



# **SPECIMEN COURSEWORK ASSIGNMENT AND ANSWER**

## **930 – (Advanced Insurance Broking)**

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 examiners. 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.

**CONTENTS**

<b>Specimen Assignment</b>	<b>3</b>
<b>Specimen Template and Answer</b>	<b>4</b>

## Coursework – assignment

### Submission Rules

Before commencing work you need to fully familiarise yourself with the 'Candidate coursework assessment guidelines and instructions', including:

- Maximum word limit for assignments (3,200 words)
- Font type and size to be used in your assignments (Arial – size 11pt)
- Rules relating to referencing third party work
- Penalties for contravention of the rules relating to plagiarism and collaboration
- Deadline for submission of coursework assignments
- Outline of the marking criteria applied by assessors to submitted assignments

### Important notes

Ensure that you have:

- Answered **all** parts of the question in sufficient depth
- Answered the precise question as worded – marks will not be awarded for irrelevant material
- Correctly referenced **all** sources shown on the reference list in your answer
- Checked your word count to ensure it is not too low as this might indicate that you are not answering in sufficient depth and will affect the marks allocated for components in the mark-grid. A word count that is too high may lead to lack of focus
- Reread your answer to ensure your description of the context is not too long as marks are only allocated for answering the question
- Reread your answer to ensure it is logically structured and that you have added value by making sufficient conclusions and recommendations
- Failure to follow the guidance and instructions could result in you failing this unit

### Assignment

Provide a brief context for either an insurance broking organisation or a division of an insurance broking organisation with which you are familiar. For this organisation or division:

- Explain how it currently adds value to insurers, clients and its own business.
- Analyse how the intermediary environment is changing.
- Make recommendations to address these changes to add value in the future.

Before commencing work you need to fully familiarise yourself with the '[Candidate coursework assessment guidelines and instructions](#)', which include:

- Maximum word limit for assignments (3,200 words)
- Font type and size to be used in your assignments (Arial – size 11pt)
- Rules relating to referencing third party work
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#### Additional note:

The following answer does not disclose the name of the broker. However, unless there are reasons relating to commercial sensitivity preventing you from naming the organisation, you may do so, bearing in mind that answers are subject to CII confidentiality.

#### To be completed before submission:

<b>Word count:</b>	3,120
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#### Start typing your answer here:

