



Sample Exam

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. A table of limits is used by an insurer
- (A) to notify an insured of the building limits on a policy.
 - (B) to assign maximum authorized policy limits for risks of varying types.
 - (C) to identify the statutory conditions of an automobile policy.
 - (D) to list claim frequency numbers for a particular line of business.

2. An underwriter is best described as an insurance professional who
- (A) accepts or rejects risks.
 - (B) implements an insurer's strategic plan.
 - (C) invests the capital of an insurer's shareholders.
 - (D) All of the above
3. Which of the following is an indication of a soft market?
- (A) Premium rates are below profitable levels
 - (B) Rising premiums
 - (C) A reduction in market capacity
 - (D) The rejection of normally acceptable risks
4. The term **contra proferentum** means that
- (A) the Civil Code of Quebec applies to the policy.
 - (B) following a loss, an insured will be returned to the same financial position enjoyed immediately before the loss.
 - (C) 100% insurance to value applies to the policy.
 - (D) any dispute caused by ambiguity in a policy wording will be decided against the insurer.
5. **Severity of loss** refers to
- (A) the ratio of the number of losses to the number of exposure units.
 - (B) the premium required to pay claims.
 - (C) the average size of losses.
 - (D) a policy's statutory conditions.
6. Examples of technical skills which should be developed and practiced by an underwriter include
- (A) communication and analytical skills.
 - (B) loss development and reinsurance skills.
 - (C) analytical and math skills.
 - (D) communication and organization skills.
7. On a commercial lines policy, the person(s) responsible for payment of the premium is/are
- (A) all persons listed as named insured.
 - (B) the person listed first as named insured.
 - (C) the person listed last as named insured.
 - (D) the additional named insured.

8. Which of the following should be investigated by an underwriter when assessing a new risk?
- (A) Losses which were denied by a prior insurer
 - (B) Losses which were less than the deductible limit and paid by the insured
 - (C) Losses on previously owned locations which were paid by a prior insurer
 - (D) All of the above
9. A policy that becomes effective retroactively after the applicant submits the application is commonly referred to as
- (A) back-dated.
 - (B) under-insured.
 - (C) future-dated.
 - (D) re-insured.
10. Which of the following normally accompanies a homeowner application and indicates the amount of insurance required on the dwelling?
- (A) Table of limits
 - (B) Insurance contract
 - (C) Valuation guide
 - (D) Statement of values
11. An **expert system** is a computer software program used
- (A) mainly for large commercial-lines risks.
 - (B) for risks that have unique characteristics.
 - (C) to guide underwriters through a risk analysis.
 - (D) all of the above
12. Tenants Legal Liability
- (A) protects a tenant against his or her liability for damages caused by an insured peril to the premises he or she occupies.
 - (B) protects a property owner against his or her liability for damages caused by an insured peril to the premises he or she occupies.
 - (C) protects a tenant against damage caused by a landlord to his or her property in the premises occupied.
 - (D) protects a property owner against damage he or she caused to a premises occupied by a tenant.
13. The four stages of fire are
- (A) incipient, smouldering, combustion, and heat.
 - (B) incipient, smouldering, flame, and heat.
 - (C) incipient, flame, heat, and smoke.
 - (D) incipient, smouldering, heat, and toxic.

14. Civil Law may impose liability through
- (A) negligence, statute law, or breach of contract.
 - (B) negligence, tort, or breach of contract.
 - (C) negligence, tort, or nuisance.
 - (D) negligence, nuisance, or breach of contract.
15. The ABC rule of negligence requires which three factors be established?
- (A) A duty of care exists, the duty was breached, and there is a law suit pending
 - (B) A duty of care exists, there is a law suit pending, and there is bodily injury to the third party
 - (C) A duty of care exists, the duty was breached, and the breach caused the damage
 - (D) A duty of care exists, there was a failure to act, and the failure caused the damage
16. For the purposes of establishing an occupier's duty of care, which of the following would NOT be considered an invitee?
- (A) A neighbour whom you invite to accompany you to the theatre
 - (B) A client who has an appointment in your office to discuss his insurance needs
 - (C) A shopper who enters the store you own to make a purchase
 - (D) A shopper who enters the store you lease to make a purchase
17. A personal umbrella policy is recommended when
- (A) liability limits of underlying policies are not high enough.
 - (B) drop-down coverage is required for additional exposures.
 - (C) there is a need to broaden territorial limits.
 - (D) all of the above
18. The purpose of the Non-owned Automobile policy is to
- (A) provide coverage for leased vehicles to the lessor.
 - (B) provide coverage for temporary substitute automobiles being driven by employees.
 - (C) provide protection for an employer whose employees drive vehicles not owned by the employer on behalf of the employer.
 - (D) provide coverage for leased vehicles to the lessee.
19. In automobile rating, the CLEAR system
- (A) bases physical damage premium on the likelihood of an accident occurring and the typical cost of a claim settlement.
 - (B) is developed from information obtained directly from automobile manufacturers to accurately reflect injury costs.
 - (C) uses Canadian claims experience to assess the physical damage premium based on the price of the vehicle.
 - (D) all of the above

