

Professional Broking

SENTIMENT SURVEYS



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Insurances

Welcome to the sixth quarterly *Professional Broking Sentiment Survey* – the independent industry barometer representing brokers' views. In this latest survey, almost one year on from the start of regulation under the Financial Services Authority, brokers began telling of positive experiences. While concerns remain, this survey charts brokers' progress under the FSA and their opinions on a wide range of other issues facing them.

Congratulations, by the time you read this you will be one of the firms that has made it to the end of the first year of regulation under the Financial Services Authority. And, while this *Sentiment Survey* bears some familiar concerns brokers have about the regime, there was plenty of comment suggesting early signs of it giving something back. The volume of open-ended comment submitted on the positive aspects of the regime was surprising, the highlights of which appear in the adjacent column.

While a proportion of those that responded to the question, "Have you seen any benefits of regulation so far?", did so with a flat 'no', more upbeat sentiments were left – if sometimes begrudgingly. For example, one broker said professionalism had been improved under a regime that he likened to Communism. This is representative of the tone of many responses that named positive benefits, but said they had come at a high price.

Clearly, the ongoing concern that customers are leaving due to brokers' time being tied up with regulation is one of the most damning of the regime. It was no surprise that the survey also proved the regime still obviously has a long way to go – with the FSA remaining reluctant to comment on when it expects the regime to deliver the benefits it has been designed to. Issues such as increased costs, dented profits and increased workload top the list of brokers' concerns. But, when asked: "Do you consider regulation under the FSA will improve the reputation of the market?", the largest response – 41% – said they thought it would eventually.

While emerging positive comments offset with negative ones, and the tone often begrudging; glimmers that the FSA's regulatory regime is starting to provide some benefit are starting to become more visible as brokers become more familiar with it.

This latest survey charts the beginning of the FSA-led regime coming to life after you, the practitioners, have digested much theory and wrought it into operational practice. One year into the regime and brokers are noticeably more willing to talk about the benefits they are seeing after the gargantuan effort to implement it. Please see over for full coverage. ■

Richard Adams
Editor,
Professional Broking



Have you seen any benefits of regulation so far?

- Better funds management.
- We have sharpened up our credit control and become more focused on providing customers with information about their contracts with us, but this is more than offset by the sheer volumes of paperwork and information, which produces a comatose state in the private customer who finds it totally unnecessary and a waste of resources (ecologically speaking).
- Yes, the industry is being forced to become more professional but at a considerable cost and loss of overall market efficiency. It is more like the benefits of Communism.
- More awareness of importance of documentation, which, in turn, improves professional indemnity position.
- Probably a greater benefit in terms of staff supervision and the fact that staff now have no choice but to follow processes and procedures.
- Regulation has improved the internal focus on employee training/development and competence.
- I suppose it has made us more aware of certain aspects of our performance but has made other aspects of our business more difficult to deal with.
- We have introduced better training, monitoring and quotation processes.
- It will help us become more professional and, ultimately, will be of benefit to our clients. However, I have grave doubts that the existence of the FSA will do anything to dissuade or stop the 'bad apples' from operating in the industry.
- Yes, there is at last a body that can take action to close down firms trading illegally.
- Consistency; useful audit trail. Helps to support the bank's desire to be seen as a responsible lender. However, the customer is now bombarded with paper and many no longer take the time to read it.
- A more concentrated focus on staff competency can only be a good thing.
- Improved training for staff, which has resulted in an improvement in the standards of advice being given. This process is likely to take a couple of years. We have more staff studying for professional qualifications.
- Focused everyone on issues they should have been addressing anyway.

