LM2 London Market insurance principles and practices 2025

	Learning Outcome		Assessment Criteria		Indicative Content

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1 1 Question	**Understand the business nature of the London Market.**	**1.1**	Examine and explain the principal parties within the London Market and their relationships with each other and their clients.	**1.01.01**	Subscription market.
				1.01.02	Company market.
				1.01.03	Brokers - wholesale and retail.
				1.01.04	Managing General Agents.
				1.01.05	International organisations operating in London Market.
				1.01.06	Mutual insurers.
				1.01.07	Captive insurers.
2 3 questions	**Understand the main classes of insurance written in the London Market.**	**2.1**	Explain the importance of the London Market and why clients may decide to place their business within this market.	**2.01.01**	Main incentives for choosing the London Market.
		2.2	Examine and explain the main classes of insurance written in the London Market and their main features and describe the losses and liabilities which may give rise to claims under each of the main classes.	**2.02.01**	Marine.
				2.02.02	Aviation.
				2.02.03	Non-Marine.
		2.3	Describe how underwriters diversify their risks and manage their portfolios	**2.03.01**	Diversification of risk
				2.03.02	Portfolio management
3 3 questions	**Understand reinsurance within the insurance market.**	**3.1**	Examine methods of reinsurance; treaty and facultative; proportional and non-proportional and the differences between them.	**3.01.01**	Treaty reinsurance.
				3.01.02	Facultative reinsurance.
				3.01.03	Proportional reinsurance.
				3.01.04	Non-proportional reinsurance.
				3.01.05	Benefits of one type of reinsurance over another.
				3.01.06	Reinsurance programme construction.

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		3.2	Calculate amounts ceded to reinsurers and claims recoverable.	**3.02.01**	Calculate premiums and claims for proportional reinsurance.
				3.02.02	Calculate premiums and claims for non-proportional reinsurance.
4 **3 questions**	**Understand market security.**	**4.1**	Explain basic accountancy concepts, including solvency margin calculations.	**4.01.01**	What assets are.
				4.01.02	What liabilities are.
				4.01.03	What a solvency margin is used for and how to calculate it.
				4.01.04	Solvency II.
				4.01.05	Basic accounting content such as GAAP.
				4.01.06	Criteria used to measure financial performance.
				4.01.07	Economic capital assessment model.
		4.2	Explain the Lloyd's chain of security.	**4.02.01**	Purpose and benefits of the Lloyd's chain of security and Lloyd's Central Fund.
		4.3	Explain the role of rating agencies.	**4.03.01**	Who are the rating agencies and what they do.
				4.03.02	Why ratings are important.
				4.03.03	Impact of rating changes.
				4.03.04	Brokers security committees.
5 **6 questions**	**Understand the regulatory and legal requirements applicable to the transaction of insurance business.**	**5.1**	Describe the reasons for compulsory insurance and the types of insurance that are compulsory in the UK.	**5.01.01**	Reasons for compulsory insurance.
				5.01.02	Compulsory insurance required in the UK for both individuals and businesses.
		5.2	Explain the impact of the Consumer Rights Act 2015 in relation to insurance contracts.	**5.02.01**	Why the Consumers Rights Act 2015 was passed and what it is designed to protect within an insurance context.
		5.3	Explain the impact of the Contracts (Rights of Third Parties) Act 1999 in relation to insurance contracts.	**5.03.01**	Explain why the Contracts (Rights of Third Parties) Act 1999 was passed and what it is designed to protect within an insurance context.
		5.4	Outline the EU solvency requirements for insurers and industry regulator risk-based capital requirements.	**5.04.01**	The objective of Solvency II.
				5.04.02	The 3 pillars of Solvency II.
				5.04.03	Different types of risk used for business risk-based capital requirements.

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		5.5	Explain the purpose and calculate the rates of UK Insurance Premium Tax.	5.05.01	Insurance Premium Tax rates in the UK.
				5.05.02	Responsibilities of who to collect and give to HMRC.
				5.05.03	Calculate Insurance Premium Tax and associated cash flow.
6 6 questions	**Understand insurance intermediation in the London Market.**	6.1	Define the different categories of UK and international intermediaries and the services they provide.	6.01.01	Types of UK intermediaries.
				6.01.02	Types of international intermediaries, including Open Market Correspondent and US surplus lines brokers.
		6.2	Define and explain the roles of the various types of brokers within the London Market.	6.02.01	Role in placing.
				6.02.02	Role in premium.
				6.02.03	Role in claims.
				6.02.04	Role in producing documentation.
		6.3	Describe the purpose and function of a generic Terms of Business Agreement (TOBA).	6.03.01	Content of an insurer and broker TOBA.
				6.03.02	Content of a broker and client TOBA.
		6.4	Explain broking remuneration including commissions and fees.	6.04.01	Brokerage.
				6.04.02	Profit/contingent commissions.
				6.04.03	Legal requirement to disclose remuneration to client.
				6.04.04	Fees.
				6.04.05	Other fees, e.g. collecting commission or specialist technical advice, e.g. surveys from brokers in-house team.
		6.5	Describe the basic features of the law of agency.	6.05.01	The concept of principal and agent.
				6.05.02	How an agency relationship is created, e.g. by agreement, ratification or necessity.
				6.05.03	The duties an agent owes its principal.
		6.6	Define the main EU and UK legislative provisions applicable to insurance intermediaries.	6.06.01	Insurance Distribution Directive.
				6.06.02	Client Asset (CASS) rules.
				6.06.03	Data protection legislation.

