Chartered Insurance Institute

LM3

Certificate in London Market Insurance

Unit 3 – London Market underwriting principles

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

Unit 3 – London Market underwriting principles

Based on the 2020 syllabus examined until 31 December 2020

Contents

Published in October 2019 by:
The Chartered Insurance Institute
42-48 High Road, South Woodford, London E18 2JP
Telephone: 020 8989 8464
Fax: 020 7417 4483
Email: customer.serv@cii.co.uk

Unit 3 – London Market underwriting principles

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

Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the LM3 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 an LM3 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 LM3 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-underwriting-principles-lm3**
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 LM3 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 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 skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

Learning outcomes for LM3 begin with *understand*. Different skill levels lead to different types of questions, examples of which follow.

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 LM3 examination is 75 multiple choice questions (MCQs). 2 hours are allowed for this examination.

The LM3 syllabus provided in this examination guide 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.

The general rule is that legislative and industry changes will not be examined earlier than 3 months after they come into effect.

A 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 either 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.

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, under 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 underwriting principles

Purpose

This unit enables a student to build on introductory knowledge of the London Market (typically from studying units LM1 and LM2) by developing knowledge and understanding of:

- the underwriting disciplines within the London Market;
- key elements of the cycle, including business planning and obtaining capacity, pricing and the importance of putting together a contract which is both clear and certain;
- the opportunities and challenges posed by using different distribution channels such as delegated underwriting.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the framework within which business is conducted in the London Market	**5**
2. Understand the role, purpose and implications of policy wording in practice	**16**
3. Understand the role and importance of business planning and capital setting in the London Market	**18**
4. Understand the pricing of risk at an individual and at a portfolio level	**12**
5. Understand the various methods of writing business and distribution	**24**

***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: 75 multiple choice questions (MCQs). 2 hours are allowed for this examination.**
- **This syllabus 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.**
- **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-underwriting-principles-lm3/**
  2. **Select qualification update on the right hand side of the page.**

Published October 2019

1. Understand the framework within which business is conducted in the London Market

1.1 **Explain the framework within which business is conducted in the London Market**

1.2 **Explain the duties of the broker during the creation of a contract**

2. Understand the role, purpose and implications of policy wording in practice

2.1 **Explain the importance of policy wording**

2.2 **Explain the various ways in which policy wordings can be constructed**

2.3 **Explain the importance of knowing the identity of the contracting parties**

2.4 **Explain the importance of viewing the complete contract wording**

3. Understand the role and importance of business planning and capital setting in the London Market

3.1 **Explain the purpose and effect of the business planning process**

3.2 **Explain the reporting linked with the business planning process throughout the year**

3.3 **Explain the importance of monitoring against the business plan**

3.4 **Explain how capital setting supports the writing of business**

3.5 **Explain the technical account**

4. Understand the pricing of risk at an individual and at a portfolio level

4.1 **Explain basic statistical theory**

4.2 **Explain the principles of constructing an insurance rate**

4.3 **Explain the use of realistic disaster scenarios and catastrophe models**

5. Understand the various methods of writing business and distribution

5.1 **Explain the different types of placement**

5.2 **Explain the different methods of distribution**

5.3 **Explain the different types of delegated underwriting**

5.4 **Explain the stakeholders' roles and responsibilities**

5.5 **Explain the advantages and disadvantages of various methods of writing business for the stakeholders involved**

5.6 **Explain the management and controls around the different methods of placement**

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 underwriting principles. London: CII. Study text LM3.

Books and eBooks

Bird's modern insurance law. 10th ed. John Birds. Sweet and Maxwell, 2016.

Bowstead and Reynolds on agency. Peter Watts & FMB Reynolds. 21th ed. London: Thomson Reuters, 2017.

Drafting insurance contracts: certainty, clarity, law and practice. Christopher Henley. London: Leadenhall press, 2010.

'Insurance intermediaries: underwriting agents' in Colinvaux's law of insurance. 11th ed. Prof. Robert Merkin. London: Sweet & Maxwell, 2016.

