

Specimen coursework assignment and answer

530 Economics and business

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 following documents:

- *Coursework assessment guidelines and instructions*
- *How to approach coursework assignments*
- *Explaining your results notification*

530 Specimen coursework assignment



Contents

Coursework submission rules and important notes.....	3
Top tips for answering coursework questions.....	3
530 specimen coursework assignment and answer.....	4
Glossary of key words.....	14

530 Specimen coursework assignment



Coursework submission rules and important notes

Before you start your assignment, it is essential that you familiarise yourself with the *Coursework assessment guidelines and instructions* available on RevisionMate.

This includes 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.
- 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 submission should be a maximum of 3,200 words.
- Do not include your name or CII PIN anywhere in your answer.

Top tips for answering coursework assignments

- Read the *Specimen coursework assignment and answer* for this unit, available on RevisionMate.
- 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.

530 Specimen coursework assignment



Assignment

Provide a brief context for an insurance organisation, or a division of an insurance organisation, with which you are familiar.

For **this** organisation or division of an insurance organisation:

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

Note:

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

To be completed before submission:

Word count:	3,069
-------------	-------

Start typing your answer here:

Brief context

This answer is based on my employer, ABC Insurance plc (ABC). ABC is a UK-based insurer, with subsidiaries in several countries. ABC handles insurance and reinsurance across a wide range of personal and commercial products.

ABC's gross premium income in 2017 was £1.9 billion. The diversity of the insurance product portfolio and the expertise of the staff has assisted in the achievement of a consistent record of annual profitability over the last decade.

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

Explain how its business performance is measured in a competitive market

Definition of business performance measurement

Business performance measurement is concerned with the delivery of strategy by the use of suitable tools and techniques. These tools and techniques are directed towards relevant metrics that enable management to measure performance, better understand performance and influence the allocation of resources.

As has been observed, *"The successful implementation of strategy will require that managers find ways of identifying how implementation is proceeding and the extent of variance from what is expected"* (Johnson, Scholes & Whittington, 2007)

530 Specimen coursework assignment



Explanation of the measurement of business performance

To successfully operate within a competitive market, ABC, once it has decided its strategy, needs to identify the performance which it wishes to measure and then ensure it has the means to do so.

The method used by ABC is the 'Balanced Scorecard' as defined by the Balanced Scorecard Institute, 2016.

The traditional performance measurements of profitability, financial strength and liquidity, are examined in the wider remit of the importance, to business success, of customers, employees, processes, technology and innovation. The performance measurements are chosen with care.

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

Financial:

- Return on capital of 13%.
- Rating agencies' grading of A.
- Annual combined operating ratio of 96% or below, with no class exceeding 100%.
- Revenue growth greater than market average.
- Cost base, expressed as percentage of turnover, below that of benchmarked competitors.

Customer:

- Customer satisfaction index of at least 95%.
- New business acquisition of at least 20% of tendered for business. Retention rate of at least 85%.

Internal Processes:

- Year-on-year 5% reduction in unit handling costs. 0.1% error rate or below in customer documentation.
- Audit of new policies and policy changes: 5% personal lines; 10% commercial lines.
- All new policy documentation issued within at most 48 hours of commencement of insurance.
- All claims handled in accordance with documented procedures.
- IT downtime 15 hours or below p.a., with no individual interruption exceeding 60 minutes.
- Increase process efficiency by 2% p.a.

Organisational capacity:

- Every member of staff to have a personal development plan and six-monthly appraisal.
- Staff satisfaction to be in top quadrant of all employed staff in the country in which they are located.
- All staff to be capable of a contribution to handling claims, should a catastrophe event occur.
- Less than 0.25% of customers annually express dissatisfaction.

530 Specimen coursework assignment



Analysis – how risk management techniques could contribute to business performance

Risk management techniques need to be applied in a bespoke way for reasons mentioned below. They need to be not only technically appropriate but appropriate in context. Clearly, they need to relate to the business performance metrics as chosen by ABC.

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

Again, based on the Economics and business, 530, Study text, ABC has introduced a formal programme to evaluate and record their most significant risks and has also taken appropriate measures to control these risks. Some of these measures are detailed below, analysed against risk management control techniques as chosen by ABC.

