An analysis of the environment as a means of assessing training needs in the Insurance industry in Australia

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Abstract

In the five years leading up to 2002 there were many significant changes in the insurance industry in Australia that brought about a range of training needs. These training needs arose from matters as diverse as mergers, increased competition, corporate failures, and legislative changes. This study includes findings from a survey of the insurance industry in Australia in the period 2000-2002 as a means of exploring the importance of the environment (marketplace) in predicting aspects of training needs. The findings demonstrate that an environmental analysis approach to training needs analysis can predict the type of training that organisations will subsequently need to provide, and thus has the potential to produce a more accurate assessment of training needs in the future. It also has the potential to contribute to the economic success of businesses operating in the financial services industry.

Introduction

The insurance section of the financial services industry plays a pivotal role and makes an important contribution to the Australian economy. During the year ending 31 December 2004 the industry collected some $21 billion in premiums and paid $13 billion in claims (Australian Prudential Regulation Authority [APRA], 2005). These are significant financial sums and indicate why the industry has an important economic impact on the Australian economy. The industry can broadly be divided into two areas, insurers who provide protection for the risks clients' face and insurance brokers who provide their expertise to ensure that their clients receive the best cover for the risks they face. The industry consists of some 138 insurers and a very large number of insurance broking firms with many being comparatively small in size.

Since 2000 there have been a number of marketplace issues that have had an impact on the industry. For instance, the demise of a large insurance company (HIH), the liability crisis which had its effects in substantial rises in liability insurance premiums or unavailability of cover and the fallout on the industry following September 11 terrorist attacks, contributed to a significant disruption in the market. The resolution of these marketplace issues has highlighted the need to ensure effective training of employees at all levels in the industry.

Various authors have noted the importance of training to the insurance industry. This training ranges from a focus on the importance of training in so-called "soft skills" like leadership and team building (Nau, 2003) and training to reduce staff turnover, to relatively simple yet crucial, areas like writing and communication skills (Blake, 2000). In their review of the literature on the benefits of employee training programs, Jackling and Mc Donald (2003, p.41) indicate that further research needs to be undertaken to provide insights into the type, nature and extent of training done in the insurance industry. Typically, within the insurance industry training becomes particularly important during periods of stagnant and declining capital markets. During such periods, improving efficiency of core services becomes vital as insurers cannot rely on rising markets to increase premiums.

The need for training in the industry has also been influenced by changes in the form of corporate structure as there have been a number of mergers within the industry in the last decade. These mergers are often viewed as disruptive and bring with them needs for adjustment in the performance and competencies required of staff in a variety of roles that trigger training and retraining requirements. The demise of HIH, which itself was formed through the merger of a number of companies, highlights the need for a well-trained workforce.

It is evident that individuals, firms and entire economies, gain substantial financial as well as non financial benefits from well-designed and delivered training programs (Doucouliagos & Sgro, 2000). This paper uses the insurance industry in Australia as a case study to illustrate that when identifying needs for training, the environment in which the firm/industry operates is an important determinant of the specific training needs. It is acknowledged that the operation of the insurance market in Australia is very similar to that of international insurance markets therefore the findings reported in this paper are not limited to the Australian context but have potential implications internationally. The next section outlines the traditional training needs analysis approaches identified from the literature, while the following section identifies the training needs that would be likely to arise from the changing environment that evolved from 2000 onwards in the Australian insurance industry. The results from a survey of training in the insurance industry that identified areas of training needs in the industry follows, while the final section provides a summary of findings and limitations of the study.

Approaches to training needs

An important aspect in the development of training programs is the completion of a training needs analysis. Survey evidence from the United Kingdom (UK) and the United States of America (USA) suggests that over 90 per cent of firms engage in various forms of developmental activities to prepare managers for training activities (Chiu et al., 1997; Loo, 1991). In preparing for these developmental activities it has been recognised that it is of considerable importance to conduct a 'training needs analysis', which represents a systematic effort to gather information on performance problems within the organisation which might be remedied by training and development (Anderson, 1993; Bennett, 1992; Ferdinand, 1988). Therefore training needs analysis is primarily conducted to determine where training is needed, what needs to be taught and who needs to be trained (Rouillier & Goldstein, 1993). Among the various methods used to evaluate training needs analysis, two of the more commonly adopted approaches are the supply-led (trainer driven) approach and the demand-led (business-oriented) approach.

