- Conclusions that, on the basis of the information available and the analysis carried out on this –
  - HSBC
    - HSBC's profile does raise concerns in terms of its size, profitability and gearing, particularly as interest rates are due to rise further.
    - Whilst the company has just moved into profitability, the insurance sector is very competitive and any faltering in progress might cause HSBC to question its entry to the sector and to sell its book to a larger provider.
    - A safety first approach would suggest that HSBC represents a risk and should ideally be avoided.
  - EMI
    - EMI is still financially sound and viewed well by the market in terms of its growth potential.
    - However, it is attempting to grow its top line very aggressively, but is giving up profit in exchange for market share.
    - As a result, it is also increasing its reliance on debt finance.
    - EMI remains a solid provider and its search for growth, whilst stretching the company financially, potentially offers benefit to prospective clients in terms of premium discounts.
  - DFS
    - Of the three, DFS appears to have the most stable profile in terms of sales and profit growth and its other financials, despite a difficult 2001.
    - On the basis of its PE, the market probably sees the company as reasonably dull, but, for a client, this translates to stability.
    - DFS is also the current provider and well known to the Department
- Comment that the information provided is rather limited and that ideally the following should be available –
  - Full copies of the company' published accounts;
  - Details of the companies' accounting policies;
  - Details of the accounting standards operated in their countries of residence;
  - A set of ratios for the industry as a whole, showing best, industry average and worst;
  - Details of the companies' future plans;
  - Details of any post-balance sheet events and of any contingencies.

<u>**NOTE**</u> For suggested points see Appendix 2B, but note comments in 1(e) above.

		Page
(d)	Consideration of the quality of the companies and relevant non-financial issues. (3 marks – A 3)	
	DFS	
	• Generates the majority of its net revenue from the provision of insurances services;	20
	• A very large provider with an excellent reputation in the sector and a major office in Bearbados;	(v)
	• The current provider (for many years) and well known to the Department;	(v)
	• No changeover costs and disruption (new claims documentation, IT links, training etc.)	15
	• No complications re liability for claims before and after the issue of the new contract;	22,24
	• Excellent worldwide public sector experience and the current provider to two other Bearbadian Government Departments;	20
	• Reducing rates are built into the tender on the basis of a Risk Management operation being introduced;	20,21
	• Risk Management training and input at no cost;	20
	• Willing to "discuss" and "clarify" the terms quoted in the tender document and payment arrangements.	20
	EMI	
	• A major specialist insurer;	22
	• Originally set up to service US public sector clients, but now provides insurance to the private sector as well;	22
	• Has a considerable portfolio of US and world public sector clients;	22
	• Established an office in Bearbados more recently, but currently has no public sector clients there;	22
	• Retrospective 'claims means dealing with two insurers for a potentially lengthy period, with duplicate processes etc.	22
	• Large unconditional discount in first year, and, as a result of this, the other terms tendered are "fixed";	22
	• Some limited assistance with risk management, but no training offered.	22
	HSBC	
	• A comparatively small subsidiary of a major Bank, set up specifically to provide insurance services primarily to the private sector;	24
	• The company's first attempt to break into the public sector and into the Stagnesia market;	24
	• No office in Bearbados, but with a major centre in the neighbouring tax haven of Buli Hai;	24,28
	• Retrospective claims means dealing with two insurers for a potentially lengthy period, with duplicate processes etc.	24
	• Discount offered is subject to introduction of risk management approach and improvement in claims history;	23
	• Risk management assistance, but at a "modest charge";	24
	• Tender includes a "no negotiation clause;	24

(e) A comparison of the notional insurance rates calculated on the basis of the existing arrangements with those proposed, to identify areas for possible negotiation, together with conclusions and recommendations as regards the preferred provider and the preferred terms. (3 marks – C 3)

- A note that the tenders received from HSBC and EMI leave little room for negotiation, whilst the current provider, DFS is willing to "discuss" terms to ensure retention of the business. 20,22,24
- A comparison of the new terms tendered by DFS for 2005/06 with projected notional rates based upon –
  - The volume bases included in the tender documents;
  - Current year rates adjusted for -
    - Claims handling costs (now being taken in-house)
    - Policy excesses (now being taken in-house)
    - Predicted inflationary increases on the various policies for 2005/06.
- Comment that most rates tendered by DFS appear to be in line with the notional figures.
- The main exception is vehicles where a rate of £260 (rounded) rather than £280 seems more appropriate, potentially saving about £24,000.

NOTE For suggested points see Appendix 2C, but note comments in 1(c) above.

(f) Conclusions, recommendations, presentation, format, readability and general logic of approach and argument. (5 marks – R 2, P 3).

