Chartered Insurance Institute

LM2

Certificate in London Market Insurance

Unit 2 – London Market insurance principles and practices

Based on the 2020 syllabus
examined from 1 January 2020 to 31 December 2020

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Contents

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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 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. Learning outcomes for LM2 begin with *know* or *understand.* Different skill levels lead to different types of question, examples of which follow.

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 5MCQs. 2 hours are allowed for this examination.

The LM2 syllabus provided in this examination guide will be examined from 1 January 2020 to 31 December 2020.

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.

Chartered Insurance Institute

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
	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 2020 until 31 December 2020.
- 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/learning/qualifications/unit-london-market-insurance-principles-and-practices-lm2/
  2. Select qualification update on the right hand side of the page.

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1. Understand the business nature of the London Market

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

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

2.1 Explain why international and domestic clients seek insurance in the London Market

2.2 Examine and explain the main classes of insurance written in the London Market; and the significant features of cover given under these

2.3 Describe the losses and liabilities which may give rise to claims under each of the main classes of risk written for the London Market

3. Understand reinsurance within the insurance market

3.1 Explain why international and domestic insurers seek reinsurance in the London Market

3.2 Examine methods of reinsurance; treaty and facultative; proportional and non-proportional

3.3 Describe the differences between the various methods of reinsurance

3.4 Calculate amounts ceded to re-insurers and claims recoverable

4. Understand market security

4.1 Explain the basic components of an insurer's solvency margin calculation

4.2 Explain the role of Rating Agencies

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

5.1 Describe the reasons for compulsory insurance and the types of insurance that are compulsory in the UK

5.2 Explain the legal significance of quotations and renewals

5.3 Explain the impact of the Consumer Rights Act 2015 and the Contracts (Rights of Third Parties) Act 1999 in relation to insurance contracts

5.4 Outline the EU solvency requirements for insurers and industry regulator risk-based capital requirements

5.5 Explain the purpose and calculate the rates of UK Insurance Premium Tax

6. Understand insurance intermediation in the London Market

6.1 Define the different categories of UK and international intermediaries and the services they provide

6.2 Define and explain the roles of the various types of brokers within the London Market

6.3 Describe the purpose and function of a generic Terms of Business Agreement (TOBA)

6.4 Explain broking remuneration including commissions and fees

6.5 Describe the basic features of the law of agency

6.6 Define the main EU and UK legislative provisions applicable to insurance intermediaries

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

7.1 Explain how underwriting is conducted in London as opposed to elsewhere

7.2 Explain the relationship between London Market brokers and underwriters

7.3 Explain lead and follow underwriters within the context of the subscription market

7.4 Describe the causes and effects of the market cycle

7.5 Explain the concept of loss and exposure modelling

7.6 Explain what is meant by reserving and why it is necessary to make provision for outstanding liabilities

7.7 Explain the terms 'open years management' and 'reinsurance to close' within the Lloyd's Market

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

- 8.1 Describe the purpose of the proposal form and explain the information contained within
- 8.2 Describe the duty of fair presentation and the principle of good faith
- 8.3 Describe the consequences of non disclosure/a breach of the duty of fair presentation
- 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 Reforms 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 role of the insurer and that of the broker in the collection and processing of premiums
- 8.13 Describe how contracts of insurance can be terminated
- 8.14 Explain how conflicts of interest may arise and how they may be managed

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

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

10. Know the handling of claims in the London Market

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

11. Understand the main methods of resolving complaints

- 11.1 Examine and describe the 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/PFS members can access most of the additional study materials below via the Knowledge Services webpage at https://www.cii.co.uk/knowledge-services.

New resources are added frequently - for information about obtaining a copy of an article or book chapter, book loans, or help finding resources , please go to https://www.cii.co.uk/knowledge-services or email knowledge@cii.co.uk.

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 Thoyts. 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.cii.co.uk/search-results?q=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.

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

SECTION A

1. Which London market insurer's financial backing is provided by names and corporate members?

A. Lloyd's syndicates.
B. Mutual companies.
C. Mutual Indemnity Associations.
D. Protection and Indemnity clubs.

2. A local intermediary is handling the property insurance placement for a large UK manufacturer that requires a high sum insured. Why would they decide that their client's insurance should be placed in the London Market?

