

# 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](http://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. 10<sup>th</sup> ed. John Birds. Sweet and Maxwell, 2016.

Insurance theory and practice. Rob Thoys. 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](http://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](http://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.

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\* Also available as an ebook through Discovery via [www.cii.co.uk/discovery](http://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](http://www.cii.co.uk/iilrevision) (CII/PFS members only).