

Professional Broking

SENTIMENT SURVEYS



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Insurances

Welcome to the seventh quarterly *Professional Broking Sentiment Survey* – the independent industry barometer representing brokers' views. We are around fifteen months into regulation under the Financial Services Authority and this continues to cause much concern for brokers, however, the large majority are expecting their businesses to grow this year despite concern of a soft market.

Once again *Professional Broking's* Sentiment Survey throws up some very interesting issues. Clearly, regulation continues to be a real bug-bear for brokers, and they are struggling to see much in the way of benefits for their efforts. Their customers do not like it and intermediaries do not think that the regulator is listening — there is food for thought here for the regulator. The comments on regulation are almost uniformly negative and follow the trend of the previous quarterly surveys. Clearly, the increased paperwork and bureaucracy is having a significant impact. Brokers think it is making staff less effective, that they are losing business and the customers who it is designed to protect do not like it. It is also concerning that the great majority of those polled think that the regulator is not listening.

More positively, it is encouraging to see the feedback on imarket. Contrary to popular opinion the survey suggests some progress, although there is still work to do in integrating the broker software houses. The quantum leap will not come until it is integrated fully in brokers' back office systems — a priority for Polaris. However, it is worrying some brokers do not know about imarket. This is an issue of profile and communication and more work is planned in this area. Electronic trading had been common place in the personal lines market for many years, giving brokers in this area much greater control over service levels.

Market conditions are beginning to toughen and this is evidenced in the survey. The cycle is beginning to turn down — something that no-one in the market wants but everyone seems to expect. The future remains in the market's hands. Will it be the vanity of volume or the sanity of profitability? The survey is clear that rates in the market are continuing to soften and that there will be no respite in 2006. This means that times will become tougher as margins are squeezed. We are seeing heavy competition in private car and small to medium-sized enterprise business where at best the major insurers are doing anything necessary to hold on to business and at worst cutting prices to boost volume.

Finally, we are not surprised that brokers and, more importantly, their customers struggle with service centres based off-shore. That is not a fashion that we intend to follow. ■

Cathie Bruce
Head of Proposition,
Groupama Insurances



Comments on insurer service standards

- Service from many insurers is deteriorating, for example: poor response to quotes; renewal terms being received late; and lateness of documentation.
- We are experiencing claims issues but documentation is improving from three months ago.
- Companies using Indian facilities; staff not able to underwrite; if a computer can not give the answer they are unable to think or act for themselves. Not being able to speak to the same person twice. Looking for ways not to pay claims rather than ways to pay a claim.
- Access to underwriters has improved and there are more decision makers. Electronic trading is more readily available while insurers seemed to have recognised the need to improve service.
- De-skilling within the industry means proper responses are very difficult to obtain. The handling of claims offshore, claims especially is frustrating.
- Insurers are not taking on more staff to deal with enquiries/referrals and the level of expertise is not improving.
- Too many insurers still play 'lip service' to providing a proper service to brokers. They say they want more business but then too often apply unrealistic underwriting terms to enquiries, while ignoring them for a different broker.
- Insurers give the impression that if it can be traded electronically, then they are not willing to deal with you any other way. If the risk does not fit the electronic criteria, it is sometimes impossible to speak to a person who wants to help. Some insurers have got the balance right, while others need to be more flexible.
- Some insurers are better than others, for example, the likes of NIG and Norwich Union are underperforming but Brit, Chubb and Zurich have very good services standards.
- Insurers that provide poor service find brokers use them less and then change staff and systems to become more efficient, brokers use them more, they become too busy and service levels dip again resulting in brokers using them less. The same old cycle over and over again.
- Service standards with most insurers are getting worse compared to previous years.
- Documentation is bad, staff have no common sense, staff with certain insurers do not understand English and everybody seems to speak from a book and will not underwrite.

