SPECIMEN COURSEWORK ASSIGNMENT AND ANSWER

995 Strategic underwriting

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*

Contents

995 Specimen coursework assignment

<u>Coursework submission rules and important notes</u>

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

<u>Top tips for answering coursework assignments</u>

- 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.
- For assignments relating to regulation and law, knowledge of the UK regulatory framework is appropriate.
- There is no minimum word requirement, but an answer with fewer than 2,800 words may be insufficiently comprehensive.

Assignment

You are the Chief Underwriting Office (CUO) for a general insurer that is listed on a recognised Stock Exchange. For several years, the insurer has been profitable and has annually increased dividends to shareholders.

Due to the market's overall profitability, capacity has recently increased. This has led to an increase in competition and is causing a softening of the insurance market. As a result, the Board have decided to amend the underwriting strategy in order to:

- Reduce the size of the general insurance portfolio.
- Limit the exposure to risks where the required underwriting terms are not achievable.
- Minimise the loss of profitable customers.

The reduction in the general insurance portfolio is expected to lead to underwriter redundancies.

Question

- Identify, with justification, four stakeholder groups who will be significantly impacted by the amended underwriting strategy.
- Explain the impact that the insurer's amended underwriting strategy may have on each of these four stakeholder groups.
- Analyse, based on your explanation, the potential conflicts between the insurer's underwriting strategy and each of the four stakeholder groups.
- Make recommendations, based on your analysis, to manage the potential conflicts whilst delivering the amended underwriting strategy.

To be completed before submission:

Word count:	3300

Start typing your answer here:

Our company has decided to amend underwriting strategy to concentrate on its profitable business and reduce the number of risks where we are unable, due to competition, to get adequate premium/underwriting terms.

As a result of this new strategy various stakeholders will be significantly impacted.

Four Stakeholders significantly affected are:

1) Shareholders

As the Insurer is listed on the stock exchange, there will be opportunities for shareholders to buy and sell shares in the company. The shareholders' main concern is that the business performs profitably and they achieve an adequate return on capital. Any amendment in strategy will impact shareholders views.

2) Customers

Amending the strategy will significantly affect which customers the Insurers maintain.
Non-profitable customers could be faced with the non-renewal of their policies with the company or the terms and conditions imposed being subject to change.

3) Brokers/Intermediaries
The proposed amends will affect what business a broker can place with the company and therefore significantly impact the broker's relationship with the Insurer.

4) Employees
With the size of the portfolio reducing, underwriting redundancies are expected. Employees are a key stakeholder affected by this change as, from a personal perspective, some staff will be losing their jobs and the overall staff morale will be severely affected.

The impact of the amended underwriting strategy on each of these groups:

Shareholders - As stated above, shareholders own shares in the company and as such will have the ability to sell these shares and also receive regular dividends - *'a part of the profit of a company that is paid to the people who own shares in it'* (Cambridge Dictionary, 2017).

The amount received in dividends and the value of the shares to sell on will be reliant on how much profit is made by the company. In the past, the Insurer has been profitable with dividends increasing annually.
In reducing the size of the portfolio, there may not be as much premium income which will be of concern to the shareholders. All of the actions being taken are likely to result in changes in the overall profitability of the company which will ultimately impact the dividend payments. The critical point is whether the change in market conditions is likely to be a short-term change. If it is short term, investor's dividends can most probably be protected via reserves and/or borrowings. The difficulty for the company is that prediction of market cycles is difficult.

When RSA restricted their professional indemnity book and withdrew from those areas that they viewed as non-profitable, the initial general market reaction was to assume that they were withdrawing from Professional Indemnity completely, as was the case with Aviva at the time. The press tended to focus on the negatives rather than its focus going forward, using harsh headlines such as:

> *'RSA is to swing the Axe at its UK professional indemnity book, withdrawing from products for architects, design and construction, and survey and valuation, as well as excess of loss Professional Indemnity cover'.*
>
> (Hammond, 2014)

However, the decision was taken for RSA to concentrate the book where profit could be made and focus on target markets and segments where the company felt it could deliver sustainable returns and growth. In the long term, the aim was to bring the account back to profitability, concentrating on areas which were not underpriced and were not historically producing significant claims on the account. This is similar to the current situation in which the overall goal is to focus on profitable business priced correctly and reflective of the exposure.