A. Commercial insurance is only written in the London Market.
B. London Market insurers will always offer the lowest premium.
C. London Market insurers will always provide the quickest quote.
D. Placement into a subscription market is required as no single insurer is likely to have sufficient capacity to underwrite the full sum insured.

3. A delivery man from an external contractor slips on a wet floor whilst delivering fresh produce to a supermarket and injures his back. Under what insurance policy will insurers settle a valid compensation claim with the injured person?

A. The delivery firm's public liability insurance policy.
B. The supermarket's products liability insurance policy.
C. The supermarket's public liability insurance policy.
D. The supermarket's personal accident insurance policy.

4. What type of insurance cover would protect a solicitor from the financial consequences of giving negligent advice?

A. Employers' liability.
B. Fidelity guarantee.
C. Public liability.
D. Professional indemnity.

5. An insurer has a large number of individual contracts within a region which has frequent earthquakes. What type of reinsurance is the insurer **likely** to effect to protect the portfolio from a major earthquake loss?

A. Excess of loss treaty.
B. Facultative reinsurance.
C. Quota share treaty.
D. Surplus treaty.

64. Insurer A ceding the balance of the risk to another party is known as

A. coinsurance.
B. dual insurance.
C. reinsurance.
D. underinsurance.

65. Which principle of insurance would enable insurers to pursue the sub-contractor in an attempt to recover their claims costs?

A. Contribution.
B. Indemnity.
C. Reinstatement.
D. Subrogation.

6. An American actor wishes to insure his voice. A domestic insurance company underwrites the risk but wishes to transfer the majority of the risk to reinsurers. Why is this risk **likely** to be reinsured in the Lloyd's market?

A. Lloyd's always pays claims quicker.
B. Lloyd's always offers the lowest premium.
C. The US market is not licensed to write this type of reinsurance risk.
D. A Lloyd's underwriter is more likely to write non-standard risks than other markets.

7. A shipowner buys insurance with a sum insured of £10,000,000. The insurer buys facultative reinsurance in respect of 10% of the risk at a cost of £900,000. If the individual makes a valid claim for £5,000,000, how much does the reinsurer pay the insurer?

A. £90,000
B. £500,000
C. £1,000,000
D. £5,000,000

8. The type of reinsurance that allows the reinsured to choose which risks to cede to reinsurers and automatically guarantees that the reinsurer will accept any presented risks is a

A. facultative obligatory treaty.
B. quota share treaty.
C. risk excess of loss treaty.
D. surplus treaty.

9. In order for an insurer to remain solvent, its liabilities **must** be

A. covered by the Financial Services Compensation Scheme.
B. covered by the Motor Insurers' Bureau.
C. less than its assets.
D. more than its assets.

10. In the UK insurance market what is the role of rating agencies?

A. To assess insurance companies on their long-term financial stability and ability to pay debts.
B. To assist the Prudential Regulation Authority with the regulation of insurance companies.
C. To audit accounts of insurers to ensure they comply with Generally Accepted Accounting Principles (GAAP).
D. To carry out surveys for brokers into the perceived level of service provided by various insurers.

11. What is the current rate of Insurance Premium Tax payable, if any, when taking out a travel insurance policy?

A. Nil.
B. 5%
C. 12%
D. 20%

12. An insurer has **NOT** specified the period of validity on a quote it has given. Under contract law, for how long does the insurer's quote remain valid?

A. 7 days.
B. 14 days.
C. A reasonable time.
D. At the end of the business day the quote was given.

13. Under the Consumer Rights Act 2015, what would be the position of an insurance contract if the claims conditions were found to be unclear and unfair to the consumer?

A. The contract would be cancelled from inception.
B. The court would amend the relevant conditions to the satisfaction of both parties.
C. The position would remain the same as claims conditions are outside the scope of the regulations.
D. The conditions would not be binding.

14. Which of the pillars of Solvency II requires insurers to demonstrate that they have adequate financial resources available to cover exposure to risk?

A. Disclosure requirement.
B. Quantative requirement.
C. Rating requirement.
D. Supervisory review.

15. What is the **minimum** limit of indemnity for Employers' Liability Insurance that an employer **must** purchase in accordance with the Employers' Liability (Compulsory Insurance) Act 1969?