Insurers offering best service

- 1st Norwich Union
- 2nd Zurich
- 3rd NIG
- 4th Fortis
- =5th Royal & SunAlliance
- =5th Allianz Cornhill

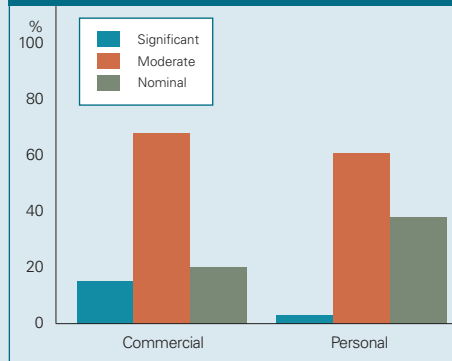
The highest-rated insurers for service, as voted by respondents, saw Norwich Union continue to dominate with Zurich also holding onto second place (see table, above). NIG also maintained its now familiar third place while Fortis was rated fourth best for service. Fifth place was a tie between Royal & SunAlliance and Allianz Cornhill with, incidentally, sixth position also jointly occupied by Groupama and Axa.

Market cycle

The split opinion recorded about the market cycle – whether it is hardening or softening – could indicate the industry is at a mid point between the two (see Figures 1 and 2). Despite insurer chief executives being increasingly vocal about the need for 2006 to be a hard market at the end of 2005 (see *Market Cycle*, p29), 59% of brokers said they did not expect hardening in commercial rates in the next three months. In fact, 63% said they were anticipating commercial rates to soften in the first quarter, with 67% expecting this to be moderate.

Brokers' expectations about personal lines rates showed that just over 49% were expecting moderate hardening, but 46% said they expected hardly any at all. When asked about softening personal lines rates, over 60% of respondents said they expected this would be moderate in the next three months. The fact that the results inconclusively indicate any strong consensus of opinion about where the cycle is going could be down to rates some insurers put into the market at the end of 2005.

Figure 1: Rate softening – expectations



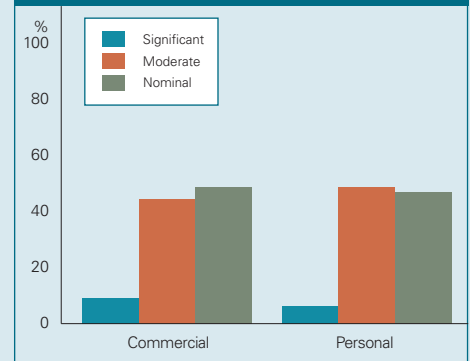
Amanda Blanc, distribution and customer service director at Groupama, explains: "We have seen some silly stuff going on at year end," and agrees this may be to enable some insurers' staff to meet their targets. She continues: "I am surprised at the figure of 60% that expect softening in personal lines. Motor needs to go up as insurers need to be careful not to allow this line of business to slip into unprofitability. The emphasis needs to be on profit not volume."

Conflicts of interest

When asked about the regulator's recent letter to brokers about managing conflicts of interest, respondents' opinions were also polarised when asked to say which of the three given statements they agreed with. Forty per cent said the threat to make commission disclosure compulsory was a harmful about-turn by the Financial Services Authority, while 43% thought there was nothing to worry about, providing brokers could evidence robust procedures to manage potential conflicts of interest. The remaining 16% thought the FSA needs to be seen to be addressing remuneration issues following Spitzer, but is unlikely to bring in draconian measures.

While this demonstrates that almost 60%

Figure 2: Rate hardening – expectations



consider the FSA will not make commission disclosure compulsory, so long as brokers comply, this threat is still very real, according to Oliver Lodge, ex-FSA policy-maker and managing director of OWL Regulatory Consulting. Although the FSA has gone on record before issuing this latest 'Dear CEO' letter to state that it does not consider that making the disclosure of commission compulsory would necessarily benefit customers, whether it does or not will rely on what it finds (see *Management Clinic*, p15, and *Viewpoint*, p17).

When asked to choose from a broad spectrum of issues, to indicate which were of most concern to their business, the highest proportion of respondents – 78% – said FSA regulation remained very concerning. Behind that, staff issues were the second and third areas of greatest concern, with 68% saying retaining staff was very important/concerning and 66% indicating the same level of concern about recruiting quality staff. After that, 59% and 56% cited government red tape and managing clients' expectations, respectively, as very important/concerning.