A further approach to identifying training needs described as the organisational approach, has been addressed by Salas and Cannon-Bowers, (2001). In this approach the principal focus of training is to meet the organisation's needs which may be argued as a further extension of the demand-led approach to training needs methods. These three approaches to analysing training needs are outlined in the next part of this section.

The supply-led approach to training needs analysis

Training needs analysis that is referred to by Delayahe, (1992) as the supply-led approach is essentially a trainer driven approach to training. The trainer will identify the training needs by analysing the tasks that are needed to undertake a particular job and then develop a training program for those areas where the employees lack specific skills (Chiu et al., 1999). The assessment of training needs often involves the adoption of a skill model as a framework to help compile a list of tasks and seeks training needs requests from the listed items. One problem with this approach is that trainers often do not have the line manager's experience and are not in a position to identify the key operational issues (Bucalo, 1984). Additionally, the skill model often fails to encompass a comprehensive range of training needs, as the lists may simply reflect the trainers' preconceptions of the job which may or may not match with that of the potential trainees (Chiu et al., 1999 p.78).

Demand-led approach to training needs analysis

A more recent approach to determining training needs is for the analysis to be conducted on an organisational needs basis. This has been termed a 'demand' driven approach as the training is dictated on the basis of the organisation's needs rather than the employees needs (Chiu et al.,2001). The key to this approach is seen to be related to top managers' beliefs that investment in training is important to the success of the business (Thompson, 1994). Also in this approach the business planning process is linked to the mission of the organisation and thus training is viewed as integrated within the wider business of the organisation. The training needs analysis in a demand-led approach identifies the context for training. This approach is also characterised by a top-down, finance-driven process that emphasises business outcomes rather than employee needs, typical of the supply-led approach.

Organisational approach to training

The purpose of an organisational analysis of training is to outline the system-wide components of the organisation that may affect the delivery of a training program (Rouillier & Goldstein, 1993). Salas and Cannon-Bowers, (2001) in their review of the training literature published during the 1990s, found that the focus on an organisational analysis is a comparatively recent one. This is seen as a significant area as many training programs fail to meet their objectives because they encounter conflicts with organisational constraints and goals. A study by Rouiller and Goldstein (1993) showed that the climate in the organisation could be a significant influence in the post training transfer of skills. In another case it was found that the organisational culture had a significant effect on the post training behaviour (Tracey et al., 1995). In particular, the Tracey et al., study showed that organisational climate and culture directly impacted on post training behaviours. By using sources that set out an organisation's goals and aspirations the training can be more closely aligned to the long term objectives (Matthews et al., 2001). A business oriented training needs analysis should be the outcome (Chiu et al, 1999).

Training needs analysis based on external environment (marketplace)

Chiu et al., (1997) acknowledge that although a number of approaches to training needs analysis are defined by the literature the majority of studies are descriptive and anecdotal in nature, making the detection of differences in approaches difficult to identify. The present study provides a further dimension in approaches to 'training needs analysis' by introducing the external environment as a basis for determining training needs, thus building on the earlier work of Chiu et al., (1997) and Salas and Cannon-Bowers (2001). The analysis of training needs in the insurance industry forms the basis for proposing this additional dimension to the framework of approaches to training needs analysis.

As marketplaces are dynamic, the constant changes in circumstances need to be taken into account in the development of the training needs analysis in various sectors of the economy, and in particular the financial services industry. Developing training based on the organisation's goals and objectives will take account of some aspects of the external environment, but is unlikely to be sufficiently comprehensive. It is proposed that a review of the external environment also needs to be considered so that training needs in the financial services industry flowing from changes in the marketplace can be anticipated and incorporated into the planning of the training program. The following section outlines the training needs effect that would be likely to follow from the changing marketplace environment that evolved from 2000 onwards in the Australian insurance industry.

Training needs analysis in a changing financial services environment

Background to the marketplace environment

A review of the external environment increases the capacity to predict the training needs of an organization. In this section having first outlined the background to the insurance industry the major aspects of training will be examined and a prediction of the future training needs addressed. These predictions will be compared with findings from an insurance industry survey.

