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## EDITOR'S LETTER



**"Though it was not their stated intention this time, the aggressive stance was one Biba could adopt more often – and not just because it is fun to write about"**

Regular readers of our blogs and those who comment on our stories online will know that the hottest topic in the market last month was Biba's research into insurers paying claims.

Biba's stance was that they were being the voice of the broker, telling the market what their members were reporting. And the research found that 90% of insurance brokers believed that insurers were becoming stricter on paying claims, mainly because of the economic climate and fraud. At first glance the statement seems harmless enough. For instance, nobody can argue against fighting fraud. It was perhaps the press statement headline that caused the furore: 'Brokers fighting for fairer insurance payouts'. Aviva was the first to take umbrage, swiftly followed by the ABI, and others soon piled in. 'We respect the role of brokers but we already pay out fairly' was at the core of the argument from insurance providers.

The criticism of Biba only having findings from 206 brokers was undoubtedly fair. In his news analysis on page four Andy Pearce dissects this issue and other points in greater depth. So my role here is not to say who was right or wrong. But to ask is this a sign of Biba being more aggressive?

When the spat was at its most intense, Biba made clear that it was not trying to pick a fight with insurers. In the past I've argued that your trade body should go to war over the FSCS levy. They argued, to be fair, coherently and persuasively against such a course of action. May I humbly suggest that, though it was not their stated intention this time, the aggressive stance was one Biba could adopt more often – and not just because it is fun to write about. The perennial problems of the FSCS and Toba changes would be just two to start with. But at the end of the day it is not really about me. It's about you. The real question is what kind of association do you want fighting for you?

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Digital Publisher of the Year





## Insurers rally against Biba survey

Providers refute trade body's research into stricter claims payouts

BY ANDREW PEARCE

It would take quite a lot of head scratching to recall the last time the British Insurance Brokers' Association (Biba) stirred up quite so much controversy. However, the trade body's headline-grabbing survey, called 'Insurance brokers adding value in the claims process', certainly whipped up a storm. It came with the statement 'Brokers fighting for fairer insurance payouts', and found that 90% of insurance brokers believe that insurers are becoming stricter on paying claims.

At the time, the insurer response was as rapid as it was forthright. The Association of British Insurers (ABI) retorted that it did "not accept any suggestion" it was more difficult for genuine claims to be paid after Aviva had issued a similarly candid rebuttal.

Indeed, speaking to *Insurance Age*, Bob Thacker, head of UK claims at Hiscox, was equally adamant that the insurer's claims mantra had not changed despite the economic climate.

"Part of our philosophy is trying to support clients through grey areas and this has not changed," he explained. "Our view is commensurate with Aviva and the ABI – we are absolutely here for customers."

### Pulling no punches

Interestingly, a little over two years' ago Biba released the first incarnation of this survey with similar findings. At the time, it found that 67% of responding brokers said that they had got tough with insurers on behalf of customers, while 93% regularly negotiated up to a 20% uplift on claims settlements.



However, there was no big furore. What was the difference this time? One industry insider said that insurers were "maybe a bit more sensitive" than they were back in 2010 after having "taken a kicking" in the consumer press.

Moreover, the market source suggested that Biba had bucked its traditional routine and had not given the ABI its customary "heads-up" ahead of the survey publication and its appearance on the BBC hot seat.

However, Biba denied this was the case. In a statement, the trade body insisted: "We did discuss the BBC interview with the ABI before the day – we have a healthy dialogue with the ABI on industry issues and we have an open and honest relationship with insurers – who we meet with regularly."

The ABI refused to comment.

Yet fears remain that in the process of admirably standing up for its members' concerns, Biba may have damaged its relationship with insurers. Indeed, *Insurance Age* understands that, following the survey's publication, a number of insurers have been contacted

by Biba to talk through the research's findings.

Paul Upton, CEO at Evolution Underwriting, described the survey and Biba's subsequent 'fighting' headline as "ill judged" and "oddly out of character".

"Do they think their membership is really well served by a statement like that?" he asked. "Is it a sign of a more confrontational stance in the future? We deal with a wide range of insurers and have not seen any of that [insurers becoming stricter] going on."

### Small sample

Eyebrows in the market place were further raised by the fact that only 206 brokers completed Biba's survey. Some argued that those with an adverse experience will have been most likely to respond.

On its survey sample, Biba commented: "We consulted widely and are delighted that we received responses from both commercial and personal lines brokers – small, independent, regional, super-regional and international brokers."

And in spite of the various sticking points, there is no doubt

### BROKER REACTION TO BIBA SURVEY

#### ● Ian Bond, director,

**Bond Lovis:** "I really have not seen any change in [insurer] performance at all, I think more the opposite."

#### ● Steve Smith, CEO, Smith

**Greenfield:** "We are not aware of any tighter views. From the HNW insurer point of view, if covered, they pay out. It's a very simple equation. I am slightly worried by the notion that insurers can change their view of what is covered. Biba are in a slightly difficult position - they have to represent brokers."

#### ● Darren Easton, technical claims manager, KTIB:

"We don't really see any difference, we are not seeing insurers tightening up. We are seeing insurers rolling over and paying without properly validating third party claims."

#### ● Peter Blundell, owner, CBI Insurance Consultants:

"You have to be very careful with the exact terms and conditions on policy wordings - they have to be absolutely 100% clear."

"I would expect [more of a fight as] they [insurers] are trying to make profits and cut their expenses and unfortunately they've used claims to do that. If insurers want to come on and defend themselves it can only be a good thing."

that Biba in this instance did what any trade body is supposed to do – stand up for its members, no matter how many toes it treads on.

As Clive Galbraith, chairman of Green Insurance Group, summed up: "I have no issue with Biba standing up for brokers, that's what they're there for."



# Brokers face shift in balance of power

New Act moves the focus in consumer insurance, but is the industry ready?

BY ANDREW PEARCE

In less than two months' time, the *Consumer Insurance (Disclosure and Representations) Act 2012* is set to come into force.

On 6 April 2013 the century-old balance of power between insurers and their clients will profoundly shift – and brokers will be caught right in the middle of this newfound relationship.

In personal lines with the replacement of the *Marine Insurance Act 1906*, customers will no longer be duty bound to volunteer all the necessary information. Instead, the onus is on brokers to ensure they are

asking the right questions and eking out the necessary information.

In theory, the introduction of the Act should only consolidate what is already taking place in the market and not have any effect on claims. However, according to market experts, in practice it could be rather different.

Indeed, on page 21 of *Insurance Age* Stephen Netherway, of CMS Cameron KcKenna, writes that “the naked intention behind the Act is to increase the number of claims being paid out to consumers”.

And if claims start rolling through to insurers, they will undoubtedly start turning the screw on brokers to see if they have been extracting the right evidence during the sales process.

Without doubt, the implementation of the Act will signal a step change in the familiar client, broker and insurer structure. Brokers will feel the heat from both sides more than ever before. The crucial question is, is the industry ready?

