



THE CHARTERED INSURANCE INSTITUTE

DIPLOMA

APRIL 2010 EXAMINATION PAPER

**UNIT P92
INSURANCE BUSINESS AND FINANCE**

INSTRUCTIONS

- Three hours are allowed for this paper.
- Fill in the information requested on the answer booklet and on form B.
- You are allowed to write on the inside pages of this question paper but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- **The answer booklet and this question paper must be handed in personally by you to the invigilator before you leave the examination. Failure to do this may result in your paper not being marked and you may be prevented from entering this examination in future.**

READ THE INSTRUCTIONS OVERLEAF CAREFULLY BEFORE ANSWERING ANY QUESTIONS.

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P92 – Insurance business and finance

CANDIDATE INSTRUCTIONS

READ THE INSTRUCTIONS BELOW BEFORE ANSWERING ANY QUESTIONS.

Three hours are allowed for this paper which contains 20 compulsory questions and carries a total of 200 marks.

The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.

Answer each question on a new page. If a question has more than one part, leave several lines blank after each part.

It is important to show each step in any calculation, even if you have used a calculator.

You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.

Answer ALL questions.

Note form is acceptable where this conveys all the necessary information.

1. Marketing depends upon a company's desire to meet the unsatisfied needs and wants of the customer.
 - (a) Define 'unsatisfied needs'. (2)
 - (b) Explain why and how marketing is used to change an unsatisfied need of a customer into something they want. (4)
 - (c) Give two examples of a general advertising campaign that has achieved this. (2)

2.
 - (a) List two examples of insurance activities that could be outsourced. (2)
 - (b) All regulated businesses are required to source and manage outsourcing in line with the Financial Services Authority Handbook.
 - (i) Describe the two main regulatory rules that apply to outsourced business. (4)
 - (ii) Explain the implication of The Insurance: New Conduct of Business Sourcebook (ICOBS) on outsourced businesses. (2)

3.
 - (a) State the two documents that a firm must file with Companies House in order to register their company. (2)
 - (b) On 1 October 2009, the Companies Act 2006 imposed changes to the rules on company formation. Explain the four main changes. (8)

4. The Turnbull Guidance outlines best practice on internal control as a key feature of Corporate Governance.
 - (a) State another report which set out best practice in this field and the committee that reviewed this. (2)
 - (b) The committee that reviewed the Turnbull Guidance published updated guidance in October 2005. Explain which factors company boards should now consider. (10)

5. (a) (i) State the two types of director who make up a company's board. (2)
- (ii) Explain briefly the differences between these two types of director. (4)
- (b) List four specialist executive positions a typical insurance company would have on their board of directors. (4)
6. (a) List the four main methodologies used for projecting the total cost of claims in an insurance company. (4)
- (b) Explain briefly claims run-off and how it is calculated. (5)
7. (a) Define job satisfaction and list two key outcomes to which this can lead. (4)
- (b) Describe how staff morale is affected by industrial relations. (2)
- (c) Explain briefly the following approaches used in industrial relations.
- (i) Joint consultation. (2)
- (ii) Conflict management. (2)
- (iii) Collective bargaining. (2)
8. Describe briefly the four outcomes the Financial Services Authority aims to achieve within the principle of Treating Customers Fairly. (8)
9. (a) Explain why an insurance company would pay a rating agency to provide an overview of their financial strength. (8)
- (b) Explain briefly what can be interpreted from the report produced by the rating agency. (2)

- 10.** Activity ratios are used to compare the company's financial results for specific activities detailed in a balance sheet item.
- (a)** State the three main ratios used and provide the formula for their calculation. **(9)**
 - (b)** State what these ratios measure. **(1)**
- 11.**
- (a)** Explain the purpose of the cash flow statement. **(3)**
 - (b)** State the three main headings detailed in a cash flow statement and give an example of an item under each heading. **(6)**
- 12.**
- (a)** Describe the difference between a merger and an acquisition. **(2)**
 - (b)** Describe briefly four disadvantages of mergers and acquisitions. **(8)**
- 13.** List and describe the Industrial Society's five 'C's approach to decision making. **(10)**
- 14.** Describe the options available to a company, should they have inadequate capital to ensure they comply with the Financial Services Authority's requirements. **(10)**
- 15.** Explain the information that should be contained in the:
- (a)** directors' report; **(5)**
 - (b)** directors' remuneration report. **(5)**

- 16.** Describe five requirements under International Financial Reporting Standards 4 that apply to insurance contracts. **(10)**
- 17.** List and describe five key reasons why the London Market is considered part of a global insurance market. **(10)**
- 18.** Explain briefly the six stages of the market research process. **(12)**
- 19.** (a) For an insurance company, explain which three ratios are used to make up the combined ratio. **(3)**
- (b) State the formula used to calculate the combined ratio. **(3)**
- (c) Identify two limitations in the use of ratios for insurance companies. **(4)**
- 20.** (a) Describe the difference between financial and management accounting. **(6)**
- (b) Identify six key users of financial information. **(6)**

