

530

Advanced Diploma in Insurance

Unit 530 – Economics and business

October 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 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 have recently been appointed as a senior business manager of a publicly quoted UK insurer, JMB plc (JMB). JMB has its headquarters in London employing 10,000 staff, in 20 countries, over four continents. JMB's business is split 50% in the UK and 50% overseas. Its customers range from private individuals to global companies and it provides an extensive range of consumer and commercial products. JMB provides a good service to its customers and has not experienced any significant reputational issues.

Four specific points of information about JMB are:

1. JMB operates a traditional insurance business model.
2. Lower investment returns since 2009 have meant an increased focus on underwriting profitability.
3. Financial information:

Year	Market share	Profit	Premium income
2012	10%	£250 million	£2.5 billion
2015	7%	£250 million	£2.6 billion

4. Climate change considerations:

JMB has placed a low priority on climate change as a potential cause of losses. It has also not pursued possibilities to promote new products and services relating to climate change.

Question

The Board has asked you to write a report which:

- assesses JMB's business strategy;
- evaluates the change in customer demand for JMB's products;
- explains whether the current approach taken to climate change by JMB is appropriate and the specific challenges arising from climate change for JMB's business;
- makes recommendations on any actions that JMB should take to address the matters you have identified above.

(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 work as a business manager for TCB Insurance Company plc (TCB). TCB are a UK-based, London Stock Exchange listed insurer, offering a wide range of general insurance products. TCB does not offer life and pensions products but it does offer travel, private medical and personal accident policies. It employs 2,500 staff and has twelve offices in the UK. It is a well managed, efficient and compliant company.

TCB provides insurance for several thousand commercial enterprises including some market leaders within their respective industries and it also provides risk management advice. This advice includes disaster recovery planning. It carries out the normal range of activities of an insurer. Brand awareness and recognition is important to TCB and it is developing a corporate social responsibility approach.

You have been asked to give a speech to a range of stakeholders on the social functions of insurance and government intervention and regulation. The stakeholders understand government regulation of the financial services industry through the Prudential Regulation Authority and Financial Conduct Authority. TCB meets all the necessary insurance regulatory requirements.

Question

Prepare your notes for the speech which analyses how TCB:

- promote the social functions of insurance and might further promote such social functions in the future;
- experience a range of negative and positive impacts from the outcomes of UK government intervention and regulation. (*You are not required to cover specific insurance financial regulation.*)

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

3. Scenario

You work as a finance manager for a UK-publicly quoted company CLB plc (CLB). CLB employs 1,000 staff in the medical products manufacturing sector. Over the next three to five years, CLB intends to carry out major capital investment projects in the UK and also to expand the business.

CLB has a good relationship with its shareholders, banks and other financial institutions and has a number of financially experienced non-executive directors, which also includes a senior politician.

Adequate funding is in place to finance all normal day-to-day activities during the next three to five years. However, appropriate funding is required for the capital investment projects, expansion plans and for any additional day-to-day activities arising from such projects and plans. CLB also has a number of property assets which it owns outright and has built-up some financial reserves.

In addition to the funding requirements, CLB needs to ensure that it appropriately takes account of **three** factors present in the UK economy, specifically in relation to its capital investment and expansion plans. These factors are the state of manufacturing within the UK, externalities (social costs) that may arise, and demographic changes. Such factors can influence the outcome of CLB's decisions.

Question

Write a report for the CLB Board which:

- identifies the additional sources of finance that it needs to consider for the investment projects and expansion plans and also **briefly** for any additional day-to-day activities that may arise;
- assesses which sources of finance are likely to be the most appropriate for the investment projects and expansion plans;
- evaluates **briefly** how and why it needs to take into account **each** of the **three** factors in the UK economy identified in the scenario above.

(40)

4. Scenario

You work as a business development manager for SRM. SRM is a small UK insurance company which employs 400 staff mainly based in one office in a large UK city. SRM is a successful company and offers a range of general insurance products to the consumer market on a direct basis. It is well known in the consumer market and has positive brand recognition for its products. Its policy wordings are recognised as a market leader and it has very efficient technical administration procedures.

The Board of SRM has directed that the business is to expand into specialist products primarily for the commercial (non-consumer) market.

A consultant engaged by SRM has advised the Board that the expansion into these specialist products should be simple. His view is based on the following five reasons:

- A 20-year-old building used up to two years ago as a training centre is immediately available as office space. It is located in a small town three hours away from SRM's main office and over one hour away from the next large city.
- The existing management and administrative resources will be sufficient to meet immediate and ongoing business requirements.
- Distribution can continue to be on a direct basis and there is no requirement for intermediaries to be used.
- Brand recognition can be transferred to the specialist products.
- Existing policy wording experts will be able to produce the specialist policy wordings for the new products and current technical procedures can also be applied to the new products.

Question

Write a report for the Board which, for **each** of the **five** reasons above:

- evaluates **briefly** why the consultant's view may be correct;
- evaluates in **detail** why the consultant's view may be incorrect.

(40)

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