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Changing world

Economist Douglas McWilliams on the financial crisis

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Contents

RATINGS GUIDE
With this issue – AM Best's Pocket Key Rating Guide 2009.
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Floods devastate Cumbria

A one-in-200 year weather event hit Cumbria in November. It is already expected to cost the industry over £100m in claims, writes **Andrew Tjaardstra**.

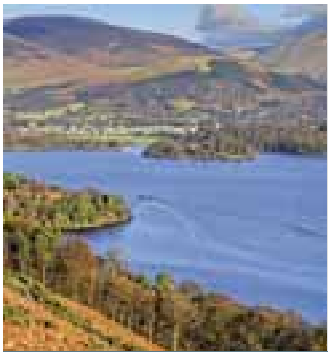
FIGURES FROM the aftermath of November's floods in Cumbria make for grim reading. More than 1,500 homes are flooded and 1,000 claims have already been submitted. Sadly, three people died, among them PC Bill Barker, who fell from a collapsed bridge into the River Derwent.

Showing the unprecedented nature of the event, the Environment Agency measured rainfall of 314mm (12.4 inches) in a day in Seathwaite, Cumbria, far in excess of the previous high mark of 279mm, recorded in Dorset in 1955.

The town of Cockermouth was the worst hit, with large sections of the town cut off. A short walk of 400 yards there became an 80-mile round trip. Other towns heavily affected included Loweswater, Brigham, Buttermere and Braithwaite. Prime Minister Gordon Brown visited the area and pledged £1m of emergency government funding.

Many industry figures considered the floods to be a one-in-200 year event – most flood protection is designed to cope with one-in-100 year events.

According to George Bentley, UK client services director at loss adjuster GAB Robins, average domestic claims will cost £57,000 – including buildings, contents and temporary accommodation – while commercial and business interruption clams will reside in the region of £100,000. Four claims were for over £1m and GAB Robins is warning of a rise in building rates of 40% in Carlisle and 20% in Hull. Contractors will have expensive travel and accommodation costs.


The River Derwent

John Bell, head of claims at Aon Corporate, commented: "The floods and severe weather in Cumbria have had an equally devastating impact on homes and businesses alike. In addition to the extensive flood damage, properties inundated with water are unlikely to be dried out before Christmas, so families face the prospect of the festive season in a hotel, a bed and breakfast or a caravan in the garden."

Calculating losses

He continued: "From a business perspective, these events could be very damaging because trading may not be possible during the festive season, when many businesses enjoy the bulk of their trading. The danger is that insurers may not take the increased revenue trend into account when looking at business interruption claims – they might try to apply a flat turnover based on previous months."

The insurance industry must now be careful not to alienate flood victims with high excesses as house prices drop and people become less attracted to living in the area. There are also calls for insurers to help replace buildings and fixtures to become better suited to flooding by, for example, introducing higher-mounted electricity wall sockets.

Andrew Brown, technical claims manager at Ecclesiastical Insurance – which has been hit by significant business interruption and property damage claims for holiday homes in the area – said: "Recent localised flood events have highlighted the potential benefits of resilient reinstatement. As an industry, we have to consider flood-resistant repairs.

"Customers caught up in one-in-200 year events will struggle to see the benefits of paying for the additional costs, so we must carefully promote these initiatives only at those customers most at risk on a cost-benefit basis."

Brown is also concerned about the wider costs of water damage to buildings. He said: "Property insurers are alarmed by the rising cost of repairing water damage, in part due to modern building methods. The use of timber framing, insulated wall panels and dry lining are all examples of the very opposite of resilient because they perform particularly badly in floods. Tackling this issue at construction-industry level, especially where development is planned within a flood risk area, must remain a top priority." **PB**

Climate change?

Although hard to prove, some have argued that climate change has contributed to the rains in Cumbria and called for more action at the impending climate change talks in Copenhagen in December. In a report issued jointly with the World Wildlife Fund for Nature, Clemens von Weichs, head of Allianz's reinsurance unit, upped the rhetoric: "Changes related to global warming are likely to be much more abrupt and unpredictable; they could create huge social and environmental problems and cost the world hundreds of billions of dollars." According to the Insurance Information Institute, weather-related natural disasters cost insurers an average of $33.1bn a year between 1999 and 2008. Hopes have risen for a deal in Copenhagen as US President Barack Obama said that he will attend the talks with a plan to cut emissions in the US by 42% by 2030.

For more on the floods, see Viewpoint on p.14 and online at Broking.co.uk

In search of lending

Emmanuel Kenning investigates if the bank bailouts have been good for brokers and their customers, as well as what 2010 might hold for financing businesses.

DATA RELEASED by the Bank of England in October in its report *Trends in Lending* revealed that lending to businesses in the UK contracted by £4.6bn in September. Despite the injection of £200bn into the economy through quantitative easing, the decrease means a total negative net flow for the third quarter of £21.3bn.

"We have a number of clients that have been affected by the credit crunch in one way or another, for example where banks have refused them credit or called in existing loans," confirmed Peter Elliott, head of marketing at Bluefin.

Marc DonFrancesco, group head of marketing at Towergate Partnership, also explained that the situation is still far from clear. He said: "It varies. We hear that banks are being helpful to existing clients yet are less able to help new ones. Banks, of course, have their own economic pressures so this help is coming at a price – and for some it can be substantial."

Lending issues

The difficulties of securing finance and dealing with bank managers was reinforced last month by the Forum of Private Business, which reported almost 80% of its members as having found terms and conditions of lending worsening over the past year. It has produced a free guide – *Get your bank manager to say 'YES'!* – aimed at helping small businesses to secure bank support. One of the authors, business consultant Olivia Stefanino, commented: "I often come across clients whose businesses are well-run and more than worthy of financial support, yet their bank managers don't necessarily see it the same way."

In these challenging times for small and medium-sized businesses to raise money, approaching a bank manager in the right way can make all the difference. Colin Hall-Tomkin, director at Jelf Commercial Finance, explained: "Banks have been more selective and the way a proposal is presented has never been more important. Banks have asked for more information than in the past; they are doing analyses on the base rate going back up to 5-6% and if people can afford to repay then."

More of the same

Hall-Tomkin believes that the next year will be similar but, if a business is profitable and generating cash, the banks will support them. Another option as a potential aid to clients looking for loans is the government's Enterprise Finance Guarantee scheme.

Hall-Tomkin stressed that independent advice that looks at the whole market can be essential in finding the right route to finance because approaching the wrong bank can lead to rejection. He highlighted: "Even if you are a great business, if you are in a sector the bank doesn't like then it will say no."

The situation for brokers is not limited to their clients – some have found themselves in precisely the wrong sector as Hall-Tomkin described. *PB* reported in June (pp.28-31) that Hastings-based broker Green Campbell Fisk had been forced by the banking crisis in 2008 to look elsewhere in its search for acquisition funding, eventually finding support from Aviva. The following month, Jerry Clayton – managing director at Woodham Ferrers-based LFC Insurance Group (pp.26-29) – also told the magazine that RBS had refused his funding requests in 2008 but that Macquarie bank, which has funded brokers in Australia, stepped in to fill the void.

One bank with a large exposure to brokers is Lloyds. Summing up the year, Bill Cooper – managing director of financial institutions at Lloyds Corporate Markets – told *PB*: "I think that trading conditions for brokers in the UK market are a struggle. Premium rates are flat and clients are downsizing. Brokers are struggling to grow their business profitability. That does not equal great market conditions to grow and for banks to finance it. We recognise there is a supply situation and we, along with RBS, have targets to lend to help the UK economy."

Requirements

While declining to give precise figures, Cooper added: "We are open for business. It is critical for us to see that a business is stable and that better management teams have a robust and deliverable plan in place. People we are talking to are saying they are looking for smaller, bolt-on acquisitions rather than transformational major ones. They are – and it's a broad generalisation – looking at one-and-a-half times brokerage. These are deals at a more realistic price."

He concluded: "No-one is forecasting that trading conditions in 2010 will improve but better brokers are saying 'if that's the case then we may be able to acquire struggling ones, stabilise the business and work through purchasing power of size and get better returns from more efficient management'."

Brokers will undoubtedly be hoping that this move towards more considered lending extends across the banking sector in 2010. **PB**

Aviva returns to corporate risk

Andrew Tjaardstra reports on Aviva's plan to become a top-three corporate player within five years.

AVIVA HAS already placed £5m of corporate risks gross written premium since returning to the multi-billion pound market with its September soft launch.

Phil Bayles, Aviva's director of trading, told *PB* that he wanted the insurer to become a top-three player within five years and that he was targeting premiums over £100,000.

Bayles said: "Corporate risk is part of our long-term strategy to grow in the areas where we feel we can make money."

Aviva has already been placing property owners' and large fleet risks but has now set up a dedicated team in its City office. Its remit is to place all risks including construction, liability and specialist for UK-based businesses with turnovers in excess of £100m, including those in the FTSE 350 and of equivalent size. Paul Sullivan will head up the division – to be called Aviva Corporate Risk Solutions – which is set to employ 50 staff by the end of 2010. The unit will compete with Allianz, RSA and Zurich to gain business from the likes of Marsh, Aon and Jardine Lloyd Thompson. Aon refused to comment on the move.

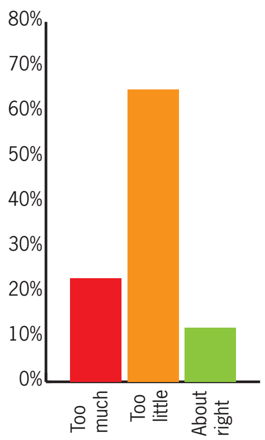
Hodges: new UK CEO

Aviva pulled out of the sector following the merger of CGU and Norwich Union in 2000 in order to concentrate on smaller risks and personal lines. Bayles said that there were no silver bullets such as price to win business in the market, although felt that the sector would welcome the return of such a large and well-capitalised player.

Aviva has had a tough year after a dramatic change of strategy implemented by outgoing chief executive officer Igal Mayer that will see the insurer lose around £1bn of premium in 2009. Meanwhile, David McMillan has been appointed chief executive officer at Aviva general insurance to work under UK CEO Mark Hodges. **PB**

Broking.co.uk online poll and results – November 2009

Was Swinton's fine from the FSA for mis-selling PPI:



December's poll question:
Is your office having a Christmas party this year?
To vote in this month's poll, go to **broking.co.uk**.

HSBC linked with Marsh

Marsh has been linked with buying HSBC Insurance Brokers, the ninth largest broker in the UK with revenues of around £150m and 16 regional branches. HSBC celebrated its 200th anniversary last year and its chief executive officer, Philip Gregory, was formerly Marsh's chief operating and financial officer for Europe, the Middle East and Africa. The broker gains recommendations from its banking arm for small and medium-sized enterprise and private clients but its main focus is on businesses generating brokerage income of between £20,000 and £250,000. Marsh's CEO, Brian Duperreault said recently at the release of his company's third-quarter results: "I think there are acquisition opportunities that would not have been available previously and, if they had been, they would have been much pricier." Marsh and HSBC Insurance Brokers both refused to comment on the speculation.

Change on the horizon

Emmanuel Kenning looks at the start of the planning process for the technology implications of Solvency II, an issue that will loom larger for brokers in 2010.

WHETHER YOU like thinking about it or not, the "comprehensive new framework for insurance supervision and regulation – introducing across the EU a more sophisticated, risk-based approach to supervision and capital assessment", as the Association of British Insurers defines it, will ultimately affect brokers.

However, there are still a lot of significant details to be resolved concerning the European Union's Solvency II Directive and debate will continue before the final rollout in 2012.

With dry data runs scheduled to start in 2011, being aware of Solvency II's content and potential implications, especially for IT systems, will become more important for brokers next year. As Laurence Baxter, head of policy and research at the Chartered Insurance Institute, pointed out: "Solvency II is an important and critical process in the regulation of insurance and is one that every part of the industry should be involved in."

"It is not going to be an Armageddon for brokers but it is going to be a direction of travel," explained Neil Coulson, partner at Littlejohn, an independent firm of chartered accountants and business advisers. He explained that insurers are going to have to prove their data is appropriate and acceptable to use, which means showing "you have good data flowing through from external sources".

In-depth requirements

For brokers, a key source of such information, what has been good enough in the past may not be so in the future. As David Roberts – head of the financial services division at Littlejohn – explained, the information flow will be "more detailed, more data, more granular, more flexible and more controlled, which is a tricky one to balance. That's largely an IT and operational problem."

It is likely that each insurer will seek to achieve a standardised format for the information flow from brokers. However, given that each insurer has its own needs, creating a standard system for the broker to deal with many insurers is a completely different topic.