A. £1,000,000
B. £5,000,000
C. £10,000,000
D. £20,000,000

16. An individual accepts a quotation from an insurer where the insurer has provided a settlement due date for premium 90 days after inception. The insured pays his premium to the broker in good time, but before the funds reach the insurer there is a valid claim. How would the insurer deal with the claim?

A. Decline the claim.
B. Pay the claim in full.
C. Pay the claim on an ex-gratia basis.
D. Refer the claim to the Financial Ombudsman Service.

17. If a principal agrees to be bound by the actions of an agent who has acted outside the terms of the agency agreement, what type of agency has been created?

- **A.** Agency by apparent authority.
- **B.** Agency by consent.
- **C.** Agency by necessity.
- **D.** Agency by ratification.

18. How would a broker **normally** collect its commission in the London Market?

- **A.** By the insurer paying the commission in instalments.
- **B.** By the insurer settling a monthly bordereau prepared by the broker that shows the outstanding commission due.
- **C.** By reimbursement by the insurer after expiry of the policy.
- **D.** By retaining a percentage of the premium received from the insured before passing the remainder on to the insurer.

19. Between which two parties does a wholesale broker act as an intermediary?

- **A.** Insured and insurer.
- **B.** Insured and reinsurer.
- **C.** Producing broker and insured.
- **D.** Producing broker and insurer.

20. To whom do the Financial Conduct Authority’s Client Asset rules apply?

- **A.** All clients.
- **B.** Consumer clients only.
- **C.** International clients only.
- **D.** UK clients only.

21. An insurance intermediary that does **NOT** have the status of a Lloyd’s approved coverholder or Lloyd’s broker, which introduces business to a Lloyd’s broker for placement at Lloyd’s, is known as

- **A.** a managing agent.
- **B.** a member’s agent.
- **C.** a non-admitted broker.
- **D.** an open market correspondent.

22. The document which defines and allocates the responsibilities between an insurer and an intermediary is known as

- **A.** Insurance: Conduct of Business sourcebook (ICOBS).
- **B.** Market Reform Contract.
- **C.** Statement of Demands and Needs.
- **D.** Terms of Business Agreement.

23. An underwriter is **most likely** to estimate the financial impact of an earthquake in a particular region by using

A. data provided by Lloyd's.
B. a loss modelling system.
C. research from the internet.
D. a surveyor.

24. What is the **key** difference in the relationship between brokers and underwriters in the London Market compared with those in the rest of the UK insurance market?

A. All business transacted between both parties must be placed electronically in accordance with the London Market Group.
B. All London Market insurance brokers have to be professionally qualified in order to place risks with London Market underwriters.
C. Both parties must observe the Financial Conduct Authority's Insurance: Conduct of Business sourcebook (ICOBS).
D. Face-to-face contact is used to assist with the placing of complex risks.

25. The party that provides the initial indication of terms and conditions on a Market Reform Contract in the London subscription market is known as a

A. class underwriter.
B. follow underwriter.
C. lead underwriter.
D. Lloyd's underwriter.

26. For how many years does an underwriting year of account **usually** remain open for a Lloyd's syndicate?

A. Two years.
B. Three years.
C. Four years.
D. Six years.

27. During a soft period in the insurance cycle, what effect will there be on the market?

A. Low premiums and substantial capacity.
B. Low premiums and reduced capacity.
C. High premiums and substantial capacity.
D. High premiums and reduced capacity.

28. What process allows a property insurer to identify a concentration of risks in one geographical area?

A. Exposure modelling.
B. Loss reserving.
C. Reinsurance costing.
D. Solvency margin calculation.

29. What term is used to express the limit imposed by the UK regulator for the amount of business that a Lloyd's syndicate can accept annually?

A. Risk Aggregation.
B. Risk Modelling.
C. Underwriting Appetite.
D. Underwriting Capacity.

30. A company has a fire insurance policy containing a clause which requires the testing of all fire alarms on the premises at the end of each working day. Failure to do so suspends the policy until remedied. This is known as

A. an exclusion.
B. a franchise.
C. a representation.
D. a warranty.

31. Which part of the policy contains details which are personal and specific to the policyholder?

A. Conditions.
B. Operative clause.
C. Recital clause.
D. Schedule.

32. Under the duty of fair presentation, when, if at all, **must** an insured disclose a material circumstance that lessens the risk?

