London Market underwriting

Objective: To develop in the candidate:

• a thorough understanding of the process of underwriting internationally based insurance and reinsurance exposures;
• a thorough understanding of the regulatory and legal environment in which such business is underwritten;
• a thorough understanding of risk management as it applies to the underwriting and management of business written in the London Market;
• the ability to apply learned principles to the writing of business in the London Market;
• the ability to apply knowledge and skills to practical situations;
• the ability to synthesise different aspects of the syllabus and apply them to given scenarios.

Assumed knowledge and application skills:
Assumed knowledge may not appear in the course text but forms part of the syllabus and thus may be examined. It underpins the specific content of this syllabus and candidates will find that, without a thorough grasp of it, their ability to understand the issues fully will be limited. Where it is directly relevant to an examination question, candidates will be expected to include it within their answers.

– It is assumed that the candidate has a thorough understanding of the following principles of insurance, since this syllabus is concerned with their application to underwriting risks: insurable interest; utmost good faith; indemnity; subrogation; risk transfer; average; contribution; consideration.

– It is assumed that the candidate has a thorough understanding of the basics of contract law, including but not limited to: contract formation; warranties; conditions; waiver affirmation; estoppel.


Notes:
This syllabus draws on and pulls together many of the fundamentals of insurance covered by other CII units. Candidates are therefore advised to have studied and passed the following units prior to commencing study of this course:

– 510 Risk, regulation and capital adequacy;
– P05 Insurance law or 520 Company and contract law or P03 Legal aspects of insurance;
– 530 Business and economics;
– 785 Principles of reinsurance;
– 815 Underwriting management.

– The syllabus will be based on UK and EU 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 London and global insurance and reinsurance markets

1.1 The London, global insurance and reinsurance markets
Candidates should be able to
– describe the organisation, structure and operation of the London and global insurance and reinsurance markets.

1.2 London Market insurance and reinsurance underwriting
Candidates should be able to
– state the main features of London Market insurance and reinsurance underwriting;
– consider the roles and responsibilities of and between leading and following underwriters;
– describe the structure of a leading underwriter’s agreement.

1.3 Licensing, legal and regulatory issues relating to the London Market
Candidates should be able to
– explain the FSA definition of the underwriting function;
– describe the FSA requirements for insurers and reinsurers regarding the organisation and control of underwriting and risk management, and consider the implications of these requirements for the London Market;
– discuss the requirements of a London Market insurer wishing to be licensed to underwrite business in the international marketplace;
– explain the regulatory issues applicable to an overseas insurer operating in the London Market;
– discuss the differences between ‘establishment’ and cross-border ‘services’ insurance provision;
– discuss the legal and policy content requirements resulting from transacting international insurance;
– discuss the importance of insurers' and reinsurers' capitalisation and solvency requirements and explore the issues surrounding capitalisation and solvency;
– discuss the issues regarding insurer solvency that need to be taken into account in the placing of risks.
1.4 International Accounting Standards
Candidates should be able to
– state the main provisions of the IAS and their implications for insurers in the global marketplace;
– discuss the effects of the IAS on the business being written.

1.5 Personal responsibility
Candidates should be able to
– discuss the responsibilities that fall upon individual underwriters as a result of transacting international business, e.g. Money Laundering regulations, Office of Foreign Assets Control;
– evaluate what individuals must do to be compliant with current legislation.

2. Underwriting systems and controls
2.1 Operational risks
Candidates should be able to
– analyse and evaluate operational risks associated with the underwriting process.

2.2 Accountability and responsibility
Candidates should be able to
– discuss the importance of mechanisms for monitoring accountability and responsibility.

2.3 Underwriting of risks and risk mitigation
Candidates should be able to
– analyse and evaluate risk mitigation techniques and key influences on the underwriting of risks.

2.4 Business planning
Candidates should be able to
– evaluate the importance of strategic and annual business planning to the monitoring and control of underwriting.

2.5 The key underwriting people
Candidates should be able to
– discuss the role and functions of the underwriting committee;
– consider the role, responsibilities, skills and terms of reference of the underwriting director;
– consider the role, functions and responsibilities of class underwriters;
– describe the purpose, membership and format of peer reviews of underwriting.

3. Placing business in the London Market
3.1 The placing process
Candidates should be able to
– discuss the interaction of the broker and underwriter in the London Market and describe how a contract is concluded;
– describe the respective roles of the retail and wholesale broker;
– discuss the centralised policy signing and premium and claims settlement functions that support the London Market.

3.2 London Market Principles (LMP) slip
Candidates should be able to
– describe the principles, benefits and recommendations for best practice of the LMP slip;
– discuss the structure and purpose of each section of the LMP slip;
– discuss the implications for the underwriting process of each section of the LMP slip.

3.3 Market agreements
Candidates should be able to
– discuss the role and function of the lead and following underwriters in market agreements, such as the General Underwriting Agreement;
– discuss the role and functions of the lead and following underwriters in market agreements, such as class with respect to claims management and settlement;
– describe the reasons for and purposes of market agreements together with the legal implications of such agreements for insurers.

3.4 Third party service providers
Candidates should be able to
– identify and discuss the roles of international surveyors and loss adjusters, run-off agents and third party claims administrators;
– understand the considerations involved in appointing such third party suppliers including the legal implications for insurers.

3.5 Delegated underwriting authorities
Candidates should be able to
– analyse the purpose, operation and management of delegated underwriting authorities.