Figure 1: Growth expectations for the next six months

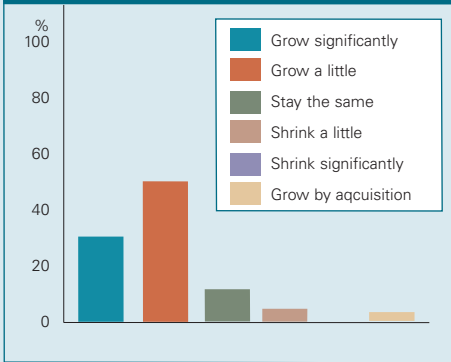


Figure 2: Rate hardening – expectations

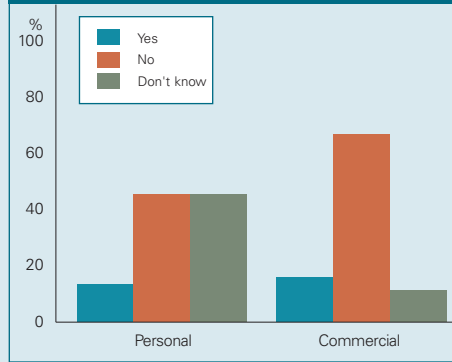
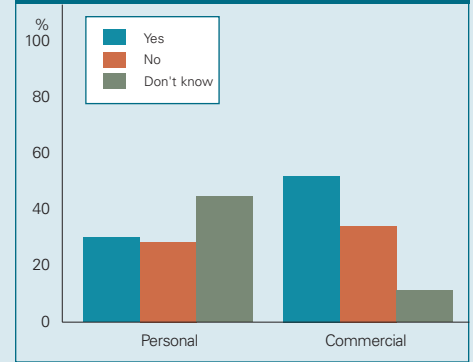


Figure 3: Rate softening – expectations



Insurers offering best service

- 1st Zurich
- 2nd Norwich Union
- 3rd Axa
- 4th NIG
- 5th Royal & SunAlliance

This quarter, Zurich has pipped Norwich Union to the title of insurer offering best service. Axa has leapfrogged into third place, after making its last appearance in October. Allianz Cornhill does not feature in the top five after being in joint fifth place in January. Fortis is also absent after achieving fourth place in January.

A total of 28.3% of brokers are expecting to grow their businesses significantly in the next six months, but only 2.8% said this would be through acquisition (see Figure 1).

It is encouraging to see confidence in organic growth, despite market conditions being tough. The majority, 53.8% said their business would “grow a little” which means 82.1% think growth is a certainty in 2006.

For the majority, 2006 will be another year of adjusting to the costs and processes of regulation

while brokers invest in their businesses in order to be ready to capitalise on growth opportunities when the market begins to turn.

Meanwhile, there appears to be no stopping the acquirers, for example, Harrogate-based Smart and Cook has reached 50 acquisitions and counting.

Evidence of a tough 2006 can be found in the 56% of brokers who believe rates will soften in commercial, while only 16% say rates will harden (see Figures 2 and 3). This is despite Andy Haste, group chief executive of Royal & SunAlliance, saying last year that there has to be a hard market in 2006 in order to avoid pain in 2007.

Rate expectations

In personal, the picture is more varied, with many brokers unsure how the market will react. Andrew Torrance, chief executive of Allianz Cornhill, has called for some of its rivals to harden rates in motor, however, a significant proportion of brokers feel the market is too unpredictable to make a judgement about what will happen.

Mark Hodges, managing director of Norwich Union General Insurance said in this month's feature interview (see pp20–22) that Norwich Union's motor rates, including fleet, will continue to increase

this year, at least in line with claims inflation.

Overall, 71.7% believe 2006 will be a soft market and if this is the case then insurers need to make sure Haste's comments do not come back to haunt them.

Again, regulation is high on the agenda of brokers' concerns with 71% saying that it remained a very important issue (see Figure 4). This topic is not going to go away, and continues to cause controversy, speculation and headaches. A Financial Services Authority review beginning in April could lead to further revisions of regulation in the sector. Given that regulation has increased brokers' workload, hit profits and increased costs, it is not surprising managing directors are so concerned with its impact.

Regulation performance

Alarming for the FSA, only 19% of brokers feel regulation has improved their reputation, while 80% say it hasn't improved customer satisfaction and 68% say it hasn't improved employees' performance (see Figures 7 and 8).