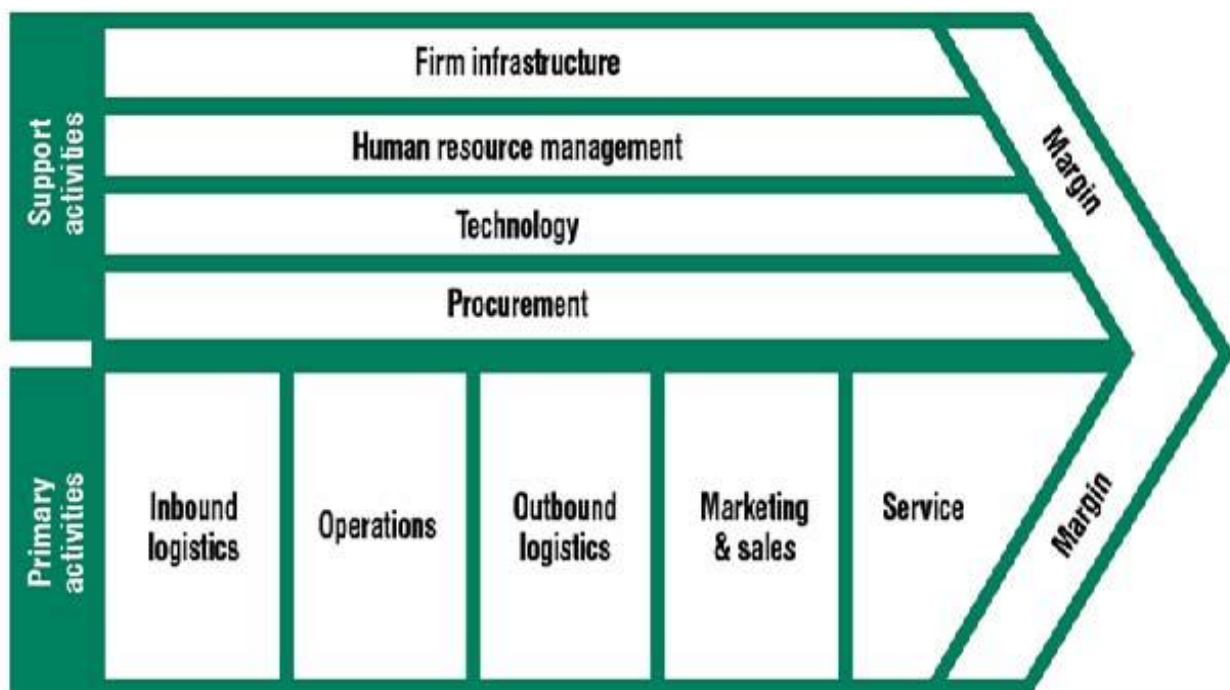
#### Context

This answer is based on my employer who is a UK regional insurance broker engaged in marketing, selling and servicing life and non-life products for customers in the small and medium enterprises (SME), and personal lines markets. The brokerage is majority owned by the directors – the two founding directors own over 50% of the equity – with the balance owned by some staff through incentive awards.

The brokerage was formed in 1985, initially trading from a single office, and has expanded both organically and by acquisition to its current size of four offices, each located in a major town, with 55 staff in total. The annual premium generated is £14.3m, producing brokerage and fee income totalling £2.3m. Over the next five years, the brokerage has strategic objectives of opening further offices and making acquisitions, with the aim of increasing revenue by 50%.

### An explanation of adding value

The key to success in any competitive market is adding value. Providing added value is



essential if a company is to develop a sustainable competitive advantage. One common representation of this is Michael Porter's concept of a 'value chain' (Porter 1996).

### Adding value to insurers

To add value to insurers we need to understand their value propositions, i.e. the values that matter to them in terms of generating a sustainable competitive advantage, so that we can seek to assist their delivery.

Some insurers publish their high level strategic objectives which can include statements that highlight their own value propositions. For example Aviva, an insurer with whom we have a

large agency, state that the following are important in terms of adding value to its customers (Aviva 2013):

*“We start with what our customers really need and deliver it more simply than anyone else.*

*We strive to:*

- Remain financially strong so that we are there to deliver on our promises to customer. This is our first priority*
- Be obsessive about understanding the real needs of our customers and helping them to make the best decisions*
- Be bold in creating solutions that take away customers’ fears and problems.*
- Always do the right thing for customers*
- Ensure our products always do ‘what they say on the tin’ – customers will get exactly what they expect*
- Simplify every aspect of our relationship with the customer – contracts, processes, products and communications*
- Be a ‘one-stop-shop’ – single conversations, logins and telephone numbers across all the products we offer*
- Enable customers to choose how they want to deal with us*
- Reward customer loyalty”.*

We share Aviva’s customer focus. Whilst not all insurers publish their strategic objectives, we aim to work with them to understand what their strategic objectives are and how we can best help to deliver them.

Our brokerage adds value to the insurers we deal with in the following ways:

- Delivering pre-agreed service standards
- Providing detailed information on our customers
- Minimising mistakes and reducing transaction costs, through the use of technology
- Delivering growth and profit
- Reducing adverse selection and moral hazard
- Delivering an expert interface between our customers and the insurer
- Delivering operational and financial support.

Each of these added value points are explained below:

### **1. Delivering pre agreed service standards**

Our relationships with insurers are set out in Terms of Business Agreements (TOBAs). These TOBAs explain the responsibilities and obligations of our brokerage and insurers so

avoiding doubt during the trading relationship.

