

PROFESSIONAL BROKING  
**PB**

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Welcome to the second *PB* Sentiment Survey of 2008. We think that this is an important industry barometer, so thank you to all that took part.

AS USUAL, THE *PB* Sentiment Survey makes for fascinating reading. It is immediately evident that brokers are experiencing challenging times; market conditions are highly competitive, rates are under pressure, insurer service seems variable at best and clients are now feeling the impact of the credit crunch. Add to this the competition from direct insurers and internet players for small to medium-sized enterprises and it is not surprising that brokers have plenty to concern them.

Although half of the respondents believed that rates in personal lines are now moving up (see graph one), the situation in the commercial market remains gloomy. There still seems little evidence of much-needed market hardening and 35% stated that prices are falling. With almost two thirds having reported plenty of available capacity, the recent media talk from some insurers about increasing prices has yet to materialise.

The credit crunch is now starting to bite. Almost 95% of those who responded said that clients are being squeezed (see graph three) and so are looking to cut back on their insurance expenditures, while over half reported that clients have ceased trading. The survey suggests that retaining business is now the priority for most brokers and, with clients shopping around, this is fuelling fierce competition. Over 90% of respondents said that clients seek alternative quotes from competitors either regularly or occasionally.

If this is not worrying enough, 40% said that clients now investigate internet options for commercial insurance routinely and that this behaviour is becoming more common. When we consider the recent activity from direct insurers in the SME arena, it is obvious that the commercial broking sector is more challenging than ever.

The survey also revealed some interesting views on insurance fraud and how it is being managed. A significant majority of respondents expected a rise in fraudulent claims resulting from the current economic climate. However, while most believed that insurers are responding well, there is a belief that brokers have a role to play as the first line of underwriting, especially given their valuable client knowledge. Respondents want more openness from carriers and greater information sharing for mutual benefit. More communication appears to be the clarion call and it is one for insurers to think about.

From a regulatory viewpoint, there is mixed news. Of those that took part in the survey, 95% believed that they are confident of meeting the next TCF deadline and 97% said that they are demonstrating the Financial Services Authority's six TCF consumer outcomes consistently (see graph seven). It is encouraging too that 82% now see TCF as central to corporate culture. Sadly, however, while there is an appreciation that regulation will improve professionalism, almost 80% of respondents feel that their commitment will not improve client experiences (see graph eight). Concerns remain about unnecessary bureaucracy – something highlighted in previous Sentiment Surveys.

Of the old bugbear, poor service, brokers still feel that insurers need to be more responsive and agile, although there is more positive news in terms of satisfaction with insurers' claims services. Almost 50% now rate service as good or excellent. Insurers mentioned in dispatches score highly for getting the simple things right and being quick and efficient.

In summary, this latest edition of the survey illustrates that a lot of brokers are experiencing tough times. However, those with true entrepreneurial spirit continue to adopt a glass-half-full attitude and regard current market challenges as opportunities, supporting the view that it will always be a good time for high-quality brokers. **PB**

— L MATRAS —

Laurent Matras, managing director, Groupama Insurances



**PB's Sentiment Survey** always makes for an interesting read and our autumn results proved to be no exception, writes **Katherine Brandon.**

ALONGSIDE OUR USUAL questions about rates and insurer service, this survey focused on the credit crunch and tackling fraud as some businesses struggle for survival.

Concerns about the state of insurer service continue to be raised by a number of brokers. "General service levels among some insurers are unacceptable, especially quotation turnaround," said one respondent, echoing the concerns of many that insurers do not respond in a timely manner to their requests.

However, some insurers were praised for their service levels, notably Norwich Union, which featured in the top-five insurers for service in all four categories, including first in the UK insurers for broker services in commercial lines. "In these difficult times, it is reassuring to see they [our staff] are being appreciated; it makes it all worthwhile," highlighted John Kitson, sales and marketing director for intermediaries at RAC and NU Direct. "This positive feedback from our brokers makes us feel good in these exceptionally challenging economic times."

