



Chartered
Insurance
Institute

LM3

Certificate in London Market Insurance

Unit 3 – London Market underwriting principles

**Based on the 2021 syllabus
examined from 1 January 2021 until 31 December 2021**

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the LM3 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 an LM3 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 LM3 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-underwriting-principles-lm3
- 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 LM3 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 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 skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

Learning outcomes for LM3 begin with *understand*. Different skill levels lead to different types of questions, examples of which follow.

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 LM3 examination is 75 multiple choice questions (MCQs). 2 hours are allowed for this examination.

The LM3 syllabus provided in this examination guide 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.

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

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.

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, under 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 underwriting principles

Purpose

This unit enables a student to build on introductory knowledge of the London Market (typically from studying units LM1 and LM2) by developing knowledge and understanding of:

- the underwriting disciplines within the London Market;
- key elements of the cycle, including business planning and obtaining capacity, pricing and the importance of putting together a contract which is both clear and certain;
- the opportunities and challenges posed by using different distribution channels such as delegated underwriting.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the framework within which business is conducted in the London Market.	5
2. Understand the role, purpose and implications of policy wording in practice.	16
3. Understand the role and importance of business planning and capital setting in the London Market.	18
4. Understand the pricing of risk at an individual and at a portfolio level.	12
5. Understand the various methods of writing business and distribution.	24

* 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: 75 multiple choice questions (MCQs). 2 hours are allowed for this examination.
- This syllabus 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.
- 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 framework within which business is conducted in the London Market.

- 1.1 Explain the framework within which business is conducted in the London Market.
- 1.2 Explain the duties of the broker during the creation of a contract.

2. Understand the role, purpose and implications of policy wording in practice.

- 2.1 Explain the importance of knowing the identity of the contracting parties.
- 2.2 Explain the importance of policy wording.
- 2.3 Explain the various ways in which policy wordings can be constructed.
- 2.4 Explain the importance of viewing the complete contract wording.

3. Understand the role and importance of business planning and capital setting in the London Market.

- 3.1 Explain the purpose and effect of the business planning process.
- 3.2 Explain the importance of ongoing monitoring and reporting on the business plan.
- 3.3 Explain how capital setting supports the writing of business.
- 3.4 Explain the technical account.

4. Understand the pricing of risk at an individual and at a portfolio level.

- 4.1 Explain basic statistical theory.
- 4.2 Explain the principles of constructing an insurance rate.
- 4.3 Explain the use of realistic disaster scenarios and catastrophe models.

5. Understand the various methods of writing business and distribution.

- 5.1 Explain the different types of placement.
- 5.2 Explain the different methods of distribution.
- 5.3 Explain the different types of delegated underwriting.
- 5.4 Explain the stakeholders' roles and responsibilities.
- 5.5 Explain the advantages and disadvantages of various methods of writing business for the stakeholders involved.
- 5.6 Explain the management and controls around the different methods of placement.

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 underwriting principles.
London: CII. Study text LM3.

Books and eBooks

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

Bowstead and Reynolds on agency. Peter Watts & FMB Reynolds. 21th ed. London: Thomson Reuters, 2017.

Drafting insurance contracts: certainty, clarity, law and practice. Christopher Henley. London: Leadenhall press, 2010.

'Insurance intermediaries: underwriting agents' in Colinvaux's law of insurance. 11th ed. Prof. Robert Merkin. London: Sweet & Maxwell, 2016.

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

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

Pricing in general insurance. Pietro Parodi. CRC Press, 2015.*

The law of insurance contracts. Malcolm A Clarke. 6th ed. London: Informa, 2009.

The role of agents in insurance business. Chapter – MacGillivray on insurance law: relating to all risks other than marine. 13th ed. Sweet & Maxwell, 2015.

Factfiles and other online resources

The Insurance Institute of London (IIL) podcast lecture series features leading industry figures and subject experts speaking on current issues and trends impacting insurance and financial services. Available online at <https://www.cii.co.uk/insurance-institute-of-london/> (CII/PFS members only).

Basic concepts and techniques of the pricing process. Pietro Parodi.

Principles and trends in general insurance underwriting. Massimo Vascotto.

Recent developments in general insurance underwriting. Massimo Vascotto.

Recent developments to Solvency II. Brad Baker.

Specialist general insurance pricing and advanced techniques. Pietro Parodi.

