

Professional Broking

SENTIMENT SURVEYS



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Welcome to the eleventh *Professional Broking* Sentiment Survey — the industry barometer tracking the issues facing brokers. In addition to our regular round-up of regulation, service and the market cycle issues, views on insurers buying brokers were mixed, with 40% prepared to sell to an insurer, but the majority criticised the approach, saying brokers will not remain independently managed under such arrangements.



Yet again, the *Professional Broking* sentiment survey offers a fascinating insight into the way that UK brokers are thinking, and a valuable snapshot of the issues that are keeping them awake at night.

On rates, the survey illustrates how the underwriting cycles in personal and commercial lines are at different stages of development. In commercial, there seems to be a consensus that rates are going to remain soft and more than half think that things will probably get worse over the

coming quarter — with some 'moderate softening' (see fig. 1). This is clearly bad news in a market where prices really need to rise — and quickly. It would certainly be good to see some concerted market action to make this happen. Brokers think that no hardening is likely soon and that has to be a concern.

In personal lines, things look more positive and half the respondents seem happy rates will not be taking a turn for the worse (see fig. 2). This reflects Groupama's view, where we are seeing monthly increases in private motor prices. Whether rates are rising quickly enough is another matter and we still feel that things need to speed up if the market is going to return to profitability. With suggestions that the motor market in 2006 might run out at 108% combined, the sooner prices reach adequate levels the better it will be for all of us.

This survey looked at the subject of electronic trading in more depth, and it is interesting to see how the face of broking is changing. Nearly 75% of respondents use insurer extranets to place commercial business (see fig. 5) and, although this only accounts for 10% of their portfolios, this is indicative of a trend rather than a fashion. What puzzles me though is why brokers are still making hard work of it. Greater use of imarket could make life so much easier than having to keep entering different passwords to visit individual trading sites.

Changes in the distribution landscape are also exercising the minds of UK intermediaries, with some concerns about insurers acquiring brokers and how this might impact independence and the ability to treat customers fairly. However, it is always heartening to see that the famed entrepreneurial spirit of UK brokers continues to burn bright, with only a quarter thinking that this form of consolidation might mean that 'the end is nigh' for the intermediary sector (see fig. 9).

From my perspective, I must say that if I were back broking again, I suspect that I would be much more concerned about those insurers building direct brands and looking to take my customers out of the broker market altogether.

Finally, I was very interested to see that 40% of brokers would sell out to an insurer 'for the right price' (see fig. 11). Quite how this stacks up against the survey view that the majority of brokers are positive about the future — even with commercial rates falling and the continuing impact of regulation — I really couldn't guess. The old quote about 'lies, damn lies and statistics' springs to mind. ■

Cathie Bruce
Head of Proposition,
Groupama Insurances

Figure 1: Do you expect to see any commercial rate hardening early in 2007?

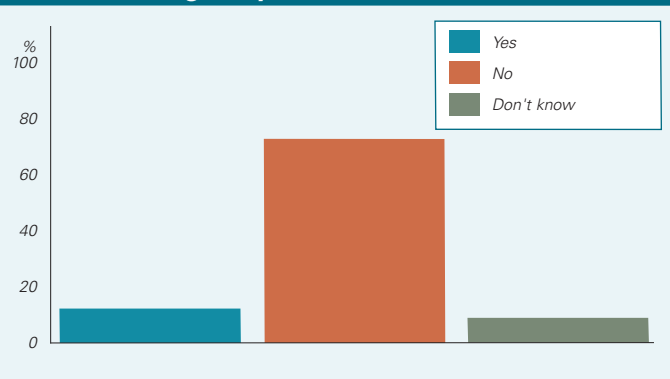


Figure 2: In the next three months do you expect personal lines rates to harden?

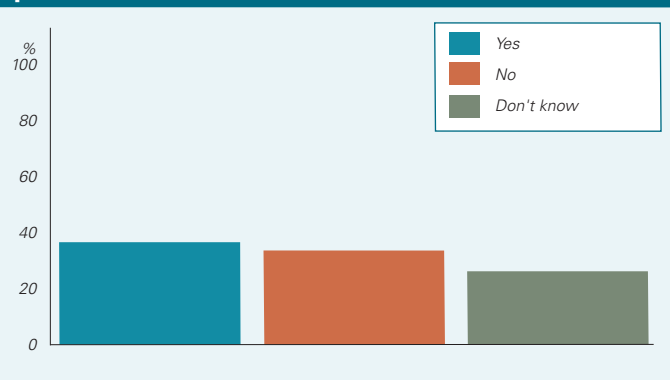


Figure 3: In the next three months do you expect commercial lines rates to soften?

