

# Professional Broking

## SENTIMENT SURVEYS



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Welcome to the ninth quarterly *Professional Broking* Sentiment Survey — the independent industry barometer airing brokers' views. This survey saw the tentative signs of a market cycle about to turn, or at least brokers' hopes that it will. Broker concern about regulation was as marked as ever, however, there were those that were beginning to see some benefits — see the column below.

The latest *Professional Broking* survey continues to track the views of UK brokers on market issues and again makes for interesting reading.

The news that Norwich Union is increasing private car rates seems to be filtering through into the thinking of the respondents to the survey, with a slim majority feeling that personal lines prices will harden over the next three months. However, the numbers are still marginal and we will need to wait for the next survey to determine whether things are going to take a genuine turn for the better.

Regrettably, the news in commercial lines is far more negative, with over 60% of the sample believing that rates will continue to soften, reflecting significant levels of competition in the market. Although this is clearly of real concern, the survey suggests that more than half of the respondents feel that we might now be approaching the bottom of the cycle and that we can expect to see some hardening in commercial during 2007. On the basis that claims costs are still rising and liability continues to cost insurers dear, we must all hope that this cautious optimism is realised and that the market begins to adopt a more sensible and disciplined approach to pricing. It is only by doing this that insurers can ensure consistent profitability and brokers enjoy stability of income.

Unsurprisingly, the other hot topic of this quarter's survey remains the vexed question of regulation. Again, the news is almost uniformly negative for the Financial Services Authority, and there are certainly many examples of brokers articulating their customers' continuing dissatisfaction with what they see as unnecessary levels of bureaucracy. Given that participants in the survey also believe that 'managing client's expectations' is their number one issue in terms of importance to their businesses, the regulatory burden is obviously still keeping brokers awake at night in return for what they see as very little benefit. A total of 83% of those who took part in the survey do not believe that regulation has increased customer satisfaction, while at the same time it is perceived to be having a negative impact on employee's performance.

On service levels, brokers report that things remain pretty static. However, the message to the market is that they want insurers to 'be easy to work with' and at Groupama this is an area that we respond to in terms of our overall business proposition for partner intermediaries. Part of this relates to efficient e-trading facilities and support for imarket, both areas that brokers regard as being of growing importance.

Given that speed, accurate documentation and timely renewals remains — unsurprisingly — at the top of the hit list for respondents, and that all of these issues can be remedied by more effective electronic trading, there is a message for insurers that brokers want greater progress from them — and quickly. ■

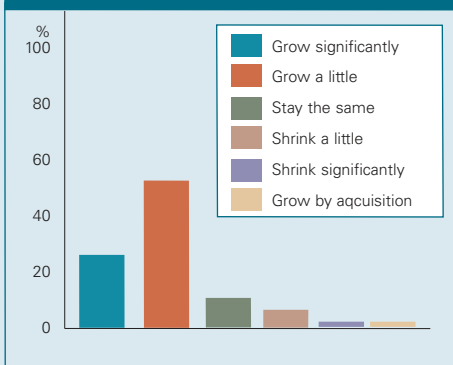
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Head of Proposition,  
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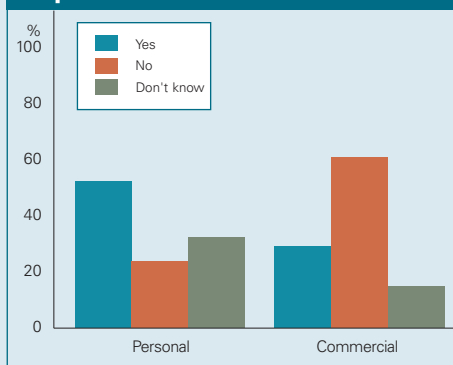
### Have you seen any benefits of regulation so far?

