

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.

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. Businesses with this form of legal structure benefit from continuity, limited liability and liquidity advantages.
 - (A) Publicly held corporations
 - (B) Sole proprietorships
 - (C) Partnerships
 - (D) Joint ventures

2. The cancellation clause of an agency contract should
 - (A) specify the notice period required for cancellation of the contract by a third party.
 - (B) be the shortest possible period of time between the insurer's giving notice of cancellation and the actual cancellation date.
 - (C) exclude binding authority on additional coverage for existing policies during the run-off period.
 - (D) state whether the insurer or broker is responsible for notifying the insureds of the cancellation.

3. An agent who has restricted express authority and can perform only those acts that are essential to a specific situation are known as
 - (A) general agents.
 - (B) special agents.
 - (C) managing general agents.
 - (D) brokers.

4. The formal plan that outlines and supplies direction to the brokerage's action in broad general terms over a three to five year period is known as the
 - (A) business plan.
 - (B) action plan.
 - (C) objective plan.
 - (D) strategic plan.

5. The process whereby managers accomplish tasks by giving authority and responsibility to other people is known as
 - (A) intimidation.
 - (B) management.
 - (C) hiring.
 - (D) delegation.

6. Detailed reports showing the status of premiums due to the brokerage for each producer individually and for the entire brokerage are known as
 - (A) trust accounts.
 - (B) aged accounts receivable.
 - (C) income statements.
 - (D) monthly producer reports.

7. The assessment of the current situation, a strategy for the coming year, and studying the financial and resource implications for either a proposed product or service constitute what is known as a(n)
 - (A) income statement.
 - (B) marketing plan.
 - (C) positioning statement.
 - (D) vending analysis.

8. If a broker divides one of the three buyer's markets by education, industry or risk type, the broker is using
- (A) commercial segmentation.
 - (B) demographic segmentation.
 - (C) geographic segmentation.
 - (D) behavioural segmentation.
9. Growth strategy marketing concentrates on
- (A) a small number of risks that require specialized services.
 - (B) saturating the market with a single product that is not targeted to any one consumer group.
 - (C) differentiating the products and marketing programs designed for different markets.
 - (D) targeting a small industry where substantial growth is anticipated.
10. The process done on a category basis where the income received from clients is compared with the costs the brokerage incurs in servicing the accounts is known as
- (A) cost-benefit analysis.
 - (B) pre-qualification of accounts.
 - (C) identifying key accounts.
 - (D) producer specialization.
11. A standard or customized form that identifies customer needs, acts as a reminder to follow up on producer calls, and ensures that producer and support staff take appropriate action on the account is known as a
- (A) data management account.
 - (B) schedule.
 - (C) continuity plan.
 - (D) sales call report.
12. One of the indicators used to measure overall sales team performance is the
- (A) total amount of annual sales.
 - (B) cost of the sales force to the number of policies written.
 - (C) number of policies written to the number of sales calls or pre-qualified clients.
 - (D) all of the above
13. Johann Wolfe is considered an independent contractor because the ABC Insurance brokerage
- (A) provides him with a desk and a telephone to conduct business.
 - (B) supervises all his activity.
 - (C) has employed Johann for three continuous years.
 - (D) is not responsible for Johann under the provincial labour laws.

14. The theory in which employees are motivated by a hierarchy of human needs that increases from basic survival needs to the need for self-actualization is known as the
- (A) Expectancy theory.
 - (B) Herzberg theory.
 - (C) Maslow theory.
 - (D) Equity theory.
15. When a brokerage gives an employee stock that the employee can sell after giving the brokerage first right of purchase, the employee is said to be enrolled in a
- (A) profit sharing plan.
 - (B) restricted stock purchase plan.
 - (C) registered pension plan.
 - (D) performance appraisal plan.
16. On the balance sheet, goodwill is considered a(n)
- (A) intangible asset.
 - (B) fixed asset.
 - (C) long-term liability.
 - (D) owners' equity item.
17. The financial ratios that measure the competency and effectiveness with which the brokerage handles its assets, regardless of whether or not it makes a profit are known as
- (A) profitability ratios.
 - (B) liquidity ratios.
 - (C) capital structures ratios.
 - (D) efficiency ratios.
18. Accounts receivable
- (A) can be converted into cash immediately.
 - (B) are used by brokerages as a method of increasing their revenue.
 - (C) are called bad debts if considered uncollectable.
 - (D) represent a positive investment.
19. A company that is having little or no change because it is not generating new proposals, it lacks skills, or the success of its present products stifles the initiation of new or alternative strategies is said to be in a period of
- (A) decline.
 - (B) expansion.
 - (C) plateau.
 - (D) consolidation.
20. One disadvantage of a brokerage acquisition is the
- (A) integration of organizations with different cultures.
 - (B) exploitation of synergies.
 - (C) reduced learning curve.
 - (D) rationalization of equipment such as computers.