20. In discussing the pricing of a risk, **development factors** are
- (A) adjustments to reflect the probable cost of claims had they occurred the following year.
 - (B) adjustments to current reserves on unsettled claims to reflect the estimated final cost of those claims.
 - (C) principles that a given probability is more reliable when there is a larger number of cases in a sample.
 - (D) (A) and (B)
21. In pricing risks, which of the following is the denomination in which the unit of exposure is expressed?
- (A) Exposure unit
 - (B) Total premium
 - (C) Exposure base
 - (D) Rate adequacy
22. Which of the following is NOT a step in ratemaking?
- (A) Calculating investment income
 - (B) Classifying risk
 - (C) Determining rating classes
 - (D) Gathering loss statistics
23. Which of the following is FALSE when an underwriter is dealing with a facultative reinsurer?
- (A) The underwriter should establish underwriting credit.
 - (B) The underwriter should use facultative reinsurance for risks within their line guide authority.
 - (C) The underwriter should demonstrate a thorough knowledge of the risk.
 - (D) The reinsurer can be used as a source of technical knowledge.
24. Which of the following is a true statement?
- (A) An agent does not receive commission for selling policies.
 - (B) Brokers are normally paid renewal commission based on a sliding scale.
 - (C) A broker owns his book of business.
 - (D) A prudent broker acts only in the interest of his client.
25. Which of the following best describes an insurer with a sales-driven corporate culture?
- (A) Underwriters have fairly flexible line guides.
 - (B) High premium volume is not a major goal.
 - (C) Underwriters work in a call centre environment.
 - (D) Each risk is manually underwritten on an individual basis.

26. Which of the following is a true statement?
- (A) The Canadian insurance industry's premium volume is divided between American and other foreign, mostly European, insurers.
 - (B) The Canadian insurance industry is influenced only by the American insurance industry.
 - (C) Canadian-owned insurance companies account for most of the Canadian industry's annual premium volume.
 - (D) The practices of the Canadian insurance industry are tied as closely to Europe as to the United States.
27. Which of the following was used in the past by the government to make payments in liability cases where at fault drivers had no automobile insurance?
- (A) Certificate of Financial Responsibility
 - (B) Unsatisfied Judgement Fund
 - (C) Non-owned Automobile policy
 - (A) Insurance Bureau of Canada
28. Which of the following are the customers of an underwriter?
- (A) Policyholders
 - (B) Claims adjusters
 - (C) Brokers
 - (D) All of the above
29. Which of the following is NOT an effective practice when using voicemail?
- (A) Always maintain the same greeting on your voicemail.
 - (B) Return messages promptly.
 - (C) State your phone number at least twice when leaving a message.
 - (D) Answer the telephone whenever possible.
30. The term used when an underwriter seeks too much information in a decision-making process is
- (A) empathy.
 - (B) adaptability.
 - (C) paralysis by analysis.
 - (D) judicial trends.

(2 marks each = 60 marks)

Section B: Narrative Questions

- Question 2. (a) Define the term **reinsurance** and explain the difference between facultative and treaty reinsurance. (6 marks)
- (b) In most cases, an underwriter will try to accept a risk, subject to negotiation and agreed terms. Identify the THREE (3) considerations under which an underwriter would be forced to reject a risk. (3 marks)
- (c) Following the initial acceptance of a risk, identify THREE (3) opportunities for an underwriter to reassess a risk during the life-cycle of a policy. (3 marks)
- (d) In ratemaking, when would **schedule rating** normally be used over **class rating**? In your response, include definitions of both terms, including examples. (8 marks)
- Question 3. (a) List FIVE (5) features of an insurance contract which are similar to other types of contracts. (5 marks)
- (b) Name and describe THREE (3) unique features which differentiate insurance contracts from other contracts, providing an example for each feature. (9 marks)
- (c) Briefly describe the challenges for underwriters when using e-mail in their job and what they can do to overcome these challenges. (6 marks)
- Question 4. (a) Define **frequency of loss** and **severity of loss**. (4 marks)
- (b) Explain why an underwriter normally has more control over loss frequency than loss severity. (4 marks)
- (c) Within the context of a homeowners policy application,
- (ii) distinguish between a **named insured** and a **person insured**. (4 marks)
- (iii) briefly explain how persons insured can affect the desirability of a risk. (2 marks)
- (d) When underwriting a property application, explain how an inconsistency could exist between the applicant's occupation and total insurable value. Using examples identify TWO (2) reasons why further investigation would be required. (6 marks)

- Question 5. (a) Briefly describe the term **hard market**. (3 marks)
- (b) How can an underwriter use a hard market as an opportunity to build important working relationships with their brokers? (3 marks)
- (c) Compare the difference between a monoline underwriter and a multi-line underwriter. (2 marks)
- (d) Discuss the importance for a monoline underwriter in developing a good working relationship with other underwriters in the company. (4 marks)
- (e) Compare and contrast the underwriting operation of a centralized insurer and a decentralized insurer, and explain how an underwriter's authority and their ability to build business relationships would differ for each type of insurer. (8 marks)

Section C: Application Questions

- Question 6. Bob Builder owns and operates a home improvement store in an industrial area on the outskirts of town. The store features a small lumber yard behind the building, and ample parking in the lot beside the store. Bob takes pride in offering 'do it yourself' instructional classes on Saturday morning, where customers can enjoy complimentary coffee and pastries. You are an underwriter asked to provide physical damage coverage for this risk. Using the COPE factors, discuss the potential physical damage exposures and list any additional questions you will need answered. (20 marks)
- Question 7. You were successful in writing Bob Builder's physical damage coverage and now you have been asked to provide premises liability coverage for the home improvement store described in question six. Describe the duty of care owed to those entering the premises, and list any additional questions you will need answered to properly analyze the liability exposure. (20 marks)
- Question 8. You are an underwriter working for an insurer who provides both personal lines and commercial lines automobile insurance. One of your brokers phones to ask if you can provide automobile insurance on a van owned by a client who is just starting up a small business. List the questions you would ask in order to determine acceptability and rate, and briefly explain the importance of each question. (20 marks)