- It has improved performance of staff.
- If nothing else, our banking procedures are now excellent.
- Greater standardisation within office.
- The benefits are few and far between — perhaps it got rid of a few rogues.
- Several local brokers merged or sold out, consequently we had less competition but the additional time we need to spend in order to comply means that we are not able to take full advantage of this and much of the business is going to the nationals or online.
- A better framework for business being applied across the business.
- Yes, many. Far better documentation of processes — continuous review of procedures. Far better employee training programmes.
- It has made us set out specific procedures where none previously existed and has made us more transparent — nothing to hide so not a problem.
- Client money calculation is a positive, as is focusing and being made to focus on correct financial procedures.
- A level playing field and transparency of commission.
- Staff competence being formalised has been of assistance.
- Yes, great benefits for the consumer, proving who is transparent and who is not. Greater understanding for the clients providing a trust situation with the broker.
- The paper trail has helped us to investigate and resolve customer complaints around mis-selling and mal-administration. The physical evidence has helped the business to accept or defend any allegations.
- Improved standards regarding terms of business agreements and wider understanding of handling client monies.
- Yes. Better quality of information now being provided.
- Made people work in a proper and systematic way which most were doing anyway but haphazardly. Driven a few cowboys out of the market.
- It has helped management in the whole organisation of the business and all staff in quality of record keeping.

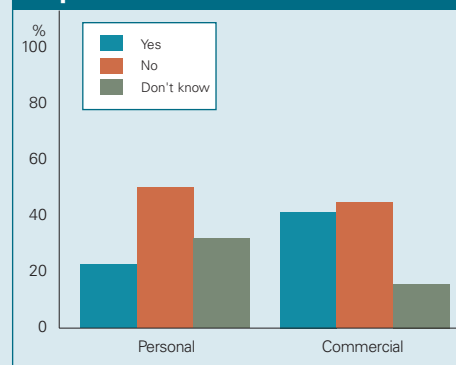
**Figure 1: Growth expectations for the next six months**



**Figure 2: Rate hardening – expectations**



**Figure 3: Rate softening – expectations**



### Insurers offering best service

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

At the eve of the final quarter of 2006, the top five insurer's brokers rated best for service saw some of the fiercest competition to date. Norwich Union, which has consistently held onto the top spot since the beginning, having conceded it only once to Zurich in April, was this time forced into second place by NIG. Competition for third place was illustrated by the tie between Fortis and Allianz Cornhill. Fourth place was occupied by Axa and in fifth place the insurer rated best for service was Zurich. Royal & SunAlliance was conspicuous by its absence from the top five for a second quarter running, while MMA narrowly missed levelling with Zurich in fifth place and Groupama and Fusion also narrowly missing out on a joint fifth place listing.

The optimism recorded among brokers was cautious on the whole, with 56% expecting to

grow a little in the next six months (see fig 1). This is in keeping with expectation gauged in the previous three surveys done in 2006 and is also possibly symptomatic of the soft market. However just over a quarter were expecting to grow significantly, which is also in line with sentiments expressed this year — within a tolerance hovering just above and below 20%.

Expectation among brokers over rates showed just over half (52%) regard personal lines will see moderate rate hardening in the next three months. This was in contrast to commercial lines where the majority of brokers (61%) regarded rates would not harden in the next three months to the end of 2006 (see fig 2 and 3). However further questioning uncovered the view that in early 2007 over 50% of brokers were expecting moderate commercial rate hardening. Again, this could be taken as symptomatic of the markets point in the cycle — that it could very gradually be on the turn. At the time of writing it remained to be seen whether ambitious rate hikes in the personal motor market, by the likes of NU, will start a trend, and whether mooted rate increases in the fleet market may prove to be the classic barometer indicating that rates may start to harden in other commercial classes in 2007.

When asked generally about their top concerns, yet again regulation was way out in front with 77% of brokers saying Financial Services Authority regulation was very important or concerning.

