ProfessionalBroking SENTIMENT SURVEYS

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Welcome to the latest *Professional Broking* Sentiment Survey — the industry barometer tracking the issues facing brokers. Concerns over regulation still remain, especially the thorny issue of commission disclosure. And with the majority feeling that 2007 will not offer any decent prospects for rate hardening, more and more brokers are set to move to fee-based remuneration, even in the small to medium-sized enterprise sector.

Regulation, the market and service issues continue to dominate the agenda for the respondents to the latest *Professional Broking* Sentiment Survey. It is probably fair to say that these themes have been aired consistently by brokers since the quarterly study came into being.

While brokers continue to wrestle with the regulatory red tape and paperwork that continues to plague their working days, there is at least some positive news for the Financial Services Authority. Almost a quarter of respondents have now undergone an ARROW visit and there is a majority view (65%) that the process was useful. There also seems to be a grudging acceptance that regulation has added discipline to market process and procedures and that it will continue to drive up standards and professionalism. However, there is still much concern about the prospects for hard disclosure of commission and a distinct feeling among responding brokers that this is not necessary given the highly competitive conditions prevalent in the market. When coupled with views that direct players enjoy advantages in this area and that there is a need for a more level playing field — there is still plenty of food for thought for the regulator. Brokers have also expressed some interesting thoughts on commission versus fees too, with most survey responses suggesting that fees will continue to be restricted to larger corporate business.

Speak to any broker for five minutes and the state of the market will enter the conversation. It is not surprising that this remains a hot topic in the survey with some real concerns about the commercial market. More than 80% do not think that rates will harden (See figure 1), and a majority (65%) think that this is unlikely to change in 2007 (See figure 2). This has to be a worry as the market really needs price rises if it is to avoid some of the problems that were experienced in the early years of the new millennium. The position in personal lines is less clear and brokers are on the fence about what they expect to happen. Just over 50% of brokers do not think rates will soften further but a similar number do not believe that prices will harden either. So the jury is still out.

Service, or more to the point, a lack of it, continues to attract comment from the intermediary community. 'Things are not getting any better,' seems to be the message but it is also evident that at least things are not getting any worse. For the moment the market seems to be rather steeped in mediocrity and with few exceptions there is still a need for insurers to raise their game.

However, insurers may be more encouraged by the increasing usage of imarket. More than half the respondents say that they are now participating and over one-third report increased usage over the last quarter. This fits with news from Polaris who have reported a significant jump in the number of transactions in recent months. This growing use of collaborative technology has to be good news, giving brokers greater control, improving service and enhancing efficiency. ■

Cathie Bruce
Distribution and customer services director,
Groupama Insurances

Figure 1: In the next three months do you expect commercial lines:

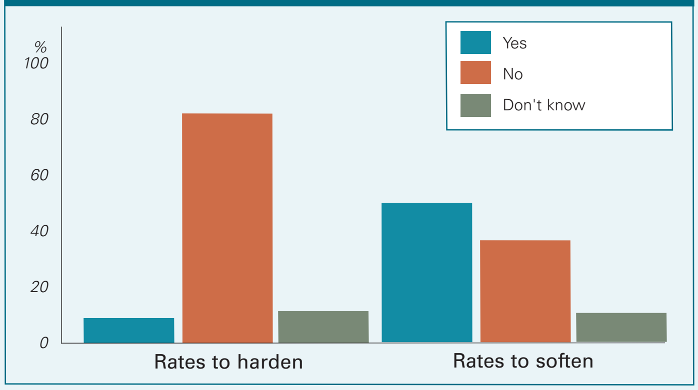


Figure 2: Beyond the next three months, do you expect to see any commercial rate hardening later in 2007?

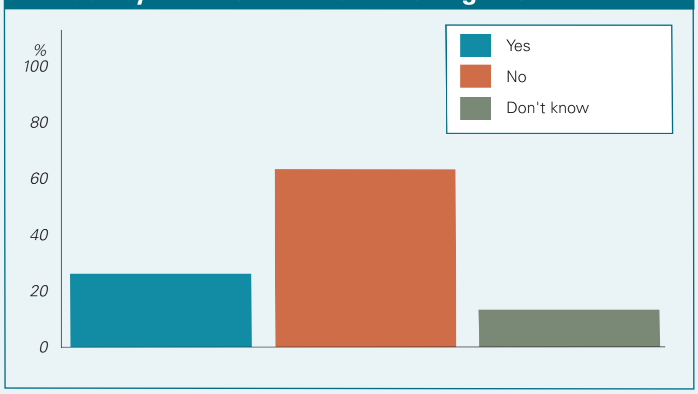


Figure 3: If you consider rates to be hardening, do you think they will do so:

