

# Insurance broking

**Objectives:** To develop in the candidate:

- thorough knowledge of the issues and processes involved in insurance broking;
- knowledge of the relevant and changing regulatory environment in which the insurance broker operates;
- understanding of the relationships with insurers and policyholders undertaken by the insurance broker;
- ability to evaluate key issues and concepts and assess their implications for brokers and the broking and wider insurance markets.

**Assumed knowledge and application skills:** It is assumed that the candidate already knows the main provisions and principles of the Consumer Credit Act 1974, Data Protection Act 1998 and current Money Laundering Regulations. This syllabus is concerned solely with their application to insurance broking.

**Method of assessment:** See page 7 in the 2004 Advanced Diploma in Insurance 'Information for candidates' brochure.

**Notes:**

- The syllabus will be based on UK law and practice.
- The April session will test the legal position as of 31st August of the preceding year.
- The October session will test the legal position as of 28th February of the same year.

## 1. The insurance market

### 1.1 Development of the insurance market and the different market sectors

Candidates should be able to

- describe the present UK, European and global insurance markets;
- distinguish between the different market sectors, including:
  - personal lines;
  - commercial lines;
  - life;
  - marine and aviation;
  - run-off.
- describe the structure and placing of business at Lloyd's;
- analyse the needs, operations and interrelation of the different market sectors.

### 1.2 The role of intermediaries

Candidates should be able to

- identify and distinguish between the main types of intermediary;
- describe how intermediaries operate;
- evaluate the role of intermediaries within the insurance market and their impact on it.

### 1.3 The role of associations representing intermediaries

Candidates should be able to

- identify the main organisations representing intermediaries;
- describe and evaluate their role and impact on the insurance markets.

## 2. Regulation

### 2.1 Development of regulation of intermediaries

Candidates should be able to

- describe the background to and the nature of the regulation of general insurance business;
- describe the role, key concepts and main provisions of the following and assess their implications for the insurance and broking markets:
  - General Insurance Standards Council;
  - Financial Services and Markets Act 2000;
  - Financial Services Authority;
  - EU Intermediaries legislation, in particular the Insurance Mediation Directive 2002;
  - Self-regulation;
  - Financial Ombudsman Service.

### 2.2 The law of agency and its application to insurance brokers

Candidates should be able to

- understand and describe the principles and operation of the law of agency;
- apply this understanding to the insurance broking market.

### 2.3 Brokers in the Lloyd's market

Candidates should be able to

- discuss the role and responsibilities of a Lloyd's broker;
- discuss the rules and regulations affecting Lloyd's brokers;
- explain the operation and importance of the Lloyd's Market Plan 2001;
- describe the requirements of Lloyd's underwriters when dealing with non-Lloyd's brokers.

### 2.4 Disciplinary procedures

Candidates should be able to

- identify the external disciplinary procedures to which insurance brokers may be subject;
- assess the implications of external disciplinary procedures for insurance brokers.

### 2.5 Distinction between different types of intermediary

Candidates should be able to

- distinguish between different types of intermediary and discuss the regulations to which they are subject.

### 2.6 Data Protection Act 1998

Candidates should be able to

- apply the provisions and principles of the Data Protection Act 1998 to insurance broking.

### 2.7 Consumer Credit Act 1974

Candidates should be able to

- apply the provisions and principles of the Consumer Credit Act 1974 to insurance broking.

### 2.8 Money Laundering Regulations

Candidates should be able to

- apply the provisions and principles of the current Money Laundering Regulations to insurance broking.

### 2.9 Accounting requirements

Candidates should be able to

- identify the key features of the financial and management accounting systems used by insurance brokers;
- discuss the aims of an insurance broker's accounting system;
- explain and discuss the requirement for insurance broking accounts.

## 3. Role of the insurance broker

### 3.1 Understanding client needs

Candidates should be able to

- explain the importance of the broker assessing the needs of clients;
- demonstrate an understanding of the need to make recommendations that satisfy client needs following analysis of individual requirements.

