



Chartered
Insurance
Institute

LM2

Certificate in London Market Insurance

Unit 2 – London Market insurance principles and practices

Based on the 2021 syllabus
examined from 1 January 2021 to 31 December 2021

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Unit 2 – London Market insurance principles and practices

Based on the 2021 syllabus examined from 1 January 2021 to 31 December 2021

Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the LM2 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves two hours 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.

Although the specimen examination in this guide is typical of a LM2 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 LM2 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/learning/qualifications/unit-london-market-insurance-principles-and-practices-lm2/
- 2) Select 'exam guide update' 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 LM2 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 LM2 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 understand the subject matter. Each learning outcome begins with understand. Questions set on an understanding learning outcome can test either knowledge or understanding or both.

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.

Understand - To answer questions based on understanding, the candidate 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 LM2 examination is 55 multiple choice questions (MCQs) and 4 case studies, each comprising 5 MCQs. 2 hours are allowed for this examination.

The LM2 syllabus provided in this examination guide will be examined from 1 January 2021 to 31 December 2021.

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.

Section A consists of 55 multiple choice questions. A standard format 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 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.

Section B contains four case studies each followed by five questions. Four options follow each question. The options are labelled A, B, C and D. Only one of these options will be correct or best. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate chooses either an incorrect response, more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

While no questions involve complex calculations, candidates are permitted to use calculators during the examination. 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.

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
12. Plus 4 case studies comprising 5 questions each covering any of the learning outcomes	

* 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 January 2021 until 31 December 2021.
- 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
 2. Select the appropriate qualification
 3. Select your unit from the list provided
 4. Select qualification update 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 the importance of the London Market and why clients may decide to place their business within this market.

2.2 Examine and explain the main classes of insurance written in the London Market; and describe the losses and liabilities which may give rise to claims under each of the main classes.

3. Understand reinsurance within the insurance market.

3.1 Examine methods of reinsurance; treaty and facultative; proportional and non-proportional and the differences between them.

3.2 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 Lloyd's chain of security.

4.3 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 impact of the Consumer Rights Act 2015 in relation to insurance contracts.

5.3 Explain the impact of 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 the modelling and management of exposures and losses.

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 documents used to present risks to insurers.

8.2 Explain the legal significance of quotations and renewals.

8.3 Describe the duty of fair presentation and the principle of good faith and the consequences of non compliance.

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 and electronic Market Reform Contracts.

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 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 controls that Lloyd's has placed on delegated underwriting/binding authorities.

9.3 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 claims personnel.
- 10.3 Explain the application of indemnity, subrogation, contribution, proximate cause principles, excesses and exclusions.

11. Understand the main methods of resolving complaints.

- 11.1 Examine and describe the Financial Conduct Authority and Prudential Regulation Authority's regulation of individuals within firms.
- 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 further reading 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 resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII study texts

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

Books (and ebooks)

Bird's modern insurance law. 10th ed. John Birds. Sweet and Maxwell, 2016.

Insurance theory and practice. Rob Thoitys. Routledge, 2010.*

Lloyd's: law and practice. 2nd ed. Julian Burling. Oxon: Informa Law, 2017.*

Periodicals

The Journal. London: CII. Six issues a year. Archive available online at <https://www.thepfs.org/search-results/?q=the+journal> (CII/PFS members only).

Post magazine. London: Incisive Financial Publishing. Monthly. Contents searchable online at www.postonline.co.uk.

Market magazine. Lloyd's of London. Quarterly.

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.

Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (www.revisionmate.com). Details of how to access Revisionmate are on the first page of your study text.

It is recommended that you only study from the most recent version of the examination guide.

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

SECTION A

1. The managing agent's **principal** role within the London Market is to
 - A. employ the staff and oversee all the activities of the Lloyd's syndicate.
 - B. introduce purchasers of insurance to the Lloyd's syndicate.
 - C. provide the administration for a number of captive insurers.
 - D. supervise and manage the activities of the Lloyd's market.

2. Which class of insurance would indemnify an insured in respect of the confiscation and expropriation of their assets by a foreign government?
 - A. Business interruption.
 - B. Financial guarantee.
 - C. Political risks.
 - D. War.

