

THE CHARTERED INSURANCE INSTITUTE



E97

Examination element of M97 Reinsurance

**Based on the 2016/2017 syllabus
examined from 1 May 2016 until 30 April 2017**

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E97 – Examination element of M97 Reinsurance

Based on the 2016/2017 syllabus examined from May 2016 until 30 April 2017

Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the E97 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their E97 studies before attempting the specimen examination. Students should allow themselves one hour to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time. The examination must be successfully passed within 18 months of enrolment on M97.

Although the specimen examination in this guide is typical of an E97 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the M97 reading list, which is located on the syllabus in this examination guide and on the CII website at www.cii.co.uk.

Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

- 1) Visit www.cii.co.uk/qualifications
- 2) Select the appropriate qualification
- 3) Select your unit on the right hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

Syllabus

The M97 syllabus is published on the CII website at www.cii.co.uk. **Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The examination syllabus categorises M97 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to know and understand the subject matter. Each learning outcome begins with one of these cognitive skills:

Know - Knowledge-based questions require the candidate to recall factual information. Typically questions may ask 'What', 'When' or 'Who'. Questions set on a *know* learning outcome can only test knowledge.

Understanding - Candidates must be able to link pieces of information together in cause and effect relationships. Typically questions may ask 'Why'. Questions set on an *understand* learning outcome can test either knowledge or understanding or both.

Examination Information

The method of assessment for the E97 examination is 50 multiple choice questions (MCQs). One hour is allowed for this examination.

The M97 syllabus provided in this examination guide will be examined from 1 May 2016 until 30 April 2017.

Candidates will be examined on the basis of English law and practice unless otherwise stated.

The general rule is that legislative and industry changes will not be examined earlier than 3 months after they come into effect.

Please note that the Insurance Act 2015, which comes into effect on 12 August 2016, will be reflective in examinations and the specimen paper from 1 October 2016.

E97 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

When preparing for the examination, candidates should ensure that they are aware of what typically constitutes each type of product listed in the syllabus and ascertain whether the products with which they come into contact during the normal course of their work deviate from the norm, since questions in the examination test generic product knowledge.

A multiple choice question consists of a problem followed by four options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only one correct or best response to the problem posed.

One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

Candidates are permitted to make rough notes. Candidates are not permitted, in any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate's examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

Reinsurance

Purpose

At the end of this unit, candidates should be able to understand reinsurance and how it operates.

Assumed knowledge

It is assumed that the candidate already has the knowledge gained from a study of the fundamental principles of insurance as covered in IF1 Insurance, legal and regulatory, and M05/P05 Insurance law, or equivalent exams.

Summary of learning outcomes	Number of questions in the examination*
1. Know the purpose of, and the parties involved in, reinsurance.	4
2. Understand the different types of reinsurance.	3
3. Understand the features and operation of facultative reinsurance.	2
4. Understand the features and operation of proportional reinsurance treaties.	8
5. Understand the features and operation of non-proportional reinsurance treaties.	7
6. Understand the design and placement of reinsurance programmes.	8
7. Understand legal issues relating to reinsurance.	3
8. Understand reinsurance contract wordings.	5
9. Understand the main features and characteristics of the principal reinsurance markets.	4
10. Understand the principles and practices of different classes of reinsurance business.	6

*The test specification (relevant to the M97 multiple choice question exam only) 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

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- **Method of assessment**

Mixed assessment for M97 of which both elements must be individually passed. This consists of:

1. an online coursework assignment using RevisionMate consisting of 10 questions which sequentially follow the learning outcomes. This must be successfully completed within 6 months of enrolment; and
2. a multiple-choice question (MCQ) exam at one of the CII's online centres (paper based MCQs are available in April and October for those sitting outside the UK). The MCQ exam consists of 50 MCQs. 1 hour is allowed for this examination. This exam must be successfully passed within 18 months of enrolment.

- This syllabus will be examined from 1 May 2016 until 30 April 2017.

- Candidates will be examined on the basis of English law and practice unless otherwise stated.

- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:

1. Visit www.cii.co.uk/updates
2. Select the appropriate qualification
3. Select your unit on the right hand side of the page

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- **Method of assessment:** Part I 14 compulsory questions (140 marks). Part II 2 questions selected from 3 (60 marks). Total of 200 marks. Three hours are allowed for this exam.