21. Brokerages usually approach a wholesaler broker if they have a risk that
- (A) is substandard.
 - (B) has U.S. exposure.
 - (C) requires additional capacity over and above that usually provided by standard markets.
 - (D) all of the above
22. The practice of collecting, controlling, retaining client information efficiently and using that information to ensure that the brokerage meets all the clients' needs is known as
- (A) electronic data interface.
 - (B) back office functioning.
 - (C) e-commerce.
 - (D) database mining.
23. Single entry multiple company interface (SEMCI)
- (A) results in decreased costs for brokers because there are fewer errors.
 - (B) creates client dissatisfaction resulting from delays in processing time.
 - (C) requires manual calculation and production of renewals.
 - (D) clarifies the ownership of data between the insurer and the broker.
24. With respect to e-mail,
- (A) it cannot be retrieved once it has been deleted.
 - (B) it is good practice to have one password that all employees can use to access the email.
 - (C) all messages that an employee sends, receives or stores are considered to be personal property of that employee.
 - (D) coverage requests made by e-mail should only be bound if a member of the brokerage confirms the change.
25. The amount by which proceeds of a property's sale, less outlays and expenses incurred in the sale, exceed the adjusted cost base of the property is known as the
- (A) disposition.
 - (B) capital gain.
 - (C) payout.
 - (D) capital loss.
26. The document that guarantees that after death, the sole proprietor's assets will be distributed as he desires, and the business will continue in the format selected is the
- (A) power of attorney.
 - (B) will.
 - (C) shareholder's agreement.
 - (D) living will.

27. Sammy Lutz has just learned that he has cancer and is expected to live only a few months. Fortunately he has coverage to pay for specialized medical treatment not covered by the provincial health insurance program under his
- (A) long-term disability insurance.
 - (B) criss-cross life insurance.
 - (C) split-dollar insurance.
 - (D) critical illness insurance.
28. Where an insurer operates with a managing agent, the
- (A) managing agent submits business to the insurer through the sub-agent.
 - (B) managing agent may also perform the underwriting and issuing functions of the insurer.
 - (C) sub-agent does not owe the insurer the same duties and responsibilities as the managing agent.
 - (D) sub-broker deals exclusively with the insurer and the placing broker deals exclusively with the client.
29. To comply with the provincial and federal privacy legislation, brokers
- (A) must explain that information is collected, used, and disclosed to other brokers and insurers to provide the client with a complete insurance package.
 - (B) must obtain verbal consent accepting the use and disclosure of information before proceeding.
 - (C) may comment about the client's personal assets and activities to another broker in the office who is not involved with the file.
 - (D) may leave detailed messages for clients requesting specific underwriting information on voice mail.
30. The Property and Casualty Insurance Compensation Corporation (PACICC) will automatically respond to the claims of eligible policyholders subject to
- (A) the policy deductible being applied to any loss.
 - (B) the maximum recovery from PACICC being \$50,000 in respect of all claims arising from each policy issued by the insolvent insurer, and arising from a single occurrence.
 - (C) policyholders claiming reimbursement of 25% of the unearned premiums paid in advance, subject to a maximum of \$250.
 - (D) the claim arising from a fidelity insurance policy.

(2 marks each = 60 marks)

Section B: Narrative Questions

- Question 2. (a) Identify and briefly describe THREE (3) of the plans used by a brokerage to achieve its goals within a specified time period. (15 marks)
- (b) List the steps in the planning process. (5 marks)

- Question 3. Identify and briefly discuss FIVE (5) key elements of sales production. (20 marks)
- Question 4. Briefly describe the issues surrounding the following events and how each affects an ongoing business. How can such effects be minimized?
- (a) Divorce of a shareholder (10 marks)
 - (b) Death of a sole proprietor (5 marks)
 - (c) Death of a key employee (5 marks)
- Question 5. (a) List FIVE (5) common exclusions found in a broker's professional liability policy. (5 marks)
- (b) Briefly describe the following clauses found in a broker's professional liability policy:
- (i) Persons insured (5 marks)
 - (ii) Retroactive coverage (5 marks)
 - (iii) Extended reporting (5 marks)

Section C: Application Questions

- Question 6. Sharon Jones and Michelle LeGrow are considering whether or not to purchase the Seaside Insurance Agency Ltd. While both have been producers for a brokerage in another town and have years of experience, they want to consider all aspects of the brokerage before investing their life savings into a town with one major industry, a pulp and paper mill, and several established brokerages. Presently they are using Michael Porter's Five Forces to gain sufficient information to analyse their position. Identify and briefly describe each of the Five Forces. How will analyzing each of the forces assist Sharon and Michelle in their decision making? (Refer to the scenario described above in your answer.) (20 marks)

Question 7. The following information is known about the Consumers Insurance Brokerage:

Current assets	\$4,500,000
Fixed assets	\$ 950,000
Total assets	\$5,450,000
Current liabilities	\$1,500,000
Long term liabilities	\$3,000,000
Total liabilities	\$4,500,000
Owner's equity	\$ 750,000
Total debt	\$ 150,000
Total sales	\$6,000,000
Other income	\$ 400,000
Gross income	\$6,400,000
Sales costs	\$3,600,000
Total brokerage expenses	\$1,800,000
Net income	\$1,000,000
Total dollar value of renewals	\$4,400,000
Accounts receivable	\$ 320,000
Commissions	\$ 900,000
Profit on ordinary activities	\$ 600,000
Total number of accounts	1200
Total employees	15
Total number of clerical employees	6
Dividend payable	\$ 5
Number of shares	100,000

- (a) What is the brokerage's current ratio? (5 marks)
- (b) What is its profit margin? (5 marks)
- (c) What is its dividend cover ratio? (5 marks)
- (d) What is its commissions per producer? (5 marks)

You must show equations and calculations used to determine your answer.

Question 8. The Zenith Insurance Brokerage Inc. has decided to increase its volume using organic growth rather than other methods such as mergers or acquisitions. The President, Sam Coyote, is meeting with his staff members in the annual planning session to announce this decision and to discuss what this will mean for the brokerage. Describe the methods of growth Mr. Coyote will highlight with the producers and customer service representatives so they will reach their individual targets and the brokerage's overall target. (20 marks)

