



SPECIMEN COURSEWORK ASSIGNMENT AND ANSWER

960 – (Advanced Underwriting)

The following is a specimen coursework assignment question and answer. It provides a guide as to the style and format of coursework questions that will be asked and indicates the depth and breadth of answers sought by examiners. The answer given is not intended to be the definitive answer; well-reasoned alternative views will also gain good marks.

Before commencing work on an actual coursework assignment, you need to fully familiarise yourself with the following documents:

- Coursework assessment guidelines and instructions
- How to approach coursework assignments
- Explaining your results notification.

Coursework assignments involve the application of knowledge to work-related questions. They require you to explore issues in the workplace relevant to the unit for which you have enrolled.

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Submission Rules

Before commencing work you need to fully familiarise yourself with the Candidate coursework assessment guidelines ‘and instructions’, including:

- Maximum word limit for assignments (3,200 words)
- Font type and size to be used in your assignments (Arial – size 11pt)
- Rules relating to referencing third party work
- Penalties for contravention of the rules relating to plagiarism and collaboration
- Deadline for submission of coursework assignments
- Outline of the marking criteria applied by assessors to submitted assignments

Important notes

Ensure that you have:

- Answered **all** parts of the question in sufficient depth
- Answered the precise question as worded – marks will not be awarded for irrelevant material
- Correctly referenced **all** sources shown on the reference list in your answer
- Checked your word count to ensure it is not too low as this might indicate that you are not answering in sufficient depth and will affect the marks allocated for components in the mark-grid. A word count that is too high may lead to lack of focus
- Reread your answer to ensure your description of the context is not too long as marks are only allocated for answering the question
- Reread your answer to ensure it is logically structured and that you have added value by making sufficient conclusions and recommendations

Failure to follow the guidance and instructions could result in you failing this unit

Assignment

Provide a brief context for either an insurance organisation, or a division of an insurance organisation, with which you are familiar. For this organisation or division:

- Explain the current distribution methods and summarise the product range. Provide a rationale for the distribution methods used and the products offered.
- Analyse the benefits and challenges of:-
 - Extending the product range
 - Expanding the distribution methods
- Make recommendations which would increase business most effectively in the long-term.



Before commencing work you need to fully familiarise yourself with the '[Candidate coursework assessment guidelines and instructions](#)', which include:

- Maximum word limit for assignments (3,200 words)
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Additional note:

The following answer does not disclose the name of the organisation. However, unless there are reasons relating to commercial sensitivity preventing you from naming the organisation, you may do so, bearing in mind that answers are subject to commercial confidentiality.

To be completed before submission:

Word count:	3,132
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Start typing your answer here:

Context

This assignment will consider ABC Insurance Co Ltd (ABC), a general insurance company, which underwrites business based in rural areas and small towns in the United Kingdom. ABC has an annual turnover of just under £1bn.

The company distributes its products through independently owned insurance brokers who all support its brand values. ABC has, in recent years, experienced modest growth, but following investment of £30m in its internal systems is looking to underwrite more business. This investment in internal systems will also allow ABC to meet compliance requirements, as set by the Financial Conduct Authority, whilst also servicing a larger number of customers.

ABC underwrites personal lines business and a wide range of small rural businesses, such as farms, local shops, public houses and restaurants.

Current Distribution Methods

The current distribution method fits with ABC's strong belief in personal service. The company has built and maintained its links in rural areas and small towns by offering quality local service and has enhanced its reputation for wide cover and competitive prices, tailored to the local communities it serves. Products are sold and serviced through a network of 100 independent brokers, who are based in small towns and rural areas, supported by ABC's staff who are located at a number of rural centres.

Products

ABC supplies a range of policies for personal customers and small and medium sized enterprises, through its broker network.

ABC's business is split by class, as follows:

- private car, (35% of its gross written premium);
- small commercial vehicle, (15%)
- household, (25%) retail/office, (20%)
- the remaining 5% is a mixture of commercial combined policies comprising cover for a range of risks including property damage, theft, public/products' liability and employers' liability.

Rationale

Using its network of brokers, ABC has built up a steady flow of new business whilst retaining most of the business already held. Modest growth over an extended period means that underwriting and administrative resources have been able to gradually increase in size to cope with demand. Having widely dispersed brokers selected to avoid geographical overlap between them, throughout the rural areas and small towns, means they are each able to source and retain business without competing for the same customers as other brokers in the network.