Unfortunately, the answer was a resounding no from Mike Cranny, regulation expert and founder of compliance consultancy Create Solutions.

“The market is extremely ill-prepared, it assumes that all the Act does is consolidate what insurers have done for ever,” he assessed.

“The balance between the market and the customer will reverse, the claims department used to hold all the aces but now the client will have all the cards.”

Extra emphasis will fall on brokers to ensure they conduct a full fact-finding exercise while in policy discussions with their clients. In short, if a broker has failed to ask the right questions it will be viewed the same as client non-disclosure is today.

If insurers feel that an increase in successful claims is due to brokers' botched scripts then they will be the fall guys and relationships and agencies could well be impacted. And the danger

goes further. When insurers do pay out, it could even be the case that they seek to recoup the costs of claims from brokers. Not to mention the potential for brokers to see an increase in professional indemnity claims from disgruntled clients who have had their original claims turned down.

Yet, despite this expected insurer intensity, Terence Clark, head of compliance at RWA Group, believes that the providers have failed in their duty to help their broker partners in the run-up to the Act's implementation.

“The silence has been deafening from insurers,” he explained. “They need to be much more proactive by assisting brokers with the right question sets.

“We saw a flurry of activity from insurers around last July but, since then, absolutely nothing and



brokers are quite worried.”

And this is

before the necessary changes to brokers' customer-facing documentation such as terms of business, renewal correspondence and websites is even considered.

It looks set to be a busy two months.

## FSCS consultation

● The Financial Services Authority (FSA) has confirmed new funding rules for brokers' perennial bugbear – the Financial Services Compensation Scheme (FSCS).

In summary, brokers will no longer have cross-subsidies with banks while the FSA has agreed to consult on the method of cross-subsidies. Previously, brokers would have had financial responsibility for the mis-selling of insurers' products by other sectors, when the insurers did not.

The announcement brought a mixed response from the insurance fraternity with Biba handing it a “cautious welcome” while the ABI described the rules as “an unhelpful step backwards”.

However, compliance expert, Terence Clark, of RWA Group, sided with Biba in its tentative reception but also warned that the “devil is in the detail”.

“The FSCS is very emotive; it is seen as hitting brokers directly in their pocket. This is the start and we need to give it a cautious welcome,” he explained.

“Brokers have suffered for things they have had nothing to do with, it's an outdated model and the FSA has responded, credit where credit is due.”



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# Market speculation rife over changes at Towergate

Midlands region shake-up at Towergate sparks rumours of possible flotation

BY CAITLIN MORRISON

Towergate has moved into 2013 with some pretty big changes in the Midlands region.

As exclusively revealed by *Insurance Age*, Paul Watts, regional managing director for the Midlands, was placed on gardening leave at the end of 2012.

Meanwhile responsibility for the Nottingham office has now been taken on by the Hinckley branch, and the Sutton Coldfield location is now being managed from the Stoke office.

Mike Lawton, who left RSA in June last year to become chief executive of Towergate's broking division, has been the driving force behind the changes, and with his admission that the market is likely to see more departures, questions abound around his plans (see box).

One market source responded to the changes by saying it could be down to a simple matter of Towergate trying to achieve a more integrated culture. If people were standing in the way of that, the only option would be to part ways with them.

Another commentator flagged group CEO Mark Hodges' intention of making Towergate a more corporate organisation, and said the company was most likely feeling the heat over trying to make dramatic changes in this regard.

But a main talking point has been the potential savings these departures will make, and



**"Crucially, insurers understand the profitability issues of a business. Brokers can sometimes be keen to do business no matter what the cost"**

**Peter Blanc**



**"From my experience with these large corporate organisations, you are always looking to cut costs, especially when you are working up to a float situation"**

**Peter James**

although Mr Lawton denied that the moves were anything to do with cost-cutting, the market has taken a different view.

## An insurer's perspective

Oval CEO Peter Blanc suggested that it was important to take into account the fact that Mr Lawton had joined the broking world from an insurer.

"Inevitably someone doing that will have a different approach," he said.

"Crucially, insurers understand the profitability issues of a business. Brokers can sometimes be keen to do business no matter what the cost."

Mr Blanc deemed the move "healthy", and explained that many brokers were facing the same challenges: "We have all got business that's difficult to grow organically."

As such, it makes sense to keep an eye on costs and, as Mr Blanc pointed out, if you have got individuals who are not making profits from their books then it might be best to move them out.

Peter James, managing director of Midlands-based broker Stewart Miller, agreed that the most likely reasoning behind the moves was a cost-cutting endeavour: "That's what a new broom does."

He added: "From my experience with these large corporate organisations, you

are always looking to cut costs, especially when you are working up to a float situation."

This was a point jumped on by many market commentators, who were in little doubt that Towergate was embarking on a strategy to save money ahead of a flotation.

There has been speculation in the press recently about the possibility of Paymentsshield being sold, which has helped add weight to these rumours, and sources pointed to the large debts the companies would be trying to settle before floating.

However, cost cannot be the only consideration in a decision like this – the remaining staff have to be taken into account too.

Some younger employees might see the departures as an opportunity for them to move up through the ranks and show what they have to offer. But there is also every chance that those left behind are feeling decidedly nervous.

"It's the age-old problem with large companies," stated Mr James: "People don't feel informed and they feel that they don't count."

## Unsettling effect

According to Mr James, changes will always have an unsettling effect on the people within a company. "It doesn't help morale and the good people who are left will start to wonder if they should be there at all," he claimed.

Especially, it would seem, if those people are based in the Midlands, which has borne the brunt of Mr Lawton's plans.

But Stuart Reid, Bluefin CEO, cautioned against reading too much into the recent departures: "I'm sure Towergate are finding it as tough as all of us are at the moment but they are a strong company going through significant change, and you bet against them at your peril."

## LAWTON SAYS



**Speaking at the start of the process, Towergate's Mike Lawton said:**

### ● On strategy

"The reason we are doing this is because we had lost income due to not being close enough to our clients and not having the right retention strategies in place and not having a net new growth story in the region."

### ● On process

"I don't want Towergate clones where everyone is walking around with a Towergate tattoo on their forehead. The process should be uniform... but [in] the way people do their job they can have as much flexibility [as they want]."

### ● On growth

"Our pipeline is as strong as it ever was and we are having no problems landing acquisitions. The thing I want to do more than anything in broking is to put organic growth into the business."

### ● On brokers leaving

"If someone decides to leave Towergate... I won't be selling their book with them. My logic is that you are basically helping them set up with the competitor across the road."



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# Insurance brokers feeling down in the mouth, survey reveals

PwC and CBI poll reveals brokers' optimism levels at their lowest since Q4 2011

BY CAITLIN MORRISON

Optimism among insurance brokers declined in the quarter ended December 2012, according to survey results from PwC and the CBI.