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7 **7 questions**	**Understand the underwriting function within the context of the London Market.**	**7.1**	Explain how underwriting is conducted in London as opposed to elsewhere.	**7.01.01**	Operation of the subscription market.
		7.2	Explain the relationship between London Market brokers and underwriters.	**7.02.01**	Brokers as agents of the insured.
				7.02.02	Brokers as agents of the underwriters.
				7.02.03	How a broker selects the appropriate market for a risk.
		7.3	Explain lead and follow underwriters within the context of the subscription market.	**7.03.01**	Role of lead underwriter.
				7.03.02	Role of follow underwriter.
		7.4	Describe the causes and effects of the market cycle.	**7.04.01**	Understand supply and demand and its influence on the insurance cycle.
				7.04.02	External factors that may influence the insurance cycle, including surplus of money in capital markets, interest rates.
		7.5	Explain the concept of the modelling and management of exposures and losses.	**7.05.01**	The purpose of exposure management.
				7.05.02	The purpose of loss/catastrophe modelling.
				7.05.03	Lloyd's Realistic Disaster Scenario requirements.
		7.6	Explain what is meant by reserving and why it is necessary to make provision for outstanding liabilities.	**7.06.01**	Why reserving is so important and impact on solvency margin.
				7.06.02	Outstanding losses.
				7.06.03	Incurred but not enough reported losses (IBNER).
				7.06.04	Incurred but not reported losses (IBNR).
				7.06.05	Difference in ability to accurately calculate reserves if claims are short or long-tail business.
		7.7	Explain the terms ‘open years management’ and ‘reinsurance to close’ within the Lloyd’s Market.	**7.07.01**	What an open year is.
				7.07.02	What a Reinsurance to close (RITC) does and what the mechanics of a RITC is.
				7.07.03	When a premium for RITC cannot be calculated and the result.

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8 **14 questions**	**Understand the way that business is conducted in the London Market.**	**8.1**	Describe the documentation used to present risks to insurers.	**8.01.01**	Proposal forms.
				8.01.02	Broker presentation.
				8.01.03	Market Reform Contracts.
		8.2	Explain the legal significance of quotations and renewals.	**8.02.01**	The legal significance of quotations and renewals.
		8.3	Describe the duty of fair presentation and the principle of good faith and the consequences of non-compliance.	**8.03.01**	The principle of good faith in pre-contract negotiations.
				8.03.02	Define what circumstances are material.
				8.03.03	Remedies for a breach of fair presentation.
		8.4	Explain the legal principles essential to a valid contract.	**8.04.01**	Principles of a valid contract
				8.04.02	Offer, acceptance and exchange of consideration.
				8.04.03	Insurable interest.
		8.5	Explain the purpose and content of the Market Reform Contract (MRC).	**8.05.01**	Headings of open market MRCs.
				8.05.02	Headings of lineslip MRCs.
				8.05.03	Headings of binding authority MRCs.
		8.6	Explain the placing process for open Market Reform Contracts and electronic Market Reforms Contracts.	**8.06.01**	Explain the placement of risks within the London market.
				8.06.02	Explain how endorsements are broked on a traditional and electronic basis.
		8.7	Explain the operation of the General Underwriters’ Agreement.	**8.07.01**	What the General Underwriters' Agreement does, how it operates and its benefits to the market.
				8.07.02	The provisions of the different types of schedule.
		8.8	Explain how an underwriter will know they are on risk.	**8.08.01**	The difference between the commitment to the contract and being on risk.
		8.9	Identify and explain the various sections of an insurance policy.	**8.09.01**	The various components of a policy explained.
				8.09.02	Details of which organisations create wordings eg LMA, NMA, LSW, IUA and ISO.