3. A client may specifically want insurance to be placed in the London Market in preference to the domestic insurance market because London Market insurers
 - A. always quote lower insurance premium rates.
 - B. are able to accept complex risks which are difficult to place elsewhere.
 - C. have the highest security ratings.
 - D. will always accept 100% of the risk.

4. What type of insurance would indemnify a concert promoter for the cost of refunding tickets if the concert is cancelled due to reasons outside of his control?
 - A. Business interruption.
 - B. Contingency.
 - C. Contract frustration.
 - D. Loss of earnings.

5. Which type of insurance is usually bought and sold in layers?
 - A. Excess of loss.
 - B. Quota share.
 - C. Surplus.
 - D. Facultative obligatory.

6. An insurer has a **maximum** line of \$100,000 on any one risk and decides to buy a four-line surplus reinsurance. If a risk has a sum insured of \$400,000, what percentage of the risk is ceded to reinsurers?
 - A. 20%
 - B. 25%
 - C. 75%
 - D. 100%

-
7. For the purposes of calculating its solvency margin, an insurer's liabilities will include
- A. claims reserves only.
 - B. premiums only.
 - C. paid and unpaid claims and operating costs.
 - D. premium and investment income.
8. Where would an intermediary **usually** look for information to compare the financial security of various insurers?
- A. Association of British Insurers.
 - B. International Underwriters' Association.
 - C. Lloyd's.
 - D. Rating agencies.
9. The final link of the Lloyd's chain of security is funded by
- A. Her Majesty's Treasury.
 - B. premium held in trust funds.
 - C. a percentage of gross written premium written in the Lloyd's market.
 - D. members' funds deposited at Lloyd's.
10. How, if at all, can an insurer legally minimise its liability under the provisions of The Contracts (Rights of Third Parties) Act 1999?
- A. An insurer cannot minimise its liability under the Act.
 - B. An insurer must have a minimum sublimit of £100,000 within each policy for third parties.
 - C. An insurer can opt out of the Act.
 - D. An insurer must have a minimum sublimit of £250,000 within each policy for third parties.
11. What type of insurance **must** a riding school have to indemnify them against the risk of a person sustaining injuries during the course of a riding lesson they have paid for?
- A. Bloodstock.
 - B. Contingency.
 - C. Personal accident.
 - D. Public liability.
12. Employers' liability insurance protects the employer in the event that an employee
- A. negligently damages any of the employer's vehicles.
 - B. is injured at work due to the negligence of the employer and sues for compensation.
 - C. steals items from the premises.
 - D. sues for wrongful dismissal.

13. An insurer sells a property insurance policy, with an inception date of 1 October 2020, to a US company, for its UK based operations, with an annual gross premium of £100,000. How much UK Insurance Premium Tax, if any, will the insured be obliged to pay?
- A. Nil.
 - B. £5,000
 - C. £12,000
 - D. £20,000
14. The third pillar of the EU's Solvency II Directive is **mainly** concerned with
- A. disclosure.
 - B. mandatory financial rating by an independent rating agency.
 - C. quantitative requirements.
 - D. supervisory review.
15. In relation to insurance contracts what is the **main** benefit to consumers of the Consumer Rights Act 2015?
- A. The creation of the Financial Ombudsman Service.
 - B. The creation of the Financial Services Compensation Scheme.
 - C. That unfair terms in consumer contracts are not binding on consumers.
 - D. It enables third party consumers to legally enforce the terms of a consumer contract.
16. A reinsurance broker **usually** places treaty reinsurance business on behalf of
- A. a coverholder.
 - B. an insurer.
 - C. a producing broker.
 - D. a wholesale broker.
17. What type of intermediary **must usually** be included in the intermediary chain when a US insurance is being placed with a non-admitted Lloyd's syndicate?
- A. Independent intermediary.
 - B. Multi-tied agent.
 - C. Single tied agent.
 - D. Surplus line broker.
18. Under Client Assets Rules (CASS) it is **normally** expected that client money will be paid to clients how many business days after receipt by the broker?
- A. One day.
 - B. Two days.
 - C. Three days.
 - D. Five days.