The regulatory framework. Simon Collins.

Further articles and technical bulletins are available at <https://www.cii.co.uk/knowledge-services/> (CII/PFS members only).

Journals and magazines

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.

Access to further periodical publications is available from the Knowledge website 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.

i-law: online database of insurance legal knowledge. Informa. Available online via <https://www.cii.co.uk/insurance-law-database-i-law/> (CII/PFS members only).

Lamont's financial glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009.

Lloyd's Underwriting Requirements. Available online via www.lloyds.com (CII/PFS members only).

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.

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 role of a wholesale insurance broker is to
 - A. accept insurance risks on behalf of an insurer under a delegated underwriting authority.
 - B. place commercial insurance business only.
 - C. place insurance risks with Lloyd's underwriters only.
 - D. place insurance business on behalf of a producing broker.

2. Who regulates Lloyd's syndicates?
 - A. The Corporation of Lloyd's only.
 - B. The Financial Conduct Authority only.
 - C. The Prudential Regulation Authority only.
 - D. The Financial Conduct Authority and the Prudential Regulation Authority.

3. Under the Senior Managers and Certification Regime (SM&CR), how frequently does an insurer need to confirm that an employee within a certification function is a fit and proper person to perform his role?
 - A. Every six months.
 - B. Every year.
 - C. Every three years.
 - D. Every five years.

4. Which of the Lloyd's Minimum Standards (MS) provides guidance to a managing agent regarding the review of a syndicate's internal model?
 - A. MS4: Governance.
 - B. MS8: Reserving.
 - C. MS10: Regulatory.
 - D. MS14: Validation.

5. Under Solvency II, what concept provides the central method for quantifying and modelling risk and capital requirements in the internal model?
 - A. The Calculation Kernel.
 - B. The Minimum Capital Requirement.
 - C. The Own Risk and Solvency Assessment.
 - D. The Solvency Capital Requirement.

6. Under an insurance contract, where two or more parties are named as the insured and their interests are **NOT** the same, the policy will be a
 - A. combined policy.
 - B. composite policy.
 - C. joint policy.
 - D. package policy.

7. When two parties enter into an insurance contract and are in complete agreement as to its meaning, this is known as
- A. a condition precedent to liability.
 - B. consensus ad idem.
 - C. contra proferentem.
 - D. non-disclosure.
8. Fronting insurance is **usually** arranged when
- A. an insurance policy covers an insured's exposure in more than one country.
 - B. contract certainty cannot be achieved.
 - C. local regulatory requirements need to be satisfied in connection with a reinsurance contract.
 - D. the identity of a politically-exposed person must remain confidential in an insurance contract.
9. Who are the parties to an insurance policy which has been arranged on a subscription basis?
- A. An insured and one insurer only.
 - B. An insured and one reinsurer only.
 - C. An insured and more than one insurer.
 - D. An insured, an insurance broker and an insurer.
10. Which Act provides that the rights of an insolvent insured to claim on its insurance can be transferred to a third party?
- A. Consumer Rights Act 2015.
 - B. Consumer Insurance (Disclosure and Representations) Act 2012.
 - C. Contracts (Rights of Third Parties) Act 1999.
 - D. Third Party (Rights against Insurers) Act 2010.
11. Prior to issuing a quotation, why is it important for the insurer to verify the insured's identity?
- A. To ensure that the insured is not subject to any sanction restrictions.
 - B. To identify the subject matter of the insurance.
 - C. To prove that the insured is a UK resident.
 - D. To prove that the insured has an insurable interest.
12. A use of a side letter to an insurance policy is to
- A. dispute a contract wording.
 - B. provide evidence of cover in the absence of a policy document.
 - C. vary a contract.
 - D. waive a subjectivity.

