

# 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](http://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](http://www.cii.co.uk/knowledge) or email [knowledge@cii.co.uk](mailto: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](http://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](http://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](http://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](http://www.cii.co.uk/knowledge) (CII/PFS members only).

Post magazine. London: Incisive Financial Publishing. Monthly. Also available online at [www.postonline.co.uk](http://www.postonline.co.uk).

Financial times. London: Financial Times. Daily. Also available online at [www.ft.com](http://www.ft.com).

Further periodical publications are available at [www.cii.co.uk/journalmagazines](http://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](http://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](http://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](http://www.cii.co.uk/qualifications/diploma-in-insurance-qualification).

These exemplar papers are also available on the RevisionMate website [www.revisionmate.com](http://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](http://www.cii.co.uk/iilrevision) (CII/PFS members only).