19. When insurance intermediaries are remunerated by commission, this is **most often** expressed as a
- A. fixed monetary amount agreed by the insured.
 - B. fixed monetary amount agreed by the insurer.
 - C. percentage of the gross premium paid only.
 - D. percentage of the gross premium paid including Insurance Premium Tax.
20. The document that provides the framework for the commercial relationship between insurer and intermediary, and sets out the rights and responsibilities of each, is known as the
- A. Compliance manual.
 - B. Insurance: Conduct of Business sourcebook (ICOBS).
 - C. Market Reform Contract.
 - D. Terms of Business Agreement.
21. An intermediary acts outside his agreed authority, however his principal stands by the action. This is known as agency by
- A. agreement.
 - B. consent.
 - C. necessity.
 - D. ratification.
22. What is the **main** purpose of a broker's security committee?
- A. To approve underwriters that business can be placed with.
 - B. To monitor that premiums and claims are paid promptly.
 - C. To arrange premium finance on behalf of policyholders.
 - D. To ensure that complaints are handled correctly.
23. Loss and exposure modelling is **most frequently** used to assess the risks resulting from
- A. financial institution crime and fraud.
 - B. the financial stability of possible reinsurers.
 - C. industrial disease liabilities such as asbestosis and mesothelioma.
 - D. natural catastrophes such as hurricanes and earthquakes.
24. Reserving is the process by which insurers allocate funds to cover future liabilities in respect of
- A. claims.
 - B. fraud.
 - C. operating costs.
 - D. reinsurance costs.

25. For the purposes of Lloyd's open years management, on which date does each new accounting year **usually** begin?
- A. 1 January.
 - B. 6 April.
 - C. 1 July.
 - D. 1 October.
26. The operation of the London Market differs from elsewhere in the UK when underwriting large global risks because
- A. only overseas risks can be written in the London Market.
 - B. risks are always written by one insurer.
 - C. risks are often shared on a subscription basis.
 - D. writing risks in the London Market is always more tax efficient.
27. A commercial property portfolio is placed with a Lloyd's syndicate by a wholesale broker. The risk emanates from an overseas retail broker. What relationship, if any, exists between the Lloyd's syndicate and the retail broker?
- A. None.
 - B. Agent.
 - C. Coverholder.
 - D. Sub-broker.
28. An increase in London Market capacity would **normally** indicate that its insurance providers are
- A. experiencing lower levels of competition.
 - B. experiencing improved underwriting profits.
 - C. facing escalating reinsurance costs.
 - D. subject to more stringent solvency requirements.
29. What is the **minimum** share, if any, that a lead underwriter **must** accept on a risk?
- A. There is no minimum.
 - B. There is no minimum, but it must have the largest share.
 - C. More than 25%.
 - D. More than 50%.
30. Under contract law, how long will an insurance quotation remain valid when a date is **NOT** specified by the underwriter?
- A. Until midnight the following day.
 - B. 7 days.
 - C. 30 days.
 - D. For a reasonable time.

31. Six months after inception, a broker discovers that two conditions within the same Market Reform Contract contradict each other. What principle does this breach?
- A. Contract certainty.
 - B. The European Federation of Insurance Intermediaries (BIPAR) principles.
 - C. The Financial Conduct Authority Statements of Principle.
 - D. General Underwriters' Agreement.
32. When an intermediary only has an order to place 75% of the insurance contract, where in the Market Reform Contract will the order be stated?
- A. The broker remuneration and deductions.
 - B. The risk details.
 - C. The security details.
 - D. The subscription agreement.
33. Who does a Lloyd's managing agent **usually** employ to process the individual premium transactions and transfer funds to the syndicate's bank account?
- A. An accountant.
 - B. A cashier.
 - C. Lloyd's Market Association.
 - D. Xchanging Ins-sure Services.
34. In what circumstances should an insured terminate his insurance policy?
- A. Immediately after a claim has been settled in full.
 - B. When he no longer has an insurable interest in the subject matter of the insurance.
 - C. When he wants to obtain an alternative quote from another insurer.
 - D. When the sum insured is less than the value of property being insured.
35. For a non-consumer insurance contract, a declaration that all relevant information has been disclosed to insurers will **normally** be included in
- A. a Market Reform Contract.
 - B. a policy schedule.
 - C. a proposal form.
 - D. an underwriter's quote.
36. A non-consumer insurance contract has an annual premium of £10,000. The insurer discovers that the policyholder deliberately breached their duty of fair presentation to the insurer and they avoid the policy from inception. How much premium, if any, is the insurer legally required to return to the policyholder?
- A. Nil.
 - B. £2,500
 - C. £7,500
 - D. £10,000

