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Insurance Business and Finance (IBF)

CII M92

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Topic Break Down

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QUESTION NO: 1

An insurer's finance director is assessing two proposed initiatives. The first would reduce annual administration costs by £600,000 but requires an immediate investment of £1,500,000. The second would reduce annual administration costs by £450,000 but requires an immediate investment of £750,000.

Ignoring taxation, financing costs and the time value of money, which initiative has the shorter payback period?

A. The first initiative, because it produces the greater annual saving.

B. The first initiative, because its investment is greater.

C. The second initiative, because it has the shorter payback period.

D. The initiatives have the same payback period.

ANSWER: C

Explanation:

The second initiative is correct. Its payback period is £750,000 divided by £450,000, which is approximately 1.7 years. The first initiative has a payback period of £1,500,000 divided by £600,000, which is 2.5 years.

The first initiative delivers the larger annual saving, but payback focuses on how quickly the initial investment is recovered. It does not assess benefits arising after payback or reflect the time value of money.

QUESTION NO: 2

Mark is employed as a risk manager in the London office of a large multinational retail group, which is listed on the London Stock Exchange. Mark has some shares in the company. The multinational retailer's main offices are located in London with subsidiary companies based in New York, Paris, Frankfurt and Dubai.

The London office has arranged to transfer part of the group insurance risk to an insurer, owned by the group, based in Dublin.

The annual accounts of the London office are compiled each year to International Financial Reporting Standards.

On 5 May Mark is on an insider list and learns that the London office is undergoing serious financial issues. The company is looking to sell off overseas businesses, including the New York office, to release equity.

The London office is a large multi-storey office block purchased using a bank loan. The company have agreed to pay back the loan over the next 15 years.

Under which Act would it be a civil offence if Mark were to sell his shares following information obtained in May?

A. Bribery Act 2010.

B. Companies Act 2006.

C. Financial Services and Markets Act 2000.

D. Proceeds of Crime Act 2002.

ANSWER: C

Explanation:

Financial Services and Markets Act 2000. is correct because it provides the UK statutory basis for the civil market-abuse regime. Mark possesses information that is likely to be inside information: it concerns serious financial problems and proposed disposals of overseas businesses, is not generally available, relates directly to a listed issuer, and would be likely to affect the price of its shares if made public. His inclusion on an insider list further supports the fact that the information is being treated as confidential and potentially price-sensitive.

Selling his shares while in possession of that information could amount to insider dealing as civil market abuse. The Financial Conduct Authority may investigate suspected market abuse and impose civil sanctions, including financial penalties and public censures. The relevant detailed prohibitions are retained UK Market Abuse Regulation provisions, which operate within the UK framework established by the Financial Services and Markets Act 2000. The fact that the business has international subsidiaries and uses an Irish group insurer does not change the central point: the issuer is listed in London and the proposed trade concerns its shares. The FCA's market-abuse overview is available at https://www.fca.org.uk/markets/market-abuse; the legislative framework can be accessed at https://www.legislation.gov.uk/ukpga/2000/8/contents.

QUESTION NO: 3

When insurance companies engage in community projects and sponsorship, this can be referred to as:

A. Shareholder focus

B. Stakeholder perspective

C. Shareholder perspective

D. Stakeholder focus

ANSWER: B

Explanation:

"Stakeholder perspective" is correct because it describes a business approach that recognises the insurer's responsibilities and relationships extend beyond its owners. An insurer affects, and is affected by, a broad range of stakeholders: customers, employees, investors, suppliers, regulators and the local communities in which it operates. Supporting community projects or providing sponsorship are practical examples of an organisation considering those wider community interests as part of its business conduct and social role.

In insurance, maintaining public confidence is especially important because insurers provide long-term financial protection and rely on trust. Community engagement can help demonstrate that the organisation takes account of its social impact, contributes to the areas it serves and seeks sustainable relationships with groups beyond shareholders. This is consistent with the stakeholder-based view of corporate responsibility: decisions are evaluated in light of their consequences for all materially affected parties, rather than solely by reference to returns for investors. The OECD's discussion of responsible business conduct similarly identifies engagement with stakeholders and impacts on communities as central considerations: OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. The CII also treats professionalism and public confidence as fundamental to the insurance profession: CII Professional Standards.

QUESTION NO: 4

An insurer finances the acquisition of new office premises entirely through a long-term bank loan. Immediately after completion, its shareholders' funds are unchanged.

Assuming all other relevant amounts remain unchanged, what will be the most likely effect on the insurer's gearing?

A. Gearing will decrease because the insurer has acquired an asset.

B. Gearing will decrease because the loan is long term.

C. Gearing will increase because long-term borrowing has increased.

D. Gearing will remain unchanged because shareholders' funds are unchanged.

ANSWER: C

Explanation:

Gearing will increase is correct. Gearing measures the extent to which a business is financed by debt in relation to shareholders' funds or total long-term capital. The acquisition is financed by additional long-term borrowing while shareholders' funds remain unchanged, increasing the proportion of debt finance.

The purchase may create a valuable asset, but this does not prevent gearing from increasing. Gearing would reduce only if debt fell, equity increased, or both.

QUESTION NO: 5

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 global 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:

The correct statement is that insurer Y's aim is to be regarded as a global business. In the international-business terminology used for insurance-business study, a global company adopts an integrated worldwide outlook: it seeks to present itself and operate strategically as one business across markets, rather than simply as a collection of separate national operations. This global orientation affects such matters as brand identity, management approach, product development and the coordination of activities across territories. A multinational company can certainly operate in several countries, but its overseas businesses may be more independently managed and adapted to their individual domestic markets. Therefore, operating internationally alone does not identify the distinguishing feature in the question; the intended global-business identity and unified perspective does. This distinction is relevant to insurers because international expansion can range from locally managed foreign operations to a coordinated global model. The CII's M92 qualification concerns the business environment and financial context in which insurers operate; see the CII M92 unit page. Further background on the ways businesses organise and compete internationally is available in OpenStax Introduction to Business.