



SPECIMEN COURSEWORK ASSIGNMENT AND ANSWER

930 – (Advanced insurance broking)

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.

930 Specimen Coursework Assignment



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 broking organisation or a division of an insurance broking organisation with which you are familiar. For **this** insurance broking organisation or division of an insurance broking organisation:

- Explain how it currently adds value to insurers, clients and its own business.
- Analyse how the intermediary environment is changing.
- Make recommendations to address these changes to add value in the future.

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.

Word count:	3,188
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Start typing your answer here:

Context

This answer is based on my employer who is a UK regional insurance broker engaged in marketing, selling and servicing life and non-life products for customers in the small and medium enterprises (SME), and personal lines markets.

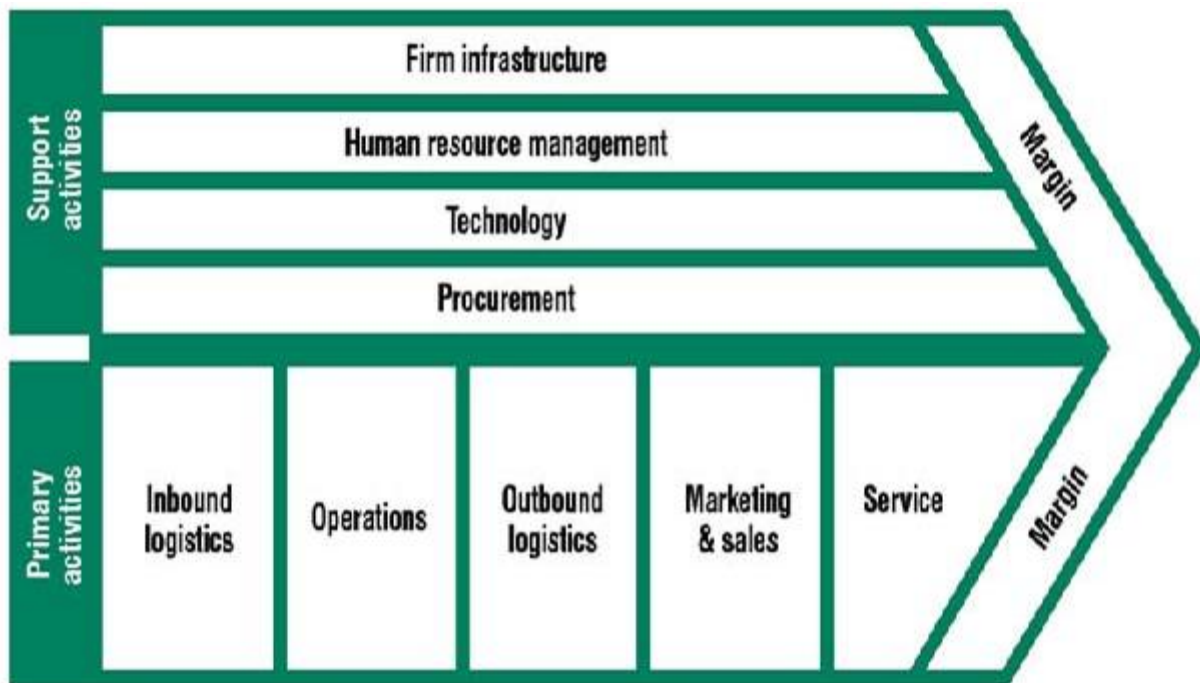
The brokerage is majority owned by the directors – the two founding directors own over 50% of the equity – with the balance owned by some staff through incentive awards.

The brokerage was formed in 1985, initially trading from a single office, and has expanded both organically and by acquisition to its current size of four offices, each located in a major town, with 55 staff in total. The annual premium generated is £14.3m, producing brokerage and fee income totalling £2.3m.

Over the next five years, the brokerage has strategic objectives of opening further offices and making acquisitions, with the aim of increasing revenue by 50%.

An explanation of adding value

The key to success in any competitive market is adding value. Providing added value is essential if a company is to develop a sustainable competitive advantage. One common representation of this is Michael Porter's concept of a 'value chain' (Porter 1996):



Adding value to insurers

To add value to insurers we need to understand their value propositions, i.e. the values that matter to them in terms of generating a sustainable competitive advantage, so that we can seek to assist their delivery.

Some insurers publish their high level strategic objectives which can include statements that highlight their own value propositions. For example Aviva, an insurer with whom we have a large agency, state that the following are important in terms of adding value to its customers (Aviva 2015):

“We start with what our customers really need and deliver it more simply than anyone else.