13. When determining a contractual dispute, the court will rely on the technical meaning of a word where
- A. it can be shown that both parties to the contract were familiar with the use of the word.
 - B. it can be shown that either party to the contract were familiar with the use of the word.
 - C. the policy is written in the personal lines market only.
 - D. the policy is written in the commercial lines market only.
14. Why may an insurer have to issue an insurance policy in another language?
- A. It is a regulatory requirement in the country in which the insured is domiciled.
 - B. It is required by the insured to export cargo to another country.
 - C. To provide for a claim to be paid to a loss payee.
 - D. To prove to the regulator that contract certainty has been achieved.
15. What will an English court use to interpret the meaning of an insurance policy?
- A. Common law only.
 - B. Statute law only.
 - C. Common law and statute law only.
 - D. Common law, statute law and guidance notes.
16. If contract certainty has been achieved between an insurer and an insured, when **must** contract documentation be provided by the insurer?
- A. Promptly.
 - B. Within 5 working days.
 - C. Within 10 working days.
 - D. It must always be provided prior to the inception date.
17. An insurance broker would use a wording library code on a Market Reform Contract to
- A. allow for negotiation of a standard clause.
 - B. avoid stating the clause in full.
 - C. avoid the use of a jurisdiction clause.
 - D. provide wider cover than was originally intended.
18. An insurer underwrites a liability policy with a limit of indemnity of £5,000,000 subject to an excess of £100,000 for each and every claim. Defence costs are stated to be covered in addition to policy limits. If a claim is submitted for £5,500,000 whilst incurring defence costs of £600,000. How much will the insurer pay?
- A. £5,000,000
 - B. £4,900,000
 - C. £5,600,000
 - D. £6,000,000

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19. When one party to a composite insurance policy has breached the contract, what effect, if any, will this have on any other innocent parties under the policy?
- A. All parties will be required to pay an increased premium.
 - B. The policy will be cancelled.
 - C. The party who breached the contract will be excluded from the policy and a refund given.
 - D. There will be no effect on insurance cover.
20. The **main** implication of the contra proferentem rule is that
- A. ambiguities will be construed against the drafter.
 - B. an insurance broker has breached a contract term.
 - C. an insurance contract has not achieved contract certainty.
 - D. the principle of average will be applied.
21. When does an insurance policy become contract certain?
- A. On final agreement of all policy terms by both parties, prior to the inception date.
 - B. On receipt of the policy by the insured.
 - C. When an insurer sends the policy to the insured.
 - D. When 100% of the policy is placed, prior to inception.
22. According to Prudential Regulation Authority guidance, the probability of an insurance company failing, as outlined in its risk appetite statement, **must** be no higher than a
- A. 1-in-100 event over a one-year period.
 - B. 1-in-100 event over a two-year period.
 - C. 1-in-200 event over a one-year period.
 - D. 1-in-200 event over a two-year period.
23. How often does Lloyd's expect syndicates to engage in internal monitoring of a business plan?
- A. Monthly.
 - B. Quarterly.
 - C. Bi-annually.
 - D. Continuously.
24. Which ratio can an insurer use to identify whether its net income is sufficient to cover claims and administration costs?
- A. The combined ratio.
 - B. The gearing ratio.
 - C. The liquidity ratio.
 - D. The profitability ratio.

25. What is the return period for a catastrophic loss?
- A. The amount of time that it takes for an insurer to settle a claim.
 - B. The frequency of a certain type of loss occurring over a fixed period of time.
 - C. The period of time during which a no claims discount is applicable to an insurance premium.
 - D. The total number of claims occurring over a fixed period of time.
26. What is the **main** reason the Financial Conduct Authority requires an insurer to conduct a reverse stress test on its business plan?
- A. To calculate its total catastrophe exposure.
 - B. To identify a range of circumstances that would cause its business plan to become unviable.
 - C. To identify its counterparty risk.
 - D. To satisfy the specific requirements of capital investors.
27. A **key** benefit to an insurer of producing a business plan is that
- A. all risks can be managed and eliminated.
 - B. it allows an insurer flexibility to amend its objectives.
 - C. it gives clarity to investors regarding the planned use of their funds.
 - D. it satisfies the conduct rules issued by the Prudential Regulation Authority.
28. A downside to an insurer of producing a business plan is that
- A. it could reduce innovation and spontaneity.
 - B. the costs always outweigh the benefits.
 - C. the board will be accountable for any failure of the operational element.
 - D. transparency of accounting practices will be in the public domain.
29. For what period of time is a Lloyd's syndicate's business plan designed to cover?
- A. Three months.
 - B. Six months.
 - C. One year.
 - D. Two years.
30. Which part of a Lloyd's syndicate's business plan details the incurred amount for reinsurance premiums?
- A. The capacity information.
 - B. The class of business description.
 - C. The outwards reinsurance premium.
 - D. The premium bridging analysis.
31. In which calendar month does a Lloyd's syndicate need to submit its full business plan to Lloyd's?
- A. July.
 - B. September.
 - C. November.
 - D. December.

