



SPECIMEN COURSEWORK ASSIGNMENT AND ANSWER

996 – Strategic claims management

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 question carefully and ensure you answer all parts of the question.
- Each assignment will be marked separately. You should treat each of your three assignment answers as an independent answer.
- For questions 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.

Specimen Assignment

You are the owner of a small, successful, third party administrator (TPA) with an excellent reputation for claims service. The TPA's current strategy is to provide a bespoke household insurance claims handling service for high net worth (HNW) policyholders of insurers. The TPA has experienced modest growth in turnover in recent years.

The TPA currently receives approximately 2,500 claims per year, which are handled by six employees. The TPA is based in a single location.

The Claims Director of an existing insurer client, impressed by the TPA's service, has approached the TPA to tender for a contract for the handling of its non-HNW household property claims. This contract is for the handling of an anticipated additional 10,000 claims per year.

- Identify **three** significant strategic opportunities and **three** significant strategic challenges for the TPA of expanding beyond HNW claims.
- Analyse, based on your explanation, whether the TPA should amend its strategy and tender for the non-HNW contract.
- Make recommendations, based on your analysis, to strategically deliver continued growth for the TPA.

Assignment Answer

Word count:	3,128
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We are a third party administrator (TPA) which offers specialised claims handling service. There are many advantages for an insurer to outsource a claims handling function with Lyn (2017) stating these benefits include creating:

- operational efficiencies,
- specialist capabilities, and
- enhanced service.

As a claims handling TPA, we are focused on handling claims for policyholders of household insurance that are in the high net worth (HNW) category. A HNW individual is usually considered to be someone who has financial assets in the region of USD1m (GBP 800k)¹. Recent estimates show there are approximately 840,000 people in the UK who fulfil this definition, Farrell (2015) reported that between them they have a combined wealth of USD 3.5tn², with almost half residing in London.

¹ <http://www.investopedia.com/terms/h/hnwi.asp>

² Sean Farrell, High-net-worth individuals own 38% of UK's total wealth, report says. 28 January 2015

Our current strategy as a TPA is to provide a bespoke household insurance claims handling service for high net worth (HNW) policyholders. The fact that we only handle claims for HNW policyholders is our key differentiator and it results in a relatively small number of claims being handled on an annual basis. This allows us to focus on the service offered to the policyholders, employ a small and highly skilled team of handlers and create a profitable business.

The claims handling service we offer has garnered a good reputation and due to this, one client has consequently approached us asking to tender for a contract handling their non-HNW household property claims. If taken on, this would increase the number of claims handled at the TPA from 2,500 per year to 12,500. This may provide a good opportunity for us to branch out beyond our unique selling point (USP) of only handling property claims for HNW individuals. However this should come with a caution, as Porter (1996) states “*a sound strategy is undermined by the desire to grow*”. Although it will lead to a higher volume of claims and increased revenues there may also be negative impacts on our current offering which we will explore in this report.

Three significant strategic opportunities for expanding the claims service beyond HNW policyholders:

1. **Greater turnover of revenue:** the main purpose for any business is to remain financially viable and gain greater profits which can be shared with the owners. This primarily means the business should grow, unless such growth harms profits. The primary strategic opportunity which will arise out of taking on the new contract to handle these non-HNW property claims would be that this would result in more claims being handled. This would have the result of higher revenues.
2. **Further expansion:** if our claims handling of the non-HNW property claims are judged to be successful, we can expand the TPA further by sharing this product offering with our other current insurer clients. We already have a good reputation for the HNW household claims and therefore these insurers who already work with us, may wish to use us for their non-HNW household claims.
3. **Use this expansion for marketing to new clients:** we currently have a good reputation with our existing clients. This reputation is so good that one client is wanting to use us for a purpose which is not the type of service we usually provide (non-HNW). Therefore we should use this story, and evidence of our good reputation, as part of a marketing tool to try and increase our client base to other insurers of HNW individuals which we currently do not work for.

Three significant strategic challenges for expanding the claims service beyond HNW policyholders:

1. **Higher volume of lower severity claims:** the handling of the new non-HNW property claims will take us beyond our comfort zone. The increase in annual claims to be handled will be from 2,500 to 12,500 and it is likely that these claims will be of a low value. This will mean our employees to need to adapt to handle a greater volume of claims, some of which will be for a very low value.
2. **More employees required:** the new contract on its own will automatically require an increase in employees at the TPA; however the largest unknown is by exactly how many. The claims handling for this non-HNW book of business must be conducted by someone at present (unless it is a completely new line of business for the underwriter) and therefore there are people presently handling claims from this business line, whether at the client or via another TPA. It is possible that the employees where these claims are being handled have certain employment rights which mean they must automatically be offered employment contracts with us via a TUPE transfer³. This is something which would need to be reviewed otherwise, if the legislation is not followed, it could result in claims before the employment tribunals. Notwithstanding this, new employees will be required and this will result in a need for more training, integration and managers, as well as recruiting people who may have previously worked at a company with a different culture to our own.
3. **Could harm our good reputation:** we currently have a good reputation for the way we handle claims for HNW policyholders. However dealing with claims for non-HNW individuals is not always the same. Consequently if we continue with the same working practices without any changes whatsoever, there is the potential that this could not be the right way to deal with these claims. By not dealing with the claims or policyholders in the correct way, could have a follow on effect and an adverse impact on our reputation.