ABC's new systems provide detailed management information for underwriting, which will support improvements in risk selection and acceptance.

Dr Laura Cochran discusses distribution methods in the 960 Study Text, (Section 2D), and mentions the need for companies to establish the "best fit distribution methods", based on "...the individual insurer's circumstances and ambitions."

The internal systems have the capacity to handle 50% more business, without significant additional cost. Growing the premium base would take advantage of the new system capabilities, spread the investment cost over a larger portfolio and reduce unit costs, whilst building funds to facilitate further expansion.

The brokers earn commission on the business placed with ABC, in proportion to the premium income, so ABC can accurately calculate the commission payments involved in growing the business.

ABC's products provide insurance protection for the rural and small town communities it serves. ABC has tailored most of its policies and services to provide a range of extensions and relevant covers, specifically:

- Flexible business use cover for motor policies, to cater for customers who have multiple businesses.
- Specialist vehicle breakdown services for horse boxes and vehicles used for small rural businesses.
- Carriage of goods and the transit of livestock.
- Vehicle accident repair workshops available close to customers, which will be more convenient than requiring the use of relatively distant repair centres.
- Household insurance catering for home office contents and contents of outbuildings including stables, or workrooms, in which equestrian equipment is stored, or where products are prepared.
- Specialist risk survey services for buildings of thatched construction.
- Liabilities arising from the ownership/occupation of smallholdings, land and forests.

- Public, products and employers' liability insurance for small businesses, either as part of the household cover or included in a commercial combined policy.

The range of products has enabled ABC to provide cover solutions for nearly all of the risks which are presented to it. As each broker is near to its customers, it can offer personal service and advice to help them obtain the optimum cover. When necessary, the commercial combined policy can be adapted to provide a wide variety of alternative covers, to suit individual risks. For example, farmers may have valuable rare breeds of livestock, such as sheep, pigs or llamas, for which mortality or disease cover might be required. A further example is agricultural machinery and stocks of hay, straw and feed, which could be damaged or stolen.

Future Cost Implications

In relation to distribution methods ABC estimate that, for each extra broker it appoints there is an administrative/compliance cost of £10,000 per year. Commission and other handling costs are in proportion to the business written. If ABC decides to undertake distribution in a different way, they could develop a website and online underwriting capability, at an estimated cost of £10m, with a further £5m spend if compatibility is required with broker networks or consolidator websites. To develop new products, such as landlord, motor trade or travel policies, would cost an estimated £100,000 per product, taking into account development, training and marketing costs.

The rural centres are staffed by capable underwriters who provide a quality service to support the network of brokers and their customers. However, if a decision is taken to widen the product range these underwriters will need to be sufficiently trained to deal with the wider product range.

ABC has identified a number of possibilities for growth. These are discussed below:

AN ANALYSIS OF THE BENEFITS AND CHALLENGES OF:

Extending the product range

Benefits

ABC does not currently offer all its existing products through all of its brokers. However, it could arrange for all brokers to handle all products. This is a relatively easy means of increasing sales volumes.

ABC, in consultation with its existing network, can also develop new products to meet identified customer needs. Depending on the class involved and its set-up costs, together with projected volumes written and claims experience, the product would become profitable to ABC five years after its launch. Widening of the product range would increase premium income, which would assist the funding of further growth opportunities.

ABC has a long-standing and successful relationship with each broker in its network, which makes it easier to agree changes to the existing trading arrangements. These relationships emphasise the success of their joint efforts to date and provide a firm foundation for future success.

ABC can continue to enhance its brand identity, which emphasises the personal high quality service delivered to customers by it and its brokers. This service is supported by modern and efficient administration and claims capabilities. Similarly, ABC can differentiate its products from those of its competitors, by offering cover choices and improvements, e.g. reduced excess levels. These extra benefits strengthen ABC's reputation for personal service and good quality products.

Challenges

There are a number of challenges to extending the product range through the existing broker network:

- There is a limit to the volume of business which can be accessed using the existing brokers. New products will require considerable financial, human resource and logistic investments.
- They must also be financially viable in the long term and meet regulatory requirements.
- Current successful relationships with ABC's brokers may be harmed if changes are imposed upon them.
- ABC has an existing brand image, which may be difficult to change to align with the revised product range.

