

## 530

## Advanced Diploma in Insurance

### Unit 530 – Economics and business

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 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 MCB plc (MCB) a multinational insurer. Important features and factors of production in MCB's business include:

- Headquarters in London, with offices located in 20 major cities worldwide.
- Many of the office premises need modernisation.
- 15,000 staff employed worldwide, 5,000 in the UK of which 4,000 are based in London.
- Currently, a stable and loyal workforce. However, in the global insurance market and particularly in the UK there is intense and growing competition for skilled staff and MCB may face staff shortage in the future.
- A wide range of general insurance products and services, and experience of extensive competition in all its main product areas and territories of operation.
- Certain products and services in high demand are not provided as they are associated with high claims.
- Adequate reinsurance protection is in place. Sufficient capital for current business needs which meets all solvency and regulatory requirements.
- Profits have been achieved in line with financial market expectations in each of the last ten years. At the same time, premiums have increased in line with the market. Typical market cost and expense pressures apply.
- IT systems need to be consolidated following previous acquisitions and new IT systems are required.
- The need to work with governments in countries where MCB are located to minimise problems caused by the operation of 'free' markets.

**Question**

Write a report for the directors in which you:

- analyse and recommend the extent to which MCB should change **each** of the **four** factors of production they use to improve performance;
- consider why MCB is not providing certain high demand products;
- if MCB decides to offer these high demand products, what would be the likely immediate and longer term effects across the market? *You should illustrate your answer with the use of **two** appropriate diagrams;*
- assess the reasons why free markets can fail, explaining how government interventions attempt to correct such failure, and how such government interventions can benefit MCB.

**(80)**

**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 a business consultant who specialises in providing advice on market structures and marketing to insurers. You are approached by TRZ plc (TRZ), an insurer planning to enter the commercial (non-consumer) motor insurance market. Current features of TRZ's business include:

- The provision of private individual (consumer) motor insurance to a variety of policyholders.
- A long-established and profitable presence in the private individual motor insurance market.
- Distribution of its insurance products on a direct basis (intermediaries are not used).
- Operating in a highly competitive market.

**Question**

Prepare a report for TRZ that:

- identifies the **four** most common market structures and analyses the current private individual motor market structure in which TRZ operates and the planned commercial motor market structure;
- assesses the impact of the barriers to entry that TRZ will experience from their planned proposal;
- identifies **one** recommendation that TRZ can action under market structure, and **one** recommendation that TRZ can action under barriers to entry to improve their successful entry into the commercial motor market.

**(40)****QUESTIONS CONTINUE OVER THE PAGE**

### 3. Scenario

You are a risk manager for CRM plc (CRM), an international insurer with a UK headquarters. Its business includes the following features:

- It provides both general insurance, and life and pensions products.
- It operates throughout the UK and Europe and in a number of countries in South East Asia.
- It has a major presence in the provision of local government insurance.

Over the last five years, CRM's business has been exposed to a number of risk management issues. These include:

- The vulnerability of CRM's computer equipment and office premises. For example, several incidents have occurred causing both physical damage and consequent financial losses.
- Significant demographic and social trends. For example, major changes in population trends.
- Growing economic, social imbalances and global changes. For example, widening income inequality.

#### Question

Write a report for the directors which, for **each** of the **three** risk management issues identified above:

- analyses the likely adverse consequences for CRM;
- recommends specific actions that CRM should take to correct or minimise such adverse consequences.

**(40)**

#### 4. Scenario

You are a development manager for JMB plc (JMB), a major UK-based multinational general insurer. Features of JMB's business and approach include:

- The split of business and profits are 50% UK and 50% overseas. Products are distributed mainly through insurance intermediaries.
- Due to general market conditions, the mix of business has varied considerably over the last ten years and so has the capacity offered in any one year.
- Successful and profitable operations in eight of these last ten years, with significant variations in individual years in both gross written premiums and total claims. In two of the last ten years significant losses were made.
- A particular emphasis on the importance of profitable trading overseas both to the business and also to the UK economy, with the UK Government viewed as an important stakeholder.
- Exposure to extreme weather-related events, adequate and appropriate reinsurance protection is in place, some of which is arranged overseas.
- Significant equity investments in both the UK and overseas and also investment in UK Government securities.
- Claims being investigated by local adjusters in overseas territories with these adjusters being paid from the UK.

#### Question

Prepare a report for the directors that:

- assesses how the insurance market cycle impacts upon the business, specifically considering the variations in demand and supply. *You should illustrate your answer with the use of **one** appropriate diagram;*
- explains how the approach taken by JMB over the last ten years has affected the UK balance of payments position.

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