

Professional Broking

SENTIMENT SURVEYS



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Insurances

Welcome to the tenth *Professional Broking* Sentiment Survey — the industry barometer tracking the issues facing brokers. This survey saw continued concern about regulation, however, many brokers are now enjoying some benefits — see the column below right for a selection of concerns and compliments about the regulator. Comments on service, consolidation and the soft market were also left, see over the page for the full roundup.

The last Professional Broking Sentiment Survey of 2006 has again generated some thought provoking responses from intermediaries.

Service — or the lack of it — is a continuing gripe and, although brokers feel in overall terms that things have levelled out, there is evidence of substantial antipathy towards off-shoring. More than 60% regard this as being of concern to their business and there are some stinging criticisms from among the broking fraternity. “Rubbish off-shore call centres” says one and another sums up the problem by saying ““dumping good quality staff in favour of cheap overseas call-centres will eventually prove not to be cost effective.” Groupama could not agree more and is finding plenty of brokers proactively selecting insurers with UK-based operations.

There is also support for smaller insurers and plenty of ‘hammer’ for larger ones. Says one dissatisfied broker, “ the service from the large composites has always been poor for smaller intermediaries... and I cannot see that they perceive us as being other than expendable.” Another adds: “The bigger the company, the poorer the service.” This seems to tally with what we are seeing from other market surveys and perhaps the best thing for brokers to do is to vote with their feet.

Some interesting comments too on regulatory matters that continue to cause concern for intermediaries and their customers. If the excessive paperwork and extra work for brokers and customers were not enough, the market is now facing the potential for hard disclosure of commission. Almost 60% of respondents think that the FSA will implement this with over 70% being “quite concerned or very concerned” about such a development.

As far as rates are concerned, there still appears to be little consensus about personal lines and, on the face of it, the recent move by Norwich Union on motor prices has yet to feed through. There are almost as many brokers who think rates are softening as think that they are becoming harder.

On commercial lines though, it still seems to be gloom and doom that prevails. Just under 70% of respondents say that they do not expect prices to stiffen over the next three months.

The feedback on imarket is also noteworthy. Over 60% of brokers think it ‘quite important or very important’ that an insurer is a ‘supporter of imarket’, with almost 40% using it and a similar number planning to use it. However, concerns remain about a need for the processes to be simpler and more user-friendly.

Finally, there is comment on the need for more talent in the industry, something that the CII’s ‘Talent Initiative’ is looking to address. Brokers report real worries about recruiting and retaining staff but also about the lack of quality in the work-force of the insurers that they support.

It would seem that the ‘war for talent’ is clearly one that needs to be won. ■



Cathie Bruce
Head of Proposition,
Groupama Insurances

Comments on regulation

- Regulation must be scaled down, in terms of requirements and cost, which far outweigh any benefits.
- I am worried that full contract certainty will discourage brokers from ensuring that they provide comprehensive advice on the pros and cons of a particular contract, relying instead upon putting the full actual contract wording in front of the client and obtaining their acceptance. This might reduce the brokers’ errors and omissions risk but is not in the clients’ interests.
- The Insurance Conduct of Business Rules need to be drastically reduced and for commercial lines business should be abolished. The Financial Services Authority should get their tanks off our lawn. They have no business dictating how we conduct every minute aspect of our businesses. ICOB does nothing to enhance customer service or protect the consumer. Demands and needs statements are good example of a petty rule which achieves nothing — it is a hang over from the investment rules and has no place in commercial lines business. It is all very contrived.
- Customers are not interested in commission disclosure; it is the nationals and Financial Services Authority doing something that is not needed.
- Treating Customers Fairly is absorbing a significant amount of time and resource at present.
- There should be disclosure of commissions and fees in a clear manner to the client. So far vested interests have influenced FSA to give wishy washy advice. Let us be truthful in all details of the fees, commissions and other revenue that intermediaries receive, so that a level playing field provides competitive service to clients.
- The rule book is a work that the Rosetta Stone could not unravel.
- There is not a level playing for field, direct writers and travel agents.
- It has helped to make all staff do things properly, rather than just some.
- It was a great way to get rid of the cowboys and clean up the industry a little, although there is still a significant volume of people who are quite ignorant to what the FSA does and means to their business.
- Clients are far more aware of what we do for them. Disclosure of commission is not an issue to us. We have been doing it for two years without any issues.
- It makes it easier to take on new insurance agencies and has helped us to focus on various internal issues which may otherwise have been delayed.

