

Economics and business

Purpose

This unit is about enhancing understanding of the economic and business environment and its application to insurance. This unit would be of benefit to aspiring managers who wish to gain a greater understanding of the economic and business context in which they function.

Assumed knowledge

Assumed knowledge may not appear in detail within the learning outcomes but forms part of the syllabus and may be examined. It is assumed that the candidate already has the knowledge gained from a study of the relevant sections of IF1 Insurance, legal and regulatory or P92 Insurance business and finance or equivalent examinations.

Summary of learning outcomes

1. Evaluate the nature of economic systems and current developments in the global and UK economy.
2. Evaluate the role of insurance, finance and money in the economy.
3. Understand and apply supply and demand concepts.
4. Understand and apply key features of the competitive environment.
5. Understand aspects of monetary policy, fiscal policy and taxation.
6. Understand the nature and impact of inflation and deflation.
7. Understand the nature and impact of employment.
8. Understand the nature and impact of free trade, balance of payments, exchange rates and economic business cycles.
9. Understand the impact of ethics, corporate governance, and risk management on the insurance industry.
10. Understand and apply to non-insurance business situations the concepts and features of financial reports.

Important notes

- Method of assessment: Part I 1 compulsory question (case study) (80 marks). Part II 2 questions selected from 3 (scenarios) (80 marks). Total of 160 marks. Three hours are allowed for this exam.
- The syllabus is examined on the basis of English law and practice unless otherwise stated.
- The general rule is that the exams are based on the English legislative position six months before the date of the exams.
- Candidates should refer to the CII update website www.cii.co.uk/updates for the latest information on changes to law and practice and when they will be examined.

Knowledge ratings

General background awareness necessary.	1
Requires a knowledge of the major elements of procedures or concepts and their uses.	2
Requires the ability to evaluate concepts, issues, policies and procedures, together with an understanding of associated aspects of these items and their application to various situations.	3

1. Evaluate the nature of economic systems and current developments in the global and UK economy		
1.1 The main economic systems and their features: planned, free market and mixed economies;	2	
1.2 The nature, prospects and problems of the global and UK economy with particular reference to aspects of economic growth;	3	
1.3 Current economic issues of the global and UK economy with particular reference to social enterprises, environmental, governmental, micro and macro economic influences.	3	
2. Evaluate the role of insurance, finance and money in the economy		
2.1 The nature, role and functions of money and UK financial institutions including the concept of credit creation, with particular reference to the contribution made by the insurance industry to UK and global production;	2	
2.2 The importance of the resources available within an economy with particular reference to the use of these by the UK and global insurance industry;	2	
2.3 The specific economic problems, challenges and opportunities faced by the UK insurance industry;	3	
2.4 The nature of the investment markets used by the UK insurance industry, showing the relationship between risk and return.	3	
3. Understand and apply supply and demand concepts		
3.1 The factors affecting supply and demand;	2	
3.2 Equilibrium price and market equilibrium;	2	
3.3 The causes and effects of shifts in supply and demand curves including the role of government policies and laws;	2	
3.4 The elasticity of supply and demand;	2	
3.5 The demand and supply theories and concepts using diagram format;	2	
3.6 The application of knowledge and understanding of supply and demand concepts to insurance including the insurance market cycle.	3	
4. Understand and apply key features of the competitive environment		
4.1 The factors influencing the extent of competition;	2	
4.2 The different forms of market structure and the advantages and disadvantages of each;	1	
4.3 The importance of marketing strategy;	1	
4.4 Concepts of rational economic behaviour and the challenges to this;	1	
4.5 Competition in the business to business market and that in the business to consumer market;	2	
4.6 The barriers preventing new firms entering a market;	2	
4.7 The competitive environment within the UK and global insurance industry.	3	
5. Understand aspects of monetary policy, fiscal policy and taxation		
5.1 The role and instruments of UK monetary policy including Bank of England changes to interest rates and control of the money supply;	1	
5.2 The different approaches to monetary policy adopted in other major economies;	1	
5.3 The role and instruments of UK fiscal policy including government budgets, taxation, expenditure and borrowing;	1	
5.4 The different approaches to fiscal policy adopted in other major economies;		
5.5 Analysing how changes in various tax rates, both individual and corporate, can affect the financial results of companies within the insurance industry with particular reference to the UK;	3	
5.6 The impact of monetary and fiscal policies on the insurance industry with particular reference to the UK;	2	
5.7 The impact of the insurance industry on UK monetary and fiscal policies with special reference to IPT;	2	
5.8 Corporation tax as the main tax levied upon UK companies and how it is calculated and collected;	1	
5.9 Other taxes that may be paid by UK companies depending on the nature of their business operations;	1	
5.10 An awareness of taxes relating to the insurance industry in other major economies.	1	
6. Understand the nature and impact of inflation and deflation		
6.1 The definitions and causes of inflation and deflation;	1	
6.2 The main means of measuring inflation with particular reference to the UK;	2	
6.3 Recent trends in inflation in both the UK and the global economy;	2	
6.4 The costs and consequences of inflation and deflation on businesses and individuals in general and on the insurance industry and individual policyholders in particular.	3	
7. Understand the nature and impact of employment		
7.1 The definition, types and causes of unemployment;	1	
7.2 The economic and social costs and effects of unemployment with particular reference to the UK insurance industry;	2	
7.3 Employment demographics in the UK economy and the particular results arising from this in relation to the UK insurance industry.	3	

