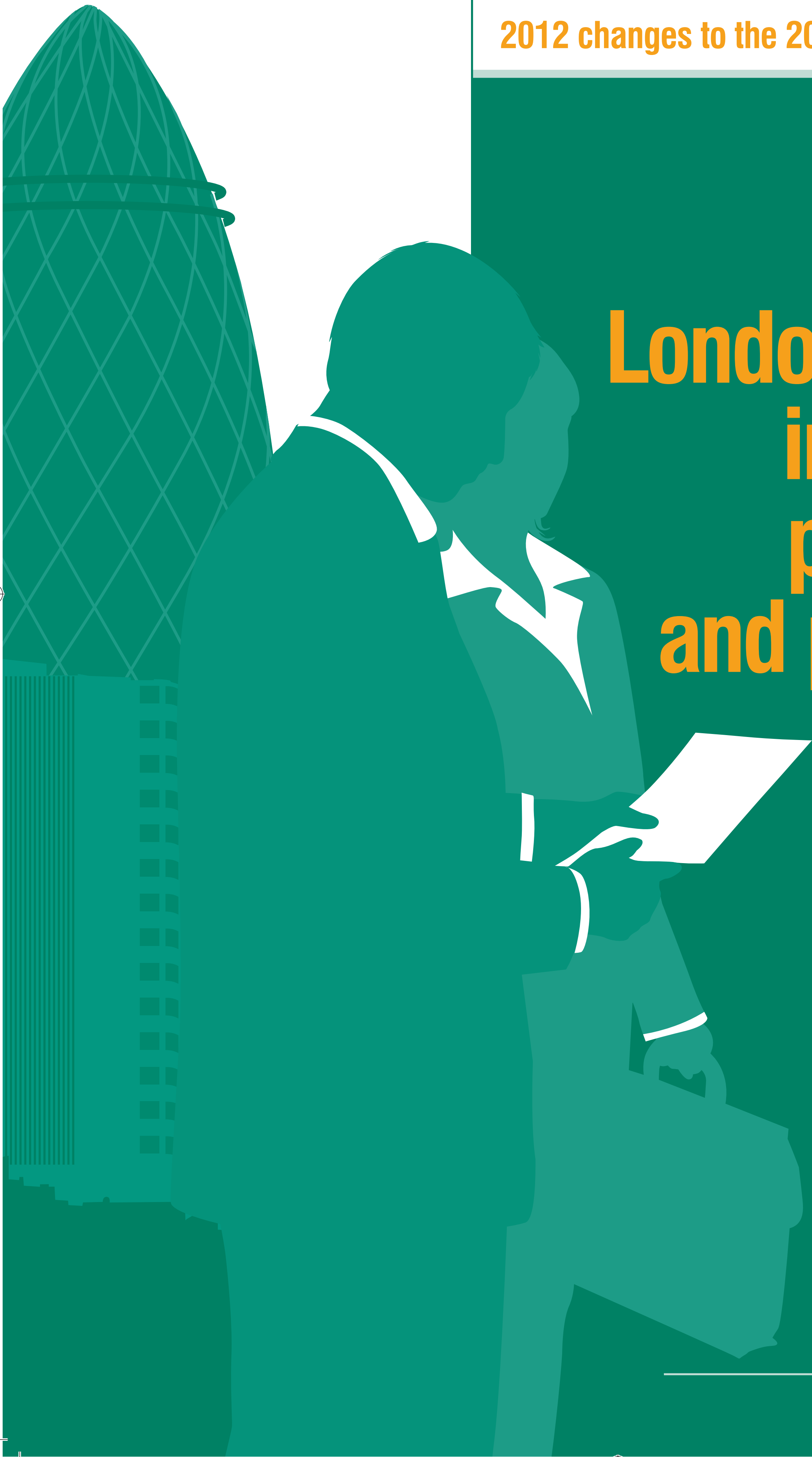
Award in London Market Insurance

2012 changes to the 2010–11 Study text



LM2
London Market insurance principles and practices

CII

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(LM2) London Market insurance principles and practices

The following content changes are applicable to the 2010/11 study text for unit (LM2) London Market insurance principles and practices.

The amendments consist of updating and revisions to reflect changes in London Market practice and regulations.

1

Business nature of the London Market

B2A International licences

The fourth paragraph (bullet list) has been amended to read as follows:

Continuing with Lloyd's as an example, there are several basic positions that a regulator can adopt:

- No permission given, so risks located in that country cannot be written by Lloyd's syndicates at all.
- Permission to write reinsurance only, so direct risks cannot be written.
- Permission to write both direct and reinsurance business, so everything can be written and the insurer can operate on the same basis as a local or domestic insurer.
- Permission to write business on a surplus lines basis rather than an admitted carrier (such as happens in most states of the USA).
- Permission only to write direct business, although this is highly improbable as permission to write reinsurance is far more likely to be granted than permission to write direct business.