Figure 5: Priorities in terms of service from insurers

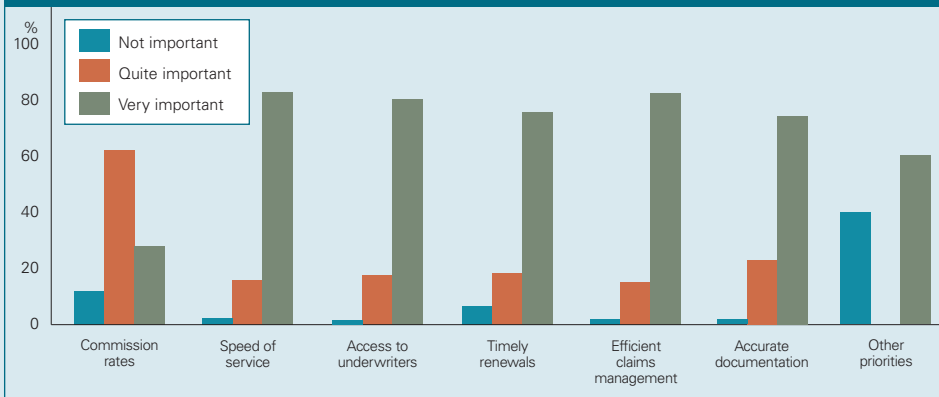


Figure 6: Opinion on service?



the Financial Services Authority was to introduce mandatory disclosure, fireworks can be expected in the industry. Already, *PB* has seen a significant number of senior brokers complain about the possibility and how it will make little difference to the customer. Stuart Reid, chief executive of Stuart Alexander, in November's edition wrote: "You cannot review the basis upon which a broker earns their income without generating a climate of fear and concern."

Regulatory concerns

Among other regulatory concerns are contract certainty, client money issues, the Retail Mediations Activities Return and treating customers fairly. However, 65% believe there are no outstanding regulatory issues, while 45% say that regulation is still taking up a "large proportion of time".

When asked if there have been any benefits from regulation a large majority who replied to this question gave a resounding 'no'. One comment was: "Not really — it is a necessary evil. I don't think the customer has benefited, they are bemused by the red tape and paperwork." On the other hand, there were some enthusiastic comments including: "It has made us look at our policy wordings and review our system which has made us more effective." It seems any outstanding issues regarding client money have

been well handled with 87% saying there are none outstanding.

Other important issues for brokers are managing client expectations, recruiting and retaining staff — although this has dipped over the year (see Figure 4). 70% are concerned with the commoditisation of commercial lines

In relation to service from insurers, service speeds, access to underwriting, timely renewals, efficient claims management, accurate documentation, and being easy to work with are all very important or concerning to a large number of brokers (see Figure 5). Commission rates are not, although 62% find these quite important or concerning. One broker praised NIG and NU, which "know what we are looking for and in most cases are able to meet these needs. Answers from these two insurers are either instant or on our desks within 24 hours."

Overall, 38% believe insurers' service standards are deteriorating, with job cuts and offshoring not helping the situation. One comment reads: "Offshore call centres in terms of claims service is causing us significant concern". Another complaint is about premium phone rates on claims which take "forever" to report, and one broker says "too many changes in insurers and a lack of certainty for their staff means that many have lost focus".

One comment likely to cause even the most

optimistic insurer concern is "Insurer relationships are at an all time low". However, there was some positive feedback including the fact that insurers are now more accessible, producing more accurate documentation and a "greater willingness to access business", citing the caveat that this is probably due to the soft market.

Imarket indecision

Imarket is criticised in the survey by many brokers for being too "cumbersome", with 36% surveyed using it. A number of brokers are planning to begin using it early 2007, and it seems brokers are still in the early stages of coming to terms with the system.

Positive comments for imarket include it is "an easy way for small bread and butter business" and "one-stop access to insurers' websites". Meanwhile, 71% of brokers have invested in technology in the last quarter and 60% are planning to in the first quarter of 2007. With the rise of the internet, scheme business and the increase in offerings from the software houses, this trend is expected to continue throughout the year.

The next *Professional Broking Sentiment Survey* is set to be published in April's edition of *PB*. We look forward to hearing your views and opinions throughout 2007 which is set to be another year of change for UK general insurance brokers. ■

Figure 7: In the next quarter do you expect:

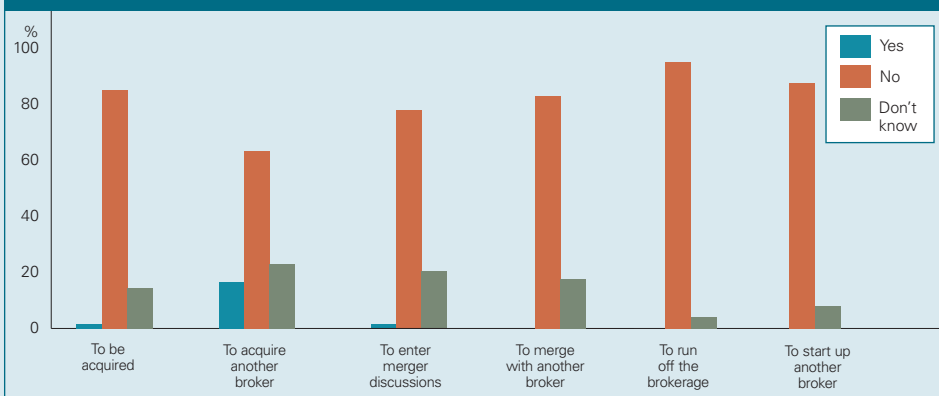


Figure 8: Will the FSA improve the reputation of the market?