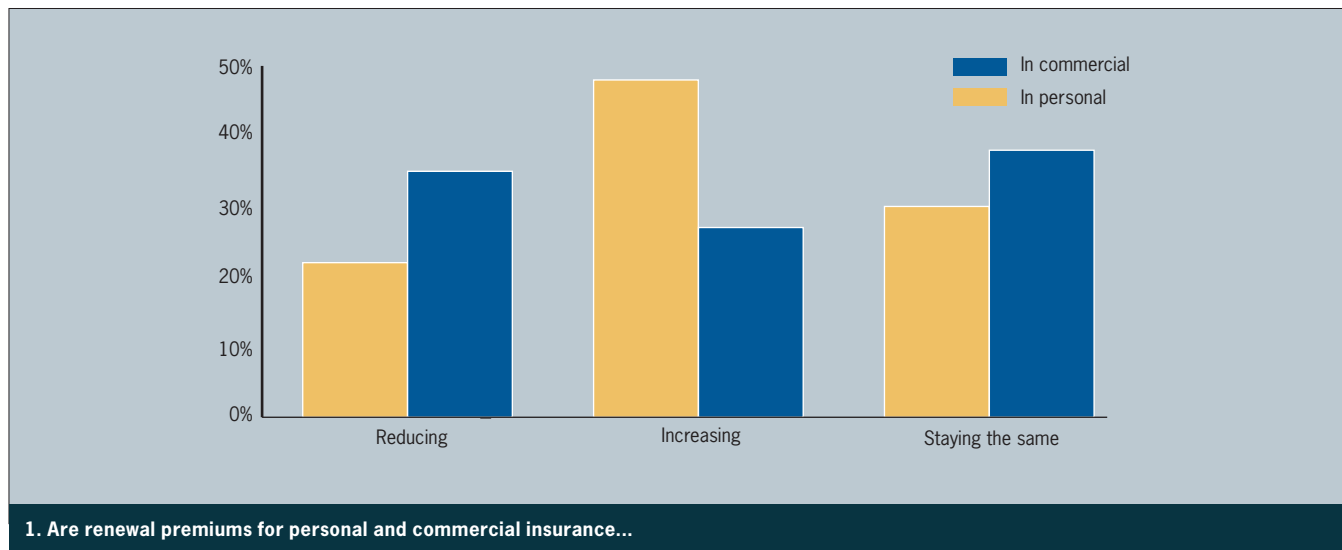
The credit crunch proved to be a major issue for a considerable number of respondents, with 72% of brokers (see graph three) highlighting that their clients are being squeezed financially and are looking to cut back on insurance expenditure. Worryingly, 53% have even had clients stop trading as the result of the eco-

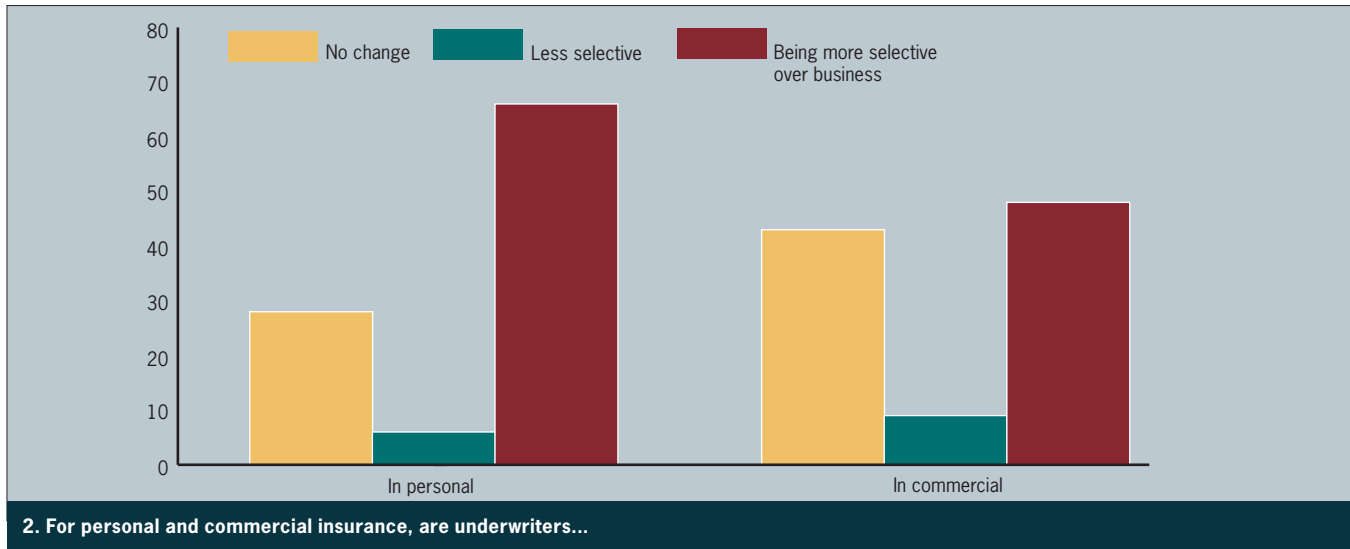
**Where should insurers be improving their broker service as a priority?**

