



Specimen coursework assignment and answer

960 Advanced 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*.

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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 *960 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 reinsurer, or a division of either, with which you are familiar.

For **this** insurer or reinsurer, or division of either:

- Identify **one** insurance product currently underwritten.
- Explain briefly, how this product affects profitability for this insurer or reinsurer.
- Analyse, based on your explanation, how the underwriting acceptance criteria influences the profitability of this product.
- Make recommendations, based on your analysis, to improve the profitability of this product.

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 company.*

To be completed before submission:

Word count:	3,046
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Start typing your answer here:

Brief context:

ABC Group (ABC) is one of the largest insurers in the world, a multinational general insurance company headquartered in London, but providing insurance to over 100 countries. The company provides both personal and commercial insurance and a range of classes of business under each of these sectors.

This assignment will specifically focus on professional indemnity (PI) insurance, a sub-class of Liability. PI insurance provides protection against claims made by the insured's own clients or third parties. This insurance provides cover for any errors or omissions by the insured, subject to the terms and conditions of the policy. The UK Professional Indemnity division for ABC has a gross written premium of £85 million, consisting of income from both the London City and regional accounts. This income is derived from various forms of distribution, mainly being delegated authority, a wide broker network and online platforms.



Explanation of how this product affects profitability.

It has already been determined that all the products offered by the PI division are aimed at offering cover for claims against professionals for any loss caused to third parties as a result of their negligent advice or omission.

ABC splits the PI offering into four main categories: accountants, engineers, property professions and miscellaneous (including technology and media). Of these four categories, accountants PI is the main product offering, and ABC are considered one of the leading insurers in the market and approved by both the Institute of Chartered Accountants in England and Wales (ICAEW) and the Association of Chartered Certified Accountants (ACCA). Both set minimum standards for PI cover for their members. The minimum levels are dependent on the size of the business and the type of work that is carried out. (www.nimblefins.co.uk)

Since the pandemic, there has been pressure on income and finances, increases in home working and increased use of technology. Combined these all provide the potential for more mistakes, which increases the risk on the book. However, it has also been noted by Lifecycle that:

“But accountants also face additional risks because of the nature of the advice they provide, for example helping clients navigate the new government schemes introduced to help businesses through pandemic (including the Coronavirus Job Retention Scheme’s tax reliefs, business rates relief and VAT deferrals) or the implications of Brexit on their structure, finance and tax position”.

The Institute of Chartered Accountants in England and Wales (ICAEW) predicted that:

“It is likely that the disruption to business and the economy caused by Covid-19 will result in an increased number of PII claims against accountants and other professionals.”

This is a problem across the whole PI market, but each Insurer has been affected differently and responded in different ways. ABC remains in the market offering of PI for accountants, so inevitably, has already seen some of these risks within the account. Some have led to claims and there have been many notifications. However, with careful amendments to underwriting strategy, ABC is aiming to reduce exposure within this area and manage the remaining risk. The advantage ABC has is due to it being a large corporate entity with a variety of teams and specialisms. This means that any market fluctuations which affect the PI account, tend not to have a large overall impact on the profitability of the company.

However, with the insurance market being cyclical, ABC may well be in a good position to ensure future profitability within this product range. This market has been relatively soft over the last decade and this has put increased pressure on ABC in terms of policy premiums, as well as policy coverage. We then saw the global market for PI insurance change and market conditions hardened. This led to a reduction in market capacity, and this enabled ABC to



ensure the account was in a strong position from a profitability basis. This applies to both new and renewal business.

The PI market generally has been highlighted by a number of insurers as a class of business which is underperforming. This became even worse when Lloyd's thematic review back in 2021 identified it as an under-performing class.

"As a result, several Lloyd's syndicates either withdrew from this class completely or dramatically curtailed their risk appetite. This lack of competition, coupled with a concerted attempt by insurers to recoup long term profitability, has led to market conditions deteriorating and increasingly challenging renewal discussions".

