



Specimen coursework assignment and answer

820 Advanced claims

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

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

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

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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*.

Please note the following information:

- This assignment must not be provided to, or discussed with, any other person regardless of whether they are another candidate or not. If you are found to have breached this rule, disciplinary action may be taken against you.
- Important rules relating to referencing all sources including the study text, regulations and citing statute and case law.
- Penalties for contravention of the rules relating to plagiarism and collaboration.
- Coursework marking criteria applied by markers to submitted answers.
- Deadlines for submission of coursework answers.
- You must not include your name or CII PIN anywhere in your answer.
- There are 80 marks available per coursework assignment. You must obtain a minimum of 40 marks (50%) per coursework assignment to achieve a pass.
- Your answer must be submitted on the correct answer template in Arial font, size 11.
- Your answer must include a brief context, at the start of your answer, and should be referred to throughout your answer.
- Each assignment answer should be a maximum of 3,200 words. The word count does not include 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 *820 Specimen coursework assignment and answer*, available on the unit webpage
- Read the assignments carefully and ensure you answer all parts of the assignments.
- You are encouraged to choose a context that is based on a real organisation or a division of an organisation.
- For assignments relating to regulation and law, knowledge of the UK regulatory framework is appropriate. However, marks can be awarded for non-UK examples if they are more relevant to your context.
- There is no minimum word requirement, but an answer with fewer than 2,800 words may be insufficiently comprehensive.

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Assignment

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

- Explain how the claims cost is currently managed.
- Analyse how reinsurance arrangements impact the management of the claims cost.
- Make recommendations, based on your analysis, to improve how the claims cost is managed.

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

Word count:	2,972
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Assignment Answer

Start typing your assignment here:

Brief 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 wide 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. It also provides some personal lines insurances. 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, using the claims department information technology (IT) system. Current claims staff numbers meet the 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) Management of the claims cost

The management of the claims cost follows the overall company strategy and objectives and is 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.

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(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 also ensure that the claims function is *“viewed as an important strategic activity with the capacity to add real value to the business. Claims are the heartbeat of an insurance business and can deliver huge value both in reducing costs, which can be passed to customers in lower premium prices, and in being the “moment of truth” in the customer value proposition and experience.”* (Francis and Butler, 2010).

Operational costs include matters such as office space, staffing costs and IT systems including the claims system and infrastructure. Operational decisions will inform and be informed by the cost control management. For example, several years ago an operational decision was made to locate the claims team in the City of London, with the underwriters. The interconnected claims and underwriting team promotes dialogue around policy intention, risk management and controls that both saves costs and promotes business.

A similar approach to Hiscox is taken in that *“...in order to help us differentiate ourselves from our competitors we actively encourage a joined up approach between our underwriting and claim teams. The reason for this is to complement the traditional claims service which is often seen as a post sale or post incident function to something that also adds value to our Insureds and underwriters at the proposal, renewal and pre-incident stage in order to enhance the prospects of developing new business, retaining existing business and increasing participation and lead position where appropriate.”* (Rai, 2015).

The decision to locate the claims department in London came at an increased cost as office space, staff salaries and competition for talent are at a premium in the Square Mile. However, the cost has recently been mitigated with hot desking and flexible working arrangements, which mean that in general terms each employee spends two days each week working remotely from home.

(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.

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.

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

- 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.

As others have commented our aim is that *“as ... supply chain data analytics capabilities improve, the model for ... supply chain management organizations will evolve from a largely procurement function to one that is more performance-focused and better aligned with business objectives. The supply chain organization will be less siloed and better integrated into business operations.”* (Nobilio and Louis, 2015).

To control costs, panel firms are selected that both complement the size of our business operation and 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 are subject to regular audits to ensure compliance with the cost management objectives 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.

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.

ANALYSIS

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.

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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.

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 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 was 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 potentially very serious cases, such as this, are escalated internally and notified in early course to the reinsurer.

A weather event, such as the UK floods in 2017, 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' (FNOL) 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 to assist with claims strategy and 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.

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 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.

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As experience increases within the team, members are able to identify a larger number of fraudulent claims relatively easily. Our approach is similar to that across the rest of the insurance industry in that we have:

“enhanced understanding of fraud motivators; increased co-operation between insurance companies and advances in technology.” (CII study text, 820 Advanced Claims, 2017).

In line with other insurers' claims experience, the property portfolio (first party) 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.

The provisions of both the Consumer Insurance (Disclosure and Representations) Act 2012 and the Insurance Act 2015 are important.

Subrogation & Recoveries

When dealing with a claim, it is important to consider whether 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.

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.

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There may be a clear cost benefit in entering into an outsource arrangement with a third party administrator (TPA) as *“outsourcing, however, allows your company to utilize the experts while maintaining focus in its primary (product or service) field. This, in turn, creates more flexibility and opportunity for your company to move forward: in an economy rich with mergers, divestitures, and new business launches, outsourcing can help your company stay “nimble” to better manage business change.”* (Business Plans 2016).

A TPA could be utilised, for example, to handle claims within a delegated financial authority. A delegated arrangement that allowed all claims under £50k to be handled by the TPA would allow the existing company’s team to focus on claims above £50k 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, 2012).

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. It will be imperative to work with human resources to determine an appropriate approach to mentoring given the introduction of flexible working arrangements.

(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, which would eliminate time spent in actively chasing individual documents as claims arise.

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(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) A review of the current panel arrangements should be implemented to ensure current cost and service provision remain competitive. There may be innovative products in the market that have developed in recent years that the business is unaware of and could benefit from. A stated and regular review of panel arrangements, say every three years going forward, would ensure that panel providers remain focused on being competitive and looking for ways to innovate.

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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.