37. In entering into an insurance contract, the insured's element of consideration is **most likely** to be
- A. evidence that the insured has the legal capacity to enter into a contract.
 - B. the premium or the promise to pay the premium.
 - C. a signed declaration that all known relevant information has been declared.
 - D. the submission of a complete claims history.
38. A non-consumer insurance contract has a warranty that the fire alarm must be kept in full working order and operational during the entire period of insurance. If this warranty is breached for the entire period of insurance which type of claim, if any, would the insurer legally be able to decline?
- A. None.
 - B. All types of claim arising from an insured peril.
 - C. All fire losses irrespective of whether the fire alarms would have prevented the resulting damage.
 - D. Fire losses that would have been prevented or mitigated had the warranty not been breached.
39. Johnny is handling a property claim in respect of a fire in a warehouse. The insurer starts recovery proceedings against the building contractors who are thought to be responsible for starting the fire. Johnny then discovers that the insurer also insures the building contractors for legal liability. What action **must** Johnny take in respect of the conflict of interest?
- A. Abandon the subrogation action against the contractors.
 - B. Declare the conflict of interest and pass the liability claim to another claims handler for review.
 - C. Instruct the same solicitor to review both claims and advise on the appropriate course of action.
 - D. Review the line size and excess on each policy to determine against which policyholder it would be most advantageous for the insurer to allocate the claim.
40. The General Underwriters' Agreement is an agreement between subscribing underwriters on a particular contract relating to delegated authority for
- A. automatic renewals.
 - B. binding authorities.
 - C. claim agreements.
 - D. post placement alterations.
41. When placing a large risk at Lloyd's, an insurance broker will initially present the Market Reform Contract to
- A. the Lloyd's managing agent.
 - B. the Lloyd's members' agent.
 - C. the underwriter.
 - D. Xchanging Ins-sure Services.

42. What section of an insurance policy contains express obligations on the policyholder?
- A. conditions.
 - B. general exclusions.
 - C. operative clause.
 - D. recital clause.
43. An underwriter is **usually** considered on risk at the
- A. date the line is put down.
 - B. firm order advice date.
 - C. inception date of the policy.
 - D. signed line advice date.
44. What is the **main** administrative benefit of brokers of a bulking line slip compared to a non-bulking one?
- A. Brokers can quote and bind risks without referral to an underwriter.
 - B. Full claims authority is always granted to the broker.
 - C. The premium for risks is aggregated for presentation and settlement to underwriters.
 - D. Underwriters are always responsible for the administration of a bulking line slip.
45. A broker is given underwriting authority by
- A. a consortium
 - B. a lineslip
 - C. a binding authority.
 - D. an open market contract.
46. What is the **principal** way a managing agent regularly checks that all aspects of a binding authority are operating effectively?
- A. Asking the Financial Conduct Authority to make regular visits to the coverholder.
 - B. Monitoring complaints made against the coverholder.
 - C. Obtaining a signed declaration from the coverholder stating that the binding authority terms and conditions are being complied with.
 - D. Organising audits of the coverholder.
47. The **main** benefit to an insurer of entering into a delegated authority arrangement with an agent for a new class of insurance is that it will
- A. allow the insurer to reduce any claims costs.
 - B. give the insurer access to new business whilst minimising the costs of doing this.
 - C. shift all regulatory responsibilities for the new class of business to the agent.
 - D. transfer the insurer's liability to collect Insurance Premium Tax to the agent.

