

London Market underwriting

Objective: To develop in the candidate:

- a thorough understanding of the process of underwriting internationally based insurance and reinsurance exposures;
- a thorough understanding of the regulatory and legal environment in which such business is underwritten;
- a thorough understanding of risk management as it applies to the underwriting and management of business written in the London Market;
- the ability to apply learned principles to the writing of business in the London Market;
- the ability to apply knowledge and skills to practical situations;
- the ability to synthesise different aspects of the syllabus and apply them to given scenarios.

Assumed knowledge and application skills:

Assumed knowledge may not appear in the course text but forms part of the syllabus and thus may be examined. It underpins the specific content of this syllabus and candidates will find that, without a thorough grasp of it, their ability to understand the issues fully will be limited. Where it is directly relevant to an examination question, candidates will be expected to include it within their answers.

- It is assumed that the candidate has a thorough understanding of the following principles of insurance, since this syllabus is concerned with their application to underwriting risks: insurable interest; utmost good faith; indemnity; subrogation; risk transfer; average; contribution; consideration.
- It is assumed that the candidate has a thorough understanding of the basics of contract law, including but not limited to: contract formation; warranties; conditions; waiver affirmation; estoppel.

Method of assessment: See page 7 in the 2005 Advanced Diploma in Insurance 'Information for candidates' brochure.

Notes:

This syllabus draws on and pulls together many of the fundamentals of insurance covered by other CII units. Candidates are therefore advised to have studied and passed the following units prior to commencing study of this course:

- 510 Risk, regulation and capital adequacy;
- P05 Insurance law or 520 Company and contract law or P03 Legal aspects of insurance;
- 530 Business and economics;
- 785 Principles of reinsurance;
- 815 Underwriting management.
- The syllabus will be based on UK and EU law and practice.
- The April session will test the legal position as of 31st August of the preceding year.
- The October session will test the legal position as of 28th February of the same year.

1. The London and global insurance and reinsurance markets

1.1 The London, global insurance and reinsurance markets

Candidates should be able to

- *describe* the organisation, structure and operation of the London and global insurance and reinsurance markets.

1.2 London Market insurance and reinsurance underwriting

Candidates should be able to

- *state* the main features of London Market insurance and reinsurance underwriting;
- *consider* the roles and responsibilities of and between leading and following underwriters;
- *describe* the structure of a leading underwriter's agreement.

1.3 Licensing, legal and regulatory issues relating to the London Market

Candidates should be able to

- *explain* the FSA definition of the underwriting function;
- *describe* the FSA requirements for insurers and reinsurers regarding the organisation and control of underwriting and risk management, and *consider* the implications of these requirements for the London Market;
- *discuss* the requirements of a London Market insurer wishing to be licensed to underwrite business in the international marketplace;
- *explain* the regulatory issues applicable to an overseas insurer operating in the London Market;
- *discuss* the differences between 'establishment' and cross-border 'services' insurance provision;
- *discuss* the legal and policy content requirements resulting from transacting international insurance;
- *discuss* the importance of insurers' and reinsurers' capitalisation and solvency requirements and *explore* the issues surrounding capitalisation and solvency;
- *discuss* the issues regarding insurer solvency that need to be taken into account in the placing of risks.

1.4 International Accounting Standards

Candidates should be able to

- *state* the main provisions of the IAS and their implications for insurers in the global marketplace;
- *discuss* the effects of the IAS on the business being written.

1.5 Personal responsibility

Candidates should be able to

- *discuss* the responsibilities that fall upon individual underwriters as a result of transacting international business, e.g. Money Laundering regulations, Office of Foreign Assets Control;
- *evaluate* what individuals must do to be compliant with current legislation.

2. Underwriting systems and controls

2.1 Operational risks

Candidates should be able to

- *analyse* and *evaluate* operational risks associated with the underwriting process.

2.2 Accountability and responsibility

Candidates should be able to

- *discuss* the importance of mechanisms for monitoring accountability and responsibility.

2.3 Underwriting of risks and risk mitigation

Candidates should be able to

- *analyse* and *evaluate* risk mitigation techniques and key influences on the underwriting of risks.

2.4 Business planning

Candidates should be able to

- *evaluate* the importance of strategic and annual business planning to the monitoring and control of underwriting.

2.5 The key underwriting people

Candidates should be able to

- *discuss* the role and functions of the underwriting committee;
- *consider* the role, responsibilities, skills and terms of reference of the underwriting director;
- *consider* the role, functions and responsibilities of class underwriters;
- *describe* the purpose, membership and format of peer reviews of underwriting.