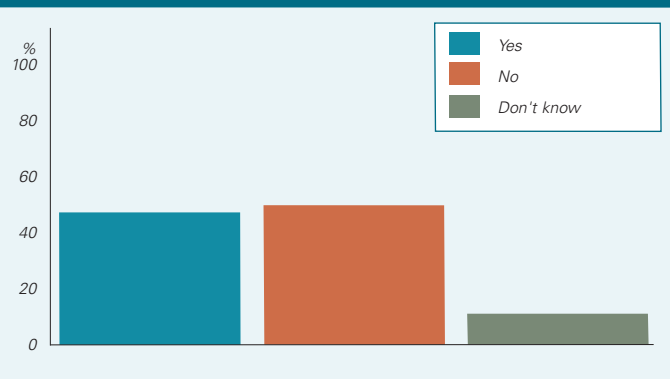


Figure 4: Do you plan to invest in technology in the next quarter?

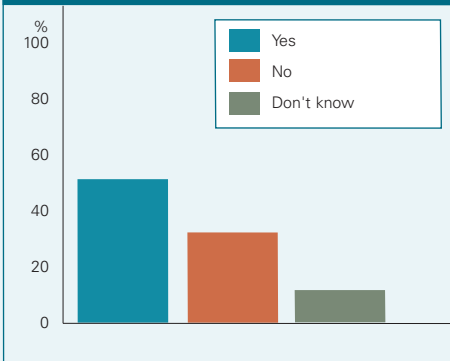


Figure 5: Do you use insurer extranets to place business?

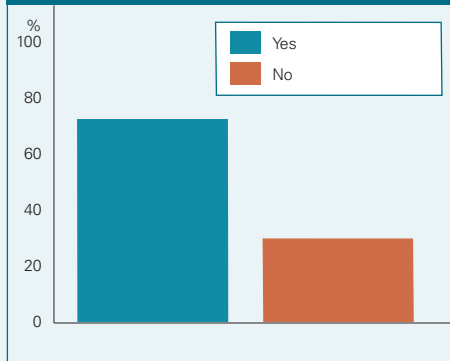
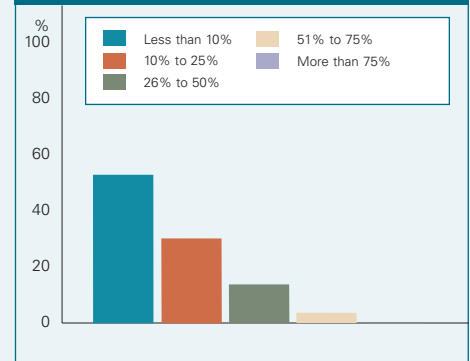


Figure 6: What proportion of business do you place via extranets?



Insurers offering best service

- 1st NIG
- 2nd Fortis
- 3rd Norwich union
- 4th MMA
- =5th Zurich
- =5th Royal & SunAlliance

For the second successive survey Axa is not in the top five for service, and evidence gathered from the market suggests they will not be for some time, unless significant improvements are undertaken by the French-owned insurer. Peter Hubbard, chief executive of Axa, has already stated that standards need to improve (see interview, p20). NIG is still setting the standards at the top of the leader board for the third successive time. Fortis has also proved consistent and has been in the top three in the last four surveys. MMA leapt into the top five for the first time in the survey's history. Kate Penrose, head of commercial support at MMA Insurance, said: "I am delighted that MMA has received a positive vote from brokers. We have recently expanded our underwriting and business development capability to provide

an enhanced, face-to-face service to our intermediaries, helping them to add real value to their clients." High-net-worth insurer Sterling and Allianz Cornhill just missed out on the top five.

What do brokers want from insurers? A total of 80% feel speed of service is very important; 85% say access to underwriters; 70% timely renewals; and 86% prioritise efficient claims management. These demands are in line with the last survey in January. The importance of commission rates climbed from 27% to 38% in the 'very important' category, reflecting the longevity of the soft market and how it is biting into brokers' incomes. Chris Giles, chief executive of Giles Insurance Brokers, said earlier this year: "We are in an industry where there is an uneven playing field, with remuneration levels lower for smaller brokers." (*Professional Broking*, February 2007, p21) Brokers will not be heartened either by Peter Hubbard's recent comments saying commissions will need to be squeezed (*PB*, February 2007, p8). A damning verdict on insurers is that only 13% of brokers believe service is improving, a reduction from 19% in January while 39% say standards are slipping (up 1% from the last survey).

Commenting on service, one broker said "major players [insurers] do not appear interested in the smaller broker", another reported, "there is too much

reliance on automated services — there is nothing worse than going through half a dozen menus only to find your option is not there." In addition, one broker placed a spin on service by saying: "With the advent of the electronic data interchange we do the administration on behalf of the insurer. Therefore, it is our responsibility to generate the service levels."

