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## CII Insurance Business and Finance (IBF) Sample Questions (Q82-Q87):

### NEW QUESTION # 82

An individual's role is to set policy, monitor controls and check adherence to it. Where is this role most likely to fall within the 'three lines of defence' model of risk management?

- A. The second line of defence.
- B. The external auditor's remit.
- C. The first line of defence.
- D. The third line of defence.

**Answer: A**

Explanation:

The "Three Lines of Defence" model is a fundamental risk governance framework. The first line is operational management, who own and manage risk. The third line is internal audit, which provides independent assurance. The described role-to set policy, monitor controls, and check adherence to it -is the definitive description of the second line of defence . This consists of the risk management, compliance, and actuarial control functions. They establish the risk framework (policies), develop key risk indicators (such as the IT downtime threshold), and oversee the first line's adherence. The source places this explicitly in the second line. This is central to the Capital Management and Solvency topic, as these functions are responsible for the integrity of the model inputs, the operation of the enterprise risk management framework that the rating agency uses as a modifier, and ensuring the business passes its use test. The second line's oversight ensures that the finance director's preparation for rating agencies is based on robust,

independently checked data.

### NEW QUESTION # 83

Under the activity-based costing system used by the insurer, a department regarded as a profit centre will...?

- A. be invoiced by a central department on a cost per unit basis.
- B. be solely responsible for its investment income.
- C. be exempt from internal budgetary control.
- D. not be allocated any costs.

**Answer: A**

Explanation:

Activity-based costing (ABC) allocates overhead costs based on the specific activities that drive those costs, using appropriate cost drivers. A "profit centre" is a department or division that is accountable for both its revenues and its costs, and thus its resulting profit. In an ABC framework, central support functions (like IT, HR, or facilities) do not provide their services for free. Instead, the profit centre will be invoiced by the central department on a cost-per-unit basis for the specific services consumed. For example, the IT department may invoice an underwriting profit centre per hour of system analysis used to develop a new policy administration system. This internal charging mechanism ensures accurate product profitability analysis and makes profit centre managers conscious of the full resource cost of their decisions. This is a core concept within Management Accounting and Budgeting, systems like these feed into the Codified Management System mentioned elsewhere, ensuring the internal "control cycle" of budget versus actual performance is robust.

### NEW QUESTION # 84

What is the most likely explanation for the company's return on capital employed being lower than its competitors if they have a good combined ratio?

- A. Poor investment returns.
- B. Lower expense ratio.
- C. Higher premium retention.
- D. Higher solvency margin.

**Answer: A**

Explanation:

The combined ratio measures underwriting profitability (claims + expenses / premiums). A "good" combined ratio (below 100%) means the company's core insurance operations are profitable. If, despite this, the company's return on capital employed (ROCE)-a broader measure including investment returns on the capital base-is lagging competitors, the cause must lie outside the underwriting activity. The most logical diagnostic is Poor investment returns . The company is likely earning a lower yield on the substantial asset portfolio backing its technical reserves and capital than its competitors, dragging down the overall return on the equity and capital employed. This is a classic analytical point linking the Financial Performance Ratios topic to the Investment and Asset Management topic. A lower expense ratio or higher retention would improve, not weaken, performance. A higher solvency margin, if the capital is excess and idle, could also depress ROCE, but poor investment yield on total assets is the most direct explanation linking the income from invested assets to the overall return equation.

### NEW QUESTION # 85

In the context of management information systems, a control cycle is best described as the

- A. training program for new IT staff.
- B. full automation of the underwriting process.
- C. comparison against a plan and production of reports by exception.
- D. process of encrypting sensitive client data.

**Answer: C**

Explanation:

A control cycle in management information systems (MIS) is a feedback loop designed for performance management. It consists of setting a plan (or budget), measuring actual performance against that standard, and taking corrective action where necessary. The

"production of reports by exception" is the classic, efficient output of this cycle, where management's attention is only drawn to deviations (variances) that exceed a pre- set tolerance threshold, such as a Key Risk Indicator where IT downtime exceeds the limit. This ensures managers do not waste time on activities proceeding as expected and focus on strategic and operational problems. This concept is central to Management Accounting and Budgeting. It directly links to how a board would review performance against a "monthly requirement" and distinguishes the active management function from the historical recording nature of the financial accounts. The control cycle ensures that the tactical plan, which implements key elements of strategy over one to three years, remains on track.

#### NEW QUESTION # 86

The term 'unearned premium' in UK's accounts will be shown as

- A. a note to the accounts only.
- **B. a liability.**
- C. shareholder equity.
- D. an asset.

**Answer: B**

Explanation:

The unearned premium reserve (UPR) represents the portion of premiums written that relates to the unexpired period of risk on policies in force at the balance sheet date. Because the insurer still has an obligation to provide cover for this future period, the UPR is shown as a significant liability on the balance sheet. It is a technical provision, an amount owed by the insurer to its policyholders in the form of future protection. As the source confirms, it is "a liability." This contrasts with the double-entry principle for recording income, where the earning of the premium shifts it from an unearned liability to an earned revenue on the income statement. The UPR is a critical component of the balance sheet's net financial position and sits alongside the claims reserve in the technical provisions. Correctly calculating the UPR is essential for an accurate income statement and for the actuary's work on technical pricing and reserving, directly linking the Financial Accounting Principles topic to the integrity of the insurer's solvency margin calculation.

#### NEW QUESTION # 87

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