



SPECIMEN COURSEWORK ASSIGNMENT AND ANSWER

530 – (Economics and business)

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 markers. 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.

Coursework submission rules and important notes

Before commencing on, or submitting, your coursework assignment it is essential that you fully familiarise yourself with the content of *Coursework assessment guidelines and instructions*. This includes the following information:

- The maximum word limit for coursework assignments is 3,200 words.
- Arial font and size 11 to be used in your answers.
- Important rules relating to referencing all sources including the study text, regulations and citing statute and case law.
- Penalties for contravention of the rules relating to plagiarism and collaboration.
- Deadline for submission of coursework answers.
- There are 80 marks available per assignment. You must obtain a minimum of 40 marks (50%) per assignment to achieve a pass.
- The coursework marking criteria applied by markers to submitted answers.
- Do not include your name or CII PIN anywhere in your answers.

Top tips for answering coursework assignments

- Read the assignments carefully and ensure you answer all parts of the assignments.
- Ensure that each answer includes a relevant context, regardless of the country or countries to which it refers.
- You must include a context in each answer. You may use the same context for each of the three answers.
- For assignments relating to regulation and law, knowledge of the UK regulatory framework is appropriate. However, marks can be awarded for non-UK examples if they are more relevant to your context.
- There is no minimum word requirement, but an answer with fewer than 2,800 words may be insufficiently comprehensive.

Assignment

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

- Explain how business performance is measured in a competitive market.
- Analyse how appropriate risk management techniques contribute to business performance.
- Make recommendations, based on your analysis, to improve risk management and the measurement of business performance.

Note:

You are recommended to discuss your own organisation, or one that is familiar to you. Your answer is confidential to the CII and will not be shared. For this exemplar answer, which is widely publicised, a fictitious company has been chosen so as not to highlight any particular company.

To be completed before submission:

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Start typing your answer here:

Context

This answer is based on ABC Insurance plc (ABC) which is a UK-based insurer, with subsidiaries in several countries, handling insurance and reinsurance across a wide range of personal and commercial products. The 2015 gross premium income was £1.9bn with the diversity of the product portfolio and the expertise of the staff having achieved a consistent record of annual profitability over the last decade.

Over the next five years, it has the strategic objectives of growing its country specific income faster than the insurance growth rate in the country, whilst annually delivering a combined operating ratio of less than 96%.

Business performance definition

Business performance measurement is, as identified by Cranfield University's School of Management (2016), concerned with the delivery of strategy by the use of suitable tools and techniques. These tools and techniques are directed towards relevant metrics that enable management to understand performance and influence the allocation of resources.

As Johnson G., Scholes K., and Whittington (2007), have observed, “The successful implementation of strategy will require that managers find ways of identifying how implementation is proceeding and the extent of variance from what is expected”.

The competitive environment in which ABC operates contains numerous stakeholders, including customers, intermediaries, other insurers, shareholders and regulators, all of whom are seeking to achieve different, yet complementary, outcomes from the insurance market. To successfully operate in such a dynamic environment requires ABC, once it has decided its strategy, to identify the performance which it wishes to measure and then ensure it has the means to do so.

Business performance

The method used by ABC is that of the Balanced Scorecard (Balanced Scorecard Institute, 2016). The traditional performance measurements of profitability, financial strength and liquidity, are examined in the wider remit of the importance, to business success, of customers, employees, processes, technology and innovation.

For each quadrant of the Balanced Scorecard in turn, the current key performance indicators and milestones for ABC are:

a) Financial

Return on capital of 13%.

Rating agencies' grading of A.

Annual combined operating ratio of 96% or below, with no class exceeding 100%.

Revenue growth greater than market average.

Cost base, expressed as percentage of turnover, below that of benchmarked competitors.

b) Customer

Customer satisfaction index of at least 95%.

New business acquisition of at least 20% of tendered for business.

Retention rate of at least 85%.

c) Internal Processes

Year-on-year 5% reduction in unit handling costs.

0.1% error rate or below in customer documentation.

Audit of new policies and policy changes: 5% personal lines; 10% commercial lines.

All new policy documentation issued within at most 48 hours of commencement of insurance.

All claims handled in accordance with documented procedures.

IT downtime 15 hours or below p.a., with no individual interruption exceeding 60 minutes.

Increase process efficiency by 2% p.a.

d) Organisational Capacity

Every member of staff to have a personal development plan and six-monthly appraisal.

Staff satisfaction to be in top quadrant of all employed staff in the country in which they are located.

All staff to be capable of a contribution to handling claims, should a catastrophe event occur.

