



Specimen coursework assignment

M81 – Insurance broking practice

The following is a specimen coursework assignment including questions and indicative answers.

It provides guidance to the style and format of coursework questions that will be asked and indicates the length and breadth of answers sought by markers. The answers given are not intended to be the definitive answers; well-reasoned alternative answers will also gain marks.

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Coursework submission rules and important notes

Before you start your assignment, it is essential that you familiarise yourself with the information in the *Coursework Support Centre* available on www.revisionmate.com

Please note the following information:

- These questions must not be provided to, or discussed with, any other person regardless of whether they are another candidate or not. If you are found to have breached this rule, disciplinary action may be taken against you.
- 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.
- Coursework marking criteria applied by markers to submitted answers.
- Deadlines for submission of coursework answers.
- You must not include your name or CII PIN anywhere in your answer.
- The total marks available are 200. You need to obtain 120 marks to pass this assignment.
- Your answer must be submitted on the correct answer template in Arial font, size 11.
- Answers to a coursework assignment should be a maximum of 10,000 words. The word count does not include diagrams however, it does include text contained within any tables you choose to use. The word count does not include referencing or supplementary material in appendices.
Please be aware that at the point an assignment exceeds the word count by more than 10% the examiner will stop marking.

Top tips for answering coursework assignments

- Read the Learning Outcome(s) and related study text chapter for each question before answering it.
- Ensure your answer reflects the context of the question. Your answer must be based on the figures and/or information used in the question.
- Ensure you answer all questions.
- Address all the issues raised in each question.
- Do not group question parts together in your answer. If there are parts (a) and (b), answer them separately.
- Where a question requires you to address several items, the marks available for each item are equally weighted. For example, if 4 items are required and the question is worth 12 marks, each item is worth 3 marks.
- Ensure that the length and breadth of each answer matches the maximum marks available. For example, a 30 mark question requires more breadth than a 10 or 20 mark question.



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The coursework questions link to the Learning Outcomes shown on the *M81 syllabus* as follows:

Question	Learning Outcome(s)	Chapter(s) in the Study Text	Maximum marks per answer
1	Learning Outcome 1	Chapters 1, 2 & 3	10 marks
2	Learning Outcome 2	Chapters 4	10 marks
3	Learning Outcome 3	Chapter 5	10 marks
4	Learning Outcome 4	Chapter 6	20 marks
5	Learning Outcome 5	Chapters 5, 6 & 7	20 marks
6	Learning Outcome 6	Chapter 8	20 marks
7	Learning Outcome 7	Chapter 9	20 marks
8	Across more than one Learning Outcome	Across more than one chapter	30 marks
9	Across more than one Learning Outcome	Across more than one chapter	30 marks
10	Across more than one Learning Outcome	Across more than one chapter	30 marks

M81 specimen coursework questions and answers

Question 1 - Learning Outcome 1 (10 marks)

CJ plc, a UK-based insurance broker, transacts business directly with customers as well as with other insurance brokers. It also operates delegated authority schemes on behalf of insurers.

Explain the duties imposed on CJ plc, with use of appropriate diagrams, by the law of agency in **two** of the following three roles:

- (a) Retail broker.
- (b) Wholesale broker.
- (c) Coverholder.

(10)

Answer to question 1 (Learning Outcome 1)

The two examples of law of agency are:

- (a) **Retail broker:** The duties of CJ plc, under the law of agency, are imposed on the broker as agent of their principal, which in this case as they are the retail broker, is their client, or the insured. A retail broker is one which has a direct relationship with the client (CII study text, M81 Insurance broking practice, 2021).

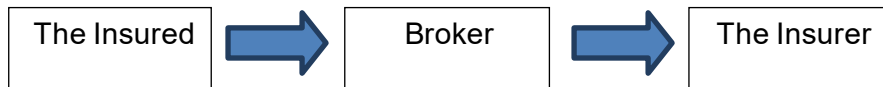
As agents of the insured, CJ plc must account for all monies held on behalf of their principal and keep a record of all financial transactions. They must disclose the level of commission if asked and some brokers disclose this information as a matter of course. CJ plc's duties are likely to include:

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- giving advice on cover or the placing of insurance; or
- giving advice to the insured on how to make a claim.

The relationship between a retail broker, the client and the insured is shown below:



- (b) **Wholesale broker:** When the broker is acting on a wholesale basis and placing business for another broker, they are acting as an agent for the sub-broker/retail broker/producing broker and not the insured. (CII study text, M81 Insurance broking practice, 2021). This is shown below:



So the duties of the wholesale broker, under the law of agency, are owed to the retail broker and money held on their behalf must be accounted for, recorded and income should be disclosed in accordance with any agreement held between them. A wholesale broker places insurance business on behalf of another broker and has no direct relationship with the insured. For example, this is a common arrangement for Lloyd's brokers where a retail broker, perhaps from another country, wishes to access the Lloyd's market.

Question 2 - Learning Outcome 2 (10 marks)

You are an account executive at XY plc, an insurance broker who specialise exclusively in commercial lines business. You have received a query from one of your existing clients, TD plc, whose insurance is due for renewal. TD plc is a family owned manufacturing business based in the UK, with one manufacturing site and one warehouse. TD plc has questioned why they should continue to use you, a broker, to meet all their needs when they have a cheaper quote from a direct insurer.

Explain, with justification, the **two** most significant benefits of TD plc insuring via XY plc. (10)

Answer to question 2 (Learning Outcome 2)

Brokers can aid the client in a number of differing ways but in this instance the two most significant benefits to TD plc of insuring via XY plc are as follows:

(1) Matching the demands and needs of TD plc to the policy they have

Using XY plc allows TD plc to have a policy which meets their demands and needs. As insurance is not their key business, TD plc might not be able to identify the potential risks that their business faces and from this what risks can be protected by insurance. It is the broker's



role to look at these demands and needs and establish (with reasons) why a policy would best suit TD plc. XY plc will be able to decode and explain the covers and its limitations (CII study text, M81 Insurance broking practice, 2021). Understanding the limitations is extremely valuable as TD plc can put in place risk improvements or contingency plans in place. If for example they can only get insurance with a £1000 excess and on average they have four claims a year, they can ensure they set aside this money within the business.

