



**UNIVERSITI PUTRA MALAYSIA**

***MALAYSIA BRITISH ASSURANCE BERHAD KUALA LUMPUR  
BRANCH: A CASE STUDY***

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case study / Kwong Chee Kueng.

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**Masters of Business Administration in  
The Graduate School of Management  
Universiti Putra Malaysia**

**May 2002**

**MALAYSIA BRITISH ASSURANCE BERHAD  
KUALA LUMPUR BRANCH**

**-A CASE STUDY**

**BY**  
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**This Case Study is submitted in Partial Fulfillment of the  
Requirements for the Degree of  
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## **PART I – CASE DESCRIPTION**

## 1.0 THE BACKGROUND

Mr. Chow is the Kuala Lumpur (KL) Branch Manager for Malaysia British Assurance Berhad (MBA). He is an associate member of Chartered Insurance Institute of London. Mr. Chow aged in mid 40s has more than 18 years insurance experience. He started as an underwriter in his earlier stage of his insurance career with British-American Insurance Co. Ltd. He later became a 'marketing man' when joined MBA about 10 years ago.

Mr. Chow was the assistant head of Branches and Agency Department in MBA Head Office before being seconded to head Kuala Lumpur branch in the midst of 1990s. His earlier roles are mainly on branch coordination, approval of agency application and acts as 'liaison officer' between companies and its branch personnel and agency forces. He replaced Mr. Kok, the previous Branch Manager who was promoted to be the Head of Branches and Agency Department in Head Office in 1995.

Generally, the management has classified Kuala Lumpur branch as the 'locomotive head' to the whole MBA production portfolio. KL branch produces premium of about RM70 million in financial year 2000/2001. This is about 25% of the company turnover performance. Mr. Chow is proud to be entrusted with such an 'important' and 'significant' responsibility by the company in heading such a 'heavy-weight' branch. The assignment not only meant a challenge to him but also an opportunity for him in his career advancement. Mr. Chow feels the assignment will definitely earn him extra mileage in climbing the corporate ladder to a higher position in the company if he is successfully 'lifting' the KL branch turnover performance to a further high.

Mr. Chow has no branch administration experience. His only experience in managing a branch was about few years back when he relieved Kota Kinabalu branch for a few months after the branch manager left without a replacement. Mr. Chow works very hard and committed to improve the KL Branch business performance despite the lacking of branch administrative experience in him. The branch production grows about 15%-20% per year since Mr. Chow took over the realm of KL branch. His 'marketing-oriented' personality, 'accommodative and easy-to-approach' behaviour, hard work and commitment have successfully gained him the supports from existing agents. Most of the KL branch agents increased their premium support to the company along the years. The number of 'million-dollar' premium producers has increased from 2 in 1995 to about 5 in 2001. Besides, Mr. Chow also successfully to secured several 'big and sizeable' agents from other insurance companies since he started as Branch Manager in KL branch.

Mr. Chow focused so much on increasing the production and sales figure along the years without much attention and care spent on the risk (loss) exposure management. Mr. Chow placed the 'sales target' as the achievement priority in relation to others factors such as staff motivation and expenses control. He 'fight' so hard to urge and convince his agents to increase business contribution to his branch and in return he has not much choice in selecting the risk that bring to company by agent. He has to accept all the risk from agents regardless of 'bad' and 'good' risk if he needs to keep agents 'happy' and continuously gains agents' support.

Mr. Chow mentioned *"...My first priority is to get more and more business for the Company. This could means that sometimes we have no alternative but to accept 'bad and less profitable' risk. This will help us to gain agents' support and confidence. In return, they will at the same time pass us others 'good and profitable' business. Eventually our risk portfolio will be balanced...."* Mr.

Chow also added *"...I have to try to increase the sales performance of my branch as that is what the management only concerned during my year end performance appraisal... nobody really look into the claims performance on cases that I bring to the company anyway..."*

Mr. Chow had successfully led KL branch into all time peak high performance during his year of leadership from 1996-2001. KL branch has transformed from a branch that produced merely about RM50 million in 1995 to current sales records of above RM70 million in 2001. Mr. Chow has delighted that his 'marketing strategy' are working. He was promoted as senior manager in 1998 in line with company recognition on his achievement. Mr. Chow is fully aware that quite a number of the 'sizeable business' that brings by his agents turned to be 'poison bill' to the KL branch bottom line. The risks had brought to very bad claims experience and the branch profitability is deteriorating because of the countless claims occurrence. Puan Rohaini who is the KL branch senior claims executive who is with KL branch since 1993 highlighted *"....few of the newly appointed so called 'Star' agents by our branch manager are bringing us troubles. In short period of about 6 months time, about 30% of the business to us in MBA are having claims!"*

