

Risk and insurance (with special reference to Lloyd's)

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Objective: To develop a sound appreciation of the nature of risk, its assessment and management, to acquire a knowledge of the nature and function of insurance, the insurance market and, in particular, the Lloyd's market and a knowledge of basic statistical concepts relating to the insurance environment.

	<i>Knowledge rating</i>		<i>Knowledge rating</i>
Nature of risk and uncertainty		Nature of insurance	
Meaning and concept of risk.	1	Insurance as a risk transfer mechanism and how this is achieved.	2
Ways in which risk is classified.	2	Functions and benefits of insurance to the individual companies and the community.	2
Responses to risk by individuals and corporations.	3	Nature of insurable risks and the essentials for a risk to be insurable.	3
Ways in which risk affects the business environment and the cost of risk.	2	Development of the main classes of insurance, including risks written at Lloyd's.	2
Perception of risk and the difference between perceived and actual risk.	3	Scope of the main classes of insurance in respect of property, pecuniary and liability risks to the person.	2
Risk assessment techniques		Application of life assurance and annuities to the needs of individuals.	3
Definition and explanation of risk management.	2	Operation of, and reasons for, self-insurance.	3
Techniques of risk management, including risk identification, analysis, control and transfer.	3	Advantages and disadvantages of self-insurance schemes.	3
Techniques used in risk identification, including physical inspections, flow charts, check lists and hazard and operability studies.	2	Development and role of Government supervision of insurers.	2
Limitations of each risk identification technique and the common features of risk identification.	3	Insurance Companies Act 1982 as it relates to Lloyd's, including premium trust funds, the solvency test and the statutory statement of business.	3
Characteristics of risk data, both qualitative and quantitative.	2	Lloyd's chain of security, including members' funds at Lloyd's, their personal wealth, corporate capital and the Lloyd's new central fund.	3
Objectives and techniques of loss control management, including active and proactive measures.	2	Reasons for State regulation of insurers.	2
Control of property, liability and pecuniary risks.	3	Supervision of intermediaries.	2
Utility theory and its application to insurance consumption.	2	Scope and purpose of compulsory insurance in the UK.	2
Outline of Alternative Risk Transfer.	1	Structure of the insurance market	
Ways in which risk is measured		Participants within the market-place and their role, including buyers, sellers and intermediaries.	2
Ways in which data may be collected.	2	Position of Lloyd's in world insurance and in the London market.	3
Identifying the appropriate techniques for representation of risk data.	2	Organisations representing the insurance market, including Lloyd's market associations.	2
Use of existing databases and the creation of a risk database.	3	Categories of insurance intermediaries and the principal differences between them.	3
Availability of published sources of data.	1	Structure of Lloyd's and how its members transact business.	3
Graphic methods of constructing and displaying data, including graphs, bar charts, pie charts and pictograms.	3	Forms of insurance company, including captives.	2
Practical application of frequency distributions to represent data.	3	Nature of mutual indemnity associations.	2
Techniques of statistical risk management, including measurement of location, dispersion and skew.	3	Main participants within the reinsurance market.	2
Nature of probability and the methods of deriving probabilities.	2	Functions and duties of the loss adjuster.	2
Uses of probability distributions.	2	Right of establishment and freedom of services under the Treaty of Rome and EC directives.	3
Main characteristics of normal distributions and their uses.	1	Role and function of specialist consultants including risk management consultants.	2
Calculation of the standard/normal deviation.	3		
Application to insurance of risk assessment measurement and techniques, including linear regression and correlation.	2		

How insurance operates

Characteristics of physical and moral hazard.	3
Importance of risk surveys.	2
Methods of conducting business at Lloyd's, including line slips, binding authorities, direct dealing and electronic placement.	3
Structure and purpose of proposal forms for business and personal insurances and the standard slip.	2
Purpose of the Lloyd's Statement of General Insurance Practice.	1
Structure of Lloyd's policies for the main classes of insurance.	2
Need for and use of insurance certificates, including statutory requirements.	2
Common policy conditions and usual exclusions.	2
Lloyd's policy wordings and the interpretation of policies.	3
Purpose and use of cover notes.	2
Process of renewing a policy, including granting of days of grace.	3
Underwriting process at Lloyd's for commercial, personal and life assurance risks.	2
Duties and responsibilities of the Lloyd's underwriter.	3
Leading underwriter within Lloyd's.	2
Role and functions of Lloyd's Policy Signing Office.	2
Need for and the different methods of reinsurance, including their suitability for each class of risk.	3
Basis of premium calculations for reinsurance contracts.	3
Pricing of the direct risk and factors which influence the calculation of the premium.	3
Claims procedures and notification by insured, submission of claims, claims settlement including the role of Lloyd's Claims Office.	3
Settlement of accounts under the Central Accounting System.	1
Terms of settlement scheme and the late settlement reporting system.	2
Equitas.	3

Regulation of and within the Lloyd's market

Purpose and nature of regulation at Lloyd's.	2
Constitution of Lloyd's, how it is regulated and by whom.	2
Operation of rule-making at Lloyd's and the structure of rules.	3
Duties and regulation of Lloyd's brokers including the Lloyd's Brokers Bye-law.	3
Approval and registration of underwriting agents and individual registrations.	3
Duties and functions of members and managing agents.	3

Knowledge ratings

Each sub-topic has been designated a numerical knowledge rating as follows:

- 1 General background awareness necessary.
- 2 Requires a knowledge of the major elements of procedures or concepts and their uses.
- 3 Requires the ability to evaluate concepts, issues, policies and procedures, together with an understanding of associated aspects of these items and their application to various situations.

Study materials

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. The reference materials cited are authoritative, detailed works which should be used selectively as and when required.

Most of these additional study materials can be borrowed or purchased from the CII library.

Primary text

Coursebook 511: Risk and insurance with special reference to Lloyd's. The Chartered Insurance Institute.

Additional reading

An introduction to Lloyd's. Lloyd's Training Centre (ed). 5th edition. The Chartered Insurance Institute.
Risk analysis. G. C. A. Dickson. 2nd edition. London: Witherby, 1991.
Tolley's Insurance Handbook. Butterworths Tolley 2000, 2nd edition.
Tolley's life and Allied Insurance Handbook. Butterworths Tolley 2001.

Reference materials

Financial Services & Markets Act 2000. London: HMSO, 2000.
 Insurance Companies Act 1982. London: HMSO, 1982.
 Lloyd's: a route forward. London: Lloyd's, 1992.
 The Lloyd's Act 1982. London: HMSO, 1982.
 A new structure for governance of Lloyd's: report. London: Lloyd's, 1992.

Periodicals

Corporate Cover. London: Corporate Cover Publications Ltd. Monthly.
The Journal. London: The Chartered Insurance Institute. Six issues a year.
Post Magazine. London: Timothy Benn Publishing. Weekly.
 One Lime Street. Lloyd's Communications Department
 Articles in quality newspapers.