

CII London Market (LM2) - Insurance Principles and Practices Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

- 1. What is a Lloyd's broker LEAST likely to advise its clients on?**
 - A. The coverage limits of the policy**
 - B. The commission to be paid**
 - C. The underwriting process**
 - D. The claims handling procedure**
- 2. What does 'short-tail insurance' refer to?**
 - A. Insurance claims settled long after the event**
 - B. Insurance claims settled quickly, typically within one year**
 - C. Insurance policies with lower premiums**
 - D. Insurance policies that are not renewable**
- 3. In insurance, what are "covenants"?**
 - A. Conditions for premium payments**
 - B. Promises made by the insurer to the insured**
 - C. Promises made by the insured to the insurer**
 - D. Limitations on the insured's rights**
- 4. What does an insurance agent primarily do?**
 - A. Represent clients in negotiations**
 - B. Provide insurance coverage from a specific insurer**
 - C. Manage claims for clients**
 - D. Evaluate risks for underwriting purposes**
- 5. What does a policy document outline?**
 - A. The rules of the insurance company**
 - B. The terms and conditions of coverage**
 - C. The risk assessments made by underwriters**
 - D. The process for claims submission**
- 6. Why are subjectivities critical when underwriting a risk?**
 - A. They guarantee profit margins**
 - B. They help in accurately assessing the risk**
 - C. They outline the premium structure**
 - D. They define the scope of the market**

- 7. What does the term sublimit refer to in an insurance policy?**
- A. A specific limit within the overall policy limit for particular claims**
 - B. The maximum limit for all claims combined**
 - C. Unlimited coverage for any claim**
 - D. A cap on claims paid in any given year**
- 8. Who is a Lloyd's broker least likely to have a Terms of Business Agreement with?**
- A. An insurer**
 - B. A client**
 - C. A regulator**
 - D. A reinsurance company**
- 9. What does 'coverage territory' encompass?**
- A. The geographical area within which the insurance policy provides coverage**
 - B. The limits of financial liability for insurers**
 - C. The regions where the insurer is licensed to operate**
 - D. The duration of the insurance policy**
- 10. Which FCA conduct standard may be breached if a UK insurance adviser inadvertently fails to provide material information to a client?**
- A. Acting with care, skill, and diligence**
 - B. Acting in the best interest of the client**
 - C. Ensuring transparency in communication**
 - D. Maintaining professional integrity**

Answers

- 1. B**
- 2. B**
- 3. C**
- 4. B**
- 5. B**
- 6. B**
- 7. A**
- 8. C**
- 9. A**
- 10. A**

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Explanations

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1. What is a Lloyd's broker LEAST likely to advise its clients on?

- A. The coverage limits of the policy**
- B. The commission to be paid**
- C. The underwriting process**
- D. The claims handling procedure**

A Lloyd's broker plays a pivotal role in the insurance industry by acting as an intermediary between clients and insurers. Their primary responsibility is to ensure that clients are effectively covered by suitable insurance policies. This includes advising on various aspects of the policy, such as coverage limits, the underwriting process, and claims handling procedures. Advising on the commission to be paid is the area where a Lloyd's broker is least likely involved. While brokers may disclose commission structures as part of their transparency obligations, their focus is primarily on securing the best insurance coverage for their clients rather than discussing the specifics of fees or commissions. The commission is typically set by the insurance market and may not directly influence the client's decision about coverage. In contrast, brokers are expected to provide comprehensive advice regarding coverage limits to ensure clients have adequate protection, explain the underwriting process to clarify how risks are assessed, and detail the claims handling procedure to inform clients about what to expect in the event of a claim.

2. What does 'short-tail insurance' refer to?

- A. Insurance claims settled long after the event**
- B. Insurance claims settled quickly, typically within one year**
- C. Insurance policies with lower premiums**
- D. Insurance policies that are not renewable**

'Short-tail insurance' refers to insurance claims that are typically settled quickly, usually within a year. This characteristic is seen in lines of insurance where the time between the occurrence of the event and the reporting of the claim is relatively brief, allowing insurers to process and pay claims promptly. Such lines of insurance often include products like property, motor, and certain types of liability coverage, where the loss events can be identified and quantified in a short timeframe. The nature of short-tail insurance contrasts with long-tail insurance, where claims may be settled many years after the event due to prolonged investigations, legal proceedings, or ongoing medical treatments. These distinctions highlight the importance of understanding the claims settlement process and the associated cash flow implications for insurers, which is critical for effective risk management and financial planning in the insurance industry.

