



## **Specimen coursework assignment and answer**

### **996 Strategic claims management**

The specimen coursework assignment and answer provides a guide as to the style and format of coursework questions. These examples indicate the depth and breadth of answers sought by CII markers.

The answer given is not intended to be the definitive answer. Well-reasoned alternative answers can also gain marks.

Before commencing work on your coursework assignment, you need to familiarise yourself with the information in the *Coursework Support Centre* available on the unit webpage.

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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*.

Please note the following information:

- This assignment 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.
- There are 80 marks available per coursework assignment. You must obtain a minimum of 40 marks (50%) per coursework assignment to achieve a pass.
- Your answer must be submitted on the correct answer template in Arial font, size 11.
- Your answer must include a brief context, at the start of your answer, and should be referred to throughout your answer.
- Each assignment answer should be a maximum of 3,200 words. The word count does not include labels and headings however, it does include text and numbers contained within any tables or diagrams 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 answer exceeds the word count by more than 10% the examiner will stop marking.**

## **Top tips for answering coursework assignments**

- Read the *996 Specimen coursework assignment and answer*, available on the unit webpage.
- Read the assignments carefully and ensure you answer all parts of the assignments.
- You are encouraged to choose a context that is based on a real organisation or a division of an organisation.
- 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**

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

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

The Claims Director of an existing insurer client, impressed by AED Ltd's service, has approached you 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 AED Ltd of expanding beyond HNW claims.
- Analyse, based on your identifications, as to whether AED Ltd should amend its strategy and tender for the non-HNW contract.
- Make recommendations, based on your analysis, to strategically deliver continued growth for AED Ltd.

**To be completed before submission:**

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| Word count: | 3,014 |
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**Start typing your answer here:**

### **INTRODUCTION**

AED Ltd are a third-party administrator (TPA), which offers a specialised claims handling service. There are many advantages for an insurer to outsource a claims handling function with Lyn (2020) stating these benefits include creating:

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

As a claims handling TPA, AED Ltd 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 USD1million (GBP 700k). Recent estimates show there are approximately 875,000 people in the UK who fulfil this definition.

AED Ltd's current strategy is to provide a bespoke household insurance claims handling service for high net worth (HNW) policyholders. The fact that AED Ltd only handle claims for HNW policyholders is its key differentiator and results in a relatively small number of claims being handled on an annual basis. This allows AED Ltd 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 AED Ltd offer has garnered a good reputation and due to this, one client has consequently approached AED Ltd to tender for a contract handling its non-HNW

household property claims. If taken on, this would increase the number of claims handled at AED Ltd from 2,500 per year to 12,500. This may provide a good opportunity for AED Ltd to branch out beyond its 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 AED Ltd’s current offering.

**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 AED Ltd’s claims handling of the non-HNW property claims are judged to be successful, it could expand the service further by sharing this product offering with its other current insurer clients. AED Ltd already have a good reputation for the HNW household claims and therefore these insurers who already work with AED Ltd, may wish to use AED Ltd for its non-HNW household claims.
3. **Use this expansion for marketing to new clients:** AED Ltd currently have a good reputation with its existing clients. This reputation is so good that one client is wanting to use AED Ltd for a purpose which is not the type of service usually provided (non-HNW). Therefore, AED Ltd could use this story, and evidence of its good reputation, as part of a marketing strategy to increase its client base to other insurers of HNW individuals, which it currently does not work with.

**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 AED Ltd beyond its 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 AED Ltd’s employees 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 AED Ltd; 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 AED Ltd via a Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) transfer.
3. 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 AED Ltd.

4. **Could harm our good reputation:** AED Ltd currently have a good reputation for the way it handles claims for HNW policyholders. However, dealing with claims for non-HNW individuals is not always the same. Consequently, if AED Ltd 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.

### **Amending business strategy**

AED Ltd's current strategy is to provide a bespoke household insurance claims handling service for HNW policyholders. By taking on the non-HNW policyholder contract, the 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 need to be analysed and compared to the potential drawbacks and thereafter a decision can be made as to whether this new contract is in AED Ltd's long-term interests.