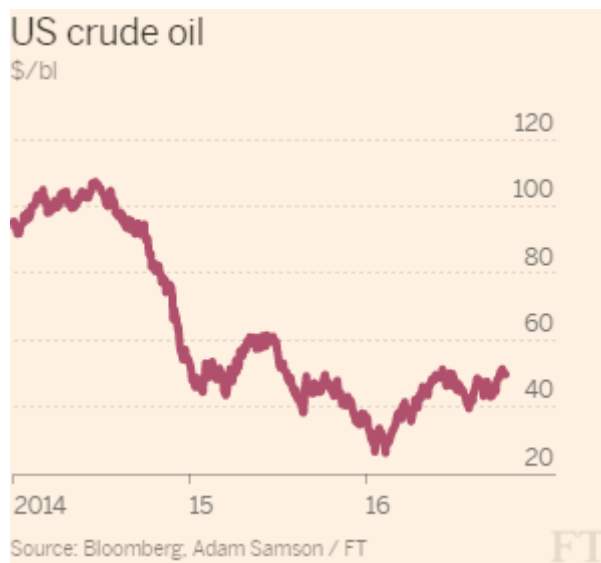
Individual country and market considerations

The marketplaces in which ABC operates are all subject to current individual underwriting cycles and economic influences. However, of far greater importance, is an assessment of future trends. Risk management techniques therefore need to be both current and forward looking.

There are currently many pressures in the reinsurance market. For example, a report from Fitch Ratings (2017 Reinsurance Guide, 2016) and an article in the Financial Times (Reinsurers: apres le deluge, 2016) underline this with regard to reinsurance rates. In addition, Willis Re (Reinsurance Market Report, 2016) recently reported, "*Reinsurers are under continued pressure from market pricing weakness...*". Similar pressures, to those seen in the reinsurance market, of capacity, regulation, underwriting profitability and a limited investment income environment, exist in the original insurance markets in which ABC operate. Risk management techniques need to reflect these pressures.

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

530 specimen coursework assignment



To understand these economic influences and their potential effect on customers and markets, ABC obtain information from a variety of knowledgeable external sources, such as The Economist Intelligence Unit (2016), which are then considered by senior management in each country in which ABC operate.

Competition

The performance of competitors is an important element in business performance. This is the case both in terms of what ABC delivers to compete is an important element in business performance - in terms of what ABC delivers to compete with them - and the relative success they have in achieving profitable results. A number of activities are in place to achieve this such as subscribing to rating agencies, such as Standard & Poor's (2016), who provide "...high-quality market intelligence in the form of credit ratings, research, and thought leadership".

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

An understanding of how markets develop assists in understanding the market's potential, whether negative or positive. An illustration is China, where ABC is considering entering the motor insurance market as it is predicted that by 2020 China will overtake the USA in having the world's largest number of cars (according to forecasts made by Trading Economics (China Passenger Car Sales Forecast 2016 – 2020, 2016) and The Detroit News (U.S car sales to peak, 2016)).

ABC's strategy department, in conjunction with senior management in each country, seek to understand the strategy and competitive positioning of competitors. This is to understand the threats and opportunities this creates so ABC can respond appropriately.

ABC's risk management techniques therefore reflect, as far as possible, the influences of various external environments and likely future trends and directions.

530 Specimen coursework assignment



Other considerations

Within strategic planning ABC recognise that the future consists of several possibilities, including Donald Rumsfeld's "unknown unknowns" (Brainy Quote, 2016). So, in the choice of appropriate risk management techniques ABC use scenarios to test their business performance against various potential outcomes. This use of such scenarios, rather than basing assumptions on a single view of the future, is described as: "*Scenarios are a tool for helping us to take a long view in a world of great uncertainty.*" (Schwartz 1997).

To ensure solvency adequacy, for current and anticipated future requirements, ABC has in place an Own Risk and Solvency Assessment (ORSA) which meets its statutory and regulatory obligations, as set out by the Financial Conduct Authority (FCA, Reporting requirements, 2016). The ORSA is concerned with the overall solvency needs of ABC and, as such, draws, in part, on ABC's risk management analysis and information.