- "Being capable of underwriting risks, rather than reliance on e-market quotations."
- "Rapid action on claims where client trading is affected. Often, we are told to wait for a day or so for an adjuster or approved contractor."
- "General service levels among some insurers are unacceptable, especially quotation turnaround."
- "Competitive premiums to compare with internet and direct writers."
- "Better staff – investment in people. Poorly trained and lacking any sort of qualifications, which impacts on professionalism."
- "Response times – even if just to say no."
- "Almost everywhere. Most are just hopeless at responding to anything in a timely fashion and when they do they are often wrong. Start by re-employing staff that care and know what they are doing rather than a call-centre mentality approach."

nomical difficulties, while only 9% of brokers have not had their clients seeking alternative quotes regularly from other brokers as the result of the credit crunch. One respondent noted: "Clients are strongly looking at the bottom line and are therefore, on occasion, led away by brokers with special arrangements." However, 54% of respondents (see graph four) have not lost business to other brokers in the present climate. "Luckily, business always needs insurance, even in the lean times," explains one broker.

Of those that took part in the survey, 50% have seen opportunities for their businesses arise from the credit crunch: "Every circumstance is an opportunity," noted one respondent, while another said: "We are building customer loyalty by helping cus-





tomers through difficult times.” Yet many brokers are struggling as a result of the current economic climate: “Our top business issue for the next 12 months is survival,” commented one broker, though another seemed to favour more direct action: “Sell up and retire.”

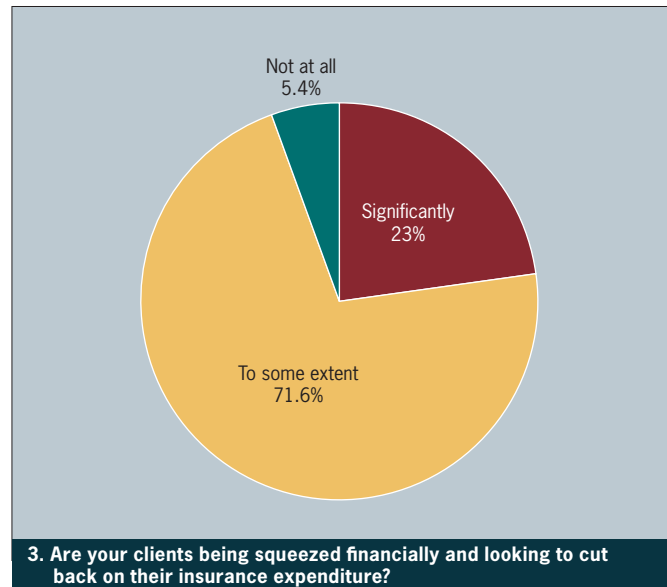
The questions on treating customers fairly drew a lot of comments, with 73% of brokers having reported that they are close to meeting the December deadline and only 4% not confident of being ready; 98% of respondents were confident that they