All types of permission can have restrictions around them, so a specific check on the individual country in question is always prudent.

B2B US licensing

The following sentence has been added to the end of the first paragraph after the Activity:

In addition, individual states have guarantee funds for certain classes of business which will operate in much the same way as the Financial Services Compensation Scheme in the UK.

2

Risks written in the London Market

B1C Contingency insurance

The following words have been added to the end of the second sentence of the first paragraph of the section:

or sporting events.

The Activity has been amended to read as follows:

Consider the likely financial impact that the cancellation of any or all of the Olympic or Paralympic events due to take place in London in 2012.

B1E Motor insurance

This has now moved to become section E. (Note: subsequent sections have been renumbered).

B1F Property insurance, including onshore energy (now B1E)

The bullet point on 'Earthquake' under the 'Property' sub-heading has been amended to read:

- Earthquake: there are a number of options here, i.e. pure earthquake, shake damage, earthquake excluding any damage caused by subsequent fire, or fire damage following an earthquake.

The following Useful website has been added after the bullet point on 'Earthquake':

Useful website

Lloyd's Market Association California Risk report:

http://www.lmalloyds.com/Web/market_places/Professional_Standards/PSC_files/California_Earthquake_Risk_Report.aspx

B1G Business interruption insurance (now B1F)

The following has been added to the end of the first Activity:

Research whether your company had any CBI losses arising from the Japanese earthquake in March 2011.

The following paragraph has been added after Question 2.4:

The insurances such as money, fidelity and business interruption can also be grouped into a category known as pecuniary losses where the loss suffered is monetary or financial in its original nature rather than being the financial cost of replacing a physical thing or being compensated for an injury.

B1G Homeowners insurance

This new section has been added at the end of section B1F as follows:

B1G Homeowners insurance

These are still property risks but are rarely written directly into the London market. They are generally written via forms of delegated underwriting such as binding authorities or service companies. They cover the same types of risks as commercial property insurance, including damage to buildings caused by various perils and the cost of rebuilding or reinstating the property after loss.

B2A Directors' and officers' (D&O) liability insurance

The head of the Be Aware after Example 2.1 has been amended to read as follows:

'Losses occurring' /'claims made' policy

B2B Errors and omissions (E&O)/professional indemnity/professional negligence and medical malpractice

The following has been added to the first sentence of paragraph 2:

Professional indemnity (PI) insurance is compulsory in the UK for certain professionals such as lawyers and accountants (for example under the Solicitors Act 1974);

B2C Public liability insurance

The following bullet point has been added to the end of the second bullet list:

- Pollution.

B2E Employers' liability insurance

The following text in brackets in the second paragraph, first sentence, has been amended to read as follows:

(in contrast with PI above, this is generally not a 'claims made' but a 'causation' type of insurance)

A new second bullet point has been added to the bullet list in the third paragraph after the 'Be Aware' as follows:

- It is a strict liability, which means that the injured party does not need to show any negligence on the part of their employer, just that they became injured or ill during their employment.

B3B Extortion/malicious product tamper/contamination insurance

The following has been added to the end of the first paragraph:

or pharmaceutical manufacturers.

B3D War insurance

This section has been replaced as follows:

In April 2011, Lloyd's revised the market guidance for the writing of war, civil war and related perils particularly with relation to the monitoring of aggregate losses that could arise from these exposures.

Lloyd's syndicates may not write any war or related perils risks (whether on land or not) without having Lloyd's permission. This is obtained through the business planning process rather than on an individual risk basis.

In addition Lloyd's syndicates have to provide realistic disaster scenario returns showing fixed property exposures to war and related perils by territory. In 2012 will also have to start providing returns in relation to moveable risks, such as those which are aviation or marine in nature.

Realistic disaster scenarios are discussed further in chapter 7, section D, but in essence they are calculations as to which risks would be exposed by any particular loss event and what the financial impact on the syndicate would be.

D1A Vessels

Under sub-head 'Physical damage to vessel', the final bullet point of first bullet list has been amended as follows:

- Earthquake, volcano or lightning (which can include tsunami).

D2A Shipowners' liability insurance

The second sentence of the second paragraph has been amended to read:

Shipowners have set up clubs called Protection and Indemnity Clubs (P&I Clubs) to insure each other, which are run by professional managers.

A Useful website has been added immediately following:

Useful website

The International Group is the collective body for 13 of the biggest P&I Clubs in the market.

Look at their website for more information about these insurers and the types of risk they cover:

www.igpandi.com

E Motor insurance

This is the text of old section B1E moved and re-headed. However a new activity has been added at the end:

Activity

Look up a specialist motor syndicate such as Chaucer

http://www.chaucer-insurance.co.uk/chpinsurance/en/home

Question answers

The answer to question 2.5 is now 'c'.

