

P92

Diploma in Insurance

Unit P92 – Insurance business and finance

April 2013 examination

Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and 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 book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit P92 – Insurance business and finance

Instructions to candidates

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.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- 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.
- 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.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

Answer ALL questions

Note form is acceptable where this conveys all the necessary information

1. (a) Explain briefly the **two** main reasons why insurers purchase reinsurance. (4)
- (b) List **five** types of long-term business found in the life and pensions sector. (5)

2. (a) State **four** main activities a strategy team within an insurer would be involved in other than business planning. (4)
- (b) Describe how business plans are agreed in the business planning area. (10)

3. (a) State what a balance sheet is and how it is made up. (4)
- (b) Explain the difference between current and non-current assets, giving **one** example of **each**. (4)
- (c) Explain the difference between current and non-current liabilities, giving **one** example of **each**. (4)

4. Construct an income statement for ZYX Insurance Brokers using the following information:

	<u>£,000</u>	
Investments received	62	
Salaries and wages	322	
Expenses associated with salaries	68	
Finance costs	4	
Commissions received	621	
Fees received	34	
Taxation paid	45	
Share of results of associates	9	
Other expenses	195	(9)

5. (a) Identify and explain briefly the **two** factors which can affect company culture, other than management style. (4)
- (b) Identify and explain briefly **three** management styles. (6)

6. State **eight** points which an action/business plan should include. (8)

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7. (a) State the **two** most important elements of good corporate governance. (2)
- (b) The UK Corporate Governance Code is split into six main areas.
- Explain briefly the following **two** areas:
- (i) Leadership. (5)
- (ii) Comply or explain. (3)
8. Illustrate, using a flow chart, the risk management process as defined by the UK Risk Management Standard. (10)
9. (a) State the main advantage of budgeting. (2)
- (b) Describe briefly the **four** incidental advantages of undertaking budgeting. (8)
10. (a) List **five** roles the marketing team will undertake in an insurance organisation, other than relationship management and marketing. (5)
- (b) Explain briefly why customer relationship marketing is important to an insurance organisation. (4)
11. (a) State the **two** main profitability ratios other than return on capital employed (ROCE). (2)
- (b) Describe briefly what a ROCE ratio enables an investor to establish and the reasons that this ratio is an important measure. (7)
12. State **five** factors which influence the setting of an appropriate level of claims reserve. (10)
13. Explain **five** examples of how the Accounting Standards Board paper, issued in July 2011, gives instruction on how to use professional judgement when preparing accounts. (10)

Questions continue over the page

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14. (a) State the **seven** steps of the process a rating agency would take to arrive at a rating for an insurance company. (7)
- (b) Explain briefly how an investor could view an AAA rating as applied to an insurance company and what steps they might take, when deciding who to invest in. (3)
15. Explain briefly **each** of the following skills that a manager needs in an increasingly complex business world.
- (a) Earning the respect of colleagues. (2)
- (b) Multi-skilling. (2)
- (c) Focusing on customers. (2)
- (d) Mobility and a global outlook. (2)
- (e) New management concepts. (2)
16. (a) State who is responsible for **each** of the **three** levels of defence within the three tiers of a defence model, in relation to risk strategy. (3)
- (b) Describe briefly how the **three** lines of defence would operate to ensure that underwriting authorities are adhered to. (9)
17. State the formulae for **each** of the following ratios used to assess an insurance company.
- (a) Solvency ratio. (2)
- (b) Liquidity ratio. (2)
- (c) Return on equity ratio. (3)
- (d) Gearing ratio. (3)
18. (a) Explain the aims and the power of Lloyd's as the franchisor in relation to its members as franchisees. (5)
- (b) List the **five** principles of Islam that takaful insurers embrace. (5)
19. (a) A risk appetite statement by an insurance company is used to set policies and procedures.
- List **four** of these policies and procedures. (4)
- (b) An economic capital model can be used by an insurance company to assist in decision making.
- List **three** decisions that could be made using this model. (3)

- 20.** Publicly listed companies have to abide by regulations called the UK Listing Rules, Disclosure Rules and Transparency Rules as administered by the Financial Services Authority.

Describe how publicly listed companies have to meet such regulations.

(11)

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