3. Placing business in the London Market

3.1 The placing process

Candidates should be able to

- *discuss* the interaction of the broker and underwriter in the London Market and *describe* how a contract is concluded;
- *describe* the respective roles of the retail and wholesale broker;
- *discuss* the centralised policy signing and premium and claims settlement functions that support the London Market.

3.2 London Market Principles (LMP) slip

Candidates should be able to

- *describe* the principles, benefits and recommendations for best practice of the LMP slip;
- *discuss* the structure and purpose of each section of the LMP slip;

- *discuss* the implications for the underwriting process of each section of the LMP slip.

3.3 Market agreements

Candidates should be able to

- *discuss* the role and function of the lead and following underwriters in market agreements, such as the General Underwriting Agreement;
- *discuss* the role and functions of the lead and following underwriters in market agreements, such as class with respect to claims management and settlement;
- *describe* the reasons for and purposes of market agreements together with the legal implications of such agreements for insurers.

3.4 Third party service providers

Candidates should be able to

- *identify* and *discuss* the roles of international surveyors and loss adjusters, run-off agents and third party claims administrators;
- *understand* the considerations involved in appointing such third party suppliers including the legal implications for insurers.

3.5 Delegated underwriting authorities

Candidates should be able to

- *analyse* the purpose, operation and management of delegated underwriting authorities.

3.6 Binding authorities

Candidates should be able to

- *describe* the authorisation and registration of binding authorities, including Lloyd's and the company market registration procedures;
- *discuss* the operation of binding authorities;
- *discuss* and *analyse* the auditing of binding authorities.

4. Principles and practice of pricing

4.1 Key underwriting factors

Candidates should be able to

- *discuss* the key factors involved in risk evaluation which lead to underwriting decisions in the London Market.

4.2 Core underwriting decisions

Candidates should be able to

- *describe* and *evaluate* core underwriting decisions in the pricing and acquisition of risk.

4.3 Risk pricing

Candidates should be able to

- *analyse* and *discuss* the factors determining economic price, including:
 - benchmarking – internal and external;
 - technical rating techniques;
 - industry statistics;
 - the role of the actuary in the pricing process.

4.4 First loss and excess of loss underwriting

Candidates should be able to

- *discuss* the principles behind and *explain* the use of first loss rating scales;
- *explain* why and how different scales may be suitable for different types of business;
- *discuss* the advantages and disadvantages of first loss underwriting.

4.5 Rating models

Candidates should be able to

- *discuss* and *evaluate* exposure based rating models;
- *discuss* and *evaluate* experience based rating models;
- *discuss* factors in the selection of an appropriate rating model.

4.6 Practical pricing considerations

Candidates should be able to

- *analyse* and *discuss* practical pricing considerations.

5. Retention and reinsurance strategies

5.1 Definition of insurer's retention

Candidates should be able to

- *define* what is meant by an insurer's retention;
- *analyse* and *discuss* factors influencing an insurer's retention levels;
- *analyse* and *discuss* the key factors influencing the retention decision;
- *evaluate* and *discuss* techniques to aid the setting of retention levels;
- *evaluate* and *discuss* other forms of risk retention;
- *consider* reasons for increasing retentions;
- *consider* reasons for reducing retentions.

5.2 Outwards and inwards reinsurance

Candidates should be able to

- *define* outwards and inwards reinsurance;
- *discuss* the reasons for purchasing reinsurance.

5.3 Reinsurance selection

Candidates should be able to

- *discuss* the types of reinsurance available and typical usage in the London Market;
- *evaluate* the most appropriate type of reinsurance for a given set of circumstances.

5.4 Reinsurance programme management

Candidates should be able to

- *discuss* the role and importance of the following in the management of reinsurance programmes:
 - role of the reinsurance security committee in the selection of the reinsurer;
 - commutation of reinsurance recoveries;
 - reinsurance disaster scenarios;
 - preparation of a reinsurance risk profile.

6. Reserving Practice

6.1 IBNR

Candidates should be able to

- *explain* the organisation of historic data and use of triangulations to estimate IBNR and other values.

6.2 Methods of reserving

Candidates should be able to

- *discuss* the use of the chain-ladder and Bornheutter-Ferguson methods in the calculation of ultimate loss ratios;
- *explain* the use of stochastic reserving methods.