The report asked brokers if their optimism about the sector's overall business situation was going up or down. It then measured the gap between the two responses. Overall more brokers – 20% more in fact – said their optimism was going in the wrong direction.

This was worse than the preceding quarter when the survey revealed that only 15% tipped the balance. However it was at least an improvement on the result for the final quarter of

2011 when the net score was a whopping 79% chasm between the two camps.

Lee Morgan-Jones, commercial trading manager at Saffron Insurance Services, expressed no great surprise at the most recent findings. "It's generally accepted that your business level has to increase just to stand still at the moment," he explained.

## Market standstill

Mr Morgan-Jones told *Insurance Age* that the "goalposts have been moved", even in the smallest types of SME business, and described having to compete with brokers from as far away as Dorset for business local to Saffron's Essex-based head office.

All brokers will be well aware that retaining business has become even more of a battle. Competitors are more ready than ever to swoop in at any stage to try and tempt away clients with lower premiums. And there are tales of brokers cutting their own commission rates on quotes – sometimes past the 'break-even' point of matching their income to the cost of running their service – just to get business on the book.

Overall, Mr Morgan-Jones described it as "a challenging market, it surprises us every day how challenging it is", but added that he was still optimistic that the trading environment would get better over the next 18 months.

He was not alone in his outlook. For instance while David Munday, partner at Exeter-based broker Parkers, claimed that attitudes had become a bit more positive during 2012 – "Optimism was small, but it was there" – he too was unsurprised by the research overall.

## Turning a corner

According to Mr Munday, Parkers itself had seen things "turn a corner", with less business failures one of the factors in this change, but he suggested: "I guess the results come from looking at the larger picture and the news that we may be heading for a triple-dip recession [which] puts a bit of pressure on everyone."

However, one person who said that he did not set much store by the survey results was Les Brewin, managing

director of the Purple Partnership. In fact, the network chief said he felt that the state of the market had improved since Q4 2011.

He blamed media speculation around a triple-dip recession for the survey's findings: "We either talk [the economy] up or talk it down."

And while he conceded that brokers were still struggling to improve revenues, he added: "Generally, people think the dire straits are behind us. I don't have brokers coming to me, tearing their hair out."

"You just keep getting on with it."



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# Get set for The Broker Apprentice

*Insurance Age* has partnered with Allianz to put five hard-working brokers through their paces and find out just who is the rising star of the general insurance broking community. In a series of videos you'll be able to watch as they tackle a different task each week to impress the judging panel of Chris Hanks, Commercial general manager at Allianz, along with Incisive Media's editor-in-chief of the insurance division, Jonathan Swift, and *Insurance Age's* editor Emmanuel Kenning.

The first edition at the end of February will see the apprentices face *Insurance Age's* senior reporter, Andy Pearce, in the role he was born to play – Derek the irate SME owner. Watch as they face his tetchy questions and deal with his insurance problems.

The whole series has already been filmed and there'll be a

**Meet the apprentices**



<p>● <b>Ashley Prickett</b> Account executive, Cotters Insurance Services</p>	<p>● <b>Katie Pusey</b> Account handler, MRIB</p>	<p>● <b>Oliver Leyens</b> Director, Heath Crawford</p>	<p>● <b>Holly Markham</b> Commercial account handler, Lucas Fettes &amp; Partners</p>	<p>● <b>Jonathan Garrett</b> Commercial account handler, CC Flint and Co</p>
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winner for each task, building to a final grilling from Mr Hanks as the contestants seek to win the prize of being his apprentice for a week, along with a trip to a selected sporting event of their choice.

"I thoroughly enjoyed the whole experience and I was very pleased to see how each of

the finalists grew as individuals during the process," commented Chris. "Every one of them showed great professionalism and were a credit to the insurance industry."

The first episode will be dropping into your inbox shortly and will also be available to view

at [www.insuranceage.co.uk/video](http://www.insuranceage.co.uk/video) with Chris providing a blog on his thoughts around each challenge.

So keep an eye out for this must-watch video series and get involved with our poll to support your favourite. Whose team will you be on?

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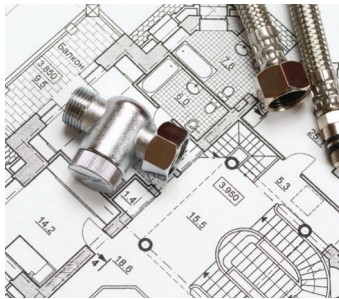
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## ROUNDUP

# The house that products built



● Welcome to the home of all the products and schemes news that brokers need.

This month's pages are built on the solid foundation of Das providing a new loss assist policy for homeowners while RSA is

protecting businesses against fraud, dishonesty or malicious acts. The all important walls are formed by AML Underwriting with its restaurant offering and Plum joins in with a refocused mid net worth policy.

Then comes a rather crowded top with both the Electrical Contractors' Insurance Company and Giles targeting roofers. In the garage Groupama has been busy polishing up its classic vehicles policies and tuning the engine on its fleet product while Towergate has teamed up with Abbey Legal Protection with a new policy for the transport and logistics industry. And in the event of a claim Lorega stands ready with a three-star review.

## Insurers target roofing contractors

The Electrical Contractors' Insurance Company (ECIC) has focused on members of the National Federation of Roofing Contractors and those registered as a Competent Roofer with a package of insurance protection for roofers.

The provider listed that the new scheme featured a range of cover including employers' liability, public/products liability, financial loss, professional indemnity, contractors' all risks along with business interruption, money and goods in transit.

Richard Forrest Smith, chief underwriting officer and deputy managing director at ECIC, said: "This product has been developed specifically for the roofing trade and our underwriters have ensured the wording of the policy is tailored to the profession's needs."

In another, unrelated, move targeting roofers, Giles revealed

it had secured exclusive broker of choice status for members of the Confederation of Roofing Contractors (CORC). The broker claimed that it would work to create tailored policies for CORC members taking into account their specialist needs.

Allan Buchan, membership coordinator of the CORC, commented: "Giles give a professional service providing robust cover for everything from basics such as public and products liability, to more complex risks such as asbestos, which is a typical exclusion under a standard policy. We were also particularly interested in Giles because they are adept at working with members who may have larger or more specific contract requirements, needing the attention of an experienced handler and underwriter."

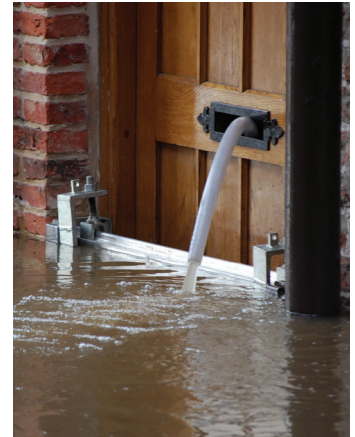
## PRODUCTS

# Das product covers major household incidents

Das has followed up the launch of Loss Assist Commercial with Loss Assist Home to provide assistance for households that have suffered damage to their property or contents due to a major incident such as a flood, fire, theft or storm.