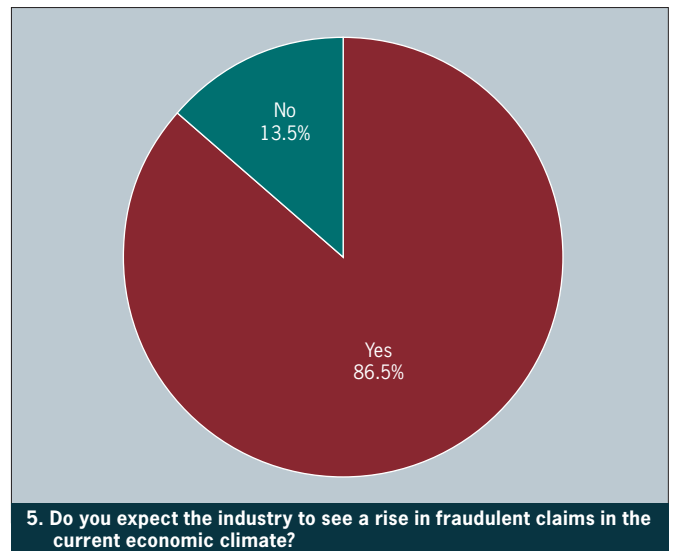
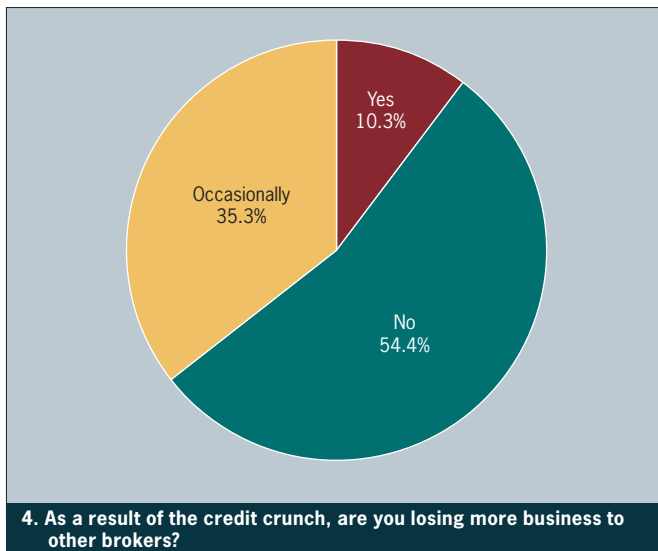
already demonstrate TCF consistently. A total of 89% believed that they are meeting the guideline concerning provision to customers of clear information and that they are keeping them informed appropriately before, during and after the point of sale. Meanwhile, 74% said that their products provided performance as customers expected and that the associated service was of an acceptable standard.

However, 76% of brokers believed that the new requirements will not improve the experience of the customer (see graph

Top-five UK insurers for broker service	
Personal lines	Commercial lines
1) Fortis	1) Norwich Union
2) Norwich Union	2) Allianz and NIG
3) Zurich	4) Axa and Fortis
4) Hiscox	
5) Chubb	

Top-five UK insurers for claims	
Personal lines	Commercial lines
1) Norwich Union and Fortis	1) Norwich Union
3) Hiscox and Zurich	2) Allianz
5) Chubb	3) Zurich
	4) Fortis
	5) RSA

