SPECIMEN
COURSEWORK ASSIGNMENT
AND ANSWER

820 – (Advanced claims)

The following is a specimen coursework assignment question and answer. It provides a guide as to the style and format of coursework questions that will be asked and indicates the depth and breadth of answers sought by markers. The answer given is not intended to be the definitive answer; well reasoned alternative views will also gain good marks.

Before commencing work on an actual coursework assignment, you need to fully familiarise yourself with the following documents:

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

Coursework assignments involve the application of knowledge to work-related questions. They require you to explore issues in the workplace relevant to the unit for which you have enrolled.

Coursework submission rules and important notes

Before commencing on, or submitting, your coursework assignment it is essential that you fully familiarise yourself with the content of *Coursework assessment guidelines and instructions.* This includes the following information:

- The maximum word limit for coursework assignments is 3,200 words.
- Arial font and size 11 to be used in your answers.
- 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.
- Deadline for submission of coursework answers.
- There are 80 marks available per assignment. You must obtain a minimum of 40 marks (50%) per assignment to achieve a pass.
- The coursework marking criteria applied by markers to submitted answers.
- Do not include your name or CII PIN anywhere in your answers.

Top tips for answering coursework assignments

- Read the assignments carefully and ensure you answer all parts of the assignments.
- Ensure that each answer includes a relevant context, regardless of the country or countries to which it refers.
- You must include a context in each answer. You may use the same context for each of the three answers.
- 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

Provide a brief context for an insurer, or a division of an insurer, with which you are familiar. For **this** insurer or division of an insurer:

- Explain the claims cost control strategy, the different cost components of claims management, and how the total cost of claims management, both in terms of operational costs and claims payments, are currently controlled.
- Analyse the impact of reinsurance, potential fraudulent claims, subrogation and recoveries on the claims cost control strategy.
- Make recommendations, based on your analysis, to improve the cost of claims management.

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 exemplar answer, which is widely publicised, a fictitious company has been chosen so as not to highlight any particular company.

Word count:	3,184

Assignment Answer

Context

The company concerned is a niche insurer primarily focused in the small and medium sized enterprises (SME) market. Like other similar insurers, it purchases reinsurance to protect itself against certain risks. This assignment focuses on the claims division of the company. The company transacts business across a diverse spectrum of businesses in the SME field such as leisure, wholesale, manufacture, tradesmen and property owners. It offers covers for material damage and business interruption, motor, liability and professional risks. The underwriters and claims team are located in London. The company has a strategic objective to grow organically by 20% over the next three to five years.

To manage the claims costs the company employs a team of experienced, cross-skilled claims professionals who can work effectively across risk and cover profiles. Current claims staff numbers meet current business needs. Most claims staff have been recruited from the claims departments of other insurers as opposed to trained up internally. Certain functions are outsourced as detailed later. Such outsourcing at present relates to more traditional claims type functions.

COST CONTROL

(a) Claims Cost control strategy

The claims cost control strategy follows the overall company strategy and objectives. If the cost of claims at any point in time exceeds the available resource to pay such liabilities, then the organisation is technically insolvent and must enter into insolvency.

The claims cost control strategy is therefore concerned with the number and competency of staff employed to manage the account, and the guidance that the claims team is provided with in terms of reserving, case management and settlement targets. The claims team is supported by clear expectations around job roles, performance, referral procedures and through an intuitive claims system.

(b) Cost components of claims management

The cost components of claims management are as follows:

- Unit case costs, i.e. the average operational cost of handling a claim.
- Average time spent on one claim.
- Claims expense ratio, i.e. the ratio of internal costs to premiums.

The largest expense against the loss ratio for the commercial book will be the claims spend. As such, it is imperative that the claims operation is managed with care and skill to keep the cost of both the operational and indemnity spend to a minimum. The cost controls, whilst seeking to minimise unnecessary costs, must ensure that the '*Service provided to the customer is competent, efficient, and responsive and treats the customer fairly'* (CII study text, 820 Advanced Claims, 2015).

Operational costs include matters such as office space, information technology (IT) systems including the claims system, infrastructure and staffing costs. Operational decisions will inform and be informed by the cost control strategy. For example, an operational decision was made to locate the claims team within the City of London. The interconnected claims and underwriting team promotes dialogue around policy intention, risk management and controls that save costs.

