

Welcome to the eighth quarterly *Professional Broking Sentiment Survey* – the independent industry barometer representing brokers' views. With more than half of brokers believing rates are continuing to soften in the commercial arena, many believe that rates must rise to compensate. There is also a focus on mergers and acquisitions, with many expecting to open discussions in the near future.

This quarter's Professional Broking Sentiment Survey again offers a fascinating insight into the various issues that are facing intermediaries as they go about their business.

While there is continuing gloom over market conditions in the commercial arena with an increasing number of the respondents — well over half — believing that rates are continuing to soften, the picture in personal lines is much less clear. Just over 40% of intermediaries 'don't know' if rates will harden suggesting that we just might be on the cusp of change.

With some of the major players indicating that rates must rise — a view shared by Groupama, by the way — perhaps we are seeing the first signs of prices moving up. It will be very interesting to see how brokers feel when the next survey is published in September.

The high levels of merger and acquisition activity in the intermediary sector are reflected clearly within the survey results — with significant numbers expecting to merge, be acquired or open discussions with other firms.

Presumably, this might also be driving the concerns among brokers about retaining quality staff — as almost 60% see this as a problem while similar numbers are struggling to recruit. This mirrors the situation among insurers and again highlights a real lack of experienced staff within the industry.

On service matters the messages from brokers remain consistent. They want greater speed and accuracy and more efficient claims service too. Perhaps the answers lie in the greater use of technology to remove unnecessary duplication and offer them greater control. Certainly brokers see the importance of efficient electronic trading facilities; as well over half regard this as 'important or very important'.

However, while a high level of interest remains in the imarket initiative, there is still work to do as the respondents to the survey had plenty to say about how complicated and long-winded some of the processes are. It is therefore pleasing to know that these are areas where development work is already well in hand at Polaris and among the supporting partners — particularly in terms of the reconfiguration of the 'x-forms' that feed the quotation process.

It is really no surprise though that 'regulation' still tops the list of issues that are keeping brokers awake at night. I am afraid that there is little

here to cheer the FSA and the respondents still think the regime too expensive, complicated and unloved by the end customer. Worryingly though the majority of participating brokers still think that their Regulator is just 'not listening' - something that they raised in the last quarterly survey and where they remain very dissatisfied.



Cathie Bruce
Head of Proposition,
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Comments on imarket

- Not yet convinced that it is the efficient way to secure quotes that it claims to be.
- Brilliant for new business.
- Insurers are at different stages with total delivery.
- Small business solutions for our small business team.
- Not been necessary for us to use it yet.
- Limited use to us.
- Too difficult to use.
- Small classes of business only.
- Too complicated to use.
- No need at present.
- Lack of brands available.
- It is the way forward for internet based quotes, but is poor at present.
- Not very good yet and not user friendly at all.
- Too slow, forms too long, inadequate selection of insurers and site navigation is poor.
- We have the facility but have found that it fails to meet any of the promises we were given about it.
- It is still easier to use individual company websites.
- Does not provide the insurers or products required for our business.
- Still monitoring the situation.
- It gives substantial time savings on small business.
- Would be interested if it is simplified.
- May use, once convinced.
- Plus many that just said: "We are not using it yet".

