Specimen coursework assignment and answer

995 Strategic underwriting

The specimen coursework assignment and answer provides a guide as to the style and format of coursework questions. These examples indicate the depth and breadth of answers sought by CII markers.

The answer given is not intended to be the definitive answer. Well-reasoned alternative answers can also gain marks.

Before commencing work on your coursework assignment, you need to familiarise yourself with the information in the *Coursework Support Centre* available.

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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*.

This includes 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.
- You must not use Artificial Intelligence (AI) tools to generate content (any part of an assignment response) and submit it as if it was your own work.
- 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 labels and headings however, it does include text and numbers contained within any tables or diagrams 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 *995 Specimen coursework assignment and answer,* available on the unit webpage.
- Read the assignments carefully and ensure you answer all parts of the assignments.
- For assignments relating to regulation and law, knowledge of the UK regulatory framework is appropriate. 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
You are the Chief Underwriting Officer (CUO) for PHE plc, a general insurer, that is listed on a recognised Stock Exchange. For several years, the insurer has been profitable, and it has increased its dividend payments to shareholders annually.

Due to the market's profitability, other insurers are entering the market and increasing the amount of insurance business they write. This has led to an increase in competition and is causing a softening of the insurance market. As a result, the Board of PHE plc has decided to amend the underwriting strategy to:

- Reduce the size of the general insurance portfolio.
- Limit the exposure to risks where the required underwriting terms have not been achieved.
- Minimise the loss of profitable customers at renewal.

This amended underwriting strategy is expected to protect the overall profitability of the business. The reduction in the general insurance portfolio is expected to lead to underwriter redundancies.

You have been tasked with managing this change.

Question
- Explain briefly, the potential impact on **four** key stakeholder groups that PHE plc's amended underwriting strategy may have.
- Analyse, based on your explanation, the potential conflicts between the insurer's underwriting strategy and each of the four stakeholder groups.
- Make recommendations to manage the potential conflicts, whilst delivering the amended underwriting strategy.

To be completed before submission:

Word count:	3496

Start typing your answer here:

PHE plc has decided to amend underwriting strategy to concentrate on its profitable business and reduce the number of risks where it is unable, due to competition, to get adequate premium and appropriate underwriting terms.

As a result of this new strategy various stakeholders will be significantly impacted. The four key stakeholders who will be most affected by this are considered below.

Explain briefly the potential impact of the amended underwriting strategy on four key stakeholders:

Shareholders

As PHE plc is listed on the stock exchange, there will be opportunities for shareholders to buy and sell shares in the company. The shareholders' main concern is that the business performs profitably, and they achieve an adequate return on capital. Any amendment in strategy will impact shareholders views and potentially future dividend payments. This may impact the share price and the willingness of investors to support PHE plc.

As stated above, shareholders own shares in PHE plc and as such will have the ability to sell these shares and also receive regular dividends. *"A share is worth the sum of all future dividend payments, "discounted back" to their net present value, according to the model. Dividends are an important indicator of a company's value because they provide a type of cash flow to the investor".* - '(Why Are Dividends Important? - TheMoneyFarm).

The amount received in dividends and the value of the shares will be reliant on how much profit is made by PHE plc. In the past, the Insurer has been profitable with dividends increasing annually. This is why shareholders have invested.

The market conditions in which PHE plc operate would also need to be considered as it may be that other insurers are following a similar strategy and so PHE plc are not seen as unusual in its actions.

Customers

Amending the strategy will significantly affect which customers PHE plc continues to insure.

Non-profitable customers could be faced with the non-renewal of their policies, or the terms and conditions imposed being subject to change. This could lead to a bad reputation developing in the marketplace and potentially, policyholders who are very angry with the company. The reputation of PHE plc may be impacted.