> *The claims department is able to spot market trends sooner than anyone else in the business. This information affects reserving, pricing and product development. If you divorce claims from underwriting you won't be able to respond as quickly to changes in the market (Post Magazine, January 2012, Article by Barrett).*

The decision to locate the claims department in London does though come at an increased cost as office space, staff salaries and competition for talent are at a premium in the Square Mile. City of London rates in 2016 range from £98 - £103 per square foot (OKTRA Business Services: www.oktra.co.uk).

(c) Control of claims costs

Case management and average life cycles of claims are monitored to check that the costs and timescales are in line with targets, with corrective action being taken as appropriate. The early settlement of claims provides certainty for customers. Although there are always exceptions to any rule, it is generally accepted that the most economical claims settlements are achieved by proactive, targeted settlements. Often, the longer a claim is open, the more it costs to process and the higher the indemnity spend.

Employees receive regular training sessions from industry experts on topics such as changes in law and regulation, with other training specific to individual learning needs. Each and every employee is encouraged to cross-train across handling disciplines so that the team is equipped with flexibility in staffing needs and so that the customer always has access to a decision maker (Insurance Claims Handling Process: CII Training www.cii.co.uk/training).

Employees are also supported by clear lines of authority, which require matters above their personal authority to be referred to a manager for sign off. Examples include settlement above a prescribed financial limit or a policy decision that may involve the declinature of a claim.

To aid early settlement of claims, assistance in the claims process is provided by the use of external claims professionals.

Examples primarily include:

- Loss adjusters and solicitors.
- Rehabilitation services.
- Surveillance firms (liability) and building services (property).

Such external service providers give access to expertise which is more cost efficient than providing those services in-house. The relationship is supported by service level agreements, fee structures, nominated individuals for the account and instructions based on continual quality (CII study text, 820 Advanced Claims, 2015).

To control costs, panel firms are selected that both complement the size of our business operation and also the market that our customers operate within. A firm that values your business and is committed to providing a value added service will result in savings in indemnity spend. Such firms also more easily relate to our company culture and way of doing business.

Both the internal claims handling and the external service provision by panel providers is subject to regular audits to ensure compliance with the cost management strategy and appropriate action is taken as required.

Furthermore, costs can be kept down through the following:

- Obtaining and retaining competent staff.
- Having efficient administrative support and IT systems.
- Having excellent record keeping and knowledge sharing across the business.

Knowledgeable and experienced staff are necessary to apply the control processes and to achieve proactive cost management.

There may be prohibitive costs associated with upgrading IT systems. Currently however, the claims and underwriting departments have different systems and it is essential to update them.

The Claims Manager cannot analyse the management of operational costs in isolation. Any reduction in the operational costs can have an impact on how well the claims department operates and impact non-claims functions. For example, the reduction in operational costs may have an impact on customer satisfaction and may incur additional regulatory scrutiny. The Claims Manager needs to balance the cost of the operation against the desired level of service.

REINSURANCE

The company has reinsurance arrangements in place, which operate on a non-proportional basis. Under this arrangement losses, or cumulative losses, estimated to settle above a value of £500,000, need to be advised to reinsurers. The notification is required as soon as information is received of the likely loss and an individual report is issued to the reinsurer with supporting documents.

Reinsurance is purchased for catastrophe scenarios. This affects the technical management of claims, as once the company has been advised of a loss there is a responsibility to mitigate the loss.

It is important that the claims management procedures should incorporate a clear communications process. It is very important that claims are handled adequately and with efficiency to ensure:

- Claims payments are restricted to those that are properly covered by the reinsurance agreement.
- Claims payments are confined to those that are correctly presented.
- Accurate and representative records are kept. These should include losses advised, losses settled and correctly reserved.
- All possible recoveries are made from the retrocessional protections (CII study text, 820 Advanced Claims, 2015).

This involves considerable input from the claims team, as loss adjusters need to be appointed and deployed as quickly as possible. In these early stages excellent communication is imperative, between all parties dealing with the claim and also in further advices to the reinsurer in order to ensure transparency. The company also needs to ensure that, where possible, claims are settled quickly. The longer negotiations/ litigations continue, the greater the cost of the claim.