The use of the broker is usually not to access a particular policy but rather to have the advice and experience on what suits the company best. If approaching directly to the insurer TD plc will not have the added guidance from the brokers experience when purchasing cover.

(2) The added value services in particular the service and support

TD plc may be issued with a service plan at the beginning of the period and this can be reassuring to a client. It will detail how, when and why the broker will contact them (CII study text, M81 Insurance broking practice, 2021). This allows for a clear understanding of the requirements on both TD plc and XY plc. The service plan will also detail how they will service TD plc what is within scope and outside of scope, therefore again meeting the clients demands and needs.

If TD plc went direct, they would have to ensure they understood all the key dates in regard to their renewal. TD plc would also benefit from the experts that XY plc have to hand. This could be help from surveyors or from claims professionals. The broker is likely to have a stronger relationship with the insurer and this can be beneficial in certain instances.

Question 3 - Learning Outcome 3 (10 marks)

You are an account manager for an insurance broker. You have traditionally provided clients with insurance products on a non-advised basis. You are now entering the small commercial combined insurance market and have been approached by a client requesting a quotation for their small business. They are looking for guidance as to which insurer to place their business with.

Explain, with justification, how you would present terms on an advised basis and how this would differ from a non-advised basis to enable the client to make an informed decision. (10)

Answer to question 3 (Learning Outcome 3)

Currently the broker provides insurance products on a non-advised basis. When presenting terms to the client, on an advised basis, it is now the broker's role (and a regulatory duty) to explain the differences between terms and to give an appropriate recommendation to the client in line with their demands and needs (CII study text, M81 Insurance broking practice, 2021). That is to explain how the extent of the cover provided by the contract, the cost of the contract and any exclusions, excess, limitations and conditions, meet the requirements of the client. To do this, the broker must identify and record the client's demands and needs prior to obtaining cover.



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Therefore, as the broker, it would be my duty to match the insurer to the client's demands and needs. I would need to detail if there were any gaps in cover, if I have met everything they were expecting. If this is not possible, it would be important to identify the differences in the offers from insurers and recommend the one who meets the majority of the client's needs.

If there are any terms and conditions, these must be confirmed in writing, and a formal report may be prepared (the complexity depending on the size of the client) which emphasises the key features of the broking exercise (CII study text, M81 Insurance broking practice, 2021).

As well as the original demands and needs, the presentation should include a suitability statement that explains how the recommendation addresses the client's demands and needs and the reason/s behind the recommendation. The overall aim when presenting terms to the client should be to provide enough information for them to make an informed choice about what, and if, to purchase.

In contrast the client, if they have been sold a product on a non-advised basis, then can be offered one option without analysis of what is offered within the market. Even in this form of selling, I would still need to demonstrate to the client what was and was not covered by the policy but this information would be more generic.

Question 4 - Learning Outcome 4 (20 marks)

XYZ plc, an insurance broker, subscribes to the information services provided by a number of rating agencies. KB plc, an insurer with which XYZ trades, has just been downgraded by all the rating agencies due to a number of issues, which include:

- issues over some of their long-term reserving; and
- levels of reinsurance.

- (a) Explain the importance to XYZ plc of insurers' financial security when selecting the insurers with whom they place business. (8)
- (b) Describe **two** actions that XYZ plc might take, relating to KB plc, regarding the downgrade. (6)
- (c) Describe **two** actions that XYZ plc might take, relating to the clients whose risks are currently placed with KB plc, regarding the downgrade. (6)

Answer to question 4 (Learning Outcome 4)

- (a) Like any insurance broker, for XYZ plc the main focus when choosing an insurer is their long-term ability to pay claims. This means that the insurer's financial security has to be considered. When the world's largest insurer, AIG, almost ran out of money it took the whole insurance industry by surprise. Their resulting downgrading by the credit rating agencies meant that brokers had to reassure their clients that AIG were still capable of paying claims. In some instances, this would mean that clients did not wish to renew with AIG and for others they needed the security of understanding why it happened and what



was being done to correct this. (CII study text, M81 Insurance broking practice, 2021)

There are tight rules regarding the capitalisation of insurance companies and the broker has a responsibility to ensure the interests of their clients are upheld by only recommending insurers who are financially stable.

Insurance is about trust. If a client does not have trust in their insurer to pay potential claims, they are likely to take their business elsewhere. That is the reason why many brokers have specialist security departments whose primary role is to monitor the security of insurers. Subscription to the credit rating agencies, such as Standard and Poor's and Moody's, is only one source of information. Broker security departments are also likely to monitor the financial press, look for clues such as changes in an insurer's underwriting policy and the speed with which they pay their claims. It is essential that these other 'clues' are listened too as they are sometimes the first indication that something may be wrong. It is however, very difficult not to use an insurer when they are offering you good terms and therefore the balance of risk has to be taken very seriously by the broking team.

An insurer's financial security is not the only factor brokers will take into consideration when choosing which insurers to trade with, but it is probably the most important factor.

- (b) If KB plc is downgraded by the rating agencies it could indicate that their financial security is less stable. The overriding factor for a broker when deciding which insurer to recommend to their clients is the ability for that insurer to pay claims. The first action the broker could take with regard to KB plc might include removing them from its panel of insurers and not placing any new business with them. This is a big decision and one which would not be taken lightly.

The second action could be to continue to trade with the insurer, but establishing with them (and the rating agencies) why the downgrade happened and what is currently taking place to correct the situation. They could then ensure that their clients understand the situation and make informed choices. It may be that the insurer is a specialist in a certain field and therefore to lose that market could have a real impact on the broker's clients.