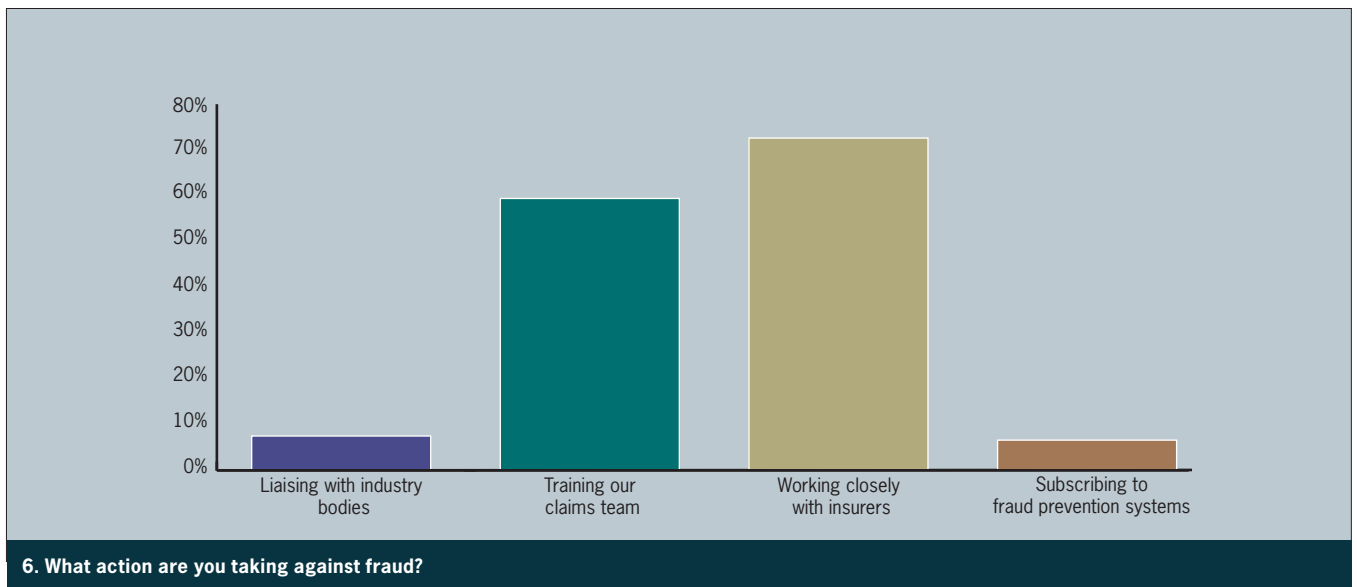




eight), with many respondents highlighting that they were already treating customers fairly. One said: "We wouldn't expect to keep customers if we did not treat them fairly, irrespective of any rules," while another claimed: "TCF is another sledgehammer to crack a nut and has added yet more cost for brokers and insurers in return for little customer benefit." The Financial Services Authority disagreed, a spokesman telling *PB*: "Satisfied customers may not always have been treated fairly or vice versa. Although firms' use of data on customer perceptions is a useful

management information tool, TCF is more than about satisfying customers." One respondent appeared to agree with this sentiment: "Openness is paramount, as is clarity. Insurance has long been regarded as a mystery for the public."

Replies to questions on fraud highlight that brokers believe it is a priority, with only 7% of respondents not classing fraud as a significant issue. In these challenging economic times, 87% believed that the industry will see a rise in fraudulent claims (see graph five), though 40% of brokers thought that this is more of





**“Apart from regulatory repercussions, if a broker has weak fraud controls then it will attract organised fraudsters onto their books.”**

**Pandya, Allianz**

an issue for insurers than brokers. In response to the findings, Mihir Pandya, fraud manager at Allianz, warned brokers against leaving the issue of fraud to insurers: “Apart from regulatory repercussions, if a broker has weak fraud controls then it will attract organised fraudsters onto their books. If, for example, the Insurance Fraud Bureau identifies a fraud network and the common link is the broker, it will be difficult for the broker to defend itself. As a result, it will have to contend with reputational issues, leading to financial consequences. No one will want to do business with a firm that has been linked to organised crime.”