Less than 0.25% of customers annually express dissatisfaction.

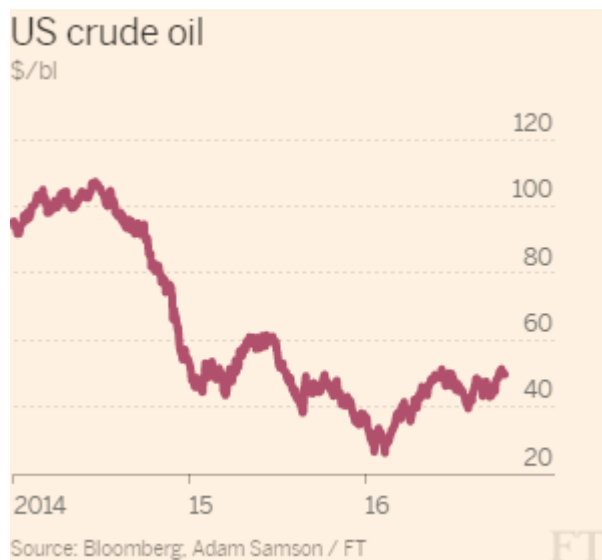
These milestones and key performance indicators are selected with care. They reflect ABC's strategy, their intended journey to deliver that strategy and the resulting changes to internal resources and the impact of the changing external environment.

Individual country and market considerations

The marketplaces in which ABC operates are all subject to individual underwriting cycles and economic influences. Knowing the state of those cycles and influences is important. However, of far greater importance is an assessment of future trends. The underwriting cycle is not at the same stage in every country or, indeed, necessarily within product lines within a country, so understanding where each cycle is and where is likely to go is an important component in the decision to allocate resources to profitable growth. In extremes, the position in the cycle may even justify partial or total withdraw from a market if ABC's profitability targets are not to be missed. This is emphasised by a report from FitchRatings

(2017 Reinsurance Guide, 2016) and an article in the Financial Times (Reinsurers: après le deluge, 2016) regarding reinsurance rates, with Willis Re (Reinsurance Market Report, 2016) recently reporting, “Reinsurers are under continued pressure from market pricing weakness...” Similar pressures, to those seen in the reinsurance market, of capacity, regulation, underwriting profitability and a limited investment income environment, exist in the original insurance markets.

Economic conditions vary by country and market with, for example, the substantial reduction in the price of crude oil, as shown in the following graph suggesting major effects on oil producers and oil consumers. These effects are reflected in articles in the Financial Times (Oil record output underlines OPEC’s struggle to raise prices, 2016) and BBC (Oil price: Is OPEC back in charge?, 2016).



To understand these economic influences and their potential effect on customers and markets, ABC obtain information from a variety of knowledgeable external sources, such as The Economist Intelligence Unit (2016), which are then considered by senior management in each country in which ABC operate. ABC’s head-office based strategy department provide an overview of individual countries, taking into account global trends and provide support to the management of each country as they formulate their views and responses to the threats and opportunities.

Competition

The performance of competitors is an important element in business performance both in terms of what ABC delivers to compete with them and the relative success they have in

achieving profitable results. A number of activities are in place to achieve this including subscribing to rating agencies, such as Standard & Poor's (2016), who provide "...high-quality market intelligence in the form of credit ratings, research, and thought leadership."

Membership of organisations such as the Institute of Customer Service (2016) allow ABC to strengthen its business performance by improving customers' experiences through "...research and insight, benchmarking and accreditation programmes, customer service training and qualifications. We also provide a platform for networking and sharing best practice."

Competitors' performance allows for an understanding of ABC's relative performance in terms of country specific product volumes, sales and market share. In established markets where ABC has a small market share and wishes to grow the dynamics of how to do so, by disrupting the business models of the incumbent insurers, will likely be very different from its actions in those markets where it is defending a sizeable market share. An understanding of how markets develop assists in understanding their potential, whether negative or positive. An illustration is China, where ABC is considering entering the motor insurance market as it is predicted to overtake the USA as having the world's largest number of cars by 2020 according to forecasts made by Trading Economics (China Passenger Car Sales Forecast 2016 – 2020, 2016) and The Detroit News (U.S car sales to peak, 2016).

ABC's strategy department, in conjunction with senior management in each country, seek to understand the strategy and competitive positioning of competitors. This is to understand the threats and opportunities this creates. ABC can then best deploy existing strengths to maximise profitable opportunities whilst also addressing those weaknesses which, if not addressed, pose a threat to future growth and/or profitability. As such ABC's strategy and its milestones and key performance indicators reflect, as far as possible, the influences of the external environments and their likely future trends and directions.