3

Reinsurance

B London reinsurance market

The statistics in paragraph 5 have been amended as follows:

37% of the business written in Lloyd's is reinsurance

22% of the market is property insurance

Amend the date to 2010.

C2 Excess of loss (XL) reinsurance

The second bullet point after example 3.2 has been amended to read as follows:

- The reinsurance starts from zero at the bottom. The cedant can opt to retain as much or as little of the risk as they choose. In this example under option A they could retain the first £250,000 of each claim and only buy reinsurance above this level. Whatever they retain is known as their **retention** or **retained line**.

The first paragraph after this bullet list (beginning 'Interestingly...' and ending '...limit of the first layer') has been deleted.

The Consider this has been amended to read as follows:

Imagine the challenges faced by an US or global insurer that has run out of reinsurance protection halfway through the year, with the North Atlantic hurricane season still to come!

C2A Claims under excess of loss

A new second bullet point has been added as follows:

- Single risk (known as per risk or risk excess contracts);

D Reinsurance programme construction

The following has been added to the end of point 3:

Perhaps they could purchase a specific risk excess?

Additional text has been inserted into the second paragraph after example 3.8 as follows:

... US government scheme. This scheme is known as TRIA (which stands for the Terrorism Risk Insurance Act)...

A new website has been added to the next Activity:

http://www.treasury.gov

4
Market security

D Role of the European Union (EU) in solvency

Note that Solvency II will now come into UK law 1 January 2013 and into effect on 1 January 2014.

The following new row has been added at the end of table 4.2:

Enterprise Risk	Many risks do not just impact on one area of the business. Enterprise Risk Management (ERM) encompasses the wider ranging management of risks that can impact on the entire business.

5

Legal and regulatory requirements

A Compulsory insurances

Paragraphs 2, 3 and 4 have been deleted after bullet point ‘Professions and businesses’ (i.e. the paragraphs starting ‘Public liability insurance is also compulsory...’ and ending ‘...operators of nuclear reactors’).

The second bullet list has been amended to read:

- to provide funds for compensation; and
- in response to national concerns.

After this bullet list the following has been added to the end of the section:

Refresh yourself on the reasons for and benefits of compulsory insurance in LM1 chapter 5, section A.

C Insurance premium tax (IPT)

Note that IPT is now 6% (up from 5%) for the standard rate and 20% (up from 17.5%) for travel insurance and others.

6

Insurance intermediation

B Types of intermediary

Table 6.1 is now called Types of intermediary and notes have been added where relevant to show the intermediaries that do not work in the London Market – i.e.

- the single tied agent; and
- the multi-tied agent.

C1 Placing process

A new sentence and Activity has been added immediately **before** the ‘Be aware’ called ‘Written and signed lines’:

It is possible to place business in the London market using electronic methods rather than a paper MRC and physically obtaining the insurers’ agreement to their line.

Activity

Research whether any business in your company is placed by electronic methods. Find out which methods are used and whether it is concentrated in one particular class of business

Write your notes here

After the Consider this, the first complete sentence of the bullet point ‘Making changes to the risk’ has been amended to read as follows:

Should there be any changes to the risk, the broker should take their client’s instructions and promptly advise insurers accordingly by creating endorsement paperwork or electronic endorsements and visiting (or sending to) either the lead insurer, a set combination of insurers, (or all insurers on risk, as required) to obtain agreement to such an endorsement.

D Terms of Business Agreements (TOBAs)

A new paragraph has been added to the end of the section:

The LMA, IUA and LIIBA have produced model TOBAs which assist with this process, although all parties are free to amend them by agreement

F1 EU legislation

New text has been added at the end of the section:

The EU is currently reviewing the IMD because the Directive is actually applied differently in each EU country. This has lead to fragmented insurance markets in the EU, with significant gaps and inconsistencies, in particular regarding the information requirements imposed on sellers of insurance products.

This has increased the problem of customers having a poor understanding of the risks, costs and features of insurance products. The collapse in consumer confidence during the financial crisis has also given new prominence to level-playing field and consumer protection issues.

The consultation period finished in February 2011 and the EU is currently considering the responses received.

7 Underwriting

B2 Choice of leader

New text has been added at the end of the section:

Within the London market, a number of leaders may appear to exist, as there will be a Lloyd's lead and a company market lead if the placement is mixed (known as bureau leads.) In addition, if part of the risk is placed in another market, there may be an overall lead overseas.

In relation to the MRC, a slip lead and bureau leads will be identified in the document. The slip lead will normally be one of the two bureau leaders, unless the slip is being led in London by an insurer that does not operate through the central data and money movement bureau operated by Xchanging.

