

# 530

## Advanced Diploma in Insurance

### Unit 530 – Economics and business

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 530 – Economics and business

### Instructions to candidates

#### Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks, as follows:

Part I	1 compulsory question (case study)	80 marks
Part II	2 questions selected from 3 (scenarios)	80 marks
- You should answer the question in Part I, and two out of the three questions in Part II.
- **You are advised to spend no more than 90 minutes on Part I and 45 minutes on each question selected in Part II.**
- **It is recommended that you spend 15 minutes reading and planning your answer to the case study and 75 minutes answering it, and that you spend 10 minutes reading and planning your answer to each scenario and 35 minutes answering it.**
- A case study tests extensively across syllabus learning outcomes, whilst a scenario will be more focused on specific learning outcomes.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- 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 each question on a new page. If a question has more than one part, leave six lines blank after each part.

## PART I

## Case study

This question is worth 80 marks

To gain maximum marks you should include relevant examples and evidence of further reading in your answer

## 1. Case study

You are a business manager for a UK based multi-national insurer DOR plc. 50% of DOR's business relates to overseas risks and the premium payments for these are paid locally. DOR offers a wide range of general insurance products and has a balanced portfolio. It is not reliant on particular insurance products or on individual business sectors. DOR's business premises are located in various major cities both in the UK and overseas.

DOR writes business in South East Asia through brokers, whilst all claims are adjusted by local loss adjusters remunerated from the UK. It also has a significant investment portfolio mainly through shares traded on local stock exchanges. General economic problems caused South East Asian share prices to fall in 2011 and DOR suffered losses on their investments.

DOR has been successful in growing its business over the last 20 years, however, over this period it has experienced variations of premium income. DOR has an adequate level of reinsurance protection, some of which is arranged through overseas based reinsurers.

Prior to 2011, DOR made a profit in each of the past 20 years both in the UK and overseas. For example, in 2010, DOR made a profit of £500 million. In 2011, however, DOR suffered significant storm and flood losses in South East Asia, resulting in a loss of £500 million. DOR's competitors also suffered significant losses in South East Asia at that time.

Following these losses, DOR's directors are considering whether it is feasible to make changes to their four factors of production. They also need to consider the relevant supply factors, including the insurance market cycle.

DOR's directors have no intention of leaving the insurance industry or ceasing to write business in South East Asia; however, it is critical that they understand how best to react to the 2011 losses.

DOR's directors are also very keen to emphasise the benefit to the UK economy of trading in South East Asia over the long-term, given the UK Government are viewed as an important stakeholder.

**Question**

Write a report for the directors:

- analysing the extent to which DOR are able to make changes to their **four** factors of production which will improve their performance;
- evaluating DOR's supply strategy on its products following the losses it has suffered, *illustrating your answer with the use of appropriate diagrams*;
- assessing how the insurance market cycle in relation to supply and demand can influence such a strategy, *illustrating your answer with the use of an appropriate diagram*;
- analysing the effects on the UK balance of payments position of the results achieved by DOR over the last 20 years, including 2011.

(80)

**Part II questions can be found on pages 6 and 7**

## PART II

## Scenarios

Answer TWO of the following THREE questions

Each question is worth 40 marks

To gain maximum marks you should include relevant examples and evidence of further reading in your answer

## 2. Scenario

You are employed as a manager for JSP plc, a UK based insurance company which underwrites both general, life and pensions business. The directors of JSP have made a decision to expand the business. This will require additional funding partly through new UK based investors. The directors have recently received the results of some external research on such potential investors, and noted the following:

- (i) a number of UK based potential investors are concerned about the business and the personal tax regime in the UK;
- (ii) some investors expect JSP to pursue the sole objective of maximisation of short-term profit. Other investors regard pursuit of that objective alone to be unacceptable;
- (iii) the investors' concerns in parts (i) and (ii) above might be increased given JSP is a UK insurer.

## Question

Write a report to the directors addressing the considerations and any specific concerns that potential investors may have when investing in JSP as a UK insurer.

You must evaluate the:

- benefits and disadvantages to potential investors in the UK corporate and personal tax regime;
- extent to which the investors are under pressure to take a short-term profit strategy at the expense of longer term business objectives;
- specific considerations regarding tax and short-term profit given JSP's business as a UK insurer.

(40)

## 3. Scenario

You work as a business analyst for MAB, a major insurance company owned by a UK bank. MAB provides general insurance, life and pensions business in the UK and Europe and operates in twelve countries in Africa. In the UK, MAB provides general insurance cover for 25% of UK local government and is regarded globally as an industry leader on environmental matters and climate change issues.

Your directors are seeking a better understanding of the following challenges within the UK and global economy and their specific impact on MAB:

- Population growth, specifically in Africa.
- Demographic issues.
- Economic and social imbalances of income and trade.
- Environmental concerns and climate change.
- Financial instability and uncertainty.

## Question

Prepare a report for your directors on **each** of the **five** challenges listed above;

- analysing briefly these challenges in terms of the UK and global economy;
- reviewing how the exposures you have identified affect MAB, recommending any specific actions you believe MAB should take to reduce these exposures.

(40)

**4. Scenario**

DRA plc is a long established and successful commercial motor insurance company who engages your consultancy services.

DRA underwrites motor fleet business and distributes its products through specialist brokers. DRA operate in a competitive commercial environment, mainly insuring large corporate organisations.

DRA are considering an entry into the personal motor market. If they are to undertake such a venture this will require a further understanding of:

- competitive market structures;
- the ease of entry;
- differences between the business-to-business market and the business-to-consumer market;
- relationship marketing.

**Question**

Write a report for DRA in relation to the proposed new market, taking into account DRA's current business and include **one** brief recommendation for **each** of the above **four** matters in terms of action that DRA can take to improve their likely success. Your report must:

- analyse the current and proposed market structure for DRA;
- assess the impact of barriers of entry for DRA;
- evaluate the differences between business-to-business and business-to-consumer marketing;
- examine the relevance of relationship marketing.

**(40)**