The action taken will depend on the change in the rating, what it was before and what it is now.

- (c) The broker's clients may have read about the downgrade in the financial press and may be concerned about the insurer's ability to pay potential claims. The first action the broker might take is to provide accurate and timely advice and reassure the clients that their interests are being safeguarded or highlight any issues arising. The situation could be developed and alternatives offered. It is likely that the broker will need to safeguard their own position and they may ask the client to confirm in writing that they are happy to remain with the insurer. If the client is unhappy with the downgrade they may well decide to remove the underwriters line and replace it with another company with a stronger financial position. This can happen a lot as clients are very careful with the security of their underwriters.



The second decision may be taken not to inform the clients as any reassurance may cause more concern. There is some concern with this option that the broker is not being entirely honest with the client but depending on the level of change in the grade this may be a valid option. If the insurer has been downgraded but it is still within the brokers expected minimum security rating, then this method could be suitable.

Question 5 - Learning Outcome 5 (20 marks)

You are an insurance broker. One of your clients, ABC plc, a manufacturing company with subsidiaries in several countries, insures all of its risks in a global insurance programme. The global insurance programme is placed in the London market.

You have noticed that the London market cycle is changing from soft to hard.

- (a) Explain the **two** most significant implications for ABC plc if it retains its current global programme. (10)
- (b) Explain the **two** most significant implications for ABC plc if it decides to give each subsidiary the authority to make their own insurance arrangements. (10)

Answer to question 5 (Learning Outcome 5)

- (a) A global programme means that all of ABC plc's business is insured under one policy. If the market is changing from soft to hard this means that the availability of insurance and the price it is offered at is likely to change significantly. Prices are likely to become higher and there may be restrictions in cover or additional terms applied.

Therefore, the first implication for ABC plc is that they are likely to have to pay more for their insurance programme and they are less likely to have a choice of insurers. This means that they may find all the covers, conditions and exclusions they are used to having may no longer be available. If the whole of the London market moves to a hard market, ABC plc's options will be limited and they may end up paying significantly more for the same level of cover. They are unable to take advantage of the different cycles as all of their business is placed in the London market (CII study text, M81 Insurance broking practice, 2021).

The availability of insurance and reinsurance may also alter. This can be both positive and negative. If ABC stay on a global programme placed in the London market, they may find that due to the level of business going into this market that availability is not hit as hard as perhaps some regional markets. These insurers are also likely to hold strong negotiating positions with reinsurers which will ensure that capacity to write ABC's risks is still there. In contrast, if the hard market is due to a catastrophic incident close to the London market e.g. storm, then this market may react stronger than other overseas territories.



- (b) If, due to the hard market, ABC plc decide to let each territory arranges its own insurance programme there are likely to be a number of implications.

The first is that there may well be issues with differences in covers (wider as well as narrower) and price across the countries. Covers can differ significantly between territories and ABC plc will need to ensure they understand what these differences are and how they will deal with them. This will involve a significant amount of time as it would be important to establish any gaps in cover so exposure can be measured and protected against. It may be simpler to let each territory buy local cover and have an over-arching difference in covers/difference in limits cover. This can also affect the risk management of sites under a global program this is easier to coordinate however when authority is given to the subsidiary companies they will each take a different stance on risk management, not giving consistency and also meaning that ABC plc less overall insight.

Secondly, the number of specialist markets each territory has opened to it might reduce or there may be some issues with certain covers e.g. earthquake and flood. Risks which were acceptable as part of a large group may now seem unacceptable as the risk feature is highlighted. This is also true if there is one region with significantly poorer claims history. It may be that some regions so particularly well from this arrangement whilst others struggle to find cover. Clearly, if the business wants to remain strong it needs to protect all aspects of its operations so any gaps may be considered as a significant risk to the company.

Question 6 - Learning Outcome 6 (20 marks)

You are the claims manager of CDE plc, an insurance broker. You have been contacted by another insurance broker who states that one of their clients has recently informed them of an employer's liability claim that occurred several years ago when they were a client of your company.

- (a) Explain, with justification, the potential circumstances in which CDE plc could be responsible for dealing with the claim. (14)
- (b) Explain the records policy CDE plc should keep following any placement and the records CDE plc are required to keep and access in relation to employer's liability cover. (6)

Answer to question 6 (Learning Outcome 6)

- (a) Employers' liability (EL) insurance covers the cost to employers of providing compensation to their employees for disease or injury arising from their employment. Disease claims, in particular, can arise many years after the disease was caused. The situation for someone whose disease may have been caused as long ago as 40 years (as is the case with asbestosis) is a complex one, as the individual will need to find their old employer and establish if any employers' liability insurance was in place. Both the employer and the old insurer may no longer exist. EL insurance is compulsory, but it only



became so in 1972. CDE plc would therefore need to establish the period for when they were on cover.

There is an increasing trend for insurance brokers to charge fees to their clients for their services. Many argue that charging a fee is more transparent than taking a commission, in the form of brokerage from the insurer based on the premium charged. However, when a fee is charged, the amount is calculated based on the work undertaken. Therefore, it could be argued that no financial provision has been made for any work that falls outside the period when the fee was calculated. This includes any potential work for a claim, regardless of when the claim arose. This does assume no broker agreement or TOBA is in place detailing what services will be offered and under what conditions this may change (moving business to a new broker for example).

The legal position is much clearer if CDE plc had been paid by brokerage. CDE plc would be responsible for handling the claim under the policy they arranged, regardless of the time frame and even if the client has been lost to another broker, because CDE plc's brokerage payment relates to the relevant policy period/s. EL claims, indeed many liability claims, are often not made until after the policy period has expired, but CDE plc would still be liable to handle the claim if they had taken payment in the form of brokerage originally as long as the business had not been transferred to the new broker in the meantime (CII study text, M81 Insurance broking practice, 2021).