Roberts said: "If you have a proprietary system that works, that is going to be the most economic way of dealing with this by a mile. Because you are not alone, it will be a primary problem for that software provider to deal with these issues. The individual businesses should not take the cost of doing this if they can avoid it."

The increase in granularity of data is naturally expected to come at a price for brokers. "They might end up with more boxes to fill out because they want more granular data to pass on to the insurer and that's where they'll see it," Coulson added.

Furthermore, proving that the information is correct and that data gained from web sales, phone sales and face-to-face sales has been properly organised could also become an issue. Roberts remarked: "The insurers will want to have a reason for saying we believe that data is correct; it won't just be because you've supplied it, it will be because you've supplied it and we know how you've controlled it all."

The more of an insurer's business a broker is responsible for, the more pressing the issue. Where it might hit first could be managing general agents and those brokers trying to sell new schemes. Those unable to show they can deliver the necessary information are unlikely to be appointed, on the other hand those that can will be in the box seat. Roberts urged: "This is something you are going to have to think about. Talk upstream to find out if there is anything you can do to your commercial advantage within your relationships."

Communication

Talking through the situation with key relationship contacts is a viewpoint supported by Kevin Roberts, sales operations and strategy director (commercial) at RSA. He said: "On a day-to-day basis, Solvency II is likely to affect insurers much more than brokers but it is still important that brokers understand the nature of the legislation."

While there is clearly no need to panic, nobody should confuse the situation with the belief that they will be unaffected. There is no one-size-fits-all solution and, because of the uncertainty about the regulations, individual tailored planning will be key to being best prepared once the issues are finalised.

Coulson concluded: "Have an IT strategy that is constantly reviewed – you cannot not have a plan. That plan has to be investing in your IT, website, people and systems. Any business that wants to survive has to continue to invest but you have to make sure you have enough slack – a bit of money, a bit of time – so you know where you can start." **PB**

Solvency II tenets

Solvency II will apply to all insurance and reinsurance firms with gross premium income exceeding €5m or gross technical provisions in excess of €25m.

- Solvency II will set out new, strengthened EU-wide requirements on capital adequacy and risk management for insurers with a view to reducing the likelihood of an insurer failing.
- The strengthened regime should reduce the possibility of consumer loss or market disruption in insurance.

Its central elements are:

- Demonstrating adequate financial resources (pillar one)
- Demonstrating an adequate system of governance (pillar two)
- Supervisory review process
- Public disclosure and regulatory reporting requirements (pillar three)

Source: Financial Services Authority

Tomorrow's commercial lines today

Emmanuel Kenning finds out where technology is taking the market for commercial lines insurance.

ACCORDING TO consultants Watson Wyatt, commercial lines insurers are increasingly applying techniques employed by personal lines insurers when setting premiums.

The firm has launched Pretium 3.1, an adaptation of software used previously in personal lines, which includes a function allowing layered claims models to be combined, giving an overall cost of claims. James Tanser, senior consultant at Watson Wyatt, said: "The main driver is a better understanding of risk and underlying levels of cost. You can use more information than just looking at a table in order to price. The move came as the quantity of information insurers are holding has improved with more reliable and better data."

Advance on all fronts

The consultants are not alone in attempting to change the commercial lines technology market. Allianz, with software house Edge IPK, has developed QuoteSME, an online – and imarket compatible – software suite that integrates with Allianz's systems.

QuoteSME is designed to ensure that brokers receive instant quotes and documents; with four million variables and up to 30 million combinations, the software's approach is deeper than a standalone quote-and-buy system.

Its combination of layered rating technology and data sets gives, according to the insurer, wider product range and acceptance offerings. Currently, it offers each of Allianz's Complete-brand SME non-motor products and over time the program's reach will be expanded.

David Martin, head of small and medium-sized enterprise affinity and broker markets at Allianz, explained: "These models could take you into some pretty high-end commercial business. With a granular pricing engine, trade may

become irrelevant because the customer scoring methodology is completely different. You could find at granular level that a postcode is more important than the trade."

Martin continued: "It takes what we would regard as the more routine tasks away from the underwriters and gives brokers quicker access to highly skilled underwriters who can make decisions. What we are not trying to do is to take away customer contact."

The need for technology to marry with underwriter access has also been a key motivator for MMA Insurance. As reported in November's *PB* (p.10), its Broker Online service, which offers a dedicated team of underwriters in Reading, is well regarded by brokers. Each broker has a named contact that can deal with referrals and, where suited, make changes to the system immediately. Derek Plummer, commercial director at MMA, said: "Swift delivery from insurer to broker to client is paramount for relationships and efficiency. At the end of the phone line, we have experienced underwriters who ask the right questions and don't work from a script. The conversion rate on business involving a referral is over 50%."

Cross platform

One area that has yet to truly flourish has been comparative functionality. Ken Smith, commercial underwriting manager at Fortis, stressed that the insurer is committed to giving the broker choice and believes that imarket is moving technology towards helping commercial lines. He cited packaged products as one example of Fortis' commitment and imarket's capabilities, confirming that "in 2010 we will be full cycle".

Smith explained that program code issues and the complexities of making multiple brokers' information available to many insurers had meant that commercial lines felt slow to progress but, through work done on structure and data directories, the future looked to be one full of choice for the broker. "It is getting us to the stage where the means of communication can be narrowed down to the most cost-effective for brokers and insurers," he said.

For brokers, one of the most common software complaints is re-keying. Graeme Newman, business development director at CFC Underwriting, commented: "Insurance lends itself best to invisible distribution. Bizarrely, the insurance world has been slower than other sectors to embrace new technology although, in the UK, we are at the forefront compared to other countries."

The company has devised a system to remove not only re-keying but also inputting in the first instance. It offers a bespoke package to brokers with groups of micro-SME clients aimed at reducing or removing the time taken by processing where the risk is repeated and the premiums are low. In essence, the company builds a white-labelled system that sits on the broker's website, ensuring that clients do the typing and so leaving the broker at the heart of the operation. Newman explained: "The system is branded as the broker's and customers type in information so the broker can spend their time on relationship management and advice."

Technological advances across the board are attempting to rescue underwriters and brokers from unnecessary tasks, leaving them free to concentrate on where they can best add value. It is a feat worth pursuing. **PB**

Steep penalties for corporate manslaughter

With the first case under the new *Corporate Manslaughter Act* to be heard early next year, **Andrew Stokes** and **Duncan Reed** argue that brokers must make their clients aware of risks that could close their businesses.

IT MAY be the season of good cheer but organisations found guilty of corporate manslaughter next year will not be so happy to discover the size of fine they could face if last month's draft guidelines are adopted. The recommendation is that companies breaching the *Corporate Manslaughter Act* should pay substantial fines of seldom less than £500,000. In addition, those organisations found guilty of lesser health and safety offences causing death could be fined at least £100,000, rising to several hundred thousand pounds. Brokers must ensure that their clients are prepared.

Previous recommendations had suggested linking fines to organisations' annual turnover but the recent guidelines have decided that this would not be appropriate, given the different financial structures and circumstances of organisations in the private, public and voluntary sectors. Instead, they have indicated some minimum thresholds for fines. These are likely to have a greater financial impact on smaller organisations which, as the guidelines acknowledge, could put them out of business.

While the guidelines recognise that both commercial and public sector organisations should be held to the same behavioural standards when considering the level of fine, the effect on the provision of services to the public will be a relevant consideration that might justify a different approach to determining the fine.

Visible punishment

Publicity orders for offences under the *Corporate Manslaughter Act* are likely to be imposed in virtually every case. The size of any press advertisement publicising an offence will be linked to the organisation's size and a notice should also appear on the offending organisation's website for at least three months. For larger organisations for which reputations depend on strong health and safety performance, these sanctions may cost their businesses more than any fine.

While the fine itself will not be covered by insurance, all businesses must ensure that they have adequate levels of cover for the legal defence costs, which are likely to be significant given how contentious these cases are expected to be. This is even more so now that defence costs for successfully defended cases are limited to Legal Aid rates, so only a proportion of such costs will be recovered.

Brokers must ensure that the extent of their clients' cover is adequate. This should include both the organisation itself and individual directors and officers that may become embroiled in these serious health and safety investigations and that remain at risk of individual prosecution for gross negligence, manslaughter or health and safety offences that target individuals.

The guidance is subject to consultation and should be finalised in the New Year, in time for the first trial of an offence under the *Corporate Manslaughter Act*, which is due to take place in February 2010. If the defendant – Cotswold Geotechnical Holdings, a small family-run business – is convicted, this will be the first test of whether or not the minimum threshold of £500,000 will be applied, even to small businesses. **PB**

Andrew Stokes, partner and head, and Duncan Reed, associate, safety, health and environment group, Beachcroft

Checking up on sick leave

Q An employee has been sick for a long time and is unsure of when they will return. I am unconvinced of the validity of their absence. What can I do and how do I combat my business being affected like this again?

THERE ARE a few options open to you in this instance. When you suspect that a sickness is not genuine, you can consider dismissing an employee for fraud although you will need to show that you have carried out a proper investigation and have reasonable grounds for believing that their actions are false. This can be difficult and costly, involving independent medical practitioners.

Remember that statutory sick pay falls under the auspices of Her Majesty's Revenue and Customs because if you have good grounds for believing that your employee is fraudulently claiming SSP then you could consider contacting HMRC, which may be willing to investigate. An investigation by HMRC is a good way of prompting people to re-evaluate their situations.

Unfortunately, generous sick pay schemes can be exploited by employees whose recovery often coincides with the ending of their sick pay entitlement. If you fall into this category, reducing these for new starters may be the first place to start when trying to reduce the cost of sickness to your business.

If an employee has been off sick for some time then you may have the option of dismissal on medical capability grounds. However, you need to exercise caution with employees who have been signed off long-term sick by a medical professional; you would need to have justifiable grounds for contemplating dismissal and have forewarned the employee that their continued absence may result in dismissal.

Ask your employee for permission to contact their GP – or specialist if they have one – for a report on their condition and how long it is likely to last. Another factor to consider is the *Disability Discrimination Act (1995)*: an employee suffering with long-standing health problems is likely to be considered as disabled under the DDA. In such cases, employers are under more onerous obligations in managing and assisting such workers. Employers must make what are defined as reasonable adjustments to assist an employee's return to work; what is reasonable will depend on many factors, including the size and financial resources of an employer.

Employers should refer to general and occupational health practitioners to establish whether or not an employee is suffering a disability.

You can then invite the employee to a capability meeting to discuss the report and to consider options including whether any reasonable adjustments can be made and the possibility of suitable alternative work.

If the medical evidence supports that they will be incapable of work for the foreseeable future, that no reasonable adjustments can be made, that no suitable alternative work is available and that you have a genuine need to replace the employee on a permanent basis then you should be in a position to give notice of termination on the grounds of capability.

The government does plan to change the current GP's sick notes scheme that is generally unhelpful, providing little detail of an employee's condition. Hopefully, the introduction of the replacement 'fit notes' will assist employers in assessing their employees' health and putting them back to work quickly. **PB**

Peter Done, managing director, Peninsula

Compliance is not an option

Q My firm's new accountant has pointed out that we have not been doing our client money reconciliations properly. This has now been rectified but the accountant is insistent that we notify the regulator of the breach although we are now solvent. Surely it is better to just keep quiet?

THE WORDS 'we are now solvent' suggest that, at some time in the past, you were not. This is a notifiable breach and, in addition, your accountants have a whistle-blowing duty as well.

It seems clear that the previous accountants were either not competent or just did not understand the Financial Services Authority rulebook. Since the beginning of regulation in January 2005, it continues to be the case that many accountancy practices simply do not understand the rules or what is required of them.

While the previous accountants have landed you in this position, remember that FSA regulation works by approved persons giving an undertaking to the watchdog that they will ensure compliance on behalf of the firm, so it is with you that the buck stops.

It is inappropriate to speculate over what action the FSA might take and, given that you are solvent now, it is difficult to predict what sanction the regulator will apply. From what you say, no client's position has been prejudiced and all insurers were paid. However, at the very least, it is likely that the FSA will look closely at your firm and at other aspects of your compliance.

It is often our experience that a lackadaisical attitude in one area of compliance leads to other areas of non-compliance, particularly where there is not a positive or supportive management attitude towards it.

Going back to the breach, you must make full disclosure of it alongside complete details of what you have done to remedy it and the steps that you have taken to ensure that this cannot happen again.