A. A consumer must always disclose all changes to a risk.
B. It only needs to be disclosed if it relates to commercial insurance.
C. All changes must be immediately disclosed.
D. It does not need to be disclosed.

33. What action **must** be taken by an insured for consideration to be legally achieved under an insurance contract?

A. Notify the insurer of any insurance policies that are providing dual insurance.
B. Pay the insurance premium.
C. Respond fully to all of an insurer's questions.
D. Take all reasonable steps to mitigate a loss.

34. Under contract certainty, when **must** final evidence of cover be provided to a commercial customer?

A. Before inception.
B. Within 30 days of inception.
C. Within 60 days of inception.
D. Within 90 days of inception.

35. An insurer issues a quote to an insured on 15 June for a risk which incepts on 30 June. The insured accepts the quote on 19 June and the firm order is noted by underwriters on 22 June. From what date is the insurer on risk?

A. 15 June.
B. 19 June.
C. 22 June.
D. 30 June.

36. Electronic Market Reform Contracts are used to

A. handle claims.
B. pay premiums.
C. place business.
D. remunerate brokers.

37. When a Market Reform Contract is drafted, under which section is the limit of liability stated?

A. Fiscal and regulatory.
B. Risk details.
C. Security details.
D. Subscription agreement.

38. Under which document is the extent of the delegated authority of the slip leader and agreement parties clarified?

A. Insurance Distribution Directive.
B. General Underwriters' Agreement.
C. Contracts (Rights of Third Parties) Act 1999.
D. Terms of Business Agreement.

39. Business practices commonly known as erecting Chinese walls are often used to manage which type of situation?

A. Breach of warranty.
B. Claims leakage.
C. Conflicts of interest.
D. Suspected fraud.

40. In a Lloyd's insurance transaction, who is **typically** responsible for collecting the premium from a client?

A. The broker.
B. The insurer.
C. The Lloyd's Market Association.
D. Xchanging Ins-sure Services.

41. What would happen to an insurance policy covering a piece of art when the policyholder sells it during the period of cover?

A. The policy would be terminated.
B. The policy would continue until expiry.
C. The policy would automatically transfer to the new owner.
D. The policy would be cancelled ab initio and all premiums returned.

42. The **main** purpose of a proposal form is to

A. detail the amount of premium required.
B. gather material circumstances.
C. outline policy exclusions.
D. provide evidence of cover.

43. An insured deliberately and recklessly breaches their duty of fair presentation. Legally, what remedy is available to the insurer?

A. Avoid the policy, refuse all claims and retain the premium.
B. Avoid the policy, pay all claims and return the premium.
C. Continue the policy and pay all claims but charge a higher premium.
D. Continue the policy and refuse all claims that occur after the date of the breach.

44. Declarations are a characteristic of what type of insurance arrangement?

A. Lineslip.
B. Open market business.
C. Quota share reinsurance.
D. Surplus reinsurance.

45. When a Lloyd's syndicate delegates some of its underwriting authority to a third party under a binding authority, this third party is **usually** known as

A. an aggregator.
B. a consolidator.
C. a coverholder.
D. a policyholder.

46. The **key** benefit to an insurer of a delegated underwriting scheme is that

A. it always provides a profitable portfolio of similar risks.
B. it enables the insurer to pass on the handling of all claims to the coverholder.
C. its obligations under the Insurance: Conduct of Business sourcebook (ICOBS) are less onerous.
D. it provides a mechanism to write large volumes of similar risks without the administration costs involved of writing on a stand-alone basis.

47. An intermediary that wants to become an approved Lloyd's coverholder under a binding authority agreement needs its Lloyd's application to be sponsored by a Lloyd's broker and

A. a managing agent.
B. a members' agent.
C. the intermediary's actuary.
D. the Financial Conduct Authority.

48. A commercial property insurance policy has an excess of £15,000 in respect of each claim. If a valid claim for £50,000 from the ground up is submitted, what **maximum** amount would the insured receive in settlement?

