

## C132 PRACTICAL ISSUES IN BROKER MANAGEMENT

### IMPORTANT

The time allowed for this exam is 3 hours.

Total marks: 200

**You must hand in this paper** and any paper used for rough work to the supervisor when you leave the examination room. Failure to do so may result in disqualification.

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### Section A: Multiple-Choice Questions

Question 1. For the following multiple-choice questions, fill in the circle of the letter that identifies the most correct answer.

Example: (A) (B) ● (D)

**DO NOT MARK THE ANSWERS ON THESE PAGES.**

**USE THE FIRST PAGE OF YOUR ANSWER BOOK.**

1. The clause in a shareholders' agreement that sets out the conditions under which one or more shareholders would buy out another shareholder is called the
  - (A) perpetuation clause.
  - (B) shotgun clause.
  - (C) merger and acquisition clause.
  - (D) consensual clause.

2. A group of independent brokers or brokerages who agree to share certain expenses, to make unified volume commitments to their insurers, and to conduct specified aspects of their financial affairs in an agreed-upon manner is called a(n)
  - (A) insurer investment group.
  - (B) common identity group.
  - (C) franchise.
  - (D) cluster.
  
3. Which of the following liaises with government, consumer groups and insurance companies to safeguard the interests of brokers throughout the Canadian insurance industry?
  - (A) Insurance Institute of Canada
  - (B) Insurance Brokers Association of Canada
  - (C) Insurance Bureau of Canada
  - (D) Institute for the Advancement of Insurance in Canada
  
4. The permission specifically granted to the agent to carry out any legal action that the agent and the principal agree to in writing or verbally, including acts that enable the agent to carry out those instructions, is called
  - (A) implied authority.
  - (B) ratification.
  - (C) express authority.
  - (D) verification.
  
5. In many Canadian provinces, a graduated process is employed that increases the brokers authority as they acquire a combination of additional education and years of experiences known as
  - (A) annual general licensing renewal.
  - (B) continuing education accreditation.
  - (C) step licensing.
  - (D) professionalism.
  
6. In strategic planning, the type of analysis that considers how the ever-changing events and trends in the economy will affect the business or business environment in which brokerages operate is called
  - (A) strategic analysis.
  - (B) the budget.
  - (C) a SWOT analysis.
  - (D) a PEST analysis.
  
7. As it relates to the planning and managing a brokerage, policies are
  - (A) generalized guidelines that inform staff how the activities of the brokerage are carried out.
  - (B) the directing and controlling elements of management through the functions of coordinating activities within the organization and motivating staff.
  - (C) the detailed actions and activities of the brokerage that will be carried out.
  - (D) the milestones towards goals.

8. According to Peter Drucker, an activities analysis that can help broker management determine the optimum organizational structure for the individual business includes
- (A) helping managers determine the requirements based on the external and internal forces affecting the business and the amount of interaction between the two.
  - (B) determining the compatibility of individuals to each other and to the task each is performing, and the respective contributions of each manager and employee to the work to be accomplished.
  - (C) helping managers identify what work has to be done to achieve the brokerage's goals, what functions belong together, and how much emphasis is placed on each activity within the organizational structure.
  - (D) determining what types of decisions are needed, where in the structure to take them, and to what extent each manager should be involved.
9. Identifying critical assumptions about the future, establishing and ranking them, devising an action plan to take advantage of future opportunities or combat threats, setting triggers to activate the action plan, and setting alternative response options best describes
- (A) contingency planning.
  - (B) adopting a mission statement.
  - (C) perpetuation planning.
  - (D) establishing a company's objectives.
10. A "bottom up" organization in which each production unit sets its own objectives and plans is known as
- (A) management driven.
  - (B) producer driven.
  - (C) CSR driven.
  - (D) insured driven.
11. Paneto's Principle states that
- (A) 5% of the business will come from 20% of your clients.
  - (B) 20% of your clients will produce 80% of the business.
  - (C) 50% of revenue will be generated by 5% of clients.
  - (D) 50% of your clients produce 5% of the business.
12. A non-solicitation clause in a producer contract,
- (A) is one legal method that an owner can use to restrict the solicitation of other clients presently being targeted by other producers in the brokerage.
  - (B) directs solicitation on the producer's own behalf.
  - (C) prohibits the indirect solicitation of a present client by the producer if he or she becomes an employee of another firm.
  - (D) allows the producer to supply information about any accounts acquired for the brokerage to any other brokerages for compensation.

13. Personal Information Protection and Electronic Documents Act (PIPEDA) requires salespeople to
- (A) ensure that all personal information is stored electronically.
  - (B) obtain the client's verbal consent for the brokerage to use the information for the stated purpose.
  - (C) ensure that they and other brokerage staff use the information for all purposes regardless of permission.
  - (D) inform the client that he or she has a right to review the information and to make a complaint concerning its accuracy or use to an appointed brokerage privacy officer.
14. A person working in a brokerage might be considered an independent contractor if the
- (A) employer supervises the person's work.
  - (B) individual is hired to complete an unsupervised, specific project.
  - (C) employer provides the person with a computer, desk and telephone for work.
  - (D) individual is continuously employed for an extended period of time.
15. Generally, the person who has no direct client contact and who receives all information from the producer or account executive and deals directly with the insurer is called the
- (A) producer.
  - (B) technical sales assistant.
  - (C) marketer.
  - (D) customer service representative.
16. The value of using a resume when selecting a new employee is that it allows the interviewer to
- (A) ask questions specific to the position being filled.
  - (B) test the behavioural traits of the individual being interviewed.
  - (C) determine whether the abilities are above or below the level required for the position.
  - (D) test the ability of the candidate to use decision-making skills.
17. The motivational theory in which employees compare the outcomes of their work with the outcomes received by others in similar positions, is known as
- (A) Maslow theory.
  - (B) Expectancy theory.
  - (C) Equity theory.
  - (D) Herzberg theory.
18. Regarding audited financial statements, when no assurance is provided of the accuracy of the financial statements since there is no attempt made to test the accuracy or completeness of the information, the report is a(n)
- (A) audited statement.
  - (B) annual statement.
  - (C) review engagement.
  - (D) compilation engagement.