We add value through these TOBAs to the insurer by taking on responsibility as the agent for the client. All TOBAs are subject to an annual review, initiated by us and more frequently should there be changes in the external environment. These changes can arise from revisions in regulatory guidance or new legislation, or where our customers' expectations change, to ensure that they remain fit for purpose. These reviews are conducted against a template of what was expected from the TOBA against actual performance, including feedback from customers and our staff which is collected as it arises and held as information for the next review.

Our stated aim is to provide insurers with excellent service across all aspects of the relationship from new business enquiry through to policy termination. We have set internal service standards, based on our analysis of what customers expect, ensuring that they at least meet the expectations of insurers. The standards are both qualitative and time based.

These standards are communicated to insurers so that they are aware of them and they form part of the ongoing relationship discussions with insurers' account executives which will, in turn, inform future improvements in service standards and TOBAs.

We ensure that we understand insurers' service standards and that we work within them to reduce the number of enquiries they need to put to us. This focus on service reduces the costs insurers incur in trading with us.

## **2. Providing detailed information on our customers**

We maintain detailed records of new business and renewals. By segmenting customers into numerous categories including size, turnover, payroll, nature of business, standard industry code/s and insurance programmes we have built up an understanding of which insurers are the most competitive for different classes and sizes of business.

The above information, together with discussions with insurers, confirms our understanding of classes and business in which they are interested. This is supported by practical knowledge of insurers' quotation and renewal terms, enabling us to 'fast-track' business towards those insurers most likely to provide the best terms.

Due to the quality and extent of the information held by us, we can ensure we present clients and prospective clients that have the necessary risk profile to insurers to match their underwriting philosophy. Therefore, the insurer only sees risks of the right profile, saving time and cost. The results of all quotation and renewal activity are included in our regular discussions with insurers' account executives.

### **3. Minimising mistakes and reducing transaction costs, through the use of technology**

As far as insurers allow, we conduct all business by electronic data transfer. We use insurers' preferred case enquiry forms having internal software which automatically completes each insurer's forms. This adds value by minimising mistakes and reducing transaction costs.

### **4. Delivering growth and profit**

We add value to insurers by bringing to them our clients in a cost efficient way. We bear the costs of developing our sales pipelines and securing new clients. As the cost of securing new clients can be higher than retaining our existing business, we have a vested interest in working hard to keep our clients satisfied. This means insurers benefit from our sales and retention work at little or no cost to themselves. In addition, we take on many of the administrative client-facing functions, such as issuing documentation for example.

According to an article in the McKinsey Quarterly 1999 Number 3, brokers can cut insurers' transactional expenditure by 40% by eliminating their 'search costs', whilst improving service. (Insiderquarterly, Insurer vs Broker)

We positively support certain insurers, whose values and service standards best match the aspirations we have for our clients. There are in place performance profit share payments from some insurers, should we achieve mutually agreed growth and loss ratio targets. However the terms of these performance triggers are not known to our sales and claims handling teams. This ensures that they are not influenced to either support certain insurers or handle claims on anything other than our organisation-wide consistent terms, to the possible detriment of clients.

We maintain a rigorous separation between our new business and servicing teams and have in place a conflicts of interest policy along similar lines to that of Aon (Aon 2014). Within our conflicts of interest policy we expressly prohibit the practice of 'churning' for additional commission income.

### **5. Reducing adverse selection and moral hazard**

As we are committed to the aim of achieving profit for all our insurers, we provide a balanced risk portfolio and do not seek to 'off load' poor or distressed risks with any one insurer.



Through our knowledge of the client and our commitment to continually remind clients of their obligations of disclosure, we reduce the moral hazard risk to our insurers.

Whilst we are the agent of the client and not the insurer, as described by Maynard (2013), we do value our relationship with insurers. For example, we always give the holding insurer a final opportunity to reconsider their terms should we decide to recommend a change of insurer to one of our clients. This is always done on the basis where the holding insurer is unaware of the best terms in our possession.