Customers
There will be a significant impact on customers across the whole portfolio, but the extent of the affects will depend on who the customers are and their policy history with the Insurer.

As a result of reducing the size of the portfolio, some customers will need to be lost as a result. The intention is that non-profitable risks, or those where we do not see the current terms/premium as being reflective of the exposure, are removed from the portfolio. Customers under this category may therefore find it hard to renew with us, as we will either aim to decline the risk completely or impose more appropriate terms.

Some of these customers may have had their policies with the company for a significantly long period and remained loyal throughout. This could potentially have an effect on our reputation, damaging the relationship created with long standing insureds. Once lost, these customers will be hard to capture when the market changes.

Potential new customers that we feel are paying a significantly underpriced premium, or have significantly wider coverage than we feel is appropriate, will be lost. Such customers will have to go to our competitors who are willing to offer these terms. Some of these competitors may not have as much experience within the market or the financial backing and ability to handle claims correctly. If customers choose, or are forced to place policies with them, customers may end up with inappropriate cover and issues with claim handling.

Profitable customers however, will see the benefit of our amended strategy as we aim to minimise the loss of such customers. This could be by providing them with rate reductions or wider coverage or additional value-added services.

Intermediaries/Brokers
Intermediaries will be looking to place the business in the most appropriate place suitable to their customer’s needs. They may no longer see our company as the most appropriate insurer especially if we have made terms harsher for non-profitable customers. We may also be declining some risks which the broker is trying to place; this means that the broker has to develop stronger relationships with other providers.

For instance, in 2013 XL withdrew from professional indemnity for certain classes of solicitors, this was due to the current market conditions not allowing for adequate pricing, similar to the situation we are currently in, due to an increase in claims and solicitors willingness to use unrated companies for their insurance. (InsuranceAge, 2013)

Although mainstream brokers such as Marsh were able to find alternative markets, they found that the markets they were willing to place the business with were competing against unrated companies, who Marsh were not keen to place business with. This demonstrates that certain brokers with the right attitude towards service levels and offering the clients security, are losing out on business and commission as a result. Ultimately, the broker may hold us responsible for this.

Employees
Those working within the underwriting function of the company will potentially be at threat of redundancy. As the overall portfolio reduces there will be fewer policies to be handled. As a result, fewer underwriting staff will be required. Depending on the attitude of the Board, they may wish to keep the more experienced staff to handle the remaining risks, or as the risks are likely to be straightforward profitable ones - as opposed to complex, highly exposure risks - they may choose to keep the less experienced staff. These staff are cheaper to employ but it does mean a significant reduction in market knowledge. The uncertainty surrounding such decisions will cause unease among employees and staff morale will be severely affected. In 2015 Willis confirmed that 350 redundancies across the company would be made by 2017 (InsuranceAge, 2015). This amounted to many employees looking for new vacancies elsewhere and finding alternative employment even if they were not necessarily then going to go on and be made redundant. This resulted in the loss of experienced, previously dedicated staff. unnecessarily.

When redundancy announcements are made, and covered within the press, the employees themselves may find it hard to concentrate on their work or motivate themselves to work to their normal standard. This will also result in the company getting bad reviews and feedback in employee surveys, employee recruitment and review websites, such as Glass Door, where Willis employees expressed discontent.

Some employees may also be shareholders, so will also be concerned with the profit of the company and affected by all the issues provided above under shareholders.

Those employees remaining in the company will be the ones that implement and communicate the new strategy, so it is also essential that they fully understand what is expected of them, and guidelines are issued as to what they should be doing to take the account forward**.**

Potential conflicts between the Insurer and the stakeholder groups:

The Insurer and its director's initial concern will be the success of the company, which will usually be measured by the amount of profit it makes.