- The syllabus is examined on the basis of English law and practice unless otherwise stated.

- The general rule is that the exams are based on the English legislative position six months before the date of the exams.

- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:

1. Visit www.cii.co.uk/qualifications
2. Select the appropriate qualification
3. Select your unit on the right hand side of the page

- 1. Know the purpose of, and the parties involved in, reinsurance**
 - 1.1 Explain the purpose of reinsurance including, spreading risk, capacity, financial security and capital management.
 - 1.2 Identify the different parties involved in reinsurance and their various roles.
- 2. Understand the different types of reinsurance**
 - 2.1 Outline the main types of reinsurance.
 - 2.2 Explain the difference between reinsurance and retrocession.
 - 2.3 Discuss the alternatives to conventional reinsurance.
- 3. Understand the features and operation of facultative reinsurance**
 - 3.1 Explain the main features and operation of different types of facultative reinsurance.
 - 3.2 Calculate reinsurance premiums and claims recoveries for proportional and non-proportional facultative reinsurance.
- 4. Understand the features and operation of proportional reinsurance treaties**
 - 4.1 Explain the main features and operation of different types of proportional reinsurance treaties.
 - 4.2 Explain the main accounting methods for proportional reinsurance treaties.
 - 4.3 Discuss different types of commission on proportional reinsurance treaties.
 - 4.4 Discuss the use of premium and claims reserves.
 - 4.5 Calculate reinsurance premiums and claims recoveries for proportional reinsurance treaties.
 - 4.6 Discuss the use of cession and event limits in proportional reinsurance treaties.
- 5. Understand the features and operation of non-proportional reinsurance treaties**
 - 5.1 Explain the main features and operation of different types of non-proportional reinsurance treaties.
 - 5.2 Explain the different bases of cover including risks attaching, losses occurring, claims made and losses discovered.
 - 5.3 Discuss the various types of premium calculation used in non-proportional reinsurance treaties.
 - 5.4 Calculate reinsurance premiums and claims recoveries for non-proportional reinsurance treaties.
 - 5.5 Discuss the purpose and use of reinstatements.
 - 5.6 Discuss the use of event limits in non-proportional reinsurance treaties.
- 6. Understand the design and placement of reinsurance programmes**
 - 6.1 Discuss the factors affecting the design of a reinsurance programme, including the significance of modelling and actuarial input.
 - 6.2 Discuss how proportional and non-proportional reinsurance can be combined to make an effective reinsurance programme.
 - 6.3 Discuss the material information required in the placement of reinsurance programmes.
 - 6.4 Explain the use of reciprocity.
 - 6.5 Discuss how solvency and security considerations affect reinsurance programmes.
- 7. Understand legal issues relating to reinsurance**
 - 7.1 Discuss the legal requirements for the formation of a reinsurance contract.
 - 7.2 Discuss the key issues and reinsurance case law relating to the interpretation of contractual documents.
- 8. Understand reinsurance contract wordings**
 - 8.1 Discuss the main features of facultative and treaty wordings.
 - 8.2 Describe key clauses used in proportional and non-proportional wordings.
 - 8.3 Describe the main treaty exclusions and their importance.
- 9. Understand the main features and characteristics of the principal reinsurance markets**
 - 9.1 Explain the main features and characteristics of the principal reinsurance markets.
 - 9.2 Discuss the characteristics of hard and soft markets.
 - 9.3 Discuss the management of the underwriting cycle.
- 10. Understand the principles and practices of different classes of reinsurance business**
 - 10.1 Explain the main underwriting considerations for property and casualty reinsurance.
 - 10.2 Explain different reinsurance methods applied to property and casualty reinsurance.
 - 10.3 Explain the terms and conditions specific to property and casualty reinsurance.
 - 10.4 Describe the main underwriting considerations, and terms and conditions specific to marine and aviation reinsurance.
 - 10.5 Apply the principles and practices of reinsurance to property, casualty, marine and aviation business.

Reading list

The following list provides details of various publications which may assist you with your studies.

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.

The publications will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

CII study texts

Reinsurance. London: CII. Study text M97P97

Insurance law. London: CII. Study text M05P05

Insurance, legal and regulatory. London: CII. Study text IF1

Books (and ebooks)

A guide to reinsurance law. Robert Merkin (ed). London: Informa, 2007.

Carter on reinsurance. 5th ed. Robert Carter et al. Witherby, 2013.