We strive to:

- Remain financially strong so that we are there to deliver on our promises to customers. This is our first priority.
- Be obsessive about understanding the real needs of our customers and helping them to make the best decisions.
- Be bold in creating solutions that take away customers' fears and problems.
- Always do the right thing for customers.
- Ensure our products always do 'what they say on the tin' – customers will get exactly what they expect.

- Simplify every aspect of our relationship with the customer – contracts, processes, products and communications.
- Be a ‘one-stop-shop’ – single conversations, logins and telephone numbers across all the products we offer.
- Enable customers to choose how they want to deal with us.
- Reward customer loyalty.”

We share Aviva’s customer focus. Whilst not all insurers publish their strategic objectives we aim to work with them to understand what their strategic objectives are and how we can best help to deliver them.

Our brokerage adds value to the insurers we deal with in the following ways:

- By delivering pre-agreed service standards.
- By providing detailed information on our customers.
- By minimising mistakes and reducing transaction costs, through the use of technology.
- By delivering growth and profit.
- By reducing adverse selection and moral hazard.
- By delivering an expert interface between our customers and the insurer.
- By delivering operational and financial support.

Each of these added value points are explained below:

1. Delivering pre agreed service standards

Our relationships with insurers are set out in terms of business agreements (TOBAs) (Maynard, 2016, 9/6). These TOBAs explain the responsibilities and obligations of our brokerage and each insurer so avoiding doubt during the trading relationship.

We add value to each insurer through these TOBAs by taking on responsibility as the agent for the client. All TOBAs are subject to an annual review, initiated by us and more frequently should there be changes in the external environment such as:

- revisions in regulatory guidance,
- new legislation,
- customers’ expectations; to ensure that they remain fit for purpose.

These reviews are conducted against a template of what was expected from the TOBA against actual performance, including feedback from customers and our staff which is collected as it arises and held as information for the next review.

Our stated aim is to provide insurers with excellent service across all aspects of the relationship from new business enquiry through to policy termination. We have set internal

service standards, based on our analysis of what customers expect, ensuring that they at least meet the expectations of insurers. The standards are both qualitative and time based.

These standards are communicated to insurers so that they are aware of them and they form part of the ongoing relationship discussions with insurers' account executives which will, in turn, inform future improvements in service standards and TOBAs.

We ensure that we understand insurers' service standards and that we work within them to minimise the enquiries they need to put to us. This focus on service and minimised enquiries reduces the costs insurers incur in trading with us.

2. Providing detailed information on our customers

We maintain detailed records of new business and renewals. By segmenting customers by numerous categories including size, turnover, payroll, nature of business, standard industry code/s and insurance programmes, we have built-up an understanding of which insurers are the most competitive for different classes and sizes of business.

This information allied to discussions with insurers to confirm our understanding of classes and business they are interested in, supported by practical knowledge of insurers' quotation and renewal terms, and enables us to 'fast-track' business towards those insurers most likely to provide the best terms.

Due to the quality and extent of the information held by us, we can ensure we present clients and prospective clients that have the necessary risk profile to insurers to match their underwriting philosophy. Therefore, the insurer only sees risks of the right profile, saving time and cost. The results of all quotation and renewal activity are included in our regular discussions with insurers' account executives.

3. Minimising mistakes and reducing transaction costs, through the use of technology

As far as insurers allow, we conduct all business by electronic data transfer. We use insurers' preferred case enquiry forms having internal software which automatically completes each insurer's forms. This adds value by minimising mistakes and reducing transaction costs.

4. Delivering growth and profit

We add value to insurers by bringing to them our clients in a cost efficient way. We bear the costs of developing our sales pipelines and securing new clients. As the cost of securing new clients can be higher than retaining our existing business, we have a vested interest in working hard to keep our clients satisfied. This means insurers benefit from our sales and retention work at little or no cost to themselves. In addition, we take on many of the administrative client facing functions, such as issuing documentation for example.

Whilst written in 1999, the article in the McKinsey Quarterly 1999 Number 3, is still highly relevant for brokers in stating that they can cut insurers transactional expenditure by 40% by eliminating their 'search costs', whilst improving service. (Insiderquarterly, Insurer vs Broker).

We positively support certain insurers, whose values and service standards best match the aspirations we have for our clients. There are in place performance profit share payments from some insurers should we achieve mutually agreed growth and loss ratio targets. However, the terms of these performance triggers are not known to our sales and claims handling teams. This ensures that they are not influenced to either support certain insurers or handle claims on anything other than our organisation-wide consistent terms, to the possible detriment of clients.