Under the Companies Act 2006, directors are encouraged to consider the interests of other stakeholders when making decisions.

Section 172 of the Act requires them to also consider the:-

- *(a) Likely consequences of any decision in the long term;*
- *(b) Interest of the company's employees;*
- *(c) Need to foster the company's relationship with suppliers, customers and others;*
- *(d) Impact of the company's operations on the community and the environment;*
- *(e) Desirability of the company maintaining a reputation for high standards of business conduct; and the*
- *(f) Need to act fairly between members of the company.*

(Legislation.gov.uk)

Previously directors were only required to act in the best interests of the company, but following the requirements of the Act above, directors may find it difficult to balance this with the interests of the various stakeholder groups.

Shareholders
The shareholders main concern will generally be in line with that of the company, i.e. the return and performance of the company. The method of implementation can cause potential conflict. For instance, in shrinking the portfolio the Board will see this as being advantageous in the long term as only profitable business will be selected, however the shareholders may view this drastic measure as causing loss of business. As stated previously, if they are just planning to be shareholders for the short term they will be concerned that this loss of business will initially cause loss in gross written premium and loss in income, affecting their dividend payments. Long-term investors will be keen for the business in this area to remain sustainable.

Customers
The Companies Act 2006 specifically requires directors to have regard to the need to ‘foster the company’s relationship with customers’. The affects demonstrated above on those customers that are viewed as ‘unacceptable’ risks going forward, will not foster such relationships but instead will destroy them. The Board will be concerned with tightening terms and conditions and increasing premiums to limit exposure and only accept those risks which become more attractive with such terms applied. Customers who have been long standing and loyal to the company will view this as a change in service standards and the value for money obtainable.

Those profitable customers that the company wishes to maintain may be satisfied that their interests are being looked after, as the Board will look to offer them better quality of service and terms and conditions to maintain this business.

Intermediaries
There is clearly a conflict in the objectives of the Board and that of intermediaries. The Board will want to do all they can to exceed profit targets. The intermediaries on the other hand will want maximum commission and the ability to place risks, which may be seen by the Board as an additional cost. The new strategy is concerned with writing profitable business in the interests of the company, but intermediaries unless placing business on a profit commission basis, will mainly be concerned in getting the business placed regardless of how profitable it is to the insurer. This is so that they can earn commission on it and also meet the client’s expectations and needs.

In terms of looking out for the client they will want to achieve the best terms and conditions possible for them. With the new strategy potentially implementing harsher terms and conditions on certain customers or seeing them removed from the portfolio, this will conflict with the intermediary’s interests of placing the business and meeting customer expectations.

Employees
Whilst employees will also want to achieve maximum return on profit as this will lead to better salaries, bonuses and potentially career progression, the way in which maximum return on profit is achieved can cause particular conflict between the Insurer and its employees.

In this situation, the Insurance company is looking to reduce staff as the portfolio is restricted to profitable business only. The employees required for a larger portfolio are no longer necessary and will be viewed by the Board as an additional expense which will drive profit down. This will obviously conflict with the employees’ interests who are at risk of redundancy. In the long term, if unprofitable business was retained on the books and continued to result in losses, more employees could potentially have their jobs put at risk than are currently.