It could be that CDE plc has made provision for this circumstance and has included a note in their Terms of Business Agreement (T O B A) with the client allowing them to charge an additional fee for any ongoing claims service. This could make it financially attractive for CDE plc to manage the claim.

Regardless of how CDE plc were paid, if there is any ambiguity in the fee/service agreement over who is responsible for claims after termination of the broker's contract with the client, it may be argued that CDE plc should take responsibility, even if they are unlikely to be paid for their work. This would be particularly relevant if the client's expectations were for CDE plc to manage the claim and the service agreement is unclear on the issue.

CDE plc may also wish to protect their position if there is any ambiguity over the claim or the claim is unclear and which could result in an error & omission claim against CDE plc by their former client.

Finally, it may be prudent for CDE plc to manage the claim, regardless of their responsibility as it might provide an opportunity to win back the client from the current broker. If CDE plc do a good job in handling the claim, it might create sufficient goodwill which is enough to persuade the client back.

- (b) The Financial Conduct Authorities' (FCA) Handbook, Senior Management, Arrangements, Systems and Controls' (SYSC) provides guidance on record keeping, although there are no specific record keeping rules in the Insurance: Conduct of Business Sourcebook (ICOBS). The guidance states, due to potential customer complaints and requests from the FCA for certain information, that it is prudent to



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maintain evidence of such matters as the reasons for a specific recommendation at placement and evidence of the documentation supplied to customers. Many firms have a specific policy on how long they retain records, so they are able to respond to complaints, legal requirements or, particularly in the case of potential long- tail claims, for future claims which may arise, even after the client has been lost. Often the time period is six years, but for employers' liability (EL) policies, where there is an increased possibility of long tail claims, this period may be much longer.

Disease claims, in particular, can arise many years after their original cause. As such, brokers may find it prudent to maintain a record of employers liability cover in case there are future claims. The Employers' Liability Tracing Office (ELTO) is an independent body set up to help those who have suffered injury or disease in their work place to trace their employer and the employer's insurer (CII study text, M81 Insurance broking practice, 2018). However, ELTO's members are the insurers providing EL insurance, not the insurance brokers themselves. Despite this, many insurance brokers will maintain their EL insurance placement documents for much longer than for other types of insurance.

Question 7 - Learning Outcome 7 (20 marks)

You are an insurance broker who offers both traditional risk transfer and alternative risk transfer services. One of your clients, a large property investor, insures on a traditional risk transfer basis and is considering reducing their insurance costs by transferring to an alternative risk transfer program.

- (a) Explain to your client the most effective alternative risk transfer mechanism given their business. (8)
- (b) Describe **four** of the most significant services that an insurance broker could provide for one of the risk transfer mechanisms you have chosen in (a) above. (12)

Answer to question 7 (Learning Outcome 7)

- (a) The most effective risk transfer I might explore for a large property investor is a captive insurance facility. These are a tax-efficient method of transferring risks and can be a wholly owned subsidiary of a client or 'space' in an existing captive can be rented. (CII study text, M81 Insurance broking practice, 2021)

As is the case for every insurance company, captives need to be capitalised and managed, which are potentially expensive. Therefore, only certain types of client, would benefit from owning a captive. Generally, risks which have a good track record are suitable for this risk transfer method.

For a client to benefit from owning its own captive the client company would need to have sufficient capital to set aside to satisfy the regulator that it has the ability to pay claims. For many organisations, capital is in short supply and where it is available, it may be more effectively invested in other parts of the business, or even in risk management to better manage its risks, rather than simply transfer those risks to a captive.



The effectiveness of this option may not be suitable for the client. Clients with smaller insurance programmes may find it financially more effective to transfer their risks in the traditional way. For a client to really benefit from owning a captive, they would need to have a high insurance spend on risks which are most appropriately managed by transferring them rather than self-insuring them or reducing them through effective risk management. For example, property risks may be more suitable for a captive than liability risks. The broker would also need to ensure that there was a clear and detailed claims history which showed clear trends and average costs.

- (b) Where an insurance broker's client owns a captive insurance company, the broker could provide a number of services for the captive.

The first thing a broker should do is conduct a feasibility study into the suitability of a captive for the client. A captive needs to be managed and capitalised and this involves the allocation of capital. The captive is subject to the same regulatory requirements as other insurance companies in any given jurisdiction, and capitalisation cost can be a drain on the client's finances. The broker can help to reduce management costs which can be quite high. Some insurance brokers have captive management specialists.

If the captive is established on-shore in the UK it will be subject to relatively stringent regulation. The broker may be able to advise the client on off-shore locations for the captive, such as Bermuda, the Channel Islands, the Isle of Man or Dublin, which offer a relatively light regulatory regime and a more favourable fiscal environment. The broker could advise on the set up, capitalisation and structure of the captive, managing the day-to-day operations of the captive and acting as the captive's underwriters.

As agent of the client, the broker will always have the interests of their principal at heart and will be able to advise the client if the captive remains the best option for them. Captives are only suited to certain companies and the risks must be large enough to justify the cost. In addition, the tax authorities in the UK and the US are examining the use of captives very closely (CII study text, M81 Insurance broking practice, 2021).

Finally the broker could help with the purchase of reinsurance to help protect the book of business. This ensures that the client does not feel the full impact of any catastrophe losses.

Question 8 – Across more than one Learning Outcome (30 marks)

You are an account manager for DP plc, a UK based personal lines insurance broker. You have just had a client phone to express their unhappiness about your service, as they have just had a claim declined by an insurer. On investigation, it is established that a new employee of DP plc failed to inform the insurer of material facts that had been provided by the client.