- Overall conclusion that –
  - Whilst HSBC is the cheapest potentially, the future year discounts are conditional and the price benefits are more than out-weighed by company, quality and other non-financial factors.
  - Whilst EMI is the cheapest provider over three years, there is little to choose in terms of price between DFS and EMI over five years. At the same time there are some concerns about EMI's rapid expansion and the trends in its financials, as well as its lack of public sector experience in Bearbados.
  - DFS, whilst not the cheapest provider, has a solid financial basis, is experienced in the public sector and well known to the Department.
  - Overall, there appears to be no strong incentive or argument to change the current provider, DFS.
- Recommendation that –
  - DFS is nominated as the preferred insurance provider.
  - Negotiations are commenced with DFS to try to reduce the terms offered, particularly on motor.

QUESTION 2

		Base	Rate 2005/06	Rate 2006/07	Rate 2007/08	Cost 2005/06 £	Cost 2006/07 £	Cost 2007/08 £	PAGE
1. Base Premiums – DFS Group.									
Liability									
Public	Payroll	£200,000,000	0.1700%	0.1600%	0.1500%	340,000	320,000	300,000	6,21
Employers	Payroll	£200,000,000	0.1700%	0.1600%	0.1500%	340,000	320,000	300,000	6,21
Other	Payroll	£200,000,000	0.030%	0.030%	0.0300%	60,000	60,000	60,000	6,21
Property									
Housing & General	Valuation	£1,500,000,000	0.0370%	0.0360%	0.0350%	555,000	540,000	525,000	6,21
Education	Valuation	£440,000,000	0.0750%	0.0700%	0.0650%	330,000	308,000	286,000	6,21
Loss of Revenue	Revenue	£10,000,000	0.0700%	0.0700%	0.0700%	7,000	7,000	7,000	6,21
Money	Payroll	£200,000,000	0.0020%	0.0020%	0.0020%	4,000	4,000	4,000	6,21
Motor									
Fleet	Vehicles	1,200	£280	£270	£260	336,000	324,000	312,000	6,21
						1,972,000	1,883,000	1,794,000	
2. Base Premiums – EMI Inc									
Liability									
Public	Payroll	£200,000,000	0.1500%	0.1500%	0.1500%	300,000			6,23
Employers	Payroll	£200,000,000	0.1500%	0.1500%	0.1500%	300,000			6,23
Other	Payroll	£200,000,000	0.0500%	0.0500%	0.0500%	100,000			6,23
Property									
Housing & General	Valuation	£1,500,000,000	0.0380%	0.0380%	0.0380%	570,000			6,23
Education	Valuation	£440,000,000	0.0750%	0.0750%	0.0750%	330,000			6,23
Loss of Revenue	Revenue	£10,000,000	0.0900%	0.0900%	0.0900%	9,000			6,23
Money	Payroll	£200,000,000	0.0020%	0.0020%	0.0020%	4,000			6,23
Motor									
Fleet	Vehicles	1,200	£300	£300	£300	360,000			6,23
						1,973,000			
3. Base Premiums – HSBC									
Liability									
Public	Payroll	£200,000,000	0.1600%	0.1600%	0.1600%	320,000			6,25
Employers	Payroll	£200,000,000	0.1500%	0.1500%	0.1500%	300,000			6,25
Other	Payroll	£200,000,000	0.0550%	0.0550%	0.0550%	110,000			6,25
Property									
Housing & General	Valuation	£1,500,000,000	0.0370%	0.0370%	0.0370%	555,000			6,25
Education	Valuation	£440,000,000	0.0650%	0.0650%	0.0650%	286,000			6,25
Loss of Revenue	Revenue	£10,000,000	0.0800%	0.0800%	0.0800%	8,000			6,25
Money	Payroll	£200,000,000	0.0020%	0.0020%	0.0020%	4,000			6,25
Motor									
Fleet	Vehicles	1,200	£270	£270	£270	324,000			6,25
						1,907,000			

