

THE CHARTERED INSURANCE INSTITUTE



E92

**Examination element of M92 insurance
business and finance**

**Based on the 2017/2018 syllabus
examined from 1 May 2017 until 30 April 2018**

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Based on the 2017/2018 syllabus examined from 1 May 2017 until 30 April 2018

Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the E92 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their E92 studies before attempting the specimen examination. Students should allow themselves 90 minutes to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time. The examination must be successfully passed within 18 months of enrolment on M92.

Although the specimen examination in this guide is typical of an E92 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the M92 reading list, which is located on the syllabus in this examination guide and on the CII website at www.cii.co.uk.

Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

- 1) Visit www.cii.co.uk/qualifications
- 2) Select the appropriate qualification
- 3) Select your unit on the right hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

Syllabus

The M92 syllabus is published on the CII website at www.cii.co.uk. **Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The examination syllabus categorises M92 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to apply, understand and analyse the subject matter. Each learning outcome begins with one of these cognitive skills:

Understanding - Candidates must be able to link pieces of information together in cause and effect relationships. Typically questions may ask 'Why'. Questions set on an understand learning outcome can test either knowledge or understanding or both.

Analysis - To answer questions requiring analysis, the candidate must be able to break information down into parts, identify how each piece relates to the whole, associate relevant aspects and determine courses of action. Typically questions will relate to a given set of circumstances or provide data which requires analysis so a conclusion can be drawn.

Examination Information

The method of assessment for the E92 examination is 25 multiple choice questions (MCQs) and 5 case studies, each comprising 5 MCQs. 90 minutes are allowed for this examination.

The M92 syllabus provided in this examination guide will be examined from 1 May 2017 until 30 April 2018.

Candidates will be examined on the basis of English law and practice unless otherwise stated.

The general rule is that legislative and industry changes will not be examined earlier than 3 months after they come into effect.

E92 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

When preparing for the examination, candidates should ensure that they are aware of what typically constitutes each type of product listed in the syllabus and ascertain whether the products with which they come into contact during the normal course of their work deviate from the norm, since questions in the examination test generic product knowledge.

Section A consists of 25 multiple choice questions. A standard format multiple choice question consists of a problem followed by four options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only **one** correct or best response to the problem posed. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

Section B contains five case studies each followed by five questions. **Four** options follow each question. The options are labelled A, B, C and D. Only **one** of these options will be correct or best. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

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.

Candidates are permitted to make rough notes. Candidates are not permitted, in any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate's examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

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 knowledge of the fundamental principles of insurance as covered in IF1 Insurance, legal and regulatory or equivalent examinations.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the structure of the insurance industry.	5
2. Understand the management of insurance businesses.	3
3. Understand the main aspects of corporate governance.	3
4. Understand the role of common functions within insurance organisations.	1
5. Understand accounting principles and practices and their application.	6
6. Understand the main characteristics of insurance company accounts.	2
7. Analyse businesses using financial ratios.	2
8. Understand the financial strength of insurance companies.	3

Plus 25 case study-related questions from learning outcomes 1 to 8

*The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

Important notes

- **Method of assessment:**

Mixed assessment consisting of two components, both of which must be passed. One component is a coursework assignment and one is a multiple choice examination. The details are:

1. an online coursework assignment using RevisionMate consisting of 10 questions which sequentially follow the learning outcomes. This must be successfully completed within 6 months of enrolment; and
2. a multiple-choice question (MCQ) exam at one of the CII's online centres (paper based MCQs are available in April and October for those sitting outside the UK). The MCQ exam consists of 25 MCQs and 5 case studies followed by 5 MCQs each. 90 minutes are allowed for this examination. This exam must be successfully passed within 18 months of enrolment.

- This syllabus will be examined from 1 May 2017 until 30 April 2018.
- Candidates will be examined on the basis of English law and practice unless otherwise stated.
- 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 characteristics 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 M92.

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

Books (and ebooks)

A practical guide to corporate governance. 5th ed. Mark Cardale. London: Sweet and Maxwell, 2014.

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

Accounting ethics. 2nd ed. Ronald Duska, et al. Hoboken: Wiley-Blackwell, 2011.*

Accounting for non-accountants. 10th ed. David Horner. Kogan Page, 2015.

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

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.

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

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):

Accounting for non-accountants. 10th ed. David Horner. London: Kogan Page, 2014.

Accounting standards: a comprehensive question book on international financial reporting standards. 16th ed. H R B Opperman, et al. Claremont: Juta and Company, 2015.