Willis Tower Watson – PI market update 2021

However, although there are still high inflation and high interest rates, the law gazette reported that there had been a softening in the market over the last 12 months. They report: *"This softening does not necessarily mean premiums will fall, but most firms ... are unlikely to see more than a single-digit percentage rise at their next renewal"*

<https://www.lawgazette.co.uk/news-focus/news-focus-trends-in-professional-indemnity-insurance-2023-main-findings/5116726.article>

Analyse how the underwriting acceptance criteria affect profitability.

To ensure that ABC are not too heavily exposed from claims arising from disruption from any unforeseen event, certain underwriting criteria have been set for the PI product.

New proposal forms have been introduced with additional questions which allow the underwriters to access the risk more specifically. For example with the accountants proposal form claims relating to tax relief and other benefits from the pandemic can be considered, as well as the risk of other economic pressures. By providing this additional information, the underwriters can establish the exact type of work the accountants perform. From the additional questionnaire, underwriters can establish the extent to which the risk is potentially exposed to risks such as a pandemic.

Set criteria have been established and written into guidelines as to which risks should be declined on this basis. For example, where an accountant was actively promoting themselves as an expert in these areas and directly entered their clients' details, this would be considered as an automatic declination. If, however, they were only introducing the client to certain schemes or they came with them themselves, this provides another step in the chain putting the accountant further away from claims and therefore it may be considered. It is essential that the acceptance criteria help establish these chains so risk can be categorised and charged appropriately. This chain philosophy for classification is essential for all risks.



Further questions will be asked as to the nature of their work, the number of clients, the monetary value of the clients and what they do for these clients. ABC has set criteria according to the answers to these questions. This process helps to establish acceptable and unacceptable risks. If the overall amount is too high or a single risk from a client too high, then this would fall outside ABC 's appetite.

With a company the size of ABC, there is always pressure to look at business which falls outside of our acceptance criteria. For example, a large accountant with a number of offices places all their commercial combined insurances with us, then we come under pressure to underwrite that risk. Underwriters' decisions can be over-ridden, but this should not be seen as a failure of the risk acceptance criteria. It should however, be documented so the impact of these requests can be measured. Often, what seems like accommodating a risk is actually just exacerbating accounts which are unprofitable for ABC but carry a large gross written premium.

As underwriters, we would also be looking at the contracts in place between the accountant and their client. Questions should be considered such as whether there is third party advice and if there is, then a separate contract should be in place between the third party and the client. If this is the case, does the accountant specifically limit their liability? All these measures would make an accountant undertaking such work more attractive. Specific guidelines have also been issued by the ICAEW to help accountants draw up terms of engagement for contracts between themselves, third parties and clients. Where accountants have followed such advice, this will also be looked upon favourably by ABC. These additional aspects of risk management are favourable for the accountants as well as ABC.

These steps would form part of the Insured's risk management. The additional questionnaire will ask further risk management questions which the underwriters of ABC will then analyse and assign points to for each positive step taken, according to the underwriting guidelines set. Where the points allocated fall below a threshold, the risk should then be declined. Only those over the threshold become attractive business and the rate will be dependent on where they fit within the scale.

Another step taken within the underwriting criteria is to ensure that certain endorsements are added where the product is offered to accountants with certain exposures. A specific excess endorsement can be added for risks where their points allocation is suspect or concerning and this is also can also be applied in respect of each and every claimant (as opposed to claim which is usual within PI). Due to the pressures on costs ABC are seeing more Insured's willing to contemplate higher than usual excesses. This is attractive to ABC as it reduces the claims handling cost for the smaller claims.

Previous claims would also be considered by underwriters and whether any have amounted from this type of work historically. Where there have been several notifications or claims of this type paid, the risk will be less attractive. There has been a trend for spurious claims and understanding why these are happening and how the accountant has managed these also helps to understand the risk more.



Where a risk falls just outside the guidelines, an underwriter can choose to refer the risk for discussion among a peer group, including a portfolio manager. This may be particularly important on renewal cases which were previously acceptable under historic guidelines but because of amendments could potentially be a declination.

The main aim of the underwriting acceptance criteria is to ensure that those risks which have historically exposed ABC to claims are no longer within the account, and that an acceptable level of exposure is present. ABC would be unable to withdraw from this sector completely as they are seen as a lead insurer for accountants and must maintain this reputation. As such a large organisation, it is imperative that the brand name is protected and that the perception that many classes of cover are underwritten.