Imagining the future: how to stay ahead in the reinsurance game through scenario planning. Paula Jarzabkowski. London: Cass Business School, 2013.

Insurance and reinsurance law and regulation: jurisdictional comparisons. Clive O'Connell. London: Sweet and Maxwell, 2014.

Making a market for acts of God. The practice of risk-trading in the global reinsurance industry. Paula Jarzabkowski. Oxford: Oxford University Press, 2015.

Reinsurance arbitrations. Kyriaki Noussia. Heidelberg: Springer-Verlag, 2013.*

Reinsurance: the nuts and bolts. Keith Riley. London: Witherby, 2012.

Reinsurance in practice. Robert Kiln, Stephen Kiln. 4th ed. London: Witherby, 2001.

Reinsurance practice and the law. Barlow Lyde & Gilbert LLP. London: Informa, 2009.

'Reinsurance'. Chapter – Insurance disputes. Jonathan Mance, Iain Goldrein, Robert Merkin. 3rd ed. London: Informa, 2011.

The law of reinsurance in England and Bermuda. T O'Neill, J W Woloniecki. 3rd ed. London: Sweet and Maxwell, 2010.

The law of reinsurance. 2nd ed. Colin Edelman, Andrew Burns. Oxford, OUP, 2013.

Ebooks

The following ebooks are available through Discovery via www.cii.co.uk/discovery (CII/PFS members only):

Risk theory and reinsurance. Griselda Deelstra, et al. London: Springer, 2014.

The value of risk: Swiss Re and the history of reinsurance. Peter Borscheid, et al. Oxford: Oxford University Press, 2013.

Factfiles and other online resources

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via www.cii.co.uk/ciifactfiles (CII/PFS members only).

Recent developments in reinsurance law. Robert Merkin, updated by Samantha James.

Alternative risk transfer. Ian Searle.

Knowledge resources. Guy Carpenter. Available via guycarp.com.

Reinsurance industry in the UK, key trends and opportunities. ©Timetric Forecats Reports. Annual. Available for members at www.cii.co.uk/forecastreports.

Thought leadership. Aon Benfield. Available via thoughtleadership.aonbenfield.com.

Further articles and technical bulletins are available at www.cii.co.uk/knowledge (CII/PFS members only).

Journals and magazines

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

Post magazine. London: Incisive Financial Publishing. Weekly. Also available online at www.postonline.co.uk.

Reinsurance. London: Incisive Media. Monthly.

The review. London: Informa. Monthly.

Reactions. London: Euromoney. Monthly.

Further periodical publications are available at www.cii.co.uk/journalmagazines (CII/PFS members only).

Reference materials

Concise encyclopedia of insurance terms. Laurence S. Silver, et al. New York: Routledge, 2010.*

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004.

Reinsurance practice and the law. Reinsurance division, Barlow Lyde and Gilbert. London: LLP. Looseleaf, updated.

* Also available as an ebook through Discovery via www.cii.co.uk/discovery (CII/PFS members only).

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Exemplars

Exemplar papers are available for all mixed assessment units. Exemplars are available for both the coursework component and the multiple-choice component.

These are available on the CII website under the unit number before purchasing the unit. They are available under the following link www.cii.co.uk/qualifications/diploma-in-insurance-qualification.

These exemplar papers are also available on the RevisionMate website www.revisionmate.com after you have purchased the unit.

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Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers.

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

Alternatively, if you have a current study text enrolment, the latest exam guides are available via www.revisionmate.com.

Older guides are available via www.cii.co.uk/pastexamguides (CII/PFS members only).

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at www.cii.co.uk/iilrevision (CII/PFS members only).

1. The **main** reason an insurer would purchase reinsurance is because
 - A. it allows risks to be underwritten that could be unprofitable.
 - B. it allows risks to be spread reducing the impact of potential losses.
 - C. it delegates all underwriting decisions to the reinsurer.
 - D. regulations always require facultative reinsurance to be obtained.

2. Reinsurance pools are comprised of reinsurers that
 - A. accept a predetermined percentage of all qualifying treaties.
 - B. accept the same financial limit on each layer of a reinsurance programme.
 - C. accept the same percentage participation on each layer of a reinsurance programme.
 - D. are obliged to always accept the same financial limit of every qualifying treaty.