The online revolution

There was some good news for insurers, although the following comment came with a reservation: "Insurers, seem, at last, to be getting their act together. Most insurers are issuing renewals in good time but there is one or two who are still very late." Another wrote: "Online facilities have improved the speed and accuracy of quotation and policy issue." At last the online revolution is really making a difference.

On that note, 73% of brokers are using extranets to place their business (see fig. 5). In the battle of the easiest extranet to use, NIG again came out on top, with Groupama, MMA, Axa, Fortis and Norwich Union following closely behind. The extranet is said to be an ideal tool for package, tradesman, shop, office and property owners' commercial products. Investment in technology has been sustained across the industry and insurers will be encouraged to

Figure 7: Issues currently of most importance or concern to business

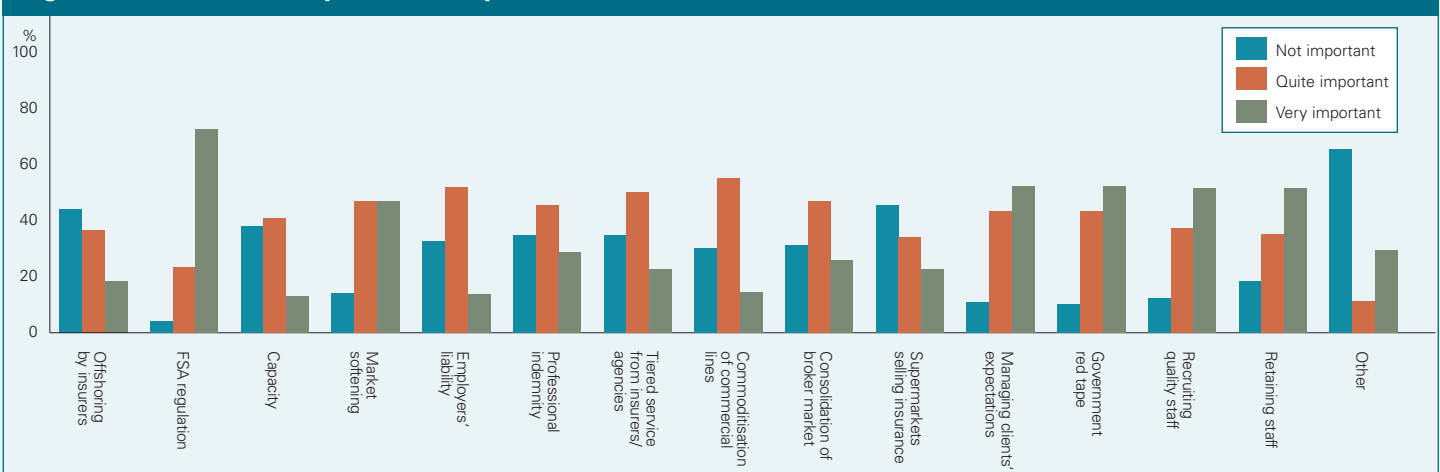
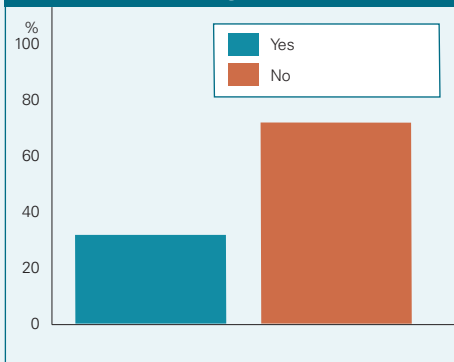


Figure 8: Are you concerned about the abolition of goodwill?



learn that 18% of brokers are placing more than 25% of their business through extranets, although there is work to be done, as more than half of brokers place less than 10% via this source (see fig. 6). Brokers are taking an interest and insurers need to ensure they are in pole position to capitalise on this electronic distribution potential.

One of the main issues for brokers is retaining and recruiting quality staff (see fig. 7). The paucity of talent has been highlighted by a raft of lawsuits where brokers have defected at the national end of the industry. Clearly the poaching appears to be about taking on more clients, and gardening leave does not stop it. Keep up with the latest developments in our On the Move page (see p42).

Regulation has hit firms' profits (77%), has not improved employees' performance (65%), and only 6% say customer satisfaction is up. Too much paperwork is a common complaint and commission disclosure needs clarification according to those who responded in detail. When asked if brokers had seen any benefits of regulation, there is a large segment which believes there has not been any. Although professionalism and a "consistent approach" were cited by some less sceptical brokers, 47% also think FSA regulation will improve the market's reputation "eventually". There is still a long way to go to reach this level and after all the hard work and money, it is surely very important.

