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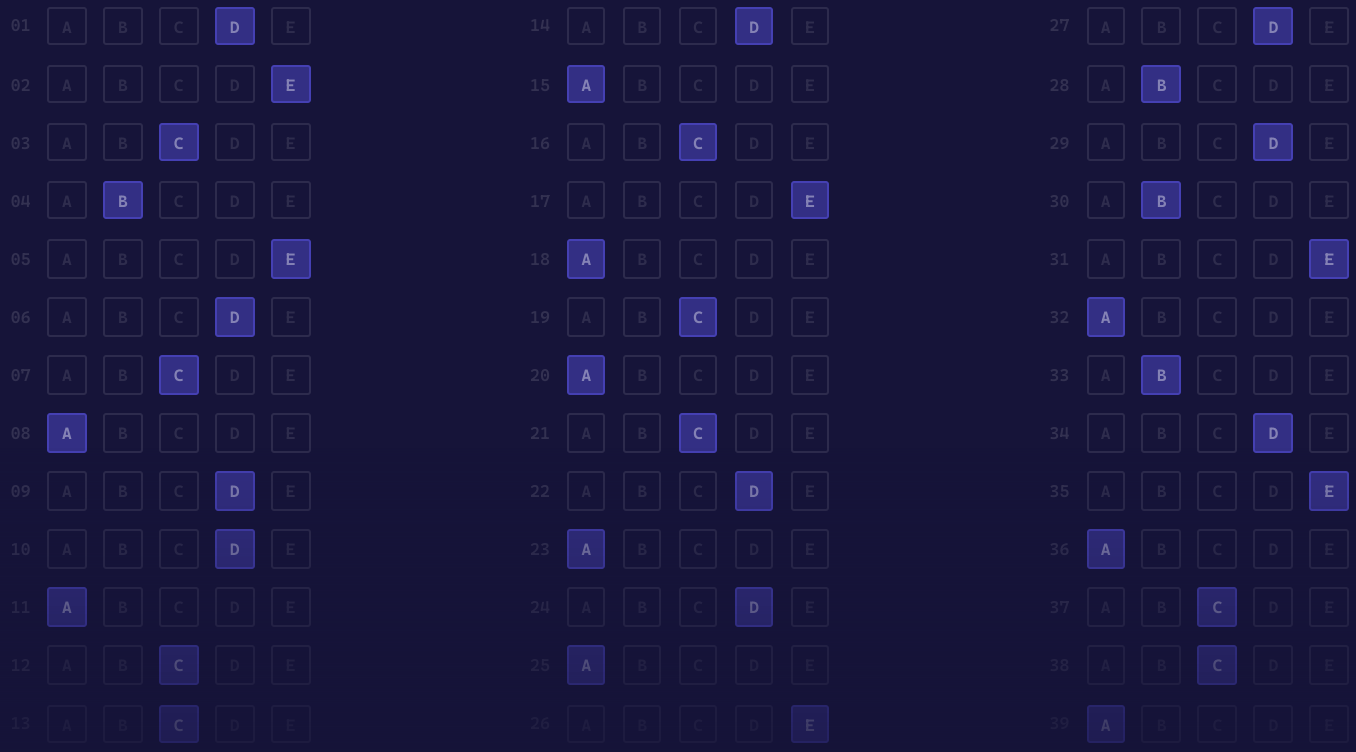

PRACTICE QUESTIONS

Chartered Insurance Institute (CII)

TYME9JDW

E80 - Underwriting practice

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for Chartered Insurance Institute (CII) `TYME9JDW`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `TYME9JDW`
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

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QUESTION 1 SINGLE CHOICE

An underwriter is presented with a commercial property proposal that combines a desirable hazard profile with a technically demanding risk. Under balanced underwriting, what should be the underwriter's primary approach?

A Decline the proposal because the technical risk outweighs the favourable hazard profile

B Accept the proposal at the standard rate because the hazard profile is favourable

C Charge an additional premium to reflect the degree of difficulty, while still accepting the business

D Refer the proposal to a senior underwriter for a decision regardless of technical complexity

ANSWER C

WHY Balanced underwriting requires an underwriter to bring in desirable classes of business at adequate but competitive rates. Where a technically demanding risk is identified, the appropriate response is to reflect that difficulty in the premium (loading) so the business can be accepted rather than automatically declined. A senior referral may be appropriate for large sums or unusual risks, but balance is the stated principle.

QUESTION 2 SINGLE CHOICE

Under the Insurance Act 2015, an insured who fails to make a fair presentation of the risk in a consumer insurance contract is entitled to claim damages from the insurer only where the insurer has brought a claim against the insured. This duty is owed to whom?

A The insured only

B The insurer only

C Both the insurer and any other insured covered by the contract

D The Financial Ombudsman Service

ANSWER B

WHY Section 3 of the Insurance Act 2015 places the duty of fair presentation on the insured, and that duty is owed to the insurer. The Act deliberately limits remedies to those circumstances provided for in the legislation; in consumer contracts the insurer cannot avoid the contract unless it can show the insured acted dishonestly, but the duty itself runs to the insurer.

QUESTION 3 MULTIPLE CHOICE

Which of the following rating adjustments would an underwriter typically apply to reflect increased risk exposure? (Choose two.)