Basic financial accounting. 4th ed. Willen Bosua, Madri Schute. Claremont: Juta and Company Ltd., 2015.

Corporate governance and financial management: computational optimisation modelling and accounting perspectives. Situ Nuryanah, Sardar N M Islam. Basingstoke: Palgrave MacMillan, 2015.

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

- Insurance accounting (general business). Ian Hutchinson, updated by Alex Barnes.
- Risk control. Ian Searle.
- Risk identification. Ian Searle.
- Recent developments to Solvency II. Brad Baker.

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. Monthly. 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).

Exemplars

Exemplar papers are available for all mixed assessment units. Exemplars are available for both the coursework component and the multiple-choice component.

These are available on the CII website under the unit number before purchasing the unit. They are available under the following link www.cii.co.uk/qualifications/diploma-in-insurance-qualification.

These exemplar papers are also available on the RevisionMate website www.revisionmate.com after you have purchased the unit.

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

SECTION A

1. The **most common** reason why a mutual insurance company would demutualise is to
 - A. raise capital.
 - B. reduce its regulatory burden.
 - C. transact life assurance.
 - D. undertake reinsurance business.

2. The independent companies appointed by Lloyd's underwriting members to underwrite business are known as
 - A. brokers.
 - B. franchisors.
 - C. managing agents.
 - D. syndicates.

3. In what **principal** way has the UK's legal system influenced the growth of the international insurance market?
 - A. All insurance policies issued by UK insurers are subject to English law.
 - B. English case law is recognised and its practice is followed in every country.
 - C. International insurance disputes are always referred to English courts.
 - D. Many international insurance case precedents have been developed under English law.

4. When an insurance company seeks to play a role in society via sponsorship and community projects, this is known as
 - A. an ethical standard.
 - B. a principles based approach.
 - C. a shareholder focus.
 - D. a stakeholder perspective.

5. A life assurance company aims to grow non-organically through horizontal integration. This can **most commonly** be achieved by
 - A. acquiring a small reinsurance company.
 - B. acquiring a specialist general insurance company.
 - C. merging with a large broker network company.
 - D. merging with another life assurance company.

6. What is a public company legally obliged to do, which a private company is **NOT**?
 - A. Appoint a company secretary.
 - B. Comply with the Financial Conduct Authority's Conduct of Business Rules.
 - C. Purchase errors and omissions insurance.
 - D. Register with Companies House.

-
7. An insurer uses balanced scorecards as a strategic management tool. The **main** purpose of this is to
- A. calculate insurance premiums.
 - B. calculate its financial strength.
 - C. measure its performance.
 - D. reduce its costs.
8. In the context of management information systems, a control cycle is **best** described as the
- A. comparison against a plan and production of reports by exception.
 - B. compilation and redistribution of an organisation's collective skills.
 - C. consultation between a manager and his team members.
 - D. provision of conditions which will help a manager achieve his key objectives.
9. An insurer's Articles of Association **must** include
- A. details of the insurer's technology management strategy.
 - B. methods for building up relationships with customers.
 - C. the regulations for the running of the insurer's internal affairs.
 - D. specific techniques to identify risk within the insurer.
10. An international composite insurer is drafting its annual report. In accordance with the Companies Act 2006, what is the position regarding the inclusion of a chairman's statement in this report?
- A. It is mandatory in all circumstances.
 - B. It is only required if a directors' report is also included.
 - C. It is only required if a directors' report is not included.
 - D. It is optional in all circumstances.
11. An insurer holds claims details on an ex-policyholder. When would the requirements of the Data Protection Act 1998 stop applying to this information?
- A. Three years after the policy is terminated.
 - B. Upon conviction of insurance fraud.
 - C. Upon the death of the policyholder.
 - D. Upon rejection of a claim.
12. Which function within an insurance company is **primarily** responsible for analysing potential mergers and acquisitions?
- A. Finance.
 - B. Internal audit.
 - C. Investment.
 - D. Strategy.