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

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

Intermediaries/Brokers

The proposed amendments will affect what business a broker can place with PHE plc and therefore significantly impact the broker's relationship with the Insurer. This could lead to business which the company desires being moved, as the brokers no longer feel supported.
Intermediaries will be looking to place the business with the most appropriate insurer suitable to their customer's needs. They may no longer see PHE plc as the most appropriate insurer, especially if it has made terms harsher for non-profitable customers. It may also be declining some risks which the broker is trying to place; this means that the broker has to develop stronger relationships with other providers. The added time pressures will be significant and will impact the Intermediaries/Brokers time and therefore profitability.

The Brokers loyalty will be tested and if PHE plc are not offering unique products or robust pricing it may find that other insurers can meet the needs of the Brokers more fully.

Employees

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

Those working within the underwriting function of PHE plc will potentially be at threat of redundancy. As the overall portfolio reduces, there will be fewer policies to be handled. As a result, fewer underwriting staff will be required. Depending on the attitude of the Board, they may wish to keep the more experienced staff to handle the remaining risks, or as the risks are likely to be straightforward profitable ones - as opposed to complex, highly exposure risks - they may choose to keep the less experienced staff. These staff are cheaper to employ but it does mean a significant reduction in market knowledge. The uncertainty surrounding such decisions will cause unease among employees and staff morale will be severely affected. There is a chance employees will look for new vacancies elsewhere and find alternative employment even if they are not necessarily going to be made redundant. This could result in the loss of experienced, previously dedicated staff unnecessarily.

Potential conflicts between the Insurer and the stakeholder groups:

PHE plc and its Director's main concern will be the success of the company, which will usually be measured by the amount of profit it makes.

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

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

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

(Legislation.gov.uk)

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

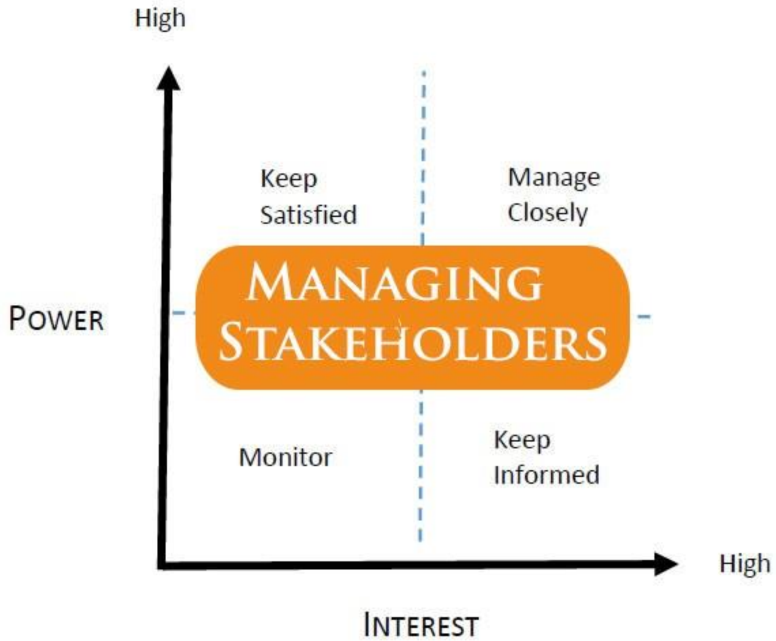
The first step in managing the potential conflicts of interest will be in identifying the stakeholders and the conflicts that may arise. This has already been set out in the above sections.

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

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

(WhizLabs.com, 2014).

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



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

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

We should therefore look to implement the new strategy whilst satisfying all these groups interests to the best of our ability. Key to doing this though is communicating effectively to each group. PMBOK also recommends stages at which different stakeholders should be communicated to, depending on their importance in the project (isixsigma.com). Those involved in the process of decision making with the highest of power and interest should be closely monitored (as per the above matrix) and therefore kept up to date continuously with proposed changes before they happen. Although PHE plc's shareholders were identified as having high interest and power above, the power is only in respect of financial input. They are not directly involved in this initial decision, as such would probably also just need to be kept informed. There is of course the added complication of institutional investors who may have more direct influence on the overall business strategy.