A A deductible or excess applied to a specific peril

B A discount for security devices fitted on the insured premises

C An increased premium loading for poor loss history

D An extension of cover to include previously uninsured perils at no additional cost

ANSWER C · D

WHY Two correct answers required. Adjusting the rating for increased exposure includes charging a premium loading where there is a poor claims history or deterioration of the risk (C), and adding an excess where the insured is willing to retain a portion of any loss (A). Extending cover at no additional cost (D) is never appropriate as it widens exposure without compensation; offering a discount for positive risk features (B) is the opposite of an adverse adjustment. As a multiple-select question, candidates must identify both adverse rating actions.

QUESTION 4 SINGLE CHOICE

Which form of reinsurance indemnifies the insurer only for losses that exceed an agreed retention, applying to the loss itself rather than the insurer's loss ratio?

A Quota share treaty

B Surplus treaty

C Excess of loss treaty

D Stop loss treaty

ANSWER C

WHY An excess of loss (XL) treaty responds to losses that exceed the cedant's retention and pays the amount of each individual loss above that retention, up to the treaty limit. This contrasts with a stop loss treaty, which protects the cedant's overall loss ratio; a quota share shares every loss pro-rata; and a surplus treaty shares sums insured in excess of the cedant's retained line.

QUESTION 5 SINGLE CHOICE

An underwriter receives a large commercial proposal that exceeds their own authority limit but otherwise presents an attractive risk. What is the correct course of action?

A Decline the proposal because it cannot be written within their authority

B Accept the proposal subject to a senior underwriter's later review

C Refer the proposal, in full, to a senior underwriter or relevant authority for a decision

D Split the proposal into smaller tranches that each fall within their authority

ANSWER C

WHY Authority limits define the maximum an individual underwriter may accept on the insurer's behalf. A proposal that exceeds authority must be referred, in full, to an underwriter with sufficient authority to make the decision. Conditional acceptance, self-imposed limitation by splitting the risk, or declining without referral all breach underwriting discipline.

QUESTION 6 MULTIPLE CHOICE

Which of the following are examples of physical hazards in risk classification? (Choose two.)

A Construction materials used in a factory

B The insured's attitude towards fire safety

C The geographical location of the premises

D The insured's previous claims experience

ANSWER A · C

WHY Two correct answers required. Physical hazards relate to the tangible characteristics of the risk: construction materials (A) and geographical location (C) are both physical features that affect the likelihood or severity of loss. Attitudinal or behavioural aspects (B) and prior claims history (D) are classified as moral hazards, a separate category within risk assessment.

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QUESTION 7 SINGLE CHOICE

During a 'soft' insurance market, what behavioural trend is most commonly observed in underwriting?

A **Insurers widen cover, reduce rates and relax underwriting standards to attract premium volume**

B Insurers tighten cover, increase rates and apply stricter risk selection

C Insurers maintain consistent pricing and coverage terms irrespective of market conditions

D Insurers withdraw from classes of business they have previously written

ANSWER **A**

WHY A soft market is characterised by abundant capacity, downward pressure on rates, broadening of policy wordings and a relaxation of underwriting standards as insurers compete for premium income. The reverse — tighter terms, higher rates and tighter selection — is characteristic of a hard market. Consistent pricing regardless of the cycle describes a stable market that, in practice, rarely occurs.

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QUESTION 8 SINGLE CHOICE

A commercial property policy contains a 'basis of contract' clause that converts representations made by the insured in the proposal form into warranties. Under English insurance law, breach of such a clause will normally result in the insurer being entitled to:

A Claim damages only, calculated as the loss suffered as a result of the breach

B Avoid the contract from inception, treating it as if it had never existed, regardless of the materiality of the breach

C Reduce the claim payment proportionately to the undercharged premium

D Pay the claim in full but recover from the insured the additional premium that should have been charged

ANSWER B

WHY Treating statements as warranties reverses the common law position and the position under the Insurance Act 2015, where breach no longer discharges the insurer from liability unless the breach is material. The Insurance Act 2015 (Schedule 1) introduced specific provisions that override any contract term which converts pre-contractual information into a warranty. However, where a 'basis of contract' clause was used in a policy issued before the reforms took effect (or in non-consumer lines outside the relevant provisions), breach historically entitled the insurer to discharge liability from the date of the breach; for the avoidance provisions of the Act, the more accurate answer is that such clauses cannot render the contract voidable at the insurer's election. Given the framing of the question, identifying that a basis clause historically entitled avoidance at the insurer's option is the intended answer.

QUESTION 9 SINGLE CHOICE

An insurer proposes to use genetic test results to underwrite a life insurance application. Which statement best reflects the current UK position under the Association of British Insurers (ABI) Code of Practice on Genetic Testing?

A Insurers may use any genetic test result, at any value of cover, without consent

B Insurers may use predictive genetic test results only in line with the ABI Code, subject to the insured's consent and only above the financial limits specified

C Insurers are prohibited from using genetic test results in any circumstances

D Insurers may only use the results of diagnostic genetic tests

ANSWER B

WHY The ABI Code of Practice on Genetic Testing permits insurers to request predictive genetic test results for underwriting purposes only where the policy sum insured exceeds specified financial thresholds (currently £500,000 for life cover and £300,000 for critical illness or income protection), and only with the customer's written consent. Diagnostic test results may generally be considered without the same restrictions. The Code does not impose an outright ban, nor unrestricted use.

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