

# 530

## Advanced Diploma in Insurance

### Unit 530 – Economics and business

October 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 work as a business manager for AMS plc. AMS is a UK headquartered insurer operating in over 50 countries. It has 12,500 employees of whom 5,000 work in the UK, including a number in the UK who work in areas of high unemployment. AMS offers a wide variety of insurance classes including general, life and pensions business.

AMS pays normal UK taxes, off shores some functions and has plans for business expansion in the UK.

The Directors of AMS take an interest in economic and business matters and have sent you a briefing document which concludes that in the UK:

- the Government needs to continue to control and reduce the level of public expenditure;
- rebalancing the economy to increase growth in the private sector is essential but is proving difficult;
- despite public sector expenditure constraints it is necessary to promote supply-side policies to assist businesses;
- inflation as an issue is of little importance to insurers such as AMS.

**Question**

Write a report for the Directors:

- explaining why there is a need to control and reduce public expenditure in the UK and also assess the extent to which this is possible;
- analysing why rebalancing the economy to increase growth in the private sector is necessary but difficult;
- reviewing why there is a need for public expenditure on supply-side policies to increase private sector growth;
- challenging the view that inflation is of little importance to an insurer such as AMS.

**(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 the Underwriting Manager for a compulsory class of insurance designed to protect commercial enterprises. Premiums within your company under this class have continued to increase in recent years. This class of insurance is supplied in a competitive market.

The premium increases have meant that several customers have contacted you questioning their premium levels. In addition, some of your customers have written to the Government stating that the increase in premiums should be controlled through the use of price ceilings (maximum price controls).

Your Board have asked for your response to these issues.

**Question**

Write a report for your Board assessing:

- why premiums are likely to have increased under this compulsory class of insurance;
- the likely impact of a price ceiling (maximum price control) on this compulsory class of insurance.

Illustrate your answer with **one** appropriate demand and supply diagram for **each** point above, together with supporting explanation.

**(40)****3. Scenario**

You are the Strategic Manager for a UK general insurance company CLB plc. At a recent seminar, your Marketing Manager expressed concern about the negative impacts of government intervention and regulation in the UK economy, both in respect of your company and society as a whole.

The Development Manager provided an alternative view that there can be a number of positive impacts from such intervention and regulation.

Your Directors require you to provide a report on the above.

**Question**

Write a report which:

- analyses the potential positive and negative impacts of UK Government intervention and regulation;
- evaluates what CLB itself needs to consider in terms of negative and positive impacts arising from your analysis.

**(40)**

**4. Scenario**

You work as a finance manager for a UK manufacturing company EMB plc. Your company intends to finance a capital investment and expansion plan and needs to consider appropriate sources of finance.

It is important in your expansion plans that you set your company in the context of the UK economy.

**Question**

Write a report for your Board:

- evaluating the different sources of business finance for EMB and identifying which are the most appropriate;
- explaining briefly **four** of the main general economic factors to take into account when considering your expansion.

**(40)**

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