### 3.2 Selection of insurers

Candidates should be able to

- discuss the issues that should be taken into account when selecting insurers;
- evaluate the role of the broker in this process.

### 3.3 Negotiation and placing of risks

Candidates should be able to

- explain the function and duties of the insurance broker in respect of the negotiation and placing of risks.

### 3.4 Policy wordings

Candidates should be able to

- identify the key considerations to be addressed in the design, negotiation and drafting of policy wordings;
- evaluate the role of the broker in this process.

### 3.5 Negotiation, collection and payment of claims

Candidates should be able to

- discuss the specific functions of the insurance broker in relation to the negotiation of claims.

### 3.6 Programme design and the operation of global insurance programmes

Candidates should be able to

- discuss the process of programme design and assess its importance for ensuring client satisfaction;
- apply their understanding of client needs and the operation of global programmes to satisfy individual requirements;
- explain the workings of global insurance programmes;
- analyse their implications for insurance brokers.

### 3.7 Practical factors affecting the international operations of insurance brokers

Candidates should be able to

- identify and analyse the factors that affect the international operations of insurance brokers.

### 3.8 London market procedures

Candidates should be able to

- identify key elements of London market procedures.

### 3.9 Electronic trading

Candidates should be able to

- discuss the advantages and disadvantages of electronic trading and the role of the broker within it;
- describe the business models associated with electronic trading:
  - brochure sites;
  - point click bind;
  - electronic fund transfer;
  - auction (on-line comparison).
- describe the major trends in electronic commerce, particularly in the London Market;
- describe the main features and analyse the use of Electronic Data Interchange;
- discuss the implications of email for errors and omissions;
- discuss the issues surrounding electronic archiving.

### 3.10 Role of the broker in the risk management process

Candidates should be able to

- discuss the role of the insurance broker in the risk management process.

### 3.11 Brokers' fees

Candidates should be able to

- identify the requirements of transparency and disclosure;
- assess the implications of non-compliance.

### 3.12 Business agreements with insurers and clients

Candidates should be able to

- describe the key elements of business agreements and their importance to insurance broking.

### 3.13 Role of the insurance broker in the event of insurer failure or if an insurer discontinues a line of business

Candidates should be able to

- identify the practical issues for the insurance broker and clients that arise from these eventualities;
- assess the impact of insurer failure on the market as a whole.

### 3.14 Providing service

Candidates should be able to

- describe the key elements of service level agreements;
- evaluate the role of service level agreements in providing customer satisfaction.

### 3.15 Fraud and financial crime

Candidates should be able to

- outline the role of the FSA in the fight against financial crime;
- discuss the implications of fraud for the insurance broker.

### 3.16 Delegated authority

Candidates should be able to

- discuss the features and operations of delegated authority.

### 3.17 Conflict of interest

Candidates should be able to

- discuss the implications for an insurance broker placing business with an insurer which is one of its reinsurance clients.

## 4. Marketing

### 4.1 Principles of marketing

Candidates should be able to

- identify the chief principles of marketing;
- apply them to insurance broking.

### 4.2 The marketing environment

Candidates should be able to

- describe the main features of the marketing environment:
  - competition;
  - distribution;
  - suppliers;
  - the economic climate.
- evaluate their impact on insurance broking.

### 4.3 Market research

Candidates should be able to

- describe the techniques used in market research;
- assess its application to insurance broking.

### 4.4 Product development

Candidates should be able to

- identify the key stages and considerations of product development;
- assess the role of the insurance broker in the process;
- assess the implications of product development for the insurance broker.

### 4.5 The selling process

Candidates should be able to

- describe and evaluate key aspects of the selling process:
  - pre-contractual disclosure rules;
  - meeting client needs;
  - negotiation;
  - direct and indirect selling;
  - distance marketing;
  - image building.