3.6 Binding authorities
Candidates should be able to
– describe the authorisation and registration of binding authorities, including Lloyd’s and the company market registration procedures;
– discuss the operation of binding authorities;
– discuss and analyse the auditing of binding authorities.

4. Principles and practice of pricing
4.1 Key underwriting factors
Candidates should be able to
– discuss the key factors involved in risk evaluation which lead to underwriting decisions in the London Market.

4.2 Core underwriting decisions
Candidates should be able to
– describe and evaluate core underwriting decisions in the pricing and acquisition of risk.

4.3 Risk pricing
Candidates should be able to
– analyse and discuss the factors determining economic price, including:
  • benchmarking – internal and external;
  • technical rating techniques;
  • industry statistics;
  • the role of the actuary in the pricing process.

4.4 First loss and excess of loss underwriting
Candidates should be able to
– discuss the principles behind and explain the use of first loss rating scales;
– explain why and how different scales may be suitable for different types of business;
– discuss the advantages and disadvantages of first loss underwriting.
4.5 Rating models
Candidates should be able to
- discuss and evaluate exposure based rating models;
- discuss and evaluate experience based rating models;
- discuss factors in the selection of an appropriate rating model.

4.6 Practical pricing considerations
Candidates should be able to
- analyse and discuss practical pricing considerations.

5. Retention and reinsurance strategies
5.1 Definition of insurer’s retention
Candidates should be able to
- define what is meant by an insurer’s retention;
- analyse and discuss factors influencing an insurer’s retention levels;
- analyse and discuss the key factors influencing the retention decision;
- evaluate and discuss techniques to aid the setting of retention levels;
- evaluate and discuss other forms of risk retention;
- consider reasons for increasing retentions;
- consider reasons for reducing retentions.

5.2 Outwards and inwards reinsurance
Candidates should be able to
- define outwards and inwards reinsurance;
- discuss the reasons for purchasing reinsurance.

5.3 Reinsurance selection
Candidates should be able to
- discuss the types of reinsurance available and typical usage in the London Market;
- evaluate the most appropriate type of reinsurance for a given set of circumstances.

5.4 Reinsurance programme management
Candidates should be able to
- discuss the role and importance of the following in the management of reinsurance programmes:
  - role of the reinsurance security committee in the selection of the reinsurer;
  - commutation of reinsurance recoveries;
  - reinsurance disaster scenarios;
  - preparation of a reinsurance risk profile.

6. Reserving Practice
6.1 IBNR
Candidates should be able to
- explain the organisation of historic data and use of triangulations to estimate IBNR and other values.

6.2 Methods of reserving
Candidates should be able to
- discuss the use of the chain-ladder and Bornheutter-Ferguson methods in the calculation of ultimate loss ratios;
- explain the use of stochastic reserving methods.

6.3 Actuarial review
Candidates should be able to
- explain the methodology of actuarial review and relate the figures produced to recent trends in loss ratio and pricing;
- provide reasons for differences between an individual portfolio and market figures;
- explain the importance of over and under estimation of IBNR to the profit & loss and balance sheet of the underwriting entity.

7. Managing exposure
7.1 Probable Maximum Loss (PML)
Candidates should be able to
- define Probable Maximum Loss (PML) and assess the factors to be taken into account in its calculation;
- discuss its use as a control mechanism;
- discuss the role of the risk surveyor in PML assessment;
- assess the impact of calculating a PML for a risk to which a PML has already been applied.

7.2 Exposure
Candidates should be able to
- state the effects of not assessing exposure considerations;
- consider exposure estimates at risk and portfolio level;
- consider the impact of limited exposure on these estimates.

7.3 Market assumptions
Candidates should be able to
- give reasons for the importance of testing market assumptions.

7.4 PMLs and inwards reinsurance
Candidates should be able to
- describe the reinsurance of a direct portfolio;
- describe the reinsurance of reinsurance business.

8. Measuring and monitoring performance
8.1 Management information
Candidates should be able to
- outline the uses of management information.

8.2 Business plans and monitoring
Candidates should be able to
- describe the different types and construction of business plans;
- discuss the comparison of the business plan to actual results; including the methods of monitoring the development of the underwriting results.

8.3 Loss ratios and profitability
Candidates should be able to
- describe the types of loss ratio commonly used in the London Market;
- describe the different ways in which profit and financial performance can be measured.

8.4 Benchmarking
Candidates should be able to
- explain how to construct a price monitoring index for a portfolio.
– compare an individual portfolio with comparable market information.

**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. The 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

**Primary text**

**Additional reading**
World @ Risk: London’s global insurance market. Newsdesk communications.
The London market in the throes of change. Zurich: Swiss Re, 2002. (Sigma; 2002 no 3.) Available in print and online at www.swissre.com (select ‘Research & publications’ then ‘Sigma insurance research’).

Integrated risk management. David Kaye. London. CII Information Services. Updated as necessary. Available online at www.cii.co.uk/is/factfiles (CII members only).

**Reference works**


**Websites**
www.iua.co.uk/
www.swissre.com/

This website contains an extensive range of technical publications covering many issues of relevance to the London Market.
www.lloyds.com/index.asp
www.cii.co.uk/is
www.munichre.com/

**Examination guides**

You are strongly advised to study these before the examination. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on 020 8989 8664.

**Exam technique/study skills**

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

An example is:
For a more interactive approach, you should consider: