

# Insurance business and finance

## Purpose

At the end of this unit, candidates should be able to demonstrate an understanding of the operation of insurance organisations in business and financial terms

## Assumed knowledge

It is assumed that the candidate already has the knowledge gained from a study of the fundamental principles of insurance as covered in IF1, Insurance, legal and regulatory, or equivalent examinations.

## Summary of learning outcomes

1. Understand the structure of the insurance industry.
2. Understand the management of insurance businesses.
3. Understand the main aspects of corporate governance.
4. Understand the role of common functions within insurance organisations.
5. Understand accounting principles and practices and their application.
6. Understand the main practices of insurance company accounts.
7. Analyse businesses using financial ratios.
8. Understand the financial strength of insurance companies.

## Important notes

- Method of assessment: 20 compulsory questions. Total of 200 marks. Three hours are allowed for this exam.
- The syllabus is examined on the basis of English law and practice unless otherwise stated.
- The general rule is that the exams are based on the English legislative position six months before the date of the exams.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
  - 1) Visit [www.cii.co.uk/qualifications](http://www.cii.co.uk/qualifications)
  - 2) Select the appropriate qualification
  - 3) Select your unit on the right hand side of the page

## **1. Understand the structure of the insurance industry**

- 1.1 Explain the different types of insurance company, including proprietary, mutual, captive, takaful and reinsurance.
- 1.2 Describe the Lloyd's and London Market.
- 1.3 Describe the operation of the international insurance market.
- 1.4 Explain the different types of stakeholder and their interests.
- 1.5 Explain the different distribution channels for insurance business.
- 1.6 Discuss the reasons for company growth, including mergers and acquisitions.
- 1.7 Discuss the reasons for using external service providers, including benefits and drawbacks.

## **2. Understand the management of insurance businesses**

- 2.1 Describe the role and responsibilities of the board of directors and other senior executives.
- 2.2 Describe the key roles and responsibilities of managers, supervisors and non-managerial staff.
- 2.3 Explain the importance of business planning, performance monitoring and control;
- 2.4 Explain the importance and use of management information and management reporting.

## **3. Understand the main aspects of corporate governance**

- 3.1 Describe a generic corporate governance framework.
- 3.2 Describe the main elements of a Memorandum and Articles of Association.
- 3.3 Describe the purpose and structure of the annual report and accounts.
- 3.4 Describe the three lines of defence principle – operational management, risk management and audit.
- 3.5 Explain the importance of accurate record keeping and reporting to fulfil regulatory requirements and best practice.
- 3.6 Explain the importance of the management and protection of confidential data.

## **4. Understand the role of common functions within insurance organisations**

- 4.1 Explain the role and significance of common functions within insurance organisations, including:
  - Underwriting, including delegated authority.
  - Claims.
  - Risk management.
  - Compliance.
  - Actuarial, solvency and capital modelling.
  - Sales and marketing / customer service.
  - Investment.
  - Legal/regulatory.
- 4.2 Describe the role of other common functions within insurance organisations, including:
  - Internal audit.
  - Strategy and planning.
  - Finance.
  - IT and operations.
  - Facilities management.
  - HR/training and competence.

## **5. Understand accounting principles and practices and their application**

- 5.1 Explain the purpose and function of financial accounting.
- 5.2 Distinguish between financial and management accounting.
- 5.3 Describe the users of financial information and their information requirements.
- 5.4 Apply the basic financial concepts and the accounting equation.
- 5.5 Describe accounting for receipts and payments.
- 5.6 Interpret a balance sheet and a profit and loss account.
- 5.7 Explain the uses, format and presentation of cash flow statements.
- 5.8 Explain the principles of management accounting.
- 5.9 Interpret management accounts.

## **6. Understand the main practices of insurance company accounts**

- 6.1 Outline the main accounting standards that affect insurance company accounts.
- 6.2 Explain the importance of accurate reserving.
- 6.3 Describe insurance company reserving methods, including incurred but not reported claims (IBNR).

## 7. Analyse businesses using financial ratios

- 7.1 Discuss the general uses and benefits of financial ratios.
- 7.2 Interpret accounts through the use of various general ratios, including
- Profitability;
  - Productivity;
  - Liquidity;
  - Activity, including turnover;
  - Gearing.
- 7.3 Discuss the general uses and benefits of financial ratios in insurance companies.
- 7.4 Interpret insurance company accounts through the use of financial ratios, including
- 7.4.1 Solvency;
- 7.4.2 Liquidity;
- 7.4.3 Profitability, including return on equity, gearing, combined ratio, commission ratio;
- 7.4.4 Claims.

## 8. Understand the financial strength of insurance companies

- 8.1 Analyse the financial strength of insurance companies.
- 8.2 Explain the role of rating agencies and the rating process.
- 8.3 Explain the regulatory solvency requirements.