3. In addition to fund contributions, what monies are the operator of a Retakaful reinsurer entitled to receive?
 - A. A fee only.
 - B. A commission.
 - C. A share of the investment income only.
 - D. A fee and a share of the investment income.

4. How does Lloyd's assist in the management of the underwriting cycle for syndicate reinsurers?
 - A. The Council of Lloyd's will use the central fund to support reinsurers struggling in a soft market.
 - B. The Franchise Board sets minimum standards for Lloyd's brokers which prevent significantly sub-standard risks being introduced into the market.
 - C. The Lloyd's Market Association helps reinsurers in a soft market by conducting market-wide marketing campaigns.
 - D. The Performance Directorate sets risk management and profitability targets to ensure underwriting quality remains high at all times.

5. An insurer cedes three risks to the same treaty contract. Each risk falls under the same classification and suffers one claim during the treaty period. The values of the premiums and claims are as follows

Insured	Original Premium	Ceded Premium	Original Claim	Reinsurance Claim
A	£300,000	£150,000	£120,000	£60,000
B	£200,000	£160,000	£150,000	£120,000
C	£200,000	£180,000	£100,000	£90,000

Which type of treaty has been written?

- A. Excess of loss.
- B. Quota share.
- C. Stop loss.
- D. Surplus.

6. Reinsurers X and Y are frequently co-reinsurers on the same liability excess of loss treaties. What is the **most likely** reason that reinsurer X would **NOT** want to write a liability quota share retrocession for reinsurer Y?
- A. It cannot retrocede the cession.
 - B. Its exposure to any one single claim could be significantly increased.
 - C. It would be in breach of Terms of Business Agreements.
 - D. There would be a conflict of interest.
7. The disadvantage to an insurer of purchasing a catastrophe bond is that
- A. geographical restrictions may apply to the cover.
 - B. interest payable is always below normal market investment returns.
 - C. it always restricts coverage to a single peril.
 - D. premiums are always greater than for conventional reinsurance.
8. Which type of reinsurance is **most likely** to charge the total premium at contract inception?
- A. Facultative.
 - B. Quota share.
 - C. Stop loss.
 - D. Surplus.
9. The premium on an original risk is 0.2% of the £15,000,000 original sum insured. An insurer accepts a 50% participation and has a 60% proportional facultative reinsurance. What will be the facultative reinsurance premium?
- A. £6,000
 - B. £9,000
 - C. £15,000
 - D. £18,000
10. A cedant has a 10-line surplus treaty which is subject to a maximum cession of £1,000,000. What is the **maximum** gross capacity of the cedant, for a single risk, if no other reinsurance coverage is in force?
- A. £1,000,000
 - B. £1,100,000
 - C. £10,000,000
 - D. £11,000,000

11. An original policy incepted on 14 May is reinsured under a quota share reinsurance treaty incepting 1 January. The premium payable to the reinsurer for the original risk is £125,000. The treaty is accounted on a clean-cut basis using the twenty-fourths method. What will be the outgoing portfolio amount for this original policy at 31 December?
- A. £41,666.67
 - B. £46,875.00
 - C. £78,125.00
 - D. £83,333.33
12. A surplus treaty **usually** attracts a lower commission rate than a quota share treaty because a surplus treaty
- A. is always easier to administer.
 - B. is more likely to be cancelled mid-term.
 - C. can have the profit impacted by the cedant's application of its tables of limits.
 - D. has a higher brokerage rate.
13. A quota share reinsurance treaty has flat-rate commission of 10% and a fixed-rate profit commission of 15%. The premium is £150,000. In its first year, the treaty makes a loss. How much combined commission, if any, will be payable by the reinsurer?
- A. Nil.
 - B. £7,500
 - C. £15,000
 - D. £22,250
14. A surplus treaty states that the interest payable to the reinsurer is based on the amount of the reserve held. This confirms the existence of
- A. a cession limit.
 - B. an event limit.
 - C. a premium portfolio transfer.
 - D. a premium reserve deposit.
15. A reinsurer may request a letter of credit on behalf of a reinsured to
- A. assess the suitability of a potential insured.
 - B. demonstrate financial security to a rating agency.
 - C. prove that a reinsurance claim has been fully settled.
 - D. satisfy the requirements of a loss reserve clause.

