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. The aim is that you should thereafter be able to apply this learning in the workplace.
CONTENTS

Specimen Assignment .................................................................................................................... 3
Specimen Template and Answer .................................................................................................... 4
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 for actions to be taken to maximise added 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)
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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.

To be completed before submission:

| Word count: | 3,256 |
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 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.

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. Adding value provides the focus for all activities and business functions.

**Adding value to insurers**

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

1. **Delivering pre agreed service standards**

   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 Terms of Business Agreements (TOBAs). A good example of a service standards agreement can be found at the address below

In addition we ensure that we understand insurers’ service standards and that we work within them to minimise the enquiries they need to put to us. This focus on service and minimised enquiries 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 by 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 and which matches the insurers underwriting philosophy.

This information allied to discussions with insurers to confirm our understanding of classes and business they are interested in, supported by practical knowledge of insurers’ quotation and renewal terms, and enables us to ‘fast-track’ business towards those insurers most likely to provide the best terms.

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. Technology is a rapidly evolving area and as a business, we will need to keep up to date with new developments such as social media, peer to peer technology and the harnessing of smart phone technology. It is clear that customers, particularly the younger generations, are increasingly comfortable with the use of new technology to purchase products and services. Further examples of the way that insurers and insurance brokers can utilise emerging technology can be found in the article below:

http://www.riskheads.org/technology-innovation-uk-insurance-sector/

4. Delivering growth and profit

We add value to insurers by bringing our clients to them 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. (Insurer vs Broker)

We positively support certain insurers, whose values and service standards best match the aspirations we have for our clients. We receive 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 can add value by bringing our expertise to bear to present our insurers with the kinds of risks they are looking for and provide them with the risk data they need to make informed underwriting decisions.

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

As agent of the insured we always put the interests of our clients first. However, 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.

We have established certain delegated underwriting authorities for specific lines of 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, therefore our 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.

By working hard to ensure all material facts are presented to insurers we can limit the time spent in potential discussions in the event of a claim.

6. **Delivering an expert interface between our customers and insurers**

Insurance policies can be complex. We add value to insurers by acting as a
knowledgeable interface between the insured and the insurer. We also ensure that the insurers’ needs and requirements are met as far as possible by the insureds. By providing an expert interface, we can take the time to explain key technical issues to the insured. We can provide insurers with reassurance regarding a technically competent level of service.

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

Whilst adding value to insurers, we will also be delivering added value to our clients in many ways. However, in addition to the above, our brokerage adds specific value to our clients in the following ways:

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.

The Oval Group’s Terms of Business Agreement (Oval Group 2013) is an example that exists in the market. Our TOBA is very similar.

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

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.
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 and the Financial Conduct Authority (FCA) ‘Treating Customers Fairly’ outcomes. 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.

**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.

1. **Achievement of our objectives**

By adding value to our customers and our insurers, 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.

2. **Training and Competency**
By investing in our greatest assets, our employees, we ensure staff are recruited, trained and developed at/to a high level. 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. The company follows the best practice guides explained in the FCA’s Handbook in its Senior Management Arrangements, Systems and Controls (SYSC).

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.

3. Services

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. Another example of the provision of a non-core broking service is the feedback of data to insurers. Aon have established a lucrative service in this area for example.

4. Efficiency

It is essential that the service we deliver and our core functions, indeed all our operations, are undertaken in an efficient and cost effective way. Whilst the delivery of service excellence is paramount to our success, one eye should always remain on our cost base. The more efficiently we can deliver our service the more satisfied all our stakeholders will be. The elimination of cost and duplication is important here, but so is the need to find a balance between the quality of services we provide and the cost of providing them.

The ‘Right First Time’ initiative (an industry wide campaign designed to reduce administrative errors) is an example of this.

Analysis of The Changing Intermediary Environment

The key changes in the intermediary environment are analysed 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.

Brokers only have 35% of the personal lines insurance market, as these products tend to be quite simple. Direct insurers are, therefore able to deliver low cost, simple products. However, for some complex personal insurances, such as High Net Worth insurances for example, insurers will only offer their product range through brokers.

However, commercial insurances are still purchased through brokers, by 85% of all commercial customers. There were 4.8 million private sector businesses in the UK at the start of 2012 (Department for Business, Innovation and Skills). It could be argued that this is because commercial insurances may be more complex and require the services of a specialist such as a broker.