For example, a member of the team may receive notification of a serious accident involving an insured's employee. Enquiries reveal that the employee has been airlifted to a hospital and that both the police and the Health and Safety Executive (HSE) are investigating. Controls are in place to ensure that such potentially very serious cases are escalated internally and notified in early course to the reinsurer.

A weather event, such as the UK floods in early 2014, was immediately advised to reinsurers as this could have resulted in an accumulation of losses in the property portfolio, highlighting the possibility of a potential reinsurance claim.

To ensure that notification is made in early course, the 'first notification of loss' team is trained to identify claim profiles that may have a significant financial value. In addition, cases are prioritised by technical claims managers who have the experience to identify loss potential. All this is supported by regular management information and file audits.

The reinsurer allows our claims team to continue to handle the claim, but will also consider the nature of the loss, liability and probable cost in order that they can assist with claims strategy and to keep their own retrocessionaires informed.

As the claim progresses the claims team keeps the reinsurer informed so that timely settlement of the reinsurance claim is made with appropriate recoveries made. This ensures that claims costs are kept to a minimum.

FRAUD

The management of potentially fraudulent claims continues to be a challenge for the insurance industry and it must be a major consideration of any cost control strategy.

It is estimated that insurance fraud costs the UK insurance industry £2.1 billion every year (CII study text, 820 Advanced Claims, 2015).

Training is provided to ensure our claims team is able to identify potential fraud. It is also continually provided to ensure currency with trends and developments. The aim is to settle genuine claims quickly and fairly, and to be robust with fraudulent claims. The motor industry, in particular, has seen a new phenomenon in recent years of staged accidents which has shown fraud on a large scale with a degree of sophistication far beyond the opportunism or the temptation to 'inflate' a genuine loss.
As experience increases within the team members are able to identify a larger number of

fraudulent claims relatively easily. Some insurers have now produced fraud indicator manuals for their staff, relevant to the class of business (CII study text, 820 Advanced Claims, 2015).

In line with other insurers' claims experience, it is though the property portfolio (first party) that is most likely to be targeted with fraudulent claims. Liability risks, although not devoid of claims that do not exist at all are more likely to be subject to exaggeration. With first party claims of a significant size, a loss adjuster is used to undertake a full investigation. It is more difficult to present a fraudulent claim face-to-face than it is on paper.

In combination with the loss adjuster, background checks, forensic investigation, witness statements, review of CCTV, liaison with various fraud agencies and / or databases take place. It is imperative that any 'suspicion' is investigated sensitively and with haste.

With a first party claim, it may be that inconsistencies in the risk presentation will be established – often a policyholder who is prepared to fabricate a claim is also likely to have concealed material facts from the outset. Non-disclosure may entitle underwriters to avoid a policy and not address the issue of fraud directly, which is invariably more difficult to establish.

Following the implementation of the Consumer Insurance (Disclosure and Representations) Act 2012 relating to consumer insurance the company has to consider qualifying misrepresentation.

SUBROGATION & RECOVERIES

When dealing with a claim, it is important to consider whether or not there is another party who will ultimately bear some or all of the loss. Possible third party recovery can easily be overlooked or forgotten when the Insured is actively pursuing a settlement of a claim. It is essential however that any action to recover monies or subrogate against another party is considered from the outset of a claim when evidence needs to be gathered. This could be physical evidence such as a defective product or contemporaneous evidence, e.g. a witness statement.

If a factory wall is damaged by impact from a third party vehicle, then an attempted recovery from the motor vehicle insurer will follow. Details of the driver's insurer need to be gathered and the relevant insurer notified. In the case of a defective product that has caused injury, or a contract site where a member of the public has had an accident, an investigation to establish the relevant parties may be needed and evidence gathered to identify negligent parties and either reduce or eliminate the company's exposure.

An initial review of new claims by the Claims Manager assists in identifying recovery opportunities and is supported by the internal audit process. Further, solicitors are engaged from the panel to undertake closed case reviews periodically, which is a cost effective method of ensuring that all recoveries have been explored. Reviews can be undertaken at no upfront cost but with the agreement that a fixed fee or percentage of any recovery will be afforded to the firm of solicitors on the realisation of a recovery.