16. A cedant has a 10-line surplus treaty subject to a maximum cession of £5,000,000 and has decided to retain its maximum gross retention on all risks. The cedant writes an original policy with a limit of £2,500,000 and receives £1,320,000 in premium. How much of the premium will be retained by the cedant?
- A. £132,000
 - B. £250,000
 - C. £264,000
 - D. £500,000
17. When a cession limit is included within a quota share reinsurance treaty, it will **most likely** be in respect of
- A. certain geographical locations applicable to a property treaty.
 - B. mis-selling of pensions or investments in a financial lines treaty.
 - C. specific types of products liability risks under a casualty treaty.
 - D. war and political risks under a marine treaty.
18. The limit and retention under a stop loss treaty are **usually** expressed as a percentage of
- A. gross net retained premium income.
 - B. gross net written premium income.
 - C. gross premium income.
 - D. net premium income.
19. An insurer's employers' liability policy for a roofing contractor incepted on 1 April 2014. On 15 February 2015 an employee falls off a roof sustaining serious injuries. The employee makes a formal negligence claim on 12 January 2016. The insurer has an excess of loss treaty on a losses occurring basis which has renewed annually since 1 June 2013. Which reinsurance year of account will respond?
- A. 2013
 - B. 2014
 - C. 2015
 - D. 2016
20. When is an exposure-based approach to rating a per risk excess of loss reinsurance treaty **likely** to be preferable to an experience-rated approach?
- A. Event limits are set at sufficiently low levels to give the reinsurer a degree of certainty around its catastrophe exposure.
 - B. The reinsurance risk being presented to the underwriter has only been reinsured on a proportional basis in previous years.
 - C. The underlying business is new or has undergone significant recent changes in its underwriting philosophy.
 - D. A wide range of locations and jurisdictions on the underlying business makes the actuarial models for predicting future losses unreliable.

21. A reinsurance underwriter is preparing a quote for a prospective new client using an experience-based premium calculation method. How will the pure burning cost of each year be calculated?
- Reinsurance premium for the layer divided by reinsurance limit.
 - Reinsurance limit divided by the reinsurance premium for the layer.
 - Total incurred losses to the layer divided by the corresponding earned premium.
 - Total paid losses to the layer divided by the corresponding earned premium.
22. A reinsured has a property risk excess of loss treaty with a limit of £2,500,000, excess of £2,500,000 and an event limit of three times its per risk limit. A storm occurs and causes damage to the factories of five different insureds. The amounts paid by the reinsured for each claim are as follows

Claim	Amount
A	£5,000,000
B	£4,750,000
C	£3,000,000
D	£4,250,000
E	£3,500,000

How much will the reinsurance payment be for all five claims?

- £5,000,000
 - £6,500,000
 - £7,500,000
 - £8,000,000
23. The type of reinsurance treaty that is **most likely** to be subject to unlimited reinstatements at no additional cost is
- an earthquake per event excess of loss treaty.
 - a motor per event excess of loss treaty.
 - a professional indemnity aggregate excess of loss treaty.
 - a property risk excess of loss treaty.
24. A reinsurance underwriter is considering writing a treaty for a Florida-based domestic insurer. What reinsurance conditions can he impose to limit hurricane exposure?
- Event limits, hours clauses and reinstatement clauses.
 - Hours clauses, reinstatement clauses and series clauses.
 - Reinstatement clauses, series clauses and event limits.
 - Series clauses, event limits and hours clauses.
25. Catastrophe modelling is widely used by reinsurers because it
- estimates its exposure to major events.
 - gives certainty to its exposure to major events.
 - justifies final settlements for natural peril claims.
 - sets individual treaty reserves for natural peril claims.