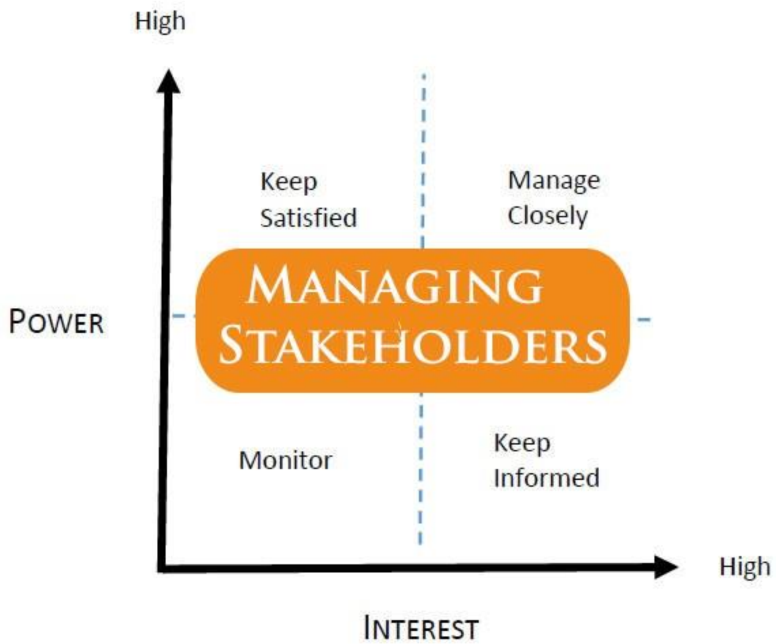
The Companies Act 2006 requires the Board to take into consideration the employees interests when making decisions so this must be looked at very carefully.

Managing Conflicts
The first step in managing the potential conflicts of interest will be in identifying the stakeholders and the conflicts that may arise. This has already been set out in the above sections.

Analysing each stakeholder's needs is vital, but also identifying the extent of the effects on each group and being able to prioritise these interests is also key.

The Project Managers Institute produced an engagement matrix in their guidance book 'Project Management Body of Knowledge (PMBOK) (fifth edition)'. Although aimed at project managers in a range of sectors the principle can still apply in insurance in that the engagement levels of stakeholders can be classified and models such as the Power/Interest Grid applied (WhizLabs.com, 2014).

The Power/Interest Grid contains four quadrants. Each quadrant gives an indication of the level of stakeholder management that will need to be employed and this in turn may influence the type of communication style. The four quadrants of the Power/Interest Grid are shown below:



Shareholders are the group that bring money to the company and so have a lot of influence and power. If we upset the shareholders, we will potentially lose out on money being invested. Their main interest is to make profitable returns, which falls in line with the insurer's goals and interests. This group should therefore be managed closely, and we should aim to satisfy their needs and manage their interest effectively.

The interests of customers, intermediaries and employees are obviously also very high, otherwise they would not have been selected to be considered throughout this document, however their power within the company to influence the decisions made and implemented is less so. This would put them into the 'keep informed' sector. However, this is a very subjective view and with the impact of the Companies Act 2006 we are now also obliged to take these groups interests into consideration when making our decisions.

We should therefore look to implement the new strategy whilst satisfying all these groups interests to the best of our ability. Key to doing this though is communicating effectively to each group.

PMBOK also recommends stages at which different stakeholders should be communicated to, depending on their importance in the project (isixsigma.com). Those involved in the process of decision making with the highest of power and interest should be closely monitored (as per the above matrix) and therefore kept up to date continuously with proposed changes before they happen. Although shareholders were identified as having high interest and power above, the power is only in respect of financial input. They are not directly involved in this initial decision, as such would probably also just need to be kept informed. There is of course the added complication of institutional investors who may have more direct influence on the overall business strategy.

Recommendations

The Board and underwriting management will be the ones making the decisions and will therefore be key to managing the conflicts. As a result, timely communication will need to be implemented as appropriate. Although the matrix provides a useful starting point, the managing of communication now needs to be tailored to our environment and scenario.

First on the list I would put employees. They are part of the organisation and as such should know what’s happening within it. They will also potentially be affected from both a work and personal perspective if their jobs are to be put at risk. The message should also be communicated in a way that demonstrates the necessity of these changes in that if they are not made and we continue to write business at an unsuitable premium, the account will eventually be non-profitable which will lead to a higher level of redundancies in the longer term. Corrective action needs to be taken now. We should also ensure that employees who are made redundant are given an adequate redundancy package to show our appreciation of their work and commitment during their employment with us. At all times, minimising rumours must be imperative as the company do not want to lose the employees they ultimately want to retain.