Discussing regulation, Tony Cornell, of Cornell Consulting, commented: “Brokers regard this as the major threat and can see no tangible benefit in regulation. I believe the cost has been between 5

Figure 4: Issues currently of most importance or concern to business

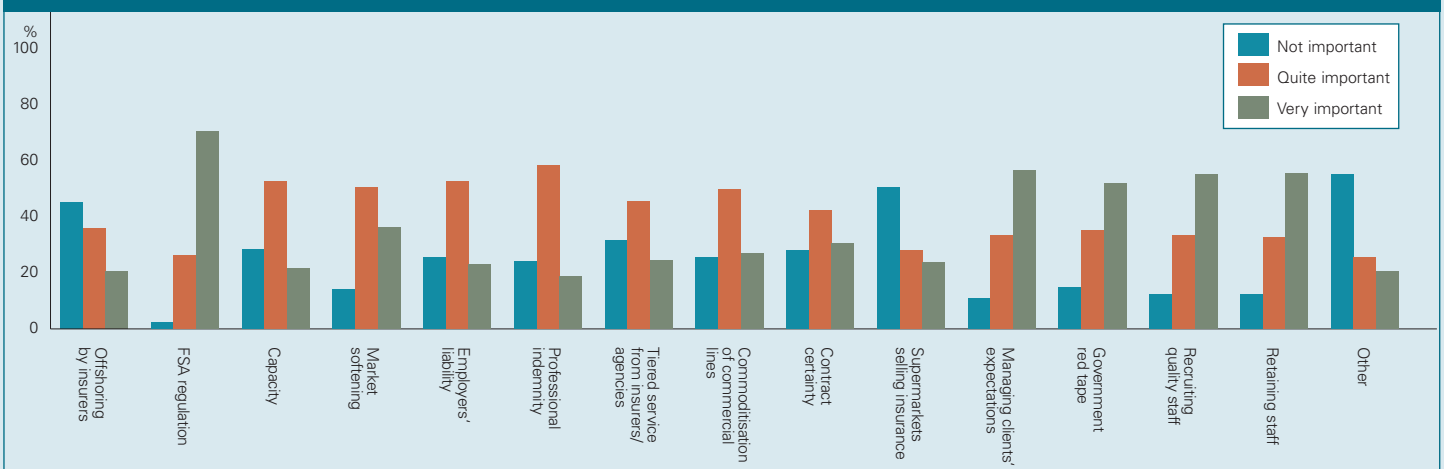


Figure 5: Priorities in terms of service from insurers

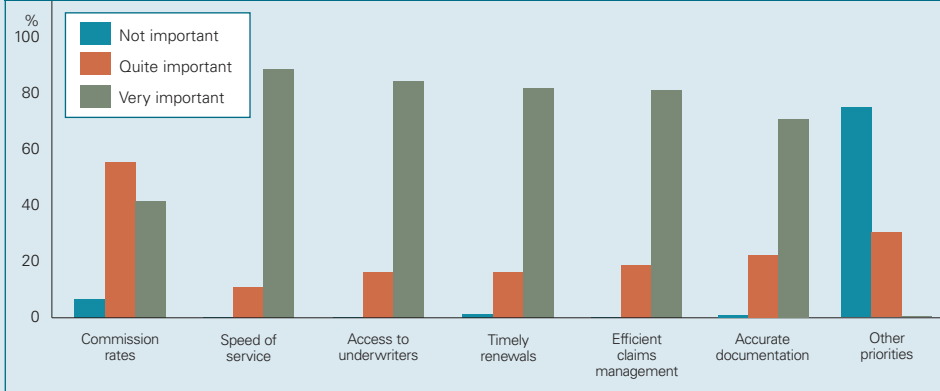
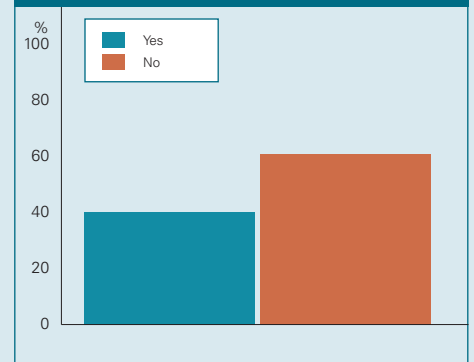


Figure 6: Do you use imarket?



and 10% of brokers' earnings; for the independent sector this is a massive amount of over £100m.