3. In insurance, what are "covenants"?

- A. Conditions for premium payments
- B. Promises made by the insurer to the insured
- C. Promises made by the insured to the insurer**
- D. Limitations on the insured's rights

Covenants in the context of insurance refer to promises made by the insured to the insurer. These promises are typically conditions or obligations that the insured agrees to uphold as part of the insurance contract. For instance, an insured may covenant to maintain a certain level of risk management practices, report changes in risk factors promptly, or pay premiums on time. These commitments serve to mitigate risk for the insurer and ensure that the insured adheres to practices that protect both parties. By fulfilling these covenants, the insured helps maintain the trust and functionality of the insurance agreement, which ultimately impacts the insurer's assessment of risk and the terms of coverage provided. The other options do not accurately represent what covenants stand for in an insurance context. Conditions for premium payments relate more to the financial aspects of the policy rather than promises. On the other hand, while promises made by the insurer to the insured are crucial for defining coverage and obligations, these are typically referred to as warranties or guarantees instead of covenants. Limitations on the insured's rights are more aligned with policy exclusions or terms and conditions, rather than promises made.

4. What does an insurance agent primarily do?

- A. Represent clients in negotiations
- B. Provide insurance coverage from a specific insurer**
- C. Manage claims for clients
- D. Evaluate risks for underwriting purposes

An insurance agent primarily provides insurance coverage from a specific insurer. In this role, the agent acts as a representative of the insurance company and is responsible for selling and servicing policies offered by that particular insurer. Agents are tasked with advising clients about the products available, helping them understand the terms of coverage, and ensuring that clients select the appropriate policies to meet their needs. While other roles, such as evaluating risks for underwriting purposes or managing claims, are crucial aspects of the broader insurance process, they typically fall under the responsibilities of underwriters or claims adjusters rather than agents. An agent's focus is distinctly on the sales and service of insurance products from their specific company, which is why the ability to provide coverage from that insurer is the primary function of an insurance agent.

5. What does a policy document outline?

- A. The rules of the insurance company
- B. The terms and conditions of coverage**
- C. The risk assessments made by underwriters
- D. The process for claims submission

The policy document serves as a formal agreement between the insurer and the insured, detailing the terms and conditions of coverage. It specifies what is included in the insurance coverage, outlining the rights and responsibilities of both parties. This includes descriptions of the risks covered, any exclusions, limits of liability, and the duration of the coverage. By clearly laying out these terms and conditions, the policy document ensures that both the insurer and the policyholder have a mutual understanding of what is covered under the policy and what is not. This clarity is essential for mitigating disputes regarding claims and coverage in the future. While the other options touch on relevant aspects of insurance, such as rules of the insurance company or the claims submission process, they do not encompass the comprehensive nature of what is explicitly found in a policy document. The focus of the policy document is primarily on the specifics of the insurance coverage rather than the company's operational rules or processes.

6. Why are subjectivities critical when underwriting a risk?

- A. They guarantee profit margins
- B. They help in accurately assessing the risk**
- C. They outline the premium structure
- D. They define the scope of the market

Subjectivities play a crucial role in the underwriting process by providing additional information and requirements that must be satisfied before a policy can be finalized. They often relate to specific conditions, circumstances, or clarifications that help underwriters make more informed decisions about the risk being assessed. When accurately assessing a risk, subjectivities guide the underwriter in identifying potential issues or uncertainties that may impact the risk profile. For example, an underwriter may require certain inspections, reports, or additional data from the applicant before proceeding with a decision. This ensures that all relevant information is considered, which helps to gauge the risk exposure accurately and establish more accurate terms for coverage. Understanding the implications of subjectivities also allows underwriters to tailor policies more closely to the individual risks they are covering. As a result, effective management of subjectivities is key to ensuring that the underwriting process aligns closely with the actual risks presented, leading to better pricing and coverage decisions.