A. £15,000
B. £35,000
C. £50,000
D. £65,000

49. Who will an insurance company **usually** instruct to determine the validity and value of a large claim?

A. Loss adjuster.
B. Loss assessor.
C. Risk manager.
D. Underwriter.

50. An insurer wishes to investigate a claim to determine whether coverage applies. The investigation is estimated to take three months to complete. What action should the insurer take?

A. Decline the claim.
B. Issue a Reservation of Rights letter.
C. Make an interim claim payment to the insured.
D. Refer the claim to the Financial Ombudsman Service.

51. When a client submits a claim, the broker will initially

A. notify the insurer.
B. appoint a loss adjuster before the claim is paid.
C. appoint a loss assessor before the claim is paid.
D. pay the client and then reclaim the funds from the insurer.

52. Under the general insurance compensation arrangements of the Financial Services Compensation Scheme, for what **total** percentage of a compulsory third party motor insurance claim may compensation be provided?

A. 70%
B. 80%
C. 90%
D. 100%

53. The **principal** function of the Financial Ombudsman Service is to

A. act as a liaison between the insurance industry and the Government.
B. act as a spokesperson for the insurance industry.
C. issue codes of practice with which insurers must comply.
D. resolve disputes between financial businesses and their customers.

54. Under the Certification Regime, how often **must** a firm assess and formally certify the fitness and propriety of a person performing a significant harm function role?

A. At least annually.
B. At least every two years.
C. Every three years.
D. Every five years.

55. If an insurer fails to handle policyholder’s claims promptly and fairly, this is a failure to comply with the

A. Consumer Insurance (Disclosure and Representation) Act 2012.
B. Financial Services Act 2012.
C. Financial Conduct Authority’s Insurance: Conduct of Business sourcebook (ICOBS).
D. Consumer Rights Act 2015.

Section B begins on the next page

SECTION B

An underwriter, for a syndicate that is part of a number of syndicates controlled by a managing agency, mainly writes a property account worldwide. He has an assistant underwriter.

The underwriter has written a large amount of property business in the USA which is exposed to frequent hurricanes. The risks vary from low to very high sums insureds. As a prudent underwriter, he requires data regarding his possible exposure to catastrophes, including hurricane and earthquake.

Before writing a risk, the underwriter will often use an expert contractor to visit the risk and produce a report.

The syndicate employs a small claims team. The underwriter's reinsurance manager provides the exposure estimates which shows the maximum loss in the USA caused by a hurricane to the syndicate would be $500,000,000. The syndicate has taken out a small 20% quota share reinsurance for risks worldwide **excluding** the USA. The syndicate also has reinsurance cover to protect any loss or event worldwide exceeding $15,000,000. This is over three layers and the third layer is $100,000,000 in excess of $500,000,000.

The underwriter has authority to write a maximum of $5,000,000 for any one risk and his assistant underwriter has authority to write follow lines up to a maximum of $1,000,000 but **CANNOT** lead any business. The assistant underwriter must also advise the underwriter of any risks written that do **NOT** exclude hurricane and earthquake cover.

The claims team receive a complaint on 2 August. They deal with the complaint on the morning of the business day following receipt of the complaint and all parties are satisfied with the result.

56. The assistant underwriter is approached by a broker who wishes to add war cover into a property insurance on which the syndicate is the lead underwriter. What action should the assistant underwriter initially take?

A. Provide a quote.
B. Refuse to quote.
C. Offer support if the broker can obtain a quote from another syndicate.
D. Send the risk to the syndicate loss modeller.

57. The type of expert used by the underwriter to visit the risk and produce a report is a

A. loss adjuster.
B. loss assessor.
C. loss modeller.
D. risk surveyor.

58. The underwriter is shown terms quoted by another underwriter and decides to write a following line. The sum insured is $100,000,000 for a location in Europe. There is no exposure in the USA. If the underwriter writes a 5% line, what is the **maximum** sum of any one loss to the syndicate before reinsurance?

A. $5,000,000
B. $15,000,000
C. $20,000,000
D. $100,000,000

59. What type of reinsurance cover has the syndicate taken out to protect it against USA catastrophe losses?

A. Excess of loss.
B. Quota share.
C. Stop loss.
D. Surplus.

60. The syndicate has a maximum exposure in the US of $500,000,000. With no one risk exceeding $5,000,000. A hurricane causes damage that results in an incurred loss to his property account of $250,000,000, with the largest individual loss $4,000,000. How much, if any, can the underwriter recover from his reinsurers?