Other priority areas that were identified as quite important/concerning included: capacity; insurers offshoring; tiered service from insurers

Figure 3: Issues currently of most importance or concern to business

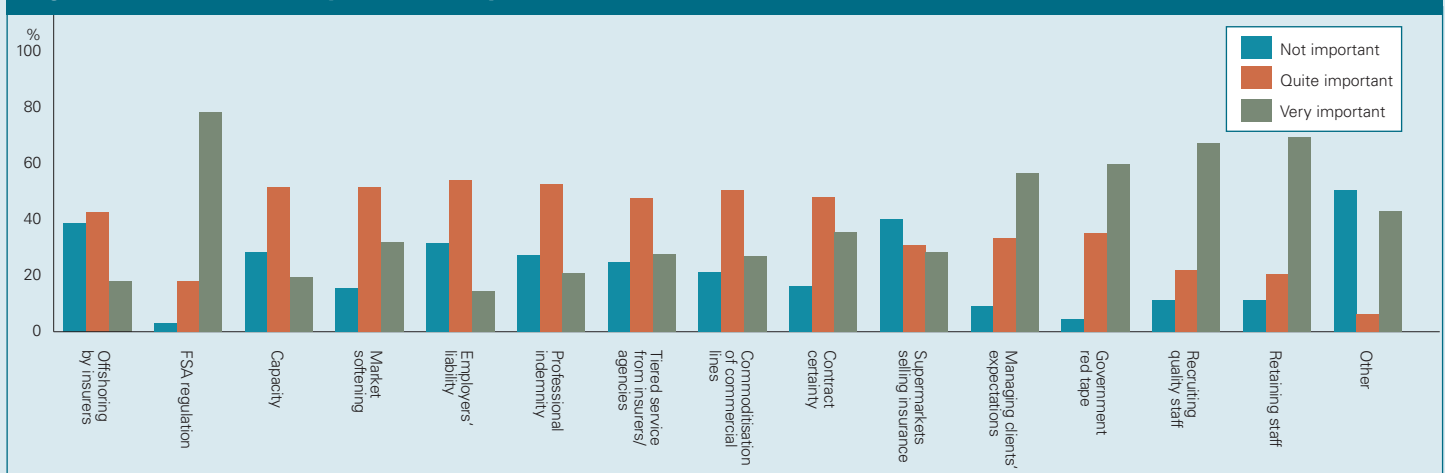
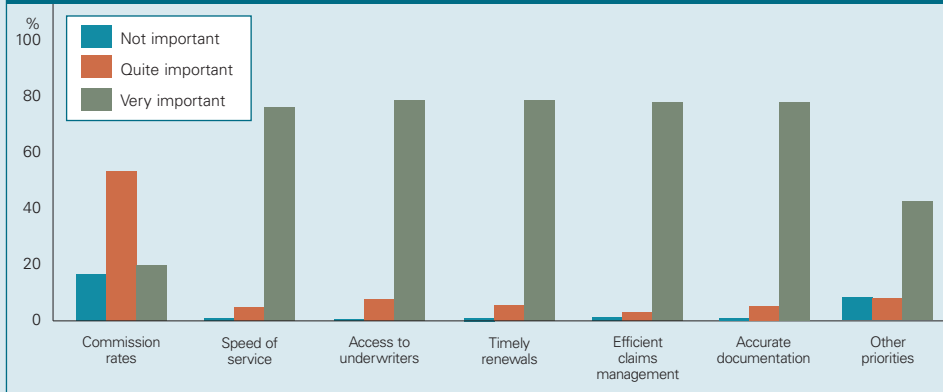


Figure 4: Priorities in terms of service from insurers



and agencies; employers' liability; professional indemnity; and contract certainty (see Figure 3).

Service

When brokers were asked to rate their priorities in terms of service from insurers, two of the issues rated most important were timely renewals and accurate documentation. Other top billing-service issues included: access to underwriters; effective claims management; and speed of service, while commission rates were also highlighted as being quite important (see Figure 4).

When asked about how service is progressing, over 56% thought it was not – judging it to be staying the same. Only just over 13% considered there to be any general improvement, while nearly 30% said in their experience service was getting worse.

Although, commonly, it is brokers that are reported to be struggling with regulation, some have observed the impact on insurers' service. This came through in an open-ended question, asking brokers to explain their answers about service. Highlights included: "Insurers' service, while some are trying to improve, is basically staying the same and, in some cases, getting worse as they still try to come to terms with their FSA obligations," and "Insurers seem to have become so tied up with regulation they are losing sight of clients' needs."

