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# Practice Questions

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**Exam : M92**

**Title :** Insurance Business and Finance (IBF)

**Version :** DEMO

1.When two companies are in the same market and merge, this is known as:
A. Vertical integration
B. Horizontal integration
C. Sideways integration
D. Outwards integration
**Answer:** B
**Explanation:**
When two companies operating in the same market merge, the transaction is horizontal integration. It expands scale, market share, product capacity or geographical reach within the same level of the value chain. Vertical integration would involve moving up or down the supply chain. Sideways and outwards integration are not the standard IBF classifications for this situation.

2.Who would typically market insurance products by ‘white labelling?
A. Direct insurers
B. Travel agents
C. Retailers
D. Aggregators
**Answer:** C
**Explanation:**
Retailers typically market insurance by white labelling. The insurer underwrites or provides the product, but it is sold under the retailer's brand to its existing customer base. This allows the retailer to extend its customer offering without becoming a full insurer. Aggregators compare products, brokers advise or arrange cover, and direct insurers sell under their own brand.

3.Which of the following is contrary to Islamic law, in relation to traditional insurance policies?
A. Riba
B. Maisir
C. Gharar
D. All of the above
**Answer:** D
**Explanation:**
Traditional insurance can conflict with Islamic law because it may involve riba, maisir and gharar. Riba concerns interest, maisir concerns gambling or speculation, and gharar concerns excessive uncertainty. Takaful structures are designed to address these issues through mutual assistance and Sharia-compliant arrangements. Since all three features can be problematic, the correct answer is all of the above.

4.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.

If the company were to adopt both of the sales director’s proposals, what would be the most likely consequence?

A. The additional growth will always result in the acceptance of poor quality business.

B. The additional business will stretch existing operational resources.

C. Compliance will become less demanding.

D. Financial resources will be impaired.

**Answer:** D

**Explanation:**

Adopting both proposals would most likely impair financial resources. Outsourcing claims may free operational capacity, but extending broker credit from 30 to 90 days delays cash inflow and increases working-capital strain. Rapid new-business growth also requires capital and liquidity support. The issue is not that poor-quality business is inevitable or that compliance becomes easier; the core consequence is pressure on financial resources.

5.Which distribution channel for insurance most commonly offers white-labelled products?

A. Aggregators.

B. Intermediaries.

C. Retailers.

D. Travel agents.

**Answer:** C

**Explanation:**

Retailers most commonly offer white-labelled insurance products. The retailer's brand is used at the customer interface, while an insurer or intermediary arrangement provides the underlying insurance capability. This distribution method allows non-insurance brands to monetise customer relationships. Aggregators compare offers, intermediaries advise or place business, and travel agents may sell ancillary cover but are not the main white-labelling answer.