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		8.10	Explain the purpose and effect of warranties, conditions and exclusions.	**8.10.01**	What a warranty is and remedies for breach available to underwriters.
				8.10.02	What the types of conditions precedent are and remedies for breach available to underwriters.
				8.10.03	What a condition is and remedies for breach available to underwriters.
				8.10.04	Explanation as to why underwriters include exclusions and also buy backs if a peril is excluded.
				8.10.05	Application of these provisions under non-UK jurisdictions.
		8.11	Explain what is meant by the term 'contract certainty'.	**8.11.01**	Regulatory requirement for contract certainty.
				8.11.02	Benefits of contract certainty for all parties.
		8.12	Explain the collection and processing of premiums.	**8.12.01**	Explain about debit notes.
				8.12.02	Explain about London Premium Advice Notices.
				8.12.03	Explain how Xchanging ins-sure services works.
				8.12.04	Explain how the broker may be responsible for payment of the premium under the Marine Insurance Act 1906.
		8.13	Describe how contracts of insurance can be terminated.	**8.13.01**	Reasons an insured may terminate.
				8.13.02	Reasons an insurer may terminate.
				8.13.03	Reasons a contract may naturally terminate, e.g. loss of insurable interest, deliberate breach of duty of fair presentation.
				8.13.04	Security downgrade clause.
				8.13.05	Short rate premium provision.
		8.14	Explain how conflicts of interest may arise and how they may be managed.	**8.14.01**	Conflicts of interest in placing risks.
				8.14.02	Conflicts of interest in claims handling.
				8.14.03	How to manage a conflict of interest i.e. ICOBS Rules.

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9 4 questions	**Understand the purpose, benefits and operation of delegated underwriting.**	**9.1**	Examine and explain the purpose and operation of delegated underwriting/binding authorities.	**9.01.01**	The parties involved in a delegated underwriting authority and the benefits to each party.
				9.01.02	How to select who to delegate to.
				9.01.03	Lloyd's system for approval of coverholders.
				9.01.04	Types of Lloyd's coverholders, e.g. approved coverholder and a service company.
				9.01.05	Extent of authority to bind, including full authority or prior submit.
				9.01.06	Operation of joint certificates.
		9.2	Explain the controls that Lloyd's has placed on delegated underwriting/binding authorities.	**9.02.01**	Lloyd's systems for the registration of binding authorities.
				9.02.02	Reporting, including risk level data and Delegated Data Manager.
				9.02.03	Documentation.
				9.02.04	Auditing.
		9.3	Explain the operation of lineslips and consortium underwriting.	**9.03.01**	The operation and benefits of lineslips to insurers and brokers.
				9.03.02	Difference between bulking and non-bulking lineslips.
				9.03.03	The operation and benefits of consortiums to insurers and brokers.
10 4 questions	**Know the handling of claims in the London Market.**	**10.1**	Explain the role and responsibilities of insurers and brokers in the processing of claims.	**10.01.01**	Role of the broker in processing of claims.
				10.01.02	Role of the insurer in processing of claims.
				10.01.03	Details of the claims schemes in the London Market, eg Single Claims Agreement Party and combined scheme.
				10.01.04	Role of Xchanging in processing of claims.
		10.2	Explain the roles of claims personnel.	**10.02.01**	Loss assessors.
				10.02.02	Third Party Administrator/Delegated Claims Administrator (binding authorities).
				10.02.03	Loss adjusters.
				10.02.04	Surveyors.
				10.02.05	Average adjusters.
		10.3	Explain the application of indemnity, subrogation, contribution, proximate cause principles, excesses and exclusions.	**10.03.01**	Indemnity.
				10.03.02	Subrogation.
				10.03.03	Proximate cause.
				10.03.04	Excesses.
				10.03.05	Exclusions.
				10.03.06	Contribution.

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11 4 questions	**Understand the main methods of resolving complaints.**	**11.1**	Examine and describe the Financial Conduct Authority and Prudential Regulation Authority's regulation of individuals within firms.	**11.01.01**	Senior managers and certification regime.
				11.01.02	Conduct rules applying to individuals.
				11.01.03	Role of the compliance officer.
				11.01.04	Role of money laundering reporting officer.
		11.2	Describe the industry regulator's requirements in terms of claims handling.	**11.02.01**	Explain the Insurance: Conduct of Business Sourcebook (ICOBS).
				11.02.02	Money laundering and sanctions regulation regarding making payments.
				11.02.03	Enterprise Act requirement requiring settlement of claims.
				11.02.04	Non-UK regulation, e.g. California regulations.
		11.3	Describe the services provided by the Financial Ombudsman Service (FOS).	**11.03.01**	Explain what classes and what clients the FOS applies to.
				11.03.02	Describe the limits available.
				11.03.03	Explain legal position regarding decision being binding on insurers.
		11.4	Explain the main requirements of the Financial Services Compensation Scheme (FSCS).	**11.04.01**	Explain what classes and what clients the FSCS applies to.
				11.04.02	Describe the limits available.