

# London Market insurance principles and practices

## Objective

To provide a broader understanding of insurance process and practice across the London Market.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the business nature of the London Market	1
2. Understand the main classes of insurance written in the London Market	3
3. Understand reinsurance within the insurance market	4
4. Understand market security	2
5. Understand the regulatory and legal requirements applicable to the transaction of insurance business	6
6. Understand insurance intermediation in the London Market	6
7. Understand the underwriting function within the context of the London Market	7
8. Understand the way that business is conducted in the London Market	14
9. Understand the purpose, benefits and operation of delegated underwriting	4
10. Know the handling of claims in the London Market	4
11. Understand the main methods of resolving complaints	4
<b>Plus 4 case studies comprising 5 questions each covering any of the learning outcomes</b>	
*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: 55 multiple choice questions (MCQs) and 4 case studies, each comprising 5 MCQs. 2 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2013 until 31 December 2014.
- 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/qualifications](http://www.cii.co.uk/qualifications)
  - 2) Select the appropriate qualification
  - 3) Select your unit on the right hand side of the page

## **1. Understand the business nature of the London Market**

- 1.1 Examine and explain the principal parties within the London Market and their relationships with each other and their clients

## **2. Understand the main classes of insurance written in the London Market**

- 2.1 Explain why international and domestic clients seek insurance in the London Market
- 2.2 Examine and explain the main classes of insurance written in the London Market; and the significant features of cover given under these
- 2.3 Describe the losses and liabilities which may give rise to claims under each of the main classes of risk written for the London Market

## **3. Understand reinsurance within the insurance market**

- 3.1 Explain why international and domestic insurers seek reinsurance in the London Market
- 3.2 Examine methods of reinsurance; treaty and facultative; proportional and non-proportional
- 3.3 Describe the differences between the various methods of reinsurance
- 3.4 Calculate amounts ceded to re-insurers and claims recoverable

## **4. Understand market security**

- 4.1 Explain the basic components of an insurer's solvency margin calculation
- 4.2 Explain the role of Rating Agencies

## **5. Understand the regulatory and legal requirements applicable to the transaction of insurance business**

- 5.1 Describe the reasons for compulsory insurance and the types of insurance that are compulsory in the UK
- 5.2 Explain the legal significance of quotations and renewals
- 5.3 Explain the impact of the Unfair Terms in Consumer Contract Regulations 1999 and the Contracts (Rights of Third Parties) Act 1999 in relation to insurance contracts
- 5.4 Outline the EU solvency requirements for insurers and industry regulator risk-based capital requirements
- 5.5 Explain the purpose and calculate the rates of UK Insurance Premium Tax

## **6. Understand insurance intermediation in the London Market**

- 6.1 Define the different categories of UK and international intermediaries and the services they provide
- 6.2 Define and explain the roles of the various types of brokers within the London Market
- 6.3 Describe the purpose and function of a generic Terms of Business Agreement (TOBA)
- 6.4 Explain broking remuneration including commissions and fees
- 6.5 Describe the basic features of the law of agency
- 6.6 Define the main EU and UK legislative provisions applicable to insurance intermediaries

## **7. Understand the underwriting function within the context of the London Market**

- 7.1 Explain how underwriting is conducted in London as opposed to elsewhere
- 7.2 Explain the relationship between London Market brokers and underwriters
- 7.3 Explain lead and follow underwriters within the context of the subscription market
- 7.4 Describe the causes and effects of the market cycle
- 7.5 Explain the concept of loss and exposure modelling
- 7.6 Explain what is meant by reserving and why it is necessary to make provision for outstanding liabilities
- 7.7 Explain the terms 'open years management' and 'reinsurance to close' within the Lloyd's Market

## **8. Understand the way that business is conducted in the London Market**

- 8.1 Describe the purpose of the proposal form and explain the information contained within
- 8.2 Describe the duty of disclosure and the principle of utmost good faith
- 8.3 Describe the consequences of the non disclosure or misrepresentation of material facts
- 8.4 Explain the legal principles essential to a valid contract
- 8.5 Explain the purpose and content of the Market Reform Contract
- 8.6 Explain the placing process for open Market Reform Contracts/slips and electronic Market Reforms Contracts/slips
- 8.7 Explain the operation of the General Underwriters' Agreement
- 8.8 Explain how an underwriter will know they are on risk
- 8.9 Identify and explain the various sections of an insurance policy
- 8.10 Explain the purpose and effect of warranties, conditions and exclusions
- 8.11 Explain what is meant by the term 'contract certainty'

- 8.12 Explain the role of the insurer and that of the broker in the collection and processing of premiums
- 8.13 Describe how contracts of insurance can be terminated
- 8.14 Explain how conflicts of interest may arise and how they may be managed

## 9. Understand the purpose, benefits and operation of delegated underwriting

- 9.1 Examine and explain the purpose of delegated underwriting/binding authorities
- 9.2 Explain the benefits and operation of delegated underwriting/binding authorities
- 9.3 Explain the controls that Lloyd's has placed on delegated underwriting/binding authorities
- 9.4 Explain the operation of Line Slips and Consortium Underwriting

## 10. Know the handling of claims in the London Market

- 10.1 Explain the role and responsibilities of insurers and brokers in the processing of claims
- 10.2 Explain the roles of loss adjusters, surveyors and average adjusters
- 10.3 Explain the application of indemnity, subrogation, contribution and proximate cause principles
- 10.4 Explain the application of excesses and exclusions

## 11. Understand the main methods of resolving complaints

- 11.1 Examine and describe the Statements of Principle and Code of Practice for all persons approved by the industry regulator
- 11.2 Describe the industry regulator's requirements in terms of claims handling
- 11.3 Describe the services provided by the Financial Ombudsman
- 11.4 Explain the main requirements of the Financial Services Compensation Scheme

## 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 Knowledge Services. CII study texts can be consulted from within the library. For further information on the lending service, please go to [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge).

## CII study text

London Market Insurance Principles and Practices. London: CII. Study text LM2.

## Additional reading

### Books (and ebooks)

Insurance theory and practice. Rob Thoys. Abingon, Oxon: Routledge, 2010. Also available as an ebook via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance Society members only).

### Reference materials

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004. Also available online at [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance Society members only).

### Periodicals

The Journal. London: CII. Six issues a year. Also available online (CII/Personal Finance Society members only) at [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge).

Post Magazine. London: Incisive Financial Publishing. Weekly.

Market Magazine. Lloyd's of London. Quarterly.

## Examination guide

An examination guide, which includes a specimen paper, is available to purchase via [www.cii.co.uk](http://www.cii.co.uk).

If you have a current study text enrolment the specimen paper is included, as a mock test, via Revisionmate ([www.revisionmate.com](http://www.revisionmate.com)). Details on how to access this resource are on the first page of the study text.

## 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/knowledge/iilrevision](http://www.cii.co.uk/knowledge/iilrevision) (CII/Personal Finance Society members only).