Insurance theory and practice. Rob Thoyts. Routledge, 2010.*

Lloyd's: law and practice. 2nd ed. Julian Burling. Oxon: Informa Law, 2017.*

Pricing in general insurance. Pietro Parodi. CRC Press, 2015.*

The law of insurance contracts. Malcolm A Clarke. 6th ed. London: Informa, 2009.

The role of agents in insurance business. Chapter – MacGillivray on insurance law: relating to all risks other than marine. 13th ed. Sweet & Maxwell, 2015.

Factfiles and other online resources

CII fact files are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Written by subject experts and practitioners, the fact files cover key industry topics as well as less familiar or specialist areas of general insurance, life, and pensions and financial services, with information drawn together in a way not readily available elsewhere. Available online via www.cii.co.uk/ciifactfiles (CII/PFS members only).

The Insurance Institute of London (IIL) podcast lecture series features leading industry figures and subject experts speaking on current issues and trends impacting insurance and financial services. Available online at https://www.cii.co.uk/insurance-institute-of-london/ (CII/PFS members only).

- Basic concepts and techniques of the pricing process. Pietro Parodi.
- Principles and trends in general insurance underwriting. Massimo Vascotto.
- Recent developments in general insurance underwriting. Massimo Vascotto.
- Recent developments to Solvency II. Brad Baker.
- Specialist general insurance pricing and advanced techniques. Pietro Parodi.
- The regulatory framework. Simon Collins.

Further articles and technical bulletins are available at www.cii.co.uk/knowledge (CII/PFS members only).

Journals and magazines

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.

Access to further periodical publications is available from the Knowledge website at www.cii.co.uk/journalsmagazines (CII/PFS members only).

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.

i-law: online database of insurance legal knowledge. Informa. Available online via https://www.cii.co.uk/insurance-law-database-i-law/ (CII/PFS members only).

Lamont’s financial glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009.

Lloyd's Underwriting Requirements. Available online via www.lloyds.com (CII/PFS members only).

* 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.

1. In accordance with the Senior Managers and Certificate Regime, insurers **must** allocate prescribed responsibilities to which individuals working for an insurance company?

A. Any managers with supervisory responsibility.
B. The board members only.
C. The chairman and chief executive officer only.
D. Senior Managers only.

2. Who regulates UK domiciled insurance companies?

A. The Financial Conduct Authority only.
B. The Prudential Regulation Authority only.
C. Both the Association of British Insurers and the Prudential Regulation Authority.
D. Both the Financial Conduct Authority and the Prudential Regulation Authority.

3. The London market obtains the **majority** of its premium income from

A. Asia.
B. Europe, excluding the UK and Ireland.
C. the UK and Ireland.
D. the US and Canada.

4. When placing an insurance risk at Lloyd’s, who is **normally** responsible for checking the financial security of each proposed syndicate?

A. The Council of Lloyd’s.
B. The Lloyd’s insurance broker.
C. The Lloyd’s managing agent.
D. The Lloyd’s member’s agent.

5. What is the **main** reason that an open market correspondent would be used for an insurance placement at Lloyd’s?

A. The amount of premium.
B. The class of business.
C. The level of cover.
D. The territory of origin.

6. How will any contradiction in wording between a Market Reform Contract and a subsequently issued policy be resolved?

A. The document which is to the benefit of the insured will be used.
B. The document which is to the benefit of the insurer will be used.
C. The Market Reform Contract will automatically supersede the policy.
D. The policy will automatically supersede the Market Reform Contract.

7. When two parties are insured under a composite policy and one party breaches the duty of fair representation without the knowledge of the second, what effect will this have, if any, on the second party's cover?

A. The amount of cover will be automatically reduced.
B. It may be invalidated at the option of the insurer.
C. It will be automatically invalidated.
D. It will be unaffected.

8. What does the Contract Certainty Code of Practice state in relation to post-inception over-placing?

A. It must be avoided.
B. It must be validated by an independent third party.
C. It is only permitted for non-Lloyd's contracts.
D. It is only permitted where there are more than two participating insurers.

9. What is the **main** reason why a Market Reform Contract includes mandatory headings?

A. To comply with the Prudential Regulation Authority requirements.
B. To ensure all key details are included.
C. To meet a client's insurance requirements.
D. To prevent legal proceedings.