- (a) Explain the implications for DP plc of the Financial Conduct Authority's (FCA) requirements regarding complaints. (5)



- (b) Describe **three** different ways the broker could respond to the complaint and the impact **each** of these ways will have on the client. (15)
- (c) Explain the **two** most significant actions that DP plc could take to prevent a similar complaint in the future. (10)

Answer to question 8 (Across more than one Learning Outcome)

- (a) The FCA has defined a complaint as:

'A COMPLAINT is defined as: 'any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a person about the provision of, or failure to provide, a financial service, claims management service or a redress determination'.

In summary a complaint does not have to be made in writing and the client doesn't have to say, 'I am making a complaint'. Therefore, in this instance the client's comments need to be treated as a complaint even though they have not formally 'complained'.

The FCA provides rules and guidance for brokers in their *Handbook* in relation to complaints. The FCA requires all brokers to have a formal procedure for dealing with complaints and to inform their clients of this procedure (including the address and telephone number to write to or call). They must also inform their clients how to complain to the Financial Ombudsman Service (FOS).

The FCA requires that all insurance brokers manage complaints in accordance with their stated procedures and therefore DP plc need to inform the client of how the complaint will be dealt with and the timescales.

- (b) Potentially, the broker could react in three ways. Firstly, they could follow their complaints procedure and resolve the claim as a simple complaint. Secondly, they could follow their complaints procedure and resolve it as a complex complaint, or they could not report the issue and try and conceal the issue.

In order for the complaint to be resolved as a simple complaint, the circumstances must be easy to resolve. The complaint should be recognised as such even if it is not received in writing. For a simple complaint, it is likely that a telephone call will be received from the client. (CII study text, M81 Insurance broking practice, 2021).

The complaint should then be reported correctly (to the right person, and logged in the right format as established in the complaints procedure).

Once reported, the complaint should be dealt with in the appropriate way. For a simple complaint this would mean that the person receiving the complaint is able to resolve the complaint to the client's expectation, within 24 hours at no cost. If this is possible, then the client would be happy with the outcome and take no further action. The complaint would still be logged. However, in this example, the complaint is not likely to be a simple one.



Complex complaints would receive a similar response, but when dealing with the complaint, the person who received the complaint would need to consult a colleague or a superior if they are unable to resolve it, or cannot resolve it within 24 hours in accordance with the client's expectations and/or a cost may be involved. (CII study text, M81 Insurance broking practice, 2021).

In this instance, it looks likely that an error and omission (E&O) claim may arise due to an error by a DP plc employee. If the person receiving the complaint realises that they have made a mistake, there may be a temptation to 'freeze' or even to try and cover up their mistake. All circumstances/claims must be reported to senior management. In this instance, the complaint may become an E&O claim and would be dealt with by a senior manager (independent of the broker(s) involved with the client), or even a specialist legal/compliance/E&O claims director.

Making a mistake is not necessarily a disciplinary offence in itself; concealing the problem or lying about it will be. In this instance the client is likely to be compensated through the broker's E&O insurance policy. This has financial implications for the broker as the first part of any E&O claim will be paid for by the broker in the form of a deductible. It is also quite likely that the E&O premium in future years may increase as a result. If there is a delay or the client is still unhappy, they could make a further claim to the FOS. The broker may also consider an ex-gratia payment.

- (c) In this instance, the circumstances should be fully investigated so that procedures are put in place to prevent a similar thing happening again, or at least reduce the likelihood of reoccurrence. Some brokers have a 'buddy/buddy' system where a second pair of eyes can check the documentation and work of a colleague. Others have introduced a 'right first time' initiative and procedures are in place for team leaders to check work. (CII study text, M81 Insurance broking practice, 2021). The firm should have a Training and Competence policy in place to provide adequate training for every role and a 'probationary' period should be served in key roles, so that adequate supervision is provided until a member of staff is considered competent for the responsibilities of their job. Under the FCA's training and competence requirements these checks should become a matter of course. Any failings in this system can be identified and the relevant documents and procedures amended. (CII study text, M81 Insurance broking practice, 2021).

The broker could also create a check list for all underwriting submissions to ensure adequate and accurate information is always included. This should be signed off by a team leader and, in some circumstances, should also be shown to the client to confirm accuracy. It could be suitable that all market submissions are subject to a check to ensure underwriters have the full picture.

All employees should keep accurate and concise written or durable evidence of all conversations and dealings with clients. This will ensure that information is compiled accurately and that it is possible to provide this to the client to obtain their agreement that, what is recorded, is accurate. It is particularly important to confirm to the client in writing everything that relates to advice or comments related to how, and in what



circumstances, the policy would operate. If all communication is not recorded in writing it becomes very hard to prove what actually happened. Many brokers invite their E&O insurers to review their procedures, to look for potential weaknesses, and make recommendations to improve the way they operate, in order to avoid potential E&O claims.

E&O claims are rare, but instances that could potentially lead to a claim are more common. All should be recorded and reported to the broker's E&O insurer so that the risks can be managed, patterns identified and corrective action taken.

Question 9 - Across more than one Learning Outcome (30 marks)

You are an account manager for NZ plc, an insurance broker. GB plc, a clothing retailer with a chain of shops, is a long-term client of yours. GB plc has asked for an extensive review of its insurance programme. Currently, GB plc transfers most of its risks to a single insurer and has a very low deductible.

- (a) Describe how NZ plc could conduct a 'fair analysis' of the market. (10)
- (b) Explain, with justification, **four** key programme design issues which should be considered by NZ plc when designing a new insurance programme for GB plc. (20)

Answer to question 9 (Across more than one Learning Outcome)

- (a) If NZ plc wishes to review the risks of GB plc on the basis of fair analysis of the market, it will have to consider a 'sufficiently large number of insurance contracts available in the relevant sector or sectors of the market, to enable it to make a recommendation in accordance with professional criteria' (CII study text, M81 Insurance broking practice, 2021).

According to the Financial Conduct Authority (FCA) in its Insurance: Conduct of Business Sourcebook (ICOBS), only then can the broker claim to have carried out a fair analysis of the market.

