

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/updates
 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:
- Solvency;
 - Liquidity;
 - Profitability, including return on equity, gearing, combined ratio, commission ratio;
 - 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 you with your studies.

Note: The examination will test the syllabus alone.

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

The publications will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

CII study texts

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

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

Books (and ebooks)

Accounting and business ethics: an introduction. Ken McPhail, Diane Walters. London: Routledge, 2009.*

Accounting and finance for non-specialists. 8th ed. Peter Atrill and Eddie McLaney. Pearson Education Ltd, 2013.

Accounting for non-accounting students. J R Dyson. 8th ed. Harlow, Essex: Pearson Education, 2010.

Accounting for non-accountants: a manual for managers and students. 9th ed. Graham Mott. Kogan Page, 2013.*

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

Frank Wood's business accounting. Frank Wood and Alan Sangster. 12th ed. Harlow, Essex: Pearson Education, 2012.

Handbook of insurance. Georges Dionne. New York: Springer, 2013.*

International financial reporting standards: a practical guide. Hennie Van Greuning, Darrel Scott and Simonet Terblanche. World Bank Publications, 2011.*

Internal models and Solvency II: from regulation to implementation. Paolo Cadoni (ed.). London: Risk Books, 2014.

Interpreting company reports and accounts. 10th ed. Geoffrey Holmes, Alan Sugden, Paul Gee. Harlow, England: Pearson Education, 2008.

Insurance theory and practice. Rob Thoyts. Routledge, 2010.*

Solvency II handbook: practical approaches to implementation. Rene Dorf. London: Risk Books, 2014.

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

The Financial Times guide to using and interpreting company accounts. Wendy McKenzie. 4th ed. Harlow, Essex: Pearson Education, 2010.

The Financial Times guide to using the financial pages. 6th ed. Romesh Vaitilingam. Prentice Hall/Financial Times, 2011.

The valuation of financial companies: tools and techniques to value banks, insurance companies and other financial institutions. Mario Massari, et al. Hoboken: Wiley, 2014.*

Ebooks

The following ebooks are available through Discovery via www.cii.co.uk/discovery (CII/PFS members only):

Fundamental aspects of operational risk and insurance analytics: a handbook of operational risk. Marcelo G. Cruz. Wiley, 2015.

Fundamentals of enterprise risk management: how top companies assess risk, manage exposure and seize opportunity. John J. Hampton. New York: American Management Association, 2015.

Treatises on Solvency II. Meinrad Dreher. Heidelberg: Springer, 2015.

Wiley GAAP 2015: interpretation and application of generally accepted accounting principles. Joanne M. Flood. Chichester: Wiley, 2015.

Factfiles and other online resources

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via www.cii.co.uk/ciifactfiles (CII/PFS members only).

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

Further articles and technical bulletins are available at www.cii.co.uk/knowledge (CII/PFS members only).

Journals and magazines

The Journal. London: CII. Six issues a year. Also available online via www.cii.co.uk/knowledge (CII/PFS members only).

Post magazine. London: Incisive Financial Publishing. Weekly. Also available online at www.postonline.co.uk.

Financial times. London: Financial Times. Daily. Also available online at www.ft.com.

Further periodical publications are available at www.cii.co.uk/journalmagazines (CII/PFS members only).

Reference materials

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004.

Concise encyclopedia of insurance terms. Laurence S. Silver, et al. New York: Routledge, 2010.*

Harriman’s financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2007.*

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

Lamont’s glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available online via www.cii.co.uk/lamont (CII/PFS members only).

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

*Also available as an ebook through Discovery via www.cii.co.uk/discovery (CII/PFS members only).

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 from the last two sittings. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Alternatively, if you have a current study text enrolment, the latest exam guides are available via www.revisionmate.com.

Older guides are available via www.cii.co.uk/pastexamguides (CII/PFS members only).

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 (IIL) holds a lecture on revision techniques for CII written exams approximately three times a year. The slides from their most recent lectures can be found at www.cii.co.uk/iilwrittenrevision (CII/PFS members only).