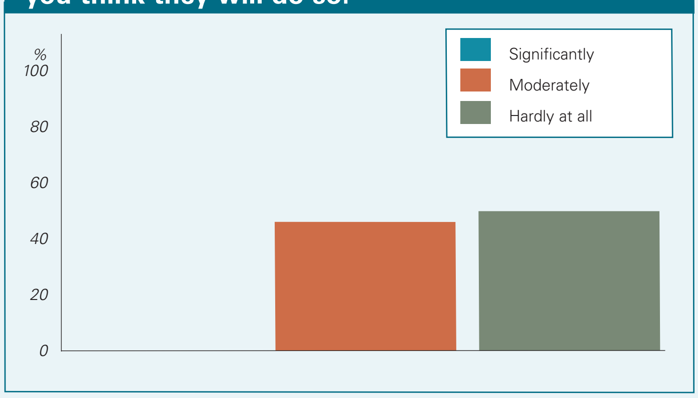


Figure 4: Are you using fees for:

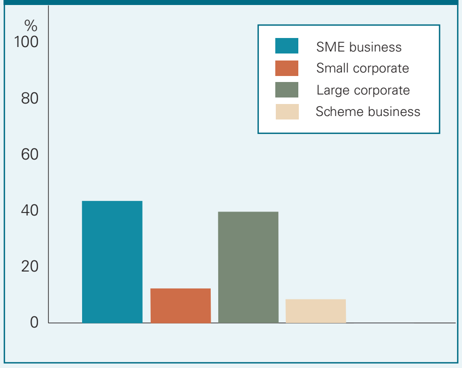
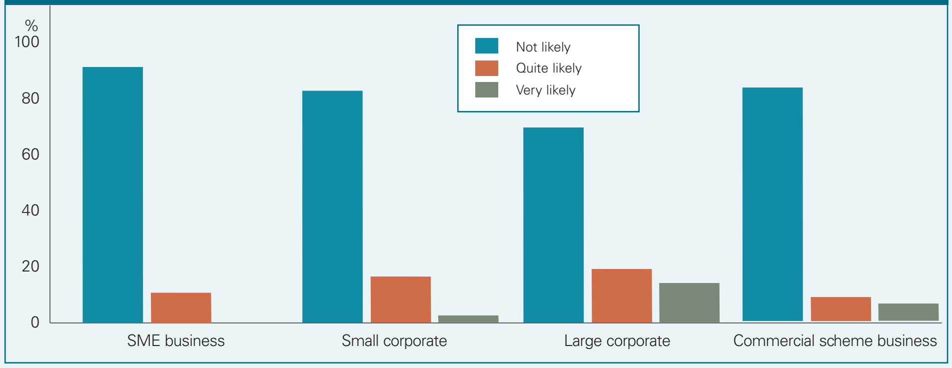


Figure 5: If you are note using fees, how likely are you to switch from a commission basis to a fee basis in the next six months?



Insurers offering best service

1st	Fortis
2nd	Zurich
=3rd	Allianz
=3rd	NIG
4th	Norwich Union

It would appear from the results of the latest quarterly Sentiment Survey that the efforts of Fortis in recent times to reinvent itself and provide extra support to its regional brokers are paying off, as it has now climbed from second place to claim pole position. In particular, the efforts to improve its relatively stable agency base, by increasing its personal and commercial product offerings, have been supported by an increased commitment to its intermediaries. Therefore, these changes have been accompanied by extra resources being ploughed into broker support — efforts that are currently very much appreciated and will delight distribution and development director Chris Dobson. After all, how many other insurers have decided to double their sales forces in recent times?

Barry Smith, chief executive of Fortis, commented: "We are delighted with the news. It is particularly pleasing that we have featured strongly in all of the surveys to date. Broker feedback is extremely important to us and vital in all that we do."

"Increasingly, we are seeing more brokers using more of our products, which is hugely encouraging to us especially as we are dedicated to widen further the product base," he added.

The achievements of Fortis have meant that NIG, which has dominated the rankings for the previous three surveys, now has to share third place with Allianz, which having missed out on the top five last time around can finally take some comfort that its efforts are once again being recognised. Just missing out on the top five this time round were Axa and MMA.

Increase in popularity

With the prospects of enforced commission disclosure continuing to cause concern among the wider broker population, it is interesting to note that fee-based remuneration appears to be increasingly popular, especially for small to medium-sized enterprise business. As such, 41.3% said they now use fees for SME-based business, with 38.1% also using fees for large corporate accounts (see figure 4). Indeed, such is the prevalence of fees in the contemporary broker landscape that 25% of all respondents said they charged fees for more than 50% of all their business. Whether we can expect to see a further move away from commission in the near future is nonetheless difficult to see from the pattern of results, though it is possible. After all, 11.8% indicated they were quite likely to switch to fee-based remuneration for SME business in the next six months. For large corporate accounts, perhaps unsurprisingly, the figures are even more telling, with 18.8% of brokers saying they were quite likely to move to fees by the end of the year, and 14.6% going so far as to declare they are very likely to do the same (See figure 5).