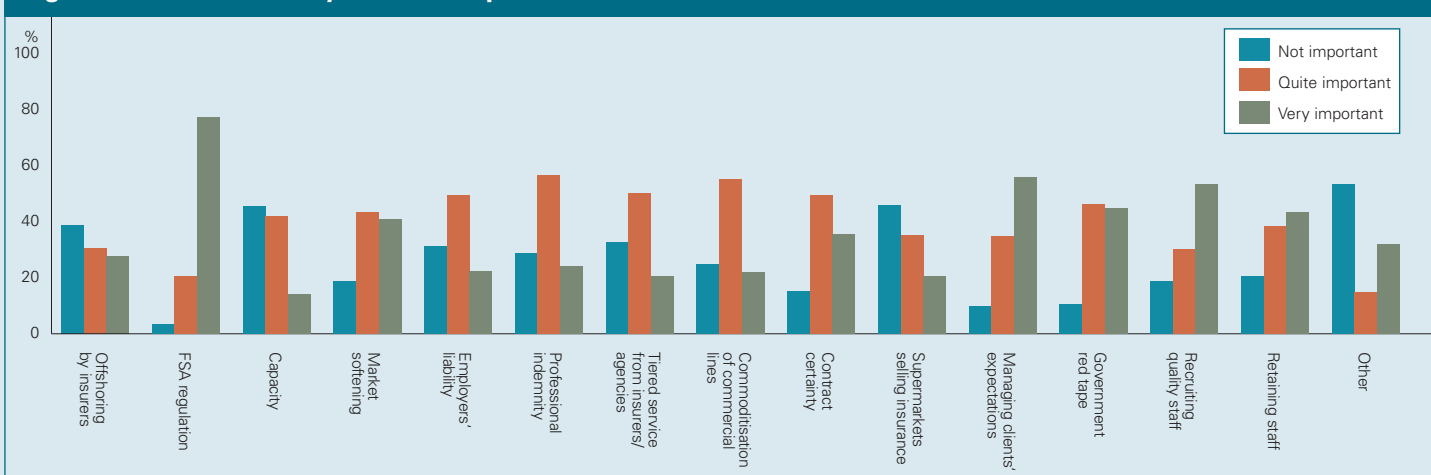
### High ranking concerns

While sentiments about the effect of regulation — how it has increased costs and the drain it has been on precious time — were typical, and will be dwelt on in more detail shortly, some did leave more positive messages about emerging benefits as they see them (see title page).

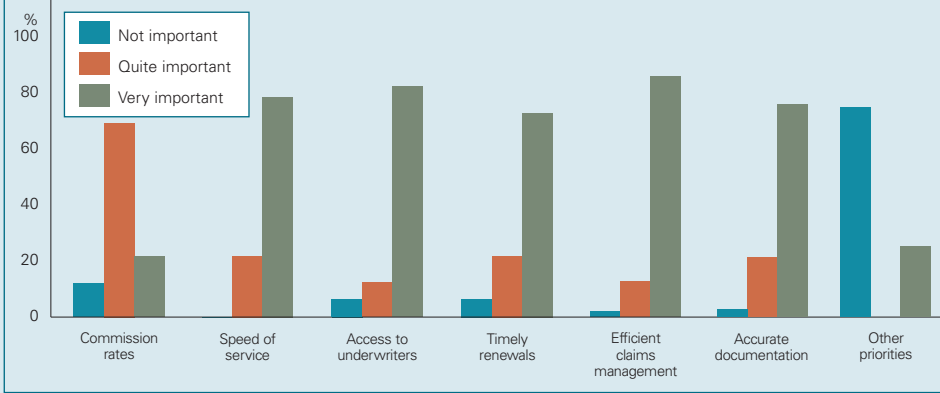
Other high ranking concerns included: the 55% that rated managing client expectations as very important or concerning, as was managing client expectations by 52%. Retaining quality staff was rated as important or concerning by 42% of brokers, while 51% said they were quite concerned by the commoditisation of commercial lines. 48% found tiered service from insurers quite concerning (see fig 4).

As mentioned, regulation remains the top concern for brokers with the level of concern remaining similar to that recorded at the last survey in July. Producing the highest percentages in the whole survey, regulation was deemed to have increased costs according to 92%, increased workload by

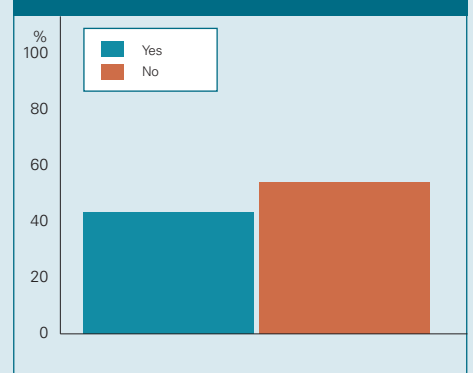
**Figure 4: Issues currently of most importance or concern to business**



**Figure 5: Priorities in terms of service from insurers**



**Figure 6: Do you use imarket?**



98% of respondents, hit profits by 81% and inhibited employees' performance according to 57% (see fig 7).