In view of the seriousness of the breach, I assume that you have not used a competent compliance consultancy or that no member of staff is sufficiently trained that they could realistically be referred to as compliance officer. I strongly advise you to take steps to put this right.

A decent compliance consultancy firm will be able to carry out a top-to-bottom health check on your firm and flag other areas of concern before the FSA finds them.

Seek a recommendation from a friendly competitor or visit the website of the Association of Professional Compliance Consultants apcc.org.uk, which contains a list of members and their areas of competence.

The website also gives guidance on how to choose a compliance consultant.

Do it now, the future of your business depends upon it. **PB**

Ian Ritchie, director, RWA Group


Andrew Tjaardstra

Editor's comment

A year of trial and tribulation

AS 2009 DRAWS to a close, we can reflect on a year that has challenged everybody. The acquisition frenzy before the change in capital gains tax in April 2008 seems an age away, and now that tax change appears trivial given what we have experienced since September 2008.

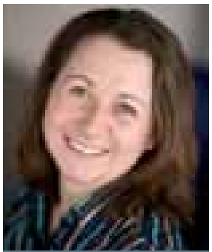
Economist Douglas McWilliams argues in the *PB* Interview (pp.24-27) that a recession can be a good thing, making sure businesses do not become fat or complacent. Unfortunately, some became so bloated that the taxpayer had to support them: banks such as Northern Rock, RBS and HBOS were so badly managed that they needed to be bailed out by the government. They lost the meaning of risk taking, giving us the worst recession in the UK for a generation.

McWilliams has a point. Almost every business manager this year would have questioned unnecessary expenditure, focused on core businesses and profit generators and invested in areas where they see future growth. Unfortunately, even well run businesses have had trouble securing funding from banks, something they once could have taken for granted (see p.6). Also, many industries – such as airlines – have awful trouble making changes quickly: British Airways has gone from a record profit to a record loss in the space of a year.

Brokers are lucky to have a relatively stable income stream and thus have had the opportunity to revise plans without dramatic losses in income; they should be in better shape for a nascent recovery in 2010 than most.

Making homes flood resilient

Insurers are expected to replace what customers had before their losses, yet in flooded areas, such as now in Cumbria, surely both insurers and customers would benefit from using suitable materials and fittings that are better able to cope with water damage. Clearly, costing is an issue and many negotiations would need to take place to work out how best to achieve this, though everybody would benefit in the long run. **PB**


Sara Greenland

Viewpoint

Catastrophe plans to the fore

IT REMAINS TO be seen how the insurance industry's response to the floods in Cumbria will compare with its efforts almost exactly one year ago. While journalists may berate politicians for describing these events as unprecedented, in this instance its use is not about political blame-avoidance: you have to go back to 1844 to find events that parallel those unfolding in Cumbria. The relentless rainstorm was caused by a prolonged flow of humid air that originated over the sub-tropical waters of the Atlantic.

The tide inevitably washes up at the industry's door but, while parallels will be drawn, this is not the same as last year. Despite the unprecedented experiences in Cumbria, the events in Yorkshire and the Midlands in 2008 and the catastrophic flooding in June and July 2007 have etched on insurers' and loss adjusters' minds the need to anticipate such events far faster.

In 2007, while residents and business owners ejected sludge from their properties and towns, the industry set about improving surge and catastrophe plans designed to mobilise response to future situations. Even as the first headlines appeared about Cumbria, there was a sense within the industry that it was responding – and from a better position. Indeed, until 2007 there had not really been catastrophe plans to deal with events of this magnitude in the UK.

The industry has been on a sharp learning curve. A week before the Cumbrian deluge, loss adjusters in several firms were ordered not to drink at the weekend and many insurers and brokers implemented co-ordinated, outbound calling strategies to check on commercial and personal policyholders.

The media hype on such disasters makes the moment of truth for those affected with their insurers very public. Hopefully, the pre-emptive measures of the industry to assist Cumbrian victims will vindicate the effort poured into the plans designed to deal with these freak phenomena and leave a high watermark in the public's estimation. **PB**

Sara Greenland, associate director
(personal insurances), Sterling

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Bright future

Emmanuel Kenning maps the route to success for the UK's leading commercial vehicle insurance broker.

SITTING IN THE head offices of Brightside Group, home to 550 employees, it is incredible to think that the starting point was the formation, with just four employees, of Commercial Vehicle Direct in April 2001. Within a year the headcount for Group Direct, as it was then called, had risen to 40. Ever since, the company has powered on to success after success announcing sales of over 56,000 commercial vehicle policies in the first half of 2009. It has diversified into areas such as medical reporting, and premium finance but insurance broking is still responsible for two thirds of its revenue.

With a current market value of £91m and profits before tax of £3.2m in the first six months of the year, it is quite a broking success story. Martyn Holman, chairman of broking at Brightside Group, explains the idea that led to the creation of the company. "Commercial vehicle insurance wasn't automated, you needed rating guides – it was a nuisance product," he says. "The concept was by using Mysis [now Open GI], you could sell it as per personal lines and via a call centre. We were effectively the first people that did it and stole a march on the market."

Holman continues in a relaxed manner:

> "The thought of becoming bigger but picking up £50m of debt is not that appealing to us frankly."
>
> **Martyn Holman, Brightside Group**

"In 2003 we took over the AA's book of [van insurance] business and dropped it straight in CVD. That really was what helped boost the numbers quite significantly."

Holman had joined from Marsh in 2002 to set up the commercial division, ONE Business, in Southampton. With engaging confidence, he explains that with tradesmen coming to the company for their van insurance, it soon found its clients had needs for liability insurance, goods in transit cover and often shop covers. The extra division allowed it to meet these needs and cross-sell beyond the initial core offering and to branch out into fleet insurance.

For commercial fleet, Holman cites Highway and LV as being insurers they work closely with and names AIG for commercial package and Groupama for liability.

"We have always been big on service delivery in terms of connectivity with an insurer," he says. "We primarily only want to deal with EDI. In the commercial space we like web-based offerings that fit in with our system."

The acquisition of Torquay-based broker Bryce Owen Davies in 2004 allowed for the range of cross-selling to develop further via the Motor and Home Direct Insurance Services in the personal lines space which has built steadily and sold nearly 19,000 policies in the first six months of this year.

In June last year, in a financial move designed to speed access to the Alternative

Investment Market, Group Direct performed a reverse takeover of Brightside and secured investment from Aviva which now holds 9.1% of the company and Stena Investments which holds nearly 8%.

"Strategically it [the listing] has added more pressure," Holman admits. "In terms of day to day there is no difference. You are still doing your job and you have still got numbers to hit."

The company has been protected in the recession by, as Holman defines it, playing "in the S of SME". He adds: "There are not many big construction jobs at the moment, they are laying people off. The guy who works for them is an electrician. If he is not working on the site what is he going to do? He is probably going to go on his own for a while. If he has got a van, he needs to insure it and that's where we've been protected."

Looking forwards a continuing focus on cross-selling is the key driver for the business. In June this year, the company moved all its technology onto the Open GI platform as the previous use of three systems had become a hindrance. Holman reflects, "We used to think that we were very good at cross-selling but we could never really tell." He explains that a crude postcode match two years ago in the commercial sector showed of 80,000 CVD customers only 5,000 had been cross-sold a commercial product: "It is a good news, bad news situation. You look at it and think 'we are nowhere near as good as we thought we were, that's rubbish'. But then you think 'but actually that is quite encouraging because we've still got all of that we can do'."

Longer term

The intention for 2010 is to achieve double-digit growth organically with a like for like increase in the profit figure, irrespective of any strategic acquisition. Back in 2004 came the formation of Southern Rock Insurance Company in Gibraltar. The insurer underwrites the eBike, eCar and eVan businesses marketed under the eGroup banner of brands. Bringing them into the group will allow further cross-selling opportunities. He says: "What I can definitively say is that is where we are going to be spending first." The company has already brought eVan as a client book out of the insurer and put it into the plc and now intends to do exactly the same with eCar and eBike. Holman continues: "The next stage is to turn those products from Southern Rock being the sole provider into limited panels. Effectively the e-products will be Brightside's online trading arms and the broking businesses will be the more traditional routes to market."

BRIGHTSIDE GROUP

Director Martyn Holman, chairman of broking

Established 2001

Number of staff 550

Lines of business commercial motor, liability, goods in transit, commercial, personal lines

Locations Bristol, London, Manchester, Southampton, Torquay

GWP £85m

With frank but friendly precision, he delivers his belief that these routes need to incorporate online sales matched with the opportunity to speak with a person should queries arise. Brightside's strategy is reliant on quality control.

He says: "What we have done on eCar since Easter is to check every licence and every proof of bonus, which has had a stunning effect. Around 20% of what goes on comes straight off either because a licence is not submitted or, when it is, it is not remotely linked to what it said it was then. Likewise with the bonus proof. And then from a further 20% [of policies] we get an additional premium because there has been an element of non-disclosure but at a lower level."

Often more online sales equals less staff but Brightside's approach means growing the company's headcount. Holman explains: "It drives the cost of the model up. You need staff and the big negative is you need people for an online model, however that is more than covered by the additional premiums. The flipside is that the 20% you cancel improves the underwriting result."

Buying

Perhaps surprisingly, given its model, Brightside has been linked with local rival Jelf. "A lot of it comes from the fact they are local and we are local and everybody knows each other," says Holman. "The bottom line is that the core part of what Jelf does is not what we do and has never been what we wanted to do."

After a thoughtful pause, he is happy to stress that if a deal was on offer that involved £50m of debt for the potential of £100m of upside then the company would proceed. However, Holman is keener to stress the management, which is currently undertaking a fundraising process, is adverse to the idea of going into debt.

He says: "It has never been our preferred option and to be perfectly honest still isn't. The thought of becoming bigger but picking up £50m of debt is not that appealing to us frankly. A venture capital route has never been something that we wished to consider and I don't think ever would be. If we were going to go that route it would be about getting the money ourselves that we could then control."

Watch this space. Having grown so quickly and with a clear leadership vision, there is still plenty of upside for this innovative broker. **PB**

Bridging the customer relationship void

Rachel Gordon investigates how brokers can use technology to stay closer to clients and to spread knowledge across the business.

ASK ANY BROKER if they would be interested in a process that brings together useful information about customers, sales, marketing effectiveness, responsiveness and market trends and many will show interest. Yet if you want to see a broker's eyes glaze over then mention three letters: CRM.

Perhaps this is because customer relationship management conjures up images of hugely expensive and complex technology, of vast servers and techies, of call centres and financial services conglomerates as well as nonsensical jargon, all so far removed from the world of the high street broker. However, CRM in its broadest sense is relevant for all brokers and there are already some pretty smart operators in the sector.

Brokers wanting to implement a formal CRM strategy, or improve what they are already doing, need to first take some time to decide what they want to achieve. In some cases it may make sense to bring in an outside consultant, though talking behind closed doors can only go so far because it is critical that, if a new way of working is introduced, there is buy-in from staff along with plenty of communication and training.

Adrian Potter, senior consultant at management consultancy Winchester White, comments: "CRM is nothing new but if it's an area that brokers have previously discounted then it may be worth considering again; the cost of technology is no longer a barrier to entry. It is surprising that more brokers do not make use of as simple a tool as business contact manager, part of Microsoft Outlook: it's low cost and an easy way to organise customer information."

Key CRM questions to ask

- What do you want from CRM?
- Do you need new technology to manage your data better?
- If you make an investment in technology, are you also then prepared to make the associated organisational changes?
- How will you communicate a new CRM strategy?
- How will you train people to use it?
- Will you give staff incentives to use the new system?

However, he adds that the most important factor, as alluded to by numerous experts, is that CRM is only as good as the effort made by employees.

Potter highlights: "A customer might contact you about insuring a horse box; based on this information, it is then possible to look at insuring the horse and offering personal accident cover. It's about talking to customers and showing that there really is a difference in personal service.

"Simply repeating the same message at renewal is pointless: that customer may no longer have the horse. Circumstances and needs change and using out-of-date information to try to sell can alienate customers and at worst, make it more likely they will go somewhere else. You have to constantly refine data and then know which customers are going to bring the highest return. My advice is to not bother investing time or money in CRM if you can't be bothered to do the work."

Andrew Linnell, director at Hansen Young Consultants, adds: "Mention CRM and brokers will switch off but they need to take time out from the day job to think about what they are doing in this area.

"Get CRM right and you should easily be able to add at least 10% more business." He says that CRM is about "working on the business rather than in the business" and involves looking at the whole service

> “Get CRM right and you should easily be able to add at least 10% more business.”
>
> **Andrew Linnell, Hansen Young Consultants**

proposition: sales training; assessing ways of winning more business from existing customers; and working out which staff incentives will work.