We have established certain delegated underwriting authorities for specific lines of commercial business. These authorities are operated to standards we agree with the relevant insurers. As the standards are based on our researched expectations of our clients such standards are often higher than the insurer would otherwise impose on us. This adds value by demonstrating that we will not undermine the insurers' standards and by taking on the role of 'underwriter' within the parameters set by each insurer.

## **6. Delivering an expert interface between our customers and the insurer**

Insurance policies can be complex. We add value to insurers by acting as a knowledgeable interface between the insured and the insurer, fielding enquiries from clients and obtaining answers from insurers. We also ensure that the insurers' needs and requirements are met as far as possible by the insureds.

## **7. Delivering operational and financial support**

We add value to insurers by undertaking a range of administrative tasks. These include the collection of premiums (and their return). We also collect risk exposure data, such as turnover figures and risk values, and further data on adjustable policies such as public liability. In relation to our delegated schemes, we may also have a considerable involvement in the payment of claims.

Client money is collected and paid over and debts are chased on behalf of the insurers.

### **Adding value to clients**

Our brokerage adds value to our clients in the following ways:

- Delivering bespoke services
- Putting client interests first
- Investing in continuous professional development.

Each of these added value points are explained below:

### **1. Delivering bespoke services**

Across all of our services to clients, we have in place service standards which are set with reference to our analysis of client needs. Performance against the achievement of these service standards is monitored with any identified failings used to address improvements.

For every client we provide our terms of business at the outset of the relationship. The value of this is that customers' expectations of us are understood and agreed. An example is the Oval Group's Terms of Business Agreement (Oval Group 2014).

We provide various added value services to commercial clients, for example:

- Clients are provided with a desk top risk analysis, based on the information we have gained from them at new business stage, which can be augmented by an on-site risk survey which is provided, at cost to us, by reputable risk surveyors. An example of the services provided by an independent risk surveying business is BASE UK Ltd (BASE 2014). This provides value through risk identification and recommendations for risk improvements.
- A dedicated named service contact and, in the event of a claim, a named claims contact. These individuals are given widespread authority to manage the clients' expectations and, in the case of commercial customers, keep the account handler aware of developments through our management information system. This provides value through personalised contact for clients.

Our services to personal clients include supplying emails to clients in flood zones informing them of the precautions to be taken when the Environmental Agency issues flood alert warnings and general newsletters to clients on a range of topical risk and insurance issues.

For all our clients we undertake regular coverage reviews, pricing checks and we resolve issues with insurers. We also provide product knowledge. Crucially we provide independent advice based on clients Demands and Needs and not on our own business interests or what the insurer dictates.

### **2. Putting client interests first**

All sales and service staff, as part of their induction training, are introduced to our values and culture which require them to place the clients' interests at the forefront of their

considerations and actions. Within the training we incorporate the Chartered Insurance Institute's Code of Ethics (CII 2014) and the Financial Conduct Authority's (FCA) 'Treating Customers Fairly' (FCA 2014). The value of this training, which is embedded in our brokerage's culture, is an enhanced ethical approach.

### **3. Investing in continuous professional development**

We invest in continuous professional development for all staff. We expect all new employees to achieve relevant qualifications within a stipulated timescale and include this as a condition in their contracts of employment. Full training support and study leave is provided to support this objective.

### **4. Adding value to our own business**

By adding value to our insurers and our clients, as explained above, we also add inherent value to our own business. The better we perform our responsibilities, the more successful we will be as a business.

The primary way in which we add value to our own business is through delivery of a high quality and professional service to our insurers and clients. In doing this we will ensure profitable growth and the achievement of our strategic objectives. At an operational level, we add value by achieving the targets set by managers at all levels.

Our firm's management team combines a range of skills not only reflecting our culture, with actively working owner directors, but reinforced with marketing and customer relationship skills acquired by recruiting insurance-knowledgeable experts. The management also ensure that proper business intelligence and information is generated to ensure opportunities are taken with both existing and potential clients.