RECOMMENDATIONS

Given the above analysis and with knowledge that the company has an ambitious organic growth plan over the next three to five years, the following specific recommendations are made to improve the cost of claims management:

(1) The London claims team is currently financially sustainable based on current claims volumes. Due to the anticipated growth in the business, it is inevitable that the volume of claims will increase over the next three to five years. There will, therefore, be various challenges to continuing growth of the claims team in London, due to the cost of office space, salaries and competition for talent.

A satellite office or offices, outside London, including claims staff where office space is cheaper and salaries are at a more competitive level will have operational cost benefits. In this scenario, the London office could act as a 'head office' function with satellite office managers maintaining the culture, philosophy and cost controls in their respective offices. Alternatively, it may be possible to grow and not require additional direct staff or offices. There may be a clear cost benefit in entering into an outsource arrangement with a Third Party Administrator (TPA):

> *There are a growing number of insurers considering the viability of outsourcing their core business functions, including risk assessment, actuarial services, policy administration and* ***claims management*** *(Post Magazine, July 2012, Article by Bernstein).*

A TPA could be utilised, for example, to handle claims within a delegated financial authority. A delegated arrangement that allowed all claims under £25k to be handled by the TPA would allow the existing company's team to focus on claims above £25k and exercise oversight of the TPA management. Such arrangements are common in the London market based on a core team in London and smaller claims handled by the TPA would allow both growth and an improvement in the cost of claims management.

(2) Similarly, although the company has been able to recruit experienced staff to date this may not be a viable long term strategy particularly exposing the company in tight labour markets. There is much to be gained from producing your own talent. There is a short to mid-term investment of time and commitment, but a business that invests in training and succession planning is likely to be better equipped for both future stability and greater control and flexibility.

If we didn't invest in the development of our professionals, it would be akin to a manufacturer not upgrading equipment, yet still expecting improved productivity (Forbes, May 2012, article by Quest).

Mentoring arrangements provide existing staff with the opportunity to give something back to the business and trainees will welcome opportunities to learn and develop from experienced professionals. It is imperative that sufficient time is given for training to be meaningful and there will be operational cost savings as trainees will be cheaper to source than established talent. Such trainees are also more likely to be available over the longer term.

(3) The current claims IT system has many advantages but it could be improved further. The need to re-key certain information should be eliminated and the system could provide 'prompts' for the user to input certain information. In a fast paced claims environment it is easy to forget to complete certain actions and the system should protect the user from human error or lapses of concentration. An upgrade or replacement of the existing claims system is likely to involve a significant cost so it is of paramount importance that a process analysis is undertaken to appreciate the efficiencies that could be achieved. By understanding these efficiencies it will be possible to estimate the likely operational costs that can be realised and when the investment would be paid back and operational savings optimised.

(4) Currently the claims and underwriting departments do not share the same system. The ideal would be for the underwriting and claims information to be held on one universal system but this may involve considerable time and investment. It may, in the interim, be possible to establish central access to underwriting information held on document sharing platforms, such as Microsoft 'SharePoint', which would eliminate time spent in actively chasing individual documents as claims arise.

(5) Fraud investigation is reliant on experienced staff. Given the current volumes, the current staffing arrangements are entirely satisfactory and appropriate. However, as the team increases in size there will be a need for greater resources in this area. It may not provide an operational cost benefit to invest in fraud management systems as the book is likely to remain weighted towards SME claims e.g. employers and public/product liability. An opportunity may exist to collaborate with an established anti-fraud capability delivered by an outsourced provider.

(6) The new order, post Jackson reforms (Civil Justice Reforms 2013), has had an opportunity to become established. A review of the current panel arrangements should be implemented to ensure current cost and service provision remain competitive. There will be innovative products in the market that the business is unaware of, or that have developed post Jackson.

CONCLUSION

Claims are the largest single outlay of any insurer in terms of outgoing funds. The management of claims costs is complex in nature and requires continual care and skill. Regular review of the strategy, service and personnel is required to minimise operation and claims costs. The use of reinsurance, subrogation and recovery, and the control of fraud are vital tools in the technical management of claims. The company has a stable footing with a desire to both grow and constantly improve its offering and will no doubt continue to innovate to provide a market leading service.

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