Other considerations

Within strategic planning ABC recognise that the future consists of several possibilities, including Donald Rumsfeld's "unknown unknowns" (BrainyQuote, 2016), so in addressing its risk management techniques an over-riding principle is to use scenarios to test our strategy against various potential outcomes. This use of scenarios, rather than basing assumptions on a single view of the future, is described by Peter Schwartz; "Scenarios are a tool for helping us to take a long view in a world of great uncertainty." (1997, page 3).

To ensure solvency adequacy, for current and anticipated future requirements, ABC has in place an Own Risk and Solvency Assessment (ORSA) which meets its statutory and regulatory obligations, as set out by the Financial Conduct Authority (FCA, Reporting

requirements, 2016). The ORSA is concerned with the overall solvency needs of ABC and, as such, draws, in part, on ABC's risk management analysis and information.

Finally, ABC recognises that business growth and profitability are not so much results in their own right as simply the output from a myriad of activities and interplay between actions. This output, whilst the focus of many shareholders, is not necessarily the primary interest of all stakeholders so ABC seeks to ensure that all their views, expectations and requirements are met as fully as possible, consistent with the long-term overarching objective of ABC remaining in business.

Risk Management Techniques

ABC has an established risk management programme, along the lines set out in the Economics and business, 530, Study text (pages 9/24 – 9/28). The identification of potential business risks, and measurement of their likelihood of occurrence and severity should they occur, is an on-going activity. This is coordinated by the head-office based risk management department working in conjunction with the risk management functions in all countries. However, engagement in the activity requires the involvement of all managers, irrespective of their seniority, so that every identified risk has a nominated owner. An example is, as described by The Guardian (EU and IMF auditors to visit Athens as Greece's agony continues, 2016), the political and economic driven crisis in Greece which continues to threaten its membership of the EU, which is currently the most significant risk facing ABC's Greek subsidiary.

ABC's risk appetite is set by the board who cascade it to all staff. It forms part of the considerations in the decision-making process, at strategic, tactical and operational levels. If the decision required will, or may be, contrary to the stated risk appetite the decision, if there is justification for its enactment, is referred to executive management for a final decision. Executive management are not empowered to make a decision which breaches the risk appetite statement; rather their role is to decide whether or not to seek a board decision. Such approaches to the board are few and usually involve matters of principle which are not yet set out in the risk appetite statement.

Ethical culture

The key ingredient in ABC's risk management is an ethical culture which goes beyond what is articulated by regulators, e.g. FCA (Financial services, Regulation and Ethics, 2016), and government legislation, e.g. the UK's Bribery Act 2010 (UK Government, anti-bribery policy, 2016). ABC believe that its markets are crowded with many 'me too' organisations, with reputation being a way to stand out from the crowd. In the short-term, ABC losses out on some business opportunities which run contrary to its ethical policy. However, the evidence

from customers and competitors is that they admire ABC's stance which is seen as giving it a competitive advantage, particularly as more and more potential customers adopt ethical practices.

ABC's ethical policy includes firm approaches to conflicts of interest, gifts and hospitality, improper payments and the use of confidential information, with serious actions, including dismissal and/or prosecution, should breaches come to light. All staff are given regular training to ensure they understand how their personal behaviour contributes to their and ABC's reputations.

Ethical activities are not limited to business activities however as ABC takes its social responsibilities seriously. It allocates a percentage of its profits to social inclusion, community engagement and education in each of the countries in which it operates. An example is staff in one country being given two days per year to work with disadvantaged teenagers to assist them to become self-employed. These social responsibility programmes are not set by head office but rather instigated by local management consulting with staff to establish which activities they should support.

ABC practices an open and transparent culture which encourages the movement of information up, down and sideways across the organisation with, in particular, bad news moved quickly so that the implications of it can be rapidly considered and addressed at the appropriate level of management seniority.

Controls and Risk

Internal controls are in place to ensure that, as far as possible, each decision is taken in the light of best practice and with sufficient information available on which to make a sound decision. There are three layers to check decision-making:

- At the team level there are peer and manager audits.
- Above that there are internal audit reviews, with a direct line to the Chief Risk Officer for serious issues.
- Finally, there is the external auditor and, in certain circumstances decided by the Risk Committee, the employment of specialist risk management expertise such as that available from InteDelta (2016).

Having allocated a manager or managers as responsible for each identified risk the challenge is to ensure that they remain close to the risk, in terms of understanding and awareness, and identify situations where the risk undergoes changes in likelihood or potential severity. In essence this means any situation where a risk moves up or right (or both) in the table in the 530 study text, page 9/27.