26. The risk premium within a non-proportional reinsurance programme is the
- A. expected average costs of claims.
 - B. maximum amount of premium required by reinsurance underwriters.
 - C. minimum amount of premium required by reinsurance underwriters.
 - D. total incurred value of claims on the preceding treaty year.
27. A motor insurer combines both proportional and non-proportional treaties into its reinsurance programme. The programme will **most likely** consist of what types of treaty?
- A. Quota share and excess of loss.
 - B. Quota share and stop loss.
 - C. Surplus and excess of loss.
 - D. Surplus and stop loss.
28. The **main** reason a reinsurer requires material information from an insurer before participating in its reinsurance programme is to
- A. assess the adequacy of its own retrocession arrangements.
 - B. assess the risk.
 - C. file the required information with its regulator.
 - D. seek its retrocessionaire's permission to participate.
29. When an insurer exchanges proportional reinsurance business with another insurer, this is known as
- A. alternative risk transfer.
 - B. reciprocity.
 - C. retrocession.
 - D. vertical placement.
30. The **main** role of an insurer's security committee is to
- A. calculate reinsurance premiums and claims recoveries.
 - B. manage its reinsurers' capital allocation.
 - C. monitor its reinsurers' financial stability.
 - D. monitor reinsurance catastrophe exposure.
31. Common account protection is **usually** achieved by
- A. an insurer purchasing excess of loss cover to protect its own net retention and that of its quota share treaty reinsurer.
 - B. an insurer purchasing quota share cover to protect its own net retention and that of its excess of loss reinsurer.
 - C. a reinsurer co-reinsuring with more than one overseas-based insurer.
 - D. a reinsurer retroceding with more than one professional reinsurance company.

32. When a rating agency gives a reinsurer a high financial strength rating, this indicates that a reinsurer will **most likely**
- A. offer alternatives to conventional reinsurance.
 - B. only underwrite short-tail reinsurance business.
 - C. remain solvent in difficult economic times.
 - D. settle all submitted claims.
33. After negotiations, a reinsurer proposes final terms and rates to an insurer on 1 December. The broker communicates these terms to his client, who informs the broker that they are acceptable on 14 December. The broker communicates the client's agreement to the reinsurer on 16 December. The treaty incepts on the 1 January the following year. On which date is there acceptance for the purposes of forming a legally binding contract?
- A. 1 December.
 - B. 14 December.
 - C. 16 December.
 - D. 1 January.
34. A reinsurance contract contains a claims notification clause which requires that claims exceeding the retention are notified to the reinsurer as soon as possible. If the clause is a condition precedent to liability and the cedant breaches this condition, what remedy is available to the reinsurer?
- A. Avoidance of the policy.
 - B. Damages in respect of any prejudice caused by the breach.
 - C. Denial of the claim.
 - D. Interest on the settlement for the period of the delay.
35. In addition to offer and acceptance, what other elements are required to form a valid reinsurance contract?
- A. Consideration and legality only.
 - B. Consideration and intention to create legal relations only.
 - C. Legality and intention to create legal relations only.
 - D. Consideration, legality and intention to create legal relations.
36. Facultative and treaty reinsurance wordings differ because a facultative wording always
- A. covers one original policy, whereas a treaty wording covers a portfolio of business.
 - B. includes a simultaneous settlement clause, whereas a treaty wording only responds after the insurer has settled a claim.
 - C. provides cover for one class of business, whereas a treaty wording may be reinsuring a number of classes of business.
 - D. provide identical cover to the original insurance policy whereas a treaty wording will always provide cover for a portfolio of business.

37. How does the inclusion of a commutation clause in a reinsurance wording affect the operation of a reinsurance treaty?
- A. At a treaty's inception, a reinsurer may assume liability for all prior outstanding losses in return for a payment from the insurer.
 - B. At the expiry of a treaty period, a reinsurer may transfer its liability for all outstanding losses in return for a payment of a fixed percentage of outstanding losses to the insurer.
 - C. At the expiry of a treaty period, a reinsurer may automatically terminate its liability for all known and future losses in return for a negotiated single payment to the insurer.
 - D. When a treaty period has been expired for a number of years, a reinsurer may terminate its liability for all known and future losses in return for a negotiated single payment to the insurer.
38. What is the effect of a claims series clause in a non-proportional treaty?
- A. All claims from a common cause and any one original insured can be aggregated to calculate the reinsurance loss.
 - B. All claims from one class of business are aggregated to calculate a reinsurance loss.
 - C. All claims must be considered in date of loss order for the purpose of eroding an aggregate deductible.
 - D. All claims must be considered in date of settlement order for the purpose of eroding an aggregate deductible.
39. Which clause allows a cedant to pay an amount equivalent to its outstanding losses to a current year's reinsurer to assume those outstanding losses?
- A. Losses discovered.
 - B. Loss participation.
 - C. Loss portfolio.
 - D. Loss reserve.
40. Why is a reinsurer **most likely** to **exclude** losses arising from some territories under a worldwide reinsurance treaty?
- A. Court settlements lead to uncertainty when quantifying claims costs.
 - B. Currency fluctuations cause variations in premium and claim payments.
 - C. Money laundering restrictions prohibit payments to some territories.
 - D. Making claim payments in the currency of certain territories is prohibited.
41. Compliance with the Sarbanes-Oxley Act (2002) is essential for reinsurers based in which market?
- A. Australia.
 - B. Bermuda.
 - C. London.
 - D. US.

