

# Insurance broking

**Objectives:** To develop in the candidate:

- a thorough knowledge of the issues and processes involved in insurance broking;
- a knowledge of the relevant and changing regulatory environment in which the insurance broker operates;
- an understanding of the relationships with insurers and policyholders undertaken by the insurance broker;
- an ability to evaluate key issues and concepts and assess their implications for brokers and the broking and wider insurance markets;
- 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:**

It is assumed that the candidate already knows the main provisions and principles of the Consumer Credit Act 1974, Data Protection Act 1998 and current Money Laundering Regulations. This syllabus is concerned solely with their application to insurance broking.

**Notes:**

- The syllabus will be based on English 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 intermediary market

### 1.1 The role of intermediaries

Candidates should be able to

- *identify* and distinguish between the main types of intermediary;
- *describe* how intermediaries operate;
- *evaluate* the role of intermediaries within the insurance market and their impact on it;
- *describe* the structure and placing of business at Lloyd's.

### 1.2 Broker networks

Candidates should be able to

- *identify* the main organisations representing intermediaries;
- *describe* and *evaluate* their role and impact on the insurance markets.

## 2. Regulation

### 2.1 Development of regulation of intermediaries

Candidates should be able to

- *explain* the main provisions of the following and apply them to the insurance broking market:
  - Financial Services and Markets Act 2000;
  - Financial Services Authority (FSA);

- EU Intermediaries legislation, in particular the Insurance Mediation Directive 2002;
- Financial Ombudsman Service.

### 2.2 The law of agency and its application to insurance brokers

Candidates should be able to

- *apply* the principles and operation of the law of agency as it may affect the insurance broker's relationship with clients and markets.

### 2.3 Disciplinary procedures

Candidates should be able to

- *identify* the external disciplinary procedures to which insurance brokers may be subject;
- *assess* the implications of external disciplinary procedures for insurance brokers.

### 2.4 Legislation

Candidates should be able to

- *apply* the provisions and principles of the Data Protection Act 1998 to insurance broking;
- *apply* the provisions and principles of the Consumer Credit Act 1974 to insurance broking;
- *apply* the provisions and principles of the current Money Laundering Regulations to insurance broking;
- *outline* the role of the FSA in the fight against financial crime;
- *discuss* the implications of fraud for the insurance broker.

### 2.5 Accounting requirements

Candidates should be able to

- *explain* and *discuss* the requirement for insurance broking accounts, including the need for segregation and identification of client money.

## 3. Role of the insurance broker

### 3.1 Understanding client needs

Candidates should be able to

- *explain* the importance of the broker assessing the needs of clients;
- *explain* the importance of making recommendations that best satisfy client needs following analysis of individual requirements;
- *describe* the key elements of business agreements and their importance to insurance broking;
- *describe* the key elements of service level agreements;
- *evaluate* the role of service level agreements in providing client satisfaction;
- *discuss* the relevance of excellent service delivery and how this may be achieved.

### 3.2 Selection of insurers

Candidates should be able to

- *discuss* the issues that should be taken into account when selecting insurers;
- *evaluate* the role of the broker in this process;
- *describe* the principles and factors affecting the solvency of an insurer and the importance of insurer solvency in the selection process;
- *describe* the functions of a typical market security department of a large insurance broker;
- *evaluate* the difficulties and issues that may arise and need to be confronted by a market security department.

### 3.3 Monitoring solvency of other intermediaries

Candidates should be able to

- *discuss* the importance of monitoring the solvency of other intermediaries placing business on your behalf.

### 3.4 Role of the insurance broker in the event of insurer failure or an insurer discontinuing a line of business

Candidates should be able to

- *identify* the practical issues for the insurance broker and clients that arise from these eventualities;
- *assess* the impact of an insurer failure on the market as a whole.

### 3.5 Negotiation and placing of risks

Candidates should be able to

- *explain* the function and duties of the insurance broker in respect of the negotiation and placing of risks;
- *explain* the importance and implications of surveys in the negotiation and placing of risks;
- *discuss* the annual service cycle, including what it should contain and what is considered best practice;
- *outline* renewal procedures;
- *identify* key elements of London Market procedures.

### 3.6 Policy wordings

Candidates should be able to

- *identify* the key considerations to be addressed in the design, negotiation and drafting of policy wordings;
- *evaluate* the role of the broker in this process.

### 3.7 Negotiation, collection and payment of claims

Candidates should be able to

- *discuss* the specific functions of the insurance broker in relation to the negotiation, collection and payment of claims.

### 3.8 Programme design and the operation of global insurance programmes

Candidates should be able to

- *discuss* and *apply* the process of programme design and *assess* its importance for ensuring client satisfaction;
- *explain* the advantages and disadvantages of global insurance programmes;
- *analyse* their implications for insurance brokers;
- *explain* the taxation implications for placing global insurance business.

### 3.9 Electronic trading

Candidates should be able to

- *discuss* the advantages and disadvantages of electronic trading and the role of the broker within it;
- *describe* the business models associated with:
  - electronic trading;
  - brochure sites;
  - point click bind;
  - electronic fund transfer;
  - auction (on-line comparison);
- *describe* the major trends in electronic commerce, particularly in the London Market;
- *describe* the main features and *analyse* the use of Electronic Data Interchange and the issues surrounding the collection and use of data from the internet;
- *discuss* the implications of email for errors and omissions;
- *discuss* the issues surrounding electronic archiving.