Usual risk management techniques

ABC also carry out what may be described as the usual risk management techniques in relation to business performance. These include setting risk appetite, promoting an ethical culture, general risk controls, having a risk committee, measuring variances and controlling bonuses.

Risk appetite

ABC's risk appetite is set by the board who cascade it to all staff. It forms part of the considerations in the business performance process at strategic, tactical and operational levels. If the decision required will, or may be, contrary to the stated risk appetite the decision, if there is justification for its enactment, is referred to executive management. Executive management refer it to the Board in turn for a final decision.

Ethical culture

A key ingredient in ABC's risk management is an ethical culture. This goes beyond what is articulated by regulators such as the FCA (Financial services, Regulation and Ethics, 2016), and government legislation, for example the UK's Bribery Act 2010 (UK Government's anti-bribery policy, 2016).

In the short-term, ABC losses out on some business opportunities if they run contrary to its ethical policy. However, the evidence from customers and competitors is that they admire ABC's stance which is seen as giving it a competitive advantage, particularly as more and more potential customers adopt ethical practices.

ABC's ethical policy includes suitable policies on:

- conflicts of interest;
- gifts and hospitality;
- improper payments; and
- the use of confidential information, with serious actions, including dismissal and/or prosecution, should breaches come to light.

All staff are given regular training to ensure they understand how their personal behaviour contributes to their and ABC's reputations.

530 Specimen coursework assignment



Ethical activities are not limited to business activities however as ABC takes its social responsibilities seriously. It allocates a percentage of its profits to social inclusion, community engagement and education programmes in each of the countries in which it operates. These social responsibility programmes are not set by head office but rather instigated by local management consulting with staff to establish which activities they should support.

ABC practices an open and transparent culture which encourages the movement of information up, down and sideways across the organisation. In particular, bad news moves quickly, so the implications of this needs to be rapidly considered and addressed at the appropriate level of management seniority.

General risk controls

Internal controls are in place to ensure that, as far as possible, each decision is taken in the light of best practice with sufficient information being available on which to make a sound decision.

There are three layers to check decision-making:

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

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

Risk Committee

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

Variances

An important element in identifying risks is the use of variance to monitor the difference between plans and results. The Balanced Scorecard provides a high-level summary, however for ABC this is supported by plans at country and team levels, which cascade down to individual staff member performance requirements. The credibility of these plans and individual performance requirements require them not just to be specific, measurable,

530 Specimen coursework assignment



achievable, realistic and with timescales but also to be accepted by staff. Therefore, considerable effort is made to involve staff in the setting of individual, team and country targets.

These plans are then modified by views, based on local knowledge, from lower down the organisational structure. The performance variances are used to identify threats and opportunities.

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

Bonuses

A 'golden thread' throughout the above is the linking of managers' rewards to achievement of the key performance indicators, milestones and ethical standards. All performance bonuses are linked to the achievement of results, both financial and non-financial. Given the long-term nature of insurance, with potentially several years between action and certainty of the results of that action, (e.g. a construction insurance policy for a new power station which takes many years to build) all bonuses are subject to 'claw-back'. This 'claw-back' applies, should it subsequently come to light, that the long-term results of actions differ from what was expected at the time the bonus payment was made.

Recommendations

Whilst ABC has developed its Own Risk and Solvency Assessment (ORSA) to meet the needs of Solvency II, it has yet to fully implement an enterprise risk management (ERM) approach to risk management. An ERM, if correctly implemented, would provide a holistic risk management view across ABC. The current approach is built-up from individual risks and may, for example, overlook aggregations of risk across the organisation, e.g. the effects of deflation occurring concurrently in several countries. ERM would correct this problem. ABC has some challenging business performance targets. ERM fully recognises the gain/ opportunities that can arise from taking risks and therefore its use should enhance both the measurement of business performance and the likely results.

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

530 Specimen coursework assignment



As identified in the 530 Study text 9/25, the psychology of risk is also important. Risk perceptions vary between individuals and across cultures. An ERM approach should bring greater consistency to these issues thus making it easier to measure business performance.

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

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

In addition, ABC need to recognise that there may be too much emphasis on their measurement of business performance therefore even greater analysis of risks is required. The 530 Study text refers to FinTech, Big Data and Automation and AI. These present huge opportunities for ABC but also present major disruption potential to their business. The efficiencies that ABC are striving to achieve may be inadequate. ABC may need to revolutionise their use of data and AI may have potential for major cost savings. ABC must aim to partner with some of the new companies as soon as possible.