7. What does the term sublimit refer to in an insurance policy?

- A. A specific limit within the overall policy limit for particular claims**
- B. The maximum limit for all claims combined**
- C. Unlimited coverage for any claim**
- D. A cap on claims paid in any given year**

The term sublimit in an insurance policy refers to a specific limit set within the overall policy limit that applies to particular types of claims or categories of coverage. This means that while the overall policy may have a higher limit for a range of claims, there could be certain situations or types of losses for which the insurer will only pay up to a defined sublimit. For example, in a property insurance policy, there may be a sublimit for certain types of property, such as jewelry or fine art, that is lower than the overall limit of the policy. This allows insurers to manage risk and exposure more effectively, offering policyholders coverage while still limiting their liability for specific high-risk categories.

8. Who is a Lloyd's broker least likely to have a Terms of Business Agreement with?

- A. An insurer**
- B. A client**
- C. A regulator**
- D. A reinsurance company**

A Lloyd's broker typically engages in various agreements essential for their operations, primarily focusing on relationships that involve the transactional nature of insurance and reinsurance. A Terms of Business Agreement (TOBA) is a legal document that outlines the terms under which a broker will operate with insurers and clients. The most common relationships for a Lloyd's broker are with insurers from whom they seek coverage for their clients and with clients who approach brokers for their insurance needs. In both these cases, the broker establishes a TOBA to define the service terms, responsibilities, and payment terms, ensuring clarity and compliance within the insurance framework. While reinsurance companies also form part of a broker's operational landscape, the relationship tends to be more technical and can involve various forms of underwriting agreements or other collaborations, but a specific TOBA may not always be established in the same manner as with direct insurers or clients. In contrast, a regulator does not engage in a TOBA with a Lloyd's broker. Regulators oversee and enforce legal and compliance standards within the insurance industry, ensuring that brokers and insurers operate fairly and within the legal frameworks. The interaction with regulators is more about compliance rather than establishing a business relationship governed by TOBAs. Thus, a Lloyd's broker is least likely to have

9. What does 'coverage territory' encompass?

- A. The geographical area within which the insurance policy provides coverage**
- B. The limits of financial liability for insurers**
- C. The regions where the insurer is licensed to operate**
- D. The duration of the insurance policy**

The concept of 'coverage territory' refers specifically to the geographical area within which an insurance policy provides its protective coverage. This means that any claims arising from incidents that occur outside of this defined territory would not be covered by the policy. Understanding the 'coverage territory' is crucial because it delineates the boundaries of where the insurer is willing to provide protection, affecting both the insured party and the insurer in terms of risk management. For instance, if an individual with an insurance policy that has a coverage territory limited to the United Kingdom were to travel and experience a loss in another country, that loss would not be compensated under their policy. In contrast, the other options focus on different aspects of insurance. The limits of financial liability for insurers refer to the maximum amounts payable under the policy terms, while the regions where the insurer is licensed to operate pertains to the regulatory aspect of the insurer's activity. The duration of the insurance policy relates to the time period for which the coverage is valid. Each of these elements plays a role in the overall insurance framework, but they do not specifically define the boundaries of coverage in terms of geography like 'coverage territory' does.

10. Which FCA conduct standard may be breached if a UK insurance adviser inadvertently fails to provide material information to a client?

- A. Acting with care, skill, and diligence**
- B. Acting in the best interest of the client**
- C. Ensuring transparency in communication**
- D. Maintaining professional integrity**

The conduct standard that is potentially breached when a UK insurance adviser inadvertently fails to provide material information to a client relates to the expectation of acting with care, skill, and diligence. This standard is grounded in the principle that advisers are required to exercise a reasonable level of care and professional knowledge when dealing with clients. If an adviser fails to disclose material information that could influence a client's decision, it suggests a lapse in the level of diligence and skill expected within their role. Providing clients with all relevant information is crucial for informed decision-making. When an adviser overlooks this responsibility, even unintentionally, it indicates that they may not be fulfilling their obligation to act diligently. This can have implications for the client's understanding of their options and the overall advice they receive, which is why adherence to this standard is critical in the advisory process. In comparison, while the other options refer to important aspects of an adviser's conduct, the failure to provide material information specifically highlights a breach in the diligence expected under the first standard. Being transparent in communication and maintaining professional integrity are certainly vital in the advisory relationship, but the immediate consequence of failing to provide material information is more squarely aligned with neglecting the requirement to act with the necessary care, skill, and diligence.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://ciilm2insuranceprinciples.examzify.com>

We wish you the very best on your exam journey. You've got this!