Another consultant, Kate Penrose, director at Salient Solutions, agrees: “CRM does not need to be difficult, it’s about making use of information technology but also having the personal touch. Also, rather than having to buy new technology, there could be ways of managing data far better on existing systems; brokers need to make sure their staff are trained on using them though. I also believe in proper incentives too for where staff are working with data and cross-selling.”

She adds that a broker may need to take expert advice where it has made acquisitions: “Having compatibility between systems for CRM is a huge issue and if brokers are in this situation then they should be taking expert advice on resolving it.”

People-centred approach

CRM does not have to involve an IT spend as David Perry, sales and marketing director at consolidator Cullum Capital Ventures, explains: “People think CRM is synonymous with software and that for brokers it’s not relevant: we decided to build a strategy around our people.”

He explains that, in each of CCV’s branches, a CRM champion was appointed, typically who had oversight of processes and could recommend ways of working more closely with clients. The company remains on the acquisition trail and has 29 offices and around 700 employees.

Perry gives an example: “In each business we asked the CRM champion to look at the ways in which they were communicating with clients and to make sure that the information we held was up to date. For example, in one case, a couple had a 17-year-old son who was added onto the parent’s policy and when he went away to university this information was not added to our records. This meant our quote appeared both expensive and inaccurate. No wonder people can want to find a cheaper quote elsewhere.”

He explains that it can work in having a culture in which broking staff can talk to customers: “Allow them to spend more time chatting with customers and then ensure that information is accurately recorded. Along with improving the quality of data we held, we also rolled out a training programme to branches called Six Steps to Successful Selling.”

CCV’s head office surveys all employees to see if they prefer this way of working. Perry comments: “I was a bit sceptical because I know that people can’t always be bothered with staff surveys but, incredibly, we found that everyone thought it was a great idea; it meant they had more support in their jobs and they liked the new way of doing business. We’re keeping the CRM champions and this is now an ongoing project for us.”

Yate-based the Jelf Group has made numerous high-profile acquisitions in recent years and commercial director Phil Barton explains:

“CRM is a key part of the business strategy. You need to take an holistic view: people are going to be working in different locations and have different specialisms but they also have to work together.”

He explains that Jelf uses Goldmine, a business contact management system, which he says is good value and can be used in conjunction with existing software, such as Acturis (for general insurance) and First (for financial services).

Barton says: “You need a database for all your clients and prospects but it goes beyond just capturing data. There has to be a relationship: too many brokers are focused on just selling products rather than the consultative approach. This means that someone who is seeing one of our financial advisers might also need high net worth household.

“Or, a broker could be talking about liability or property security with a commercial client but could also ask about key person cover. There are natural crossovers and we think it is important to reward people for introducing clients to other parts of the group – you don’t want people working in silos and this is a good way of growing organically.”

Broking software houses have traditionally been focused on back-office facilities but CRM is also becoming a differentiator. Transactor, for example, works with large contact centre-based brokers such as Adrian Flux. The software company offers CRM facilities as part of its standard offering, providing tools to allow users to capture data and add new screens to existing categories within the Transactor environment. The company's managing director, Ray Vincent, says that the sector still has some way to go, though: "In terms of technology, brokers are nowhere near as advanced as the banking and credit card industries and, while some know they want to improve, there is confusion as to what they want. What type of management information are they looking for? Do they want to monitor staff? How is it going to tie into marketing activities, including e-mail and text messaging? There is a lot of potential here but it is early days."

While it may appear that CRM is more suited to high-volume commoditised business, it would seem that commercial brokers are, in fact, taking the discipline more seriously. London-based HSBC Insurance Brokers is a case-in-point: the business is corporate focused, having sold its SME book to Axa, although it still has an agreement with its banking arm to broker for its small and medium-sized enterprise customers.

HSBC product manager Adam Gray says: "We wanted to take a more sophisticated approach and, around two years ago, we went to the market to talk to companies that could help us. We were already with SSP and were open to using another provider for CRM but it came up with the best solution: we were able to add a module and not have to do any re-keying."

Head of sales at HSBC, Alastair Torbet, adds: "We were using different databases across the business and we needed to become joined-up; we wanted existing clients as well as prospects. Using the system has become a fundamental part of what we do.

"It has brought us significant benefits: you need to know who you are targeting and to develop a pipeline but any system will only work if you provide the right support and training. You cannot presume that a new system is going to be easy to use without this."

Gray says that the system now acts from cradle to grave and that it is also linked into back-office facilities like invoicing.

Meanwhile, Torbet says that the strike rate since CRM was implemented is excellent. Importantly, HSBC requires its sales and other relevant staff to use the CRM system and that their remuneration is linked to providing accurate data, both in loading and updating, to the system. Tornet adds: "It will only work if there is excellent information; we check who is providing this and also use this to assess bonuses. You need to have a strong incentive." Client information is focused on UK trade but it may be extended to international, London market business.

Integrated solution

Kevin Child, director at SSP, comments: "Brokers are realising the benefits that effective CRM can provide, both in terms of managing their prospecting activities and protecting their existing customer bases. A good CRM module eradicates the cost of a disjointed spreadsheet solution and increases the quality and quantity of the broker's communications, leading to better business performance."

Child continues: "By adopting their broking solution provider's CRM facilities, brokers are able to run their entire operation from prospecting through to claims from their broking software. Alternatively, there is the option to integrate their existing broking

E-mail marketing

Using e-mail marketing is a straightforward and effective way of increasing business. Somerset-based broker Higos is to begin a new campaign next year focused on the advantages of using local branches.

Marketing manager Neil Wyatt explains: "E-mail marketing is going to be a key part of CRM for us. Typically in broking there is a void in speaking to clients: you win the business and then don't speak to the client until renewal. We want to change that by talking to clients in a timely way, providing them with useful updates and an invitation to get in contact."

He says that clients will typically be contacted through e-mail two or three times a year, communications that will include topical information: "This might be about travel insurance, for example, or explain the situation with swine flu and how it should be part of a travel policy."

Each of Higos's 13 branches will target its own customers. "Being seen to come from a local branch is important. Many people don't want to deal with a faceless organisation and each of our email newsletters will contain a photo showing our people in that branch. It's about being personal."

Wyatt says that e-mail marketing is cost-effective: "Typically, it costs around 1p for each e-mail, so it's a lot better and more immediate than the post." Higos uses a web program called Enabler, which is a browser-based e-mail marketing tool that allows companies to deliver targeted messages to audiences and then track and measure the response. There is nothing to download onto users' PCs and there is no impact on existing IT systems.

"There is a view among smaller brokers that CRM is going to cost them a lot of money. Yet the cost of software has dropped and the entry point may be lower and easier than they think." Mark Bates, RDT

solution with a full-blown CRM suite, which can work well; however, if it doesn't have a two-way link then the company could end up with another data repository, which will mean re-keying data at some point. Choosing the right CRM solution for their businesses will allow the brokers to rapidly record validated new business opportunities and exploit cross-selling opportunities."

Personal lines broker BGL Group recently announced that it had selected Sword Ciboodle to implement an advanced CRM system. The business software provider has two million customers and a workforce of more than 2,000 people covering a wide variety of brands including Budget and Bennetts. It also counts aggregator comparethemarket.com among its customers, along with affinity arm Junction, which provides cover for brands such as the Post Office, Marks and Spencer, RAC and HSBC.

Legacy handling

Sword Ciboodle was selected by BGL Group to deploy its CRM platform, which allows new brands and products to be incorporated into the group's portfolio.

The software will also provide a standard interface for the company's contact centres in Peterborough, Coventry, Sunderland, Peterlee and Cape Town, South Africa, ensuring that employees have access to relevant customer information regardless of whether customers choose to interact by phone, e-mail, internet self-service or post.

The BGL project will be delivered in phases: the first is scheduled for the fourth quarter of 2009 and will see the delivery of a solution for handling new business and sales enquiries for BGL Group's home and motor insurance products. This phase will include processes-handling functions such as quote creation, quote conversion, cross-selling and correspondence creation. Subsequent phases will see the addition of customer service processes, including mid-term adjustments, renewals and cancellations.

The project will provide the BGL Group with the ability to customise business processes and rules based on variables including brand, product, marketing source, customer and adviser profile, giving the company a stronger selling point in the outsourced insurance provider market.

The product will be fully integrated with the firm's proprietary internal insurance systems as well as contact centre integration points such as computer telephony and web self-service.

Ian Henderson, operations director at Sword Ciboodle, comments: "Technology should be there to boost service and, in my experience, it is best not to take a big-bang approach. You should introduce new systems brand by brand so that they can properly bed in." He says that brokers now want to go beyond online quotes, that they also want online policy management.

He adds: "There are still brokers out there operating from limited systems on green screens but we are also finding a lot more interest in CRM from brokers now. Sword Ciboodle also works with Admiral, which has a number of different brands and wanted better integration and cross-selling opportunities."

Henderson argues that, for brokers that are serious about having advanced systems, now is the time to invest: "BGL is ahead of the curve in this area but brokers can benefit from advanced technology if they make full use of it."

Holistic offering

Looking ahead, Henderson believes that so-called life portals may become websites of choice for consumers. Life portals are websites that offer access to a range of complementary services that, alongside motor insurance for example, could also include areas such as the Driver and Vehicle Licensing Agency, HPI vehicle registration checks and car finance services. "It's going to be about integration and there could be opportunities for brokers that can add-in their services and extract data."

Richard Rickwood, BGL's

associate director for IT applications and development, says: “Brokers may need to look beyond traditional software houses to boost CRM systems; Sword Ciboodle sits on top of our existing IT. We think this is a vital area to invest in because business is about being agile and responsive to change. We conducted a thorough market assessment and then did a lot of testing but the basics remain: you need good, underlying data and any system must be easy for staff to learn.”

Insurers are also taking CRM seriously – and not just in direct insurance. Allianz recently announced that it was using provider Salesforce.com to enable its teams to share key broker information.

Paul Upton, chief executive at Evolution Underwriting, gives an insurer’s view: “Our IT platform, Stingray, contains a CRM package we use extensively that allows us to manage our broker relationships. We have around 300 agencies, detailing e-mail and direct dial numbers. We know how much business we get from that broker and even their likes and dislikes.”

Evolution’s field staff enter details after every broker call and visit. Upton comments: “This is certainly something brokers could do...too many simply win business and then wait for renewal.”

Upton continues: “There should be no barriers to CRM in terms of cost because packages can be web-based and low cost. What matters is making the effort. There are a lot of brokers that say client information is in their head or is in cards held in their cars; keeping and updating data so that it is of the highest quality should be done as a matter of course. It’s a way of both protecting existing and winning new business. The broker that ignores this could lose out to another, more switched-on firm.”

There is also a big brother aspect to CRM: managers can know who field staff are seeing and what business is being done. “When people are motivated, [surveillance] is not the primary purpose but it can be useful. Having data on a central system also helps other employees have up-to-date information if they need it,” says Upton.

Meanwhile, Graeme Newman, business development director at CFC Underwriting, comments: “Making full use of Microsoft Outlook and Business Contact Manager is one of the most obvious ways for brokers to improve CRM. In a basic office package, brokers are probably using a small percentage of the software that could help them, so obtaining training in this area could be time well spent.”

CFC Underwriting has its own Microsoft system and Newman says that CRM has been a core focus since he joined almost two years ago. The former Deloitte consultant says: “I wanted our data to be a lot more granular. Which of our brokers were giving us most business? With new brokers, what were our hit rates and how much more business were we doing online? This is the sort of information you need to develop business.”

