

530

Advanced Diploma in Insurance

Unit 530 – Economics and business

April 2015 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 PAB plc (PAB), a general insurer with a head office in London.

The following is relevant information about PAB's business:

- 4,000 of its 10,000 employees are located in the UK.
- 3,000 of the 4,000 UK employees are based in London.
- Profit expectations have been achieved every year for the last 10 years.
- It operates in a highly competitive environment with a continuing need to reduce costs.
- It has sufficient reinsurance protection.
- Capital is considered adequate.
- Outsourcing and offshoring is currently not undertaken.
- There is limited application of corporate social responsibility concepts.
- It pays all applicable UK taxes.

A new chairperson, whose business experience is from outside the insurance industry, has joined PAB and has made the following **four** statements to PAB's directors and selected managers:

- Significant cost reductions should be made by moving some London-based operations to other UK locations. This would not create any risk to the business.
- Significant cost reductions and other business benefits should be made by offshoring some business activities rather than such activities being carried out in the UK. This would not create any risk to the business.
- Corporate social responsibility activities should be carried out to the same level as PAB's major competitors.
- The wider fiscal policy of the UK Government is of little relevance to PAB as it already pays all applicable taxes. PAB therefore do not need to pay attention to UK fiscal policy.

Question

The Directors have asked you to provide more information and analysis on the chairperson's **four** statements.

- Analyse **briefly** why **each** statement made by the chairperson can be considered correct.
- Evaluate in detail the disadvantages that would arise for PAB if the points made in **each** statement were followed.
- Based on your evaluations of **each** statement, make **brief** recommendations as to what PAB should now do to improve its business performance.

(80)

QUESTIONS CONTINUE OVER THE PAGE

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 work as a business manager for EKT, a UK-based insurance broker with 500 employees. EKT manages and advises on the insurance and risk needs of corporate clients.

EKT:

- operates in a very competitive environment;
- needs to continually ensure that it retains existing clients and obtains new ones;
- works with some insurers that are considering whether or not to retain EKT;
- operates in an industry where a number of brokers are available for sale and other brokers are seeking acquisitions.

EKT analyses the financial performance of its competitors, clients and insurance companies that it does business with.

You are required by the Directors of EKT to explain why such financial analysis is carried out with some comment on appropriate means of doing so.

Question

- Explain in detail why EKT analyses the financial performance of its competitors, clients and insurance companies.
- Explain **briefly five** appropriate approaches EKT could take to carry out such financial analysis.

(40)**3. Scenario**

You are a business development manager for CAG plc (CAG), a UK-based insurance broker with 500 employees. CAG currently is only located in the UK but has a strategy to expand overseas.

You are asked to provide CAG's Board with some information and analysis on such potential expansion.

Question

Identify **one** overseas country that presents opportunities for CAG's business expansion. Analyse the favourable and unfavourable economic and social factors CAG will face in that country.

(40)

Part II question 4 can be found on pages 8 - 9

4. Scenario

You are a business manager for a UK-based, multi-national insurer JMB plc (JMB).

JMB is:

- considering UK expansion based on a positive view of long-term UK economic growth;
- aware that, in terms of both its international and its UK business, it needs a full understanding of some of the workings of the international economy as would be contained in the UK national current account.

JMB therefore needs to:

- fully understand the main factors that lead to long-term economic growth in the UK and how these relate to its own business;
- be able to explain and calculate the **eight** items/transactions below in terms of the UK national current account.

Item number	Description of transaction	Amount (£ million)
1.	Antiques inherited by a South African based customer of JMB from an Australian relative who had been living in Australia.	£25
2.	Financial advice services provided by JMB from the UK to customers based in India.	£50
3.	Purchase of computer hardware and associated software by JMB in the UK from a supplier based in the USA.	£250
4.	Earthquake insurance claims payments by JMB from the UK paid to customers based in Turkey, who suffered earthquake damage.	£250
5.	UK dividend payments made by JMB to UK shareholders who are based in the UK.	£750
6.	Profit remittance from Chile from a Chilean based subsidiary of JMB to JMB in the UK.	£500
7.	Long-term capital investment made by a UK-based mining customer of JMB for mines in Bolivia.	£600
8.	Commission paid by JMB from the UK to a Croatian based insurance broker for local business services.	£10

Question

- Explain to the Board **three** key factors which JMB should use to evaluate the likelihood of long-term economic growth occurring in the UK.
- Review how the **three** key factors you have chosen relate to JMB's business.
- Explain to the Board, for **each** of the **eight** items/transactions that have been provided, how the individual item/transaction would be treated in the UK current account balance.
- State as positive, negative, or nil, the corresponding individual monetary amount that would be recorded. *You may find it advantageous to present your UK current account balance explanation and individual monetary amount in a table.*

(40)

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