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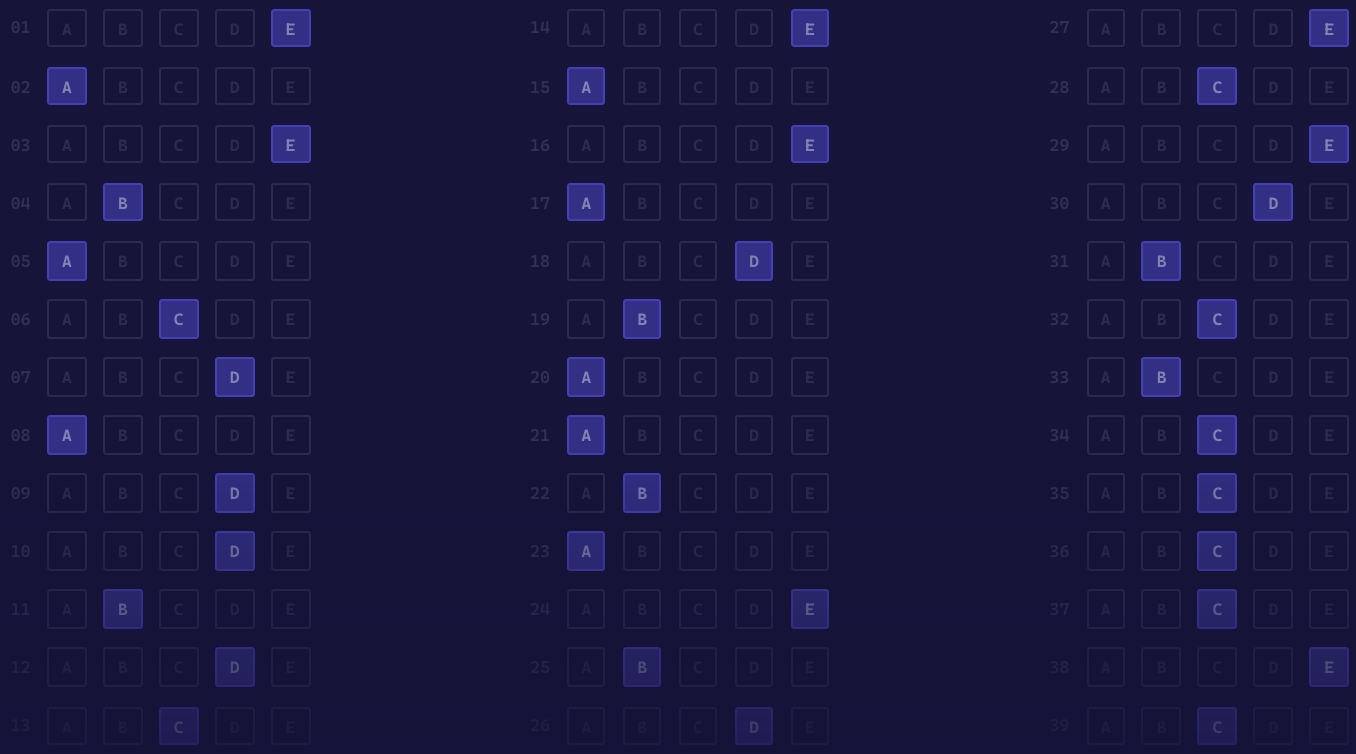

PRACTICE QUESTIONS

Chartered Insurance Institute (CII)

LA9QHJQL

IF3 - Insurance underwriting process

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

Before you begin

What this is

9 practice questions for Chartered Insurance Institute (CII) `LA9QHJQL`, 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, `LA9QHJQL`
- 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

Which of the following best describes the primary purpose of underwriting in insurance?

A To maximise premium income regardless of risk quality

B To accept risks at appropriate premiums consistent with the insurer's risk appetite

C To eliminate all risk from the insurer's portfolio

D To provide immediate claim settlement to all policyholders

ANSWER B

WHY Underwriting exists to select and price risks so they are accepted at premiums consistent with the insurer's risk appetite and portfolio objectives, not to eliminate risk or maximise income regardless of quality.