19. Which of the following financial response would answer the question of whether the money for new assets came from earnings or borrowings?
- (A) Balance sheet
  - (B) Auditor's report
  - (C) Income statement
  - (D) Statement of changes in financial position
20. Financial ratios
- (A) can be developed for financial information that a manager considers insightful into the business.
  - (B) provide conclusive answers to business problems.
  - (C) do not indicate to management and outside analysts where problems might exist and, therefore, where to investigate further.
  - (D) used in isolation, are more informative than comparing a series of ratios taken over an extended time period.
21. If your brokerage's net income is \$100,000, your total assets are \$2,000,000, your annual sales are \$1,000,000, and your owners' equity is \$500,000, then your return on owners' equity is
- (A) 5%.
  - (B) 20%.
  - (C) 25%.
  - (D) 50%.
22. In general, accounts receivable
- (A) has unlimited liquidity and can be converted to cash easily.
  - (B) yields high investment returns.
  - (C) will result in some losses that will turn into bad debts.
  - (D) represents no investment risk.
23. A contingent commission agreement
- (A) is non-negotiable between the insurer and broker.
  - (B) is usually based on the broker achieving an overall profit on the book of business.
  - (C) permits the broker to charge a fee for service on policies.
  - (D) (A) and (B)
24. The major advantage of a broker merging with another brokerage is the
- (A) increased profitability of the combined entity.
  - (B) process of integration between the organizations.
  - (C) sharing of assets.
  - (D) possible change in client loyalty.
25. The value of intangibles in a brokerage such as location, customer lists, supplier arrangements, and quality of personnel is known as
- (A) goodwill.
  - (B) owners equity.
  - (C) asset allocation.
  - (D) net worth.

26. A brokerage that is appointed by an insurer to act with the insurer's authority to appoint one or more other brokers is usually called a
- (A) sub-broker.
  - (B) wholesaler.
  - (C) managing agent.
  - (D) franchiser.
27. One advantage of a dedicated computer link between the insurer and the broker is that
- (A) the broker uses only the appropriate terminal for that insurer.
  - (B) it can permit underwriting by exception.
  - (C) the broker must learn the different underwriting criteria for each insurer.
  - (D) the use the specific insurer's system often indicates that the broker has met conditional volume requirements.
28. The drawback to single entry multiple company interface (SEMCI) is the
- (A) ambiguity of the ownership of the data.
  - (B) change in processing time.
  - (C) variation in efficiency and accuracy.
  - (D) time brokers will have available to concentrate on new sales.
29. When installing a new computer system, it is best to use a pilot plan
- (A) to test the operational effectiveness of the new system before final installation.
  - (B) to test in controlled circumstances on the system used for everyday business.
  - (C) meaning that the ultimate users must determine the characteristics prior to the purchase.
  - (D) meaning that another brokerage must test the system and then advise if it would work for the purchaser.
30. If the brokerage provides confidential information to its financial institution as a result of an email request only to discover that the e-mail did not come from the financial institution but rather a thief, it has been the victim of
- (A) a virus.
  - (B) phishing.
  - (C) a Trojan horse.
  - (D) hacking.

(2 marks each = 60 marks)

## Section B: Narrative Questions

Question 2. Briefly describe each of the following internal organizational structural configurations employed by brokerages and their advantages and disadvantages.

- (a) Line (10 marks)
- (b) Process Management (10 marks)

- Question 3. What is the importance of each of the following financial statements to a brokerage and what information would you expect to find in each?
- (a) Balance Sheet (10 marks)
  - (b) Profit and Loss Statement (4 marks)
  - (c) Statement of Changes in Financial Position (6 marks)
- Question 4. Briefly describe the use of the following financial incentive plans as a key component in performance management:
- (a) Compensation packages (6 marks)
  - (b) Stock ownership plans (4 marks)
  - (c) Performance bonuses (5 marks)
  - (d) Group insurance plans (5 marks)
- Question 5. (a) What are the advantages that leasing fixed assets have over purchasing assets for the brokerage? Include the tax implications in your answer. (10 marks)
- (b) Discuss the ethical considerations and other concerns that a broker might have when sub-brokering business. (10 marks)

### Section C: Application Questions

- Question 6. Joe Brown is an experienced insurance broker who has worked with small town brokerages and national brokerages. Recently he was offered the opportunity to purchase a brokerage in his hometown. One of the first decisions he faces is the legal structure for the brokerage and is considering either a sole proprietorship or an incorporated company. What are these types of organizational structures and what are the advantages and disadvantages that Joe must consider in making his decision? (20 marks)
- Question 7. Jack Rambo is the new sales manager for the Explosive Insurance Brokerage. This brokerage has never had a formal approach to its measurement of performance for its salespeople. What should Mr. Rambo include in his program to monitor the sales performance of his producers and the productivity levels they achieve? (20 marks)

Question 8. David Ng, the manager responsible for the security of the computer system at The National Insurance Brokerage, has recently been reading local trade journals about the problems associated with computer systems, and the loss and unauthorized use of computer data. He has been charged with developing a security plan for the organization. At this point there are no limitations and he has noticed that employees are employing the Web and e-mail for personal use. What concerns should Mr. Ng have about these uses of the system and what steps and requirements should he take with management and staff members to secure the data of The National Brokerage and to meet any legal requirements?

(20 marks)