Commercial lines business in general is where 84.8% of brokers expect to see the most growth, with only 8.7% of respondents respectively foreseeing the same for financial services-related business or risk management. This is despite expectations from 51.2% of brokers that commercial lines rates will soften within the next three months, so it is a long view that is being taken by the majority. Besides, even if rates do soften most brokers now feel the worst is over, with 54% considering that rates will only soften moderately, and 39.7% expecting there to be hardly any softening at all.

Figure 6: Issues currently of most importance or concern to business

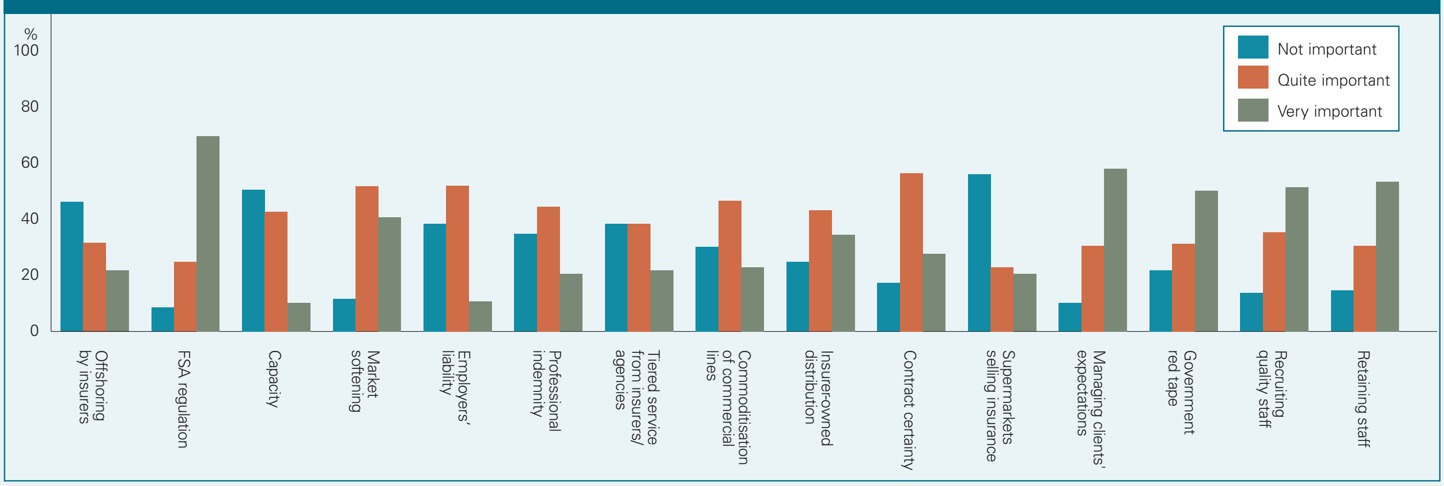


Figure 7: Do you consider service generally is:

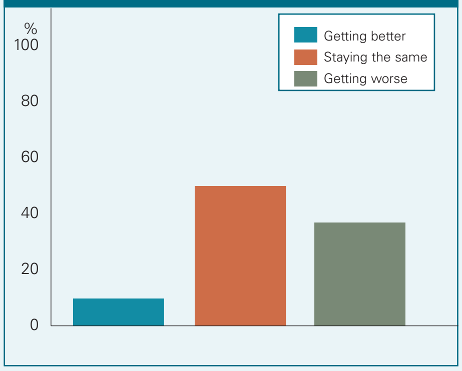
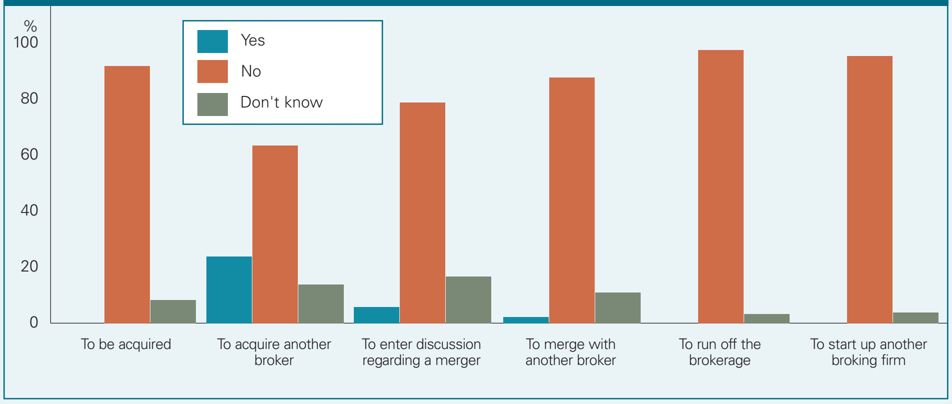


Figure 8: In the next quarter do you expect:



Even if any further downslide in rates is not expected to be severe, however, the feeling from some quarters is still that poor conditions have been too prolonged this time round. As one broker says: "The soft rate cycle has gone on for longer than ever previously experienced. Historically, the motor market turns first, with other commercial lines following, but there are no signs of this. This results in unsustainable rates, lower earning, and significant time spent on defending of business."