10. If the terminology within a consumer insurance contract is ambiguous, how will it be treated under the Consumer Rights Act 2015?

A. It will need to be adjudicated by the Financial Services Compensation Scheme.
B. It will need to be adjudicated by the Financial Ombudsman Service.
C. The most common interpretation will apply.
D. The most favourable interpretation to the consumer will apply.

11. What is the **main** purpose of a service of suit clause in a US contract?

A. It enables a contested claim to be heard in a US court.
B. It enables a third party to make a legitimate claim against a US insurer.
C. It prevents claims being submitted after a prescribed period of time.
D. It prevents post inception alterations from being made by any party.

12. When drafting a policy wording for an overseas risk that is being placed in the Lloyd's market, which system is used to check the regulatory requirements?

A. Crystal.
B. Lloyd's Wordings Repository.
C. World-Check.
D. Xchanging.

13. What is the **main** reason for an insurance broker to include the library code for a policy clause in a contract?

A. To create a bespoke policy wording.
B. To indicate the apportionment of cover.
C. To list the clause without its full text.
D. To outline the delegated authority limits.

14. What regulation requires an insurer to finalise all policy terms with an insured at the time of entering into an insurance arrangement?

A. The Contract Certainty Code of Practice.
B. The Insurance: Conduct of Business sourcebook (ICOBS).
C. The Insurance Distribution Directive.
D. The UK Corporate Governance Code.

15. What type of contract is indivisible whereby a breach of any term by one insured allows an insurer to invoke legal remedies against all insured parties?

A. Composite policy.
B. Facultative reinsurance policy.
C. Joint policy.
D. Package policy.

16. How does a Lloyd's managing agent **usually** ensure that a broker-produced policy wording meets the syndicate's individual regulatory requirements?

A. By conducting a pre-bind quality assurance check.
B. By ensuring that the insured always has an insurable interest in the subject matter at inception.
C. By only underwriting risks where contract certainty is achievable.
D. By requiring that all policy clauses are stated in full and attached to the Market Reform Contract.

17. An insurer underwrites a liability policy with a limit of indemnity of £2,000,000 subject to an excess of £50,000 for each and every claim. Defence costs are stated to be covered in addition to policy limits. If a claim is submitted for £3,500,000 whilst incurring defence costs of £400,000, how much will the insurer pay?

A. £2,000,000
B. £2,350,000
C. £2,400,000
D. £3,900,000

18. A property insurance policy has a limit of liability of £1,000,000 each and every loss subject to an occurrence limit of £1,000,000 for storm, with a £10,000 any one occurrence excess. A storm occurs and a policyholder submits the following claims.

Property	Claims amount
X	£250,000
Y	£750,000
Z	£1,250,000

How much will the policyholder and the insurer pay for this loss occurrence?

A. The policyholder pays £250,000 and the insurer pays £2,000,000.
B. The policyholder pays £280,000 and the insurer pays £1,970,000.
C. The policyholder pays £1,250,000 and the insurer pays £1,000,000.
D. The policyholder pays £1,260,000 and the insurer pays £990,000.

19. Why should the applicable time zone be stated in an insurance policy's period clause?

A. To allow the policyholder to recover all losses arising from one event during a stated time period.
B. To enable the insurer to accurately calculate its earned premium income.
C. To enable the policyholder to aggregate losses during a policy period arising from one cause.
D. To ensure that both the policyholder and the insurer know exactly what time the policy commences and terminates.

20. A product liability insurance policy states the policy limit as being £2,000,000 each and every claim and in the aggregate for the policy period. The insured submits four claims during the policy period as follows.

Claim 1	£250,000
Claim 2	£500,000
Claim 3	£1,500,000
Claim 4	£2,010,000

How much will the insurer pay?

A. £1,750,000
B. £2,000,000
C. £2,250,000
D. £4,260,000

21. When **must** a UK insurer produce an insurance policy in another language?

A. When it is for an overseas insured.
B. When it is a regulatory requirement in the insured's country.
C. When it is for a shipping company with a worldwide network.
D. When it is for a UK insured where the majority of the risk is overseas.

