

P92

Diploma in Insurance

Unit P92 – Insurance business and finance

October 2014 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. Explain briefly **five** disadvantages of mergers and acquisitions. (10)

2. State **five** of the required outcomes that are in place to protect customers under the Financial Conduct Authority principles of Treating Customers Fairly. (10)

3. Outline **four** features of a mutual insurance company. (8)

4.
 - (a) State what variance means in the context of a financial budget. (2)
 - (b) Explain briefly why variances are to be expected. (2)
 - (c)
 - (i) List the **four** causes of budgetary variances. (4)
 - (ii) Explain briefly **each** of the **four** causes listed in **part (i)** above. (4)

5. Explain briefly the following management actions.
 - (a) Organising. (4)
 - (b) Leading. (4)
 - (c) Controlling. (2)

6. Explain briefly, providing **two** examples of **each**, the use of:
 - (a) strategic information; (4)
 - (b) tactical information. (4)

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7. Outline **four** examples of how internal audit assists with the implementation of good corporate governance. (8)
8. Standard and Poor's use a common analytical framework as part of their rating methodology.
- Other than economic and industry risk, identify and explain briefly **six** of the eight remaining aspects of qualitative and quantitative information used within the common analytical framework. (12)
9. (a) Explain the main role of the underwriting department in an insurance company and state how underwriting strategy is agreed. (5)
- (b) Describe briefly how a typical underwriting department would be structured. (3)
10. (a) Describe briefly the overall purpose of the claims function in an insurance company. (4)
- (b) Identify **two** specialist classes of insurance business, providing a specific example for **each** of specialist knowledge or skills to assist claims handling. (4)
11. (a) Define a risk register. (2)
- (b) Provide an illustration of a typical structure for a risk register, incorporating an example of a risk category. (8)
12. Identify and explain briefly **five** main differences between financial accounting and management accounting. (10)

QUESTIONS CONTINUE OVER THE PAGE

13. (a) List the **three** activities which a cash flow statement analyses. (3)
- (b) Using the information provided below, construct a cash flow statement for HJK Ltd.

	£000s	
Cash from operations	500	
Interest received	75	
Dividends paid	250	
Purchase of property	200	
Profit before tax	470	
Proceeds from long-term borrowings	120	(10)

14. Describe the following items as commonly used in connection with balance sheets.
- (a) Reserves. (5)
- (b) Working capital. (4)
- (c) Share capital. (3)
15. Explain the following terms as set out in the International Financial Reporting Standard's framework in the statement of financial position (balance sheet).
- (a) Assets. (3)
- (b) Liabilities. (3)
- (c) Equity. (3)
16. Certain decisions cannot be fully and adequately made unless an insurance company has set aside an appropriate amount for claims. One example of such a decision is 'which lines of business are profitable and should be grown'.
- Explain briefly **four** other main decisions which cannot be made without setting aside an appropriate amount for claims. (8)

17. (a) State the names and formulae for the **three** equations that make up the combined ratio. (9)
- (b) State the combined ratio as a formula. (2)
- (c) Calculate, using the data provided below and **showing all your workings**, the combined ratio, and based on the results of your calculations, advise if the company is making an underwriting profit.

	£000s	
Earned premium net of reinsurance	5,000	
Claims paid	3,000	
Commissions paid	600	
Administration costs	900	(4)

18. (a) Explain how ratios can be used in an insurance company. (5)
- (b) Describe the limitations of ratios in an insurance company. (7)
19. Explain how the Financial Conduct Authority determines the financial strength of an insurance company in the UK. (9)
20. Provide an example of an appropriate risk tolerance statement under **each** of the following risk types:
- (a) Insurance. (2)
- (b) Investment. (2)
- (c) Credit. (2)
- (d) Operational. (2)

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