8. Evaluate the nature and impact of free trade, balance of payments, exchange rates and economic business cycles	
8.1 Balance of trade	
8.1.1 Free trade and the concept of competitive advantage;	1
8.1.2 UK balance of trade components and the relevance of balance of trade to the insurance industry;	1
8.1.3 The causes and implications of current account deficits and surpluses;	2
8.1.4 The economic policies used in attempts to correct trade deficits and surpluses.	3
8.2 Exchange rates	
8.2.1 The nature and measurement of exchange rates and the effects of changes in exchange rates;	2
8.2.2 Floating and fixed exchange rates;	1
8.2.3 The reasons for devaluation and revaluation of a currency and the effects of each on the economy;	2
8.2.4 The specific effects of devaluation and revaluation on the insurance industry;	2
8.2.5 The effect of European Union membership on the UK economy as a whole with further specific reference to the insurance industry;	3
8.2.6 The debate on potential UK membership of the Euro currency with further specific reference to the insurance industry;	3
8.2.7 The definition of economic business cycles;	1
8.2.8 The ways in which the UK and global economic business cycles can effect both trade and exchange rates.	3
9. Understand the impact of ethics, corporate governance, and risk management on the insurance industry	
9.1 Ethics and social responsibility;	
9.1.1 The major areas and dimensions of business ethics and corporate social responsibility, and their specific importance in relation to the global insurance industry;	2
9.1.2 The importance of social and ethical functions of insurance.	3
9.2 Corporate Governance;	
9.2.1 The rationale of Corporate Governance for the UK and global insurance industry;	2
9.2.2 Professional standards and best practices.	1
9.3 Crisis and Risk Management;	
9.3.1 The principles, concepts, significance and effectiveness of Risk Management and Business Continuity Management within a business environment.	2
10. Understand and apply to non-insurance business situations the concepts and features of financial reports	
10.1 The need for, different forms and most appropriate sources of short and long term business financing including capital funds.	1
10.2 The reasons for and processes associated with the formulation of financial objectives and controls within a business including planning, budgetary control, benchmarking, auditing, financial appraisals, credit and liquidity management and tax.	3
10.3 The role, nature and development of non-financial measurements of success.	2
10.4 Basic understanding of the principles of management accounting and their interpretation.	2
10.5 The role, interpretation and uses of financial and other ratios.	3
10.6 The interpretation and analysis of information contained within balance sheets, profit and loss accounts and cash flow statements.	3

Reading list

The following list provides details of various publications which may assist with your studies.

These will help candidates keep up-to-date with developments and will provide a wider coverage of syllabus topics.

Note: The examination will test the syllabus alone. However, it is important to read additional sources as 10% of the exam mark is allocated for evidence of further reading and the use of relevant examples.

The reading list is provided for guidance only and is not in itself the subject of the examination.

CII/Personal Finance Society members can borrow most of the additional study materials below from Knowledge Services.

CII study texts can be consulted from within the library. For further information on the lending service, please go to www.cii.co.uk/knowledge/resources.

CII study texts

Economics and business. London: CII. Study text 530

Insurance business and finance. London: CII. Study text P92

Insurance, legal and regulatory. London: CII. Study text IF1

Additional reading

Additional reading materials are available through the library or on the Knowledge Services website.

