

# THE CHARTERED INSURANCE INSTITUTE

## 530

## Advanced Diploma in Insurance

### Unit 530 – Economics and business

April 2014 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.**



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## Unit 530 – Economics and business

### Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks, as follows:

Part I	1 compulsory question (case study)	80 marks
Part II	2 questions selected from 3 (scenarios)	80 marks

- You should answer the question in Part I, and two out of the three questions in Part II.
- **You are advised to spend no more than 90 minutes on Part I and 45 minutes on each question selected in Part II.**
- **It is recommended that you spend 15 minutes reading and planning your answer to the case study and 75 minutes answering it, and that you spend 10 minutes reading and planning your answer to each scenario and 35 minutes answering it.**
- A case study tests extensively across syllabus learning outcomes, whilst a scenario will be more focused on specific learning outcomes.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

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**PART I****Case study****This question is worth 80 marks**

**To gain maximum marks you should include relevant examples and evidence of further reading in your answer**

**1. Case study**

You are a business manager of a UK Stock Exchange listed general insurer DLS plc (DLS). DLS have headquarters in the UK. The company has pursued a traditional approach to business over many years, though lower investment returns have meant a focus on underwriting profitability.

DLS is a large insurer which:

- operates in 20 overseas countries and has 10,000 employees worldwide;
- has customers ranging from individuals to global and multinational companies;
- provides an extensive range of commercial and personal insurances.

Demand for insurance in general is increasing on a worldwide basis especially in developing countries. However, the UK insurance market and the market in some but not all other countries are also considered by economic commentators to be highly competitive.

The table below summarises some recent key business and financial information relating to DLS for 2010 and 2013.

Year	Market share	Profit	Premium income
2010	11%	£210,000,000	£2.1billion
2013	7%	£212,000,000	£2.2billion

The exact business strategy pursued by DLS is very difficult to determine, however, three important factors in DLS's business are:

- underwriting profit maximisation has been given a higher priority than the adoption of ethical and moral principles, and engagement with stakeholders has been limited;
- offering insurance against new and emerging risks has not been considered important with very limited resources applied to development of new products;
- various information on customers, products, and the external environment is lacking and the reasons for the changes identified above, between 2010 and 2013, are not properly understood.

**Question**

Write a report for the Board which:

- examines how customer demand for DLS products is most likely to have altered between 2010 and 2013 with a particular focus on pricing;
- examines the implications arising from DLS prioritising underwriting profit over ethical and moral factors;
- examines the benefits and disadvantages of DLS's current strategy in relation to new and emerging risks;
- recommends, with reasons, business improvements that DLS can make in relation to customer demand and pricing, ethical and moral principles and new and emerging risks. Furthermore, in brief, identify any additional information you judge is required to improve the quality of your recommendations.

**(80)**

Questions continue over the page

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**PART II**

**Scenarios**

**Answer TWO of the following THREE questions**

**Each question is worth 40 marks**

**To gain maximum marks you should include relevant examples and evidence of further reading in your answer**

**2. Scenario**

You work as a business manager for MAB a small insurance company which employs 250 people. MAB currently offers a range of general insurance products. Its Board wants to expand the business into the specialist insurance market to compete with other general insurers.

MAB's Marketing Manager has advised the Board that the introduction of these specialist products should be straightforward for the following reasons.

- No entrepreneurial management skills are required.
- The underwriting and claims team can be located in a spare 15-year-old office building in a small town over three hours away from the current main office.
- Demand does not depend on customer attitudes to risk and risk awareness.
- All existing insurance administration arrangements can be extended to the specialist products.
- Few claims are anticipated so the results will be highly profitable and pricing will be unimportant.

**Question**

Write a report for the Board which evaluates and challenges the advice given by the Marketing Manager.

**(40)**

**3. Scenario**

You are a strategy manager with RLT Insurance (RLT). RLT is planning to expand overseas into countries where the insurance market is underdeveloped.

Three important factors are that RLT:

- has an information technology (IT) infrastructure in the UK and they intend to use this to support their overseas expansion;
- is aware of other risk issues that have arisen in relation to competitor companies operating overseas;
- has identified that some overseas countries use a mixture of tariffs, quotas and subsidies to protect domestic markets from foreign competition.

**Question**

Write a report for the Board, analysing the:

- IT infrastructure risks and other risks faced by RLT and recommending how RLT can successfully expand overseas whilst at the same time minimising risk;
- barriers faced by RLT in gaining access to overseas markets, making specific reference to tariffs, quotas and subsidies.

**(40)****4. Scenario**

You are a business manager for DLM Insurance Company (DLM), a UK Stock Exchange listed general insurer based in the UK. It employs 2,500 people and has twelve offices in the UK. DLM provides insurance for several hundred commercial enterprises and undertakes the normal range of activities of an insurer.

You have been asked to give a presentation to stakeholders on how DLM contributes to wealth creation and promotes the social functions of insurance.

**Question**

Prepare your presentation, analysing how DLM:

- contributes to wealth creation and explain how such a contribution can be difficult to demonstrate;
- would best promote the social functions of insurance.

**(40)**

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