Figure 1: Growth expectations for the next six months

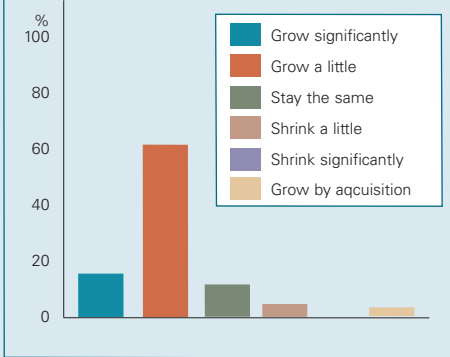


Figure 2: Rate hardening – expectations

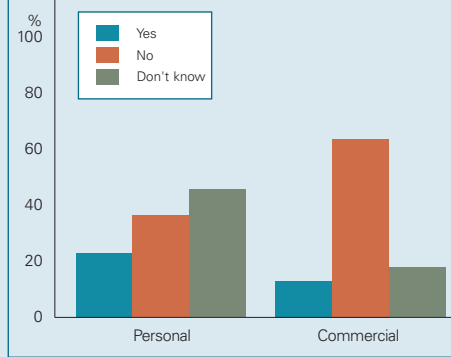
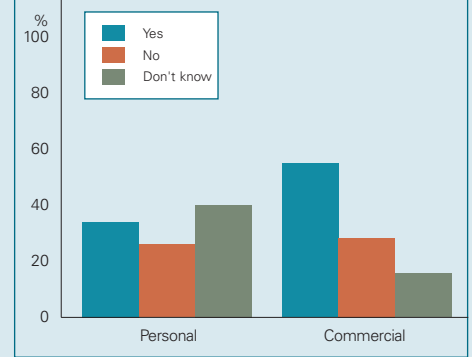


Figure 3: Rate softening – expectations



Insurers offering best service

- 1st Norwich Union
- 2nd Fortis
- 3rd NIG
- 4th Zurich
- 5th Axa

At the end of the first half, the top five ranking insurers brokers rated most highly for service saw some notable changes. While Norwich Union kept its crown in first place, Fortis achieved a record second place, after not appearing in the top five at all in April and only achieving fourth place in January. NIG was voted third best insurer for its service — a consistent position for the insurer having only slipped once to fourth place in April. Zurich fell to fourth place having achieved the top spot in April, and second in January. Achieving fifth position was intermittent Axa, which while achieving a respectable third place in April failed to appear at all in the top five in the previous survey in January.

Brokers expectations about growth was in keeping with sentiments recorded in the last quarter. Almost 60% registered optimism, expecting to grow a little, while 17.6% were confident that growth in the next

six months would be significant. Brokers confidence in significant growth was down since the last poll in April when 28.3% were expecting to grow significantly. This figure is probably symptomatic of the softening market. The number expecting to grow a little had nudged from 53.8% to 59.3%.

This conservative growth expectation is in line with brokers rate expectations with 34% expecting rate softening in personal lines and 56% expecting softening in commercial lines. In terms of when the hard market will return 65% said they did not expect this would happen or begin to happen this year. However few were concerned that rates would soften significantly — 63% said they expected rate softening would be moderate.

Regulation concerns

Unsurprisingly regulation remains top of broker's list of concerns with 73% saying this was very concerning. The second highest concern registered by brokers concerned employees, with 53% very concerned about being able to recruit quality staff and 52% saying they were very concerned about retaining staff. After this, the main concern as registered by 50% of brokers that took part regarded their ability to manage client expectations, which they marked as very important/ concerning. Other con-

cerns included: the 55% that found the commoditisation of commercial lines quite important/concerning, 55% also registered professional indemnity at the same level of concern as did a further 55% that were quite concerned about contract certainty (see management clinic, p13). Other concerns pegged by brokers as being quite important/concerning included: employers liability, 49%, tiered service from insurers/ agencies, 49%, government red tape, 49%, offshoring by insurers, 46% and capacity 46%.

In an open ended question designed to capture any concerns brokers had that did not appear in the list of options given, several mentioned wholesale broker's administration charges, while others noted their concern about consolidation, particularly the trend of networks purchasing brokers.

Broker's priorities in terms of the service they receive from insurers saw speed of service remain high with 82% saying speed was very important/ concerning. Efficient claims management was also very concerning to 81%. Almost as concerning was access to underwriters, as indicated by 80% of respondents. Accurate documentation was a priority expressed in the highest terms by 77% and after that brokers' main service priorities said to be very important/concerning was electronic trading facilities as indicated by 46%. Interestingly, while