22. If an insurer with inadequate regulatory capital does **NOT** want to raise more capital or reduce the amount of business it underwrites, what **immediate** action may the insurer **normally** take?

A. Impose additional exclusions.
B. Increase pricing levels.
C. Purchase additional reinsurance.
D. Widen its geographical exposure.

23. The gross quarterly data reports submitted to Lloyd's are **primarily** used for

A. assessing tolerance for exceptionally large losses.
B. considering the prudence of underwriting activities.
C. identifying the volatility of claims.
D. monitoring the adequacy of reserves.

24. What is the **main** consequence if a Lloyd's syndicate fails to obtain approval for its syndicate business plan within the prescribed time period?

A. Enhanced regulatory monitoring will be triggered.
B. The minimum capital requirement will increase.
C. A remedial plan will be imposed by Lloyd's.
D. Writing business via a Lloyd's platform must cease.

25. The underwriting performance prediction within a Lloyd's syndicate's forecast includes a future prediction of premiums, claims, reinsurance premiums and

A. cashflow.
B. investment return.
C. loss ratio composition.
D. reinsurance recoveries.

26. When a Lloyd's managing agent is preparing a business plan, it **must** comply with the applicable requirements of which organisations?

A. Lloyd's and the Financial Conduct Authority only.
B. Lloyd's and the Prudential Regulation Authority only.
C. Lloyd's, the Financial Conduct Authority and the Prudential Regulation Authority.
D. The Financial Conduct Authority and the Prudential Regulation Authority only.

27. For what **main** use does Lloyd's require regular reporting of risks written throughout the year from a syndicate?

A. To check performance against the business plan and peer groups.
B. To ensure the syndicate amends its business plan.
C. To produce reports to the regulators.
D. To undertake solvency checks.

28. How frequently **must** managing agents submit realistic disaster scenarios reports to Lloyd's?

A. Monthly.
B. Quarterly.
C. Half-yearly.
D. Annually.

29. How can a Lloyd's syndicate ensure that it operates in accordance with its business plan?

A. By monitoring underwriters to ensure compliance with its underwriting guidelines.
B. By prohibiting the use of delegated underwriting authorities to coverholders.
C. By providing annual business returns to Lloyd's after the end of each year.
D. By ensuring that reinsurance is only placed with reinsurers that will remain solvent.

30. As part of its capital setting programme, an insurer has compiled a register of financial stability threats to the business. What is the **main** purpose of this register?

A. To analyse potential for risk avoidance and mitigation.
B. To assess its competitive position against industry peers.
C. To assist in training and education.
D. To report its liabilities to the regulator.

31. What financial requirement can be identified by an insurer undertaking an own risk and solvency assessment?

A. Amount of capital.
B. Claims reserves.
C. Rating factors.
D. Reinsurance for catastrophe exposure.

32. An analyst has used an insurance company's financial accounts to determine its combined ratio. What is the **main** function of this measurement?

A. To demonstrate tax efficiency.
B. To indicate the level of reinsurance required.
C. To quantify liquidity levels.
D. To show whether net income covers both claims and expenses.

33. What is **normally** the **main** expense of an insurance company?

A. Acquisition costs.
B. Claims costs.
C. Operating costs.
D. Reinsurance costs.

34. Which mandatory return required by Lloyd’s is **most concerned** with protecting the Central Fund?

A. The gross quarterly data report.
B. The quarterly monitoring of class of business performance report.
C. The realistic disaster scenarios report.
D. The syndicate reinsurance programme report.

35. What affect, if any, does the purchase of reinsurance have on an insurer’s regulatory capital?

A. It has no affect.
B. The amount of capital will always need to be increased to cover the reinsurance premium cost.
C. More insurance can be underwritten without increasing the insurer’s capital.
D. The solvency margin is always reduced.

36. What is produced by the regulator’s reverse stress test of an insurer’s business plan?

A. An analysis identifying adverse circumstances and the potential impact to the insurer.
B. An exercise simulating the effect of a fixed set of disaster scenarios on an insurer’s reserves.
C. The identification of areas within a business plan requiring mid-term alteration.
D. A report at the end of the business plan period detailing those aspects that were not met.

