Chartered Insurance Institute

E92

Examination element of M92 insurance business and finance

Based on the 2022/2023 syllabus
examined from 1 May 2022 until 30 April 2023

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Based on the 2022/2023 syllabus examined from 1 May 2022 until 30 April 2023

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/learning/qualifications/diploma-in-insurance-qualification/unit-insurance-business-and-finance-m92/**
2) Select 'exam guide update' 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.

Supporting information for the syllabus which contains a detailed overview of the areas covered can be found on the unit page. Select Supporting information for the 2022/2023 syllabus on the right-hand side of the page.

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 2022 until 30 April 2023.

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 the various functions within insurance organisations**	**1**
5.	**Understand accounting principles and practices and their application**	**6**
6.	**Understand accounting standards and 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.

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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 question (MCQ) 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. an MCQ exam consisting of 25 MCQs and 5 case studies followed by 5 MCQs each. 90 minutes are allowed for this exam. This exam must be successfully passed within 18 months of enrolment.
- This syllabus will be examined from 1 May 2022 until 30 April 2023.
- Candidates will be examined on the basis of English law and practice unless otherwise stated.
- This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is a free extension that is available from https://speechify.com/. If for accessibility reasons you require this document in an alternative format, please contact us on ukcentreadministration@cii.co.uk to discuss your needs.
- 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/qualifications*
  2. Select the appropriate qualification
  3. Select your unit from the list provided
  4. Select qualification update on the right hand side of the page

1. Understand the structure of the insurance industry.

1.1 Explain the different types of insurance structures.

1.2 Describe the global perspective of the insurance market.

1.3 Explain the different distribution channels for insurance business.

1.4 Describe the different types of stakeholder and their interests.

1.5 Explain business and insurance ethics.

1.6 Discuss the reasons for company growth, including mergers and acquisitions.

1.7 Discuss outsourcing to external service providers.

1.8 Discuss change in the UK and global insurance industry.

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, budgetary planning and control and decision making.

2.4 Understand the use of management information and management reporting.

3. Understand the main aspects of corporate governance.

3.1 Describe the corporate governance framework and the incorporation of businesses.

3.2 Describe the statutory reporting requirements.

3.3 Describe how risk can be managed within the corporate governance framework.

3.4 Explain the importance of the management and protection of data, including accurate record keeping and reporting.

4. Understand the role of the various functions within insurance organisations

4.1 Explain the role and significance of the main functions within insurance organisations.

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 Describe and apply the basic financial concepts and the accounting equation.

5.5 Describe accounting for receipts and payments.

5.6 Interpret companies' financial documents.

5.7 Explain and interpret the principles of management accounting.

6. Understand accounting standards and insurance company accounts.

6.1 Outline the main accounting standards that affect insurance company accounts.

6.2 Explain insurance company reserving methods, Incurred But Not Reported (IBNR) and the importance of accurate claims reserving.

7. Analyse businesses using financial ratios.

7.1 Interpret general accounts through the use of financial ratios.

7.2 Interpret insurance company accounts through the use of financial ratios.

8. Understand the financial strength of insurance companies.

8.1 Explain the role of rating agencies and the rating process.

8.2 Explain the regulatory solvency requirements and how the financial strength of insurers is analysed and the associated impact on them.

Reading list

The following list provides details of further reading 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 resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

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/10th ed. Peter Atrill and Eddie McLaney. Pearson Education Ltd, 2013/2017. *

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

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

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

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

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/elibrary* (CII/PFS members only):

Accounting for non-accountants. 11th ed. David Horner. London: Kogan Page, 2017.

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 McMillan, 2015.

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

Online resources
The Insurance Institute of London (IIL) podcast lecture series features leading industry figures and subject experts speaking on current issues and trends impacting insurance and financial services. Available online at *www.cii.co.uk/insurance-institute-of-london/* (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-services/* (CII/PFS members only).

Journals and magazines
The Journal. London: CII. Six issues a year.

Post magazine. London: Incisive Financial Publishing. Monthly. Contents searchable online at *www.postonline.co.uk*.

Financial times. London: Financial Times. Daily. Available online at *www.ft.com*.

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

Access to further periodical publications is available from the Knowledge website at *www.cii.co.uk/journalsmagazines* (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.*

Exemplars

Exemplar papers are available for all mixed assessment units. Exemplars are available for both the coursework component and the MCQ exam 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.