At the commencement of 2003 the insurance industry in Australia had just come through a prolonged period of very fierce competition where premiums had been reduced to uneconomic levels (Australian Competition and Consumer Commission, 2002). This was particularly so with Public Liability insurance. Competitively low premiums saw a number of insurers withdrawing from certain areas of liability insurance and some withdrawing from all areas. In September of 2001, HIH collapsed leaving behind some $5 billion in unmet liabilities. HIH was the largest commercial insurer in the market and was a very dominant force in the years prior to its demise in 2001. The removal of HIH from the market removed the largest underwriter of liability insurance. The full effects of the HIH collapse were felt in 2002 when liability insurance became very difficult to purchase (Mc Donald, 2005). In the three years prior to 2002 there was also substantial activity in relation to company mergers (KPMG, 2001) which was to result in the need for training considering the reallocation of duties that would occur.

With the introduction of the Financial Services Reform Act (FSRA) minimum education requirements were established and the regulators' goal was to establish standards which were to be monitored and adjusted over time as a means of improving the quality of financial services offered to society. The Financial Services Reform Act took effect in Australia from 11 March 2002 and both insurers and brokers had two years in which to apply for their Australian Financial Services License which was needed to remain operational. One significant aspect of the application for this license was the need to ensure that all staff dealing with the public met the minimum education training requirements required under the Act. This meant an extensive analysis of employees' qualifications and in many cases the provision of training to meet the specified level. The era of implementation of the FSRA has been one of considerable training activity that has highlighted the potential to generate many training needs within the insurance industry.

The following represents the principal points that result from an examination of the environment in which the insurance industry operated in Australia in the early part of this decade:

The market offered unrealistically low premiums for a number of years.

The liquidation in September 2001, of a major insurance company (HIH).

The increased number of takeovers in this era.

The educational requirements of the FSRA

The insurance market in Australia had for the most of the 1990s been subject to very intense competition which had driven down many rates to unprofitable levels (Australian Competition and Consumer Commission [ACCC], 2002). This caused some companies to withdraw from some classes of insurance business thereby reducing the market capacity. In other instances, companies to offset the lack of new business developed a range of measures such as new products or the enhancement of existing products and services in an effort to attract more business. Consequently where new products are introduced or existing products and services have been enhanced it is anticipated that employee training would be needed in a range of areas. For instance, training would be required for sales staff to promote insurance policies while staff involved in underwriting would need to understand the policies and assess the applications. Furthermore, the claims staff would need training to develop skills in comprehending terms of policies and handling claims

HIH had been a concern in the market for much of 2001. They had already sold off some parts of their portfolio resulting in up to 1,000 employees losing their jobs. In the months leading up to the collapse in September 2001 hundreds of others lost their job and were seeking new employment (HIH, 2002 pp. xiv-xv). The demise of HIH also meant that other insurers sought new business opportunities previously handled by HIH. Prior to 2001 HIH dominated the marketplace because of the low premiums it offered. However, their removal from the market meant that the higher premiums quoted by other insurers then became the successful quotes which resulted in increased business activity in this area.

In the liability insurance area HIH was particularly dominant. Their low premiums had kept market premiums very depressed and market results continued to deteriorate. Prior to the HIH collapse insurers had begun withdrawing from this area and with the mounting losses insurers were experiencing the trend continued after the HIH collapse. This approach meant staff were transferred to other areas or sought other employment.The failure of HIH could potentially produce a number of training needs. First, the increase in premiums could potentially have a range of effects depending on the position each individual company had taken during the period of severe competition. If an individual organisation had withdrawn from some classes of business or restricted their approach, they may have had to reconsider developing training in these areas. In most instances training for these types of insurance firms would be likely to consist of refresher courses for sales and underwriting staff to provide guidelines to the companies approach.

The collapse of HIH resulted in a number of experienced staff looking for employment in other areas of the insurance industry (HIH, 2002, p xiv). This change may have necessitated increased induction training and also specialised training in specialist areas for the firms employing former employees of HIH. While former employees of HIH may have had well developed technical expertise it is likely they would require training in approaches and procedures specific to other firms in the industry.

