

C11 Principles and Practice of Insurance

Addendum— July 2006

(To be used with 2002 Edition of the Textbook)

Study 2, Page 13 *Examples changed to the following:*

Large multi-line companies:

- Aviva
- Royal & SunAlliance Canada Group
- The Economical Insurance Group

Specialty companies:

- The Boiler Inspection and Insurance Company of Canada
- British Aviation Insurance Company Ltd.
- FM Global

Study 4, Page 18–24 *Text under the heading **Lloyd's Insurance Market** changed to:*

**Lloyd's
coffee house
venue**

The history of Lloyd's dates back to 1689 when Edward Lloyd opened a coffee house in London. Lloyd's coffee house became known as a gathering place for people who were interested in buying and selling insurance on marine risks, and Edward Lloyd catered to his patrons' interests by sending runners to the waterfront to pick up the latest news on ship arrivals, departures, and other movements. This information was posted in the coffee house and was the forerunner of the current Lloyd's list, which lists the name, position, destination, and other important data of every merchant ship in the free world.

**Professional
underwriters**

In 1789, Lloyd's underwriters moved out of the coffee house to premises at the Royal Exchange. The merchant who had provided insurance by simply signing his name and a percentage of the risk to a policy gave way to the professional underwriter employed by the merchant and others to accept business at Lloyd's on their behalf.

**Global
insurance
market**

Lloyd's is not an insurance company but an insurance market. It consists of independent businesses, both corporate and individual, which provide capital to the market and underwrite in syndicates. These capital providers are known as members. Syndicates are groups of members who employ professional underwriters to accept risk on their behalf. The risks placed with underwriters originate from clients and other brokers and intermediaries all over the world. Each syndicate is run by a managing agent.

Members accept insurance business through syndicates on a separate basis for their own profit and loss (in other words, members of Lloyd's are not jointly responsible for each other's losses). Syndicates may compete for business or a syndicate may cover a portion of a risk.

Various syndicates operate within the market covering specialty areas including the following:

- Marine
- Aviation
- Catastrophe
- Professional indemnity
- Automobile

Historically, the Lloyd’s market has always shown a willingness to underwrite new, difficult and complex risks. Newer areas of insurance include people working in highly volatile or war-torn regions, space and cyber-liability.

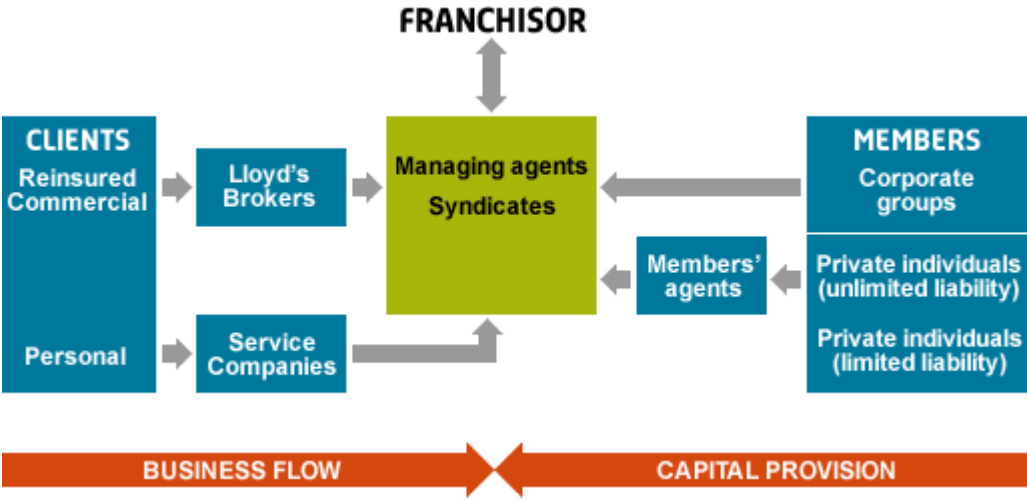
Managing syndicate operations

A managing agent is responsible to employ the underwriting staff and manage the syndicate on the members' behalf. The managing agent must be a company specifically established for the purpose of managing a syndicate, and it may not carry out any other function. A managing agent may be responsible for more than one syndicate.

Operates a franchise model

Lloyd's implemented a new franchise model operating system in 2003. Lloyd's businesses are independent and operate within the franchise. The objectives of the franchise are to

- create and maintain a commercial environment to maximize return to capital providers;
- make Lloyd's the preferred market for all stakeholders;
- create a disciplined and well managed business market.



Names as sources of capital

When Lloyd’s was founded, its underwriting members were wealthy private individuals who staked their fortunes by trading with unlimited liability. Because these individuals signed their names on the insurance contracts, they became known as “names”. In 1994, corporate members were invited to provide underwriting capital. Since then, the make-up of the underwriting membership comes mainly from corporate bodies and names who have converted to limited liability by forming limited companies or partnerships. Pre-existing names with unlimited liability

represent a small and declining percentage of the market's capital backing.

Lloyd's Brokers

Generally, the Lloyd's market does not deal with its clients directly, but through a global network of insurance brokers. Accredited Lloyd's brokers, with specialist knowledge, place risks in the Lloyd's market on behalf of clients. Each Lloyd's broker is required to demonstrate an understanding of the Lloyd's market, as part of Lloyd's assessment of its suitability to be accredited as a Lloyd's broker.

Summary

Lloyd's is a market not an insurance company. **Lloyd's brokers** bring the business to Lloyd's **underwriters** who represent **syndicates of members**. **Managing agents** administer syndicates. Lloyd's adopted a franchise model for its organization in 2003.