SECTION A

1. A shareholders' liability under a proprietary company is

A. 50% of the nominal value of their shareholding.
B. the nominal value of their shareholding.
C. 50% of the total liabilities of the company.
D. unlimited.

2. Two factors that have allowed the City of London to develop into an international insurance centre are

A. highly qualified personnel and office space both being available at competitive prices.
B. the high number of domestic insurers and a lack of foreign insurers.
C. the growth in numbers of both direct insurers and aggregators.
D. white-labelling products being available and the growth in the number of tour operators.

3. Insurer X is a multinational company and insurer Y is a global company. This means that only

A. insurer X regards the world as one potential market.
B. insurer Y's aim is to be regarded as a centralised business.
C. insurer Y is permitted to have a base in the UK.
D. insurer Y operates in a number of different countries.

4. What are customer stakeholders of an insurer **most likely** to expect?

A. Competitively-priced products.
B. Fair competition to be evidenced.
C. Increased share value.
D. Sustained and increasing investment growth.

5. Which distribution channel for insurance **most commonly** offers white-labelled products?

A. Aggregators.
B. Intermediaries.
C. Retailers.
D. Travel agents.

6. The chief actuary of an insurance company is **usually** responsible for

A. management of debt and cashflow.
B. overseeing the risk management process.
C. preparing the profile of gross premium by currency.
D. technical pricing of new and existing products.

7. An insurance company's tactical plan may refer to

- **A.** development of new insurance products over a 2-year period.
- **B.** long-term resource allocation over a 10-year period.
- **C.** routine day-to-day methods of working.
- **D.** weekly monitoring of budgets.

8. The senior managers of an insurance company are reviewing performance against a monthly requirement to have no IT downtime of greater than 30 minutes a quarter. They are reviewing a

- **A.** key effort-oriented performance indicator.
- **B.** key results-oriented performance indicator.
- **C.** key risk indicator.
- **D.** key strategy analysis.

9. Which UK companies are **required** to report whether they are compliant with the UK Corporate Governance Code?

- **A.** All UK companies.
- **B.** Only those which are limited companies.
- **C.** Only those listed on the London Stock Exchange.
- **D.** Only those with a turnover in excess of £1,000,000.

10. Which UK companies **must** have Articles of Association?

- **A.** Only those listed on the London Stock Exchange.
- **B.** Only those which are private companies.
- **C.** Only those with a turnover in excess of £1,000,000.
- **D.** All those which are registered with Companies House.

11. What is shown respectively on a company's income statement and balance sheet?

- **A.** The income statement shows the financial position at a particular point in time and the balance sheet shows the results of transactions during the accounting period.
- **B.** The income statement shows the results of transactions during the accounting period and the balance sheet shows the financial position at a particular point in time.
- **C.** The income statement shows the financial position at a particular point in time and the balance sheet shows the sources and uses of cash.
- **D.** The income statement shows the sources and uses of cash and the balance sheet shows the financial position at a particular point in time.

12. Which type of organisation deals with underwriting on behalf of an insurer and undertakes activities such as marketing and administration?

- **A.** An aggregator.
- **B.** A captive insurer.
- **C.** A managing general agent.
- **D.** A reinsurance company.

13. What is the **primary** function of financial accounting?

A. To allow internal auditors to report on the adequacy of control systems.
B. To assist managers in formulating strategic plans.
C. To provide information on individual departments within an organisation.
D. To report the financial position to all stakeholders.

14. Management accounting differs from financial accounting in that management accounts

A. are distributed to all stakeholders.
B. are prepared specifically for calculation of taxation liability.
C. are used to determine shareholders' dividends.
D. need not be audited by external auditors.

15. The chief executive officer of a large insurance company wishes to review its solvency margin. From which financial document will he obtain the necessary information?

A. Balance sheet.
B. Cash flow statement.
C. Management accounts.
D. Profit and loss account.

16. When depreciation is shown in a company's financial accounts, accounting concepts **require** that this represents the

A. amount of the company's turnover minus the cost of sales.
B. cost of an asset apportioned over the financial period during which the company will benefit from the use of that asset.
C. difference between the amount paid for acquiring a company and the value of the net assets of that company when acquired.
D. money used to finance daily trading activities.