Those remaining with the company must also be given clear guidance and advice as to how to proceed with the account, with the relevant strategy documented for their referral.

Next, I would communicate the proposed strategy to intermediaries and shareholders. This should be done as a consistent message to all. A press release may be the best form of communication to do this, but also following this up immediately with telephone calls to key brokers. The issue here is that we don’t want our smaller brokers knowing before our key ones. In communicating a message through the press, this will ensure this goes out to all but also following this up with calls will give the brokers a chance to discuss any concerns they may have. Again, the message should be portrayed positively in that we are focusing the account on profitable business and aiming to do all we can to retain certain customers. We should do a full review of the books and give brokers adequate notice (a few months in advance) for any of the business that we will not want to write going forward or intend to implement stricter terms on. This should help manage expectations and allow them to find alternative markets and inform their customers in advance. This was how RSA maintained their broker relationships when withdrawing from certain sectors within the professional indemnity market. Looking at renewal lists for the year ahead and recognising those that won’t be renewing was key. Informing brokers early meant they were able to plan for this.

Although customers may be informed via the press release, they are more likely to be communicated to by brokers once the announcement has been made or at the point of renewal. Although many of them will be affected by the decision for us to concentrate on retaining profitable business only, there will always be markets out there willing to write the other business and still at cheaper premiums (InsuranceAge.com, 2013). One of the reasons we have had to take this action is due to competition, so customers will therefore still be able to get insured easily. For this reason, it should be less important to communicate with them at the outset of the new strategy implementation.

We could take action such as setting up a helpline for any queries the stakeholders have following the new strategy and designate specific people to respond to any queries. This would demonstrate an understanding of the need to respond to stakeholders and respect for their relevant interests.

Overall the key to managing the conflicts would appear to be firstly understanding each stakeholders interest and analysing these to recognise which ones are key and need more management, communicating effectively with each group, and trying to ensure that each party see the positives in the new strategy by demonstrating the long-term outcome.

Reference List:

995 Strategic Underwriting, 2017, The Chartered Insurance Institute, Phil Foley

Morrison, C (2013) *XL Pulls Back From Solicitors PI Market* [online] available at: https://www.insuranceage.co.uk/insurance-age/news-analysis/2292057/xl-pulls-back-from-solicitors-pi-market [accessed 16 Feb 2018]

Cambridge dictionary online (2017) [online] available at: http://dictionary.cambridge.org/dictionary/english/dividend [accessed 16 Feb 2018]

Hammond, (2014) *RSA swing the Axe at its UK professional indemnity book* [online] available at: https://www.hpic-insurance.co.uk/davids-blog/325-rsa-is-to-swing-the-axe-at-its-uk-professional-indemnity-book [accessed 16 Feb 2018]

Glassdoor, *Wills Re* [online] available at: https://www.glassdoor.co.uk/Reviews/Willis-Re-Reviews-E311807.htm [accessed 16 Feb 2018]

Whizlabs, (2014) *How To Manage Stakeholders Conflicts* [online] available at: https://www.whizlabs.com/blog/how-to-manage-stakeholders-conflicts/ [accessed 16 Feb 2018]

iSixIgma, *Preventing Conflicts Through Stakeholder Management* [online] available at:

https://www.isixsigma.com/implementation/change-management-implementation/preventing-conflicts-through-stakeholder-management/ [accessed 16 Feb 2018]

Haughey, D. (2013) *Project Management Body of Knowledge (PMBOK)* [online] available at: https://www.projectsmart.co.uk/pmbok.php [accessed 16 Feb 2018]

Barton, S. (2015) *Willis Confirms 350 Redundancies* [online] available at: https://www.insuranceage.co.uk/insurance-age/news/2404314/willis-confirms-350-redundancies [accessed 16 Feb 2018]

Legislation.gov.uk, *Companies Act 2006, s.172* [online] available at: https://www.legislation.gov.uk/ukpga/2006/46/section/172 [accessed 16 Feb 2018]

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.