### 3.10 Role of the broker in the risk management process

Candidates should be able to

- *explain* the importance of risk management;
- *discuss* the role of the insurance broker in the risk management process.

### 3.11 Brokers' fees and remuneration

Candidates should be able to

- *discuss* the ways in which brokers are remunerated and the issues for brokers, clients and markets;
- *identify* the requirements of transparency and disclosure in broker remuneration and the implications of non-compliance;
- *discuss* the adequacy of fees reflecting overseas operations;
- *discuss* time charge structures (billable hours) as a factor in setting fees.

### 3.12 Delegated authority

Candidates should be able to

- *discuss* the features and operations of delegated authority.

### 3.13 Conflict of interest

Candidates should be able to

- *identify* the various conflicts of interest an insurance broker may face;
- *discuss* their implications.

## 4. Marketing

### 4.1 Promotional literature

Candidates should be able to

- *explain* the implications of FSA rules on product literature for insurance brokers;
- *explain* the consequences of non-compliance with these rules.

## 4.2 The marketing environment

Candidates should be able to

- *evaluate* the impact on insurance broking of the marketing environment.

## 4.3 Market research

Candidates should be able to

- *outline* the application of market research to insurance broking.

## 4.4 Product development

Candidates should be able to

- *identify* the key stages and considerations of product development;
- *assess* the role of the insurance broker in the product development process;
- *assess* the implications of product development for the insurance broker; including the use of ‘white labelling’.

## 4.5 The sales process

Candidates should be able to

- *discuss* the regulatory constraints and considerations according to type of client, including:
  - pre-contractual disclosure rules;
  - meeting client needs;
  - negotiation;
  - direct and indirect selling;
  - distance marketing.

# 5. Errors and omissions

## 5.1 Errors and omissions

Candidates should be able to

- *identify* the causes of mistakes and poor service;
- *give* examples of errors and omissions;
- *discuss* the importance of errors and omissions’ prevention to the insurance broker;
- *explain* the techniques used for prevention;
- *assess* the implications for the broker of failing to prevent errors and omissions.

### 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. Any 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.

CII/Personal Finance Society members can borrow most of these additional study materials from CII Knowledge Services and may be able to purchase some at a special discount. For further information on lending and discounts go to [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge)

### Primary text

**Insurance broking.** London: The CII. Coursebook 930.

### Additional reading

The law of insurance broking. Christopher Henley. 2nd ed. London: Sweet & Maxwell, 2004.

The professional liability of insurance brokers. Christopher Henley. London: CII Knowledge Services. Updated as necessary. Available online at [www.cii.co.uk/knowledge/factfiles](http://www.cii.co.uk/knowledge/factfiles) (CII/Personal Finance Society members only).

The regulation of insurance, investment and mortgage intermediaries. Tony Wiltshire. London: CII Knowledge Services. Updated as necessary. Available online at [www.cii.co.uk/knowledge/factfiles](http://www.cii.co.uk/knowledge/factfiles) (CII/Personal Finance Society members only).

### Reference works

Consumer Credit Act 1974. London: HMSO, 1974.

Data Protection Act 1998. London: HMSO, 1998. Also available online at [www.opsi.gov.uk/acts/acts1998/19980029.htm](http://www.opsi.gov.uk/acts/acts1998/19980029.htm)

Financial Services and Markets Act 2000. London: HMSO, 2000. Also available online at [www.opsi.gov.uk/acts/acts2000/20000008.htm](http://www.opsi.gov.uk/acts/acts2000/20000008.htm)

Insurance Mediation Directive. Brussels: Office for Official Publications of the European Communities, 2002. Also available online at [www.europa.eu.int/eur-lex/lex/en/repert/0620.htm](http://www.europa.eu.int/eur-lex/lex/en/repert/0620.htm)

Money Laundering Regulations 2003. London: HMSO, 2003. Also available online at [www.opsi.gov.uk/si/si2003/20033075.htm](http://www.opsi.gov.uk/si/si2003/20033075.htm)

### Periodicals

The Journal. London: The CII. Six issues a year. Also available online (CII/Personal Finance Society members only) at [www.cii.co.uk/knowledge/journal](http://www.cii.co.uk/knowledge/journal)

Post Magazine. London: Incisive Financial Publishing. Weekly.

Professional Pointers. London: Faculty of Insurance Broking. Several issues a year. Emailed regularly to faculty members and available online at [www.cii.co.uk/knowledge/insurancebroking](http://www.cii.co.uk/knowledge/insurancebroking) (CII/PFS members only).

### Websites

CII Knowledge Services – [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge)

### Examination guides

You are strongly advised to study these before the examination. Please visit [www.cii.co.uk](http://www.cii.co.uk) to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

### Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. You will also find advice at [www.cii.co.uk/knowledge/careersupport](http://www.cii.co.uk/knowledge/careersupport) (CII/Personal Finance Society members only).

For a more interactive approach, you should consider:

Winning the brain game. London: The CII, 2006. CD-ROM.