32. Why is it important for an insurer to report internally against its business plan?
- A. To calculate its counterparty risk.
 - B. To compare its profit against its prior year's income.
 - C. To ensure that there is no deviation from the business plan.
 - D. To monitor whether its business targets are being achieved.
33. What action should an insurer **initially** take if internal monitoring indicates that its gross written premium is lower than in its business plan?
- A. Increase its marketing to raise its premium income.
 - B. Instruct underwriters to increase premium rates.
 - C. Investigate the reason for the difference in premium income.
 - D. Report the difference to shareholders.
34. Which accounting document shows an insurer's financial position at a single point in time?
- A. The balance sheet.
 - B. The cash flow statement.
 - C. The income statement.
 - D. The management accounts.
35. An insurer's gross annual premium income is £75,000,000. Gross claims for the underwriting year are £72,500,000 and acquisition costs for the same period are £10,000,000. What is its combined ratio?
- A. 85.29%
 - B. 90.91%
 - C. 96.67%
 - D. 110%
36. An insurance company is engaging in enterprise risk management. After identifying risks, what is the next stage in the process?
- A. Addressing risks.
 - B. Assessing risks.
 - C. Reviewing risks.
 - D. Reporting risks.
37. Which ratio is calculated by dividing total liabilities by the total of cash plus investments?
- A. The combined ratio.
 - B. The gearing ratio.
 - C. The liquidity ratio.
 - D. The profitability ratio.

38. What is **normally** contained in an insurer's risk appetite statement?
- A. Details of the insurer's risk management strategy.
 - B. Identification of the maximum acceptable loss from a single incident.
 - C. Individual exposure to each insured risk.
 - D. The insurer's minimum capital requirements.
39. How frequently **must** a syndicate submit a realistic disaster scenarios report to Lloyd's?
- A. Monthly.
 - B. Quarterly.
 - C. Bi-annually.
 - D. Annually.
40. In a set of financial data, the monetary amount that occurs **most frequently** is known as the
- A. arithmetic mean.
 - B. median.
 - C. mode.
 - D. standard deviation.
41. Insurance premium income before any deductions for commission or reinsurance is known as the
- A. earned premium.
 - B. gross premium.
 - C. net premium.
 - D. signed premium.
42. What two primary risk factors affect the total claims for a class of business?
- A. Frequency and severity.
 - B. Frequency and distribution.
 - C. Distribution and average.
 - D. Average and severity.
43. Claims triangulations are **most commonly** used to predict future claims based on
- A. claims data from the insurance industry as a whole.
 - B. an insurer's historical paid claims data.
 - C. an insurer's outstanding loss data.
 - D. incurred but not reported losses.
44. In addition to the historical claims experience, what will also affect the calculation of an insurer's premium rate?
- A. Acquisition costs.
 - B. Cash flow.
 - C. Investor requirements.
 - D. Security rating.

45. What **must** be contained in the realistic disaster scenario reports that a Lloyd's syndicate produces?
- A. Estimated losses.
 - B. Incurred but not reported (IBNR) claims.
 - C. Paid claims.
 - D. Reinsurance claim recoveries.
46. What is the median value of a set of financial data?
- A. The middle number when values are stated in ascending order.
 - B. The total value divided by the number of individual values.
 - C. The value that occurs most frequently in a set of data.
 - D. The variance in a set of data between the smallest and the largest values.
47. What is the benefit to an insurer of using a probabilistic approach to its catastrophe modelling?
- A. It calculates the claim reserve for each reported claim.
 - B. It predicts the loss date of future catastrophes.
 - C. It produces a spread of outcomes which can be statistically analysed.
 - D. It produces just one numerical amount.
48. The burning cost method of calculating premiums is **most** effective for classes of business which have
- A. low numbers of claims with widely differing values.
 - B. high numbers of claims with widely differing values.
 - C. low numbers of claims of similar values.
 - D. high numbers of claims of similar values.
49. Standard variation measures how widely the spread of values in a set of financial data differs from the
- A. arithmetic mean.
 - B. median.
 - C. mode.
 - D. normal distribution.
50. Within a class of business, the term for the amount of premium income that is required to settle all future losses is the
- A. risk premium.
 - B. reinsurance premium.
 - C. unearned premium.
 - D. written premium.