D2 Loss modelling

The last bullet point of the first bullet list has been amended as follows:

- Having done those calculations, the final result is firstly the gross financial exposure to the insurer of the RDS (i.e. without the impact of any reinsurance) and secondly, the net result (taking the applicable reinsurance into consideration as well as any reinsurance reinstatement costs).

The Activity now refers to the 'current' RDS instructions issued by Lloyd's (rather than the 2010 ones).

E2 Other components of premium calculations

A new third bullet point has been added to first bullet list as follows:

- **Profit Margin**. The insurer should consider business not just as a way of obtaining premium income but as a way of making a profit on the risk, taking into account all the additional expenses that there are in writing the risk in the first place, such as reinsurance costs, operating costs and any taxes payable.

F5A Incurred but no reported (IBNR)/incurred but not enough reported (IBNER)

The following new text has been added immediately **before** Question 7.6:

The key difference between IBNR and IBNER is that for the former, the estimates relate to claims which have not been reported at all to the insurer, whereas the latter relates to claims which are known about but for which the currently posted reserve may not be adequate.

Chapter 7

8

Business process

A2 Formation of the contract

The first two sentences of paragraph 3 have been amended to read as follows:

Each insurer's underwriter indicates its agreement to taking the share using a rubber stamp which shows its company or syndicate, together with the name. The underwriter then 'scratches' the slip (which means that they sign either their initials or the initials of the insurer) and add the date. Finally, they indicate the share of the risk that they are taking. Each insurer will also state...

A4 Renewals

Question 8.3, option c) has been amended to read:

c) The broker has approached other insurers looking for competing quotes which has offended the insurer.

B2 Market Reform Contract

In the in-text table headed 'Risk details' row 11 Premium (fifth from bottom) has been amended as follows:

Premium	The consideration for the contract of insurance. The premium may be different for each underwriter on risk (for example, in aviation business, where each individual insurer has their own terms) but this information should appear on individual pages on the placing documents (and separate MRC can be used).

C2 Exclusions

Paragraph 2 has been replaced with the following:

Note that cover for war on land is a far more restricted type of insurance and is not so freely available. Historically there were restrictions on the amount of war on land business that a syndicate could write as a proportion of its overall capacity. Those restrictions were removed in April 2011. They were replaced with a far stricter requirement to formally request permission to write any type of war business as part of the business planning process and for regular exposure reports for both static and mobile risks (realistic disaster scenarios) to be submitted to Lloyd's.

9 Delegated underwriting

A2B Delegation to a broker or another entity

Question 9.2 has been amended to read as follows:

Question 9.2

What is the name of the process which attaches a risk to a line slip?

a) Declaration ☐
b) Statement ☐
c) Endorsement ☐
d) Binding ☐

C5 Auditing

The following has been added to the sentence following the first bullet list:

...although costs can be shared between all subscribing insurers who have the benefit of the audit activity.

10 Claims handling

Key terms

Amend key term 'Claims Transformation Project' to 'Claims Transformation Programme'.

B2C Lloyd's market

The following text in brackets has been added to the first paragraph after the Reinforce:

...by only one syndicate (or two syndicates managed by the same managing agent)

Under the sub-heading '2010 Claims Scheme':

1. the first sentence has been amended to read as follows:

This document supports a programme which is currently in operation, called the 'Claims Transformation Programme'.

2. The paragraph after the first bullet list (beginning 'This pilot is being run...') has been replaced with the following:

This new way of working is being rolled out in several classes of business and has been introduced in two phases:

- Phase 1 with effect from 1 January 2010 was for namely marine hull/liability, property and non-marine excess of loss; and
- Phase 2 (or Phase 1 expansion) with effect from 1 July 2011 added energy (on and offshore), all additional property classes, further excess of loss classes and marine cargo and specie together with any binders incepting on or after 1 July 2011 involving any of the classes of business so far included.

The criteria for a risk to be included is the inception date of the contract, the risk code and the mode of presentation, as only ECF claims are involved.

Activity

For more information about claims transformation and what it means for your organisation and the market as a whole review the information on the Lloyd's website.

http://www.lloyds.com/The-Market/Operating-at-Lloyds/Claims/Claims-Initiatives

Look for Market Bulleting Y4482 on the Lloyd's website for information about the 2011 expansion of the project.

3. The question stem of Question 10.1 has been amended to read:

Which of these best describes the Lloyd's Claims Schemes?

E2 Financial Ombudsman Service (FOS)

The following has been added to the end of the first paragraph after the first bullet list:

This limit of £100,000 will increase to £150,000 with effect for any complaints made on or after 1 January 2012.

Chapter 10

Self-test answers

Chapter 5 self-test answers

The answer to question 7 has been amended to read:

7. The broker will collect £150 for the premium plus 6% of £150 (which is £9.00) – making a total of £159.00.

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