However, Mr. Chow still ignorance on the escalating claims experience in KL branch and continuing his tolerance on the 'bad' risk that brought by agents. He is more concerned on agents' satisfaction as compare to others. He accommodates to agents' requests in most of the cases particularly when dealing with risk acceptance, premium rating, policy terms and conditions. This has inevitably means accepting risk that currently losing money due to high claims. Although Mr. Chow declined risks that are not profitable. However, he will eventually accommodate to the agents' need after the agents' persistent as he worries his declination would cause negative effects to his relationship with the agents. He is more concerned of



losing the agents' support. He justified his acts that *"...sometimes we need to act solely on business consideration and not otherwise..."*

Mr. Chow tends to overwrite the branch underwriters' decision to reject cases that associate with very bad claims history. In most of the incidents, after he is being 'sweet talked' by agents. Mr. Chow in various occasions indicated *"We in the servicing industry and must be flexible enough to meet our customers' (both agents' and clients') expectation. We should not reject any cases solely on the ground that the claims history is bad. We could either write the risk with higher premium or stringent terms! We could not just throw the case away. This could 'affect' the agents' support to us as they may feel that we are not accommodative and supportive enough and they might start to switch business to other insurer like what happens to our Competitors lately"*.

Mr. Chow's attitude has caused much depression among the branch underwriters. Ms Koh, who is an underwriter in KL Branch for the past 12 year complained *"I feel so 'inferior' and 'frustrated'. The Branch Manager is never supporting his staff (us). He constantly overwrites our decision without prior discussion with us on the rationale for rejection. I rejected a case that brought by an agent last month on the ground of suffered 2 claims experience during previous insurer's time. You know what he did after 'complaint' and 'convinced' by his agents. He asked me why I reject such cases without prior refers to him! He accepted the case anyway..."*. Ms Koh added *"I really look like a 'fool' when the agent brought back the case with Branch Manager's remark of risk acceptance to see me. You know what the agents say to me? He said he feels 'useless' to talk to me in future as I am so inflexible and inaccomodative as compare to Mr. Chow!"*

Ms Judith, the general accident insurance underwriters who with KL Branch for few years has also shown her grievance. *"I have quoted a risk last few days with high rating in view of the risk exposure. The agent appealed to me for a reduction and I had highlighted to him on our firmed stands. You know what happens...Mr. Chow slashed the rating by 40% after being requested by his agents!"*

Mr. Chow as the head of KL Branch has the 'ultimate' authority to overwrite the risk acceptance decision make by the Branch underwriters as long as the risks within his given authority. However, he still needs to seek prior approval from Head Office underwriters on risk that above his acceptance limits. However, Mr. Chow's behavior and attitudes not only caused 'dissatisfaction' among the staffs of KL branch but also to Head Office underwriters.

Ms Chan (marine insurance underwriting head in Head Office) had argued with Mr. Chow in several occasions where she said *" Mr. Chow, we as the staffs who being trusted with the acceptance authority for the company could not blindly accepting risk without considering a prudent way of risk assessment. We should avoid the risk with 'potential' risk exposure! We should obtain more information pertaining the risk before we could quote a competitive pricing. As you are unable to provide further information on the risk and this marine hull case is known to be 'bad claim' risk from market source. How could you ask me to accept the risk with 35% lower than our norm rating? I would never agree!"*

In most of occasion, Mr. Chow would try various means to convince or 'pushing' Head Office underwriters to accept the risk if they reject his cases. Mr. Chow normally would refer the case to Mr. Chew (The Central Regional Manager) or Mr. Daniel (The Deputy General Manager for Marketing Division) for theirs support in 'push through' the case to Head Office underwriters. Mr. Chew is in his



earlier 50s. He holds an insurance diploma from Australia Insurance Institute. Mr. Chew has more than 38 years in insurance experience. He is one of the few pioneers of the company. He was the Marketing Manager in KL Branch about 13 years ago before transfer to Klang as the Branch Manager. He was promoted as the Central Regional Manager in 1994. Mr. Daniel is his middle 40s was the Central Regional Manager prior to heads the marketing division in Head Office. In most of the circumstances, Mr. Chew and Mr. Daniel who are also a 'typical marketing man' able to 'assist' Mr. Chow to get his case approved after apply their 'undue authority influence' on Head Office underwriters.