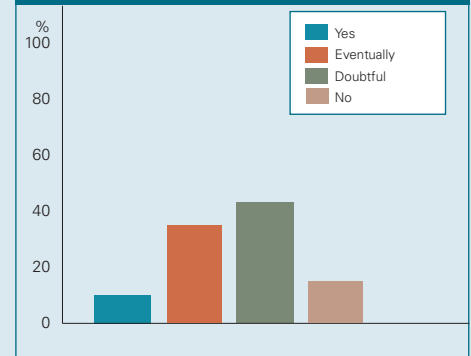


Figure 1: Do you expect the FSA to implement hard disclosure?

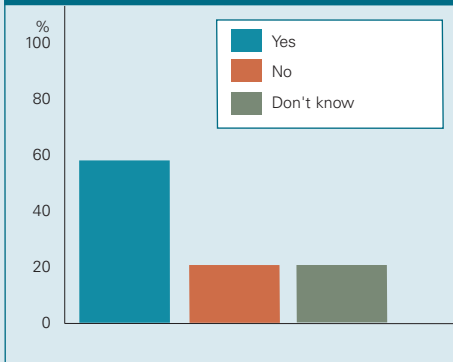
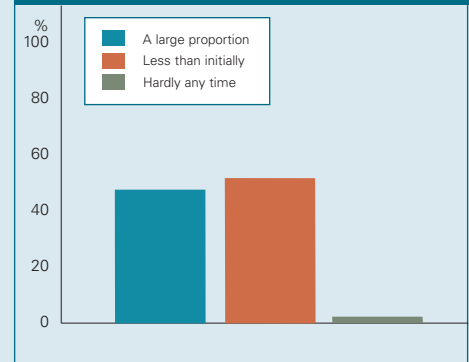


Figure 2: Hard disclosure concerns



Figure 3: Time taken up with regulation-related issues



Insurers offering best service

- 1st **NIG**
- 2nd **Zurich**
- =3rd **Fortis**
- =3rd **Norwich Union**
- 5th **Allianz Cornhill**

Despite a successful year collecting awards and signing high profile contracts, Royal and SunAlliance has disappeared off the best for service list for the third time this year and is well behind the competition in the voting. NIG has become the brokers' favourite with the second top spot in a row, and is keeping the flag flying high for the Royal Bank of Scotland in the broking community. Rival Zurich has leapt from fifth (October) to second, reclaiming the spot the insurer held in January, after a brief flirtation with the top spot in April. Fortis and Norwich Union were close behind, while Allianz Cornhill completes the top five.

One notable absence is French giant Axa, which has missed out this quarter after coming fifth, third and fourth respectively in the last three surveys. It will be interesting to see

if recent restructures have an impact on service for the next sentiment survey set to be published in April.

It is the middle of a busy period of consolidation and the results in the survey suggest there will be a similar appetite to splash the cash next year. A total of 15% of brokers, which is a significant number, say they will be acquiring in the first quarter (see figure 7). Many of these deals will have already been sealed. Already resigned to being swallowed up are 1% of brokers, while, according to survey participants there are no broker mergers on the horizon.

Buying and selling

Players such as Broker Direct are buying brokers for the first time and competition for purchases is intensifying with insurers also setting their sights on medium to large brokers. There are also a significant amount of smaller brokers with around £2m of gross written premium being sold, with the likes of Swinton and Equity leading the way. Meanwhile, 5% of brokers say they will start a new business in the first quarter of 2007. *Professional Broking* has reported a recent trend of start-ups and, as consolidation increases, smaller players will continue to spot niche opportunities.

Growth is the name of the game, and many brokers have been spending money on infrastructure, such as information technology, and will be looking to reap benefits from this expenditure. A total of 29% of brokers are expecting to see their business grow significantly, with 50% expecting to 'grow a little'.

In a soft market, acquisitions can be expected to drive growth, though there are players that have become more savvy in consolidating their insurer panel, gaining greater commissions, and adding new lines such as directors' and officers' to their offering. The best gift insurers could give brokers for the new year would be a hard market but there is great scepticism that this will happen at the beginning of 2007. Brokers are not expecting rates to harden in the first three months of 2007, with 47% expecting commercial rates to soften further, though only 10% think this softening will be significant. Surprisingly, only 30% expect personal lines rates to harden, although 32% are unsure.

Commission disclosure is becoming the hot topic in the industry and 60% of brokers believe making disclosure of commission to the client will become mandatory (see figure 1). Around 68% are concerned at this possibility (see figure 2) and if

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