The product has been designed to offer policyholders with assistance in a claim by providing a dedicated loss adjuster to help with the assessment, submission and negotiation. It will also deliver access to legal advice.

Richard Harris, head of claims at Das, said: "You never know when you're going to be hit by a fire, or flood. If you are a broker looking after your client, you would want them to have access to professional advice to help them get through what



can be a very difficult time both emotionally and financially.

"With a dedicated loss adjuster on board to manage all aspects of the policyholder's household claim, peace of mind will be assured."

## AML policy offers smorgasbord of options to restaurant owners

AML Underwriting has targeted brokers with restaurant owning clients through the launch of a new product.

The boutique underwriting agency, which specialises in commercial property and liability insurance, explained that 'AML Restaurant Policy' had been specifically designed to meet the needs of both restaurants and similar establishments.

The company highlighted that the policy included a number of automatic sections, but also gave brokers the opportunity to pick and choose cover and limits. It detailed benefits as including all risks wording, automatic cover for legal expenses, money and assault,

loss of licence, deterioration of stock, goods in transit and book debts. In addition it can provide automatic cover extensions, including, but not limited to, 55% seasonal stock increase, damage to outside furniture and cover for outside catering.

Commenting on the new product launch, Jonathan Skinner, AML development director, said: "Our new restaurant product offers relevant, comprehensive cover and targets risks above the small package level. It will be a useful new business tool for brokers as we only quote one price to market and every risk is reviewed individually by an underwriter rather than a quote engine."

REVIEW

## Commercial add-on

Product: Lorega 10

Underwriter: Kiln at Lloyd's of London – Syndicate 510

Commission paid: Flexible from 0% to 50% or otherwise by agreement with Lorega/underwriters

Coverage: Standard Lloyd's mainland UK territory

Minimum premium: £12.50 net payable to Lorega (ex IPT)

Excess: £0

Contact: Njohnstone@lorega.com

### Key benefits

- ▶ An add-on product that attaches to underlying commercial property and business interruption products with a maximum combined underlying premium of £2,500.
- ▶ Responds to claims above £5,000.
- ▶ All standard property perils (except subsidence).
- ▶ Provides 10 hours of expert advice directly to the policyholder to assist them in the preparation, submission and negotiation of property or business interruption claim(s) to the underlying insurer.

### Verdict

**Chris Howell, managing director, Seaway Insurance, comments:**

"While the idea is reasonable it is looking at a somewhat restricted market and as a broker we do the 'amateur' version of what they are offering but we do not make a charge. Overall it will help some SMEs but they will probably be few and far between. There could also be an element of conflict of interests if they are appointed by insurers and then are contacted by the client as a result of their advertising through a broker.

"The bottom line is that I think it is a good idea but with too limited an appeal and a market.

"For me they probably only earn two out of five for effort on this occasion but for a specialist broker it would be three stars."

Overall rating ★★★★★

▶▶ What do you think? To rate this product go to [www.insuranceage.co.uk/category/products](http://www.insuranceage.co.uk/category/products)



## Towergate launches legal cover product for logistics

Towergate has teamed up with Abbey Legal Protection to launch a new commercial legal protection policy designed specifically for the transport and logistics industry.

The broker claimed that Towergate Legal+ would deliver the benefits of 24/7 legal advice and representation for clients and relieve the financial burden for them of having to employ an in-house solicitor or dedicated HR personnel specialising in employment law.

Key features of the product were listed as cover for legal costs and expenses up to £250,000 on any one claim – up to £1m in any period of insurance – as well as European Economic Area covers for criminal prosecution, property disputes, personal injury and contract disputes cover. Further elements in the standard cover are UK only.

Larry Smith, managing director of Towergate Insurance – motor division, said: "Towergate Legal+ will help ensure our customers are adequately protected if they need legal representation or



advice, which is particularly pertinent given recent legal changes such as *The Legal Aid, Sentencing and Punishment of Offenders Act 2012* and the Health and Safety Executive's (HSE) 'Fee for Intervention', which could leave companies facing large legal bills."

Robert Nicholls, sales and underwriting manager at Abbey Legal Protection, added: "We pride ourselves on providing flexible solutions for affinity sectors. Working with the knowledge of Towergate Insurance has enabled us to create a legal insurance product and service for the transport sector which until now has been lacking."

## RSA adds to fight against fraud with commercial crime protection policy

RSA has launched a new commercial crime protection policy to provide insurance for businesses against fraud, dishonesty or malicious acts. The provider claimed that the broad cover will help companies mitigate the financial impact of such crimes.

The all risks policy covers companies for direct financial losses suffered as the result of a crime committed by anyone, not just their employees.

The provider detailed that the new product included a suite of extensions such as client cover, identity theft costs, commercial disruption costs and malicious

data damage costs, all of which are provided as standard. It added that it could provide up to £20m worth of capacity for each policyholder.

Pat Brice, director of professional and financial risks at RSA, said: "Crime is an on-going threat to businesses of all shapes and sizes, so the importance of putting in place robust insurance cover should not be underestimated.

"We recognise that the nature of what is perceived as crime is changing, with relatively new risks such as virtual malicious activity becoming an increasingly common threat."



# Groupama drives into classic vehicles market

Groupama has set its sights on classic vehicles with the launch of Optima Classic Car and Optima Classic Bike policies. The insurer claimed there was a target market of over one million vehicles and that it was delivering the first classic vehicle policies offered with full-cycle EDI.

Both policies include agreed value, a limited mileage option, flexible repair options and toolbox cover. They have been launched with EDI initially on Transactor with roll out to other major software houses planned for later in the spring. The cover is available for vehicles that are over 25-years-old.

Kevin Kiernan, director of personal lines at Groupama, said: "We spent a great deal of time talking to brokers, policyholders and enthusiast clubs about what they wanted from a classic car or classic motorcycle policy, recognising

fundamentally that these vehicles are their owners' pride and joy, on the road infrequently and always treated with care."

In a separate development, the insurer also revealed that it had extended the range of Optima Small Fleet making the product available for well-managed small fleets of up to 25 vehicles.

Dawn Dillaway, head of commercial underwriting at Groupama Insurances, commented: "Feedback from our brokers identified a demand for a wider range of fleet sizes, so we have increased the maximum number of vehicles we can cover under Optima Small Fleet from 15 to 25 for new business and 30 for renewals.

"This move provides opportunities for brokers to target a broader range of businesses that have a good claims history and proactive fleet management."

# Plum Underwriting eyes mid net worth household insurance market

Plum Underwriting has refocused its attention on the mid net worth (MNW) market with the launch of Amethyst. The specialist household insurance provider launched the MNW product, backed by capacity from Lloyd's, after incorporating feedback from supporting brokers.