17. An insurance company uses the double-entry accounting principle for recording insurance transactions to reflect that it has

A. earned an amount of income which is balanced by an increase in cash.
B. made long-term investments which are balanced by an increase in cash.
C. made provision for outstanding losses which are balanced by a decrease in cash.
D. sold assets which are balanced by a decrease in cash.

18. A balance sheet records a company's

A. gross cash flow.
B. gross financial position.
C. net cash flow.
D. net financial position.

19. Which method of projecting the total cost of claims solely extrapolates the paid claims and does **NOT** use any other information?

- **A.** Bornhuetter-Ferguson.
- **B.** Loss ratio method.
- **C.** Projection of incurred claims.
- **D.** Projection of paid claims.

20. An insurer is establishing its claims reserving policy on a discounted claims basis. This confirms that

- **A.** claims values appear to be inflated.
- **B.** incurred but not reported claims are being written-off.
- **C.** investment income is being taken into account.
- **D.** voluntary excesses are being applied by policyholders.

21. How is an insurer's gearing ratio calculated?

- **A.** Long-term borrowings divided by shareholders' equity.
- **B.** Short-term borrowings divided by shareholders' equity.
- **C.** Shareholders' equity divided by long-term borrowings.
- **D.** Shareholders' equity divided by short-term borrowings.

22. 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.

23. When looking at the financial strength of an insurance company, a rating agency's methodology takes into account the company's capital adequacy which represents its

- **A.** ability to efficiently manage cash flows and borrow money if required.
- **B.** combination of the loss ratio, expense ratio and combined ratio.
- **C.** potential requirement for additional capital or liquidity in the future.
- **D.** quality and level of capital required to run the business.

24. The financial strength of an insurance company as measured by a ratings agency is **always**

- **A.** based only on publicly-available information.
- **B.** a measure of its ability to pay all debts.
- **C.** a measure of its ability to pay claims.
- **D.** shown in its cash flow statement.

25. When looking at the solvency requirements of insurance firms, the Prudential Regulation Authority states that the probability factor that **should NOT** be exceeded is

A. 1 chance in 200 over a 12-month timescale.
B. 1 chance in 200 over an 18-month timescale.
C. 1 chance in 500 over a 12-month timescale.
D. 1 chance in 500 over an 18-month timescale.

SECTION B

Mark is employed as a risk manager in the London office of a large multinational retail group, which is listed on the London Stock Exchange. Mark has some shares in the company. The multinational retailer's main offices are located in London with subsidiary companies based in New York, Paris, Frankfurt and Dubai.

The London office has arranged to transfer part of the group insurance risk to an insurer, owned by the group, based in Dublin.

The annual accounts of the London office are compiled each year to International Financial Reporting Standards.

On 5 May Mark is on an insider list and learns that the London office is undergoing serious financial issues. The company is looking to sell off overseas businesses, including the New York office, to release equity.

The London office is a large multi-storey office block purchased using a bank loan. The company have agreed to pay back the loan over the next 15 years.

26. The insurance company that is based in Dublin is **most likely** to be a

- **A.** captive company.
- **B.** mutual company.
- **C.** reinsurance company.
- **D.** takaful company.

27. Where, if at all, in the annual report accounts, **must** a statement appear from the London based chairman of the retail group?

- **A.** It must form part of the balance sheet.
- **B.** It must form part of the directors' report.
- **C.** It must form part of the income statement.
- **D.** It is not required.

28. Under which Act would it be a civil offence if Mark were to sell his shares following information obtained in May?

- **A.** Bribery Act 2010.
- **B.** Companies Act 2006.
- **C.** Financial Services and Markets Act 2000.
- **D.** Proceeds of Crime Act 2002.

29. What scope of risks within risk management is **likely** to be affected by the London office's financial issues and the need to sell off the New York office?

A. Credit.
B. Group.
C. Market.
D. Operational.

30. The bank loan used to purchase the London office building would be classified on the company balance sheet as being a

A. current asset.
B. current liability.
C. non-current asset.
D. non-current liability.

Joe is a business manager at a UK-based, publicly-quoted insurance company. Joe has been asked by the Board to clarify a number of matters relating to the use of information within the company and some associated points. The company has a vast amount of information that has been collected by them including policy and loss data.