### **Benefits of amending strategy**

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 AED Ltd 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 it will not be too adversely impacted by the loss of an account. By tendering for the handling of the non-HNW policyholder claims, AED Ltd 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, AED Ltd already undertake work for multiple insurers and therefore they would be the first clients AED Ltd can approach in order to sell its non-HNW service offering. This would all depend on whether the first tender is successfully implemented and carried out by AED Ltd. If this is done and AED Ltd know that it 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 its products within its current client base, AED Ltd would clearly not be outside of its usual working environment. Expansion like this in a measured and controlled way has a greater hope of being successful.

If AED Ltd can successfully expand within its current client base, then this will be a steppingstone 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 steppingstone 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 its offering, AED Ltd are free to seek out many other clients. Property insurers pay out £9 million a day in the UK, with many claims handled by TPAs rather than the insurer themselves. If AED Ltd can get a footing on this large market by handling a small volume of these claims, it can grow quickly to a considerable size.

### **Challenges in amending strategy**

The immediate difficulty would be the large increase in the claim's 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 AED Ltd. This will be made more difficult when you consider AED Ltd 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 AED Ltd's 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, 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 AED Ltd need to clarify if there is enough space in the office for the new employees to sit and work.

AED Ltd have a very good reputation for the work it undertakes 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 its 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 the 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 AED Ltd 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 AED Ltd would be 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 AED Ltd 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 AED Ltd's offering to the client will be too expensive and it 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 its current highly regarded reputation.

Finally, it is debatable whether AED Ltd need to grow by expanding its offering. AED Ltd is already experiencing modest growth in turnover in recent years and therefore if it extrapolates this further, AED Ltd 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 AED Ltd's medium to longer-term growth plans.

## **RECOMMENDATIONS**

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

### **1. Expand outside of household claims**

I would recommend AED Ltd expand the claims handling service outside of household claims. This would allow AED Ltd to continue dealing with HNW policyholders and harness the good reputation it currently has. 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, AED Ltd are doing something right otherwise it wouldn't have the great reputation which it has. Therefore, AED Ltd should focus on this reputation and play to its strengths. One of these strengths are its employees and how they interact with the policyholders. If this is seen as a real advantage, then insurers would wish to use AED Ltd's service for the handling of claims for all the above types of insurance. AED Ltd can start offering these lines of business through its 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 AED Ltd will need to ensure it has 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 AED Ltd 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, AED Ltd would need to ensure it covers the phones 24 hours a day or has an out-of-hours notification helpline. Another issue with private jets and yacht insurances could be language differences between the claim's handlers and policyholders. Therefore, AED Ltd need to work with its clients to clarify what language skills are required in the office. Finally, to open the claims service to these business lines AED Ltd would need a whole new panel of expert service providers like loss adjusters.

### **2. Increase marketing spend**

I would recommend that AED Ltd increase its internal marketing spend to highlight its strengths as a TPA. It has been shown that AED Ltd has a good reputation for what it does and therefore this should be used to build its brand. If you consider AED Ltd only deal with 2,500 claims a year



it is likely that AED Ltd are not very well known. Therefore, AED Ltd should focus on building its recognition within the household insurance market and advertise its service offering in the insurance press to ensure that insurers know who AED Ltd is, who AED Ltd works for and what types of policyholder hold AED Ltd in high esteem.

### **3. Expand HNW household claims service to new insurer clients**

I would recommend AED Ltd continues with its key offering which is a highly regarded claims handling TPA for HNW household policyholders. However, it should try and expand its 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 claims and therefore being able to win a contract with one of these insurers would be a very big opportunity for AED Ltd.

### **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. If 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 AED Ltd's reputation. However, this may not be too important if AED Ltd can remove its branding and easily train its employees to its culture and high service levels. Such an acquisition would be a quicker way to access new clients, open new opportunities and remove a direct competitor from the market.

## **Reference List**

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Rogan, F. (2016) *The insurance and reinsurance law review*, Law Business Research, London, UK

### **Articles**

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FCA Thematic Review (2015) *Delegated authority: outsourcing in the general insurance market*

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### **Websites**

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# 996 Specimen coursework assignment



## 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.