48. An insured has an insurance policy with an excess of £125 in respect of each claim. If a valid claim of £700 from ground up is submitted, what **maximum** amount would the insured receive in settlement?
- A. £125
 - B. £575
 - C. £700
 - D. £825
49. An insured wishes to submit a claim under a policy which its broker has placed with Lloyd's underwriters. Who should the insured **initially** contact with details of the claim?
- A. The broker.
 - B. The slip leader only.
 - C. The slip leader and following underwriter.
 - D. Xchanging Claims Services.
50. An average adjuster is involved during which stage of the insurance business process?
- A. Calculating the premium.
 - B. Claims handling.
 - C. Exposure modelling.
 - D. Loss modelling.
51. An insurer has been notified of a valid claim for damage under a property policy, but believes that a contractor on the premises at the time may have been partially responsible for the damage. What action is the insurer likely to take?
- A. Pay the claim and then seek a recovery in the policyholder's name from the contractor.
 - B. Reduce the amount it pays for the claim by an amount it estimates represents the contractor's responsibility.
 - C. Refuse to pay the claim and suggest the policyholder sues the contractor.
 - D. Seek a contribution from the contractor's insurer before deciding how much to pay the policyholder.
52. The necessity for a Lloyd's syndicate **NOT** to unreasonably reject a claim is a requirement of the
- A. Council of Lloyd's.
 - B. Financial Conduct Authority.
 - C. Lloyd's Market Association.
 - D. Xchanging Claims Services.
53. Under the Senior Managers and Certification Regime which document sets out the areas for which each senior manager is personally accountable?
- A. Fitness and propriety certificate.
 - B. Rules of Conduct.
 - C. Statement of responsibilities.
 - D. Terms of Business Agreement.

54. To what extent, if at all, will a decision made by the Financial Ombudsman Service to award an amount of £75,000 to a policyholder be binding on both parties to an insurance dispute?
- A. It will not be binding on either party.
 - B. It will be binding on the insurer only.
 - C. It will be binding on the policyholder only.
 - D. It will be binding on both parties.
55. A small business policyholder may be eligible to compensation from the Financial Services Compensation Scheme if its insurer
- A. decides to pay only a proportion of its claim because of unintentional underinsurance by the policyholder.
 - B. has imposed a policy excess of more than £10,000.
 - C. is unable to meet its claim because it is in liquidation or under administration.
 - D. refuses to pay its claim because it considers the policyholder to have breached a policy condition.

Section B begins on the next page

SECTION B

James is told by his executive director, Stuart, that a shipowning client requires insurance on his fleet of container ships.

Christopher, a Lloyd's underwriter, produces terms and writes a line of 25%. Two more Lloyd's syndicates write 10% each and the remainder is written in the company market. There is a deductible of \$100,000 for each vessel and the insurance is subject to the institute time clauses.

The oldest ship in the fleet, insured for \$10,000,000, leaves the port in a storm by order of Captain Jenkins. A few days after the storm the ship encounters a hurricane; the containers become unsteady and eventually the vessel capsizes and sinks, but Captain Jenkins and his crew take to the lifeboats.

Captain Jenkins is attacked and seized by pirates and there is a demand of \$1,000,000 for his release.

Just before renewal another of the insured's container ships, insured for hull and machinery for \$20,000,000, collides with a small tanker in the Gulf. Two containers are lost. A further container is jettisoned to save the ship from sinking. After investigation the tanker is found to be 25% liable for the collision. Both vessels are insured for 3/4 collision liability with hull underwriters and for 1/4 with protection and indemnity clubs.

The lead underwriter is advised of the matter and in respect of the hull and machinery loss, appoints John to attend on his behalf. Another expert, Philip, is appointed to calculate the value of each saved interest to each interested party.

56. Which type of insurance policy would respond to the demand of \$1,000,000?
- A. Directors' and officers' liability insurance policy.
 - B. Employers' liability insurance policy.
 - C. Kidnap and ransom policy.
 - D. Money insurance policy.
57. Which insurer would **usually** pay for the sinking of Captain Jenkins' ship?
- A. Cargo.
 - B. Hull and machinery.
 - C. Kidnap and ransom.
 - D. Protection and indemnity.
58. How much would the following Lloyd's market be liable for in respect of the ship that sank?
- A. \$1,980,000
 - B. \$2,000,000
 - C. \$4,455,500
 - D. \$4,500,000

59. Philip is employed as an
- A. average adjuster.
 - B. loss adjuster.
 - C. loss assessor.
 - D. loss surveyor.
60. What was the proximate cause of the loss that resulted in the insurers making a payment to the owner for the loss of the oldest ship?
- A. The age of the ship.
 - B. The containers becoming unsteady.
 - C. The decision to leave the port in a storm.
 - D. The hurricane.

Mervin has just moved to a new managing agent, where he will provide terms and rate property risks.

The employee he replaced had written business that made large losses for the last three years, losing an especially large amount in the most recent year. This was in line with majority of the market and many of the managing agents had stopped writing this type of business.