The worldwide all risks policy comes with Plum's commitment to individually underwrite every risk.

Managing director at Plum, David Whitaker, said: "Amethyst has been carefully designed and priced so that it will meet the expectations of our brokers and their most demanding private clients.

"We are re-focusing and completely refreshing our offering within the MNW market. The success of our Flex and HomeWorks products have seen Plum become the broker of choice for specialist home insurance."

Mr Whittaker admitted that Amethyst addressed what had



previously been an important gap in the provider's product offering. "As such it is far more than just an updated version of our previous MNW product Elite, it represents a step-change with significantly fewer limitations, much higher policy limits and new automatic cover extensions," he continued.

"At a time when home insurance is increasingly seen as a packaged, system driven and machine rated commodity, we remain committed to supporting UK brokers and to helping them to address this lucrative segment of the personal lines market."

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## MARKET ANALYSIS

# New challenges

● The January edition of Market moves obviously riled insurers. Not happy at seeing their column inches quite frankly pulverised by those of brokers, the providers have hit back with a string of senior announcements.

While it is always nice to see the combative nature of the insurance companies coming to the fore, once again their efforts have been in vain. Their broker colleagues have won the day with a quite astounding volume

of career moves. Clearly the 2013 resolution among the broking fraternity has been to find a new challenge.

Unearthing a trend in among consolidators swooping for new chiefs and parting ways with

former leaders, or regional brokers appointing up to 10 members of staff has been nigh on impossible. At almost every level of seniority, in every discipline, there were changes. Lots and lots and lots of them. Happy reading.



Peter Grocock



Nigel Brown



Alastair Drew



Nikki Maskery



Simon Collings



Scott Leonard

It is almost beyond the limits of human intelligence to know where to start such was the avalanche of moves last month. Willis set the bar pretty high with its appointment of Zurich's **David Martin** as chairman and CEO of its UK retail business. Mr Martin previously led Zurich's global sales and distribution for its general insurance business and is no stranger to broking having also worked at Aon. He replaced **Dan Wilkinson** who, funnily enough, jumped the insurer fence in the opposite direction last December when he moved from Willis to the role of mid-market regions director at RSA.

Speaking of Aon, it also made the news with two different appointments. The broking giant unveiled a new role with Aon Risk Solutions, appointing **Peter Grocock** as branch director for its Bristol office. And it looked to the US for a new executive director of its insurance company practice. **Erica White** crossed the Atlantic for the role with a remit for driving new business.

Another on the merry go round swapping one view for another was **Tim Grant**. Having left Dual Corporate Risks last May to "take a career break and travel" he arrived on the broking side of the fence with Professional Insurance Agents (PIA) where he is now interim chief operating officer.

Another broker in a double market move was Eastwood & Partners. At the start of the year it appointed **Gordon Brain** as commercial manager. He was previously group broking director at Henderson Insurance Brokers. Towards the end of January the broker also unveiled a new Halifax office to be led by senior account executive **Andrew Templeton**, formerly of Romero Insurance Brokers.

Down the road (actually about 80 miles from Halifax to be fair), Derby-based Bell & Co was busy chasing GWP growth with a quartet of hires. **Jade Brown** has been named head of professional indemnity, **Stephen Thomas** and **Simon Hodds** have both joined from Willis, in the roles of corporate

account director and corporate account manager respectively, while former Swinton branch manager **Richard Stonier** has been appointed to the SME commercial team.

The region was clearly a hotbed of desk swapping as JLT Specialty appointed **Mark Wilson** as an account executive in its Nottingham risk practice.

Further south, Alan Boswell Group made two senior management appointments. Like Aon's move in Bristol these were newly-created roles. Ex-Aviva employee **Nigel Brown** came on board as technical manager while **Alastair Drew** joined as group financial controller. Both will be based at the firm's Norwich head office.

And further south still, schemes specialist Henry Seymour promoted **Dean Laming** to the role of managing director. He stepped up from the position of commercial director for the Croydon-based broker while former MD **Stella Vickers** took on the role of financial director.

Meanwhile, around the corner – well okay, not quite literally – Temporary Cover took similar actions promoting **Nikki Maskery** to the position of operations director after five years with the company.

Just as location was no barrier to moving career so there was no central theme by discipline in this momentous month for broker moves. High net worth broker Smith Greenfield swooped for **Louise Daines** as a private client adviser, joining from esure. And Miller Insurance confirmed the appointment of **Simon Collings** to its corporate risks team to lead the casualty offering. He slipped across from JLT.

Regular readers of the column will know there remain two broking names yet to be mentioned without whom it is bordering on illegal to complete Market moves. And they haven't disappointed. Towergate got busy parting ways with regional managing director for the Midlands **Paul Watts**, **Mike Smith** from the



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post of managing director for the Nottingham office and Sutton Coldfield managing director **Mark Minton**. Incoming was **Scott Leonard**, as private clients director. He used to be the underwriting manager of the high net worth team at Aviva.

And then there is Lorica. It kicked off the New Year with 10 appointments. In among the deluge of appointees were **Karen Thompson**, the new head of network sales, and **Mark Thomas**, an account executive. Both will be based in the Leeds office and have joined from – wait for it, that’s right, the symmetry works – Towergate.

Which hardly leaves any space for insurers despite their sterling efforts. Ageas unleashed a flurry of changes (see box) while Ecclesiastical announced the upcoming departure of group chief executive officer **Michael Tripp** who will retire this year. He has been at the insurer since 2007 and with the recruitment process now underway is remaining in role to prepare for a “smooth handover”. As one insurer door opens so another closes. And as Mr Tripp departs, sort of, so **Simon Cooter** enters. Having left QBE in July

last year he has now joined Covéa Insurance as commercial lines director. He was not the only new arrival last month as fraud-fighter **Steve Jackson** also joined the provider as head of financial crime. Mr Jackson was previously at Equity Insurance Group. Meanwhile both L&G and the Co-operative Insurance chipped in with promotions. The former named **Diane Buckley** as managing director general insurance. She was previously managing director of L&G’s group protection business.

The latter appointed **Mark Summerfield** as managing director replacing current MD **David Neave** whose departure was announced in December last year, although he will remain in the role until mid-2013.

And a cheeky Aviva focus to finish this section. The insurer appointed **Susan Penwarden** as chief underwriting officer for commercial, corporate and specialty lines. She joins from RSA.

Whereas AIG unveiled former Aviva director of strategic partnerships **Adam Winslow** as distribution director, charged with developing “stronger and deeper relationships” with brokers.

## MARKET FOCUS AGEAS



From left to right: **Barry Smith**, **Andy Watson**, **François-Xavier Boisseau** and **Mark Cliff**

● **Barry Smith** has been appointed to the newly created role of chief operating officer of Ageas Group and **Andy Watson** has been appointed chief executive officer of Ageas UK. In addition, the provider revealed that, by the beginning of April 2013, **Mark Cliff** will become chief executive officer of Ageas retail and distribution and **François-Xavier Boisseau** will become chief executive officer of insurance, with responsibility for Ageas Insurance and Groupama Insurances. Mr Watson was previously managing director of Ageas UK retail, and will continue to report into Mr Smith while both Mr Boisseau and Mr Cliff will report to him.