We maintain a rigorous separation between our new business and servicing teams and have in place a conflicts of interest policy along similar lines to that of Aon (Aon 2016) which clarifies roles and responsibilities. Within our conflicts of interest policy we expressly prohibit the practice of 'churning' for additional commission income.

5. Reducing adverse selection and moral hazard

As we are committed to the aim of achieving profit for all our insurers, we provide a balanced risk portfolio and do not seek to 'off load' poor or distressed risks with any one insurer.

Through our knowledge of the client and our commitment to continually remind clients of their obligations of disclosure, we seek to reduce the moral hazard risk facing our insurers.

Whilst we are the agent of the client and not the insurer, as described by Maynard (2016), we do value our relationship with insurers. For example, we always give the holding insurer a final opportunity to reconsider their terms should we decide to recommend a change of insurer to one of our clients. This is always done on the basis where the holding insurer is unaware of the best terms in our possession.

We have established certain delegated underwriting authorities for specific lines of commercial business. These authorities are operated to standards we agree with the relevant insurers. As the standards are based on our researched expectations of our clients such standards are often higher than the insurer would otherwise impose on us. This adds value by demonstrating that we will not undermine the insurers' standards and by taking on the role of 'underwriter' within the parameters set by each insurer.

6. Delivering an expert interface between our customers and the insurer

Insurance policies can be complex. We add value to insurers by acting as a knowledgeable interface between the insured and the insurer, fielding enquiries from clients and obtaining answers from insurers. We also ensure that the insurers' needs and requirements are met as far as possible by the insureds.

7. Delivering operational and financial support

We add value to insurers by undertaking a range of administrative tasks. These include the collection of premiums (and their return). We also collect risk exposure data, such as turnover figures and risk values, and further data on adjustable policies such as public liability. In relation to our delegated schemes, we may also have a considerable involvement in the payment of claims.

Client money is collected and paid over and debts are chased on behalf of the insurers.

Adding value to clients

Our brokerage adds value to our clients in the following ways:

- By delivering bespoke services.
- By putting client interests first.
- By investing in continuous professional development.

Each of these added value points are explained below:

1. Delivering bespoke services

Across all of our services to clients, we have in place service standards which are set with reference to our analysis of client needs. Performance against the achievement of these service standards is monitored with any identified failings used to address improvements.

For every client we provide our terms of business at the outset of the relationship. The value of this is that customers' expectations of us are understood and agreed. MPW Insurance Brokers' Terms of Business Agreement (MPW Insurance Brokers 2016) is an example of clear terms of business that exists in the market.

We provide various added value services to commercial clients, for example:

- Clients are provided with a desk top risk analysis, based on the information we have gained from them at new business stage, which can be augmented by an on-site risk survey which is provided, at cost to us, by reputable risk surveyors. An example of the services provided by an independent risk surveying business is BASE UK Ltd (BASE 2016). This provides value through risk identification and recommendations for risk improvements.
- A dedicated named service contact and, in the event of a claim, a named claims contact. These individuals are given widespread authority to manage the clients' expectations and, in the case of commercial customers, keep the account handler aware of

developments through our management information system. This provides value through personalised contact for clients.

Our services to personal clients include supplying emails to clients in flood zones informing them of the precautions to be taken when the Environmental Agency issues flood alert warnings and general newsletters to clients on a range of topical risk and insurance issues.

For all our clients we undertake regular coverage reviews, pricing checks and we resolve issues with insurers. We also provide product knowledge. Crucially we provide independent advice based on clients demands and needs and not on our own business interests or what the insurer dictates.

2. Putting client interests first

All sales and service staff, as part of their induction training, are introduced to our values and culture which require them to place the clients' interests at the forefront of their considerations and actions. Within the training we incorporate the Chartered Insurance Institute's Code of Ethics (CII 2016) and the Financial Conduct Authority's (FCA) 'treating customers fairly' (FCA 2016). The value of this training, which is embedded in our brokerage's culture, is an enhanced ethical approach.

3. Investing in continuous professional development

We invest in continuous professional development for all staff. We expect all new employees to achieve relevant qualifications within a stipulated timescale and include this as a condition in their contracts of employment. Full training support and study leave is provided to support this objective.

4. Adding value to our own business

By adding value to our insurers and our clients, as explained above, we also add inherent value to our own business. The better we perform our responsibilities, the more successful we will be as a business.