In the three years prior to 2002 there were a substantial number of company mergers however most of the activity was confined to three main areas. The first related to the sale of a number of divisions of HIH both before and following its collapse. These divisions were the Workers Compensation insurance division transferred to IAG, the commercial lines division transferred to QBE and all personal lines of business transferred to Allianz. IAG had been active in the merger area having acquired the old State Government operations in Victoria, West Australia and New Zealand. The joint venture with RACV in Victoria gave them a major portion of the RACV business. In addition to the motor business, this move also boosted IAG's commercial lines business. The next large movement came with AMP divesting themselves of their general insurance arm to Suncorp. Another significant merger was the CGU acquisition of NZI and Fortis. There were also other takeovers smaller in size that added to the activity. Figure 1 summarises the

major changes that resulted from the mergers and takeovers during this time (KPMG, 2001).

SHAPE * MERGEFORMAT

Source: Based on information in KPMG, (2001).

Mergers need to be viewed from two perspectives in terms of a training needs analysis. The first is the effect on the merged companies and secondly there is the flow on effect to other companies in the market. The merged company would need to establish its own systems and procedures. Mergers also result in technology changes. It is not unusual for new computer systems to be introduced to the merged company (IAG, 2003) or as a minimum one of the merging partners converting to the other partners system as the new company needs to use the one system. To this end many employees would need to undertake a modified form of induction training as well as training in the new company's systems and procedures and technology. In addition, as the new company establishes its policies, training in underwriting and claims approaches would be needed. The other companies in the market would need to evaluate what threats or opportunities they face following mergers of firms. For example, this may open up new opportunities for them if the merged company decides not to pursue certain areas of business. On the other hand, it may mean a threat to some existing lines of business or to some existing alliance so that new approaches or new products need to be developed to offset the effect of any potential threat. Each of these circumstances will give rise to the need for training.Mergers may also result in a number of additional experienced people seeking alternate employment, many of whom may have lost their job because of a merger (HIH, 2002). This will give rise to the need for more induction training. Where a company, in response to the increased competition develops new lines of business, training will be needed to be undertaken by sales, underwriting and claims staff.

The other significant event that occurred in the insurance environment was the introduction of the Financial Services Reform Act (FSRA) that took effect from 11 March 2002. The purpose of the Act was to reform the control and practice of the financial services industry. An area of concern was the knowledge level of staff employed in the industry. The Australian Securities and Investment Commission (ASIC), who administer the Act, have set out in a Policy Statement, (PS146), the minimum competency levels for those who deal directly with the public and work in the financial services industry. Failure to meet these requirements results in the license holder being in breach of their license. The introduction of the FSRA meant that an extensive analysis of employees' qualifications was needed to ensure that all employees with customer contact had the required minimum level of training. Where an employee did not have an appropriate level of qualification, then training courses needed to be developed to ensure standards were met. Typically approved training courses would involve the insurance firm itself becoming a registered trainer or external courses were arranged with registered trainers.

An empirical study of training needs in the insurance industry

In the light of the above changes in the marketplace environment applicable to the insurance industry in the years immediately preceding 2003, a survey of the industry's training arrangements was undertaken. The aim of the study was to identify employment tasks and qualifications of employees in the industry as well as the opportunities for both training within organisations and training external to the organisation. Additionally, the survey sought information about changes organisations had experienced in the years immediately preceding 2003 including the extent of training that had been provided by the organisation in 2002.

This study consisted of a survey of insurers and brokers. The data were collected via a self-completion mailed questionnaire distributed in May, 2003. The questionnaire replicated several aspects of Ridoutt *et al.,*'s (2002) study of learning and training in the workplace, with modifications to incorporate questions specific to the insurance industry. Further minor modifications were made to the questionnaire following a pilot study conducted with twelve firms, representing the four major sectors of the insurance industry, being General Insurers, Brokers, Life Insurers and Loss Adjusters. The insurers were selected from the APRA list of 'Insurers Authorised to Conduct New or Renewal Insurance Business in Australia' (HYPERLINK "http://www.apra.gov.au/General/New-or-Renewal.cfm" http://www.apra.gov.au/General/New-or-Renewal.cfm) while the brokers were selected from a data base purchased from Australian Securities and Investment Commission (ASIC). The data base comprised all Insurance Brokers registered under the Insurance (Agents & Brokers) Act as at 31 December, 2002. In total there were 365 questionnaires mailed to firms in the insurance industry. Non respondents were sent one mail reminder and those who still did not respond were followed up by telephone. One hundred and ten questionnaires were completed and returned, representing a 30 per cent response rate. This response rate falls within an acceptable range when employing a survey method (Sekaran, 1992; Zikmund, 2000).