Mr Watson commented: “It’s an exciting time for Ageas UK as we continue to expand our business and a real privilege to be leading it through the next phase of its progression. The new roles for Mark and François reflect their expertise and experience, with François managing our growing technical capability and Mark strengthening relationships with our broker and affinity customers as well as our owned brands. Together with Barry’s new role, the continuity within the UK and Ageas group will be further strengthened. We also have great support from our brokers and partners in the UK and we will continue to work in genuine partnership with them.”



**Michael Tripp**



**Simon Cooter**



**Steve Jackson**



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## AVIVA

# Should Aviva be broken up?

Tony Cornell looks at the case for a totally separate general insurance business

**“It is perhaps notable that during this lack of long-term leadership, the whole commercial market has drifted downwards”**

“Companies that are quoted on the stock market are highly visible and there is an instant and updated view of how they are performing. Chief executives are judged on share price by existing and potential investors and it is the ultimate test of their performance in managing the business. Maximising shareholder value should be the driving force but it can often happen that this becomes secondary to the ego needs of the CEO who can spend investors' cash with gay abandon irrespective of a long-term strategy and shareholder returns.

It is interesting to view the insurance market in this context and the major player that demands scrutiny is Aviva plc. Last year, new chairman John McFarlane was appointed and, following the departure of Andrew Moss, he assumed the role of CEO as well. He came from banking and had a fresh attitude to the business. Strategically, he felt that the business was spread too thinly and that it had a large number of underperforming assets. He also assessed that it lacked capital and that it was really difficult to get things done because of a culture of resisting change. He has now appointed a new group CEO, Mark Wilson, ex AIA, from outside the company, who is charged to continue a strategy of change and focus within the business. However, Mr Wilson is a life man with little if any general insurance (GI) experience.

Aviva is the largest general insurer in the UK. It is very strong in SME business controlled by the independent broker sector and can be a major influence on pricing within the market. Since Patrick Snowball departed, the GI business has had a succession of CEOs with their own views on strategy and tactics and it has not been beneficial for the sector that this major player is in a constant state of flux. It is perhaps notable that during this lack of long-term leadership, the whole commercial market has drifted downwards with no one daring to start the much needed hardening.

The changes at Aviva were well overdue and we hope it does not turn out to be a false dawn. Aviva has failed to create any shareholder value for a long time. At the time of the merger between Commercial Union and General Accident, the value of the combined business was £15bn. When it merged with Norwich Union two years later, CGU was valued at £10bn. The new business CGNU (later Aviva) was valued at £19bn. It is now valued at £11bn. If we go back to 1999 and add in NU's separate value, the two groups were worth over £20bn, so the management over the last 13 years have destroyed half the value of the company. The stock market has now virtually recovered to its 2008 high but Aviva has had a dismal time. As the table shows, shares have dropped by 56%. Its only saving grace is it has continued to pay a high dividend. It is no wonder a change at the top was necessary.

Aviva has the dubious advantage of being the only true composite quoted on the UK market and it is difficult to compare with other listed companies. It argues that other European composites have not done well because of the Euro problems. This may be the case but, if Aviva's share price is compared with its competitors in its separate fields, it is again a very poor performer. The three other quoted life companies have outperformed the market over the last five years – Prudential, managed by an ex-Aviva finance director has grown by 29%, Standard Life by 52% and Legal & General by 16%. The major quoted general insurer, RSA, has grown by 13% and the larger Lloyd's quoted companies have collectively grown by over 40%. The specialist personal lines players have also done well – Admiral is up 10% and Direct Line is now 8% above their flotation price. Aviva has spectacularly underperformed compared to the specialist life market, the general insurer and Lloyd's market, as well as the specialist personal lines insurers.

On these figures, there must be a real case for breaking up the business into financial services and GI. Management egos have dismissed this in the past as it reduces their empires but the new team may commit to growing value through a tighter focus and a will to develop profitable businesses. A split business could recruit the best management in each of its sectors rather than having to ensure life expertise. It could even float off Quote Me Happy to form another direct personal lines insurer. Without the shackles of being part of a composite group, the three separate businesses would be accountable, comparable to peer competitors and have to be disciplined because of more focused and intense scrutiny.

This will take time, but in the meantime let us hope that the return on capital on its UK commercial operation is under the spotlight and the market leader has the courage to lead the hardening of the market that is desperately required by all players.”

Email: [tony.cornell@btinternet.com](mailto:tony.cornell@btinternet.com)

## ● Tony Cornell of Cornell Consulting

Tony has been working in insurance for more than 50 years and is widely regarded as one of the foremost experts in the distribution of UK commercial insurance. He set up Cornell Consulting in 1999 and has been writing for *Insurance Age* for over 10 years.

### Comparative share price performance of UK quoted insurers.

Name	Share price 01/01/2008	Share Price 06/01/2013	Change (%)	Market Cap (£bn)
Aviva	673p	386p	-56	11.39
Prudential	712p	918p	29	23.48
Standard Life	231p	352p	52	8.30
L & G	130p	151p	16	8.93
RSA	112p	127p	13	4.58
Hiscox	280p	460p	64	1.82
Amlin	298p	389p	31	1.93
Catlin	383p	513p	34	1.86
Admiral	1100p	1202p	9	3.29
Direct Line	198p*	214p	8	3.21

\*Flotation price 10/12





## COMMERCIAL RATES

# On the increase

If insurers' results reveal poor COR performance in commercial, will it prompt rating increases? **Peter Hubbard** asks

“ Even the Oracle at Delphi – the greatest seer in the ancient world – might have thrown up her hands in exasperation at being asked to predict a positive outlook for commercial rates this year. And, adding insult to injury, Ernst & Young pointed to a further 5% drop in insurer profitability this year, making a cumulative 12% fall in the last two years. How low can it go before commercial insurers act on rating?

Certainly there were some signs of stress among an increasing number of commercial players at the 2012 half year. And then, even the usually unflappable Andrew Torrance, the long serving Allianz UK CEO, called the provider's commercial combined operating ratio (COR) performance “unacceptably poor” in its third quarter results.

There is still capital in the commercial space, but the big question before this year's annual reporting round is whether profitability has reduced enough to erode the remaining capital and force rates back up.

Sure, there are pockets that will experience rating pressure (such as commercial property), but not many. Moreover, long-awaited government liability reforms won't impact claims inflation for some time yet, and at a macro level, small business performance is static, thanks to depressed GDP growth and lack of confidence. It's very hard for brokers to persuade their clients to accept rate increases.