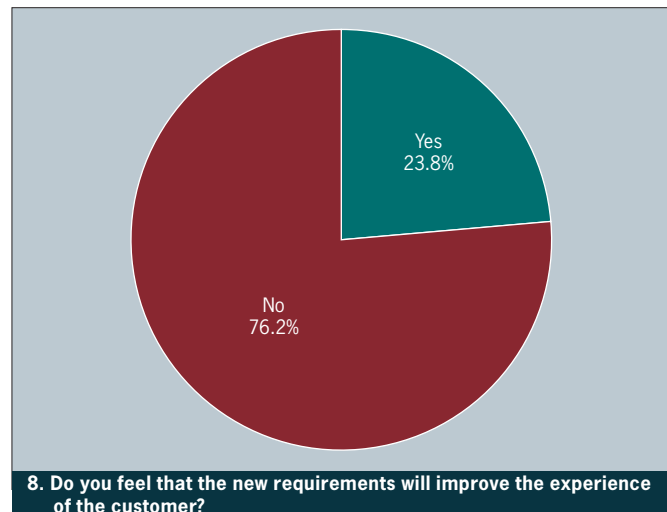
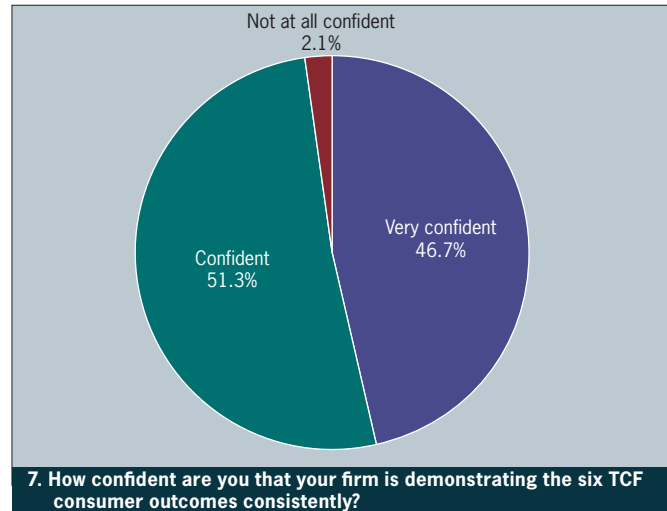
While 54% of brokers believe that insurers are doing as much as they can to prevent fraud, many brokers were critical, as one warned: “Insurers need to make sure that they do not let fraudulent claims slip through because they are cheaper to settle than fight.” Another remarked: “We need more claims statistics. Without being able to watch trends, we are not able to intervene.” Pandya agreed: “The Association of British Insurers provides insurers with relevant statistics and there is no reason why this can’t be shared with our business partners. Understanding the industry’s fraud risks will enable effective and preventative anti-fraud measures to be implemented.”

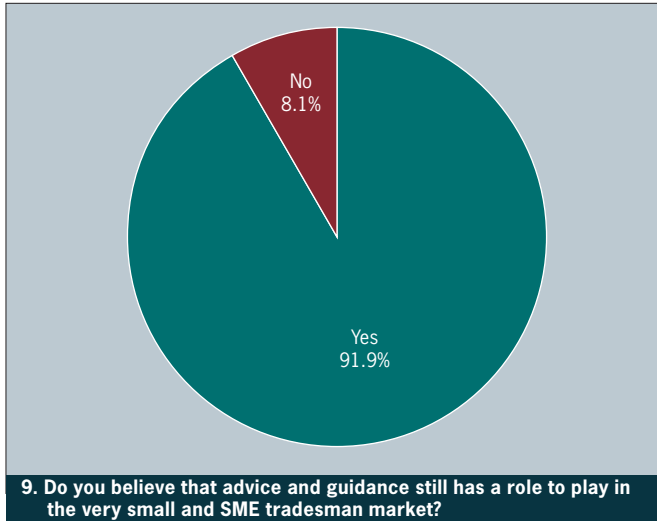
**Respondents’ opinions on the credit crunch**

- “Every circumstance is an opportunity.”
- “Clients are strongly looking at the bottom line and are therefore, on occasion, led away by brokers with special arrangements.”
- “Insurers are not reducing rates when needed to retain the client.”
- “There are opportunities to sell legal expenses insurance; people are more likely to litigate when money is tight.”
- “The fear of the crunch is often worse than the actual experience.”
- “We are building customer loyalty by helping customers through difficult times.”
- “Some clients go for cheaper cover without giving us the opportunity to require.”
- “The chance to re-enforce the message that direct isn’t always cheap.”
- “Underwriting and decision making seems to be increasingly withdrawn to head office, making for increasing frustrations.”
- “Luckily, businesses always need insurance, even in the lean times.”
- “Sell up and retire.”

Despite the economic climate and growing levels of fraud, 63% of brokers believed that market conditions this year had met expectations. Key market issues highlighted for the next 12 months included TCF compliance and competition from direct insurers, yet many responses emphasised continued survival in a tough conditions, with one broker citing their key issue as “rebuilding premium reductions resulting from the soft market.”