The question of whether or not the number of insurers is adequate or not will depend on the broker's ability to approach a sufficiently large number of insurers. The broker needs to demonstrate their knowledge of the insurers operating in the relevant market sector and/or writing that line of business.

This is often done instinctively, rather than by a set number. The issue is that the broker must be able to evidence their analysis (CII study text, M81 Insurance broking practice, 2021). They will need to adhere to and document a set process. An example of the process is as follows:

- Identify all the possible insurers who write that class of business.
- Refine the list based on the client's demands and needs, producing a shortlist of insurers.



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- Using specialist broking knowledge, experience and expertise, refine the list, to identify a minimum of five insurers, all of whom should be approached (CII study text, M81 Insurance broking practice, 2021).

The reasons for including some insurers and discounting others should be recorded. In this case, the broker should be certain that it has identified and updated the client's demands and needs and made sure that any new markets that have become available are considered as part of the fair analysis.

The list of areas which need to be considered when marketing a risk is important but it needs to be used in conjunction with NZ plc's requirements as ultimately the needs of the client have to be met.

(b) The key issues in programme design are:

- The level of risk to retain.
- Can the policies be combined or packaged in any way.
- Are there potential savings for longer agreements?
- Required limits.
- Required specialist covers.
- The insurers to use.

(CII study text, M81 Insurance broking practice, 2021).

There are a number of programme design issues that need to be considered in the design of a new insurance programme for GB plc. The four key issues chosen are:

- The level of risk to retain.
- Are there potential savings for longer agreements?
- Packaging.
- Limits.

The *first* is the level of risk retained by GB plc. Depending on the GB plc's attitude to risk, it can retain more risk by adjusting the deductible or excess. It looks as though GB plc have traditionally been risk averse due to the low deductible. Now might be a good time to look at the claims numbers and costs and develop a strategy for a higher excess. This can reduce the overall cost but also has the benefit of making GB plc take part in the risk and hopefully make them more focused on risk improvements and minimisation. An insurer will generally reduce its rates in exchange for a higher excess, depending on the expected loss profile. For our client, a clothing retailer, it will probably experience a high volume of low value theft losses. These can be retained by the company through the deductible, leaving the more major risks to be transferred. This is known as self-insured retention.

From an insurer's perspective, the higher the level of risk retained by the insured, the further away the insurer is from being called upon to pay a claim. There needs to be a trade-off, as the client will want protection at the lowest cost. It is NZ plc's job to find the balance between the level of excess the client is prepared to accept and the premium discount the insurer is prepared to offer.

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Other advantages for an insurance programme with a high level of self-insurance are that the insurer exerts less control over risk management for the lower end losses, leaving the insured with more control. The broker will need to have a good understanding of the client's attitude to self-insurance, its cash flow position and the risk management measures in place to control the lower value losses that will fall under the deductible level. The broker may be able to assist the client in improving its risk management.

The *second issue* affecting programme design is the insurance term, or the length of time the policy provides an indemnity, from inception to expiry.

The availability of longer term policies is very much dependent on the stage of the market cycle. Some insurers are willing to offer long-term agreements (LTAs) where they fix the premium rate for, say, three years. This guarantees the renewal and suits the insurer if they expect rates to fall during the term. The client benefits in that it avoids potential rate rises and can make long term financial plans based on stable pricing. Typically, insurers might offer a 5% premium reduction for a three-year LTA and 10% for five years.

If price is the key issue, the broker would need to be confident that other markets would not become available and offer a lower premium during the term of the LTA. This would be particularly useful for GB plc if they wanted a long-term partner to help with risk retention and developments in risk management.

There are time and cost implications for an insurer taking on a client and they may not be happy to lose the client at the first renewal. If an insurer suspects that the market is simply being 'tested' it may decline to offer a quotation, so there may be more impact in the market for being tied in to a particular insurer for an established period. It is also time consuming for the NZ plc to remarket larger risks every year and the insured may benefit from being loyal to one insurer if a difficult claim needs settling, particularly where the client has had relatively few losses and has been profitable for the insurer.

The *third* area to be considered are the limits of cover. The limits of cover purchased should be optimised to ensure that the amount being purchased reflects the risk. Very often an arbitrary figure for some covers is selected and this may be either more than is required, resulting in unnecessary premium payments, or too little leaving potential exposures uninsured. The limits should reflect the maximum potential losses, i.e. what is the true impact if one retail outlet closes down? Are there others close by who customers would turn to? Would free internet orders help reduce costs if there was a total loss etc.? For some covers, such as the cost of reinstating a shop premises, may be easier to calculate, whereas some covers, such as liability covers, may be more subjective, but all should be carefully considered.

GB's broker should consider how the programme could be structured to achieve the limits the client actually needs and to identify the optimum point for completing and starting a new excess layer.

Fourthly, when designing the insurance programme, consideration should be given to the use of packaging or combining policies together to generate potential economies of scale and premium savings, which could also be traded for additional cover. The higher



risk, less attractive business, could be offered to an insurer when bundled together with a lower risk, potentially more profitable, type of business. It will not all be about price, instead it is about understanding packaging and combining covers in order to achieve the optimum cover at the optimum price. This will depend on the risks involved and what GB wants from their insurance programme. This will be a key risk management consideration which should be carefully priced.

Currently, it seems that GB plc is loyal to one insurer but that they may benefit from splitting the risk. NZ plc need to explore the options of a number of insurers and weigh up the benefits against the drawbacks.

Fundamentally, as GB plc and the market changes the needs from their insurance also change. That is why it is imperative that TU plc focus on the changing needs of their customer.