ABC may find it difficult to sufficiently differentiate its existing products, where customers may value price over local personal service, at an economic cost, particularly in high volume, low-margin business, e.g. private motor and household.

Expanding the number of distribution methods

Benefits

As ABC has a good relationship with its existing brokers it knows that increasing their number, by recruiting similar brokers, will improve new business volumes, whilst reducing the risk of becoming over-reliant on a limited number of agencies. The local knowledge of the brokers enables them to attract and retain clients who are profitable. The additional policyholders will come from particularly attractive socio economic profiles, in the rural environment and small towns, which are already well known to ABC.

Although the chance of brokers competing for the same business does increase, as the network increases in size, the benefits of increased business volumes will be worth pursuing. With more clients, ABC will be able to extend its cross sell and up-sell activities which are both highly cost effective methods of developing new business.

According to a paper 'A credibility method for profitable cross-selling products', presented at the Madrid conference 2011, Institute of Actuaries, increasing the products per customer has retention advantages, "...from an insurance company's point of view providing only a single or few insurance products to a customer is seldom desirable...."

As ABC is used to working with brokers, and deeply understands the appropriate service standards, it can use its reputation to attract new agents. The company can incorporate additional agencies smoothly and efficiently with appropriate Terms of Business Agreements (TOBAs).

Offering existing products through external broker networks or consolidators increases the number of prospective clients. This is a way of gaining new customers in a cost effective way, after the initial outlay in systems development.

Directly prospecting clients, through a call centre or by mail shot/direct advertising, can result in new business where the commission payments to intermediaries is eliminated thus increasing the potential profitability.

Challenges

Identifying suitable brokers is likely to be difficult now that networking and consolidation has reduced their numbers. According to a publication from Gambit Corporate Finance the number of insurance broker businesses declined from 10,000 to around 6,300 in the 5 years from 2005. A subsequent article in Insurance Age, 'Facing up to networks', stated that of the remaining 3,500 insurance brokers in the UK, some 1,500 are in networks which

provide a range of services based on "...the allure of a safety net for smaller brokers and incentives such as bulk buying power, access to insurers and compliance support...." For ABC the attractions of either consolidators or networks, where it would prefer to select and work with smaller individual broker businesses, is not clear.

Obtaining commitment from brokers who already have existing arrangements with other insurers, for products similar to ABC's, may be challenging.

By developing new distribution methods, with the associated appreciable time and financial commitments needed, there is a risk that ABC's existing knowledge and experience may be insufficient to achieve the desired results.

Selling through the internet involves major expense in obtaining and training staff and setting up suitable systems to handle an uncertain amount of business.

Using external broker networks or consolidators means that ABC runs the risk of those brokers competing for business it already holds and, therefore, risks reducing unit profitability.

Using new distribution methods to provide new products

Benefits

As with expanding the number of brokers used, increasing the product range may well increase business volumes, provided that suitable products, for sufficiently worthwhile market sectors, can be identified, developed and made available at economic cost.

Expanding the product offering is likely to produce even more variety of risks than just increasing the distribution network. This 'diversification' could well smooth the underwriting results and help improve the financial viability of the 'new business strain'. In other words, the company may be able to write more business, without having to set aside quite so much capital to cover its losses in the early years, whilst it is building up reserves.

ABC is used to dealing with brokers and is familiar with the service standards which would be appropriate for new products.

Offering existing products through consolidators' websites, is likely to greatly increase the number of prospective clients who access products on the Internet.

Selling direct by internet, with or without an accompanying call centre, or by post,

again might increase the available market.

Challenges

Whilst selling new products through new brokers has the potential to increase business, ABC will need to take great care in selecting and appointing agents and monitoring the work which is undertaken on its behalf. This is crucial because, initially, ABC would be using unfamiliar connections to sell products which are new to the intermediaries involved.

Whilst greater risk diversification is usually welcome, care needs to be taken in defining what is acceptable and in monitoring the business written. If this is not done, ABC risks damaging its existing reputation possibly including amongst its existing brokers and policyholders.

Whilst ABC is used to dealing with brokers, additions to its network may already have strong relationships with other insurers and have expectations that ABC will make itself attractive to them, e.g. providing enhanced commission or cover. As already noted, increasing consolidation may make it difficult to identify and cultivate new broker relationships, especially where there is no previous business history.