### Reading list

The following list provides details of various publications which may assist with your studies.

These will help candidates keep up-to-date with developments and will provide a wider coverage of syllabus topics.

The reading list is provided for guidance only and is not in itself the subject of the examination.

CII/Personal Finance Society members can borrow most of the additional study materials below from Knowledge Services.

CII study texts can be consulted from within the library. For further information on the lending service, please go to [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge).

### CII study texts

Insurance business and finance. London: CII. Study text P92

Insurance, legal and regulatory. London: CII. Study text IF1

### Additional reading

Additional reading materials are available through the library or on the Knowledge Services website.

New materials are added frequently – for information about new books and articles in your area of interest, please visit [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) or email [knowledge@cii.co.uk](mailto:knowledge@cii.co.uk).

### Books (and ebooks)

Accounting principles. Jerry Weygandt, Paul Kimmel and Donald Kieso. 10th ed. Hoboken : Wiley, 2012.

Interpreting company reports and accounts. Geoffrey Holmes, Alan Sugden, Paul Gee. Harlow, England: Pearson Education, 2008.

Accounting and finance for non-specialists. Peter Atrill and Eddie McLaney. 7th ed. Harlow: FT/Prentice Hall, 2011.

Accounting for non-accounting students. J R Dyson. 8th ed. Harlow: FT/Prentice Hall, 2010.

The meaning of company accounts. Walter Reid and D R Myddelton. Aldershot, Hampshire: Gower, 2008.

Accounting and business ethics. Ken McPhail, Diane Walters. Routledge, 2009. Also available as an ebook via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance society members only).

Accounting for non-accountants: a manual for managers and students. Graham Mott. Kogan Page, 2008. Also available as an ebook via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance society members only).

Frank Wood's business accounting, Vol 1 and Vol 2. 10th ed. Ft Prentice Hall Financial Times, 2005. Also available as an ebook via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance society members only).

FT guide to using and interpreting company accounts. 4th ed. FT Prentice Hall, 2010. Also available as an ebook via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance society members only).

International financial reporting standards: a practical guide Hennie Van Greuning, Darrel Scott and Simonet Terblanche. World Bank Publications, 2011. Also available as an ebook via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance society members only).

The Financial Times guide to using the financial pages. Romesh Vaitilingam. Prentice Hall/Financial Times, 2006. Also available as an ebook via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance society members only).

Solvency II: a guide to the new regime. PriceWaterhouseCoopers. London: PWC, 2011.

The Solvency II Handbook. Marcelo Cruz. London: Risk Books, 2009.

Guide to Solvency II 2012. Captive review supplement.

Solvency II: Business Insurance Special Report. Crain Communications: 2010.

## Factfiles and other online resources

CII factfiles are written by subject matter experts within the insurance and financial services industry. They are updated annually, and interim update bulletins are included where necessary to take into account any major changes during the year. All are available online via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance society members only).

- Alternative risk transfer. David Kaye; updated by Ian Searle.
- Risk control. Ian Searle.
- Risk identification. Ian Searle.
- Enterprise risk management. Ian Searle.
- Recent developments to Solvency II. Brad Baker.
- Insurance accounting (general business). Ian Hutchinson.
- Insurance in the single market. Paul Clarke.
- The business of insurance broking. Ian Youngman
- Factors leading to a “hard” or “soft” insurance market. Ian Searle.
- Efficiency tactics within the insurance industry. Ian Searle.

Best’s credit ratings. Available online via [www.ambest.com/ratings](http://www.ambest.com/ratings)

Further articles and technical bulletins are available at [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII and Personal Finance Society members only).

## Journals and magazines

The Journal. London: CII. Six issues a year. Also available via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance society members only).

Post magazine. London: Incisive Financial Publishing. Weekly.

Financial times. London: Financial Times. Daily. Also available online at [www.ft.com](http://www.ft.com).

## Reference materials

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004. Also available as an ebook via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance society members only).

International Financial Reporting Standards. IFRS Foundation. London: IFRS Foundation. Annual.

Lamont’s financial glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available as an ebook via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/Personal Finance society members only).

Manual of accounting. 4v. PriceWaterhouseCoopers. Haywards Heath: Bloomsbury Professional. Annual.

## Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners’ comments on candidates’ performance and key points for inclusion in answers.

You are strongly advised to study guides for the last two sittings. Please visit [www.cii.co.uk](http://www.cii.co.uk) to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Older examination guides are available (for members only) via [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge). Alternatively, if you have a current study text enrolment, the latest exam guides are available via [www.revisionmate.com](http://www.revisionmate.com).

## Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at [www.cii.co.uk/knowledge/iilrevision](http://www.cii.co.uk/knowledge/iilrevision) (CII/Personal Finance Society members only).