However things has changed since last year after the Company being announced to be taken over by Allianz Group - a world-renowned Germany 'giant' insurer. The new 'white man' owner has astonished to see the increasing claims trend and loss experience suffered by their newly acquired investment. The new company major shareholder has charted a new direction for the company in the immediate terms that emphasize on "balanced growth with bottom line". Mr. Daniel's has conveyed the company's new vision through his keynote speech for 2001/2002 marketing strategy conferences that held in April 2001. *"Once again, we are sitting down to plan for our next financial year which we expected to be very challenging. Whilst, we must have growth in order to sustain the management expenses, it must not be done at the expense of bottom line and premium collection."*

The company has emphasized that the new vision need to be appreciated and adhered by all staff (including marketing staff) in order to ensure the sustainable and positive growth is balanced by a positive underwriting profit (with lesser claim).

Mr. Horst Herman Habigg (Chief Operation Officer for Technical Division) indicated " *We at Underwriting Department need to ensure that all necessary measurements are taken up to ensure that the risk we write or accept are favourable. We shall not ever accept risk with previous claims history. We shall not relax our rating for any risk in the expense of production achievement by marketers. All personnel (including Branch Manager) should adhere to this and shall assume whole full responsibility if deviate.*" Mr. Horst Herman Habigg is a German. He is in his early 40s. Mr. Horst has more than 10 years experience in local insurance industry. He was stationed at Hong Leong Assurance Berhad as Allianz representative in Malaysia for many years.

In accordance to the new standing instruction and directive, branch underwriters are able to reinforce their legitimate position in deciding the risk acceptance or rejection as their decision now can't be easily overwrite by branch manager. Ms Pauline who is at earlier 40s and the underwriting head for non-motor section in KL Branch expressed. "...*Finally, we are now able to exercise our discretion in practicing prudent underwriting. At least, he (the branch manager) would not able to accuse us for not flexible enough and caused the business deteriorating.*"

With immediate effects, there is a trend of sizeable amount of risks have been rejected or declined renewal in view of bad claims experience and potential hazards exposure such as computer parts, mobile phone and watch dealers risk etc. The underwriters have immediately tighten up all the terms of existing risk as such imposed addition security requirement, restricted the coverage, increased premium rating or deductibles<sup>1</sup> bears by customers.

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<sup>1</sup> Deductibles mean the amount of money that will be responsible by Insured in the event of loss. For example :- Policy with deductibles of RM1,000. There is a loss of RM2,500 and hence the insured need to responsible for the first RM1,000 and the insurance company only compensates the balance (i.e. RM1,500).

The marketing personnel of KL branch have complained to branch manager in various marketing meeting on the tight underwriting terms apply by the technical staff have scared the agents away. In most of the incidents, the marketing staffs were arguing the risk acceptance issue with underwriting staffs in the office. The clashes between the marketing staffs and underwriting staffs are getting worse and they are seldom in mutual talk terms especially when dealing with issues on risk acceptance.

Mr. Chow are unable to do much although agents keep calling him for assistance in solving the cases that being throw out by underwriters. He is fully aware that the company vision and approaches have changed. Production achievement is no longer the main criteria but the profitability is. The sudden and immediate tighten up of risk acceptance by MBA has created lot of dissatisfaction among the agents. Mr. Wong from Klang who has produced about RM250,000 premium a year commented. *"MBA is totally out of its mind. They just keep throwing out my cases as they are claiming that my risk exposure is great. No doubt the risk with me are high but I have charged a very high rate to commensurate with the risk!"*. Ms Wendy who is one of the top multi-million producer mentioned in KL Branch. *"MBA is no longer accommodative like previous day. They are selective in most cases. They have imposed a lot of stringent terms till my client is really annoys. Well...it is simple to me...the risk MBA does not want... I could easily get to place out with other insurers in the market! There are still a lot of insurers able to accommodate to us! Tokio Marine Insurance, Berjaya General Insurance and others as you could named it!"*

This is a pleasant morning and Mr. Chow has breakfast with his wife as usual in Jalan Alor, Bukit Bintang Kuala Lumpur before sending his wife to work. Mr. Alex Lee (a renowned and multi million agent to Kuala Lumpur Branch) rang him at his mobile phone.