Staff compliance

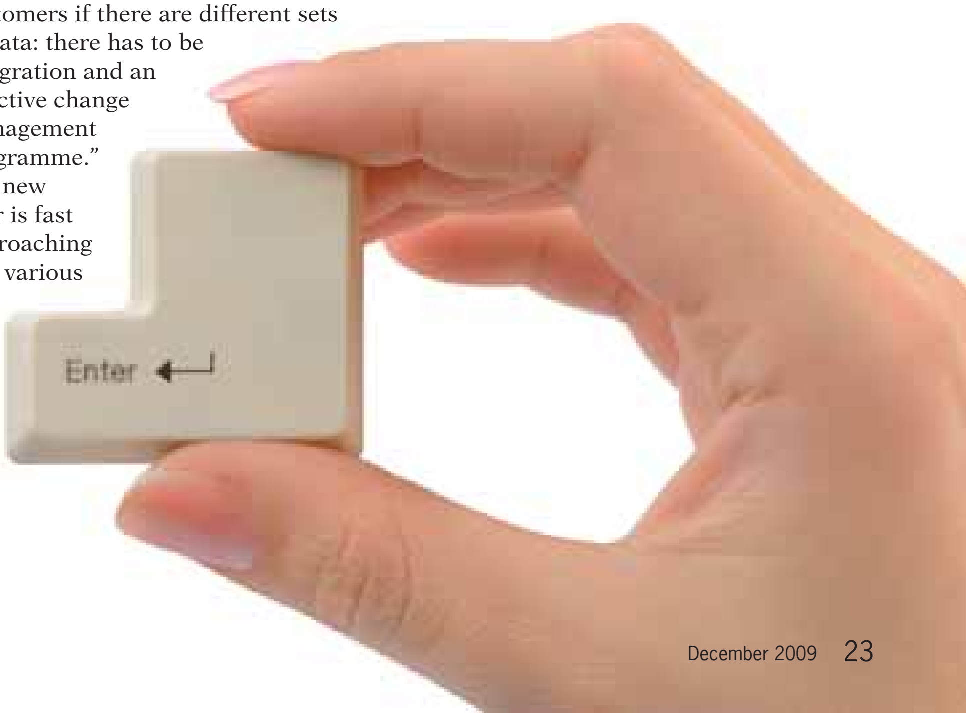
Newman agrees that employees need to buy into the idea of CRM in order for it to succeed. “Training is absolutely crucial: you need to implement any system in an orderly way and show why capturing data and using it is so important.” He says that brokers ending up with different systems as a result of acquisitions need to face the challenge by bringing in some independent and expert guidance if data is held in different locations: “You can’t know your customers if there are different sets of data: there has to be integration and an effective change management programme.”

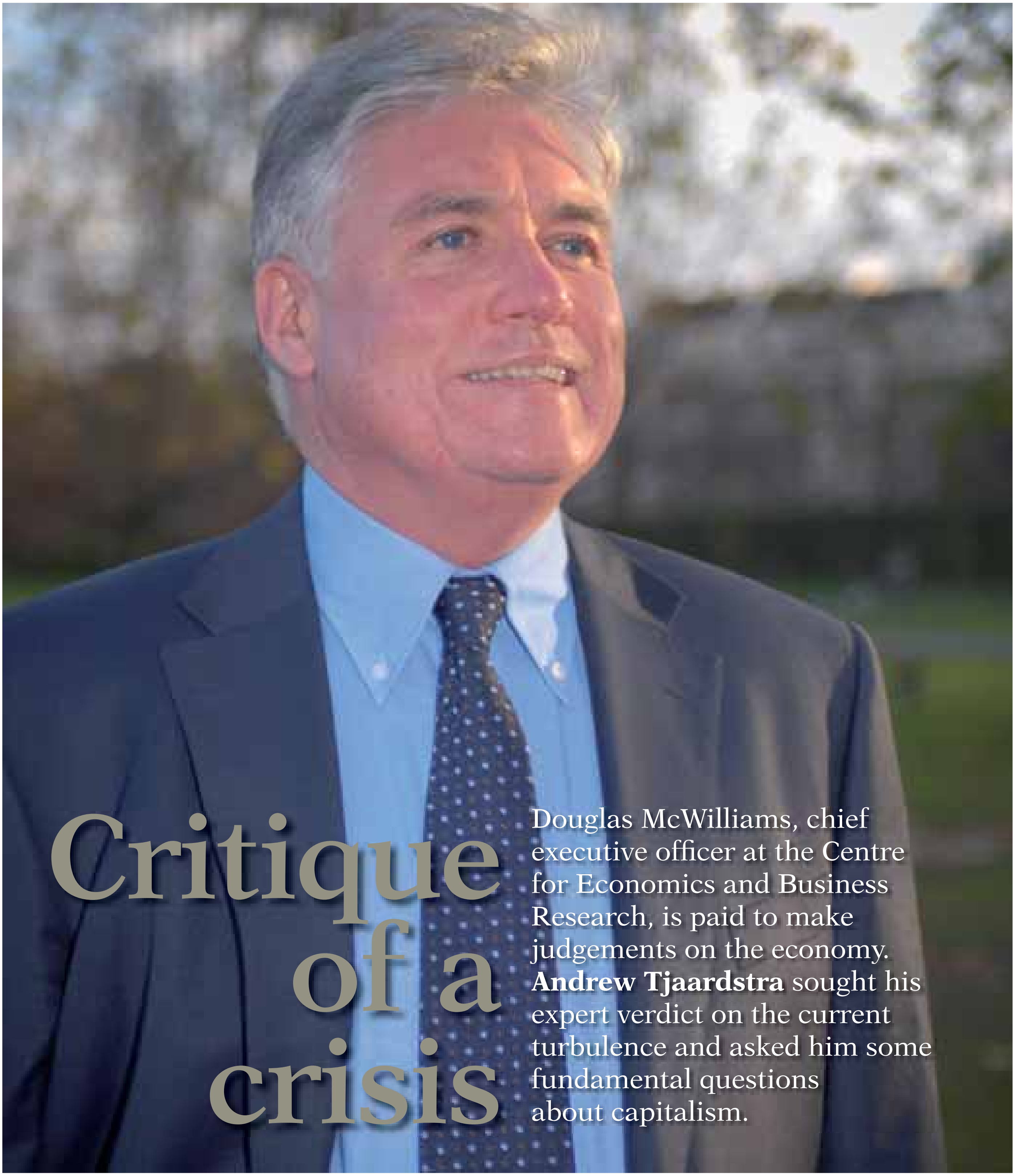
A new year is fast approaching and various experts agree that now is a good time to put business processes under the spotlight. There is little doubt that brokers with desks awash with scribbled notes could do a lot better if they had a formal CRM strategy in place.

Mark Bates, chief executive officer at insurance software supplier RDT, believes that brokers need to take a fresh look at the subject: “There is a view among smaller brokers that CRM is going to cost them a lot of money. Yet the cost of software has dropped and the entry point may be lower and easier than they think. A few hundred pounds could see them up and running.”

Bates adds that Salesforce.com also provides an affordable CRM solution on monthly rental terms; its customers include Aon and retailer Halfords, which, although not a broker, does act as middleman between insurer and policyholder when a bike is stolen.

Bates continues: “If brokers want customers who care about service rather than just the lowest price then it makes sense for brokers to know what those customers are like. Brokers are often too predictable as to when they will contact their customers: if they know more about them then they should be able to do it more often and at the right time.” **PB**





Photography: Fiona Compton

Critique of a crisis

Douglas McWilliams, chief executive officer at the Centre for Economics and Business Research, is paid to make judgements on the economy. **Andrew Tjaardstra** sought his expert verdict on the current turbulence and asked him some fundamental questions about capitalism.

Armed with Roger Bootle's *The Trouble with Markets, Saving Capitalism from Itself*, I feel confident taking on the might of McWilliams' first-rate mind. I am versed with knowledge about surpluses in China, monetary policy and Bootle's assertion: "The crude model of the market system has profit as the driver but, in practice, even if profit is the ultimate motivation, it is probably best not to aim for it directly. Rather like happiness, it is most likely to emerge as the by-product of pursuing something else for its own sake."

Enough of Bootle, after all McWilliams once was selected for a job both had applied for at the Confederation of British Industry – and he has not even read his book. Instead, McWilliams, former chief economist at IBM, comes across as bullish about capitalism and even argues that a recession can be a positive for the system. He says: "Recessions generate change and sunk costs get written off."

Following several years of turbulence, McWilliams puts the economic crisis into perspective: "The world is undergoing its greatest ever economic change…bringing an extra two-thirds of the world's population…inside the global economy. It is not just the scale but also the speed: four times the number of people in the industrial revolution and six times as fast. When you have a change of that magnitude, it is very difficult to know where you are. Greenspan had this problem – how much was as a result of change and how much was a speculative bubble."

Alan Greenspan, as chairman of the Federal Reserve from 1987 to 2006, was at the epicenter of the financial crisis. He claimed that central banks had lost control as global long-term securities approached $100tn but admitted that interest rates had remained too low for too long. He also appeared to praise the rise of sub-prime mortgages, having said in April 2005 "where once more-marginal applicants would simply have been denied credit, lenders are now able to quite efficiently judge the risk posed by individual applicants and to price that risk appropriately". Many have since questioned the rationale of lending to sub-prime individuals at all.

McWilliams gives Greenspan a mixed review. He says: "He [Greenspan] was probably right with low interest rates up until 2005 but the rest was a speculative bubble. The problem was exacerbated by the impact of the Chinese and emerging countries. Cheap goods pushed down inflation but it also raised primary product prices such as oil; you were borrowing from the future with cheap goods. Inflation was kept artificially low with cheap products and monetary policy was too expansionary. As a result, when inflation emerged, it was too late to control the primary product prices; they should have burst the bubble sooner."

Philosophical position

I then ask a fundamental question about the economy: is boom and bust a natural by-product of free-market capitalism? McWilliams doesn't think this is necessarily so, claiming that the current crisis is more to do with monetary policy and that, had there been more of a free market then there would have been greater corporate responsibility. However, he concedes: "Human beings are always going to have cycles of exuberance and depression. Whoever is running things will get cycles and I don't think it is do to with capitalism. Capitalism actually counteracts this because, when things are left unregulated, people take more responsibility for their own decisions." Many would disagree.

He believes that the crisis has monetary origins with social legislation (US president Clinton forcing lending for sub-prime mortgages and poor legislation from Labour) in part leading to a lack of competition.

> "Human beings are always going to have cycles of exuberance and depression."
>
> **Douglas McWilliams, Cebr**

McWilliams adds: "A cosy cartel of people were able to make some amazing mistakes by looking over their shoulders and saying 'so and so down the road is doing it, it must be okay'. Another problem was that retail banks owned investment banks; the cultures are very different but it is amazing how pay becomes an issue. The more traditional banks thought they should earn similar salaries and therefore the risk-taking culture spread."

McWilliams is particularly concerned, as a former trustee of a pension fund, about legislation designed to introduce more employees' rights to pension funds, which could see companies having to bail out non-performing investments. He explains: "If things go well, the fund goes up. If bad, the companies have to cough up. Therefore, they have invested in more risky assets.

"Pension funds have taken on more risk than is optimal, partly because they have been advised by actuaries that have encouraged them to buy bonds with high guarantee returns such as mortgage-backed securities. They haven't analysed them independently and relied on the ratings agencies, the box tickers. Typically, you would have to spend £50,000 on each bond to analyse them properly. The problem was that sub-prime mortgage-backed securities got treated for investment purposes but all the individuals defaulted."

Actuaries have diversified over the years, some setting up fund management departments. McWilliams argues that they are there for the wrong reasons, stating that "they don't understand investment management risks" and also attacks them on their more traditional roles by saying that they have failed to understand the changes in life expectancy – "they keep thinking it is going to stop rising and only in the last four years have they realised that it's not". FTSE 100 pension fund deficits are now at record highs.

He adds: "We had two unprecedented bull markets post-war. Over the period, investment returns have been pretty good. What it meant is that you could hide actuarial errors."

In defence of the actuaries, only a small number advise specifically on which investments to choose and many investment advisers made the same mistakes.

Interest decisions

Much of the debt-fuelled acquisitions in broking and elsewhere were driven by low interest rates, which are set to keep inflation in check. McWilliams argues that, when the Bank of England sets interest rates, it needs to think more about asset bubbles.

He says: "The danger of inflation is more an asset price phenomenon rather than consumer goods or services. However, asset price inflation takes a long time to move into general price inflation. You have to think about inflation today, in three to four years and in 10 years. Perhaps you have to have as many instruments as you have targets – you only have one. You should flex on the shorter-term target to have a wider target and try and focus on the medium to long term as well. It is complicated, though, as you only have one bullet for three targets. Interest rates were held too low but, if they had been higher, we might have had negative inflation."

He prefers the term "negative inflation" to deflation; he believes deflation is a dangerous word because of its connotations and says that inflation often goes negative because of a range of factors such as tax. Retail prices inflation went negative a couple of months ago, for example, partly because mortgage rates went down.

Time for another big question. Is there such a thing as an ideal growth rate for an economy? He replies: "Growth is not the only objective in life. Having said that, organisations need to grow to give them dynamism and efficiencies. There is something intrinsic in us that needs growth, although in a pure economic sense it can provide things at a cost – often it is not met. Life is a lot easier with growth because people have rising expectations. Countries where they have had problems – often lack of growth has come in and there are pressures where too many are buying too small a slice of the cake, leading to inflation."