37. What is indicated when an insurer has zero tolerance to a particular class of business?

A. It has no underwriting appetite for this class of business.
B. It requires all premiums to be paid prior to policy inception.
C. It has a robust stance on underwriting fraud.
D. It has the maximum risk management controls for this class of business.

38. How would a new Lloyd’s syndicate **normally** obtain its start-up capital?

A. By investment from the Corporation of Lloyd’s.
B. By securing a loan from a financial institution.
C. By specific investment from an organisation.
D. By the sale of shares to the general public.

39. How frequently **must** managing agents submit a syndicate reinsurance programme report to Lloyd’s?

A. Quarterly.
B. Half-yearly.
C. Annually.
D. Once every three years.

40. What does a catastrophe model **usually** calculate?

A. The absolute maximum loss for an event.
B. The incurred but not reported loss for an event.
C. The incurred loss for an event.
D. The probable maximum loss for an event.

41. What two **key** measures allow underwriters to carry out statistical analysis of claims data?

A. Aggregation and frequency.
B. Frequency and exposure.
C. Frequency and severity.
D. Severity and predictability.

42. When using historical data, how is a return period calculated by an underwriter?

A. By calculating how frequently a particular event is likely to occur.
B. By calculating how long it normally takes to settle an insured claim.
C. By calculating the mean duration time of natural catastrophes.
D. By calculating the mean value for loss settlement periods.

43. If a signed premium is allocated to an insurance risk, what does it indicate about the risk?

A. It was coinsured.
B. It was fronted.
C. It was oversubscribed.
D. It was undersubscribed.

44. At renewal, a client has requested an increased sum insured and a higher excess for its commercial inner city property. The property is well maintained, and has its sprinkler system regularly serviced. What factor is **most likely** to result in the underwriter reducing the renewal premium quotation?

A. Increased excess.
B. Increased sum insured.
C. Inner city location.
D. Sprinkler system.

45. What method does an insurer **normally** use to calculate its probable maximum loss to an event?

A. Burning cost calculations.
B. Catastrophe modelling.
C. Combined loss ratio.
D. Triangulation calculations.

46. What is the **key** purpose of stochastic modelling when used by insurers for catastrophe risks?

A. To assist in the choice of reinsurance provider.
B. To help identify claim mitigation techniques.
C. To monitor performance against major competitors.
D. To simulate scenarios for rating assessment purposes.

47. Why does Lloyd's require the production of realistic disaster scenarios?

A. To facilitate a programme of stress testing.
B. To improve co-operation on claims handling.
C. To improve the collection of catastrophe data.
D. To reduce the likelihood of a major loss.

48. What are the **main** components of a probabilistic approach to risk modelling?

A. A spread of variables are used for each parameter that produces one outcome.
B. A spread of variables are used for each parameter that produces a spread of likely outcomes, which can then be analysed.
C. One variable is used for each parameter that produces one outcome.
D. One variable is used for each parameter that produces a spread of likely outcomes, which can then be analysed.

49. What does an insurer **normally** use to assess its exposure to an aggregation of risk from a specified event?

A. Catastrophe modelling techniques.
B. Claims triangulation.
C. Enterprise risk management.
D. Return on capital employed.

50. The frequency and severity of an earthquake in the UK would **typically** be assessed by an underwriter to be of

A. high frequency and high severity.
B. high frequency and low severity.
C. low frequency and high severity.
D. low frequency and low severity.

51. For what purpose does an insurer use triangulation figures?

A. To assess future investment income.
B. To assess future operating costs.
C. To assess the frequency of a catastrophe occurring.
D. To extrapolate claims development based on previous years' claims.

52. What type of insurance policy is often used to collectively insure all of an insured's employees for the same risk?

A. A combined insurance policy.
B. A composite insurance policy.
C. A master policy.
D. A scheme policy.

53. How do Lloyd's representative offices in other countries **normally** assist Lloyd's?

A. They all act as introducers to enable insurance risks to be bound with Lloyd's syndicates.
B. They allow insurance to always be underwritten locally by Lloyd's syndicates.
C. They manage regulation issues and avoid the requirement for Lloyd's syndicates to pay local taxes.
D. They raise the profile of the Lloyd's market and provide local insurance support.