Figure 10: How concerned are you about the recent acquisitions of brokers by insurers?

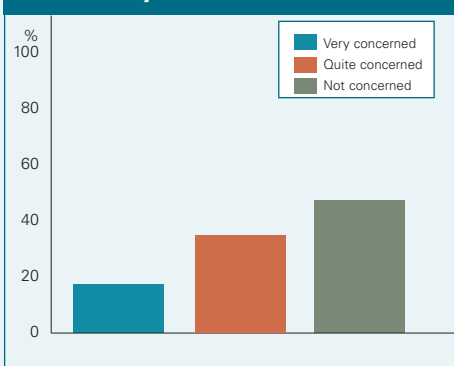
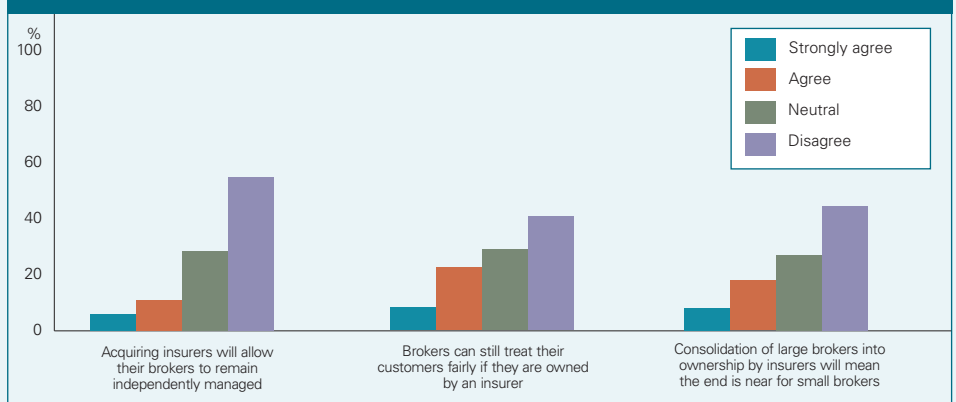


Figure 9: What are your views on insurer-owned distribution?



Encouragingly, almost all brokers are confident of having met the March Financial Services Authority deadline for Treating Customers Fairly.

Abolition of goodwill

A total of 31% of brokers are concerned about the abolition of goodwill at the end of 2007 (see fig. 8). This is a particular issue for acquisitive brokers and another complained that not enough information had been available to brokers.

Insurers buying brokers is an increasing trend but brokers are sceptical. In total, 56% of brokers feel strongly that such deals will mean the broker will not be able to remain independently managed (see fig. 9). Evidence for this is that senior insurance executives will often sit on the boards, such as Groupama chief executive Pierre Lefevre and Allianz Cornhill chief executive Andrew Torrance at Carole Nash and Home and Legacy respectively, despite Torrance insisting an "arm's length" approach. Meanwhile, 41% believe brokers will not be able to treat their customers fairly. However, despite 25% thinking insurers buying brokers will spell the end for small brokers, 52% disagree, and 24% are 'neutral'.

Axa's acquisitive duo Stuart Reid and Chris Blackham will not be having sleepless nights in their quest for consolidation as 40% of brokers will still consider selling to an insurer as long as the "price is right" (see fig. 11). Meanwhile, 13%

of brokers expect to be acquired or involved in a merger in the next quarter, whereas 2% say they will be starting all over again by setting up another broker. There remains a significant amount of acquirers, with 22% saying they will be marking a purchase in the next quarter. Despite dramatic consolidation in the past two years, the trend is set to continue for some time.

The following comment could point to a trend in the long term: "With the 'takeover' rush by insurers and brokers on the general insurance market, there is a danger of too few players and control going to the big few." It is a dynamic market and we will see how 'dangerous' this threat has become in our next Sentiment Survey published in July. To sign up to receive the survey please email andrew.tjaardstra@incisivemedia.com. ■

How concerned are you about the recent acquisitions of brokers by insurers?

- It was inevitable and really will not affect us.
- Insurers can't get their own house in order, so they are likely to mess up on brokers they acquire. This should create more opportunity for us.
- Customers don't necessarily distinguish between brokers and insurers – to many we are all insurance providers. It is vital that we educate the public about the important differences and how an independent broker is providing something different.

■ We are being funnelled down the road of just a few massive insurance companies and a few massive insurance brokers – thanks to increased costs and regulation, it is the only way you will be able to trade. As we all know less players means less competition, which means eventually higher premiums for consumers to pay and bigger profits for insurers.

Figure 11: Would you consider selling your business to an insurer?