Benefits and disadvantages of amending our strategy and tender for the non-HNW contract.

Our current strategy is to provide a bespoke household insurance claims handling service for HNW policyholders. By taking on the non-HNW policyholder contract, our new strategy would be to provide a bespoke household insurance claims handling service for all types of policyholders. The benefits of this increase in workload and responsibility needs to be analysed and compared to the potential drawbacks and thereafter a decision can be made as to whether this new contract is in our long term interests.

³ <http://www.acas.org.uk/index.aspx?articleid=1655>

Benefits

TPAs earn fees on the claims which are handled and these fees are usually calculated on a per-claim basis. Therefore, the primary advantage of winning the contract usually would be the increase in revenues that we receive. This could lead to both profitability and growth, which are the key objectives of most businesses. Profitability and growth go hand in hand when considering business success. Profit is central to basic financial survival as a company, whereas growth is key to long-term success. Increasing in size usually means more stability in a company because work can be spread around a larger team and we will not be too adversely impacted by the loss of a key account. By tendering for the handling of the non-HNW policyholder claims, we will be achieving this growth objective and with the correct planning and charging structure, this will hopefully also result in an increase in the profits.

Growth by winning new contracts, if successful, can be replicated by tendering for the handling of other non-HNW household claims. As a TPA we already undertake work for multiple insurers and therefore they would be the first clients we can approach in order to sell our non-HNW service offering. This would all depend on whether or not the first tender is successfully implemented and carried out by us. If this is done and we know that we can cope with all the changes that this involves, then the business model can be copied and the tender offering replicated. Companies that falter or fail usually do so by expanding too far beyond their comfort zone, by expanding through increasing our products within our current client base, we would clearly not be outside of our usual working environment. Expansion like this in a measured and controlled way has a greater hope of being triumphant.

If we can successfully expand within our current client base, then this will be a stepping stone by which to try to develop and grow by providing a full service for the handling of claims for all types of household insurances, irrespective of the net-worth of the policyholder. This is another stepping stone on the slow-expansion described in the preceding paragraph. The non-HNW market is much greater than that which is limited to HNW individuals; therefore by taking away this limitation to our offering, we are free to seek out many other clients. Property insurers pay out £8.2m a day in the UK⁴, with many claims handled by TPAs rather than the insurer themselves. If we can get a footing on this large market by handling a small volume of these claims, we can grow quickly to a considerable size.

⁴ ABI: UK insurance and savings key facts 2015

Disadvantages

The immediate difficulty would be the large increase in the claims volumes where the annual claims count from this one contract would increase the annual volume from 2,500 to 12,500 (i.e. a 400% increase). This would have an impact on the number of:

- phone calls received;
- files needed to be run simultaneously;
- loss adjusters and claims investigators to conduct house visits;
- payments to policyholders or others as payment in order to settle a claim;
- plumbers, electricians, decorators and other skilled staff required to repair any resultant damage.

Being able to physically handle this increase in volume from the first day will be the most difficult task for us. This will be made more difficult when you consider we have never had volumes of this size and, if not planned correctly, the management may not be likely to know what they are getting into. Phone call volumes require sufficient line capacity and therefore more physical handsets as well as the people to answer them. The phone calls could arise at all times of the day and therefore the volumes may not all be during the usual working hours. The increase in files could cause a problem for our internal IT system if it has not been stress tested to the level that may be required.

The increase in volume will also require more employees to handle the claims, answer phones and conduct all other tasks which the current team of six undertake. It would not be an over-estimate if an additional 12 or possibly more employees are required if this one single tender was successful. Therefore it can be seen that if any further expansion was secured through other contracts, the number of employees would rise exponentially. In addition to claims handler employees, more management staff are required to support to claims handlers. It is usual to have one manager to approximately 6 – 10 staff and therefore at least one or more likely two (higher paid) managers would be needed if the one contract was successful. More employees will require equipment like phones, stationary, chairs, tables and computers which will result in an increased cost. In addition desk space will be required and so we need to clarify if there is enough room in the office for the new employees to sit and work.