It has been important to use the expertise required to apply suitable restrictions within the underwriting guidelines which allow us to still accept risks where we are unlikely to have such severe claims and as a result protect the profitability of the account. With carefully selected underwriting, rather than complete withdrawal, we are able to maintain several clients and satisfy brokers needs in placing some difficult risks. In turn, brokers reward us by also keeping the standard risks with us, helping us to maintain profitability across the account.

In requesting an additional proposal form, ABC aims to understand the risk and its exposure. It is essential that we fully understand the extent of the advice that has been provided by each of the accountants. This is particularly important at the introduction stage.

The underwriting criteria set requires clients to complete the questionnaire and answer further questions, so that we can establish the extent to which the insured poses a real risk to profitability.

In asking further questions about the values and number of the clients, and setting restrictions on what is acceptable, ABC can also control the level of claims that could arise. For instance, the criteria sets limits on the maximum amounts invested per client and overall. This ensures that should a claim be made under the policy it can only reach a certain level and not go beyond this.

The premiums are carefully constructed to consider the levels of exposure, so where there are higher amounts invested and a larger number of schemes or clients, the premium will be significantly increased. In doing so ABC can protect the profitability of the account by gaining more premium, the loss ratios will be improved, particularly if we are able to keep hold of the business for several years and only encounter few claims within those years. With the restrictions in place as above, which aim to reduce the amount of claims exposure, this will also positively affect the loss ratios.

Another measure that was taken in the underwriting criteria was the increased excess and to make the excess each and every claimant. This was a crucial move in protecting the account due to the nature of such claims making them susceptible to block notifications. For



example, if a method comes under scrutiny, all the clients that the insured introduced to the method would be able to take action against the Insured. If the excess was each and every claim, a block notification would be made meaning that only one excess is applicable for multiple clients as they all fall under the same claim. Making the excess each and every client ensures protection for ABC, as the exposure will only be above that excess for each client. In making the excess higher any claims falling below this will be met by the insured, so ABC are therefore protected up to a set level.

All these methods to manage the level of exposure will also decrease the amount and number of claims payable. In doing so, this will protect the profitability of the account.

The key to protecting the profitability of the account is in understanding the risk that is being placed before the underwriters and where claims are likely to arise from and limiting the exposure to such claims. In asking the further questions in the additional questionnaire, ABC can fully understand the risk and decline anywhere they see the exposure to be too great and the risk not worth taking. Those which are accepted can be done so with caution, with the relevant terms such as an increased each and every claimant excess applied, and a higher premium applied.

Recommendations to improve the profitability of the product.

As stated above, the key to protecting any account and creating a long-term profitability is to understand the risks that are within it. Within this discussion we have focused on the risk management of accountants but the depth of the account needs to be considered if profitability is to be maintained.

I would recommend to work together with the ICAEW and the ACCA to understand where the claims are likely to come from and recognise the potential for claims to arise before they get out of hand and affect the account adversely. These conversations can be used to develop the questionnaires ensuring they remain relevant. Spotting these trends and being prepared to address them will help to limit any negative impact on profitability for ABC.

Seminars and regular bulletins provided by these groups should be regularly monitored. This again should help with spotting developments and trends early so that any required action can be taken by ABC.

I would also suggest that ABC appoint a senior underwriter for each profession that it writes so that they have a specialist in each area that can monitor developments. An underwriter with the responsibility of accountants can keep abreast of the developments occurring and feed back to the team to establish the best way to manage new exposures etc.

With a senior underwriter responsible for each profession, ABC can also start to balance the professions that are being underwritten. A recent study by Allianz suggested that the majority of PI claims were arising from accountants and property professionals. Widening the professions can help spread the risk.



It is also essential that underwriters look beyond the underwriting guidelines:

'While underwriting management must endeavour to provide as many relevant guidelines as possible to cover issues that may arise in new business presentations, proposals or at renewal, underwriters must take care to assess all information available to them.'