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

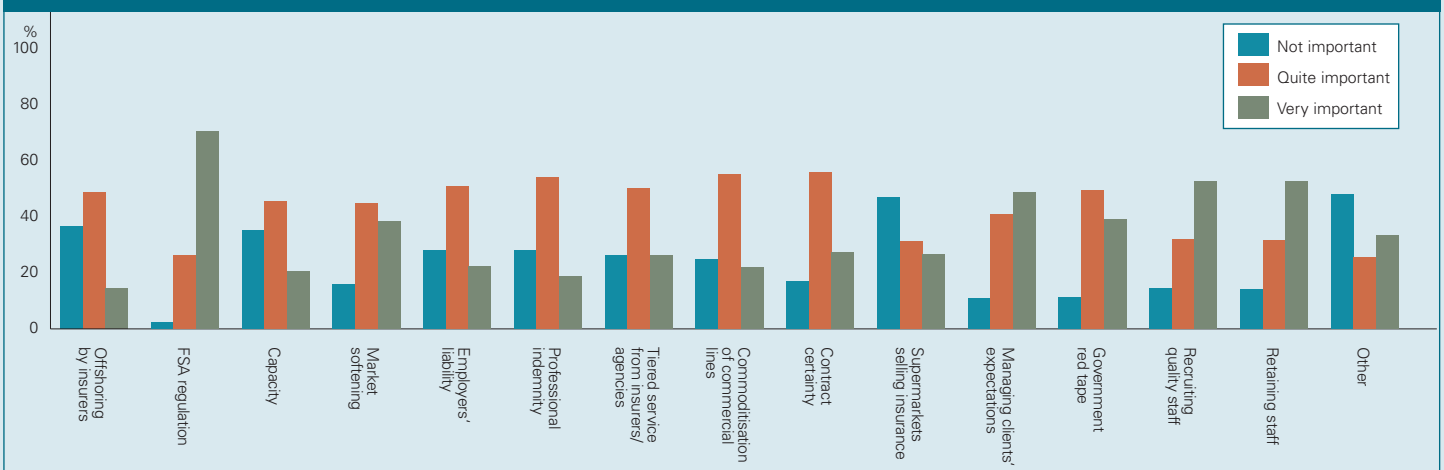
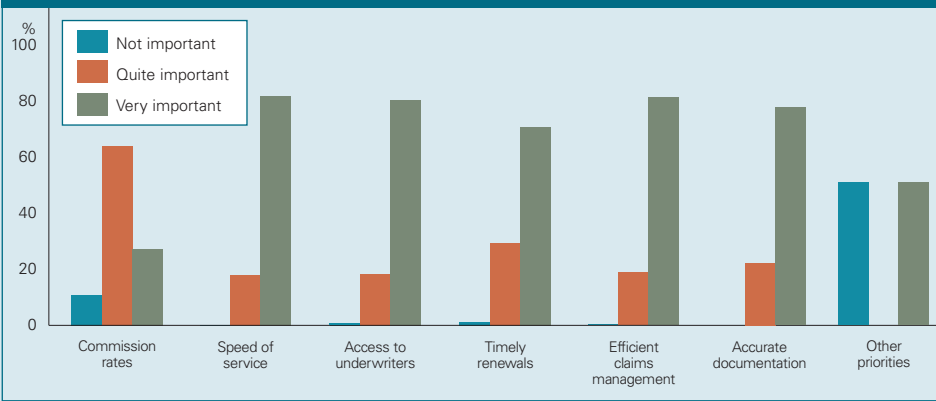


Figure 5: Priorities in terms of service from insurers



insurers ability to trade with brokers electronically was very important to nearly half of those that took part in the survey, this is not necessarily via imarket, as only a mere 15% billed insurers supporting imarket as very important. However, it is not all doom and gloom for the collaborative venture, as a much healthier 46% of brokers said an insurer supporting imarket was quite important in terms of their service priorities from them.

Market use

In a separate question, polling broker's use of the imarket offering 38.2% said they were users but 39.2% said they were not. When asked if they intended to use it the figures — 36.8% — showed an identical number of respondents would as would not. In a question further probing brokers views on imarket the results were very mixed. These ranged from the glowing: "it is brilliant for new business," to a middling "it is the way forward for internet-based quotes but is poor at present," to the downright disgruntled: "Too slow, forms too long, inadequate selection of insurers, site navigation poor." (See title page for full list of comments about imarket)