42. In a soft reinsurance market, it may **NOT** be possible to price a non-proportional reinsurance in a way which allows for
- A. administration costs.
 - B. investment income.
 - C. reinsurance taxation.
 - D. underwriting profit.
43. A reinsurer seeking to manage the underwriting cycle should
- A. actively review its portfolio by the application of risk selection techniques.
 - B. allow investment income to determine reinsurance rates.
 - C. gear staff remuneration to business volumes rather than profit.
 - D. maintain long-term relationships and avoid cancelling established business.
44. During a soft market, a reinsurer makes a decision to withdraw its participation on a treaty due to unsustainable premium rates. The **main disadvantage** is that
- A. any claim recoveries that are due to the reinsurer will no longer be payable.
 - B. by withdrawing from a treaty, the reinsurer will automatically lose other profitable business.
 - C. it may prove difficult to participate on the treaty in future when market conditions become more favourable.
 - D. the reinsurer's retrocession programme will become more expensive.
45. A casualty reinsurance underwriter requests information on the aggregated loss potential from environmental liability and products claims. Which type of contract is the reinsurer **most likely** to be considering writing?
- A. Non-proportional facultative.
 - B. Proportional facultative.
 - C. Non-proportional treaty.
 - D. Proportional treaty.
46. The usual method of reinsurance for fidelity guarantee business is
- A. facultative.
 - B. quota share.
 - C. stop loss.
 - D. surplus.
47. A reinsurer concerned about the impact of inflation can minimise its exposure to long-tail liability claims by including
- A. an aggregate extension clause.
 - B. a claims series clause.
 - C. a commutation clause.
 - D. an indexation clause.

48. A space insurer has discovered that a launch manifest has changed resulting in two insured satellites being launched at the same time. As a result the insurer has an unacceptably high per launch exposure. To limit the exposure, the insurer would **most likely** purchase which type of reinsurance?
- A. Facultative.
 - B. Stop loss.
 - C. Excess of loss.
 - D. Quota share.
49. A marine reinsurance underwriter's single largest unit value at risk will **usually** result from which business sub-class?
- A. Cargo.
 - B. Energy.
 - C. Hull.
 - D. Liability.
50. A forest fire causes extensive property damage over a period of 10 days. Construction workers' negligent practices may have been the source of ignition. A multi-line insurer reviews its potential exposures and identifies risks written in its property, motor and liability accounts, which are protected by separate treaties. Which of these treaties, if any, will allow the insurer to determine the start and end dates of the occurrence?
- A. All of the treaties.
 - B. Motor and property only.
 - C. Property only.
 - D. None of the treaties.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 5			Learning Outcome 8		
1	B	1.1	18	A	5.1	36	A	8.1
2	A	1.2	19	B	5.2	37	D	8.2
3	D	1.2	20	C	5.3	38	A	8.2
4	D	1.2	21	C	5.3	39	C	8.2
4 questions			22	C	5.4	40	A	8.3
			23	B	5.5	5 questions		
Learning Outcome 2			24	A	5.6			
5	D	2.1	7 questions			Learning Outcome 9		
6	B	2.2				41	D	9.1
7	A	2.3	Learning Outcome 6			42	D	9.2
3 questions			25	A	6.1	43	A	9.3
			26	A	6.1	44	C	9.3
Learning Outcome 3			27	A	6.2	4 questions		
8	A	3.1	28	B	6.3			
9	B	3.2	29	B	6.4	Learning Outcome 10		
2 questions			30	C	6.5	45	C	10.1
			31	A	6.2	46	A	10.2
Learning Outcome 4			32	C	6.5	47	D	10.3
10	B	4.1	8 questions			48	A	10.4
11	B	4.2				49	B	10.4
12	C	4.3	Learning Outcome 7			50	B	10.5
13	C	4.3	33	C	7.1	6 questions		
14	D	4.4	34	C	7.2			
15	D	4.4	35	D	7.1			
16	C	4.5	3 questions					
17	A	4.6						
8 questions								