Cochran, 2018

In researching the company, undertaking a financial check of the company and looking at its website, the underwriter can establish the financial security of the company and its ability to pay the premium and higher excess if applicable. The website may give further details as to the historic business undertaken and any work that may not have been declared on the proposal form.

Client visits should be compulsory and built into the acceptance criteria for risks above a certain level. For instance, if the fee income from the accountant is above £2.5 million then a compulsory visit may be a requirement of the quote or renewal. This will help an underwriter to establish how the accountant manages their business and any risks associated with it. Any concerns arising from the additional questionnaire can be addressed directly by the insured. By visiting, an underwriter will get a good understanding of how a business is run and if it is a suitable risk.

ABC should consider the way in which a risk programme is structured and build this into its guidelines. For instance, where there is a certain level of exposure which is unacceptable, ABC could consider co-insuring to spread the risk (a co-insurer provides partial coverage along with other co-insurers) (Investopedia, 2023), or write on an excess layer as opposed to the primary (attach to the risk above a certain level of exposure, for instance after a £5 million primary). In doing so they should be able to write risks with a higher level of exposure, but still limit the exposure to the company itself. The cut off points for number of schemes and amounts invested could then be raised, but only where considered on a co-insurance or excess basis.

Unfortunately, there is very little that can be done to the terms and conditions of the policy since we need it to remain compliant with the accountant regulators minimum requirements in order for it to be a recommended, participating Insurer for accountants. This is the case with many professional organisations and ABC must always be mindful of this. It would also make us far less competitive if we were to add further onerous terms.

If the governing bodies would ever allow for it, as a means to make it easier for their members to get insurance, it would be ideal to make the excess inclusive of each and every claimant inclusive of defence costs. This would mean that the costs of defending against the claims could also be attributed to the excess paid by the Insured. As discussed above, there was an influx of claims notifications and although many did not result in claims paid, the biggest losses on the account have come from defending the actions. As the requirements of the ICAEW and ACCA currently stand, the excess needs to be exclusive of

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defence costs so these cannot fall within any payments made by the Insured themselves. By having specific underwriters remaining close to certain professions there is more likelihood of influencing the governing bodies.

Critically, management of risk will always be essential if accounts wish to stay profitable. Management of risk for ABC can evolve with the changing market and knowing the markets well will aid this risk management. We are in a strong position at the moment, due to the tough market conditions ABC can impose more stringent premium and excess requirements. As previously discussed, altering the policy wording is harder due to the regulated nature of the product. However, if there was ever a time to negotiate changes in the policy wording, it might be a good time to do that now.



Reference List

Course books:

- Hatchek, H (2021) *Advanced Underwriting 960 CII*, London
- Priddle and Wallace (2022) *Underwriting Practice M80/P80 CII*, London

Websites:

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Solicitors' PI market update available at: <https://www.wtwco.com/en-GB/Insights/2021/08/solicitors-professional-indemnity-pi-market-update> [accessed 07/02/2024]

[Welcome to ICAEW.com | ICAEW](#) [accessed 07/02/24]

ICAEW (2016) *Engagement Letters* [online] available at: <https://www.icaew.com/technical/tas-helpsheets/practice/engagement-letters> [accessed 08/02/2024]

Power Shift in the PI Market 2019 <https://dwfgroup.com/en/news-and-insights/insights/2019/5/power-shift-in-professional-indemnity-market> [accessed 02/02/24]

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<https://www.investopedia.com/terms/c/coinsurance.asp#:~:text=Coinsurance%20is%20the%20amount%2C%20generally%20expressed%20as%20a,Some%20property%20insurance%20policies%20also%20contain%20coinsurance%20provisions.> [accessed 02/02/2024]

Law Gazette

<https://www.lawgazette.co.uk/news-focus/news-focus-trends-in-professional-indemnity-insurance-2023-main-findings/5116726.article> (accessed 07/02/24)

Allianz – PI Claims Insight 2023

<https://commercial.allianz.com/content/dam/onemarketing/commercial/commercial/reports/commercial-professional-indemnity-insurance-claims-2023.pdf> (accessed 07/02/24)

Articles:

Government to target accountants and advisers who help clients avoid paying tax in latest crackdown, The Independent, Andy McSmith 16th April 2016

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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.