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Insurance Business and Finance (IBF)

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Question: 1

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 Janet, 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. Janet as the finance director is also responsible for all the insurer's financial accounts.
The financial accounts which Janet 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.

Answer: D

Explanation:
Financial accounts record the financial impact of events, whereas management accounts provide forecasts, budgets and internal decision-support information. Financial accounts are backward-looking formal records of transactions and positions. Management accounts are more flexible and forward-looking, used to plan and control performance. The distinction in option D captures the contrast between statutory financial reporting and internal management accounting.

Question: 2

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 Janet, 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. Janet as the finance director is also responsible for all the insurer's financial accounts.
The acquisition by the insurer is an example of

A. financial growth.

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

Answer: D

Explanation:
Acquiring a specialist firm of loss adjusters is vertical integration. The insurer is moving into an adjacent part of the insurance value chain that supports claims handling rather than acquiring another insurer at the same level. The acquisition enhances claims service by bringing a supply-chain or service function in-house. That makes it vertical rather than horizontal or organic growth.

Question: 3

Tina is the newly-appointed chief executive officer of an insurance company. She has been tasked with turning the business around to a more profitable concern as it has been experiencing difficult trading conditions.
Tina leads the Board of the company, which comprises the usual executive roles. She 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.
Which management style would be best for Tina to adopt during this period of radical change?

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

Answer: A

Explanation:
An autocratic style is best during a short period of radical change with tight deadlines and new working regimes. The situation requires decisive direction, rapid implementation and clear authority from the chief executive. Consultative, open-door and paternalistic styles may be valuable in stable or developmental contexts, but they can slow urgent turnaround execution. IBF therefore selects autocratic management for this crisis-change scenario.

Question: 4

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Under the costing system used by the insurer, the department will:

A. Charge other departments a fixed cost per annum
B. Be allocated a fixed cost per annum by a central department
C. Operate a budgeting approach
D. Be invoiced by a central department on a cost per unit basis

Answer: D

Explanation:
Under the costing system described, the department will be invoiced by a central department on a cost-per-unit basis. This is consistent with a service-costing or recharge approach where internal users pay according to consumption of services rather than receiving a flat allocation. It supports more accurate internal cost attribution and encourages departments to understand the resource consequences of their activity levels.

Question: 5

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.

Answer: A

Explanation:
A tactical plan may refer to developing new insurance products over a two-year period. Tactical planning sits between long-term strategy and daily operational procedures. It converts strategic direction into medium-term initiatives, resource use and measurable actions. A ten-year resource allocation is strategic, routine day-to-day methods are operational, and weekly budget monitoring is control activity rather than tactical planning.

Question: 6

Which of the following publications provides daily financial news?

A. Financial Times
B. Brisk Books
C. Post magazine
D. The Journal

Answer: A

Explanation:
The Financial Times is a daily financial-news publication and is the only option that clearly fits the description. IBF candidates are expected to recognise credible business and financial information sources because market news, investment conditions, corporate activity and regulatory developments can affect insurers' strategy and performance. The other publications listed do not carry the same role as a mainstream daily financial newspaper.

Question: 7

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%.
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.

Answer: B

Explanation:
The liquidity ratio shows the relationship of liabilities to cash and investments. It assesses the insurer's ability to meet obligations using liquid resources. This is different from gearing, which compares borrowings with equity, and from profitability ratios, which relate profit to capital or income. In insurance, liquidity matters because claim payments and other obligations must be funded when due.

Question: 8

What is the most common reason for a mutual insurance company to rganizatio?

A. Reduce its regulatory burden
B. Undertake reinsurance business
C. Raise capital
D. Transact life assurance

Answer: C

Explanation:
The most common reason for a mutual insurer to demutualise is to raise capital. A mutual is owned by its members and may have limited access to external equity capital compared with a proprietary company. By becoming a shareholder-owned company, it can issue shares, fund expansion and strengthen its capital base. The other options do not capture the strategic finance motive behind demutualisation.

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Question: 9

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 rganizatio business.
C. insurer Y is permitted to have a base in the UK.
D. insurer Y operates in a number of different countries.

Answer: B

Explanation:
A global company aims to be regarded as a global business, whereas a multinational company operates in several countries but may still manage those markets more separately. The distinction is strategic integration: global business treats the world as a unified market to a greater extent. The question asks what is true only of insurer Y, the global company, making option B the best answer.

Question: 10

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.

Answer: A

Explanation:
The solvency margin is obtained from balance-sheet information because solvency concerns the relationship between assets, liabilities and capital resources. The balance sheet shows the financial position at a point in time and therefore evidences whether the company has sufficient assets and capital to meet obligations. Cash flow, management accounts and profit and loss information may support analysis but are not the primary document.

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