51. Why does an insurer make a provision for incurred but not reported (IBNR) claims?
- A. All claims have a cost to investigate them.
 - B. To improve risk management techniques to reduce claims.
 - C. Some claims are not reported due to the non-disclosure by the insured.
 - D. Some claims may take a long time to manifest.
52. Why may it be a **disadvantage** to an insured to have its insurance risk placed by a primary and excess policies rather than just a primary policy?
- A. Additional exclusions and conditions may be applied to some layers.
 - B. The claims frequency is increased across all layers.
 - C. The total insurable limit of liability will be reduced.
 - D. The total insurance premium will always be greater.
53. What is the **main** benefit to a broker of using a lineslip?
- A. Access to business without having to agree risks on an individual basis.
 - B. The ease of placement with a large amount of capacity.
 - C. Faster claims settlement is achieved.
 - D. Wider insurance coverage is always available.
54. Where a group of insurers acts together to underwrite insurance risks without the use of an insurance broker, this is known as
- A. a consortium.
 - B. a delegated authority.
 - C. a managing general underwriter.
 - D. an affinity programme.
55. Why may an insurer use the services of a third party administrator?
- A. To bind insurance risks on behalf of the insurer.
 - B. To prepare business plans on behalf of the insurer.
 - C. To provide a specialised claims service for the insurer.
 - D. To produce the insurer's financial accounts.
56. When an employer establishes an insurance scheme to provide private healthcare for its employees, which type of arrangement is **most likely** to be used?
- A. A delegated authority.
 - B. A facultative reinsurance contract.
 - C. A lineslip.
 - D. A master policy.

57. Why may an insurance risk be underwritten by more than one insurer in a subscription market?
- A. No single insurer has sufficient capacity to accept the whole risk.
 - B. To always provide greater financial security to the insured.
 - C. To ensure that placement is always completed before the inception date.
 - D. To reduce the cost of the insurance premium.
58. What is the advantage to a reinsurer of obtaining a risk from a fronting insurer?
- A. Access to insurance business that is otherwise not available.
 - B. Administration expenses are reduced.
 - C. Counterparty risk is reduced.
 - D. It follows all the claims settlements of the insurer.
59. Which overseas Lloyd's office acts as a coverholder writing non-life business on behalf of syndicates?
- A. Lloyd's China.
 - B. Lloyd's Columbia.
 - C. Lloyd's Japan.
 - D. Lloyd's South Africa.
60. One of the **disadvantages** to an insurer entering into a fronting arrangement is that
- A. currency risk will always be evident.
 - B. fronting commissions are not permitted to be received.
 - C. fronting commissions may need to be paid.
 - D. it will not know the identity of the reinsurer.
61. What is the **primary** role of a managing general agent?
- A. To accept insurance risk under a binding authority on behalf of the insurer.
 - B. To reserve and handle claims for the insurer.
 - C. To produce management accounts on behalf of the insurer.
 - D. To provide reinsurance for the insurer.
62. Under which types of insurance arrangement may a profit-based commission be payable?
- A. A binding authority and a lineslip only.
 - B. A consortium and lineslip only.
 - C. A binding authority and a consortium only.
 - D. A binding authority, a consortium and a lineslip.
63. What is the advantage to an insurer of entering into a binding authority agreement?
- A. It facilitates automatic acceptance of all insurance risks.
 - B. It gives greater control over the administration of claims.
 - C. It allows insurance coverage tailored to each individual insured's requirements.
 - D. It provides a cost-effective method of accepting smaller insurance risks.

