy may be to
- (A) expand another line of business.
 - (B) reduce the amount of new business accepted in that line.
 - (C) reduce staff count.
 - (D) All of the above

23. The type of insurance that specifies a set “menu” of insurance options is called
- (A) program business.
 - (B) wholesaler business.
 - (C) group business.
 - (D) exclusive business.
24. Market research for an insurer’s product development strategy normally pursues the following information:
- (A) The prospective premium base
 - (B) Competition the new product would face
 - (C) The exposures to loss that risks have in common
 - (D) All of the above
25. A program made exempt from a reinsurance treaty is most commonly said to be
- (A) group business.
 - (B) exception underwriting.
 - (C) uninsured.
 - (D) carved out.
26. The Act developed to hold corporate management criminally accountable for the accuracy and reliability of corporate disclosures is called the
- (A) Security Exchange Act.
 - (B) Sarbanes-Oxley Act.
 - (C) Internal Audit Act.
 - (D) Personal Information Protection and Electronic Document Act.
27. Which of the following would normally be outside the scope of an insurer’s Internal Audit department?
- (A) Policy and procedure in the Human Resources department
 - (B) The timing of premiums booked
 - (C) The legitimacy of charitable donations
 - (D) The solvency of the insurer
28. Which of the following statements is most true about the Office of the Superintendent of Financial Institutions (OSFI)?
- (A) OSFI requires all insurers to have their own Internal Audit Committees.
 - (B) OSFI checks for processes to ensure that an insurer’s staff has read and understands any changes in regulations and legislation.
 - (C) OSFI audits an insurer’s financial statements.
 - (D) (B) and (C)
29. Which organization has the authority to take control of an insurer and begin winding up the company?
- (A) The Canadian Council of Insurance Regulators
 - (B) The Insurance Bureau of Canada
 - (C) The Office of the Superintendent of Financial Institutions
 - (D) The Canadian Insurance Services Regulatory Organization

30. The distribution of accounts between varying levels of premium is called

- (A) activity-based underwriting.
- (B) portfolio underwriting.
- (C) a bordereau.
- (D) premium stratification.

(2 marks each = 60 marks)

Section B: Narrative Questions

- Question 2. (a) Explain the provisions of a treaty contract regarding the auditing rights of the reinsurer, including frequency of audits. (10 marks)
- (b) Would an insurer be more likely to use reinsurance in a soft market or a hard market? Explain your answer. (4 marks)
- (c) Explain the value in assigning each underwriter to a book of business in an insurer's efforts to achieve its business plan. (6 marks)
- Question 3. (a) (i) List and describe the TWO (2) steps to be taken by an insurer seeking a federal license. (2 marks)
- (ii) List and briefly describe THREE (3) types of financial information that OSFI requires from a prospective insurer seeking a federal license. (8 marks)
- (b) (i) Distinguish between direct writers and broker markets in how they distribute their products. (4 marks)
- (ii) Describe the potential concerns of a broker dealing with an insurer that owns both broker-market and direct-writing companies. (4 marks)
- (iii) How can such an insurer reduce these concerns for a broker? (2 marks)

- Question 4. (a) (i) Briefly explain the purpose and mandate of the Facility Association. (3 marks)
- (ii) What is the potential effect on the size and profitability of the Facility Association book when regulatory control keeps rates artificially low? (2 marks)
- (iii) What is the probable impact on member insurers should the Facility Association book of business suffer a deficit? (3 marks)
- (b) State whether each of the following sentences in an insurer's company plan is a mission statement or a strategy. Explain the reasons for your answers.
- (i) We are dedicated to providing our brokers with financial products in order to meet the needs of their clients. (4 marks)
- (ii) We will be one of the top two companies in each of our brokers' offices within four years. (6 marks)
- (c) List TWO (2) examples of consumer complaints made to provincial regulators. (2 marks)
- Question 5. (a) (i) List SIX (6) main advantages for an insurer in pursuing program business. (6 marks)
- (ii) Explain the importance of identifying a target group of the right size when developing a program. (8 marks)
- (b) When considering internal underwriting processes for a newly developed program, what questions should be asked regarding underwriting exceptions to guidelines? (4 marks)
- (c) List TWO (2) matters of insurer practice addressed in the provincial Insurance Acts and considered by regulators in a market conduct review. (2 marks)

Section C: Application Questions

- Question 6. You are employed in the Marketing department of a large property/casualty insurer. Your company's strategic plan includes an increase in written premium for personal lines business. One of the tactics used to achieve this goal is the expansion of your independent broker network in an unrepresented area of the province. You have been asked to perform a due diligence review on one of three brokers who have expressed an interest in representing your company.
- (a) Briefly explain the purpose and process of a due diligence review. (4 marks)
 - (b) List and briefly discuss EIGHT (8) questions you would need answered to complete a network analysis regarding the broker. (16 marks)
- Question 7. As an underwriting manager for a large insurer, you are involved in the long-term planning process. Your company's strategy is to increase its premium volume, but the management team is not sure whether growth should be achieved by expanding product lines or expanding your distribution channel. You decide to perform a SWOT analysis to assist with the planning process.
- (a) Name the TWO (2) external elements of a SWOT analysis. (2 marks)
 - (b) List FIVE (5) external issues you will review in your analysis and the questions you will need answered for each in order to complete your analysis. (18 marks)
- Question 8. You are an underwriting manager for the Canadian branch of an American insurer. Your regional manager advises that three auditors from the home office will travel to your office next week to complete an audit.
- (a) List SIX (6) reasons that a foreign parent company may decide to audit its Canadian operation rather than use an Internal Audit department located in the Canadian office. (6 marks)
 - (b) List and briefly discuss SEVEN (7) ways in which you could use the audit that will be completed on your department. (14 marks)