54. What is the **main advantage** to an insurer of participating in an insured's excess layer insurance programme instead of participating as a coinsurer on a primary policy?

A. It is always removed from claim costs that are settled under the primary policy.
B. The amount of excess coverage that is required will always be less.
C. It can match its risk appetite to the expected risk applicable to the excess layer.
D. The premium charged for excess layers of insurance coverage is always higher.

55. The **usual** purpose of a fronting arrangement is to

A. achieve a reduction in the Insurance Premium Tax payable by the insurer.
B. allow the insurer to write business in a territory where it is unlicensed.
C. always obtain higher levels of insurance coverage.
D. exchange insurance risk and obtain a spread of risk with another insurer.

56. The Lloyd's organisation which is structured as a coverholder and writes non-life business in a specific jurisdiction on behalf of Lloyd's syndicates is

A. Lloyd's Australia.
B. Lloyd's Colombia.
C. Lloyd's Japan.
D. Lloyd's South Africa.

57. When considering the different methods of delegated underwriting, what is the **main** difference between a Managing General Agent (MGA) and a Managing General Underwriter (MGU)?

A. Only the MGA will have delegated authority on a temporary basis.
B. Only the MGU will have delegated authority on a temporary basis.
C. Where there is a MGU, it will sit between the insurers and the MGA.
D. Where there is a MGA, it will sit between the insurers and the MGU.

58. A following consortium insurer that wants to gradually increase its premium income would consider it important for the leading insurer to have

- **A.** an experienced outsourced claims service.
- **B.** a large market presence.
- **C.** specialist knowledge in the business being written.
- **D.** a stable credit rating.

59. ATLAS is an online computer system used for

- **A.** applications for Lloyd’s syndicates new coverholders.
- **B.** international sanction checks.
- **C.** notifying claims to insurers written under a delegated authority.
- **D.** registering brokers with the Financial Conduct Authority.

60. What is a lineslip?

- **A.** An arrangement made by an insurance broker with insurers whereby risks are bound under a scheme operated by the broker, subject to the prior approval of all insurers.
- **B.** An arrangement made by an insurance broker with an insurer whereby the broker automatically binds all risks on the insurer’s behalf.
- **C.** An arrangement made by an insurance broker with a number of insurers to provide coverage for risks that are acceptable to the leading insurer.
- **D.** An individual insurance placement of a large risk whereby a number of insurers subscribe their participation on a Market Reform Contract.

61. Who is **usually** the principal of a managing general agent?

- **A.** A broker only.
- **B.** An insured.
- **C.** An insurer only.
- **D.** Both a broker and an insurer.

62. What factor dictates whether a managing general agent **must** carry out full due diligence or risk-based due diligence before delegating authority to a coverholder?

- **A.** The level of its capital resources.
- **B.** The nature of its registered relationship with Lloyd’s.
- **C.** Whether the syndicate has achieved pre-bind quality assurance.
- **D.** Whether the syndicate operates as a leading or following insurer.

63. What is the **normal** role of a third party administrator in the London market?

- **A.** To collect and pay premiums to insurers.
- **B.** To conduct audits on coverholders files on behalf of insurers.
- **C.** To conduct security and sanction checks for prospective policyholders for insurers.
- **D.** To handle policyholders claims on behalf of insurers.

64. What is the **main** benefit to an insurer of partnering with a managing general agent?

A. Automatic reduction in administration costs.
B. Faster premium payments.
C. Reduced compliance monitoring.
D. Wider distribution channels.

65. What is the **main** benefit to a small insurer of participating in a lineslip compared to other methods for acquiring business?

A. The ability to obtain business from more insurance brokers.
B. A greater ability to compete directly against larger insurers.
C. Increased control over non-standard underwriting terms.
D. Obtaining higher net premium income due to lower commission rates.

66. How will individual risks be affected, if at all, by the immediate cancellation of a binding authority?

A. They will not be affected.
B. Cover will be cancelled immediately.
C. Cover will be cancelled from inception.
D. Cover will be cancelled with 14 days' notice.