6.3 Actuarial review

Candidates should be able to

- *explain* the methodology of actuarial review and *relate* the figures produced to recent trends in loss ratio and pricing;
- *provide* reasons for differences between an individual portfolio and market figures;
- *explain* the importance of over and under estimation of IBNR to the profit & loss and balance sheet of the underwriting entity.

7. Managing exposure

7.1 Probable Maximum Loss (PML)

Candidates should be able to

- *define* Probable Maximum Loss (PML) and *assess* the factors to be taken into account in its calculation;
- *discuss* its use as a control mechanism;
- *discuss* the role of the risk surveyor in PML assessment;
- *assess* the impact of calculating a PML for a risk to which a PML has already been applied.

7.2 Exposure

Candidates should be able to

- *state* the effects of not assessing exposure considerations;
- *consider* exposure estimates at risk and portfolio level;
- *consider* the impact of limited exposure on these estimates.

7.3 Market assumptions

Candidates should be able to

- *give* reasons for the importance of testing market assumptions.

7.4 PMLs and inwards reinsurance

Candidates should be able to

- *describe* the reinsurance of a direct portfolio;
- *describe* the reinsurance of reinsurance business.

8. Measuring and monitoring performance

8.1 Management information

Candidates should be able to

- *outline* the uses of management information.

8.2 Business plans and monitoring

Candidates should be able to

- *describe* the different types and construction of business plans;
- *discuss* the comparison of the business plan to actual results; including the methods of monitoring the development of the underwriting results.

8.3 Loss ratios and profitability

Candidates should be able to

- *describe* the types of loss ratio commonly used in the London Market;
- *describe* the different ways in which profit and financial performance can be measured.

8.4 Benchmarking

Candidates should be able to

- *explain* how to construct a price monitoring index for a portfolio;

- *compare* an individual portfolio with comparable market information.

Reading list

The following list provides details of various publications which may assist with your studies. The primary text for this syllabus is shown in bold type. Periodicals and publications listed as additional reading will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. The 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.

Most of these additional study materials can be borrowed or purchased from CII Information Services at www.cii.co.uk/is

Primary text

London Market Underwriting. London: The CII. Coursebook 955.

Additional reading

The London insurance market: sustaining the return to profitability: operational drivers in the London market: a survey of insurers. London: PricewaterhouseCoopers, c2003. Available online at www.pwcglobal.com/images/gx/eng/fs/insu/londoninsumarket03.pdf

Managing risk: practical lessons from recent 'failures' of EU insurers. William McDonnell. London: Financial Services Authority, c2002.

Reinsurance for the beginner. R. Philippe Bellerose. 5th ed. London: Witherby, 2003.

Reinsurance: London market practice. Practical Insurance Guidelines. Carol Boland. LLP. Jan 2000.

World @ Risk: London's global insurance market. Newsdesk communications.

The London market in the throes of change. Zurich: Swiss Re, 2002. (Sigma; 2002 no 3.) Available in print and online at www.swissre.com (select 'Research & publications' then 'Sigma insurance research').

Reinsurance in Practice. R Kiln. 3rd edition. London: Witherby, 1991.

Alternative risk transfer. David Kaye. London. CII Information Services. Updates necessary. Available online at www.cii.co.uk/is/factfiles (CII members only).

Integrated risk management. David Kaye. London. CII Information Services. Updated as necessary. Available online at www.cii.co.uk/is/factfiles (CII members only).

Reference works

Code for managing agents: managing and controlling binding authorities. London: Lloyd's, 2000.

Dictionary of insurance. C. Bennett. London: Pitman, 1992.

A reinsurance manual of the non-life branches. 4th ed. (rev.). Zurich: Swiss Reinsurance Company, 1986.

Windstorms Lothar and Martin, December 26-28, 1999. Menlo Park [California]: Risk Management Solutions, c2000. On-line document. www.rms.com/Publications/lothar_martin_eventreport.asp

Websites

www.iua.co.uk/

www.swissre.com/

This website contains an extensive range of technical publications covering many issues of relevance to the London Market.

www.lloyds.com/index.asp

www.cii.co.uk/is

www.munichre.com/

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 020 8989 8464.

Exam technique/study skills

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

The exam secret: how to make the grade. Barbara Brown. Tadworth, Surrey: Elliott Right Way Books, 2000.

For a more interactive approach, you should consider:

Winning the brain game. London: The CII, 1996. CD Rom.