A. Nil.
B. $15,000,000
C. $235,000,000
D. $250,000,000

An insured operates a large industrial complex in the south west of England, which manufactures chemicals. The insured has an insurance programme to deal with the contingencies that are faced, which was placed by an intermediary in the London subscription market. The inception date of the policy was 1 January. The property damage and business interruption sum insured including the engineering plant is a £100,000,000 combined single limit.

Four insurers have a line on the Market Reform Contract. Insurer A is the slip leader and all following underwriters subscribe to the General Underwriters' Agreement. Insurer A writes a 50% line, insurer B writes a 25% line, insurer C writes a 15% line and insurer D writes a 10% line. Insurer A only has capacity for chemical risks of £25,000,000 and cedes the balance of the risk to a third party to enable them to write the lead line. The Market Reform Contract includes the General Underwriters' Agreement.

On 25 March there is a fire at the premises. The damage is estimated to cost £10,000,000. The cause of the fire is traced to sub-contractors who were carrying out roof repairs to the building at the time of the loss. The builders have admitted liability for the incident.

On 1 June the insured wishes to increase the sum insured by £10,000 to reflect some new computer equipment that has been purchased.

On 13 November the power supply to the factory is disrupted for 48 hours due to an incident at the local power station and insured property is damaged as a result. The disruption stops the insured from trading until the power company restores the supply.

61. After deducting reinsurance recoveries, how much will insurer A retain net in respect of the fire loss at the premises?

A. £2,500,000
B. £5,000,000
C. £7,500,000
D. £10,000,000

62. Agreement from which party(ies) is **most likely** to be necessary for the change in the sum insured requested on 1 June?

A. All insurers.
B. Insurer A only.
C. The intermediary only.
D. The third party that accepts the cession of risk from insurer A only.

63. Under which section of the insurance programme is the insured able to claim for the incident on 13 November?

A. Business interruption.
B. Contingency.
C. Engineering.
D. Property.

A UK-based paint manufacturer contacts its local insurance broker to arrange £250,000,000 of property insurance for its new UK factory.

The broker informs the manufacturer that the risk is too great for any one insurer to accept and that a London wholesale insurance broker will be approached to utilise the capacity within the London Market to obtain the required level of property insurance.

The wholesale insurance broker places the insurance with different insurers who accept various sums insured for the risk until full placement is achieved.

The gross insurance premium is £12,500,000 with total commission of 25% and is paid to each insurer via Xchanging.

The leading insurer accepts £50,000,000 of the factory risk with the remainder being underwritten by other insurers. The leading insurer has a retention limit of £10,000,000.

The leading insurer has a five line surplus reinsurance treaty of £10,000,000 per line for any one risk and its underwriter imposes a warranty regarding the storage of paint. Otherwise the insurance policy terms are standard for an all risks property policy.

The producing broker checks with the manufacturer that all the insurance protection that it currently has in force is sufficient for its needs and is satisfied that it is fully protected for all eventualities.

Six months after inception, a flood occurs which causes production to be stopped for two months. The insured submits a flood claim for £5,000,000. During this time, employees' wages and fixed expenses continue to be paid by the manufacturer.

66. Which type of insurance would cover the manufacturer's fixed costs following the flood claim?

A. Business interruption.
B. Employers' liability.
C. Financial guarantee.
D. Property.

67. How much of the leading insurer's acceptance is ceded under its surplus reinsurance treaty?

A. £10,000,000
B. £40,000,000
C. £50,000,000
D. £60,000,000

68. What compulsory insurance is the insured required to have in force?

A. Employers' liability.
B. Pollution.
C. Products recall.
D. Public liability.

69. How much Insurance Premium Tax does the insured pay?

- **A.** £1,187,500
- **B.** £1,500,000
- **C.** £1,875,000
- **D.** £2,500,000

70. Who would the insurers appoint to investigate the factory's flood damage?

- **A.** A loss adjuster.
- **B.** A loss assessor.
- **C.** A surveyor.
- **D.** Xchanging Claims Services.

