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PRACTICE QUESTIONS

Chartered Insurance Institute (CII)

M8ABXG9F

LM3 - London Market underwriting principles

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for Chartered Insurance Institute (CII) `M8ABXG9F`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `M8ABXG9F`
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1 MULTIPLE CHOICE

Which of the following are core participants in the London Market placing process? (Choose two.)

- **A The Lloyd's broker**
- **B The underwriting agent at Lloyd's**
- C The Insurance Premium Tax (IPT) collector
- D The Financial Services Compensation Scheme (FSCS)

ANSWER **A · B**

WHY The London Market placing process centres on the Lloyd's broker (acting for the client) and the underwriter (or underwriting agent at Lloyd's) who accepts the risk. IPT collection and the FSCS are regulatory/financial backstops, not participants in the placing process itself.

QUESTION 2 MULTIPLE CHOICE

Which of the following functions are performed by a Lloyd's broker in the London Market? (Choose two.)

- **A Negotiating the wording of the slip with the underwriter**
- B Paying market losses from a central fund
- **C Placing business with underwriters on behalf of the client**
- D Setting Lloyd's minimum premium requirements

ANSWER **A · C**

WHY A Lloyd's broker places business on behalf of the client, negotiates the wording of the slip and arranges the security for the risk. The central fund and minimum premium requirements are functions of the Corporation of Lloyd's, not the broker.

QUESTION 3 TRUE FALSE

A slip in the London Market is the document on which the broker records the leading underwriter's agreed terms before other underwriters subscribe to the risk.

A **True**

B False

ANSWER **A**

WHY True. The slip is the working document used in the London Market to record the agreed terms (class, sum insured, premium, excesses, warranties, etc.) starting with the leading underwriter, after which following market underwriters subscribe their lines.

QUESTION 4 SINGLE CHOICE

In London Market practice, what is the role of the 'leading underwriter' on a risk?

A **To set the rate and wording on the slip and act as the principal point of contact for the broker on that risk**

B To provide the last line on the slip before a risk is closed

C To issue the policy documentation on behalf of all subscribing underwriters

D To guarantee the premiums due to following market underwriters

ANSWER **A**

WHY The leading underwriter sets the lead terms (rate, wording, conditions) on the slip and is the principal point of contact for the broker; following market underwriters normally accept those lead terms. Closing the slip, policy documentation and premium collection are separate administrative functions.

QUESTION 5 SINGLE CHOICE

A London Market underwriter is pricing a large commercial property risk. Which factor is the most appropriate starting point for the rate-on-line calculation?

- **A** **The estimated maximum loss (EML) for the risk**
- B The broker's estimate of the premium
- C The Insurer's previous year's combined ratio
- D The published market bureau premium for the class

ANSWER **A**

WHY Rate-on-line is normally calculated by expressing the expected premium as a percentage of the sum insured, with the exposure measure (EML/PML for large commercial risks) being the key starting point. Broker estimates and bureau premiums are reference points, not the basis of the calculation.

QUESTION 6 SINGLE CHOICE

When accepting a risk, what is the primary purpose of applying a deductible (excess) in the London Market?

- **A** **To reduce the insurer's exposure by eliminating small, frequent claims from the insurer's loss record**
- B To increase the rate-on-line on the slip
- C To comply with Lloyd's membership requirements
- D To allow the broker to retain part of the premium

ANSWER **A**

WHY Deductibles are applied so that the insurer does not process high-frequency, low-severity losses; the insured retains those amounts and the insurer's exposure is concentrated on larger losses. The other options describe unrelated effects.

QUESTION 7 SINGLE CHOICE

A binding authority issued by a London Market underwriter to a coverholder primarily enables the coverholder to do what?

- A **Enter into contracts of insurance on behalf of the underwriter, within agreed parameters**
- B Adjust claims without reference to the leading underwriter
- C Set market-wide premium rates for the class
- D Underwrite risks independently of the Lloyd's market rules

ANSWER **A**

WHY A binding authority (or 'binder') authorises a coverholder to enter into contracts of insurance on behalf of the underwriter, within pre-agreed limits on class, geography, sums insured and rates. Claims handling, rate-setting and underwriting outside the binder's terms remain the underwriter's responsibility.

QUESTION 8 SINGLE CHOICE

In the London Market, what is the main commercial purpose of a 'line slip'?

- A **To allow a broker to obtain a quick indication of underwriter appetite and capacity for a class before full presentation**
- B To replace the slip as the binding contract between insurer and insured
- C To settle claims between members of a following market syndicate
- D To record the order in which underwriters subscribe to a slip

ANSWER **A**

WHY A line slip is an arrangement, usually between a broker and a lead underwriter (often a 'lineslip leader'), used to obtain a quick indication of capacity and terms for a class of business, which can then be used to support placing or binding of individual risks. It does not replace the contract slip.

QUESTION 9 SINGLE CHOICE

A London Market direct insurer is arranging non-proportional reinsurance to protect its account against a single large loss. Which type of treaty is most appropriate?

- A **Excess of loss treaty**
- B Quota share treaty
- C Surplus treaty
- D Facultative obligatory treaty

ANSWER **A**

WHY Excess of loss treaties respond when an individual loss exceeds a stated retention, providing protection against large or catastrophic losses. Quota share and surplus treaties are proportional arrangements that share premiums and losses on every risk, and facultative obligatory is per-risk rather than per-loss orientated.