

THE CHARTERED INSURANCE INSTITUTE

P92

Diploma in Insurance

Unit P92 – Insurance business and finance

October 2013 examination

Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit P92 – Insurance business and finance

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper, which contains 20 compulsory questions and carries a total of 200 marks.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

Answer ALL questions

Note form is acceptable where this conveys all the necessary information

1. The Data Protection Act 1998 defines the legal basis of handling personal data relating to people in the UK.

State **five** of the eight data protection principles which must be observed. (10)

2. (a) State the accounting equation. (3)

(b) Explain the purpose of the accounting equation. (6)

3. Construct a balance sheet for MM Insurance Brokers using the following information.

	£m	
Office equipment	50	
Trade receivables	600	
Creditors	950	
Cash	335	
Properties	250	
Shares	90	
Long-term borrowings	125	
Retained profit	80	
Vehicles	10	(14)

4. (a) Explain treaty reinsurance. (7)

(b) Explain briefly facultative reinsurance. (3)

5. (a) Identify **five** reasons why companies may choose to outsource some operations. (5)

(b) Describe briefly the process by which managers select the right outsourcing provider. (4)

6. (a) Explain briefly how the following groups will use the information provided in the combined ratio.
 - (i) Underwriter within an insurer. (2)
 - (ii) Competitors of an insurer. (2)
 - (iii) Senior executives within an insurer. (2)(b) (i) Explain briefly the commission ratio within the combined ratio. (*You are not required to state the formula.*) (3)
(ii) Explain briefly the importance of the commission ratio. (3)
7. A budget is a plan and is also used by managers to exercise organisational control.
Explain how a budget is used to exercise this control. (8)
8. Identify **three** specific interests or expectations that **each** of the following stakeholders would have in an insurance business.
 - (a) The Government. (3)
 - (b) The public. (3)
 - (c) Suppliers/creditors. (3)
9. (a) Identify **four** different types of information the Finance Director of a UK insurance company would prepare. (4)
(b) State the purpose of **each** type of information identified in part (a) above. (4)
10. List **four** examples under **each** of the following business components.
 - (a) Physical resources. (4)
 - (b) Financial resources. (4)
 - (c) Human resources. (4)

Questions continue over the page

11. (a) List **four** business activities in relation to employment undertaken by an insurance company's human resources department.
 - (b) Provide **one** example of information used to make decisions in **each** of the four business activities identified in part (a) above. (4)
12. (a) Explain briefly the difference between profitability and productivity ratios. (4)
 - (b) Explain how productivity ratios are useful to a business. (5)
13. Outline the **seven** topics dealt with by the Guidance on Board Effectiveness developed by the Institute of Chartered Secretaries and Administrators for the Financial Reporting Council. (7)
14. (a) List **eight** pieces of information usually provided by the target company to the potential buyer during acquisition negotiations. (8)
 - (b) Explain briefly how a potential acquirer might restate its bid after considering the information provided by the target company. (4)
15. Outline **five** activities a compliance department within an insurance broker would be responsible for. (10)
16. (a) The OMG Insurance Company sold annual policies in 2010 for £4,000,000 on 1 April and £3,000,000 on 1 July. In 2011, they sold annual policies for £5,000,000 on 1 January, £2,000,000 on 1 July and £10,000,000 on 1 October.

Calculate, **showing all your workings**, the earned premiums for year ending 31 December 2011. (12)
 - (b) Explain briefly what the results of your calculation mean. (2)
17. (a) Describe briefly **five** requirements (other than the requirement in part (b) below) of the International Financial Reporting Standards, IFRS 4. (10)
 - (b) The International Financial Reporting Standards also require claims development tables (CDTs) to be shown for general insurers. Outline the value that information from CDTs can convey. (4)

18. Explain how the claims run-off process operates.

19. Standard and Poor's has rated a number of insurance companies based on their usual rating methodology.

Explain what the respective rating means for **each** of the following insurers.

(a)	CAH Insurance Company	A +	Positive	(3)
(b)	MCG Insurance Company	BBB –	Negative	(3)
(c)	JMG Insurance Company	A	Developing	(3)

20. (a) Explain briefly the EU Solvency II Directive. (4)

(b) Many insurance companies have already completed several steps in preparation for Solvency II. Explain briefly what these steps have included. (4)

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