



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 information in the *Coursework Support Centre* available on RevisionMate.

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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 RevisionMate.

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 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 answer exceeds the word count by more than 10% the examiner will stop marking.**

Top tips for answering coursework assignments

- Read the *530 Specimen coursework assignment and answer*, 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.

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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.
- Make recommendations, based on your analysis, to improve risk management and the measurement of business performance.

Note 1

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.

Note 2

The word 'briefly' after the word 'explain' in this Assignment question does not appear against any requirements in the explanation. However, in actual live Assignments it can and if for example it appeared here after the word explain in the first bullet you would provide less material than shown here in relation to that first bullet.

To be completed before submission:

Word count:	2974
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Assignment Answer

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 2020 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.

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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, (2021).

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%.
- Agreed customer metrics across the business for complaint handling, service response times, net promoter scores, customer experience ratings and use of communication channels.

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.

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- 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.

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. They also need to be readily accessible and relate to worldwide analysis given the geographical scope of ABC.

ABC has an established risk management programme. 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. ABC use their own internal resources to obtain such country information and also the resources of Coface (2021). Further external sources include The Economist Intelligence Unit (2021), with the information then reviewed in detail by the senior management in each country in which ABC operate.

Again, ABC has introduced a formal programme to evaluate and record their most significant risks using such internal and external resources 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, in information from Collins (2021) this is underlined with regard to reinsurance rates. ABC therefore are aware that for some classes there has been a hardening of reinsurance rates in 2020 and that this trend is likely to continue into 2021. However, information such as the above also informs ABC that over-capacity in the reinsurance market is likely to continue in 2020 and so is a countervailing force.

Economic conditions also vary by country and to better understand these conditions for example, their economic influences and their potential effect on customers and markets, ABC obtain information from a variety of knowledgeable external sources. This includes The World Bank (2021) and The United Nations (2021).

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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 (S&P) (2021), who provide a wide range of services including "Global market Intelligence Insights". (S&P) is a "leading provider of multi-asset class data and research, delivered through innovative platforms and coupled with insightful analysis. "ABC uses and extracts such information on a worldwide basis. S&P also provide ABC with "high-quality market intelligence in the form of credit ratings, research and thought leadership "(S&P) (2021).

ABC's strategy department, in conjunction with senior management in each country also 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 use information sites such as ReportLinker (Insurance Industry, 2021) to obtain detailed reports on both the industry as a whole and competitors on a global basis.

Membership of organisations such as the Institute of Customer Service (2021) allow ABC to strengthen its business performance by improving customers' experiences. ABC benefits as a key role of this Institute is to "independently measure your success, identify opportunities and benchmark against competitors."

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

Other considerations

Within strategic planning ABC recognise that the future consists of several possibilities, including Donald Rumsfeld's "unknown unknowns" (Brainy Quote, 2021). So, in the choice of appropriate risk management techniques ABC use scenarios to test their business performance against various potential outcomes.

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. 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. A disaster planning, crisis management and business continuity approach is also in place to activate in case of major incidents.

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,

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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 the promotion of an ethical culture.

In the short-term, ABC losses out on some business opportunities as they can 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 also recognise that the insurance industry is by definition a long-term business and its long-term reputation is therefore of critical importance.

ABC's ethical policy includes suitable policies on:

- conflicts of interest;
- gifts and hospitality;
- improper payments; and
- use of confidential information, with serious actions, including dismissal and/or prosecution, should breaches come to light.
- dealing with stakeholders;
- inclusion of reporting in various internal and external reports.

All staff are given regular training to ensure they understand how their personal behaviour contributes to their and ABC's reputations. There is a worldwide ethics committee and a regular review of how up to date the ethics policy is with monitoring of effectiveness and individual situations.

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.

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- 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 (2021).

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.

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, 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 requires that companies whose shares are listed on it make market announcements on significant issues.

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.

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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. For an international company an ERM approach also should result in improved consistency. 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.

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 further 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.

Given the focus on reputation, the consequences of a reputational threatening event are potentially very serious. It is recommended that the existing business continuity arrangements should be extended to include a full test and response to a range of potential 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 there is the test of a suite of responses developed to cater for any one of a number of predicted or unpredicted events, rather than solely focusing on testing one likely event 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 ABC 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 for ABC 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 ABC management need to be alert to changing plans should the emerging experience and knowledge justify such a course of action.

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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. It is possible that such measurement can result in over emphasis on the results of what is being measured and hitting a rather narrow range of targets. ABC should also review in further detail possible conflicts between the targets.

These targets present huge opportunities for ABC but also can 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 greater use of Artificial Intelligence may mean ABC have potential for major cost savings. ABC must aim to partner with some of the new companies as soon as possible.

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Reference List

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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 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.