We have a very good reputation for the work we undertake on the HNW household claims. In fact it is this good reputation which has opened the opportunity to this new contract. However there is uncertainty regarding whether our reputation will continue to be as well regarded. There is the potential that:

- the ways the new claims are handed are not of an appropriate service level for non-HNW policyholders;
- the increase in volume could put many current employees under a lot of strain and will therefore not be able to perform to the current high standards;

- the new employees employed to help handle the increased claims volume, do not follow our same culture and therefore do not understand the benefits of maintaining a good reputation.

Claims for HNW policyholders typically involve a lot of work and therefore we as a TPA are likely to receive a greater fee per claim. The new claims for non-HNW individuals will likely result in lower per-claim payments from the insurer. Therefore although we are dealing with many more claims and will therefore receive more revenue, it is far from guaranteed that this will mean higher profits. As stated above, there will need to be a lot of investment before we can fulfil the new contract and therefore this may cost more than the payments received from the insurer for dealing with the claims. Working practices would need to be considerably altered so that the cost per claim is significantly reduced, otherwise our offering to the client will be too expensive and we will not secure the contract tender. Costs can be cut by, for example, ensuring that claims handlers spend less time dealing with the claim, less time on the phone to the policyholder or the experts engaged. All this could mean a lower service offering and could possibly impact our current highly regarded reputation.

Finally, it is debatable whether or not we need to grow by expanding our offering. We are already experiencing modest growth in turnover in recent years and therefore if we extrapolate this further, we will continue to grow modestly. Therefore a large expansion like this into a different client sector may not be totally necessary and may not fit in with our medium to longer-term growth plans.

Recommendations

In order to achieve continued growth, I would recommend we do not bid for the tender to handle the new non-HNW policyholder household claims. There are too many risks involved, we would lose our USP and it is strategically not the right thing to do. We should stick to our current strategic plan of only dealing with HNW policyholders, maintain our good reputation and look for growth in other areas.

1. Expand outside of household claims

I would recommend we expand the claims handling service outside of household claims. This would allow us to continue dealing with HNW policyholders and harness the good reputation we currently have. There are many other insurances which HNW individuals require, for example:

- yachts;
- private jets;
- high performance motor;
- fine art;
- equine.

Although the policy coverages are all very different, there is a common factor in the types of policyholder mostly associated with these insurances. As a TPA we are doing something right otherwise we wouldn't have the great reputation which we have. Therefore we should focus on this reputation and play to our strengths. One of these strengths are our employees and how they interact with the policyholders. If this is seen as a real advantage then insurers would wish to use our service for the handling of claims for all the above types of insurance. We can start offering these lines of business through our current client base in the first instance and if this is successful then market the claims service to other non-client insurers.

Before offering this claims service we will need to ensure we have the expertise internally to handle these claims, or if not, hire key individuals who have the ability to handle claims for these business lines. If a new member of the team is required then they will be able to train the other employees so we can build up the skill-set internally.

Other issues with offering a claims service for these insurances would be office opening times, since people in private jets and yachts may be in different time-zones when a notifiable event arises. Therefore we would need to ensure we man the phones 24 hours or have an out-of-hours notification helpline. Another issue with private jets and yacht insurances could be language differences between the claims handlers and policyholders. Therefore we need to work with our clients to clarify what language skills are required in the office. Finally, to open up the claims service to these business lines we would need a whole new panel of expert service providers like loss adjusters.

2. Increase marketing spend

I would recommend that we increase our internal marketing spend to highlight our strengths as a TPA. It has been shown that we have a good reputation for what we do and therefore this should be used to build our brand. If you consider we only deal with 2,500 claims a year it is likely that we are not very well known. Therefore we should focus on building our recognition within the household insurance market and advertise our service offering in the insurance press to ensure that insurers know who we are, who we work for and what types of policyholder hold us in high esteem.

3. Expand HNW household claims service to new insurer clients

I would recommend we continue with our key offering which is a highly regarded claims handling TPA for HNW household policyholders. However we should try and expand our client base to some of the larger HNW household insurers. There are many in the market with the two largest being Chubb and Hiscox. These two do not use TPAs for the handling of their household claim and therefore being able to win a contract with one of these insurers would be a very big opportunity for us.

4. Seek out acquisition opportunities

Another way to expand would be to acquire a direct competitor, another TPA who work in household claims for HNW policyholders. As long as efficiency savings are obtainable then this will be a good way to grow the business. It would be preferable if the reputation of the target company is already good otherwise it could dilute our reputation. However this may not be too important if we can remove their branding and easily train their employees to our culture and high service levels. Such an acquisition would be a quicker way to access new clients, open up new opportunities and remove a direct competitor from the market.

Conclusion

Our reputation is the most important thing and therefore as the owner of the TPA I recommend we should not tender for this contract being offered by our client. We should instead stick to providing a specialised claims service for HNW policyholders and use our highly regarded reputation to try to expand through other means as described in this report.

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