Offering new products through external broker networks or consolidators, may produce a greater variety of risks, but is likely to allow even less control than using ABC's existing broker network.

Recommendations

When deciding on a set of recommendations, it is critical that ABC establishes a strategy that builds on its current successes whilst maximising future profitable opportunities at an acceptable risk level. As the challenges and benefits set out above show, it can be seen that there are a variety of alternative recommendations available to ABC, but it is probably already clear that some of these recommendations are more likely to succeed than others and that some have more financial, operational and underwriting risks. As Norman Chorn in 'Strategic Alignment' (2004) highlights, it is difficult to determine the effectiveness of particular strategies, whilst seeking a '...strategy (that) is...appropriate in a given set of conditions...'

It is essential for ABC to consider each alternative in detail in order to develop options, or combinations of options, which are most likely to lead to profitable growth over time, within the capabilities of its human and financial resources. ABC also needs to take account of the market environment, including its likely future changes, and be aware of its

competitors and their actions.

Based on the analysis above, recommendations that would increase business most effectively in the long-term.

1. ***ABC should maximise the effectiveness of its existing distribution***

It should make sure, as far as possible, that all brokers handle all products. This is a relatively 'quick-win' and it aims to maintain or increase current income levels as much as practicable, whilst investigating alternatives. Cost will be minimal, other than for limited training and administration.

2. ***The company should carry out analysis to identify where it makes the greatest profit margins***

It can then actively investigate the feasibility of the development of new products and distribution. By developing new products and offering them through existing brokers, ABC does incur some cost, but it can build up an income stream and refine its products to help it better judge whether to utilise additional distribution methods. Fortunately, much of the development work can be adapted for more than one purpose. For example, work in respect of using the Internet can be shared with work to establish the usefulness of consolidator websites.

3. ***ABC should increase the cover to include a wider range of related business activities***

Which might be a way of building up experience in a cautious way, if done in a carefully controlled and monitored manner. This will increase premium volumes, without undue expense, so aiding further expansion.

4. ***ABC should develop a strategy to identify the customer groups, and geographical and product areas which might produce the most benefit***

There are extensive sources of research material available to them, through commercial sources and organisations such as CACI, with their 'Acorn' system of customer group classification, or through <https://www.gov.uk/government/statistics>, which will assist in identifying and analysing appropriate information.

5. ***ABC should expand the number of brokers***

The company is used to dealing with independent brokers and could extend its network to include similar additional brokers. Finding additional suitable brokers in sufficient numbers may be difficult and ABC needs to be wary of placing too much

reliance on one method of distribution, as increased volumes of business in the market are written directly and through special schemes. However, because the company is used to dealing with brokers, it can be fairly sure that any outlay will be recouped, providing the brokers achieve the required business volumes. If it is possible to find perhaps 10 suitable extra brokers, the company will be well able to support them, given its track record of high quality service which will widen the geographical coverage provided by its current network. The likely cost is £100,000, at £10,000 per broker, which seems a worthwhile investment and a useful learning opportunity.

6. ***ABC should establish its priorities for the longer term future***

There is a case for laying the foundations for a significant adjustment to the operating methods of ABC. The main areas it knows little about, and which all involve significant outlay, would be:

- using external broker networks or consolidators,
- selling direct over the Internet, and
- other solutions, such as establishment of a call centre, outsourcing claims handling, or handling some aspects of systems development and/or administration, if it is decided that large numbers of extra staff should not be engaged.

There may also be more radical alternatives available, including:

- marketing special schemes through affinity groups, such as those catering for specific age groups, such as the 'over 50s', which would allow the use of differential rating, and
- the creation of a new brand, to avoid the possibility of alienating existing clients.

Any, or all, of these suggestions may have some part to play, but ABC needs to research them in detail, to establish its longer-term plans.

Conclusion

ABC is in the favourable position that its current business model functions well. This gives breathing space to consider future actions to preserve and improve the existing position and to increase business volumes. There are some clear options available, such as making best use of their existing network and increasing the number of brokers, which should increase income and improve profitability, allowing greater reserves to be built up to fund subsequent expansion. There are also other options, such as alternative distribution models, or even setting up a new identity. At this stage, ABC has no information on the advisability of using



such methods and it needs to research its options as quickly as possible.

With proper analysis, planning and preparation for the future, ABC will be able to chart a profitable course, which builds on its existing strengths and adds suitable new capabilities to its resources.

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