### 4.6 The Data Protection Act 1998

Candidates should be able to

- discuss the implications of the Act for marketing activities.

## 5. Solvency and security

### 5.1 Factors affecting the solvency of an insurer

Candidates should be able to

- understand and describe the principles and factors affecting the solvency of an insurer;
- assess the implications of insurer insolvency for insurance broking.

### 5.2 Solvency margins

Candidates should be able to

- demonstrate knowledge of how insurers' solvency margins are calculated;
- explain the importance of solvency margins to the insurance and insurance broking markets.

### 5.3 Security function within large brokers

Candidates should be able to

- describe the functions of a typical market security department of a large insurance broker;
- discuss the reasons for a large insurance broker to create a market security department.

### 5.4 Monitoring solvency of other intermediaries

Candidates should be able to

- discuss the importance of monitoring the solvency of other intermediaries.

## 6. Management

### 6.1 Financial management of insurance brokers

Candidates should be able to

- discuss the capital structure of insurance brokers;
- identify and discuss the organisation and financial management of insurance brokers.

### 6.2 Remuneration

Candidates should be able to

- discuss the ways in which brokers are remunerated;
- analyse the implications of broker remuneration.

### 6.3 Errors and omissions

Candidates should be able to

- identify the causes of mistakes and poor service;
- give examples of errors and omissions;
- discuss the importance of errors and omissions' prevention to the insurance broker;
- explain the techniques used for prevention;
- assess the implications for the broker of failing to prevent errors and omissions;
- discuss the relevance of formal quality systems such as the ISO 9000 series.

#### Reading list

The following list provides details of various publications which may assist with your studies. The primary text for this syllabus is shown in bold type. Periodicals and publications listed as additional reading will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

**Note:** The examination will test the syllabus alone. The reading list is provided for guidance only and is not in itself the subject of the examination.

Most of these additional study materials can be borrowed or purchased from CII Information Services at [www.cii.co.uk/is](http://www.cii.co.uk/is)

#### Primary text

**Insurance Broking. London: The CII. Coursebook 930.**

#### Additional reading

The Law of Insurance Broking. Christopher Henley. London: Longman, 1990.

The Lloyd's Broker. Gordon W. Shaw. London: Lloyd's of London Press, 1995.

The Professional Liability of Insurance Brokers. Roger Litton. London: CII Information Services. Online document available to CII members only. Updated as necessary. [www.cii.co.uk/factfiles](http://www.cii.co.uk/factfiles)

The Regulation of Insurance Brokers and Other Insurance Intermediaries. Tony Wiltshire. London: CII Information Services. Online document available to CII members only. Updated as necessary. [www.cii.co.uk/factfiles](http://www.cii.co.uk/factfiles)

#### Reference works

Consumer Credit Act 1974. London: HMSO, 1974.

Data Protection Act 1998. London: HMSO, 1998.

Also available online at [www.legislation.hmsso.gov.uk/acts/acts1998/19980029.htm](http://www.legislation.hmsso.gov.uk/acts/acts1998/19980029.htm)

Financial Services and Markets Act 2000. London: HMSO, 2000.

Also available online at [www.legislation.hmsso.gov.uk/acts/acts2000/20000008.htm](http://www.legislation.hmsso.gov.uk/acts/acts2000/20000008.htm)

Insurance Intermediaries: Law and Regulation. R. W. Hodgkin. London: Lloyd's of London Press, 1992-2001.

Insurance Mediation Directive 2002. Brussels: Office for Official Publications of the European Communities, 2002.

Also available online at [europa.eu.int/smartapi/cgi/sga\\_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=32002L0092&model=guichett](http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=32002L0092&model=guichett)

Money Laundering Regulations 2003. London: HMSO, 2003.

#### Examination guides

You are strongly advised to study these before the examination.

Please visit [www.cii.co.uk](http://www.cii.co.uk) to buy online or contact CII

Customer Service for further information on 020 8989 8464.