"There is something intrinsic in us that needs growth, although in a pure economic sense it can provide things for us at a cost."
Douglas McWilliams, Cebr

He also says that, for sustained success, "it is absolutely critical to be independent. If you follow the herd then you get caught and become the subject of exuberance; you build the herd into your calculations".

So is a steady rate of growth the best way forward? He replies: "If you get used to a steady rate of growth you get a bit fat and complacent. You need the odd cold shower and shock. Growth is inhibitive to change; the recession has forced it to happen."

Recessionary positives

On the same day I interview McWilliams, the *Financial Times* carries a report suggesting that half of companies were likely to introduce a pay freeze in 2010. Surely recessions aren't 'good', though? He comments: "Clearly, recessions cause a lot of pain – some companies that are operating perfectly can't get funding. However, the shake-up does have healthy as well as negative points. Many people in businesses don't re-examine what they do often enough in times of growth."

He continues: "Businesses are always reinventing themselves and one of their greatest resources is management time, so peripheral parts of companies are more likely to be sold off."

McWilliams believes that a "profitable corporate sector" is a must and that a low rate of pay inflation is not necessarily that bad for the economy. Unfortunately, he sees little expansion in the private sector for jobs and a certainty of job losses in the public sector with unemployment rising to three million. He believes that the public sector has failed to adapt to technological changes over the decades and that there is far too much waste.

The rise in debt has arguably been a contributing factor to the crisis, though he thinks that companies have not necessarily been at fault here except by buying at the wrong time in the cycle.

The UK has suffered from a lack of investment in businesses, a trend that McWilliams sees continuing: "The drive for mergers and acquisitions occurred because companies have been remarkably profitable over the last 25 years, partly because there has been a seven-fold expansion of the labour supply in this time."

He continues: "Now, the temptation is to buy assets on the cheap and investment is going to struggle."

McWilliams agrees that pro-cyclic acquisition – when asset prices are on the up – is the wrong way around and that this is when it happens the most. He recommends that companies should be

Douglas McWilliams and Cebr

As a widely known and respected commentator on UK and world economic trends, Cebr chief executive officer Douglas McWilliams founded the London-based Centre for Economics and Business Research in 1993. He is known as one of Europe's leading economists and is widely quoted in the international media.
He was chief economics adviser to the Confederation of British Industry between 1988 and 1992 and chief economist and head of business environment analysis at IBM UK for two years from 1986. In the 12 years to 1986, he held several posts at the CBI, including deputy director of economic affairs.
McWilliams has given formal evidence to select committees of the Houses of Parliament and has advised senior politicians, including chancellors, shadow chancellors and other senior ministers. He holds an MA in philosophy, politics and economics and an MPhil in economics from the University of Oxford; he was visiting professor at Kingston University Business School (1988-98) and a Member of Council at the Institute of Fiscal Studies (1993-2001).

bought in the downturn and investments made in the upturn, though often companies do the opposite.

He concedes: "From a tactical point of view, many companies took on too much debt. Private equity was new and the availability of cheap money came when the profitability of companies was at its highest." However, he argues: "Even today you get over a 10% rate on return on assets employed in industrial and commercial companies (excluding the North Sea). Borrowed money is potentially still good but it is limited not by price but by quantity, especially with the banks not willing to lend to each other."

He also defends loan-to-ebidta (earnings before interest, taxes, depreciation and amortisation) ratios as fine given the low interest rates. He argues: "The appropriate ratios depend on the long-term rate for interest and therefore are very different, with low interest rates. The ratio depends on what you can afford to pay."

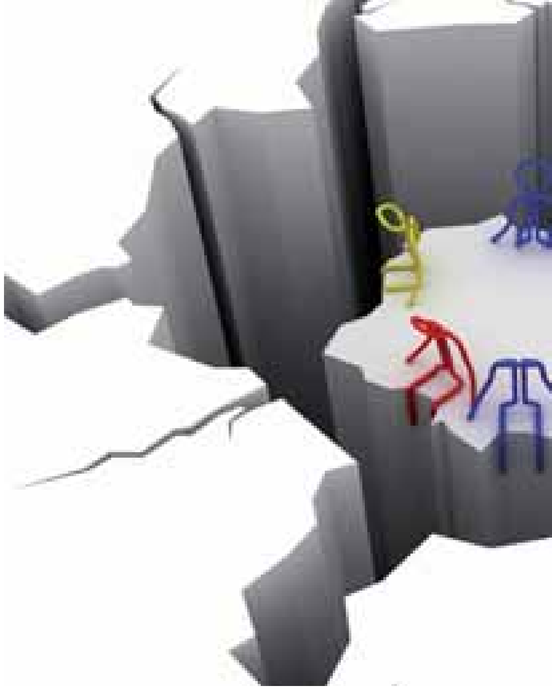
Lack of competition

McWilliams believes that there may be a more fundamental problem. He comments: "The problem is lack of competition among banks and the low quality of lenders – box tickers rather than risk takers. They overextended their lending when times were good and pulled it back too much when things went sour. To have a set of circumstances where legitimate companies can't get their debt rolled over by banks that have made foolish speculations is outrageous. I don't blame the corporate executives – these were unforeseeable errors.

"I don't think the debt finance model is bad. If you want to get away from it, one thing you have to do is reform taxation; the fact that debt is tax deductible encourages its use. Ultimately, the people who receive interest on the debt do pay tax but quite a lot of it ends up in a tax haven anyway."

Meanwhile, Cebr is mooting a W-shaped recovery with economic growth at 1% for 2010; faltering in the early part of the year after a recovery in Q4 2009. McWilliams is calling for the current rate of VAT to be held for another six months and, ideally, a reversal of the 50% tax rate.

As recovery arrives, will the politicians, bankers, actuaries, investment advisers and economists of the future be able to help us avoid another similar crisis? History says no, though now is an historic opportunity for us to recognise that change is necessary. **PB**



2009: stepping into the unknown

A near-catastrophic global banking collapse and the worst recession in living memory have all affected insurance broking. **Andrew Tjaardstra** reviews the big stories from an unprecedented year.

WOW, WHAT a year. Across all modern economic history (dating back to around 1800), what has been termed as the Great Implosion could rank alongside the Great Depression as one of the worst financial disasters. Without huge government support, we may well have witnessed the collapse of the banking system – and presumably capitalism alongside it.

Even Goldman Sachs, the institution considered smarter than all the rest, required a $10bn government bailout; its chief executive officer has recently been in the *Sunday Times* as part of some uncharacteristic public relations in which he professed to do "God's work". (Admittedly, some of this sequence of events happened at the back end of 2008.)

Trading and financial markets have been under greater scrutiny than ever and insurance has been no exception. Luckily, so far, AIG has proved the only exception in the industry, although it was once one of the biggest companies in the world. The fallout in the UK has been limited as brokers have managed the situation well. AIG has reported solid financials, with its strong relationships with a relatively small number of players proving advantageous, although it has been hit by job losses as rivals have pounced.

The main impact of the crisis was on the consolidators, which were hit as debt became a weighty burden and no longer in vogue. Towergate's owners had to inject personal capital back into the firm as it rearranged banking covenants with 23 lenders, while Oval has raised money from RSA – reportedly £9m – to pay back debt. Meanwhile, Giles, Jelf and Bluefin almost stopped buying companies altogether as they felt their way through the economic pain. Jelf's share price has dropped considerably and is languishing after one of its investors 3i – under 3i QPE – also fell into trouble with former Marsh CEO Bruce Carnegie-Brown leaving.

Across the board, brokers have suffered as businesses cut costs, fail to expand or simply fail. Small and medium-sized businesses have also been trying to save money on insurance and have become more aware of their buying options. For example, many companies have been checking prices on the internet and at other brokers to see if their intermediaries are giving them good deals.

What price loyalty?

When this happens, the holding broker has been running into trouble, especially as the differential in pricing between new business and renewals has been a fundamental problem throughout 2009. Many brokers have told me that they have never seen such a big difference, which has led to more business moving around than ever. No insurer will admit to being the cause of the problem – the larger insurers blame new entrants and smaller carriers – but whoever is to blame, the churn is creating a poor environment for any attempts at rate hardening – and ultimately confusion for brokers and customers alike.

Grant Ellis, chairman at Broker Network, told *PB*: "It has been an extremely difficult year and I have never seen such a big gap with dual pricing. However, many have become more focused and have made their businesses better."

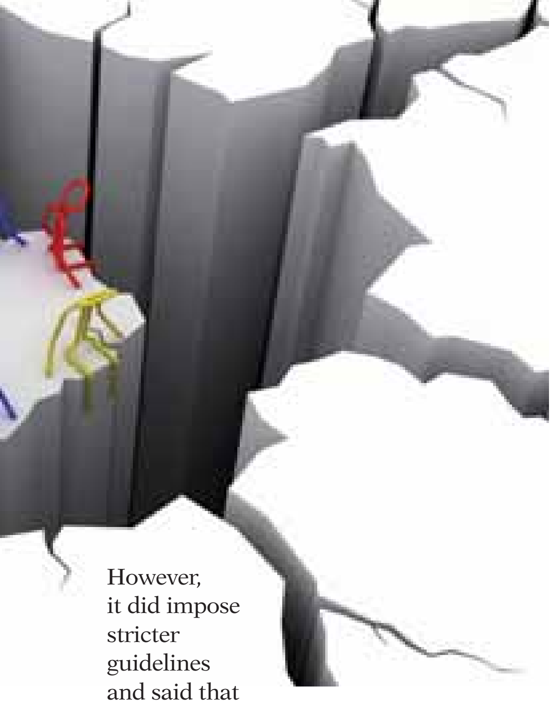
This year has been one of looking internally, removing bits of unprofitable business and ensuring that there is little waste. Businesses had arguably become complacent or arrogant as they were swept along by a boom that appeared to have little downside. Instead, the economic crisis has allowed good businesses to reassess and build again.

Jerry Clayton, managing director at Essex-based LFC Insurance Brokers, told *PB* in June: "We are asking our people to dig in. Everyone is aware of the situation." Clayton, though, is running a good business and secured funding through Macquarie bank to expand. Traditional sources of funding were certainly harder to obtain this year as local banking relationships became more centralised and less business-specific.

Brokers have been cutting costs and 75% of them (according to October's *PB* Sentiment Survey) have made staff cuts, pay freezes – or even pay 'choices' – and cuts to pension contributions. Arguably a little late, Swinton has decided to introduce a 2010 pay freeze for its 5,000 staff. The company insists that it has nothing to do with reconciling up to a potential £8m for mis-selling payment protection insurance after being fined £770,000 by the Financial Services Authority.

Change

The year started with the industry still taking in the decision from the regulator not to introduce mandatory commission disclosure, a great relief for many.



However, it did impose stricter guidelines and said that brokers will have to disclose commission on request and that it wanted more transparency over intermediary chains. Steve White, head of compliance and training at the British Insurance Brokers' Association, welcomed the decision as "proportionate and appropriate" and warned brokers to take a proactive role in ensuring the FSA would not need to take further action.

A battle has been raging over how the Financial Services Compensation Scheme should work for brokers, especially because they were required to help compensate the failure of Bradford and Bingley. Both the Institute of Insurance Brokers and Biba lobbied the FSA hard and it is reviewing the situation. Meanwhile, the FSA is also reviewing annual fees for brokers in an attempt to make them more transparent.

Of course, the future of the FSA itself is in doubt after the Conservatives called for the organisation to be removed and replaced by a Consumer Protection Agency, with oversight for regulation moved into the Bank of England. We will have to wait until after the general election – presumably in May – to see what will happen.

Meanwhile, there has been huge change at the UK's leading insurer, Aviva. Pulling back from the consolidators and managing general agents, Aviva also sought to reduce commissions and increase rates. Predictably, Aviva has lost a huge amount of general insurance business, and managed to annoy brokers across the spectrum. However, its strategy of creating the Broker Independence Group and Club 110 is reaping dividends, though these clubs need to be maintained over the next five to 10 years to prove to independent brokers that the firm is serious about the channel.

The television adverts directing the public to brokers is one example of this but intermediaries will need further reassurance, especially because sales and marketing director John Kitson is leaving the business next year (to go fishing) and CEO Igal Mayer is moving to take the group's top job in the US. Mark Hodges, who takes over both general insurance and life from 2010, will have his work cut out.

Consistency appears to be key in troubled economic times and the likes of Allianz, RSA and Zurich have given assured performances in the economic storm. However, Axa's chief executive Philippe Maso has had a hard time trying to reposition Axa, with poor underwriting results, a large reduction in premium and a broker arm bought at the height of the boom. Axa also caused a stir by pulling out of the credit hire trade body, complaining of unfair practices and charges.