The profile of responses is shown in Table 1. As noted above, the overall response rate was about what is expected in these types of surveys with

36 per cent of Insurance Brokers responding and 37 per cent of General Insurers responding to the survey. The response rate was less satisfactory for Loss Adjusters at 6 per cent, and from Life Insurers, 13 per cent.

Table SEQ Table * ARABIC 1 Distribution of survey response rate by industry category

Industry category	*No of firms surveyed*	*No. of Responses*	*Response rate (%)*
Insurance Brokers	207	74	36
General Insurers	78	29	37
Life Insurers	30	4	13
Loss Adjusters	50	3	6
	365	110	30

Given the poor response rate from Life Insurers and Loss Adjusters, the analysis of data focused on General Insurers and Insurance Brokers. The analysis of the findings provides some support for a number of the predictions made in the previous section. In assessing the needs for training, the results of the survey also revealed important findings in terms of the structure of the industry and the need to meet new levels of competition and compliance with financial service regulation. Some of the main findings that impact on training needs are addressed below. The results demonstrate the change in training needs over a 3 year period (2000-2002 inclusive), the evidence of mergers, the introduction of new products and the impact of the FSRA on the type of training undertaken by insurers and brokers.

In addressing changes in training needs, the study firstly sought information about the change in tasks performed by staff in the period 2000-2002. A three-point Likert scale, anchored from, 1 “little or no change in task” to 3 “a lot of change in task” for each of seven staff categories was identified in the questionnaire. The results shown in Table 2 suggest that overall there has been a reasonable degree of change experienced in the tasks performed by staff across the industry in the three year period. This has been the case for Brokers more so than General Insurers.

The Brokers’ responses displayed in Table 2 shows that there have been changes in the tasks performed by staff, in particular changes in the responsibilities of managerial or professional roles within the organisation (“a lot of change” 60 per cent). In contrast, for General Insurers the emphasis on change at managerial level was not as high (25 per cent of respondents). Table 2 also gives insights into where changes in training needs have arisen. For example, the introduction of the Financial Services Reform Act (FSRA) would be a contributing factor accounting for the changes in the tasks performed by Brokers, particularly at managerial level, given that most respondents in this sector were small firms with less than twenty employees.

Table 2 Changes in staff tasks/responsibilities over 3 years

	Brokers	General Insurers		Changes in
Tasks	Changes in Tasks		Staff Categories	A lot
%			A little	
%			None	

%					N/A				
%					A lot				
%					A little				
%					None				
%					N/A				
%		Managerial or Professional				60	25	10	5
25	60	15	-		Technical staff		43	36	4
17	21	58	21	-		Administration		44	36
12	8	24	67	9	-		IT	39	35
3	23	37	47	16	-		Marketing/Sales		
25	45	14	16	35	50	10	5		
Customer service			38	35	17	10	37	53	5
5									

For General Insurers there was also considerable change in the tasks undertaken by employees and the expectation would be that there have been two main contributing factors to this change. Firstly, the impact of the legislative changes related to FSRA and secondly, the merger activities prior to and following the demise of HIH. Mergers bring with them a reorganisation of duties, which would explain some of the responses that are shown for General Insurers. A higher proportion of General Insurers indicated that they had experienced some change, for example in the area of marketing and sales.

As a background to gaining an understanding of the training needs within the industry, the survey also sought information about the types of organisational changes that had taken place in firms in the previous three year period. Table 3 shows the percentage responses to a range of possible changes within organisations. The results provide an interesting mix. Downsizing had a greater effect on General Insurers (31 per cent compared with 11 per cent for Brokers) but centralising decision-making had an even greater effect on Brokers (48 per cent). New business diversification appears to be the area of greatest change for both Brokers (44 per cent) and General Insurers (38 per cent).

A significant number of respondents indicated that their organisations had been involved in the purchase or merger with another organisation. This is consistent with the description of merger activity within the industry discussed earlier. Among insurance Brokers this was 27 per cent whereas for General Insurers this was 41 per cent (see Table 3).