"It is now up to FSA to do a real cost benefit analysis as to what value it has added to private and commercial customer above the General Insurance Standards Council."

He continued with this advice to brokers: "The customer should pay in the end, and I urge every broker to surcharge his invoices with an FSA compliance charge so that customers can form their own judgement as to whether the extra cost is worthwhile. We know what their view would be."

Steve White, regulation and compliance manager at the British Insurance Brokers' Association, says: "The survey clearly highlights several points that BIBA has raised with the regulator over the past couple of years. Intermediaries operate mainly in a competitive market place and are therefore unable to pass on the costs to customers, with the result manifesting itself as a reduction in profit."

"We also do not believe that customers are noticing any regulatory benefits, indeed we often hear criticism concerning the weight of paper now being sent."

White also had a positive message: "The survey also highlights areas of encouragement. Several respondents have commented that the effect of updating their systems and controls has been ben-

eficial and we believe in the long term that most intermediaries will recognise these benefits."

The FSA will also be pleased to find out that 90% of respondents say they have no outstanding issues with the handling of client money.

Employee issues

Recruiting and retaining quality employees is causing brokers difficulty and this issue was high on the agenda in the last *PB* Sentiment Survey published in January.

A recent NU Healthcare study entitled 'Intermediary Health of a Nation' (*PB*, March 2006) has found young staff are being turned off by an overload of administrative work and mountains of paperwork. If brokers are failing to keep the talent of the future, then this will only build-up problems for later.

Cornell says: "This is a growing problem. Brokers have not filled the gap created by insurers deskilling and closing branches. The pool of skilled labour in most areas other than major centres is becoming smaller. Brokers can no longer rely on tempting trained staff from insurers and competitors and need to recruit and train their own. This is a difficult change for small hard-pressed businesses but is essential for those who want to be successful."

Insurers should be concerned that three quarters of brokers feel service standards are either

"staying the same" or deteriorating (see title page and *Figure 5*). Offshoring continues to be a prominent source of complaint.

One broker said a cycle of service had built up amongst insurers. He added that insurers adapt their service to attract more brokers but then are unable to cope with the demand this creates and subsequently the service level drops again.

Insurers can readily pinpoint where brokers' priorities are, namely speed of service, claims management and access to underwriters.

The latter has been addressed by some insurers who have taken more of an active role in opening regional offices — for example, Allianz Cornhill opening a new Cardiff operation last year for its Welsh brokers.

One of the concerns regarding speed of service and claims management is that it is being hampered by too many contacts, while another concern is an inability to contact key decision makers.

A decline in experience and expertise of staff is noted by many and is causing brokers' headaches.

Finally, insurers may wish to track down the broker who reports "All levels of service are improving", however, they may be hard to find.

Thank you to everybody who responded to this survey. The next *PB* Sentiment Survey sponsored by Groupama will be published in July's edition of the magazine, and we will be sending out the survey by e-mail before then. ■

Figure 7: Effect of FSA regulation on general insurance brokers

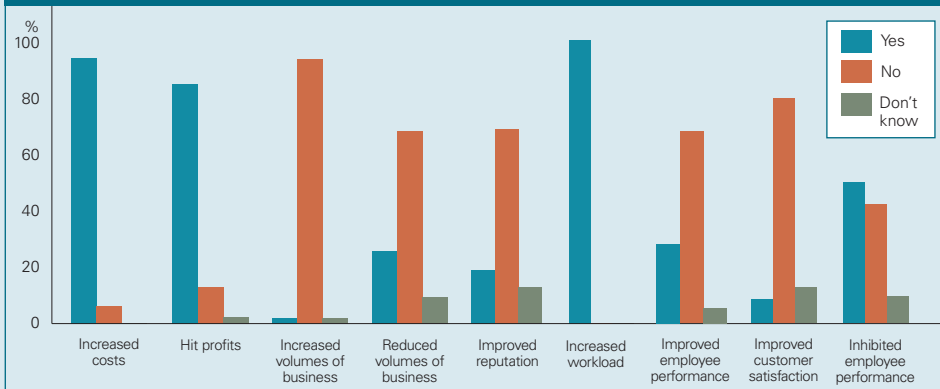


Figure 8: Is the FSA listening to the industry?