Study 4, Page 25 *Review Question#29 changed to the following, and Review Question #33 deleted.*

29. What is the function of
- Lloyd's brokers?
 - Syndicates?
 - Lloyd's underwriters?
 - Managing agents?

Study 5, Page 13 *Definition of Profit Commission changed to the following:*

Profit Commission is an extra commission paid annually to a broker/agent, but only if the business placed by the broker/agent produced a certain level of profitability for the insurer. Terms are usually stated in the agency agreement.

Study 10, Page 9 *First paragraph, last sentence (and footnote) changed to the following:*

Some other sources of information are inspection of the premises, valuations, records of the Insurance Bureau of Canada's Investigative Services¹, and credit reports.

¹ The Insurance Bureau of Canada is discussed in detail elsewhere in this textbook.

Study 10, Page 19 *The following point was added to the list beside the marginal heading No Consent Required:*

- A change of title by succession.

Study 12, Page 11 Section entitled *Insurer's Advisory Organization (IAO)* deleted.

Study 12, Page 11–12 Under the heading *Industry Organizations*, the following text and marginal heading have been inserted as the new second paragraph:

**Insurer's
Advisory
Organization**

One example of an organization which evolved from being membership-based to user-pay is the Insurer's Advisory Organization (IAO). Originally founded in 1883 for the benefit of members, in 1990 it began working on a fee-for-service basis. In 2003 it was acquired by CGI, which now offers many of the IAO's former services under its own CGI Insurance Business Services banner. These include the

- IAO School, which provides training in the areas of loss control, underwriting, and claims adjusting;
- IAO Actuarial Consulting Services Inc., which provides risk information to buyers and suppliers of property-casualty insurance;
- Fire Underwriter's Survey (FUS), which provides data on public fire protection for fire insurance statistical work and underwriting; advises municipalities on deficiencies in their fire defenses; and recommends improvements to enable them to better deal with fire protection problems; and
- Nuclear Insurance Association of Canada (NIAC), which is a voluntary non-profit, unincorporated association of insurers through which a member may provide protection by participating in insurance pools for physical damage insurance and liability insurance pertaining to nuclear risks within Canada.

S12 Page 14–15 The section entitled *Investigative Services* has been changed to read

Insurance fraud is an industry-wide concern. IBC's subscription-based Investigative Services provides both investigative and information services to its private insurer/reinsurer and industry associate/stakeholder members. It also works to detect and prevent fraud, and recover losses on behalf of its clients. Information provided to subscribers includes, among other things, claims information; access to the salvage, theft, property, fire, and casualty claims databases; and information regarding IBC investigations of organized injury and auto theft insurance crime rings.

Investigative Services also maintains relationships with public authorities, and analyzes information, which subscribing insurers can use to ensure policies are underwritten accurately and claims are resolved fairly. It also examines insurance fraud trends and identifies potential threats to the profitability of members.

Study 12, Page 15 *First Sentence under the heading **Institute for Catastrophic Loss Reduction** changed to the following:*

The Institute for Catastrophic Loss Reduction (ICLR), affiliated with the University of Western Ontario, is an industry initiative to reduce the human and financial cost of natural disasters.

Study 12, Page 15–16 *The section entitled **Canadian Coalition Against Insurance Fraud** has been deleted.*

Study 12, Page 16 *The heading **The Facility** has been changed to **The Facility Association**.*

S12 Page 23–24 *The section entitled **What Can We Do?** has been changed to read*

It is easier to foster positive attitudes in the minds of youth than to change negative attitudes once they have become entrenched. To help foster positive attitudes about insurance, the insurance industry—through The Insurance Institute of Canada and other advocacy groups—has spearheaded several educational programs aimed at educating youth about the world of insurance.

**Career
Connections**

The Insurance Institute of Canada’s Career Connections program aims to improve students’ understanding of insurance, illustrate the role of insurance in society, and increase awareness of employment opportunities in the insurance industry. There are four elements to the program:

1. Career Connections, which introduces students to the world of possible careers in Canada’s property and casualty insurance industry;
2. Insurance Connections, which incorporates curriculum-based, age-appropriate activities to help educators teach students about insurance concepts and industry issues;
3. Events, including professional development programs for teachers, and industry professionals attending education and career events to interact with teachers and students;
4. The Ambassador Program, where industry professionals promote the industry in a positive way by sharing their career and education experiences with youth in settings such as classrooms and career fairs.

**The next
generation of
insurance
buyers**

Although much remains to be done to educate the public about insurance, programs such as Career Connections mean that when the next generation of insurance consumers emerge they will be better informed. This can only benefit the industry. However, it will be more important

than ever for members of the industry to be well informed and act professionally. Consumers will expect—and deserve—nothing less.

Study 12, Page 24 *List of organizations in the Summary changed to the following:*

- Insurers' Advisory Organization Inc. (IAO)
- Insurance Bureau of Canada (IBC)
 - The Vehicle Information Centre of Canada (VICC)
 - Investigative Services
- Institute for Catastrophic Loss Reduction
- Groupement des assureurs automobiles
- Property and Casualty Insurance Compensation Corporation
- Centre for Study of Insurance Operations (CSIO)
- The Facility Association
- Canadian Independent Adjusters' Association (CIAA)
- Canadian Insurance Claims Managers' Association (CICMA)
- Insurance Broker's Association of Canada (IBAC)
- Surety Association of Canada
- Underwriters' Laboratories of Canada (ULC)

Study 12, Page 26 *Review Question #14 deleted. Review Question #17 changed to the following:*

What is the overall objective of IBC's Investigative Services?

