

THE CHARTERED INSURANCE INSTITUTE

P92

Diploma in Insurance

Unit P92 – Insurance business and finance

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.**

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. In respect of non-life insurance companies:
 - (a) explain the Minimum Capital Requirement (MCR) and its component parts; (7)
 - (b) explain briefly how MCR differs from the Enhanced Capital Requirement (ECR). (5)

2. Based on Standard and Poor's rating methodology, explain, giving reasons, which is the best company to place your insurance with for **each** of the following.
 - (a) 'Insurer 1' A- Negative **OR** 'Insurer 2' BBB+ Positive. (3)
 - (b) 'Insurer 3' AAA pi **OR** 'Insurer 4' A+ Developing. (3)
 - (c) 'Insurer 5' BB+ Positive **OR** 'Insurer 6' BB- Negative. (3)

3. Construct an income statement for Go-Here Insurance Brokers using the information provided in the table below.

	£000's
Administrative costs	750
Shares	1,200
Goodwill	400
Dividends paid	500
Long-term borrowings	450
Tax	650
Cash	800
Debtors	400
Salaries and associated costs	1,500
Land	850
Buildings	700
Interest paid	450
Commission received	5,000
Creditors	250
Overdraft	100

(10)

4. Construct a balance sheet for Go-Here Insurance Brokers using the information provided in the table in question 3.

5. George and Sarah decide to start a new insurance consulting business called Solutions-R-U's. The total investment in Solutions-R-U's is £5,000. They have to buy some computer equipment and lease some mobile phones at £1,500 and £750 respectively. They quickly start to invoice clients with the first two invoices going out at £400 and £700 respectively.

The accounting equation is: $\text{Equity} = \text{Assets} - \text{Liabilities}$.

Using the accounting equation, illustrate **each** of the following steps after each transaction has been made until you arrive at a final equation.

- (a) When the business is first started. (2)
 - (b) After the computers are bought. (2)
 - (c) After the phones are leased. (3)
 - (d) After the company's first two invoices. (3)
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6. FED Insurance Company has a small head office and two local branches and operates three main classes of insurance. Some functions such as information technology, human resources and premises costs are managed from the head office and charged out per class of business.

	Income £000's	Expenditure £000's	Result £000's
Class A	2,000	1,500	500
Class B	800	1,000	(200)
Class C	1,250	1,000	250
Total	4,050	3,500	550

Identify, using both the information in the table and the paragraph above, **four** decisions the business could make with regard to the business classes listed, stating your reasons for **each**.

(12)

Questions continue over the page

7. Identify the **four** main categories of accounting ratios used in the insurance industry and state what **each** ratio measures. (You do not need to provide the formula of individual ratios.) (12)

8. The information on a manufacturing company is provided in the table below:

	£000's
Turnover	200
Cost of sales	100
Share capital	100
Total reserves	200
Loan	150
Profit before interest and tax	50

Using the above table, state the formulae and calculate, **showing all your workings**:

(a) the gross profit margin; (6)

(b) the return on capital employed. (6)

9. (a) List the **four** factors to consider when deciding how to group claims statistics into categories. (4)

(b) State the **two** main types of motor claim that can be categorised. (4)

10. State **six** of the Financial Reporting Council's strategic outcomes. (6)

11. State **four** activities an insurer's facilities management team can typically be involved with. (8)

12. (a) Identify **two** examples of **each** of the following members of the insurance market.
- (i) Buyers of insurance. (2)
 - (ii) Sellers of insurance. (2)
 - (iii) Arrangers of insurance. (2)
- (b) List **three** different types of insurance company. (3)
13. (a) State the **one** key piece of legislation and the **one** key set of requirements that effectively has the force of law that a company secretary within a listed company has to meet to ensure compliance. (2)
- (b) Describe the typical timeline for Board and Board committee meetings that a company secretary will follow. (10)
14. (a) The main legislation currently covering limited companies is the Companies Act 2006.
- List **four** areas of regulation under this Act with regard to incorporation of businesses. (4)
- (b) State the **three** statutory functions of Companies House. (3)
- (c) List the **one** piece of information that all registered companies are legally obliged to report to Companies House and the **two** pieces of information that most companies are legally obliged to report. (3)
15. Outline **three** examples of the types of risks that would be considered under **each** of the following individual risk categories within an insurance organisation.
- (a) Strategic. (3)
 - (b) Credit. (3)
 - (c) Operational. (3)

Questions continue over the page

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16. Explain briefly the following definitions under the Data Protection Act 1998.
- (a) Ordinary personal data. (2)
 - (b) Sensitive personal data. (2)
 - (c) Data subject. (2)
 - (d) Data controller. (2)
 - (e) Data processor. (2)
17. The strategy team in an insurance company looks at many areas including which classes of business to write. LMN Ltd (LMN) specialises in household, buildings and contents insurance.
- (a) State what LMN's strategy team will need to consider in determining whether to enter the travel insurance market. (6)
 - (b) In addition, LMN have a small personal accident book of business and are considering exiting this market. State **three** reasons why they may take this course of action. (3)
18. Identify and explain briefly **five** factors that have led to London developing into an international insurance centre. (10)
19. Explain briefly the following approaches to budgeting.
- (a) Top-down. (3)
 - (b) Bottom-up. (3)
 - (c) Zero-based. (4)

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20. (a) List the **six** characteristics required for internal communication to be effective.
- (b) Outline **two** ways in which effective internal communication will benefit an organisation.

(4)

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