The primary way in which we add value to our own business is through delivery of a high quality and professional service to our insurers and clients. In doing this we will ensure profitable growth and the achievement of our strategic objectives. At an operational level, we add value by achieving the targets set by managers at all levels.

Our firm's management team combines a range of skills not only reflecting our culture, with actively working owner directors, but reinforced with marketing and customer relationship skills acquired by recruiting insurance-knowledgeable experts. The management also ensure that proper business intelligence and information is generated to ensure opportunities are taken with both existing and potential clients.

Given the size of our brokerage, the working directors clearly add value by devoting the majority of their time to the production of business, client relationships and the retention of business.

We can also add value by delivering a range of fee based services, such as risk management services to both clients and insurers. By segmenting our business we can concentrate our resources on areas that provide higher financial gain.

By being professional, we can eliminate wastage or duplication. By looking at the bottom line, as well as the top line, we can generate business efficiency. The 'Right First Time' initiative (an industry wide campaign designed to reduce administrative errors) is an example of this.

5. Adding value in the future

The intermediary environment is volatile and characterised by:

- increasing competition,
- increasing regulation,
- the challenge of technology,
- the economic environment.

Each of these factors is explained in more detail below:

1. Increasing competition

The market for insurance broking services has become highly competitive in recent years, primarily because of the influx of 'direct' insurance offerings that supposedly remove the need for an insurance intermediary, e.g. Direct Line Group (Direct Line Group, 2016). In order to survive insurance brokers must achieve added value for their clients, insurers and themselves.

To add future value we must become an integral part of our clients businesses as valued business partners. An example is being involved in considering the insurance and risk implications of major projects from the planning stage onwards. Additionally we undertake various basic administrative tasks for our clients in relation to risk and insurance that they would normally expect to do themselves. We can then add future value as a true partner within our clients' businesses.

We should also ensure that our commercial clients, where they wish to undertake insurance and risk tasks themselves, know exactly how to do so. Where appropriate we can run training programmes for our clients' staff which would add value to them, ourselves and insurers by improved efficiencies and ensuring critical matters are properly considered and undertaken.

2. Increasing regulation

The general insurance market is regulated by the Prudential Regulation Authority (Bank of England, 2016) and the FCA (FCA, 2016).

We must embrace regulation, keeping abreast of all developments, so as to allow our operations as much freedom to transact business, whilst paying due regard to current regulation. This requires investment by us in appropriate business risk and compliance expertise.

3. The challenge of technology

The internet is used by increasing numbers of customers for the arrangement of their insurances, particularly for personal lines business. In addition, customers are taking advantage of the rapid growth in technological developments and social media for business and personal use.

In order to add value in the future, we need to understand and embrace new technology, ensuring we communicate with our clients in the way they like to be communicated with and to ensure we use the internet and social media to our advantage both for servicing our clients and reaching new ones.

4. The economic environment

There are clearly serious issues within the UK and global economies. This affects brokers in different ways. For our company the following are the key issues: levels of UK taxation, specific industry factors, international and national monetary issues, personal disposable incomes, the employment market, levels of inflation, interest rates and consumer and business confidence.

The medium term economic outlook is seemingly fairly favourable for our business, with PwC (PwC 2016) reporting that the UK economy will expand with consumer spending and business investment being the main drivers of UK growth. The benign current and near-term inflation rate environment, as identified by the BBC (BBC, 2016), coupled with the fact that many of our personal customers are receiving wage increases (Office for National Statistics, 2016) and have more money to spend, after they have purchased their essentials. Additionally our corporate clients are increasingly willing to invest and therefore have more valuable assets to insure. On the other hand there are downward insurance pricing pressures at this stage of the insurance cycle (Maynard, 2016, chapter 1).

In order to add value in the future, we need to ensure that we continue to provide service excellence to retain our existing clients and to take advantage of the opportunity to win new business from clients who are under financial pressure.

Value can be added by an even greater focus on efficiency to ensure we avoid wastage and duplication of effort.

Conclusion

As intermediaries in insurance transactions, we are in a unique position of being able to add value to both our clients and the insurers we work with. The more value we bring to those parties, the more value we add to our own business.

The insurance market in general and the intermediary environment in particular, are dynamic and constantly changing. The next three to five years are particularly important for us. In order to continue to add value in a changing market, we need to continually adapt and embrace change by seeking new methods of operation.

However, the fundamental function of the broker, to provide excellent service to customers and insurers, remains constant.

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