- Mr. Alex Lee : *"Chow, where are you? I am really disappointed with the way your company in doing things lately. I submitted 10 cases to your underwriters two days ago and 9 cases were rejected. Is this the way MBA doing business now?"*
- Mr. Chow : *"Alex, please Calm down, don't get heated easily in early morning. Whatever problems you faced are my problem as well. Let discuss and I see what way I could help you Have you talk to Cheng (Alex's servicing officer) on the issue?"*
- Mr. Alex Lee : *"Chow, please don't mentioned Cheng's name! He is just can't assists me, he do not has the knowledge at all on insurance, please get other experienced and knowledgeable marketing staff to take care my account, okay? By the way, Chow, I am not angry with you. I know you are always helpful enough. But you see. The 10 cases are with good security features such as alarms etc but your underwriters still rejecting the risk... it is really unreasonable!"*
- Mr. Chow : *"If there is good security features, I see no ground why we should reject the case. Any claims before?"*
- Mr. Alex : *"Emmmm... 5 cases have suffered a loss last year. Another 4 cases have suffered losses before last year. The losses are small. Each loss is less than RM5,000. The other case is clean...but I have charged them a higher premium and excess...it should be good enough to your company right?"*
- Mr. Chow : *"Alex, things have changed a lot. We are very concerned with risk with previous claims history. Misfortune repeats always, you know right? To underwriters, the*

*case is just simply too risky to accept, please understand our position as well. You know, we have a new 'mah-salei' boss who are eyeing on our move you know, if we accepting something 'bad and sub-standard' in nature and claims incurred, I tell you ... I will be the first to go."*

Mr. Alex : *"Chow, you should not just concern about your self. You should take care of me as well. I have supported you last few years. You asked me to support you more and I do support you in whatever way I could by switching my business with other insurers to you. Now you tell me that we are unable to help. My rice bowl depends on the insurance commission, you know? If every case your company reject. What can I rely on for my living and covering my operation expenses? Please understand. Your should look into my past support! Can't you help me on this little thing?"*

Mr. Chow : *"Alex, I would like but....."*

(Interrupted by Mr. Alex Lee)

Mr. Alex : *"Chow, I don't want to listen to excuses. Tell me you want the 10 cases or not by today before noon otherwise I will stop passing you any new risk ....I shall even take away my existing policy from you!"*

Later in the morning, Mr. Chow again receiving 2 phone calls from other two 'big' agents in KL Branch complaining about the tightening of underwriting terms which caused them loss a lot of cases. They have collectively demanded Mr. Chow to look into the matter urgently and take all possible steps to remedy the situation.

They threatened : *'Chow, put aside our friendship.... frankly to say that if the underwriting terms continuously to be tightened up...I really have no choice but to terminate my agency and sign up with another principal. Chow, you still earn your salary and bonus if no business but I'm different...I need to secure more business and earn commission to feed my family! By the way, Chow, I think you need to retrain your marketing staffs. They seems don't know much about the insurance... they are considered the professional but yet unable to assist me in quoting a simple risk. Chow, I don't need a office boy that comes to my office just to pick up documents but I need a technical strong servicing officer!'*

Later in the afternoon, Mr. Chow received the latest September Month Management reports from Central Regional Office. The Central Regional Manager has requested for an explanation on the deterioration in sales performance and the escalating claims pattern in KL Branch.



The management reports as below:-

**Kuala Lumpur Branch Monthly Production for the month of September 2001**

***Premium Production Figure (RM Million)***

<u>Month</u>	<u>Actual 2000/2001</u>	<u>Actual 2001/2002</u>	<u>Budget 2001/2002</u>
July 2001	RM6.037	RM4.809	RM6.659
Aug 2001	RM6.211	RM5.199	RM6.848
Sept 2001	RM5.481	RM4.452	RM6.056

<u>Month</u>	<u>Variance Actual 01/02</u>		<u>Variance Actual 01/02</u>
	<u>Vs Actual 00/01</u>	<u>(%)</u>	<u>Vs Budget 01/02 (%)</u>
July 2001	-20%		-38.47%
Aug 2001	-16%		-31.72%
Sept 2001	-19%		-35.80%

The management report continues.

**Kuala Lumpur Revenue Reports for the month of September 2001**

***Branch Net Underwriting Profit/Loss (RM '000) (Selected Classes)***

<u>Class</u>	<u>September 2001</u>	<u>Year To Date</u>
Fire	61,270	477,222
Marine	47,978	62,776
PA	(970)	35,938
WC	(3,419)	55,815
CAR/ENG	(45,022)	(95,654)
Health	85,255	141,037
Liability	(97,926)	(105,306)
Others	(66,986)	(225,423)
Motor	(69,139)	(419,210)

***Kuala Lumpur Claims Ratio Report (July to September 2001)***

***(Selected Classes)***

<u>Class of Insurance</u>	<u>Claims Ratio</u>
Personal All Risk	15%
Burglary	378%
Money	61%
Golfers	323%
Machinery & Equipment	203%
Miscellaneous Equipment	333%
Machinery Breakdown	6213%
Erection All Risk	227%
Contractor All Risk	186%

# REFERENCE



## REFERENCE

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