This may have implications for our strategic plans, as we consider who our target market should be. If our personal lines margins are being squeezed by tougher competition, perhaps we should focus on business lines with a greater profit margin.

To combat the encroachment of the direct insurers on our traditional client base. The establishment of delegated authority schemes, means that we as brokers are able to perform many of the traditional services, previously the reserve of the insurer, such as document issue, underwriting and claims settlement, albeit in a limited way.

2. **Increasing regulation**

The general insurance broker market is regulated by the FCA. Up to January 2004, the market was self-regulated by the General Insurance Standards Council. However, since then, regulation has become increasingly intrusive with the establishment of the Financial Services Authority (FSA) and more recently, the FCA.

The personal lines market has, in particular, been the focus of a high degree of regulation. The Financial Services and Markets Act (2000) in particular enabled the establishment of the FSA which was established to protect consumers and this brought with it a range of initiatives ranging from Treating Customers Fairly to Contract Certainty. The Financial Services Act (2012) established the FCA, with the intention of adopting much of the FSA’s principles and with the additional intention of being even more forward looking.
There are likely to be significant changes to the intermediary regulatory landscape. The European Commission published a proposal for a recast Directive on insurance mediation in July 2012. The draft Directive seeks to enhance regulation of insurance intermediaries in the European Union, with a particular focus on practices for selling insurance products.

This is a minimum harmonisation Directive: Member States would be able to introduce additional requirements or restrictions. The key elements of the Directive, as they affect insurance brokers are as follows:

- Freedom of services and establishment
- General good rules
- Conflict of interest
- Remuneration disclosure

Increasing regulation has several implications for our organisation. We need to understand the regulatory environment to achieve regulatory compliance and avoid any costly fines or reputational damage, but we also need to understand the regulation in order to be able to operate as freely as possible.

The FCA, in a speech by Simon Green in July 2013, entitled “What does the future of insurance broking look like” stated the following:

- The customer must be at the heart of the organisation’s business
- Trust must be earned through professionalism and integrity
- The value brought by brokers to customers’ insurance choices must be demonstrated

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.

The development of Electronic Data Interchange (EDI) allows brokers to embrace available technology from data capture to client service. Information Technology (IT) systems can be prohibitively expensive and affordability will be an issue. However, many insurers now offer EDI systems which we as a broker could adopt.

As existing technology evolves and IT systems and methods of communication
become more diverse and powerful, we need to ensure that we embrace potential enhancements and utilize new technology, while ensuring our legacy systems can freely interact. Here it is very much a case of our business strategy leading our technological decisions and not IT systems dictating to our business.

4. The economic environment

There are clearly problems 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. These are issues that should be considered at the highest level and our strategic goals adjusted accordingly.

Recommendations

1. Increasing Competition

To add future value we must become an integral part of our clients' businesses as valued business partners. For example, considering the insurance and risk implications at the planning stage of major projects and also at another level, undertaking 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.

The establishment of Delegated Authority schemes may prevent the loss of our client base to Direct Insurers. We must also be very clear in our strategy that we identify our target market and client base and offer the right service from the outset.

2. Increasing Regulation

We must understand 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. **Challenge of Technology**

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**

The medium term economic outlook (3-5 years) is clearly unfavourable for our business and may affect our stated strategic objective of making further acquisitions and opening further offices. The absence of a thriving economy also means that both our personal customers and our corporate clients have reduced income and fewer assets to insure. There are also additional downward pricing pressures in a difficult economic climate.

**Conclusion**

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. We should remember that we need to be business partners for both our insurers and our clients. This puts us in a unique position, but also poses some distinctive challenges.

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 a changing market, brokers need to continually adapt and embrace change by adopting new methods of operation.

**Reference list**

**Books**


**Journals and Reports**

McKinsey Quarterly 1999 Number 3 “Insurer vs Broker”
Internet Sites


Chartered Insurance Institute, Code of Ethics

Source: http://www.cii.co.uk/media/137912/code-of-ethics.pdf [accessed 11 Dec 2013]

Financial Services Authority ‘Treating Customers Fairly’

Source: http://www.fca.gov.uk [accessed 11 Dec 2013]

McKinsey Quarterly 1999 Number 3 (Insurer vs Broker)


Oval Group, terms of business