Given the size of our brokerage, the working directors clearly add value by devoting the majority of their time to the production of business, client relationships and the retention of business.

We can also add value by delivering a range of fee based services, such as risk management services to both clients and insurers. By segmenting our business we can concentrate our resources on areas that provide higher financial gain.

By being professional, we can eliminate wastage or duplication. By looking at the bottom line, as well as the top line, we can generate business efficiency. The 'Right First Time' initiative (an industry wide campaign designed to reduce administrative errors) is an example of this.

## 5. Adding value in the future

The intermediary environment is volatile and characterised by:

- increasing competition;
- increasing regulation;
- the challenge of technology;
- the economic environment.

Each of these factors is explained in more detail below:

### 1. Increasing competition

The market for insurance broking services has become highly competitive in recent years, primarily because of the influx of 'direct' insurance offerings that supposedly remove the need for an insurance intermediary, e.g. Direct Line Group. In order to survive insurance brokers must achieve added value for their clients, insurers and themselves.

To add future value we must become an integral part of our clients businesses as valued business partners. For example, we consider the insurance and risk implications at the planning stage of major projects. In addition, we undertake various basic administrative tasks for our clients in relation to risk and insurance that they would normally expect to do themselves. We can then add future value as a true partner within our clients' businesses.

We should also ensure that our commercial clients, where they wish to undertake insurance and risk tasks themselves, know exactly how to do so. Where appropriate we could run training programmes for our clients' staff which would add value to them, ourselves and insurers by improved efficiencies and ensuring critical matters are properly considered and undertaken.

### 2. Increasing regulation

The general insurance market is regulated by the Prudential Regulation Authority and the FCA. We must embrace regulation, keeping abreast of all developments, so as to allow our operations as much freedom to transact business, whilst paying due regard to current regulation. This requires investment by us in appropriate business risk and compliance expertise.

### 3. The challenge of technology

The internet is used by increasing numbers of customers for the arrangement of their insurances, particularly for personal lines business. In addition, customers are taking advantage of the rapid growth in technological developments and social media for business and personal use.

In order to add value in the future, we need to understand and embrace new technology, ensuring we communicate with our clients in the way they like to be communicated with and to ensure we use the internet and social media to our advantage both for servicing our clients and reaching new ones.

### 4. The economic environment

There are clearly serious issues within the UK and global economies. This affects brokers in different ways. For our company the following are the key issues: levels of UK taxation, specific industry factors, international and national monetary issues, personal disposable incomes, the employment market, levels of inflation, interest rates and consumer and business confidence.

The medium-term economic outlook (3-5 years) is seemingly fairly unfavourable for our business and may affect our stated strategic objective of making further acquisitions and opening further offices. The mismatch created by the inflation rate exceeding average incomes since the financial crisis, as identified by the BBC (2014), means that our personal customers have reduced money to spend, after they have purchased their essentials, whilst our corporate clients are reluctant to invest and have fewer assets to insure. There are also additional downward pricing pressures in a difficult economic climate.

In order to add value in the future, we need to ensure that we continue to provide service excellence to retain our existing clients and to take advantage of the opportunity to win new business from clients who are under financial pressure.

Value can be added by an even greater focus on efficiency to ensure we avoid wastage and duplication of effort.

### Conclusion

As intermediaries in the insurance transaction, we are in a unique position of being able to add value to both our clients and the insurers we work with. The more value we bring to those parties, the more value we add to our own business.



The insurance market, and intermediary environment in particular, is dynamic and constantly changing. The next three to five years are particularly important for us. In order to continue to add value in the changing market, brokers need to continually adapt and embrace change by adopting new methods of operation.

However, the fundamental function of the intermediary, to provide excellent service to customers and insurers, remains constant.



## Reference list

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### Internet Sites

Aon's Code of Business Conduct

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BASE UK Ltd Source: <http://www.baseservices.co.uk/> [accessed 14 October 2014]

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