Composite insurers have, for the most part, shown gains from improved motor performance, which has helped to offset deteriorating commercial results, but that won't be the case going into 2013. Though motor rates are still higher than they were three years ago, they have flattened out. Scale players like Direct Line Group have lost volume to improve underwriting performance, but motor is not going to ride to the rescue for most providers any time soon.

There is also a residual worry about smaller commercial insurers subsuming their

losses into the rest of the portfolio, enabling them to withstand poor performance for longer than the bigger commercial players.

What is the impact on brokers? I think the local broker, directly linked to their customers, will become even better placed to maintain their positions and even get rate increases via skilled relationship management. A bigger, more centralised strategy inevitably impacts the front-end relationship. Local is the new black.

As we approach the year-end reporting season, insurers' commercial performance should be studied even more intently than usual. Will significant erosion in commercial reserves, coupled with rapid claims inflation, push CORs over 100% from the 96-99% level at the half year? If CORs have worsened and start to nudge 105%, I believe that will be the trigger for significant commercial rating increases. If not, we'll need to wait for another year.

*Peter Hubbard, chief executive, UK General Insurance*

## CONSUMER INSURANCE ACT

# Time to Act

A seismic change to the way brokers operate is due in April, but the industry doesn't appear to be ready, says **Stephen Netherway**

“ When in 2005 ‘GI Day’ dominated the news agenda and Financial Services Authority regulation took over from the previous GISC (General Insurance Standards Council) regime, brokers couldn't move for advice and suggestions about how to cope. The industry was left in no uncertain terms that the new Insurance Conduct of Business Rules would, through compliance costs and other expenses, impact their bottom line and make doing business a considerably trickier affair.

Fast forward to 2013 and a similar red-letter day looms with the *Consumer Insurance (Disclosure and Representations) Act 2012*, still scheduled to come into force in April. But this time the arrival has been marked by considerably less fanfare despite it representing, in my view, an equally seismic change to the way we operate.

On a technical level it all seems straightforward. The established law on the duty of utmost good faith will no longer apply to consumer insurance. Insurers are

expected to ask clear and specific questions to elicit information and effectively a statutory ‘permission’ will be introduced for consumers to make ‘honest but reasonable misrepresentations’.

But the devil is the impact on insurers' commercial operations and on those brokers who may be charged with administering such

**“The naked intention behind the Act is to increase the number of claims being paid out to consumers”**

consumer books. This is where they will need to look in the mirror.

The naked intention behind the Act is to increase the number of claims being paid out to consumers. That alone will have a dramatic impact on margins – have commercial expectations been managed? How can margins and commissions be preserved? Woe betide the broker who is

unable to explain that rising claims are nothing to do with their own approach to client selection or broker performance but a natural consequence of a deliberate legislative change.

The new regime will compel brokers to update, among other things, point-of-sale documentation, websites and telephone transcripts and clarify processes for placements, mid-term adjustments and renewals.

But the Act also raises questions about whether enough resources will be available for brokers to investigate and pay an increased number of claims. How can they get certainty on whether a misrepresentation is reasonable when it depends on the type of person who made it?

All of these will lead to commercial costs that will need to be priced into margins and the returns that insurers will expect – should you be speaking to your insurer contacts now?

*Stephen Netherway, head of the insurance and reinsurance group at CMS Cameron McKenna*



ROUNDTABLE LONDON

ATTENDEES

**James Agnew**  
Stackhouse Poland  
**Bryan Banbury**  
Russell Scanlan

**Ashley Cole**  
Aurum Underwriting  
**Justin Gott**  
Hiscox  
**Sonia Kowalski**  
Holman's

**Scott Leonard**  
Towergate Underwriting  
**Tim Mortimer**  
Bluefin  
**Barry O'Neill**  
Home & Legacy

**Clare Pardy**  
Ecclesiastical  
**Bill Wilson**  
Cunningham Lindsey



IAN WINFIELD

# Building relationships

In the high net worth sector, success for brokers is all about nurturing long-term relationships with clients and insurers. **Caitlin Morrison** reports

**Is finding the expertise to operate in the high net worth (HNW) market difficult?**

► **James:** It depends what you're looking for. Brokers are obviously client managers and there are different types of client managers – those with telephone skills, those with relationships skills who are good at getting out to see customers.

One of the key things is getting good people and then giving them training over a period of time to get them to where they need to be. That does take a long-term investment.

► **Tim:** You can acquire someone who's the finished article and will bring a book of business. Or you can go the organic route and pick someone with the right attitude, the

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**“It's a big, big frustration finding an underwriter who can have a conversation in the old-fashioned way. We may be dinosaurs but our business is about relationships”**

**James Agnew**

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right behaviours and professionalism and you train them up insurance-wise. You don't want to buy too many of the top-notch finished articles because they can be very expensive, but you certainly want one or two of them around to teach the others.

► **Sonia:** It's a fairly small pond to fish from to be honest. There's not that many highly qualified HNW brokers and underwriters around and they tend to play musical chairs. Particularly with the insurers, the underwriters have probably all worked for the top three at some point.

► **Clare:** [When recruiting] I tend to always sell it on the art side. Then it brings in people





who are very bright, always engaged, who've got an art background. We've recruited two or three people who would never have necessarily been attracted to insurance, but it's suddenly all about art and that can make all the difference.

You obviously need the insurance professionals as well but it's quite good to have a mix, as you then get people who are more lateral thinkers and who bring in new ideas.

► **Bill:** One of the issues that we've all got is succession planning. So you need to try and identify the younger people to train them up. And coming from the loss adjuster side of things, it's about specialist skills. Where is the next expert coming from? It's incumbent upon us to have a look at that.

► **Ashley:** You can instil a way and a thought process and a function, but it's [about] finding the people who've got the charisma, the drive and enthusiasm to actually execute what you want to eventually teach them.

► **Justin:** We set up a graduate training structure a couple of years back, and the quality of people now coming into the industry has improved greatly. Part of it is because of the changes in what's happening in banking, and part of it is we have got better at selling ourselves as an industry.

#### Has technology made an impact on the HNW market?

► **James:** Technology is good and bad, I'm not such a great fan of it, per se. I find a lot of insurance underwriters are hiding behind technology and it's a big, big frustration finding an underwriter who can have a conversation in the old-fashioned way. We may be dinosaurs but our business is about relationships.

► **Bryan:** Underwriters need to remember that we're talking about people, in their homes, with day-to-day problems. Insurance is something that should be dealt with quickly and easily. Underwriters have got to understand that these are real people with other problems.

► **Bill:** A key driver is that it's the customer's choice. If they choose to do business online that's fine, but if they choose to interact with the broker, you need the people skills.

#### Is client retention less of an issue when it comes to the HNW market?

► **James:** I'd strongly disagree with that. I work in all sectors, and it's about how you deal with the client, how good you are at your job, your professionalism. I don't think the HNW sector is more sticky than any other sector. There's a historic view that retention rates are higher but if you're passionate about a client and you can serve them in a way that makes them happy then it doesn't matter what sector you're in.