On reviewing the portfolio and the claims, Mervin notices that for each year claims from one American earthquake were the reason for a large percentage of the overall loss.

In October a major earthquake occurs on the west coast of the US resulting in a large loss to his portfolio. This includes damage to one factory where Mervin has a signed line of 100% and which is insured for \$4,000,000, with a deductible of \$500,000, and at a small industrial site where an explosion destroyed one of the units. The explosion resulted from gas being released from fractured pipes, causing a fire.

Mervin appoints a company to find out more information on the factory loss. Their first report advises Mervin that there is likely to be an overall loss of \$20,000,000 to his portfolio. They also estimate that the actual damage to the factory is \$2,500,000 from the ground up.

61. The **most likely** solution that Mervin could implement to limit his potential exposure to a catastrophe, without significantly affecting his premium, would be to
- A. increase individual premiums.
 - B. limit his exposure on each risk.
 - C. purchase excess of loss reinsurance.
 - D. reduce his overall capacity.
62. Following the earthquake, what is the **most likely** effect on the cycle in the market that Mervin is writing business?
- A. Market capacity will increase.
 - B. Premium rates will increase.
 - C. Premium rates will reduce.
 - D. Reinsurance will be cheaper to purchase.
63. What type of company would Mervin appoint to find out more about the factory after the earthquake?
- A. Average adjusters.
 - B. Claims recovery.
 - C. Loss adjusters.
 - D. Risk surveyors.

64. What reserve, if any, would the claims department enter for the factory loss, excluding any fees?
- A. Nil.
 - B. \$2,000,000
 - C. \$2,500,000
 - D. \$4,000,000
65. What type of market organisation does Mervin work for?
- A. A captive insurer.
 - B. A Lloyd's syndicate.
 - C. A loss exposure modelling company.
 - D. A rating agency.

Trevor is managing director of a small insurance broking company with 25 employees. The firm is **NOT** a Lloyd's broker, but it complies with the same minimum standards as required by the Council of Lloyd's. Trevor's firm only places business with financially-secure insurers.

On instruction from the insured the broker approaches the lead insurer on one of its property contracts and requests that the policy be cancelled mid-term in accordance with slip terms. The leader, a Lloyd's syndicate, agrees and signs a document on behalf of the following Lloyd's syndicates.

The broker has placed another property contract with the same Lloyd's syndicates for a factory. The sum insured was \$25,000,000 with a deductible for property damage of \$5,000. Due to the factory using chemicals, the underwriter has imposed a warranty for there to be a fully-working sprinkler system. Within a few days of being on risk and before the premium was received by the underwriters, there was a large fire. The leader appoints a loss adjuster to investigate the claim, during which it is discovered the risk is underinsured.

The broker presents the loss adjuster's report to the lead insurer and asks for final quantum of the claim to be agreed.

66. What insurance cover(s) is Trevor's company required to have by law?
- A. Employers' liability only.
 - B. Employers' liability and professional indemnity.
 - C. Employers' liability and public liability.
 - D. Professional indemnity and public liability.
67. What restrictions, if any, does Trevor's firm have in terms of where he can place business in the London Market?
- A. He can only place business with UK companies based in the London Market.
 - B. He can place business in both Lloyd's and the company market.
 - C. He can place business at Lloyd's only.
 - D. He cannot place any business at Lloyd's.
68. Once the lead insurer has agreed the final quantum, how would the following market be requested to settle its proportion of the loss?
- A. The broker will visit each underwriter.
 - B. The claims adjuster will send a copy of the information to each underwriter.
 - C. The leader would circulate an email to all the market.
 - D. Xchanging Claims Services will issue an electronic document to all the market.
69. What is the document that the leader has signed to confirm the cancellation of the policy?
- A. Endorsement.
 - B. General Underwriters' Agreement.
 - C. Market Reform Contract
 - D. Terms of Business Agreement.

70. If the cancellation is outside the slip terms, who **usually** has to sign the document cancelling the policy before it is complete?
- A. The lead insurer only.
 - B. The first two Lloyd's syndicates on the policy only.
 - C. The lead insurer and the insured only.
 - D. All the underwriters.

Andrew places business for his clients at Lloyd's.