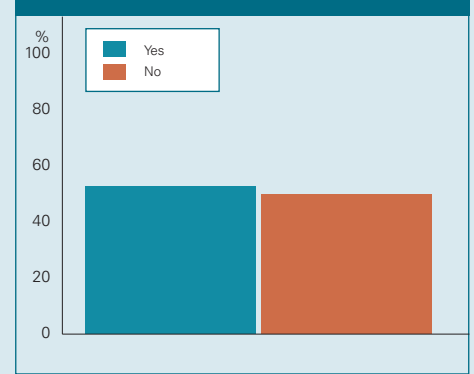
Peter Knowles of imarket said: "We understand that some brokers find imarket complex at first, and are working on providing training assistance. Forms will be replaced with a much-improved version before the end of the year and, in a recent satisfac-

tion survey, 63% of users found the navigation good or satisfactory. To the comment about the lack of the insurers or products, I say it does nine main classes and we're adding PI". He concluded: "The efficiencies of using imarket are clear and demonstrated by research by Acturis, which shows doing business via brokers own software house and imarket is 30% more efficient than the 'normal' routes."

Regulation continues to dominate attention, with familiar criticisms showing little sign of abating. Most respondents, with percentages in the high 80s and 90s, said regulation had hit costs, dented profits and increased workload. Eighteen months into the regime the expectation of an 'initial transitional hump' while brokers get acquainted with its introduction seems to be fading.

While high volumes of paper, time, and the financial burden continue to crush enthusiasm for regulation, for the majority there were those that took the time to highlight benefits — if begrudgingly. These included: "Increased availability to staff of policy information on key facts, renewal documents now received on time from insurers"; "We have slightly better systems in place because of it"; "From a risk management point of view it has been very useful in structuring and documenting our business process" and "Internal systems of checks and audits have improved as a result but we would have had that with self regulation anyway. ICOB has helped us to address issues with client communication".

Figure 6: Do you use imarket?



While many comments were made to the effect that regulation had formalised process that were in place any way, there were many that highlighted staff benefits. Typical examples include: "An increased focus on training and professionalism," "Improved staff training and monitoring" and "Staff have embraced the improved training culture."

Other concerns

Other related comments showed brokers were pleased that the British Insurance Brokers' Association is more dynamically representing its members with regulatory issues such as commission disclosure and also contract certainty.

Other specific regulatory issues also seemed to be less of a concern than previously recorded, for example over 85% said they had no outstanding issues with client money, though it was clear from some comments that the client money rules were so complex that several respondents had opted not to hold client money at all.

When asked which of the following reflects the way you feel about the state of the market right now a general note of optimism was evident. This was demonstrated by the majority 41.2% that described their feeling about this as fairly optimistic. However the second highest number — 39.2% — were non committaly neutral, while a small minority of 5% were feeling very optimistic. ■

Figure 7: Effect of FSA regulation on general insurance brokers

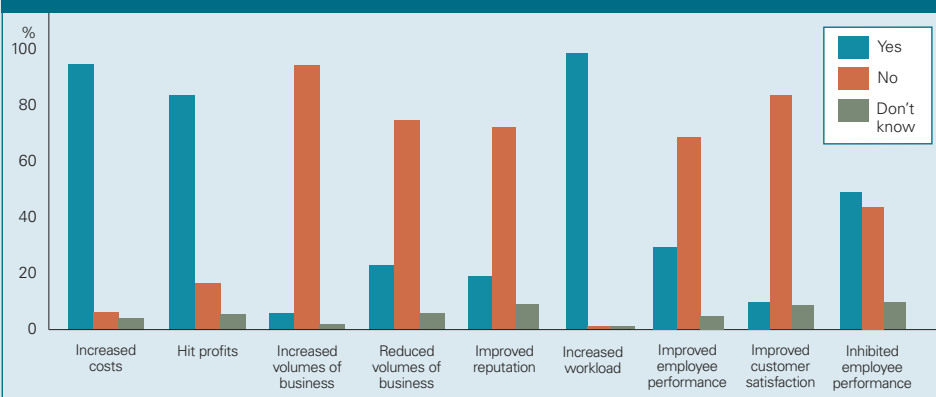


Figure 8: Is the FSA listening to the industry?