13. To whom is financial accounting **most** useful?
- A. Financial analysts only.
 - B. Internal management only.
 - C. The regulator only.
 - D. Stakeholders.
14. One of the **main** differences between financial accounts and management accounts is that only
- A. financial accounts are legally required.
 - B. financial accounts are produced on a calendar year basis.
 - C. management accounts are a useful indication of liquidity.
 - D. management accounts are required to be audited.
15. Which document **best** gives an indication of a company's liquidity?
- A. An auditor's report.
 - B. A cash flow statement.
 - C. A directors' report.
 - D. An income statement.
16. A company purchased a machine with a useful life of eight years for £24,000. Its residual value at the end of this period is estimated to be £2,000. When using straight line depreciation, how much depreciation is shown in the accounts solely for year two of this period?
- A. £2,750
 - B. £3,000
 - C. £5,500
 - D. £6,000
17. An item has been inserted in a company's balance sheet in respect of machinery. Under which heading will this **normally** appear?
- A. Current assets.
 - B. Current liabilities.
 - C. Non-current assets.
 - D. Non-current liabilities.
18. The internal rate of return is **most commonly** used to measure the
- A. constraints that departments are working under.
 - B. viability of undertaking future projects.
 - C. reduction in yield resulting from external costs.
 - D. reduction in yield resulting from fixed costs.

19. In addition to inflation, what external influence should an insurer **primarily** take into account when calculating a personal injury claim reserve?
- A. Actuarial premium rate increases.
 - B. Frequency of catastrophe claims.
 - C. Market share of liability business.
 - D. Recent claim litigation awards.
20. When reserving for claims under long-tail insurance classes, the amounts are **most commonly** discounted to allow for
- A. Corporation Tax.
 - B. cost savings.
 - C. investment income.
 - D. market risk.
21. Which financial ratio gives an indication of an insurer's underwriting year performance?
- A. Claims ratio.
 - B. Combined ratio.
 - C. Credit turnover ratio.
 - D. Current ratio.
22. A company's measure of liquidity is indicated by a current ratio of 1.36 and a quick ratio of 1.28. The difference between the two ratios **usually** arises as a result of the amount of
- A. debtors.
 - B. depreciation.
 - C. goodwill.
 - D. stock.
23. Which type of activity in the Standard and Poor's insurance ratings framework is **most likely** to be classified as a modifier?
- A. Committee voting.
 - B. Enterprise risk management.
 - C. Gearing ratio analysis.
 - D. Industry and country risk.
24. Who arranges for a credit rating agency to produce a financial security rating on an insurance company?
- A. The external auditors.
 - B. The Government.
 - C. The insurance company.
 - D. The regulator.

25. An insurer intends to assess its position via a use test, to comply with proposed changes in regulations. This forms part of the rules relating to
- A. capital adequacy.
 - B. claims reserves.
 - C. internal audit.
 - D. risk tolerance.

SECTION B

A UK insurer has recently merged with a US-based insurer to form an international operation with its head office in London. The two books of business are uncorrelated, which was a deliberate merger strategy by both companies.

The UK and US insurers have significantly different information technology (IT) platforms which will need to be reviewed. Matt leads the IT Department for the UK insurer and Adam the IT Department for the US insurer.

In their initial discussions, both Matt and Adam agree that an external server farm should be considered to improve efficiency. The new organisation plans to fund part of this IT project from reserves.

They also intend to recommend a plan to rationalise their departments in the newly-formed organisation. Matt operates an open door policy and Adam a hierarchical style of management.

26. The strategy behind the formation of the new organisation indicates that the **main** focus was
- A. an increased presence in a niche market.
 - B. an investment opportunity in global equities.
 - C. to reduce its overall solvency capital requirement.
 - D. to take full control over sources of supply.
27. The **main** difference between the management styles of Matt and Adam is that
- A. Adam is more focused than Matt on building team spirit and morale.
 - B. Adam is more likely to consult his staff than Matt.
 - C. Matt will be seen as being more approachable than Adam.
 - D. Matt will be seen as being more autocratic than Adam.
28. In respect of the new organisation, a statutory external audit will
- A. be legally required to ensure that management accounts reflect the combined organisation.
 - B. be legally required to ensure that the financial accounts truly reflect the combined organisation.
 - C. only inspect the UK insurer's records.
 - D. only inspect the US insurer's records.
29. What are the implications of the new organisation using a server farm?
- A. The current servers used by each organisation will be completely compatible.
 - B. Daily automatic data backup will no longer be necessary.
 - C. The data held by each company will be consolidated and cleansed by an independent server provider.
 - D. Server storage space will be transferred to independent premises.

- 30.** What is the consequence of using some of the reserves to fund the IT project?
- A.** Any subsequent increase in profits may pass to shareholders as dividends.
 - B.** The level of current liabilities will be increased.
 - C.** The level of gearing will be reduced.
 - D.** Net current assets will be depleted.