Marks Allocation

Base Premiums – 3 marks

QUESTION 2

	3 Year Contract				5 Year Contract			PAGE
	2005/06	2006/07	2007/08	Total	2008/09	2009/10	Total	
	£	£	£	£	£	£	£	
4. Comparison of Discounted Bids								
A. DFS Group.								
Base Costs	1,972,000	1,883,000	1,794,000		1,794,000	1,794,000		
Discounts	0	0	0		0	0		
	1,972,000	1,883,000	1,794,000	5,649,000	1,794,000	1,794,000	9,237,000	
Discount Factor @ 4%	1.000	0.9615	0.9246		0.8890	0.8548		(ii),15
NPV	1,972,000	1,810,505	1,658,732	5,441,237	1,594,866	1,533,511	8,569,614	
B. EMI Inc								
Base Costs	1,973,000	1,973,000	1,973,000		1,973,000	1,973,000		
Discounts (30% year 0)	591,900	0	0		0	0		23
	1,381,100	1,973,000	1,973,000	5,327,100	1,973,000	1,973,000	9,273,100	
Discount Factor @ 4%	1.000	0.9615	0.9246		0.8890	0.8548		(ii),15
NPV	1,381,100	1,897,040	1,824,236	5,102,376	1,753,997	1,686,520	8,542,892	
C. HSBC								
Base Costs	1,907,000	1,907,000	1,907,000		1,907,000	1,907,000		
Discounts (4% as detailed)	0	0	228,840		76,280	76,280		25
	1,907,000	1,907,000	1,678,160	5,492,160	1,830,720	1,830,720	9,153,600	
Discount Factor @ 4%	1.000	0.9615	0.9246		0.8890	0.8548		(ii),15
NPV	1,907,000	1,833,581	1,551,627	5,292,208	1,627,510	1,564,899	8,484,617	

5. Summary

	3 Year		5 Year	
	Cost	NPV	Cost	NPV
	£000	£000	£000	£000
DFS Group	5,649	5,441	9,237	8,570
EMI Inc	5,327	5,102	9,273	8,543
HSBC	5,492	5,292	9,154	8,485

Marks Allocation

Discounts	–	**1 mark**
DCF	–	**2 marks**
Summary 3/5 years	–	**2 marks**

QUESTION 2

		2001	2002	2003	2004	PAGE
1. DFS Group						
Investment Ratios						
Earnings/Share (EPS)	Pence	1.4	6.2	8.0	10.4	28,29
Price/Earnings (PE)		50	13	14	14	28,29
2. Essenpen Municipal Insurance						
Investment Ratios						
Earnings/Share (EPS)	Pence	7.2	7.6	6.4	2.8	28,29
Price/Earnings (PE)		17	18	18	25	28,29
3. Hang Seng Banking Company						
Investment Ratios						
Earnings/Share (EPS)	Pence	-23.3	-15.0	-1.7	1.7	28,29
Price/Earnings (PE)		-	-	-	12	28,29

Marks Allocation

Investment Ratios – 2 marks

QUESTION 2

	Base	Rate Basis	2004/05 Base	Inflation	2005/06 Base	2005/06 Cost £	PAGE
1. Updating of Base Rates & Costs							
Liability							
Public	£200m.	Bps	14.50	15%	16.68	333,500	8,9
Employers	£200m.	Bps	15.00	15%	17.25	345,000	8,9
Other	£200m	Bps	2.95	15%	3.39	67,850	8,9
Property							
Housing & General	£1,500m.	Bps	3.30	12%	3.70	554,400	8,9
Education	£440m	Bps	6.50	12%	7.28	320,320	8,9
Loss of Revenue	£10m.	Bps	6.60	12%	7.39	7,392	8,9
Money	£200m.	Bps	0.18	12%	0.20	4,032	8,9
Motor							
Fleet	1200 vehicles	£	216.50	20%	259.80	311,760	8,9

	2005/06 DFS	2005/06 Notional
2. Comparison of DFS Bid		
Liability		
Public	340,000	333,500
Employers	340,000	345,000
Other	60,000	67,850
	740,000	746,350
Property		
Housing & General	555,000	554,400
Education	330,000	320,320
Loss of Revenue	7,000	7,392
Money	4,000	4,032
	896,000	886,144
Motor		
Fleet	336,000	311,760
	1,972,000	1,944,254

Marks Allocation

Updating – 1½ mark
Comparison – 1½ marks

5. Question 3

Aims

(a) To test candidates' understanding of the practical implications of risk management (RM);
(b) To test candidates' ability to assess the quality of the current RM management regime and to identify weaknesses in the current structure, approach and attitude to RM;
(c) To test their ability to address all these issues in proposing a revised RM structure and approach;
(d) To test their ability to consider and suggest criteria for the assessment, approval and prioritisation of RM projects;
(e) To test candidates' ability to produce a notes covering all these issues for the DLR Permanent Secretary who is attending a RM workshop with his Permanent Secretary colleagues.