An insurer underwrites the following two risks:

Risk 1
Insured: A solicitors
Class: Fire and special perils
Period: 12 months from 1 January
Sum Insured: £10,000,000
Premium: £50,000 per annum
Signed line: 100%
Order: 100%
Loss record: Nil losses in last 5 years
Occupation: Solicitors

Risk 2
Insured: A chain of riding schools
Class: Fire and special perils
Period: 12 months from 31 January
Sum insured: £10,000,000
Premium: £75,000 per annum
Signed line: 100%
Order: 100%
Loss record: £10,000 storm loss in last 5 years
Occupation: Riding school

The insurer has a retention limit of £2,500,000 for this class of insurance and has a 10-line surplus reinsurance of £2,500,000 per line.

During the first period of insurance, the solicitors submit a claim for subsidence damage to their building. When processing the claim, the underwriters consult the Claims and Underwriting Exchange and discover that the insured has submitted other claims during the last 5 years, totalling £50,000, which they have deliberately failed to disclose.

On 15 October the area in which the riding schools are based is hit by a storm. The riding school submits a valid claim totalling £10,000,000. The insurer makes payment in full.

New capacity is also beginning to enter the fire and special perils market.

71. In addition to employers' liability, what other compulsory insurance **must** the insureds in risk 1 and risk 2 have?

A. Legal expenses for risk 1 and personal accident for risk 2.
B. Personal accident for risk 1 and legal expenses for risk 2.
C. Professional indemnity for risk 1 and public liability for risk 2.
D. Public liability for risk 1 and professional indemnity for risk 2.

72. What element of the insurance contract comprises the insured's consideration?

A. Occupation.
B. Premium.
C. Signed line.
D. Sum insured.

73. What **typically** will be the effect on insurers of the change in capacity?

A. Claims will decrease.
B. Claims will increase.
C. Premiums will decrease.
D. Premiums will increase.

74. Under which section of a Market Reform Contract would the limit of liability of £10,000,000 be stated?

A. Fiscal and regulatory.
B. Information.
C. Risk details.
D. Security details.

75. How much, if anything, will the reinsurers pay for the storm loss?

A. Nil.
B. £5,000,000
C. £7,500,000
D. £10,000,000

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	B	7.5	48	B	10.4	56	B	7.3
1 Question			24	D	7.2	49	A	10.2	57	D	10.2
			25	C	7.3	50	B	10.3	58	A	3.4
Learning Outcome 2			26	B	7.7	51	A	10.1	59	A	3.3
2	D	2.1	27	A	7.4	**4 Questions**			60	C	3.4
3	C	2.3	28	A	7.5				61	A	3.4
4	D	2.2	29	D	7.1	**Learning Outcome 11**			62	B	8.7
3 Questions			**7 Questions**			52	D	11.4	63	A	2.2
						53	D	11.3	64	C	3.1
Learning Outcome 3			**Learning Outcome 8**			54	A	11.1	65	D	10.3
5	A	3.2	30	D	8.10	55	C	11.2	66	A	2.2
6	D	3.1	31	D	8.9	**4 Questions**			67	B	3.4
7	B	3.4	32	D	8.2				68	A	5.1
8	A	3.3	33	B	8.4				69	B	5.5
4 Questions			34	B	8.11				70	A	10.2
			35	D	8.8				71	C	5.1
Learning Outcome 4			36	C	8.6				72	B	8.4
9	C	4.1	37	B	8.5				73	C	7.4
10	A	4.2	38	B	8.7				74	C	8.5
2 Questions			39	C	8.14				75	C	3.4
			40	A	8.12				**20 Questions**		
Learning Outcome 5			41	A	8.13						
11	D	5.5	42	B	8.1						
12	C	5.2	43	A	8.3						
13	D	5.3	**14 Questions**								
14	B	5.4									
15	B	5.1	**Learning Outcome 9**								
16	B	5.2	44	A	9.4						
6 Questions			45	C	9.1						
			46	D	9.2						
Learning Outcome 6			47	A	9.3						
17	D	6.5	**4 Questions**								
18	D	6.4									
19	D	6.2									
20	A	6.6									
21	D	6.1									
22	D	6.3									
6 Questions											