Despite a difficult economic backdrop, there is still no guarantee of rates rising, especially in commercial lines. Over the next six months, brokers believed there will be little change in premiums: 56% of respondents said that commercial lines premiums will





9. Do you believe that advice and guidance still has a role to play in the very small and SME tradesman market?

remain the same and 48% believed the same of personal lines. Asked if personal lines underwriters are still easily available, 59% of respondents said yes, compared to 61% in commercial lines. Also, 48% of brokers believed that there has been no change for underwriters in the selectiveness of their business in commercial lines, with 66% believing the same trend is apparent in personal lines (see graph two). It was encouraging to see that 92% of respondents still believed that advice and guidance still has an important role to play in the SME market (see graph nine). Norwich Union would appear to

### Key business issues for brokers over the next 12 months

- “Rebuilding premium reductions resulting from soft market.”
- “Develop more business to stop erosion of income due to reducing premiums.”
- “More outlets for intermediaries.”
- “Effective management of distribution and control of acquisition cost for each policy.”
- “FSA compliance visit.”
- “Rating common sense returning.”
- “Good quality of service from underwriters allowing us to comply with TCF survival. The regulator needlessly increases red tape on puts up costs.”
- “Controlled growth. Economic conditions have caused a large amount of commercial business to be brokered.”
- “Direct insurers chasing commercial business at ridiculously low premiums.”
- “Improving our IT platform to increase business efficiency.”
- “Capitalising on fall-out from consolidators’ anticipated problems.”
- “Growing, moving, taking on more staff.”
- “Making the public realise that brokers are on their side.”

### Respondents’ opinions on fraud

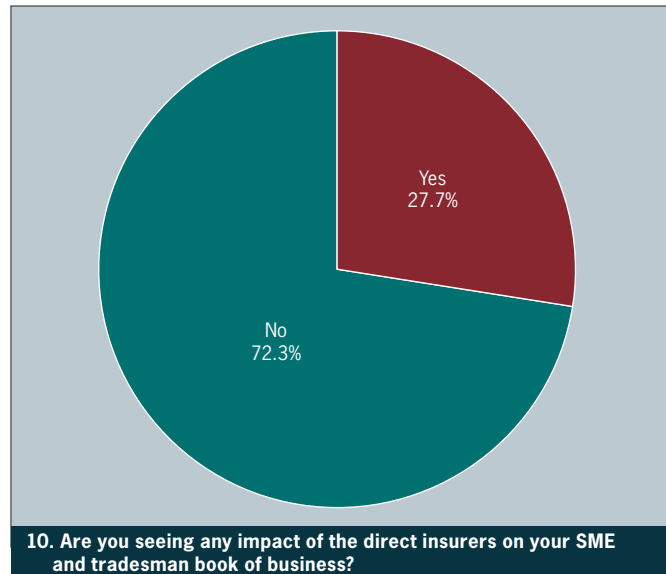
- “We are watching our backs a bit more closely and asking more questions.”
- “We have recently received a couple of suspicious claims that have been flagged by us and are being investigated by the insurers.”
- “Insurers need to make sure they do not let fraudulent claims slip through because they are cheaper to settle than fight.”
- “Better communication is essential – education of the general public is better but still not great.”
- “We need more claims statistics. Without being able to watch trends, we are not able to intervene.”

agree, having recently sold its commercial direct book and concentrating on its broker business.

“We believe small businesses need advice,” said Terry Reed, managing director of Terry Reed and Co. “The danger is that business owners think they understand what they need. The broker should have the knowledge and ability to challenge an insurer when it says ‘no’, or explain what the risk really is. Unfortunately, in the small package market, a supervisor can’t oversee everything in the quote system.” Reed illustrated the point by recounting his business’ having to explain to an insurer that its wording provided contents cover for an outbuilding when the account handler said that it did not.

“Brokers have continually undersold themselves and are poor at showing the added value we provide,” Reed concluded.

Thank you to all that took the time to complete the survey. The winner of the prize draw is Chris Caine, operations director at the Manchester branch of Jardine Lloyd Thompson. **PB**



10. Are you seeing any impact of the direct insurers on your SME and tradesman book of business?