Other open-ended comments claimed offshoring was the main culprit causing deterioration in insurers service. The following comment is representative of many: "The biggest problem we face in terms of service is the lack of communicative ability with underwriters and staff who are not based in the UK. While they are very polite, there is no rapport and little comprehension of jargon so telephone conversations are very laborious."

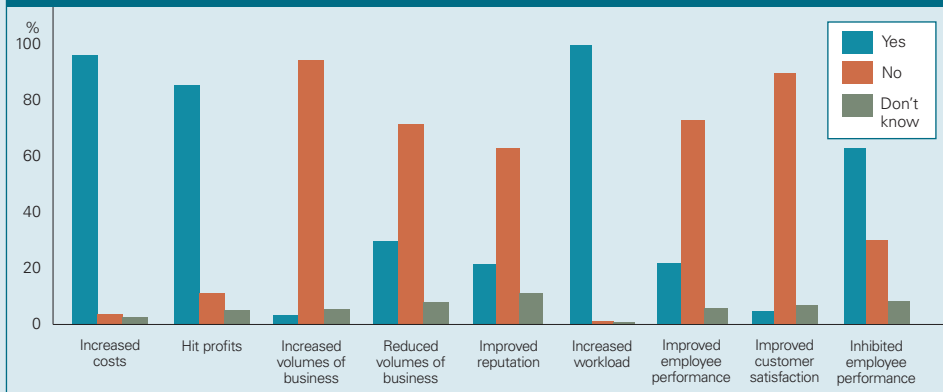
Others that commented openly on service thought scale was the only thing that would unlock good service for brokers. For example: "Service will largely be dependent on the size and importance of the broker account to the insurer. Those with muscle should benefit."

Regulatory impact

The inevitable ongoing impact of regulation was evident in the survey, with 96% claiming it had increased costs while 84% said profits had been hit (see Figure 5). A further 99% said it had increased workload and 29% said it had reduced volumes of business. Clearly, the regime has some way to go if customers are leaving as a result of brokers' time being siphoned away to ensure they remain compliant. A further 89% of respondents said regulation had not improved customer satisfaction. Furthermore, 63% said the added workload and rules had inhibited employees' performance.

However, despite these ongoing negative affects

Figure 5: Effect of FSA regulation on general insurance brokers



of regulation, over 60% said there were no outstanding regulatory issues facing their firm. Only 12% that said there were facing ongoing issues.

When asked to explain what these were, answers included: problems of incompatibility between our software suppliers and the FSA regulations; client-money reconciliations that are acceptable to the FSA and not cost-prohibitive to us; goodwill on the balance sheet and conflicts of interest; client money, contract certainty and treating customers fairly; accounting requirements are far too complicated for small firms to follow; and costs seem to be increasing due to the need to constantly review and revise regulatory requirements.

Brokers' expectations about merger and acquisition activity in the next quarter seemed to predict more of the same in terms of the steady flow of deals that have been seen in recent years. Although 89% said they would not sell, 20% said they expected to buy another broker in the next three months. Only 7% said they expected to enter discussions regarding a merger but 75% said they would not and 19% were uncertain.

State of the market

When polled about brokers' general feelings about the state of the market, the highest proportion – 41% – felt neutral. And, while 22% recorded their feelings as pessimistic, the next-highest proportion of respondents – just over 34% – said they were feeling fairly optimistic (see Figure 6).

IMAS partner and founder Oliver Laughton-Scott commented: "It is interesting that 34% said they felt optimistic about the state of the market – despite the FSA and softening rates – and I think they are softening. I think this is a reflection of the fact that there is a need for the service brokers provide but also because the big players have been suffering because of Spitzer and, having been forced to look at their cost structures, they cannot afford to service certain clients any longer. There has been a debunking of the view among clients that 'big is beautiful' and brokers have been benefiting from a more receptive market. Whereas three or four years ago brokers may have lost out to a large broker on a particular piece of business, now they are obtaining it." ■

Figure 6: Feelings about the current state of the market

