

P92

Diploma in Insurance

Unit P92 – Insurance business and finance

April 2016 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. List **nine** of the main participants in the London Market. (9)

2. Outline **five** important advantages of management by objectives. (10)

3. (a) State **six** reasons why a company would choose growth as a strategy. (6)
(b) Explain briefly **three** advantages that may arise when a company outsources business activities. (6)

4. Dr John Adair developed the action centred leadership approach, which identifies three key areas that contribute to a team leader's effectiveness. One of the areas identified is 'the team'.
(a) Identify the other **two** key areas. (2)
(b) State the **six** needs to develop team effectiveness. (6)

5. Identify, within an insurance organisation, **four** types of:
(a) physical resources; (4)
(b) financial resources; (4)
(c) human resources. (4)

6. List **nine** distribution channels through which insurance is sold. (9)

7. (a) State the full definition of data under the Data Protection Act 1998 (DPA). (8)
- (b) State **four** of the eight principles of good data protection under the DPA. (4)
8. (a) State who has the primary responsibility for **each** of the three lines of defence to ensure effective risk management. (3)
- (b) Explain the processes that would be undertaken within the three lines of defence model to ensure that underwriting authorities are best controlled. (9)
9. List **eight** areas of principal activity that would be undertaken by an insurance organisation's strategy team. (8)
10. (a) List **four** main business activities carried out by the Human Resources (HR) team within an insurance organisation other than recruitment. (4)
- (b) State **one** example under **each** of the four activities listed in part (a) above of a specific task that the HR team will carry out. (4)
11. Jacob and Chloe start a new insurance consultancy business. Their total investment is £10,000. They have purchased laptops and lease mobile phones at £2,500 and £750 respectively. They invoice clients with the first two invoices issued at £600 and £900 respectively.

The accounting equation is **Equity = Assets – Liabilities**.

Illustrate, using the accounting equation above, the following steps after **each** transaction has been made:

- (a) When the business started. (2)
- (b) After the laptops have been purchased. (2)
- (c) After the mobile phones have been leased. (2)
- (d) After the company's first two invoices have been paid, together with the final equation. (4)

QUESTIONS CONTINUE OVER THE PAGE

12. PQR Insurance Company (PQR) has a head office and operates three main classes of insurance. Some of the costs of the business, such as Information Technology, Human Resources and premises are managed from head office and charged out to each class of business.

Income and expenditure for the three main classes of PQR's business over a financial year is as follows:

	Income £000s	Expenditure £000s	Result £000s
Class A	5,000	2,500	2,500
Class B	2,000	3,000	(1,000)
Class C	4,000	2,000	2,000
Total	11,000	7,500	3,500

Using **both** the information in the paragraph and the table above:

- (a) identify **three** decisions the business could make with regard to the business classes and total portfolio listed; (3)
- (b) state any potential consequences, with reasons, arising from **each** decision identified in part (a) above. (9)
13. JKL Ltd (JKL) is a manufacturing company who has purchased 500 units of stock at £50 each and has sold 400 units at £100 each during its financial year. Assuming there are no other changes to opening and closing stock:
- (a) calculate, **showing all your workings**, the profit made in the financial year; (6)
- (b) outline how the stock position is shown on JKL's balance sheet; (3)
- (c) outline how the purchase and sales activities that have occurred are shown on JKL's cash flow statement. (3)
14. Explain briefly **five** examples of how the Financial Reporting Council statement, issued in June 2014, provides guidance on how to use professional judgment in the preparation of accounts. (10)

15. (a) Explain briefly the claims run-off process. (4)
- (b) Identify the **two** main outside parties who would be interested in the claims run-off process, stating why they would have such an interest. (4)
16. (a) Explain briefly how the following parties typically use the information provided from a combined ratio:
- (i) An insurance underwriter. (2)
- (ii) Competitors of an insurer. (2)
- (iii) Senior executives of an insurer. (2)
- (b) Identify the important financial aspect that a combined ratio does not measure. (2)
- (c) State, as a percentage, a combined ratio that would indicate a good underwriting performance. (2)
- (d) State **two** reasons why insurers are now specifically focussing on underwriting performance. (2)
17. Using the following information from an insurance organisation:
- Long-term borrowings: £4,000,000
 - Shareholders equity: £3,000,000
- (a) State which ratio this information would be used to calculate. (1)
- (b) Calculate, **showing all your workings**, the ratio. (3)
- (c) Explain what the results of your calculation in part (b) above could suggest. (4)
18. State the **three** main profitability ratios suitable for use in a manufacturing company and provide their formulae. (9)

QUESTIONS CONTINUE OVER THE PAGE

19. Standard and Poor's rating agency has rated three insurance companies.

Explain what the respective rating and relative standing shown below means both now, and in the near future, for **each** of the following three insurers:

(a)

Insurer	Rating	Relative standing
OMN Insurance Company	A +	Positive

 (3)

(b)

Insurer	Rating	Relative standing
RQP Insurance Company	BBB -	Negative

 (3)

(c)

Insurer	Rating	Relative standing
UTS Insurance Company	A	Developing

 (3)

20. (a) List **five** decisions which will assist an insurance company arising from the use of an economic capital model. (5)
- (b) Outline the contributions an actuary would make within an insurance company. (5)

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