Consideration is being given to who should have access to such information. The company also reuses information especially in relation to the provision of underwriting administrative services. Consideration is being given to where this best fits.

Given the importance of information within the company, it has been deemed essential that the Information Technology (IT) department have a broad role, working closely with the business. Consideration is being given as to what the IT department should therefore be involved in.

The company has been making satisfactory profits and there has been debate about the information shareholders receive in relation to the distribution of profits and dividend payments. The company receives information in the form of a financial strength rating from a rating agency. However, some executives have questioned the value of this and the rating agency process.

31. Joe should advise the Board it is important that the policy and loss data is

- **A.** restricted to the use of the chief actuary only.
- **B.** never used again as this is not permitted by the Data Protection Act 1988.
- **C.** readily accessible by all appropriate employees.
- **D.** readily accessible by all stakeholders.

32. Joe should advise the Board that the underwriting administration services information currently in use is **most commonly** known as a

- **A.** bespoke benchmarking system.
- **B.** codified knowledge management system.
- **C.** learning management system.
- **D.** personalised knowledge management system.

33. Joe should advise the Board that if the IT department is to fulfil its role within the company, it **must**

- **A.** carry out themed audits of the IT area.
- **B.** ensure all employees carry out controlled functions.
- **C.** make a proactive contribution to the development of business strategy.
- **D.** procure offices to meet the accommodation needs.

34. Joe should advise the Board that shareholders are given information on dividend payments which recognises that

- **A.** only individual and personal messages are supplied to shareholders on the reasons for payment levels.
- **B.** payments are never made when the underlying value of the company’s shares has increased.
- **C.** payments increase on an automatic basis year-on-year.
- **D.** shareholders’ payments may be held back to fund future expansion.

35. Joe should advise the Board that a strong rating from a ratings agency

A. assists the insurance broker who distributes the company's insurance products to decide on their risk appetite when placing business.

B. is a highly-subjective process as it uses little quantitative and qualitative information.

C. is only ever provided on publicly-available information.

D. will have no connection with the company's earnings stability or its ability to grow capital.

John is considering whether to buy shares in a listed insurance company. His neighbour, Mary, works in the company's finance department and provides John with a copy of the latest report and accounts. John notes that the company has negotiated some new loans. He calculates the return on equity and the liquidity ratios.

Mary explains to John that the company has an organic growth plan to increase revenue by 30%.

36. In which financial statement within the report and accounts will the receipts from the new loans been shown?

- **A.** Cash flow from financing activity.
- **B.** Cash flow from investment activity.
- **C.** Cash flow from operating activity.
- **D.** Income as a net investment return.

37. In which financial statement within the report and accounts will John find details of the company's assets and liabilities?

- **A.** Balance sheet.
- **B.** Cash flow.
- **C.** Profit and loss.
- **D.** Revenue.

38. What information has John used to calculate the return on equity?

- **A.** Assets and liabilities.
- **B.** Gross profit and sales revenue.
- **C.** Long-term borrowings and shareholders' equity.
- **D.** Profit after tax and capital.

39. The company's liquidity ratio will show the relationship of

- **A.** borrowings as a percentage of equity.
- **B.** liabilities to cash and investments.
- **C.** net assets to income.
- **D.** profit to shareholders' capital.

40. What is the **main** disadvantage of the company's chosen growth structure?

- **A.** Building the business may take a long time to achieve.
- **B.** The business may be too dependent on a limited number of suppliers.
- **C.** Customer service may be reduced whilst changes are being implemented.
- **D.** Organic growth is a risky strategy.

An insurer has recently expanded because employee numbers have increased following the acquisition of a specialist firm of loss adjusters. The insurer aims to provide an enhanced claims service.

The insurer operates a system whereby each department sets its own budget for a 12-month period. This is incorporated into a company budget by John, the finance director, who will allow some budgeting changes to be made if actual costs unexpectedly change during the financial period. The budget is used by senior management as part of its management accounting process to plan its objectives and to assess whether these objectives are being met. John as the finance director is also responsible for all the insurer's financial accounts.

