

P92

Diploma in Insurance

Unit P92 – Insurance business and finance

October 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 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. (a) Define delegated authority in an underwriting capacity. (3)
(b) State **five** benefits of delegated authority to the underwriting department in an insurance company. (5)
2. Outline **five** features of a proprietary insurance company. (10)
3. Identify **three** specific interests or expectations that **each** of the following stakeholders, from a business perspective, have in an insurance business:
 - (a) The Law. (3)
 - (b) Customers. (3)
 - (c) Consumerists. (3)
4. The Chartered Insurance Institute (CII) has developed a Code of Ethics, (revised April 2014). One of the ethical standards required of CII members is to treat people fairly regardless of various personal characteristics.
 - (a) List **six** of these personal characteristics. (6)
 - (b) State the other **four** ethical standards which members must comply with. (4)
5. Explain briefly **each** of the following key skills that a manager needs in an increasingly complex business world:
 - (a) Earning the respect of team members and colleagues. (3)
 - (b) Focussing on customers. (3)
 - (c) Multi-tasking. (3)
 - (d) Mobility and a global outlook. (3)

6. Identify **three** activities **each** of the following supporting roles should include to ensure the effective running of a business:
- (a) Training manager. (3)
 - (b) Human resources manager. (3)
 - (c) Procurement manager. (3)
7. (a) List **six** information technology (IT) tools that enable effective knowledge management within an insurance organisation. (6)
- (b) State **three** challenges arising from the use of IT within an organisation. (3)
8. Outline **three** controls to ensure the effective management of risk under the following departments in an insurance company:
- (a) Underwriting. (3)
 - (b) Claims. (3)
 - (c) Finance. (3)
 - (d) Human resources. (3)
9. (a) Provide **three** specific examples of key risk indicators within an insurance organisation. (6)
- (b) Outline **three** ways in which management should respond after a major risk occurrence to minimise the impact of future events. (3)
10. (a) List **three** main types of asset held by an insurance company in order to fund the business. (3)
- (b) State the **three** constituent parts of an insurance company's investment return. (3)
- (c) State the departments within an insurance company that the investment team will need to liaise with. (3)

QUESTIONS CONTINUE OVER THE PAGE

11. Explain briefly the interest that the following stakeholders have in the financial information of an insurance company:
- (a) Shareholders. (3)
 - (b) The public. (3)
 - (c) Creditors and lenders. (3)

12. Construct an income statement for MNO Insurance Brokers using the **relevant** information provided in the table below.

| | £000s |
|-------------------------------|-------|
| Administrative costs | 1,000 |
| Shares | 1,200 |
| Interest received | 150 |
| Goodwill | 400 |
| Dividends paid | 500 |
| 10 year mortgage payments | 450 |
| Tax | 700 |
| Cash | 1,100 |
| Debtors | 500 |
| Salaries and associated costs | 2,500 |
| Land | 1,150 |
| Buildings | 950 |
| Interest paid | 650 |
| Commission received | 7,000 |
| Creditors | 400 |
| Overdraft | 250 |

(10)

13. Construct a balance sheet for MNO Insurance Brokers using the **relevant** information provided in the table above and in your answer to **Question 12**. (13)
14. State **seven** types of information that invoices, fees or debit notes record in an insurance organisation. (7)

15. (a) Explain briefly the **two** following assumptions found in financial accounts:
- (i) Accruals basis. (1)
 - (ii) Going concern. (1)
- (b) List the **four** qualitative characteristics that the International Financial Reporting Standards (IFRS) framework describes financial statements as having. (4)
- (c) State **four** financial statements required under the IFRS. (4)
16. (a) Identify **four** types of claims information typically collected within a company by incident year for **each** class of insurance business. (4)
- (b) Provide an illustration of a typical claims development triangle. (6)
17. (a) State the formulae and calculate, **showing all your workings**:
- (i) the claims ratio; (3)
 - (ii) the expenses ratio; (3)
 - (iii) the commission ratio; (3)
- where:
- claims incurred net of reinsurance = £500,000,000;
 - acquisition or commission costs = £50,000,000;
 - earned premium net of reinsurance = £750,000,000;
 - administrative expenses = £57,500,000.
- (b) Using the information and your answer to part (a) above:
- (i) State the formula and calculate, **showing all your workings**, the combined ratio. (2)
 - (ii) Explain the meaning of the answer you have calculated. (2)

QUESTIONS CONTINUE OVER THE PAGE

- 18.** List the ratios normally used within a typical trading or service company in relation to the following:
- (a)** Profitability. (2)
 - (b)** Liquidity. (2)
 - (c)** Productivity. (3)
 - (d)** Activity. (3)
- 19.** List the rating factors used in Standard & Poor's insurance ratings framework within:
- (a)** A business risk profile. (2)
 - (b)** A financial risk profile. (3)
 - (c)** Modifiers. (2)
 - (d)** A support framework. (2)
- 20.** The Prudential Regulation Authority has instructed every UK authorised insurer to conduct an individual capital assessment (ICA).
- (a)** Explain the requirements of the ICA. (6)
 - (b)** List **six** of the major sources of risks that are considered within an ICA. (6)

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