David, an underwriter of a Lloyd's syndicate, asks Andrew to place a type of reinsurance to protect his account from catastrophe losses.

Andrew obtains terms from Paul, an underwriter at a Lloyd's syndicate, who decides he will write a line of 20%. Another underwriter, Caroline, writes 10%. By the end of the week, Andrew advises David he has fully placed the risk at Lloyd's and that it is over subscribed. He signs down to 80%. Caroline has a treaty that reinsures 25% of all her business.

A few weeks later David's syndicate, who has insured a fleet of aircraft with a maximum agreed value of \$20,000,000 each, is advised that the airline is buying a new aircraft at \$80,000,000 and is asked to add it to the policy. David does **NOT** want to reduce his line and Andrew is asked to obtain a quote so that his exposure on the aircraft is reduced to the \$20,000,000; the quoted premium for this is \$50,000.

During the first year an aircraft in the fleet is damaged and the cost to repair, net of deductibles, is \$2,000,000. The loss adjuster reports that the damage was caused by a ground-handling company which is also insured by David's syndicate.

71. The type of reinsurance that David would be requesting is
- A. excess of loss
 - B. facultative.
 - C. quota share.
 - D. surplus.
72. If David suffers a loss under the reinsurance led by Paul and asks Andrew's company to collect \$5,000,000, how much would be collected from Caroline's syndicate?
- A. \$50,000
 - B. \$300,000
 - C. \$400,000
 - D. \$500,000
73. What would be the amount of Insurance Premium Tax on the \$50,000 premium, if any?
- A. Nil.
 - B. \$3,000
 - C. \$6,000
 - D. \$10,000
74. David's syndicate will record the damage to the aircraft as
- A. incurred but not reported losses.
 - B. loss adjuster reserves.
 - C. outstanding loss reserves.
 - D. reinsurance to close.

75. How would David's syndicate settle the valid \$2,000,000 claim?
- A. \$1,000,000 would be paid to the airline and \$1,000,000 would be paid by the ground-handling company.
 - B. \$2,000,000 would be paid to the airline and the claim will be closed.
 - C. \$2,000,000 would be paid to the airline and the syndicate would subrogate against the ground-handling company.
 - D. Nothing would be paid to the airline as the ground-handling company was liable.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Standard Format									Scenario Format		
Learning Outcome 1			Learning Outcome 7			Learning Outcome 10					
1	A	1.1	23	D	7.5	48	B	10.3	56	C	2.2
1 Question			24	A	7.6	49	A	10.1	57	B	2.2
			25	A	7.7	50	B	10.2	58	A	10.3
Learning Outcome 2			26	C	7.1	51	A	10.3	59	A	10.2
2	C	2.2	27	A	7.2	4 Questions			60	D	10.3
3	B	2.1	28	B	7.4				61	C	3.1
4	B	2.2	29	A	7.3	Learning Outcome 11			62	B	7.4
3 Questions			7 Questions			52	B	11.2	63	C	10.2
						53	C	11.1	64	B	10.3
Learning Outcome 3			Learning Outcome 8			54	B	11.3	65	B	1.1
5	A	3.1	30	D	8.2	55	C	11.4	66	B	5.1
6	C	3.2	31	A	8.11	4 Questions			67	B	6.2
2 Questions			32	C	8.5				68	D	10.1
			33	D	8.12				69	A	8.6
Learning Outcome 4			34	B	8.13				70	D	8.7
7	C	4.1	35	C	8.1				71	A	3.1
8	D	4.3	36	A	8.3				72	C	3.2
9	C	4.2	37	B	8.4				73	A	5.5
3 Questions			38	D	8.10				74	C	7.6
			39	B	8.14				75	C	10.3
Learning Outcome 5			40	D	8.7				20 Questions		
10	C	5.3	41	C	8.6						
11	D	5.1	42	A	8.9						
12	B	5.1	43	C	8.8						
13	C	5.5	14 Questions								
14	A	5.4									
15	C	5.2	Learning Outcome 9								
6 Questions			44	C	9.3						
			45	C	9.1						
Learning Outcome 6			46	D	9.2						
16	B	6.1	47	B	9.1						
17	D	6.1	4 Questions								
18	A	6.6									
19	C	6.4									
20	D	6.3									
21	D	6.5									
22	A	6.2									
7 Questions											