Rates aside, and despite what the authorities would have us believe about the smooth transition to contract certainty for certain lines of business, the reality is somewhat different. Indeed, 56.7% of respondents cite contract certainty as one of the real concerns that lie ahead, suggesting that this issue is far from resolved in the minds of many (See figure 6). Other prominent concerns listed by brokers include the thorny issue of insurer-owned distribution, though curiously there does not appear to be anything like the same level of concern over supermarkets selling insurance, which is not a major issue for 57.8% of respondents. Among other serious worries on the horizon, the issues of commoditisation of commercial lines, offshoring by insurers, and tiered service from insurers/agencies continue to rank amongst the more important concerns.

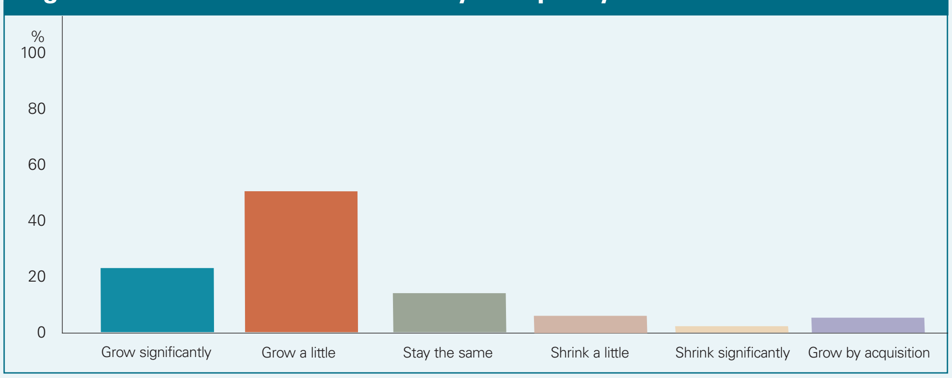
Despite the good performance of the like of Fortis and Zurich in this quarter's survey, there is no getting away from the fact that service levels continue to irritate brokers, with 50% believing that service generally is staying the same, and more dispiritingly 37.2% saying it is actually getting worse (See figure 7). The picture is not uniform, of course, but there are underlying reasons for this general trend in the assessment of one broker: "Service to a large degree is dictated by the depth of relationship/partnership with insurers. As a general view, without the above in mind, pressure on insurers' expense lines means service is 'as is' or worse."

Muscling in

Brokers are not exactly taking all this lying down, and even if the likes of Axa and Groupama have recently muscled in on brokers' territory by buying their own distribution channels, there are some robust attitudes out there and the prospect of further acquisitional activity — 23.8% of brokers expect to acquire another broker in the next quarter (See figure 8).

Despite the multitude of concerns that the survey continues to demonstrate still afflict brokers, there are some crumbs of comfort that can be taken. After all, the majority of respondents expect to see a little growth in the next six months within their businesses, with 22.1% even going so far as to predict that they will witness significant growth during the same period. (See figure 9). As one broker succinctly puts it: "Rates will eventually harden and we are good at what we do, why not be optimistic?" And even if this year is not expected to be the best on record, there are feelings that the tide will turn before too long. "While it is tough at the moment, we all see rates hardening in six months or so — we need to see out this tough time and look forward to next year," says one broker. ■

Figure 9: In the next six months do you expect your business to:



Comments on: commission woes and other regulatory blues

■ The goodwill rule is overkill but, most importantly, the regulator should let market forces dictate with regard to commissions. Mandatory commission disclosure would severely damage small and medium-sized brokers for absolutely no benefit whatsoever. The regulator needs to put this matter to bed once and for all to enable brokers to invest in the future with confidence.

■ The goodwill situation is a farce and the Financial Services Authority continues to be completely out of touch with reality. Let us all move to France or Spain as they are unlikely to see common sense with this.

■ Commission disclosure is not necessary. The move to 'principle-based regulation' isn't happening very quickly.

■ Regulation + soft market + intense competition + consolidation = pessimism.

■ Still no account has been taken of the really small broker less than £1m — and I mean turnover not commission.

■ So much paper work that is of little significance.

■ Clients do not want all the red tape and reams of paper we now have to send, all they want to know, is the premium, basic cover details and key facts.