Assessment

(a) An assessment of the quality of the current RM regime in the DLR and the identification of weaknesses in the current structure, approach and attitude to RM. (6 marks – A 6))

- A general note that the current approach to RM lacks commitment and ownership, is unstructured, has a low profile and is poorly resourced.
- In terms of leadership and commitment, comment that –
  - Insurance is the only area currently where there is any thought given to RM; 4
  - This is currently led by the "Insurance Officer", Beattie Groop, through the Insurance Common Issues (ICI) Group; (v),4,5
  - She is a mid-ranking administrative officer in the Legal Services Section of the DLT Central Support Division; (v),4,26
  - ICI Group meetings are only held on an ad hoc basis (over seven months between the last two meetings) and poorly attended; 4,14
  - Meetings tend to be negative, dominated by those with negative attitudes; 14,26
  - The officers attending tend to mid-ranking officers who generally see their ICI Group role as a chore 14,26
  - There has been no response on RM issues from the Ministry of Education & Welfare, despite the request from the Secretary of State. 4
- Involvement is very narrow, with –
  - No formal input from key potential contributors such as the Health and Safety Officer, the Occupational Health Manager or the Fleet Manager; 14,16,26
  - No real direction from the Executive Board members; 4,14,26
  - An unwillingness to consider external input from RM consultants; 14,26
  - The rejection of offered input (free of charge) from DFS, the existing insurers. 14
- Communication is poor –
  - The minutes ICI Group meetings are tabled and merely circulated within the Group; 14
  - The offer of a report to Ministers was declined by the Secretary of State; 14
  - The idea of a RM newsletter to raise awareness was rejected by the ICI Group . 14
- Ownership and attitude is poor –
  - No link is perceived between RM and organizational aims and objectives; 26
  - There is no defined allocation of responsibilities on RM; 26
  - The current arrangements have merely evolved through the prompting of the "Insurance Officer"; 4
  - Ministries tend not to see claims as their concern and there is no organizational or financial incentive to focus on RM and risk avoidance; 4,13,14
  - The general attitude is that it is the job of the external insurers to cover risks and not ours to prevent them. 14

- Risk identification is poor –
  - Acknowledgement that the Insurance Company maintains records of claims made;
  - Note that these are not received by key officers in all the Ministries;
  - There is therefore an inconsistent effort in Ministries to relate claims to risks, with some apathetic and other keen to encourage a RM approach;
  - The Ministry of Education and Welfare, in particular, has stated its lack of interest in such issues, preferring to concentrate on its primary role of care;
  - The Ministry of Environmental Services takes the opposite view and is very proactive.
- As a result there is no prioritisation of risks–
  - There is no overall collation and measurement of risks;
  - There is therefore a lack of a structured approach to RM and avoidance.

(b) Proposals for the development of a formal RM approach together with a suggested structure to deliver this. (6 marks – R 6)

- The development of a programme for the formal introduction of RM, including –
  - Formal acceptance at the highest level to introduce of a comprehensive RM policy;
  - The agreement of a broad RM philosophy;
  - The linking of this to Departmental objectives;
  - The agreement of a timetable for the introduction of RM methodologies.
- The development of a structure along the following lines, setting out the roles and responsibilities of all those to be involved in the RM processes –
  - Clear and ongoing commitment by the Secretary of State, his Ministers, the Permanent Secretary and his Under Secretaries to the policy;
  - The involvement of the DLR Executive Board in setting strategic RM targets, agreeing RM objectives and monitoring progress (strategic steering group);
  - The appointment of a Risk Manager, responsible to the DLR Executive Board, as the lead officer and driving force on RM;
  - The creation of a tactical RM group responsible, under the guidance of the Risk Manager, for undertaking the practical implementation of RM objectives, agreeing initiatives, receiving feedback and updates and generally managing the whole process;
  - The creation of RM groups in each Ministry to focus upon risks specific to those Ministries;
  - The creation of specialist RM groups to focus on specific cross-Ministry risk areas such as property, motor, health & safety, disaster recovery etc;
  - The involvement of internal audit in monitoring the Department's practical implementation and results;
  - The use of consultants or outside expertise, as required.
- The establish of clear lines of communication on RM to ensure strong information flows both up and down the RM structure.
- The integration of an RM culture into all activities, including –
  - A standard heading of "RM Implications" on all reports;
  - The inclusion of an RM reference in all job descriptions;
  - Regular item on Executive Board and Ministry Management Team agendas;
  - Standing item on all audit programmes.
- A raising of awareness on both general and specific RM issues, including –
  - Circular letter from the Secretary of State promoting RM;
  - Awareness sessions for all Ministers and staff;
  - Formal training on specific areas;
  - RM section on notice boards.
- The development and introduction of a risk methodology aimed at the creation of a register of risks, the formal assessment of these and the prioritisation of risk areas.
- On the basis of this work, the introduction and resourcing of a risk improvement programme.
- A formal policy document issued in the Secretary of State's name, setting out the Department's RM objectives and the structure in place, with roles and responsibilities, together with the processes introduced and the documentation to be completed.
- The monitoring and review of risks, RM policies, RM priorities and RM improvements on a regular basis.