Rates

The overriding theme for insurers this year was a lack of rate hardening as smaller players such as QBE, MMA, Brit and LV gained market share. Andrew Torrance, chief executive at Allianz, warned the market in November that "satisfactory rate strength increases… are further away than ever" in commercial lines. Once again, his results were propped up by £100m of reserve releases.

As 2009 ends, many will be pleased to see the back of a tough and unprecedented year. Planning for 2010 will be challenging and there will be some shocks along the way; at least you have had some practice for what many consider the 'new normal'.

Here is hoping that insurers get their act together and act collectively to ensure that underwriting profits are prioritised over gaining market share. **PB**

2009: key events

February: RSA cuts 1200 jobs to save £70m; Zurich announces a £295m profit in the UK for 2008; Fortis enters a £50m capacity deal with UKU part of Primary – taking over from Axa; Giles is third in *Sunday Times* Buyout Track 100.

March: The Bank of England reduces UK interest rates to an historic low of 0.5% and announces a programme of quantitative easing.

April: Towergate renegotiates its banking facilities; NIG announces the closure of branches in Cardiff, Chelmsford, Exeter, Leicester, Liverpool, Newcastle, Reading and Redhill.

May: *PB* reaches its 15th anniversary; Peter Cullum, executive chairman of Towergate, is voted the most influential person in the market over that time, Andrew Paddick is runner-up.

June: Patrick Snowball leaves Towergate for Australia's Suncorp; Jelf chairman David Walker says we are living in "strange economic times" in company results; Aon announces an audacious £20m-a-year sponsorship of Manchester United from 2010-2011 for four years; *Insurance Age* reports nearly 4,500 jobs in insurance have been cut since the start of the credit crunch.

July: David Slade, chairman of Perkins Slade, wins Achievement Award at the British Insurance Awards.

August: Aviva announces a general insurance net written premium fall of £0.5bn for the first half of the year; research from Biba reveals that 58% of brokers claim to have had to fight harder to secure claims payments from insurers in the recession.

September: John Kitson, sales and marketing director at Aviva, says he will quit in March 2010; Ian Gosden, managing director at Somerset-based Higos, wins Broker Manager of the Year at the UK Broker Awards.

October: Swinton is fined £770,000 by the Financial Services Authority for mis-selling PPI and introduces a pay freeze for 2010.

November: RBS is required to sell its insurance divisions within four years to pacify the European Commission; Oval reports loss before tax of £0.4m for year ending May 31, down from £4.6m the previous year – EBITDA rises to £18.7m; Finsure set to exit premium credit market; Brit creates a new Netherlands holding company and announces plans to re-list as a Dutch firm in December.

Taking the pulse of PMI

With a growing population and challenges ahead for government spending **Emmanuel Kenning** asks what the future holds for the PMI market.

THE LATEST FIGURES from the Association of British Insurers state that only 12% of the population (7.3 million people) is covered by some form of private healthcare cover. The figure represents a record level but there remains clear scope for the market — currently worth nearly £3.5bn in annual earned premium — to expand further. This is particularly the case as the rate of increase in investment in the National Health Service is unclear, despite both the Labour and Conservative parties being committed to not cutting spending in real terms from 2011.

Mike Izzard, chairman of the Association of Medical Insurance Intermediaries, comments: "Any person who is financially aware can see the next years will be challenging for the government to fund the NHS to the level it wants. The public knows that the NHS will take care of them in an emergency but the fear is in the other areas, such as waiting to see a consultant."

Into this breach comes private medical insurance. The opportunities are clear but, as Izzard points out, for non-specialists the situation is not straightforward. He says: "It is difficult to get an agency with all insurers as you have to produce a minimum production level and it is not as easy as it was five years ago. To be a success you have to be knowledgeable about what the client wants and technically proficient in comparing products."

Kevin Murdoch, senior proposition development manager at Aviva – the third-largest provider of PMI – also thinks NHS funding worries have affected the PMI market positively and will continue to do so. He says: "Funding of the NHS has turned thinking around."

The insurer has found that, despite the challenges of the recession, it has continued to see growth ahead of targets in PMI and ascribes this to its flexible approach. Murdoch continues: "We can be flexible as we have a modular approach where small and medium-sized enterprise schemes can increase and decrease levels of cover. Flexibility is really important as people naturally want more cover for their money."

Dieter Clausnitzer, head of corporate healthcare at Oval, explains these flexible ways to help clients manage their budgets, like opting for delayed cover that starts only if the NHS cannot meet the needs within a set time period. He says: "People are looking at larger policy excesses. You can source a plan for an amount by changing excess, increasing exclusions and having a six-week delay clause."

Competitve

Claire Ginnelly, head of business development at Groupama Healthcare, agrees that offering brokers the ability to be as flexible as possible has been key to helping during the downturn. She highlights the importance of this given that Groupama is quoting to more brokers on the same piece of business, and that brokers are finding it hard because there is more competition.

She says: "It is taking a lot more time to hang onto the business we have. We are not finding lots of customers looking to scale down benefits, they are looking to reduce premium."

The decision to decrease premium has come instead of a removal in schemes. She explains: "It is a difficult message to staff to take away elements of a policy. PMI has always been a price-sensitive market. Insurers have always had to be competitive, not always the cheapest. Now the proposition has to be good and you have to be very competitive on price."

Marco Bannerman, head of intermediary management and affinity sales at Bupa, confirms that multiple requests for the same information are occurring more regularly than ever before. "Intermediaries are coming under review," he comments. "Multi-appointments show clients are desperate to get best value for money."

Overall, he recommends that brokers continue to focus on value for money: "To advise clients you need to understand their needs: do a thorough fact find and ensure the client has appropriate budget — don't focus purely on price but best value for money."

To offer flexibility, Bupa, which sells 70% of its corporate business and 28% of its individual offering through the brokered channel, is able to remove elements of care, for instance cancer cover.

Number of private medical insurance holders

Private medical insurance (2008): 6,224,000
of which corporate policies 4,571,000 (+5.3% on 2007)
of which individual policies 1,653,000 (–0.6% on 2007)
Healthcare Trust Arrangements (2008): 1,111,000 (-2.22% on 2007)

Source: ABI

> "As NHS budget is potentially used for older generations, an ageing population could mean more moves for top-up and self-pay schemes."

Kevin Murdoch, Aviva

Bannerman says: "We have the flexibility to remove it but are not being asked to by many clients. Not giving cancer cover is going to be the hardest conversation the human resources people can have with their staff. What we are seeing is an increase in excess and a reduction in outpatient allowance."

It is widely accepted that private medical insurance was slow to be affected as the economy went into recession and will be slow to pick up when it comes out. By definition, clients need to lose staff or cease to trade before they shrink or close schemes and will only increase coverage after the recession has ended.

Mike Blake, compliance director at Northwich-based PMI Health Group, confirms the specialist broker has also noticed the effects but, overall, schemes have tended to shrink rather than disappear. He explains: "We get clients to see the medical insurance cost in the round: for instance removing one element can inflate the price of a different element. Clients end up reducing overall costs by reducing numbers but the effect is the unit cost goes up." To combat this Blake believes quality of service is key: "Best service means a good supportive service, it is a claims-intensive industry, you need to be able to support clients through claims procedure and provide administrative support for membership changes." Looking forward, Blake feels 2010 will be more of the same with a reduction in numbers within, rather than the removal of, schemes.

Further figures recently announced by the Office for National Statistics highlight the potential for growth in the PMI market. According to ONS, the population of the UK could rise to 71.6 million by 2033. This growing and ageing population — ONS also pointed out that there are currently 1.3 million people aged 85 and over, by 2033 this is predicted to rise to 3.3 million — will undoubtedly put extra pressure on NHS budgets.

Fergus Craig, commercial director at Axa PPP Healthcare, points out that the ageing population will be an important element but is not the only one. He says: "Cost is going up higher than inflation by 6-7% a year. An ageing population is a problem for the NHS, but high unemployment and tax rates going up also give us a problem."

The complicating factor of rising costs is that in previous recessions inflation has led to high interest rates which, in turn, have led to an economic contraction. In the "credit crunch", the Bank of England has in fact lowered interest rates to 0.5%, which is bad news for savers. He continues: "Older people living off savings are finding interest on savings is disappearing which creates a squeeze on disposable income. It is going to be a tough couple of years and I expect PMI to contract 3-4% over each year over the next two years before stabilising."

Nobody has a crystal ball but the longer-term prognosis for PMI after the stabilisation is of the ageing population being a potential opportunity.

Murdoch says: "An ageing population could lead to greater take-up for younger ages. As NHS budget is potentially used for older generations, it could mean more moves for top-up and self-pay schemes."

The impact, as Marco Bannerman adds, will be on companies as well as the younger generation. He says: "If legislation changes, employers will have an ageing workforce and people may be working into their 70s. We will have to be innovative and creative to meet their changing needs."

The area of cashplans is one that the market overall is already using to meet clients' needs, albeit in a complementary manner rather than as a replacement. Jack Briggs, intermediary sales and marketing director at Simplyhealth, explains: "Our belief is, in recessionary times companies are looking at products suitable to their budgets and about one-third of human resources directors are looking for more tangible benefits next year."

As changing excesses has become even more popular, so cashplans have also come to the fore. Briggs explains: "With a large excess you can sell a cashplan and finance that from imposing the excess. It gives tangible benefits, it shows employees the company still values him or her, and often they can claim the excess through the cashplan."

According to independent analysts Laing & Buisson, at the end of 2008 a total of 4.72 million people were covered by health cashplans which equals 7.7% of the UK population.

Lara Rendell, marketing manager at Health Shield, the not-for-profit specialist healthcare cashplan provider, says cashplans are the perfect complement to PMI: "Staff see the benefit of a cashplan straight away when they visit the dentist or the optician. Previously it was seen as a blue-collar product but now people realise it is for all."

The company, which only sells to businesses from sole traders upwards, recently switched to the brokered route. Rendell explains: "We recognise the value brokers can bring to us and have focused on the market with a dedicated team and literature. There is still a lot of room for growth. People are more conscious about looking after themselves and living longer."

With an ageing population, fears over NHS funding and a track record of innovative high quality advice, the ongoing focus by brokers on the merits of these crucial products augurs well for the health of PMI in the future. **PB**

Top 10 PMI providers

2008	(2007)	HEALTH INSURERS
1	(1)	BUPA
2	(2)	Axa Insurance
3	(3)	Aviva
4	(4)	Standard Life Healthcare
5	(6)	Western Provident Association
6	(7)	BCWA
7	(5)	Cigna International
8	(8)	Groupama Insurances
9	(10)	Exeter Friendly Society
10	(11)	Prudential Assurance Company

Source: ABI

What makes an MGA tick?

PB asked some leading industry figures about how the managing general agent model works.

Speaking to PB were Chris Hanks, head of commercial at Allianz, Clive Nathan, chief executive at Towergate Underwriting, and David Taylor – managing director of Sidcup-based Flint Insurance Brokers.

Why would an insurer choose to support a managing general agent?
Hanks: We wouldn't normally support one but in specific circumstances they can help me reach the parts I can't, such as specialist areas.
Nathan: The underwriting performance should meet the profit needs of the insurer and it adds distribution. We have four ingredients that make our model stand out from the crowd: expertise, systems, innovation and sales.

Do you find any benefits from an MGA relationship over a traditional insurer relationship?
Taylor: MGAs come in all shapes and sizes, some offer a real specialism in an area where the people running the MGA are bringing value to the chain and clients benefit from that expertise, having a greater knowledge of a trade or industry and providing enhanced policy benefits, while others seem to be competing in crowded markets with cheaper rates. In the first scenario, we can support them by offering best advice to customers and treating them fairly especially as there is usually an additional layer of commission/fees in the price. In the second scenario, we would use this kind of MGA as a last resort having exhausted all of the 'direct' alternatives.
Nathan: We provide access to experts and a better service experience. Our model gives us more control over the service brokers receive. This means that we are often the first port of call for brokers when they are looking for specialist markets.

What criteria would insurers expect the MGA to have in place before agreeing?
Hanks: Data, system, controls and training.
Nathan: There is a host of criteria: historical and projected underwriting performance, underwriting business plan, professional team, finances to support the operation, robust reporting and MI criteria, a proven specialism and E&O insurance.

How do you communicate the MGA to a customer especially if there is more than one insurer on the panel?
Taylor: We will tailor the insurer part of our proposal to clients, depending on the way that the policy we are selling is being underwritten. Our preference is to talk about the 'final' insurer and paper the policy is written on rather than the MGA as a whole. Where there is a genuine 'panel' we will sell the product on the expertise of the MGA.