Leo is the finance director of an insurer. The insurer, a stand-alone company, has recently purchased a new company which is now a subsidiary company. Both the insurer and the new subsidiary use claims development tables under the International Financial Reporting Standards (IFRS) requirements.

The insurer now has access to capital from this new subsidiary company. Leo has been asked by an investor to clarify the position regarding the insurer's capital requirements on an ongoing basis.

The insurer's financial data indicates that, over three years, the combined ratio has changed from 101.2% to 99.7%.

31. What will Leo's activities **most likely** include?
- A. Calculation of individual claims reserves.
 - B. Identifying dependencies through flow process analysis.
 - C. Preparation for reviews by rating agencies.
 - D. Pricing of new insurance products.
32. How will the recent acquisition of the subsidiary be shown on the insurer's cash flow statement?
- A. As a cash inflow from financing activities.
 - B. As a cash inflow from investment activities.
 - C. As a cash outflow from financing activities.
 - D. As a cash outflow from investment activities.
33. The use of claims development tables provides valuable information about the
- A. ability to charge higher prices.
 - B. level of unrealised gains and losses.
 - C. nature of breaches of internal controls.
 - D. prior estimates of outstanding amounts.
34. In answer to the investor's query regarding capital requirements on an ongoing basis, Leo should explain that
- A. all financial statements must be assessed and viewed on a consolidated basis.
 - B. appropriate adjustments may be needed to satisfy the regulator.
 - C. provided all the figures are included on the insurer's balance sheet, no additional issues arise.
 - D. there will be no additional regulatory requirements provided that no trading takes place between the two companies.
35. The change in the combined ratio is **most likely** to indicate that the insurer has
- A. increased its administration expenses.
 - B. increased its long-term borrowing.
 - C. improved its investment returns.
 - D. improved its underwriting results.

Tim is the supervisor of a team in an insurer's internal audit department. He involves as many team members as possible when making decisions.

Two new employees have recently joined the team. The new team members are experienced in the areas of customer complaints and information technology security management.

The insurer's culture is to keep services in-house as far as possible.

The insurer is considered to be a large company and Bev has been appointed to its audit committee. Bev seeks to understand the full financial position in respect of the insurer and regularly checks the usual financial ratios. The insurer has undertaken a liquidity ratio calculation and the result is lower than the same calculation undertaken last year.

36. What management style does Tim operate?
- A. Autocratic.
 - B. Democratic.
 - C. Hierarchical.
 - D. Paternalistic.
37. The changes to personnel in Tim's team are **most likely** to have been driven by
- A. an increase in the number of themed reviews in the audit plan.
 - B. the need to act as the point of contact for regulators.
 - C. the need to report to both the audit committee chairman and more than one senior executive on report findings.
 - D. a significant increase in outsourced reviews as decreed by the board of directors.
38. The Corporate Governance Code on audit committees requires that Bev will
- A. be a qualified actuary.
 - B. be required to work under the guidance of the external auditor.
 - C. regularly review the effectiveness of Tim's team.
 - D. require just one other person to work with her.
39. With regard to the various management reports that are produced in respect of the insurer, Tim's team
- A. collates any required by the regulator.
 - B. oversees the production of those required solely for management purposes.
 - C. verifies any required by the regulator before they are sent.
 - D. verifies their reliability and accuracy.
40. The result of the recent liquidity calculation indicates that since last year the insurer's liquidity has
- A. become more volatile
 - B. worsened.
 - C. improved.
 - D. been unaffected.

Zoe works for an insurer which is a wholly owned subsidiary of a bank. The insurer has recently started a major new sales campaign via the internet and the bank feels that the new campaign will offer significant benefits for its customers. The policies sold through this campaign will usually have monthly premium payments.

Zoe acts in a first response role in the insurer's claims department and is currently handling a household policy claim from Tom where significant property damage has occurred.

Zoe's friend, George, works at the same insurer in the finance department. Included amongst his tasks is the responsibility for raising debit notes.

Due to significant expenditure on the insurer's campaign, for which results are only just beginning to come through, the insurer's return on equity (ROE) ratio is currently 6%.

Standard & Poor's has placed its rating for the insurer under Creditwatch with a developing flag.