64. A conflict of interest arises under a delegated underwriting authority when
- A. the delegated underwriting authority is placed in a series of layers.
 - B. the insurance broker is also the coverholder.
 - C. the insured has multiple insurance policies.
 - D. more than one insurer is granting delegated authority.
65. What **must** a managing agent do to ensure that a delegated underwriting authority complies with regulation at Lloyd's?
- A. Ensure that its operation is in accordance with, or better than, the Lloyd's minimum standards.
 - B. Monitor the own risk and solvency assessment of every coverholder.
 - C. Provide details of every policyholder's minimum capital requirements.
 - D. Submit the insurer's delegated underwriting authority premium rating matrix to Lloyd's for approval.
66. How frequently **must** a Lloyd's syndicate perform an audit of a delegated underwriting contract?
- A. Monthly.
 - B. Quarterly.
 - C. Bi-annually.
 - D. Annually.
67. A binding authority has been cancelled with immediate effect by an insurer. What impact will this have, if any, on the individual risks insured under that binding authority?
- A. None.
 - B. They will be cancelled immediately.
 - C. They will be cancelled with 28 days' notice.
 - D. They can remain in force for a maximum of 12 months.
68. Who regulates an insurance company that enters into a delegated underwriting authority?
- A. The Financial Conduct Authority.
 - B. The Financial Ombudsman Service.
 - C. The Financial Services Compensation Scheme.
 - D. The Prudential Regulation Authority.
69. An advantage of being a following insurer on a lineslip arrangement is that
- A. bound risks are immediately notified to the following insurer.
 - B. brokerage is always lower than for open market placements.
 - C. there is access to business without having to agree risks on an individual basis.
 - D. there is sufficient capacity to accept all risks.

70. What should be the objective of an insurer's conduct risk review?
- A. To conduct a peer review of the underwriting decisions made by junior underwriters.
 - B. To ensure that sufficient checks are in place to avoid any sanctions breach.
 - C. To ensure that due diligence is conducted on all policyholders.
 - D. To provide a positive sales and claims experience to all policyholders.
71. A consumer pays a monthly fee for a premium bank account that includes mobile phone insurance cover. This is an example of
- A. an affinity programme.
 - B. a delegated authority.
 - C. a master policy.
 - D. a reinsurance arrangement.
72. What issue may arise when liability insurance is placed in a series of layers on a costs-inclusive basis?
- A. High legal costs will contribute to the erosion of the total available limit of liability.
 - B. The administration of the series of insurance policies will increase claim costs.
 - C. The insured will always be liable for an increased proportion of any legal costs.
 - D. The primary insurer will be liable to pay all legal costs.
73. Who are the parties to a lineslip agreement?
- A. An insurance broker and one or more insurers.
 - B. A policyholder and one or more insurers.
 - C. A policyholder and an insurance broker.
 - D. A coverholder and an insurer.
74. Which party may operate between a managing general agent and an insurer to provide capacity?
- A. A coverholder.
 - B. An insured.
 - C. A managing general underwriter.
 - D. A reinsurer.
75. To whom is underwriting authority delegated under a binding authority agreement?
- A. A coverholder.
 - B. An insurer.
 - C. A reinsurer.
 - D. A third party claims administrator.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 3			Learning Outcome 5		
1	D	1.2	22	C	3.3	52	A	5.1
2	D	1.1	23	D	3.2	53	B	5.3
3	B	1.1	24	A	3.4	54	A	5.3
4	D	1.1	25	B	3.3	55	C	5.6
5	A	1.1	26	B	3.1	56	D	5.2
5 Questions			27	C	3.1	57	A	5.1
			28	A	3.1	58	A	5.1
Learning Outcome 2			29	C	3.1	59	C	5.2
6	B	2.1	30	C	3.2	60	C	5.1
7	B	2.2	31	B	3.1	61	A	5.4
8	C	2.1	32	D	3.2	62	C	5.5
9	C	2.1	33	C	3.2	63	D	5.5
10	D	2.1	34	A	3.4	64	B	5.4
11	A	2.1	35	D	3.4	65	A	5.6
12	C	2.4	36	B	3.3	66	D	5.6
13	A	2.4	37	C	3.4	67	A	5.3
14	A	2.3	38	B	3.3	68	D	5.6
15	C	2.4	39	D	3.2	69	C	5.3
16	A	2.2	18 Questions			70	D	5.6
17	B	2.4				71	A	5.2
18	C	2.3	Learning Outcome 4			72	A	5.1
19	D	2.1	40	C	4.1	73	A	5.3
20	A	2.4	41	B	4.2	74	C	5.4
21	A	2.2	42	A	4.1	75	A	5.3
16 Questions			43	B	4.2	24 Questions		
			44	A	4.2			
			45	A	4.3			
			46	A	4.1			
			47	C	4.3			
			48	D	4.2			
			49	A	4.1			
			50	A	4.2			
			51	D	4.2			
			12 Questions					