



**THE CHARTERED INSURANCE INSTITUTE**

**DIPLOMA**

**OCTOBER 2009 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.**



THE CHARTERED INSURANCE INSTITUTE

**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. (a) Define the term 'unsatisfied needs' for individuals. (2)
- (b) Explain the definition of a market segment, using two examples to highlight your answer. (6)
2. (a) Define the term 'stakeholder'. (1)
- (b) Identify four key stakeholders of a company's financial information and explain briefly what they would use the information for. (8)
3. (a) List the data required by an insurer to enable them to develop a comprehensive claims reserving management information report and identify the period of time for which this is relevant. (6)
- (b) Explain briefly what the Bornhuetter Ferguson methodology for projecting the total cost of claims involves and whether the results produced can be relied on. (4)
4. Insurers will often quote various performance ratios.
- (a) Explain what information is provided by calculating the combined ratio. (2)
- (b) If:
- claims paid = £2,500
  - administrative expenses = £227
  - acquisition costs = £205
  - earned premium = £2,980
- Calculate, showing all your workings, the claims ratio, expense ratio and commission ratio. (6)
- (c) Calculate, showing your workings, the combined ratio and explain what your answer means for the insurance company. (4)

5. Recruitment is a vital activity within the insurance industry to find the best applicant to fill a vacancy. List six main recruitment tools and explain why they would be used. (12)
6. (a) List six key types of information a senior insurance manager needs to have to be able to successfully manage and control their business. (6)
- (b) State four questions that need to be considered by a senior insurance manager when collecting and collating this information. (4)
7. List four different types of sellers of insurance and explain briefly how they transact insurance. (12)
8. (a) Explain briefly why UK authorised insurers are required to report Individual Capital Assessment (ICA) to the Financial Services Authority in addition to their Minimum Capital Requirements (MCR) and Enhanced Capital Requirements (ECR). (2)
- (b) State two risk factors that insurers should consider when calculating the ICA. (2)
- (c) In the event of inadequate MCR returns, describe briefly the two options available to an insurer in order to bridge the shortfall. Give two examples of each. (6)
9. (a) Outline the role of the International Financial Reporting Standards (IFRS) framework. (4)
- (b) Describe the underlying assumptions used in the IFRS framework. (4)
- (c) The framework sets out a statement of financial position. List the three areas included in this. (3)

- 10.** Delegating authority within underwriting is widely used in insurance.
- (a) Explain how insurers delegate underwriting authority to brokers. **(4)**
  - (b) Describe the benefits of delegation to both brokers and insurers. **(2)**
  - (c) Outline how insurers would monitor delegated authority to ensure it is effectively controlled. **(2)**
- 11.** Once a product has been developed, outline the four stages of a product life cycle. Your answer should include an illustration. **(10)**
- 12.** James and his sister Clair decide to open a company selling hockey sticks, called Hockicks Ltd. Each invests £2,500. They then buy a stock of 50 Merriwhether sticks for £1,000 and Merriwhether gives them six months' credit. They also buy a stock of 1,000 hockey balls at £1 per ball. James immediately sells 10 sticks at £50 each in the first month.
- (a) Define the accounting equation. **(2)**
  - (b) Show the calculations, using the accounting equation, for:
    - (i) when the company is first registered to commence trading; **(2)**
    - (ii) after the hockey sticks are bought; **(2)**
    - (iii) after the hockey balls are bought; **(2)**
    - (iv) after the first stock of hockey sticks are sold. **(2)**
- 13.**
- (a) Outline the information provided in a company's profit and loss statement. **(4)**
  - (b) Using the information provided in question 12, construct a profit and loss account for the first month's trading of Hockicks Ltd. **(6)**

- 14.** (a) State two methods an organisation can use to prepare their budget, providing a brief explanation for each. (6)
- (b) Explain briefly the following types of budget:
- (i) Flexible. (2)
- (ii) Zero-based. (2)
- (iii) Rolling. (2)
- 15.** (a) The various Health and Safety at Work Acts place responsibilities onto two main groups of people. State who these two groups are. (2)
- (b) Describe two of the main responsibilities of each group. (8)
- 16.** List, and explain briefly, six common analytical areas in the Standard and Poor's rating framework when rating a UK insurance company. (12)
- 17.** All public limited companies need to be registered with Companies House. State the two main documents required to register a company and describe briefly the purpose of each document. (10)
- 18.** For the following UK Acts, concerned with discrimination in the workplace, explain the main objectives for each of the Acts:
- (a) Sex Discrimination Act. (2)
- (b) Race Relations Act. (2)
- (c) Disability Discrimination Act. (2)
- (d) Employment Equality (Age) Regulations. (2)

**19.** Explain briefly the general use of the following financial ratios in business:

- (a) Profitability ratio. (2)
- (b) Liquidity ratio. (2)
- (c) Gearing ratio. (2)

**20.** Explain the main recommendations on corporate governance covered in:

- (a) the Cadbury report; (5)
- (b) the Hampel report. (5)

**BLANK PAGE**

**BLANK PAGE**

**BLANK PAGE**