530 Specimen coursework assignment



Reference List

Books

Schwartz, P. (1997) *The Art of the Long View: Planning for the Future in an Uncertain World*, Doubleday, New York.

Hardwick, P. & Acharyya, M. (2017) *Economics and business 530*, The Chartered Insurance Institute, London.

Johnson, G., Scholes, K. and Whittington, R. (2007) *Exploring Corporate Strategy*, Prentice Hall, Hemel Hempstead.

Internet Sites

Balanced Scorecard Institute: <http://balancedscorecard.org/Resources/About-the-Balanced-Scorecard> [Accessed 29 January 2018]

BBC: *Oil price: Is OPEC back in charge?* <http://www.bbc.co.uk/news/business-37512637> [Accessed 29 January 2018]

BrainyQuote, Donald Rumsfeld quote:
<http://www.brainyquote.com/quotes/quotes/d/donaldrums148142.html> [Accessed 29 January 2018]

The Economist Intelligence Unit: <http://www.eiu.com/home.aspx> [Accessed 29 January 2018]

Financial Conduct Authority; Financial Services, Regulation and Ethics:
<https://www.fca.org.uk/publication/archive/financial-services-regulation-ethics.pdf>
[Accessed 29 January 2018]

Financial Conduct Authority; reporting requirements:
<https://www.fca.org.uk/firms/regulatory-reporting/requirements-insurance-firms>
[Accessed 29 January 2018]

Financial Times: *Oil record output underlines OPEC's struggle to raise prices:*
<https://www.ft.com/content/372565e0-8f8b-11e6-a72e-b428cb934b78> [Accessed 29 January 2018]

Financial Times; *Reinsurers: après le deluge:* <https://www.ft.com/content/08bb8612-2c03-11e6-bf8d-26294ad519fc> [Accessed 29 January 2018]

FitchRatings; 2017 Global Reinsurance Guide <https://www.fitchratings.com/site/pr/1011374>
[Accessed 29 January 2018]

Institute of Customer Service <https://www.instituteofcustomerservice.com/about-us/mission-values-and-standards> [Accessed 29 January 2018]

530 Specimen coursework assignment



InteDelta: Risk Management Consultants: <http://intedelta.com/subject-matter-expertise> [Accessed 29 January 2018]

RSA Insurance Group, Regulatory News: <https://www.rsagroup.com/news/regulatory-news-ris/> [Accessed 29 January 2018]

Standard & Poor's http://www.standardandpoors.com/en_EU/web/guest/home [Accessed 29 January 2018]

The Detroit Times; *Forecast: U.S. car sales to peak at record 18.2m in 2017*
<http://www.detroitnews.com/story/business/autos/2015/10/14/ihc-sales-forecast/73937942/> [Accessed 29 January 2018]

The Guardian; *EU and IMF auditors to visit Athens as Greece's agony continues*:
<https://www.theguardian.com/world/2016/oct/16/eu-and-imf-auditors-to-visit-athens-as-greeces-agony-continues> [Accessed 29 January 2018]

Trading Economics, China Passenger Car Sales Forecast 2016 – 2012:
<http://www.tradingeconomics.com/china/car-registrations/forecast> [Accessed 29 January 2018]

UK Government, anti-bribery policy: <https://www.gov.uk/anti-bribery-policy>
[Accessed 29 January 2018]

Willis Re, Reinsurance Market Report: September 2016:
[http://www.willisre.com/Media_Room/Press_Releases_\(Browse_All\)/2016/Willis%20Reinsurance%20Market%20Report%20PR%20FINAL.pdf](http://www.willisre.com/Media_Room/Press_Releases_(Browse_All)/2016/Willis%20Reinsurance%20Market%20Report%20PR%20FINAL.pdf) [Accessed 29 January 2018]

Legislation

Bribery Act 2010: <http://www.legislation.gov.uk/ukpga/2010/23/contents> [Accessed 29 January 2018]

530 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 of (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. Provide or show reasons for a decision.

Recommend with reasons

Provide reasons in favour.

State

Express main points in brief, clear form.