41. The acquisition by the insurer is an example of

A. financial growth.
B. horizontal integration.
C. organic growth.
D. vertical integration.

42. At what level of information will the insurer's overall budget be categorised?

A. Operational.
B. Regulatory.
C. Strategic.
D. Tactical.

43. John's **essential** role within the insurer is **best** described as

A. conducting loss modelling to predict aggregate exposure.
B. ensuring that sufficient capital and reserves are available to meet solvency requirements.
C. examining activities to ensure that practices conform to documented operational procedures.
D. protecting the insurer's objectives and reputation.

44. The financial accounts which John produces differs to the management accounts that are produced internally within the insurer. This is because the financial accounts

A. always involve internal planning whereas management accounts can always be formulated to meet the insurer's requirements.
B. are only providing forecasts whereas management accounts are based on historical information.
C. can be formulated to meet the insurer's requirements whereas management accounting is only concerned with internal planning.
D. record the financial impact of events whereas management accounts provides forecasts.

45. The budgeting system operated by the insurer is known as

A. bottom-up flexible budgeting.
B. rolling 12-month budgeting.
C. top-down flexible budgeting.
D. zero-based budgeting.

Tim is the newly-appointed chief executive officer of an insurance company. He has been tasked with turning the business around to a more profitable concern as it has been experiencing difficult trading conditions.

Tim leads the Board of the company, which comprises the usual executive roles. He realises that a radical shake up of the business is required which, for a time, will require new working regimes and tight deadlines if the new targets set by the Board are to be achieved.

Currently recorded written premiums are £90,000,000 and earned premiums are £95,000,000.

When conducting a benchmarking exercise against similar-sized competitors, it is found that whilst the combined ratio compares favourably, the company's return on capital employed is significantly lower.

The sales director suggests that the claims function could be outsourced to a specialist-claims handling service provider under the terms of a service level agreement stipulating that compliant standards of service are maintained. In doing so this would free up resources to enable the company to concentrate on core activities and that new business could grow significantly if the current 30-day period of credit given to brokers was extended to 90 days.

46. Which management style would be **best** for Tim to adopt during this period of radical change?

A. Autocratic.
B. Consultative.
C. Open door.
D. Paternalistic.

47. What is the **most likely** explanation for the company's return on capital employed being lower than its competitors?

A. Excessive administrative expenses.
B. High reinsurance costs.
C. Over-reserving of outstanding claims.
D. Poor investment returns.

48. If the company were to adopt both of the sales director's proposals, what would be the **most likely** consequence?

A. The additional growth will always result in the acceptance of poor quality business.
B. The additional business will stretch existing operational resources.
C. Compliance will become less demanding.
D. Financial resources will be impaired.

49. Who would be responsible for compliance of the claims function if the activity was outsourced to a specialist claims-handling company?

A. The Financial Conduct Authority would be solely responsible.
B. The insurer would be solely responsible.
C. The specialist claims handler would be solely responsible.
D. The insurer and the specialist claims handler would be jointly and severally responsible.

50. What is evidenced by the current levels of written premiums and earned premiums?

A. A declining book of business.
B. Excessive business acquisition costs.
C. Increased reinsurance costs or cover.
D. Strengthening of claims reserves.

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	B	1.1	13	D	5.1	26	A	1.1
2	A	1.2	14	D	5.2	27	D	3.2
3	B	1.2	15	A	5.3	28	C	3.4
4	A	1.4	16	B	5.4	29	B	4.1
5	C	1.3	17	A	5.5	30	D	5.6
5 Questions			18	D	5.6	31	C	3.4
			6 questions			32	B	2.4
Learning Outcome 2						33	C	4.1
6	D	2.1	**Learning Outcome 6**			34	D	5.3
7	A	2.3	19	D	6.2	35	A	8.1
8	C	2.3	20	C	6.2	36	A	5.6
3 Questions			**2 questions**			37	A	5.1
						38	D	7.2
Learning Outcome 3			**Learning Outcome 7**			39	B	7.2
9	C	3.1	21	A	7.2	40	A	1.6
10	D	3.1	22	B	7.2	41	D	1.6
11	B	3.2	**2 questions**			42	C	2.4
3 Questions						43	B	4.1
			Learning Outcome 8			44	D	5.2
Learning Outcome 4			23	D	8.1	45	A	2.3
12	C	4.1	24	C	8.1	46	A	2.2
1 Question			25	A	8.2	47	D	7.2
			3 questions			48	D	5.2
						49	B	1.7
						50	A	5.6
						25 questions		