Given this, we will now look at each of the four key stakeholders in turn to analyse these potential conflicts.

Shareholders

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

All of the actions being taken are likely to result in changes in the overall profitability of PHE plc, which will ultimately impact the dividend payments. The critical point is whether the change in market conditions is likely to be a short-term change. If it is short term, investor's dividends can most probably be protected via reserves and/or borrowings. The issue for PHE plc is that prediction of market cycles is difficult.

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

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

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

Fundamentally, the prediction of the duration of these changes is critical. PHE plc's shareholders may be able to manage for a short period, but they are unlikely to wait for a long time.

Customers

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

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

Profitable customers, however, will see the benefit of PHE plc's amended strategy as it aims to minimise the loss of such customers. This could be by providing them with rate reductions or wider coverage or additional value-added services.

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

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

The availability of cover in the marketplace and the ease of transfer will be some of the determining factors here.

Intermediaries

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

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

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

Like customers, this group of stakeholders attitudes will be dependent on the ease of transfer and the ability to find similar cover and terms in the competitive marketplace.

Employees

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

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

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

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

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

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

There is also the issue of alienating a workforce who the company may need in years to come, should they decide to re-enter market. Therefore, careful management of this group is essential.

Recommendations

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

First on the list should be employees. They are part of the organisation and as such should know what's happening within it. They will also potentially be affected from both a work and personal perspective if their jobs are to be put at risk. The message should also be communicated in a way that demonstrates the necessity of these changes in that if they are not made and PHE plc continues to write business at an unsuitable premium, the account will eventually be non-profitable which will lead to a higher level of redundancies in the longer term. Corrective action needs to be taken now. PHE plc should also ensure that employees who are made redundant are given an adequate redundancy package to show its appreciation of their work and commitment during their employment. At all times, minimising rumors must be imperative as PHE plc do not want to lose the employees they ultimately want to retain. Incentives to stay can be made to valuable and experienced employees. The message has to be framed as positively as possible to ensure loyalty remains strong.

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

Next, I would communicate the proposed strategy to intermediaries and shareholders. This should be done as a consistent message to all. Major shareholders can be consulted and opinions taken with reassuring messages of keeping the company strong being critical.

A press release may be the best form of communication to do this, but also following this up immediately with telephone calls to key brokers. The issue here is that we don’t want our smaller brokers knowing before our key ones. In communicating a message through the press, this will ensure this goes out to all but also following this up with calls will give the brokers a chance to discuss any concerns they may have. Again, the message should be portrayed positively in that we are focusing the account on profitable business and aiming to do all we can to retain certain customers. We should do a full review of the books and give brokers adequate notice (a few months in advance) for any of the business that we will not want to write going forward or intend to implement stricter terms on. This should help manage expectations and allow them to find alternative markets and inform their customers in advance. This was how RSA maintained their broker relationships when withdrawing from certain sectors within the professional indemnity market. Looking at renewal lists for the year ahead and recognising those that won’t be renewing was key. Informing brokers early meant they were able to plan for this. Although customers may be informed via the press release, they are more likely to be communicated to by brokers once the announcement has been made or at the point of renewal. Although many of them will be affected by the decision for us to concentrate on retaining profitable business only, there will always be markets out there willing to write the other business and still at cheaper premiums (InsuranceAge.com, 2013). One of the reasons we have had to take this action is due to competition, so customers will therefore still be able to get insured easily. For this reason, it should be less important to communicate with them at the outset of the new strategy implementation.

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

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

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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 (someone or something) including all relevant characteristics, qualities or events.

Devise
To plan or create a method, procedure or system.

Discuss
To consider something in detail; examining the different ideas and opinions about something, for example to weigh up alternative views.

Explain
To make something clear and easy to understand with reasoning and/or justification.

Identify
Recognise and name.

Justify
Support an argument or conclusion. Prove or show grounds for a decision.

Outline
Give a general description briefly showing the essential features.

Recommend with reasons
Provide reasons in favour.

State
Express main points in brief, clear form.