Question 10 - Across more than one Learning Outcome (30 marks)

MBR plc, an insurance broker, operates a delegated authority for a household insurance policy. MBR plc sell and administers this policy and they also hold authority to settle claims. A client, Mr Smith, has called to discuss his ongoing claim. He has questioned MBR plc on its ability to handle his claim effectively when they have loyalties to the holding insurer as well as to themselves. Mr Smith believes that the more claims they settle the less commission they will earn.

- (a) Explain how MBR plc can deliver its claims service, through the delegated authority, to Mr Smith, whilst meeting its duties to the insurer. (12)
- (b) Explain how MBR plc can deliver its claims service, through the delegated authority, to Mr Smith, whilst meeting its regulatory obligations to the Financial Conduct Authority. (8)
- (c) Explain how MBR plc could use claims data and trends to assist all of its clients to manage their risks and to minimise the frequency and cost of future claims. (10)

Answer to question 10 (Across more than one Learning Outcome)

- (a) Delegated authority agreements exist where an insurer has given a third party, known as a coverholder, authority to conduct business on its behalf within the limitations of the agreement. Probably the most common form of delegated authority is when an insurer delegates authority, to underwrite business, to an insurance broker. However, authority to settle claims can also be given, but usually only to a limited extent. For example, authority may be granted to MBR plc to settle claims directly with an insured up to £10,000 per claim. Some insurers may even provide an insurance broker with a 'loss fund'; a sum of money that can be used to pay claims under the delegated authority directly to the client. However, larger claims would normally still be settled by the insurer. It would therefore be useful to understand the value of Mr Smith's claim as well as the specific details of the claim.



When operating a delegated claims authority, MBR plc is acting as an agent of the insurer and not the insured. However, it still needs to deliver service to its clients, whilst meeting its duties to the insurer and operating within the relevant regulatory obligations. Balancing the operation of the agreement with all parties can be quite challenging and there is an increased potential for conflicts of interest to arise if the needs of all parties are to be met.

The provision of a high-quality claims service is of great importance to insurance brokers. The only tangible product is the policy documentation, the service is what is actually being paid for by Mr Smith and if the service does not meet his expectation, then he will take his business elsewhere. Through the operation of a delegated claim service, MBR plc has the opportunity to add value and deliver service at a key point in their relationship with Mr Smith.

MBR plc has a responsibility to see that Mr Smith is treated fairly, so that they receive a true indemnity in accordance with the terms of the policy by provision of a claim service within the limitations of the delegated claims authority. MBR plc, as coverholder's with claims authority, have the opportunity to stand in the place of the insurer and ensure their clients are treated fairly. Because the claim may be managed by the broker in its entirety (depending on the terms of the delegated authority), the broker has the opportunity to offer a high-quality service, perhaps even better than the insurer themselves.

There should be fewer delays in the claim process as the insurer will not be involved (except with larger losses) and MBR plc will always know what is happening at every stage of the claim, so communication will be improved.

Some brokers provide a commitment for minimum service standards with their clients in their Terms of Business Agreement.

However, MBR plc is the agent of the insurer and so will also have obligations to their principal. These obligations should not be in conflict to those of Mr Smith. In order to meet the needs of Mr Smith and their duties to the insurer, many brokers separate staff who operate the delegated authority from client service staff. By separating these two functions into different business units the potential for conflict is reduced. Client service staff use the delegated claims authority as they would a normal insurer and the delegated claims authority staff act as insurers would and treat the claims staff as they would any other broker. By doing this, conflict of interest is kept to a minimum.

- (b) MBR plc can also satisfy the regulator, the Financial Conduct Authority, that they are following the rules relating to claims handling, laid down in Insurance: Conduct of Business Sourcebook (ICOBS) 8. (CII study text, M81 Insurance broking practice, 2021). These rules impose specific requirements on insurance intermediaries such as understanding timescales for settlement, the importance of keeping clients reasonably informed of progress.

However, in this instance, by operating a delegated claims authority, MBR plc must

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comply with the claims handling rules of the insurer. In particular, the broker must inform the client that they are acting for the insurer, and not the client, when settling a claim made by the client, through the delegated authority agreement. In this instance, MBR plc are required to disclose to the client the potential for a conflict of interest and must obtain consent from the client before continuing to act in relation to the claim. In summary, the broker must disclose and obtain consent. There may even be occasions where the broker decides not to act for both the insurer and the client. This needs to be explained to Mr Smith as he has the option to ask the Insurer to deal with the claim.

From a regulatory perspective, it may also be prudent to have one individual manage the delegated claims authority and another to act as the client adviser. This may allay any fears that Mr Smith may have.

Clearly, not all claims will fall within the authority of the agreement. Where this is the case, the broker must inform the insurer of the loss promptly and tell their client that they cannot deal with the claim on behalf of the insurer.

- (c) Many brokers now operate sophisticated claims analysis systems which are designed to aid their client in managing their risks efficiently. If MBR plc operated a computerised claims analysis system, it could review claims statistics against the premiums paid to determine loss ratio and evaluate any trends over time, allowing its clients to identify potential risks and where to concentrate their risk management resources.

The premiums insurers charge are based on a premium rating base such as the wage roll, turnover, number of vehicles or a total sum insured. Evaluating the actual claims rate against these rating bases provides both the insurer and the client, a better understanding of where the real risks are.

An analysis of claims by business unit, location or product, for example, allows clients to identify key risk areas and may help them to consider alternative funding to traditional risk transfer. In the same way, an analysis of the types of claims which are occurring may help identify trends and assist the client to stop a particular activity that is, for example, causing the injuries of employees.

Claims analysis, whether computerised, or simply in the form of maintaining claims records allows brokers to compare previous loss estimates with the actual amounts paid or settled or even closed at no cost to the insurer. This is known as 'triangulation'. If an insurer is frequently over reserving for claims, this data can be presented to the insurer as it will affect renewal terms.

Finally, MBR plc may be able to analyse the claims data over time, which will help identify if claims, either by frequency or severity are increasing or decreasing in any given period. By doing this MBR plc can offer better advice to its clients with regard to claim minimisation and risk management.

