

Insurance underwriting process

Objective: To provide knowledge and understanding of the role of underwriting including identification, assessment and acceptance of risk, rating and relevant financial factors.

Summary of learning outcomes	Number of questions in the examination*
1. Underwriting and policy wordings	33
2. Insurance products and associated services	8
3. Underwriting considerations	13
4. Establishing the price	15
5. Managing exposure	6

*The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

Important notes

- **Method of assessment:** 75 multiple choice questions (MCQs). 2 hours are allowed for this examination.
- **This syllabus will be examined from 1 January 2010 until 31 August 2011.**
- **Candidates will be examined on the basis of English law and practice unless otherwise stated.**
- **Candidates should refer to the CII update website www.cii.co.uk/updates for the latest information on changes to law and practice and when they will be examined.**

1. Underwriting and policy wordings

Material facts

On completion, candidates should:

- 1.1 *understand* why an underwriter needs to be aware of material facts in assessing a risk;
- 1.2 *understand* the concept of the duty of disclosure, to whom it applies and how the duty may be modified;
- 1.3 *know* the basic features of peril and hazard and the relationship between them;
- 1.4 *understand* the significance of moral and physical hazard for underwriters and how they are manifested;
- 1.5 *know* the methods used by underwriters to obtain material facts;
- 1.6 *know* the common questions asked of proposers.

Underwriting procedures

On completion, candidates should:

- 1.7 *know* the legal significance of procedures relating to quotations;
- 1.8 *know* the legal significance of procedures relating to proposals;
- 1.9 *know* the different ways in which premiums are calculated;
- 1.10 *know* the legal significance of procedures relating to the issue of cover notes, policies and certificates of insurance.

Premium payment

On completion, candidates should:

- 1.11 *understand* the relevance of premium payment for valid cover;
- 1.12 *know* the methods used by insurers to collect premiums including instalment facilities;
- 1.13 *know* the features of Insurance Premium Tax.

Policies and the application of terms, conditions and exceptions

On completion, candidates should:

- 1.14 *know* the structure, functions and contents of a policy form, including the policy schedule;
- 1.15 *understand* the meaning and significance of common policy exceptions and conditions, including terrorism cover;
- 1.16 *understand* how excesses, deductibles and franchises are used;
- 1.17 *understand* the distinction between warranties, conditions and representations;
- 1.18 *understand* the use of exclusions: general and specific, market exclusions.

Renewals and cancellation

On completion, candidates should:

- 1.19 *know* the legal significance of procedures relating to renewals;
- 1.20 *understand* how cancellation clauses operate.

2. Insurance products and associated services

Insurance products

On completion, candidates should:

- 2.1 *know* the basic features and outline of typical policy cover of:
 - motor: private car, motorcycle, commercial vehicles;
 - health: personal accident, sickness, medical expenses;
 - personal: household, travel;
 - property: fire and special perils, all risks, theft, glass, money;
 - pecuniary: legal expenses, business interruption, creditor;
 - liability: employers', public, products, professional indemnity;
 - extended warranties.

Insurance and related services

On completion, candidates should:

- 2.2 *know* the basic features of additional product services available, specifically:
 - helplines and advice;
 - authorised repairers;
 - risk control/advice;
 - legal costs services;
 - uninsured recovery services.

3. Underwriting considerations

On completion, candidates should:

- 3.1 *know* the key underwriting criteria for:
 - motor: private car, motorcycle, commercial vehicles;
 - health: personal accident, sickness, medical expenses;
 - personal: household, travel;
 - property: fire and special perils, all risks, theft, glass, money;
 - pecuniary: legal expenses, business interruption, creditor;
 - liability: employers', public, products, professional indemnity;
 - extended warranties;
- 3.2 *know* the procedures commonly used to discourage individuals from making fraudulent claims;
- 3.3 *know* the procedures commonly used to detect fraudulent claims;
- 3.4 *understand* the consequences of fraudulent claims for the insurer, their insureds and the fraudulent claimant;
- 3.5 *understand* the effect on insurance of the current Disability Discrimination and Data Protection Acts.

4. Establishing the price

Rating

On completion, candidates should:

- 4.1 *know* the sources, availability and types of data essential to the underwriting process;
- 4.2 *understand* the significance of claims information on underwriting terms/premium rates;
- 4.3 *understand* the nature of risk and the significance of the frequency/severity of claims;
- 4.4 *understand* the significance of the claims loss ratio on premiums/acceptance of risk;
- 4.5 *understand* the distinction between underwriting year, policy year, accounting year and calendar year.

Pricing factors

On completion, candidates should:

- 4.6 *know* the basis of the risk premium;
- 4.7 *know* the reporting factors of expenses, return on capital, investment income, tax and intermediary remuneration.

5. Managing exposure

On completion, candidates should:

- 5.1 *know* the basic factors influencing the market cycle;
- 5.2 *know* the principles of risk accumulation;
- 5.3 *know* the basic reinsurance considerations including the types of reinsurance.

Reading list

The following list provides details of various publications which may assist with your studies. Periodicals and publications will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

Note: The examination will test the syllabus alone.

The reading list is provided for guidance only and is not in itself the subject of the examination.

CII/Personal Finance Society members can borrow most of the additional study materials below from CII Knowledge Services. For further information on the lending service go to www.knowledge.cii.co.uk.

Insurance underwriting process. London: CII. Coursebook IF3.

Reference materials

Bird's Modern insurance law. John Birds. 7th ed. London: Sweet and Maxwell, 2007.

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004. Also available online (CII/PFS members only) at www.cii.co.uk/knowledge/dictionaries.

The insurance manual. Stourbridge, West Midlands: Insurance Publishing & Printing Co. Looseleaf, updated.

Kluwer's handbook of insurance. Kingston upon Thames, Surrey: Croner. CCH. Looseleaf, updated.

Insurance law handbook. Barlow Lyde & Gilbert. 4th ed. Haywards Heath, West Sussex: Tottel, 2008.

Periodicals

The Journal. London: CII. Six issues a year. Also available online (CII/PFS members only) at www.cii.co.uk/knowledge/journal.

Post Magazine. London: Incisive Financial Publishing. Weekly.

Examination guides

You are strongly advised to study these before the examination. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. You will also find advice at www.cii.co.uk/knowledge/careersupport (CII/PFS members only).

For a more interactive approach, you should consider: Winning the brain game. London: CII, 2006. CD-ROM.