41. The significant benefits to the bank's customers of the new campaign run by the insurer are **most likely** to relate to
- A. the availability of non-standard classes of business.
 - B. higher standards and wider availability of customer service.
 - C. a range of options on cover and price.
 - D. specifically tailored solutions for the individual customer.
42. Zoe's specific role in respect of Tom's claim is to
- A. ensure the claim is paid promptly.
 - B. minimise the potential for further damage.
 - C. obtain authority to make an interim payment.
 - D. oversee the repairs process.
43. The significance of the credit rating is that the current rating
- A. may be raised, lowered or affirmed.
 - B. will shortly be affirmed.
 - C. will shortly be lowered.
 - D. will shortly be raised.
44. For what transactions will George raise debit notes?
- A. All amounts owed to the business by other parties.
 - B. All monies owed by the business to other parties.
 - C. Monies owing to reinsurers and for outstanding claims only.
 - D. Premiums owed by policyholders only.

45. What does the insurer's ROE of 6% indicate?

- A. The insurer is being charged a 6% interest rate on its long-term borrowings.
- B. The insurer is making a 6% profit relative to its capital.
- C. The insurer is obtaining a 6% interest rate on its instalments.
- D. A shareholder is making a 6% profit before tax on his investment.

Mick is a supervisor in an insurer's customer service department. He has received a complaint from a policyholder, Meg, regarding the use of her personal data by the insurer's outsourced call centre in India. She does not think this centre has any right to know her personal details. Mick is able to verify that the correct procedure has been followed.

Mick is collating data for a review of activities against key performance indicators (KPIs). Most of this data relates to effort-oriented KPIs, but one particular measure causing concern represents the 'bottom line'. Mick has referred this concern to management, who are assessing appropriate action to be taken in accordance with the second line of defence.

The insurer uses an activity-based costing system. Mick's department is regarded as a profit centre for this purpose.

The following financial data is available in the insurer's accounts:

Claims	£80,000,000
Expenses	£12,000,000
Acquisition Costs	£17,000,000
Earned Premium Net of Reinsurance	£110,000,000

46. Mick's confirmation that the correct procedure has been followed is **most likely** to be due to
- appropriate regulatory approval for use of the call centre.
 - the choices made in the insurer's data protection registration.
 - the level of training given to the employees in the call centre.
 - Meg having given her express consent in her original application.
47. The KPI measure causing concern to Mick is **most likely** to be
- the number of complaints resolved within a planned timeframe.
 - a reduction in market share.
 - a significant increase in staff turnover.
 - staff failing to respond to surveys on staff relations.
48. Following the referral from Mick, what action should be taken by the insurer?
- Determine changes required to reduce the level of the problems.
 - Discipline the staff concerned.
 - Disclose the issue to the regulator.
 - Implement a recovery plan.
49. Under the activity-based costing system used by the insurer, Mick's department will
- be allocated a fixed cost per annum by a central department.
 - be invoiced by a central department on a cost per unit basis.
 - charge other departments a fixed cost per annum.
 - operate a zero-based budgeting approach.

50. The insurer's combined ratio is

- A. 83.63%
- B. 88.18%
- C. 99.09%
- D. 100.91%

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Standard Format Questions						Scenario Questions		
Learning Outcome 1			Learning Outcome 5			Learning Outcomes 1 to 8		
1	A	1.1	13	D	5.1	26	C	1.6
2	C	1.2	14	A	5.2	27	C	2.2
3	D	1.3	15	B	5.3	28	B	3.5
4	D	1.4	16	A	5.4	29	D	4.2
5	D	1.6	17	C	5.6	30	A	5.6
5 Questions			18	B	5.9	31	C	2.1
			6 questions			32	D	5.7
Learning Outcome 2						33	D	6.1
6	A	2.1	Learning Outcome 6			34	B	8.3
7	C	2.3	19	D	6.2	35	D	7.4
8	A	2.4	20	C	6.3	36	B	2.2
3 Questions			2 questions			37	A	4.2
						38	C	3.1
Learning Outcome 3			Learning Outcome 7			39	D	5.2
9	C	3.2	21	B	7.1	40	C	7.4
10	D	3.3	22	D	7.4	41	C	1.5
11	C	3.6	2 questions			42	B	4.1
3 Questions						43	A	8.2
			Learning Outcome 8			44	A	5.5
Learning Outcome 4			23	B	8.1	45	B	7.3
12	D	4.2	24	C	8.2	46	D	1.7
1 Question			25	A	8.3	47	B	2.3
			3 questions			48	A	3.4
						49	B	5.8
						50	C	7.4
						25 questions		