However, the regime seems to have had little material effect on the business volumes brokers handle, with 92% saying the regime had not increased volumes of business and 78% saying it had not reduced volumes of business. From the survey, some of the regimes objectives seem to be far from being met, with 83% saying it had not improved customer satisfaction and 76% said it had not improved reputation. A glimmer of hope for those objectives could be read into the minority of 19% that claimed it had improved reputation, and the 11% that said it had improved customer satisfaction. Also, 31% believed FSA regulation had improved employee performance, although 57% said it had inhibited employee performance.

Despite brokers concerns about regulation and the effect it was having on their business, when asked 'does your firm have any outstanding regulatory issues?' almost 63% said no, and only 7% said yes. When given the opportunity to mention specific areas that remain concerning, comments tended to reflect the more contemporary campaigns by the FSA, such as treating customers fairly and contract certainty. In a previous question that asked specifically about contract certainty, 49% of respondents rated the issue as quite concerning, meaning apprehension was not expressed in the

highest terms by the majority. Other bug-bears included the bureaucratic processing of unwieldy quantities of paper and the over-complexity of the client money rules. When asked in a separate question about client money, 86% of brokers said it was no longer an issue for their business. Some of the more damning comments about regulation included: "regulation is slowly strangling us all and we cannot perform as we did pre-FSA regulation"; "clients do not feel reassured by FSA and are more irritated by the amount of documentation they get and then throw away"; and "even our accountants cannot confirm that our client money calculation is correct, and they have been stonewalled by the FSA on more than one training course".

### Improved reputation

When asked 'do you consider regulation will improve the reputation of the market' the response was split between the 40% that were doubtful and the 39% that said eventually. Only 8% and 13% were certain answering yes and no respectively.

On the subject of the service brokers are receiving from insurers the majority response, 53%, thought it was staying the same. This is by no means complementary as, in an open-ended response, comments such as "the good ones are the tallest of the dwarves" and "some areas improve to the detriment of others" typify broker feeling. The smallest response, 18%, thought things were

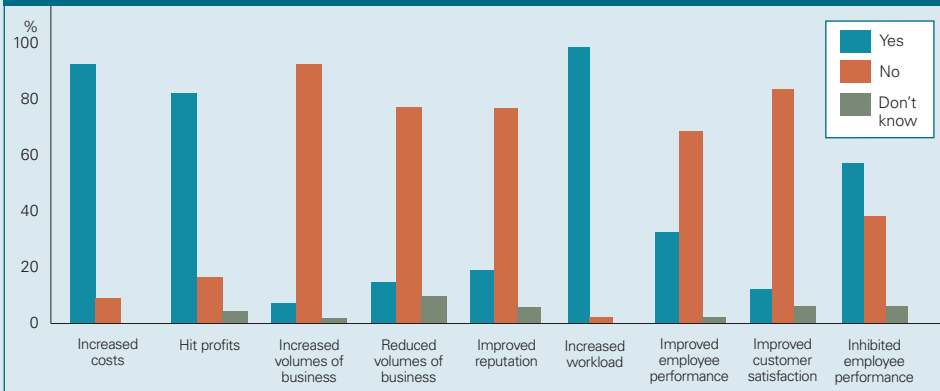
improving while almost 30% said they regarded insurer service to be deteriorating. Offshoring, being dealt with by telephone, a lack of technical knowledge and low numbers of employees were the most common reasons said to lie at the heart of the problem. For details of brokers priorities in terms of service from insurers, see fig 5.

Undoubtedly consolidation has been one of the headline trends in 2006 for brokers, and the survey revealed respondents intentions for the next quarter. A staunch 97% said they would not be acquired and 63% said they were not due to make an acquisition in the next quarter. However, 21% said they would acquire another firm by the new year. Only 2% said they intended to start up a new firm. The responses to an open-ended question about those starting up a new venture were characterised by the common desire to have a separate operation for niche business or to split commercial and personal lines into two specialist entities.

When asked 'do you use imarket?' the response, as it was in the last survey, was fairly even between yes, 46%, and no, 54% (see fig 6).

Regarding the current state of the market, the highest majority response was the 35% that were feeling fairly optimistic. The second highest response was the 32% that were neutral, while a shade under 20% were quite pessimistic. At the extremes 6% were very pessimistic but 8% remained very optimistic (see fig 8). ■

**Figure 7: Effect of FSA regulation on general insurance brokers**



**Figure 8: How do you feel about the state of the market?**