67. What is the **main advantage** to a following insurer of participating in a consortium arrangement as opposed to open market underwriting?

A. Enhanced access to the market.
B. Greater control of aggregate exposures.
C. Improved underwriting flexibility.
D. Lower reinsurance costs.

68. Where an underwriting peer review is carried out as a detection control, what action does this **normally** involve?

A. An analysis of the profitability of previously written business.
B. An assessment of risk decisions previously made.
C. A risk management analysis.
D. The testing of selected individuals using assessment frameworks.

69. In order to satisfy Lloyd's requirements, who is responsible for a managing agent's underwriting systems and controls?

A. The chief operating officer.
B. The compliance officer.
C. A director nominated by the audit committee.
D. A director nominated by the board.

70. How frequently does a Lloyd's managing agent **normally** conduct an audit on the coverholder's operation of a binding authority?

A. Monthly.
B. Quarterly.
C. Half-yearly.
D. Annually.

71. An insurer intends to increase its acceptance limits for property business to offer additional market capacity, but has insufficient capital. What type of reinsurance is the insurer **most likely** to purchase to achieve its aim?

A. An umbrella non-proportional treaty covering all written business classes.
B. A property quota share treaty.
C. Property facultative reinsurance for each risk.
D. Property non-proportional treaties on an occurrence basis.

72. When an insured purchases primary and excess layers of insurance, how does the primary policy's insurer influence the loss ratio of the excess layer insurers?

A. By ensuring that all excess insurers use the same policy wordings as the primary insurer.
B. By fixing the acquisition costs for the whole programme.
C. By investigating and negotiating the settlement of all claims.
D. By requiring that all excess insurers follow the rating of the primary policy.

73. What document details the scope of delegated authority granted by a Lloyd's syndicate to a coverholder?

A. A binding authority agreement.
B. A consortium agreement.
C. A lineslip.
D. A Terms of Business Agreement.

74. Under the General Underwriters Agreement, where a leading underwriter decides to accept a change in a risk, what is its role in relation to the co-subscribers?

A. Agent.
B. Coverholder.
C. Lessor.
D. Principal.

75. A company arranges with an insurer to provide private health insurance for employees, whereby new employees are automatically enrolled into the scheme in accordance with the

A. affinity programme agreement.
B. contract deed.
C. delegated authority.
D. master policy agreement.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			**Learning Outcome 3**			**Learning Outcome 5**		
1	D	1.1	22	C	3.4	52	C	5.2
2	D	1.1	23	D	3.3	53	D	5.2
3	C	1.1	24	D	3.1	54	C	5.1
4	B	1.2	25	D	3.1	55	B	5.1
5	D	1.2	26	C	3.1	56	C	5.2
5 Questions			27	A	3.2	57	C	5.3
			28	D	3.2	58	C	5.3
Learning Outcome 2			29	A	3.3	59	A	5.3
6	D	2.4	30	A	3.4	60	C	5.3
7	D	2.3	31	A	3.4	61	C	5.4
8	A	2.1	32	D	3.5	62	D	5.4
9	B	2.1	33	B	3.5	63	D	5.4
10	D	2.2	34	C	3.3	64	D	5.5
11	A	2.2	35	C	3.4	65	B	5.5
12	A	2.2	36	A	3.1	66	A	5.5
13	C	2.2	37	A	3.4	67	A	5.5
14	A	2.4	38	C	3.5	68	B	5.6
15	C	2.3	39	A	3.2	69	D	5.6
16	A	2.4	**18 Questions**			70	D	5.6
17	C	2.1				71	B	5.1
18	C	2.1	**Learning Outcome 4**			72	C	5.1
19	D	2.1	40	D	4.3	73	A	5.6
20	B	2.1	41	C	4.1	74	A	5.4
21	B	2.2	42	A	4.1	75	D	5.2
16 Questions			43	C	4.2	**24 Questions**		
			44	A	4.2			
			45	B	4.2			
			46	D	4.3			
			47	A	4.3			
			48	B	4.3			
			49	A	4.3			
			50	D	4.1			
			51	D	4.2			
			12 Questions					