Not every risk will warrant the consideration of the Risk Committee. They do though maintain a 'watching brief' over the more significant risk, assisting managers with the understanding, management and control of those risks. However, whilst the Risk Committee carries out its own assessment of potential risks, it will in part be dependent on individual managers to identify risks which are, or could, change with the potential need that they are brought within the Risk Committee's consideration. This places a premium on the risk management training of all managers to ensure that they remain alert to the importance of the subject and their role within it.

An important element in identifying risks is the use of variance to monitor the difference between plans and results. The Balanced Scorecard provides a high-level summary, however for ABC this is supported by plans at country and team levels, with cascade down to individual staff member performance requirements. The credibility of these plans and individual performance requirements require them not just to be specific, measurable, achievable, realistic and with timescales but also accepted by staff. Therefore, considerable effort is made to involve staff in the setting of individual, team and country targets. It may initially appear to be a 'top-down' planning process, but is closer to an iterative process which starts at the top and is then modified by views, based on local knowledge, from lower down the organisational structure. The performance variances are used to identify threats and opportunities.

A negative variance requires explanation to understand what is driving it and whether the variance is short-term, can be overcome with changes or is more permanent in nature. A positive, above target, variance may, on first sight, may be a welcome feature. However, it requires the same intensity of explanation as a negative variance as it may be an indication of over-allocation of resources or a potential destabilising influence on a portfolio. Any variation could be evidence of a planning failure, so management need to be alert to changing plans should the emerging experience and knowledge justify such a course of action.

Most variances will be dealt with at the team level. However, more appreciable variances, e.g. significant departure from the planned operating ratio, will require the early attention of senior management and, potentially, the Board. The Board are committed to an open and transparent relationship with all stakeholders, as part of the ethical policy, so if variances are sufficiently important there is a need to give stakeholders prompt notice. The UK Stock Exchange (2016) requires that companies whose shares are listed on it make market announcements on significant issues of which RSA Insurance Group's announcements (RSA Regulatory News, 2016) are an example.

A 'golden thread' throughout the above is the linking of managers' rewards to achievement of the key performance indicators, milestones and ethical standards. All performance

bonuses are linked to the achievement of results, both financial and non-financial. Given the long-term nature of insurance, with potentially several years between action and certainty of the results of that action, e.g. construction insurance policy for a new power station which takes many years to build, all bonuses are subject to 'claw-back'. This 'claw-back' applies should it subsequently come to light that the long-term results of actions differ from what was expected at the time the bonus payment was made.

Recommendations

Whilst ABC has developed its Own Risk and Solvency Assessment (ORSA) to meet the needs of Solvency II, it has yet to fully implement an enterprise risk management (ERM) approach to risk management. An ERM, if correctly implemented, would provide a holistic risk management view across ABC. The current approach is built-up from individual risks and may, for example, overlook aggregations of risk across the organisation, e.g. the effects of deflation occurring concurrently in several countries. ERM would correct this problem.

Whilst risk management awareness is well understood by managers, aside from the above recommendation, the same degree of consistency of approach across ABC does not apply to business performance below the high-level balanced scorecard. It is recommended that a consistent approach throughout ABC to business measurement and variation identification/analysis is put in place. In addition to setting consistent standards the existing channels of communication should be encouraged to establish and share best practice so that learning from any part of ABC is made available to all other parts. This would be particularly useful should ABC enter new countries or launch new products in existing markets, where the collective intelligence and experience of ABC could be deployed to optimise the chances of success.

Given the focus on reputation, the consequences of a reputational threatening event are potentially very serious. It is recommended that the existing business continuity plan should be extended to include the management of, and response to, crisis events. These crisis events can be identified from the risk management analysis and will likely be focussed on high impact risks although medium impact events, particularly those with medium and high probabilities of occurrence will also need to be taken into account. Given the likely wide-range of reputational threatening events it is further recommended that a suite of responses is developed to cater for any one of a number of predicted or unpredicted events, rather than solely focusing on events identified from the risk management analysis.

Conclusion

ABC has a robust approach to measuring business performance and has in place a risk management approach which, whilst having supported its performance in the past, is now in

need of further development to take a holistic approach to risk by completing its integration with the ORSA.

The established management approach to risk will support the implementation of an ERM approach using the well-developed communication channels within ABC to ensure there is widespread 'buy-in' to the changes. These well-established communication channels can also be used to systemise the transfer of knowledge between countries and teams, so ensuring that in any activity any ABC member of staff, subject to confidentiality controls, has access to ABC's collective information and experience employee. This will promote the development of best practice standards.

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