New materials are added frequently – for information about new books and articles in your area of interest, please visit www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

Books (and ebooks)

Accounting principles. Jerry Weygandt, Paul Kimmel and Donald Kieso. 10th ed. Hoboken : Wiley, 2012.

Interpreting company reports and accounts. Geoffrey Holmes, Alan Sugden, Paul Gee. Harlow, England: Pearson Education, 2008.

Accounting and finance for non-specialists. Peter Atrill and Eddie McLaney. 7th ed. Harlow: FT/Prentice Hall, 2011.

Accounting for non-accounting students. J R Dyson. 8th ed. Harlow: FT/Prentice Hall, 2010.

The meaning of company accounts. Walter Reid and D R Myddelton. Aldershot, Hampshire: Gower, 2008.

Accounting and business ethics. Ken McPhail, Diane Walters. Routledge, 2009. Also available as an ebook via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Accounting for non-accountants: a manual for managers and students. Graham Mott. Kogan Page, 2008. Also available as an ebook via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Frank Wood's business accounting, Vol 1 and Vol 2. 10th ed. Ft Prentice Hall Financial Times, 2005. Also available as an ebook via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

FT guide to using and interpreting company accounts. 4th ed. FT Prentice Hall, 2010. Also available as an ebook via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Audit and accountancy pitfalls: a casebook for practising accountants, lawyers and insurers Emile Woolf and Moira Hindson. Wiley, 2011. Also available as an ebook via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Forensic accounting for dummies. Frimette Kass-Shraibman and Vijay S. Sampath. Wiley, 2011. Also available as an ebook via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

International financial reporting standards: a practical guide Hennie Van Greuning, Darrel Scott and Simonet Terblanche. World Bank Publications, 2011. Also available as an ebook via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

The Financial Times guide to using the financial pages. Romesh Vaitilingam. Prentice Hall/Financial Times, 2006. Also available as an ebook via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Essentials of Economics. John Sloman and Dean Garratt. 5th Edition. Prentice Hall, 2010.

50 economics ideas you really need to know. Edmund Conway. London: Quercus, 2009.

Economics. Stephen Ison, Stuart Wall. 4th ed. Harlow: FT/Prentice Hall, 2007

The European Union: economics and policies. 9th ed. Ali El Agra. Cambridge: Cambridge University Press, 2011.

The economic value of general insurance. London: ABI, 2005. Also available via www.abi.org.uk.

Risk management and insurance: perspectives in a global economy. Harold Skipper and W Jean Kwon. Oxford: Blackwell, 2007.

Bank and insurance capital management. Frans De Weert. Chichester: Wiley, 2011.

Capital structure and corporate financing decisions: theory, evidence, and practice H. Kent Baker and Gerald S. Martin. Wiley, 2011. Also available as an ebook via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Executive's guide to solvency II. David Buckham, Jason Wahl and Stuart Rose. Wiley, 2011. Also available as an ebook via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Factfiles and other online resources

Inflation. iMinds. Mosman : iMinds, 2009. [Introductory text, 2 pp.] Available online via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Insurance accounting (general business). Ian Hutchinson. Updated annually. Available online via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Insurance in the single market. Paul Clarke. Updated annually. Available online via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Further articles and technical bulletins are available at www.cii.co.uk/knowledge/resources (CII and Personal Finance Society members only).

Journals and magazines

The Journal. London: CII. Six issues a year. Also available via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Post magazine. London: Incisive Financial Publishing. Weekly.

The Economist. London: Economist Newspaper. Weekly.

Financial times. London: Financial Times. Daily. Also available online at www.ft.com.

Reference materials

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004. Also available as an ebook via knowledge.cii.co.uk (CII/Personal Finance society members only).

Code of ethics. London: CII, 2009. Available online at www.cii.co.uk/cii/about/stand/code_of_ethics.aspx

International Financial Reporting Standards. IFRS Foundation. London: IFRS Foundation. Annual.

Lamont's financial glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available as an ebook via www.cii.co.uk/knowledge/resources (CII/Personal Finance society members only).

Manual of accounting. 4v. PriceWaterhouseCoopers. Haywards Heath: Bloomsbury Professional. Annual.

Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers.

You are strongly advised to study guides for the last two sittings. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Older examination guides are available (for members only) via www.cii.co.uk/knowledge/resources.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.