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Referencing must be completed before submission

All sources must be referenced in the body of your answer as well as in your reference list. See the *Specimen coursework assignment and answer* for examples of how to reference correctly in text and in your reference list.

References

CII study text, M81 Insurance broking practice, 2021

FCA Handbook [online] Available at: <https://www.handbook.fca.org.uk/handbook>



Question deconstruction and answer planning

The following three plans are based on 10, 20 and 30 mark questions respectively.

Question 1 - Learning Outcome 1 (10 marks)

CJ plc, a UK based insurance broker, transacts business directly with customers as well as with other insurance brokers. It also operates delegated authority schemes on behalf of insurers.

Explain the duties imposed on CJ plc, with use of appropriate diagrams, by the law of agency in **two** of the following three roles:

- (a) Retail broker.
- (b) Wholesale broker.
- (c) Coverholder.

(10)

Question deconstruction

- Review Learning Outcome 1 in the course material and the relevant information in the study text.
- Highlight the instructions within the question (which are circled in red above).
- What is the context? UK based broker, transacts direct and via brokers, operates delegated authority.
- The question asks for the duties imposed on the broker by the law of agency. Note that a diagram is required. Only two of the three roles should be answered. Also note that there is no split in the marks, so each of the two parts should be answered equally and five marks will be available for each.

Answer plan

- Identify the role of all parties in each case by identifying who is the agent and who is the principal. Examples of the duties imposed can be given, but there is no need to write large amounts on the law of agency. The question is quite specific and only five marks are available for each situation.
- This should then be illustrated with a diagram, showing all parties involved.
- As this is a 10 mark question, your answer should be shorter than the answers to either a 20 or 30 mark question.



Question 4 - Learning Outcome 4 (20 marks)

XYZ plc, an insurance broker, subscribes to the information services provided by a number of rating agencies. KB plc, an insurer with which XYZ trades, has just been downgraded by all the rating agencies due to a number of issues, which include:

- issues over some of their long-term reserving; and
- levels of reinsurance.

- (a) **Explain** the importance to XYZ plc of insurers' financial security when selecting the insurers with whom they place business. (8)
- (b) **Describe two** actions that XYZ plc might take, relating to KB plc, regarding the downgrade. (6)
- (c) **Describe two** actions that XYZ plc might take, relating to the clients whose risks are currently placed with KB plc, regarding the downgrade. (6)

Question deconstruction

- Review Learning Outcome 4 in the course material and the relevant information in the study text.
- Highlight the instructions within the question (which are circled in red above).
- Consider the context which includes the fact that the insurance broker has access to the rating agencies and that one of the insurers it trades with has been downgraded. What do the issues for the downgrade tell you?
- The marks in part (a) are slightly higher so spend a bit more time on this part. Take time and effort in explaining the importance of financial security.
- The marks for parts (b) and (c) are awarded for a description of the actions relating to both the insurer **and** the client. A description does not require a full explanation. See the Glossary of key words at the end of this specimen to understand exactly what is required.

Answer plan

Part (a): You need to explain the importance of insurers' financial security from the perspective of the broker (which includes their obligations to their client) within the context of insurer selection. By explaining, you need to do more than list the reasons, you need to show why it is important.

Part (b) and (c): Requires only a description, but the key is to include the actions relating to the insurer and to clients who have existing policies with the insurer. Any other actions taken with any other party are not required and marks will not be awarded.



As this is a 20 mark question, your answer should be longer than the answer to a 10 mark question but shorter than the answer to a 30 mark question.

Question 9 - Across more than one Learning Outcome (30 marks)

You are an account manager for NZ plc, an insurance broker. GB plc, a clothing retailer with a chain of shops, is a long-term client of yours. GB plc has asked for an extensive review of its insurance programme. Currently GB plc transfers most of its risks to a single insurer and has a very low deductible.

- (a) Describe how NZ plc could conduct a 'fair analysis' of the market. (10)
- (b) Explain, with justification, **four** key programme design issues which should be considered by NZ plc when designing a new insurance programme for GB plc. (20)

Question deconstruction

- Review learning outcomes 4, 5 and 7 in the course material and the relevant information in the study text.
- Highlight the instructions within the question (which are circled in red above).
- Consideration of the context: the nature of the client's business, the chain of shops, the fact that they are a long-term client and the fact that they are reviewing the insurance programme which consists of a highly transferred programme on a low deductible.

Answer plan

Part (a) is worth 10 marks and part (b) is worth 20 marks, so each needs to be answered accordingly in length and depth.

In part (a) a description of fair analysis is required and not a full explanation, nevertheless, in describing the conduct of such an analysis, a depth of knowledge will be required in accordance with the ten marks available. Link your answer back to the scenario and context.

In part (b) a full explanation is required, but note that only four 'key' design issues are requested. By asking for an explanation of key design issues implies that a justification of why they are key in this particular scenario is required.

In fact, the whole of part (b) should be answered within the context given. Application of the relevant facts is vital here to achieve the full 20 marks available.

As this is a 30 mark question, your answer should be longer than the answers to 10 and 20 mark questions.

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Glossary of key words

Analyse

Find the relevant facts and examine these in depth. Examine the relationship between various facts and make conclusions or recommendations.

Construct

To build or make something; construct a table.

Describe

Give an account in words (someone or something) including all relevant characteristics, qualities or events.

Devise

To plan or create a method, procedure or system.

Discuss

To consider something in detail; examining the different ideas and opinions about something, for example to weigh up alternative views.

Explain

To make something clear and easy to understand with reasoning and/or justification.

Identify

Recognise and name.

Justify

Support an argument or conclusion. Prove or show grounds for a decision.

Outline

Give a general description briefly showing the essential features.

Recommend with reasons

Provide reasons in favour.

State

Express main points in brief, clear form.