QUESTION 2 SINGLE CHOICE

Under the UK Insurance: Conduct of Business sourcebook (ICOBS), an insurer must treat customers fairly. Which underwriting action is most consistent with this principle when assessing a proposal?

A Using only undisclosed assumptions about the applicant's lifestyle

B Applying rating factors that are unjustifiable and undisclosed

C Considering material information provided and applying fair, justifiable terms

D Refusing all proposals from a particular occupational group regardless of individual risk

ANSWER C

WHY ICOBS and the FCA's Treating Customers Fairly principle require insurers to consider disclosed, material information and apply terms that are fair and justifiable for the individual risk presented.

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QUESTION 3 SINGLE CHOICE

In underwriting, the duty of utmost good faith (uberrima fides) requires the proposer to disclose:

A Only information the insurer has specifically asked about in the proposal form

B Any information that would never affect the insurer's decision

C All material facts that would influence a prudent insurer's decision

D Information only after the policy has been incepted for 14 days

ANSWER C

WHY The doctrine of utmost good faith requires the proposer to disclose every material circumstance which would influence the judgement of a prudent insurer in deciding whether to accept the risk and on what terms.

QUESTION 4 SINGLE CHOICE

An underwriter is assessing a commercial property proposal located in a flood-prone area. Which element of risk assessment is being primarily considered?

A Physical hazard

B Moral hazard

C Morale hazard

D Financial stability

ANSWER A

WHY The risk of flooding affecting the physical property is a physical hazard, relating to the physical characteristics of the risk itself. Moral hazard relates to the insured's integrity, while morale hazard relates to carelessness.

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QUESTION 5 SINGLE CHOICE

Which of the following is an example of a risk selection technique used by underwriters?

A Claim reserving

B Reinsurance placement

C Declinature

D Premium funding

ANSWER C

WHY Declinature — the outright refusal of a risk that falls outside the insurer's risk appetite or exceeds its capacity — is one of the fundamental risk selection techniques available to an underwriter, alongside acceptance at standard terms, terms with conditions, and referral.

QUESTION 6 SINGLE CHOICE

In insurance pricing, the term 'burning cost' is most commonly associated with which method of rating?

A Judgment rating

B Experience rating

C Manual rating

D Fleet rating

ANSWER B

WHY Burning cost is a technique used in experience rating, where the underwriter analyses the actual claims experience of the particular risk over a period and sets the premium based on those losses plus an expense and profit loading.

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QUESTION 7 SINGLE CHOICE

A material fact in insurance underwriting is best defined as information that would:

A Be of interest to any policyholder in the market

B Influence the judgement of a prudent insurer in deciding whether to accept or rate the risk

C Affect only the amount of claims paid by the insurer

D Be relevant only at the time of claim notification

ANSWER B

WHY A material fact is any circumstance which would influence the judgement of a prudent insurer in determining whether to accept the risk, the premium to charge, or the terms and conditions to apply.

QUESTION 8 TRUE FALSE

Under the principle of utmost good faith, the proposer is required to disclose every material circumstance which would influence a prudent insurer's judgement, even if the insurer has not specifically asked about it.

A True

B False

ANSWER A

WHY True. The duty of utmost good faith (uberrima fides) requires the proposer to volunteer material facts, not merely to answer questions asked by the insurer. Withholding a material fact can render the policy voidable.

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QUESTION 9 SINGLE CHOICE

Which of the following best describes the term 'risk' in the context of insurance underwriting?

A The premium charged by the insurer for providing cover

B The uncertainty surrounding the occurrence of a specified loss event

C The probability that the insurer will make a profit on a class of business

D The amount the insurer pays out in the event of a claim

ANSWER **B**

WHY In insurance underwriting, 'risk' is defined as the uncertainty surrounding the occurrence of a specified loss event. Option A describes the premium, option C describes profitability and option D describes the claim payment, none of which define 'risk' itself.

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