How many years does an insurer typically sign up to support a MGA?
Nathan: Our standard arrangements vary from a minimum of one year to longer-term arrangements. Three-year deals give continuity to all parties, including customers.

Who handles the claims and deals with disputes?
Hanks: We like to handle the claims, although we can give them to the MGA in certain areas. I wouldn't give liability claims away.
Nathan: This will be agreed at the outset of the contract and it varies. The carrier will usually delegate a level of claims authority to the MGA or fully "outsource" the claims function to the MGA or third-party administrator. Some of our underwriting businesses use Guidewire, a state of the art claims management system which few primary carriers currently possess. Some MGAs will operate with no claims authority so all claims negotiations and disputes will be handled by the carrier themselves.

Is there a reputational issue here – who takes the flak if something goes wrong?
Nathan: The "brand" and market reputation of both the MGA and insurer can be in question. Both parties have a vested interest to act professionally to provide protection from reputation failure. Of course, we are most comfortable with the aspects we can control, but we work with companies we trust to do their bit – and we keep each other on our toes.

What does the customer see on their policy document?
Nathan: The customer will find details of both the carriers and the MGA.

Who decides the rating structure and what happens in a hardening market? Why do MGAs sometimes price differently from another arm of the same company?
Nathan: We agree rating structures with the insurers at the outset of the contract. In a hardening market, access to specialists rather than generalists is a major competitive advantage. An expert MGA will have a more segmented approach to rating of risk and this may result in a different price to that of the insurer. Acquisition and handling costs may differ, meaning the gross price to the customer may vary.
Hanks: We will agree the structure and target market, because at the end of the day somebody else is using my capacity. Some MGAs use the distribution costs to subsidise prices.
Taylor: In a hard market, those MGAs that offer a genuine specialism will survive, those that trade purely on the back of the lowest price will find underwriters questioning their distribution model and what value the MGA is bringing. **PB**

BROKERS AND INTERMEDIARIES

HEATH LAMBERT has appointed Judy Baker as head of its large corporate division. Baker has worked at Sun Alliance, AIG, Stewart Wrightson and then, following the merger with Willis, joined SBJ, spending the past 21 years working predominantly with major clients. After the acquisition of SBJ by Axa, she became managing director (major accounts) for Bluefin Insurance Services.

MARSH has hired Simon Markey as chief executive of its UK affinity business. Markey was most recently managing director of the Lifestyle Services Group and, prior to that, held several management positions in the retail bank of the Lloyds Group.

RFIB GROUP has made Simon Foreman divisional director for RFIB Marine. Foreman has over 34 years' experience in reinsurance and joins RFIB Group from Aon Benfield where, most recently, he specialised in Central and East European markets in both marine and non-marine reinsurance. During his 19 years at Aon Benfield, Foreman held a number of senior roles and was part of the Aon Re CEE team, taking specific responsibility for the marine account and the development of catastrophe schemes.

INSURERS AND UNDERWRITERS

AMLIN has made Travis Bowles senior solicitor. Bowles, who is dual qualified in Australia and England, joins Amlin from Reynolds Porter Chamberlain. Before this, he was employed at Moray & Agnew solicitors in Sydney, Australia, where he worked in the general insurance department.

SALIENT SOLUTIONS has appointed Michele Munn as a consultant. Munn has nearly 20 years' experience in insurance software and joins from Open GI, where she was head of insurer relations. At the company she joins Mark Ryder, a former director at Open GI.

AXA ASSISTANCE has appointed Bruce Robertson as head of marketing and product development. Meanwhile, Jason Sparrow joins the business team as head of sales. Sparrow has worked in the financial services industry for 20 years.

DUAL CORPORATE RISKS has appointed Liz Hanlon to its Dual Focus team. She joins from Argo-Heritage and has 20 years' industry experience. Meanwhile, Beth Whybrow also joins from Argo-Heritage as assistant underwriter.

GROUPAMA INSURANCES has made Jonty Turner and Liz Kuhler proposition managers. Turner moves from Groupama Healthcare, where he was claims manager while Kuhler joins from Groupama's marketing team, where she was an analyst within the company's specialist research unit. Kuhler joined Groupama in 2006 while Turner has been with the company since 2001.

LV BROKER has recruited Kevan Aubrey as commercial development manager. Aubrey has over 20 years' experience in insurance, most recently at RBS Insurance as head of marketing for its commercial and broker business. Before this, he was head of brand strategy for RBSI and also held the head of marketing and commercial segmentation manager roles at NIG.

NIG has appointed Martin Hall as director of commercial underwriting. Hall joined RBS Insurance in 2007 as director of home underwriting across all RBS Insurance brands, having previously spent six years at Zurich. Meanwhile, Steve Symonds has been made head of regional underwriting. Symonds has 35 years' experience working in the UK insurance industry, having started his career in 1974 with General Accident and remaining with the organisation through the Commercial Union and Norwich Union mergers. He joined NIG at the beginning of 2004.

Meanwhile, Dave Parry has been appointed director of sales and distribution, joining from AIG Paris.

QBE has recruited Lesley Roper as property underwriter at its Leeds office. She joins QBE from Affiliated FM in Manchester and has more than a decade of industry experience. Roper was previously property manager at AIG in Leeds and has also been a development underwriter at both Allianz and ATD. Meanwhile, Emma Vincent has been appointed assistant motor trade underwriter. She was previously a commercial trading underwriter for Aviva and assistant motor underwriter at KGM Insurance.

Also, Doug Jenkins has joined the company as motor fleet risk manager, based in Chelmsford. Jenkins was previously founder and managing director of Driving Services UK, where he provided motor fleet risk management solutions across all classes for over 20 years.

MISCELLANEOUS

ERNST & YOUNG has appointed two new partners. Imran Ahmed will lead the firm's Europe, Middle East, India and Africa insurance claims management teams after having led its Far East insurance advisory business, while Errol Gardner will now head Ernst & Young's Financial Systems team across EMEIA within the IT advisory practice. He worked most recently at IBM Business Consulting Services.

MONITISE, a mobile banking business, has recruited Neil Sentance as vice-president (new business), based at Monitise's London headquarters.

WORKFORCE WELLNESS has made Brian Taylor its managing director. He has over 16 years' industry experience in health, wellbeing and performance services and joins from Health Matters (UK)-PMI Intermediary and before that was at BHSF Ltd-Health Cash Plans. **PB**

Top 20 Lloyd's syndicates*

2008 rank	2007 rank	AMB#	Syndicate	Rating	Managing agent	GWP (£000s)	Underwriting result** (£000s)	Combined ratio (%)	Loss ratio (%)
1	1	48339	2003	**A s**	Catlin Underwriting Agencies	1,317,759	21,916	97.9	67.6
2	2	49219	4472	**n/a**	Liberty Syndicate Management	950,895	61,785	91.6	55.6
3	3	47731	33	**A s**	Hiscox Syndicates	885,025	18,762	101.9	54.8
4	4	48363	2999	**n/a**	QBE Underwriting	852,267	20,125	93.5	53.9
5	5	48337	2001	**A+ s**	Amlin Underwriting	842,497	231,209	64.9	50.4
6	6	48946	2623	**A s**	Beazley Furlonge	836,800	78,100	87.6	56.2
7	7	47972	510	**A s**	R J Kiln & Co	756,666	–7,177	101.0	63.0
8	8	48944	2987	**n/a**	Brit Syndicates	713,660	2,406	98.2	63.9
9	11	48241	1084	**A s**	Chaucer Syndicates	641,900	–600	97.3	68.2
10	9	47816	218	**n/a**	Equity Syndicate Management	555,390	–15,296	103.8	70.7
11	10	48930	1414	**NR–4**	Ascot Underwriting	505,785	–40,143	114.4	73.0
12	12	49218	4444	**n/a**	Canopius Managing Agents	483,645	–36,787	107.7	65.8
13	14	48354	2488	**n/a**	ACE Underwriting Agencies	436,644	–9,289	104.9	71.7
14	13	47906	386	**n/a**	QBE Underwriting	411,967	31,616	91.2	53.6
15	18	48966	1200	**n/a**	Argo Managing Agency†	409,200	–23,700	104.5	70.9
16	16	48293	1183	**n/a**	Talbot Underwriting	383,241	16,075	94.2	59.3
17	15	48364	3210	**n/a**	Mitsui Sumitomo Insurance Underwriting at Lloyd's	352,697	–28,994	108.9	79.5
18	19	47944	457	**n/a**	Munich Re Underwriting	333,285	–270	97.2	59.8
19	22	48180	958	**A s**	Omega Underwriting Agents	328,521	–25,230	108.5	75.7
20	20	48304	5000	**n/a**	Travelers Syndicate Management	319,806	–13,280	102.3	64.3

*Rankings based on gross written premium for year ending 2008.
**Underwriting result excludes investment income.
†Heritage Managing Agency was renamed Argo Managing Agency in June 2009.
Ratings are as of 2 November 2009.

Rating modifiers

Modifier	Descriptor	Definition
u	Under review	*Best's Rating opinion of the company is under review*
s	Syndicate	*Assigned to syndicates operating at Lloyd's*

Not-rated categories
For companies not assigned a Best's Rating the five categories are:
NR-1: Insufficient data NR-2: Insufficient size or operating experience
NR-3: Rating procedure inapplicable NR-4: Company request
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WIN A BOTTLE OF BUBBLY

This month's festive prize comes courtesy of Bibendum Wines, merchants to public and trade of rare bottlings and unusual varieties. Not only will one lucky reader win a bottle of De Castellane Rosé Champagne NV, every reader can take advantage of a *PB* exclusive reader offer: a cracking 15% off at the retailer for orders over £100 until 31 December 2009. Simply go to bibendum-wine.co.uk, place your order and enter the promotional code PBMED15. To be in with a chance of winning the prize, go to broking.co.uk to answer this question: **According to projections from the Office for National Statistics, how many people could be living in the UK in 2033?**

The winner of November's prize of six bottles of wine wasSarah Houseago of Boswell Insurance, who knew that the current weekly rate of statutory paternity pay is £123.06 where average earnings exceed £90 a week before tax.

Entries must reach us no later than 18 January 2010. For full terms and conditions of the competition and the reader offer, go to broking.co.uk.

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Puzzle by websudoku.com

PB Week | Highlights from the blog

SEEKING BUSINESS INSPIRATION

On 20 November, Lyndon Wood, chairman and chief executive at Caerphilly-based Moorhouse Group, wrote: 'Brokers often talk about their businesses in uninspiring terms such as "we get by" or "we are doing ok". In 20 years of building Moorhouse Group organically, I have never once heard a broker say "we are doing fantastically well" or "we are growing at a rate of knots" or "we cannot get enough staff to cope with demand".

I speak to many brokers weekly and, while I admire individuals for taking the leap at some stage and setting up their own business, it amazes me how quickly the very essence of what they set up disappears. I have met some really nice people and a few fantastic and genuine souls along the way but it's noticeable how fast the initial inspiration can desert insurance brokers not long after startup. I have been inspired by business people outside of the insurance industry but never by those inside it, which begs the questions: why is that? And why do brokers seem to lack the focus to build a great business?'

On 6 November, Andrew Tjaardstra wrote: 'Having seen Michael Jackson's film *This is it* this week, it is surely the best way to describe the latest money-printing measure (sorry, quantitative easing) of £25bn by the Bank of England and £30bn or so of taxpayers' money pumped into our nationalised banks. For the economy, for the banks, for our policymakers, this is it: this works or nothing does.

The economic crisis has been so severe in the UK that the Bank of England has created an extra £200bn so far to throw into the economy to buy up corporate and government debt. The problem with this unprecedented approach in the UK is that we have no way of knowing whether it will work in the long run, or how much it could contribute to inflationary spirals.'

PB WISHES ITS READERS A MERRY CHRISTMAS AND A HAPPY NEW YEAR! **PB**

SIGN UP

Read *PB Week*, the official weekly *PB* blog in which the *PB* team keeps you in touch with the latest news, parties and events from the profession. Sign up for email alerts at broking.co.uk.

NEXT ISSUE

PB examines manager's priorities for 2010 and how they have been reorganising their businesses in the downturn. We also find out how brokers can start their own businesses, looking at where broking entrepreneurs can gain funding and market access. Meanwhile, keep your eyes on your inbox for *PB*'s View from the Top videos, sponsored by Legal and General, and hosted on broking.co.uk.

SOLUTION – NOVEMBER 2009

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