## "We've looked at the market and we reckon there are about half a million HNW customers in the UK and 80% of those don't use a HNW insurer"

Justin Gott

► **Sonia:** It is actually easier on the HNW side because you do build up a relationship with a client and they value you. There is that loyalty there, you're going into people's houses, they're inviting you into their homes and you're seeing their most treasured possessions. They see you as a real asset.

► **Justin:** But what we've got round the table is a bunch of good brokers who do invest time and expertise. Not all brokers do that because they don't have that philosophy and values that mean they develop that personal relationship. If you had some other brokers here it might be a slightly different answer.

#### Are HNW clients more demanding?

► **Bryan:** All clients are different. Some of them are very demanding, and some of them are not. You deal with them the way they want to be dealt with and you make sure they're looked after. The insurance should be easy, you make it easy for them and they'll keep coming back.

► **Justin:** That's what they're paying for, expertise, knowledge and markets they

#### From left to right: Bryan Banbury, Clare Pardy, Sonia Kowalski, Justin Gott, Bill Wilson, Barry O'Neill, Tim Mortimer, Ashley Cole, James Agnew and Scott Leonard

couldn't otherwise access. And they're paying for those things so personally I think they have a right to be demanding.

► **Scott:** It's a bit of a cliché, but they are actually paying for the broker to give them peace of mind. If you're [buying insurance] online and you're just tapping a button, you go away thinking 'I think that's okay, it's probably covered me'. But when you've had a conversation with a broker you walk away thinking 'yes, it's sorted, I trust this guy, he's told me it's fine, that's all there is to know', the document goes in the drawer at home and there's no need to read it.

#### Is finding new business more difficult?

► **Justin:** We've looked at the market and we reckon there are about half a million HNW customers in the UK and 80% of those don't use a HNW insurer so they're with consumer brands. They're with direct writers, composites, banks and building societies. There's a real opportunity for us to open up the market to these people.

► **Clare:** That is partly because as an industry we are so bad at PR. What amazes me is how quite often when something gets pinched it transpires that it hasn't been insured. The classic follow-up line is always 'because it's too expensive'. We're actually not terribly good at countering that and saying 'no, it's not too expensive'.

► **Ashley:** Paying the premium that they think is too expensive could actually be the best investment they have ever made.

► **Scott:** There's an issue with the terms we use, whether it's high net worth, private client, mid net worth. These terms mean an awful lot to us, but I've spoken to a lot of people, when I tell them they should have HNW cover, they say 'Oh no, that's for other people'.

#### Do you see a lot of new entrants to this market?

► **Tim:** There are a lot more brokers trying to get into the market and a lot more agencies ►

average lacklustre  
mediocre vanilla  
run-of-the-mill wishy-washy  
beige ho-hum  
snoresville  
commonplace lame  
no value-added old hat  
yadda yadda  
same old, same old

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being given out. I'm not saying it's a bad thing, more competition is not a bad thing. But equally, when we're investing in lots and lots of good things, people, service, technology, etc, then to have someone come in and put a pretend service in front of [customers] is something we don't like to see.

► **James:** It takes time to get a lot of expertise. I don't think we've seen many new HNW specialists zoom up in the past few years. I haven't seen anyone particularly dominant.

► **Bryan:** We've seen one or two brokers start, not get the right people, then draw back in again because it's all about the people. There may be some start-ups [coming] and then a drop back again, I don't see it growing massively.

► **Barry:** There are two types of broker in this scenario, there's the established broker who has a strong client base. Those brokers are good brokers but they may be commercially orientated and maybe don't have a lot of HNW experience. And they want to expand, deepen and widen those relationships with clients. The other group is personal lines brokers who want to become HNW brokers, who are seeking those clients externally. The first type of broker can gradually grow their capability and relationships and build their account. The second kind is where the really hard to enter stuff is because they haven't got the client base to cross-sell to.

They haven't got the skill base within their existing business to handle cross-selling properly.

#### What do brokers need from the insurers they work with?

► **James:** It's very easy. They need turnaround service, and they need the service to be accurate, so MTAs need to be accurate.

### “What brokers want from underwriters is common sense and flexibility, and the ability to listen. It's surprising sometimes that you don't get that”

Sonia Kowalski

► **Scott:** It's a relationship, the same as it is with the broker to the client. The broker/insurer relationship is just as important in trust and integrity.

► **Clare:** It works on both sides. Too many brokers, particularly the larger ones, instead of knowing instantly which is the right market are sending risks out to 10 [insurers].

**From left to right: Bryan Banbury, Barry O'Neill, Scott Leonard, Ashley Cole, Clare Pardy, Sonia Kowalski, Bill Wilson, Tim Mortimer, James Agnew and Justin Gott.**

This means that we've got less time to deal with the serious quotes coming from people who actually understand what we do. You're bogged down with all these risks that are absolutely meaningless.

► **Sonia:** What brokers want from underwriters is common sense and flexibility, and the ability to listen. It's surprising sometimes that you don't get that. But I prize it really highly among the people that I deal with and you can really build up a good relationship on that. I've done broking and I've done underwriting, so I can see it from both sides. It surprises me sometimes that you're dealing with someone who hasn't been doing it for very long and you're actually teaching them, trying to lead them down the right road, because they don't actually know what they're doing.

#### Are rates improving in the market?

► **James:** There have been significant rate rises in the current economic environment. It's stabilising but we have seen most insurers look for rate in the last three or four years to get to the underwriting results they need.

► **Sonia:** They've all had a go at increasing the rates but I think it's a little bit soft at the moment, and trying to sell a 5% increase at the moment is a hard slog. We're having to negotiate on renewals and five years ago we didn't have to do that. It was so much easier, but now you really have to work to keep the business that you've got. It's the toughest market I've seen in 30-odd years.

► **Scott:** There's a softening in the new rating. There's an awful lot of aggression in the rating for new business, in the existing business it has been fairly consistent.

► **Justin:** It's a strange situation. We're in a global recession, plus you've got far too much capacity in the business that we're all in, and there's going to be a crunch somewhere. In my mind, I buy insurance, and what I want is consistency. I think it's important that we give that to our clients as well. ■

## NEVER KNOWINGLY UNDERINSURED?

### Does the entry of John Lewis into the market worry you?

► **Barry:** The key thing is who sits behind them. If [the offering] is delivered by an established broker then it could work. If you get strong brand loyalty at the front end and high quality delivery by specialists at the back end it can be a marriage made in heaven.

► **Justin:** It's a relatively new offering. It's about when people start having claims, what they do and how people feel about it. If that gets messed up, then they will be finished.

► **Bill:** Any new start-up would say it's important to get the claims solution sorted before you go to the market, because as soon

as a claim comes in if you don't deliver you've damaged your brand. You only get one go when you're launching.

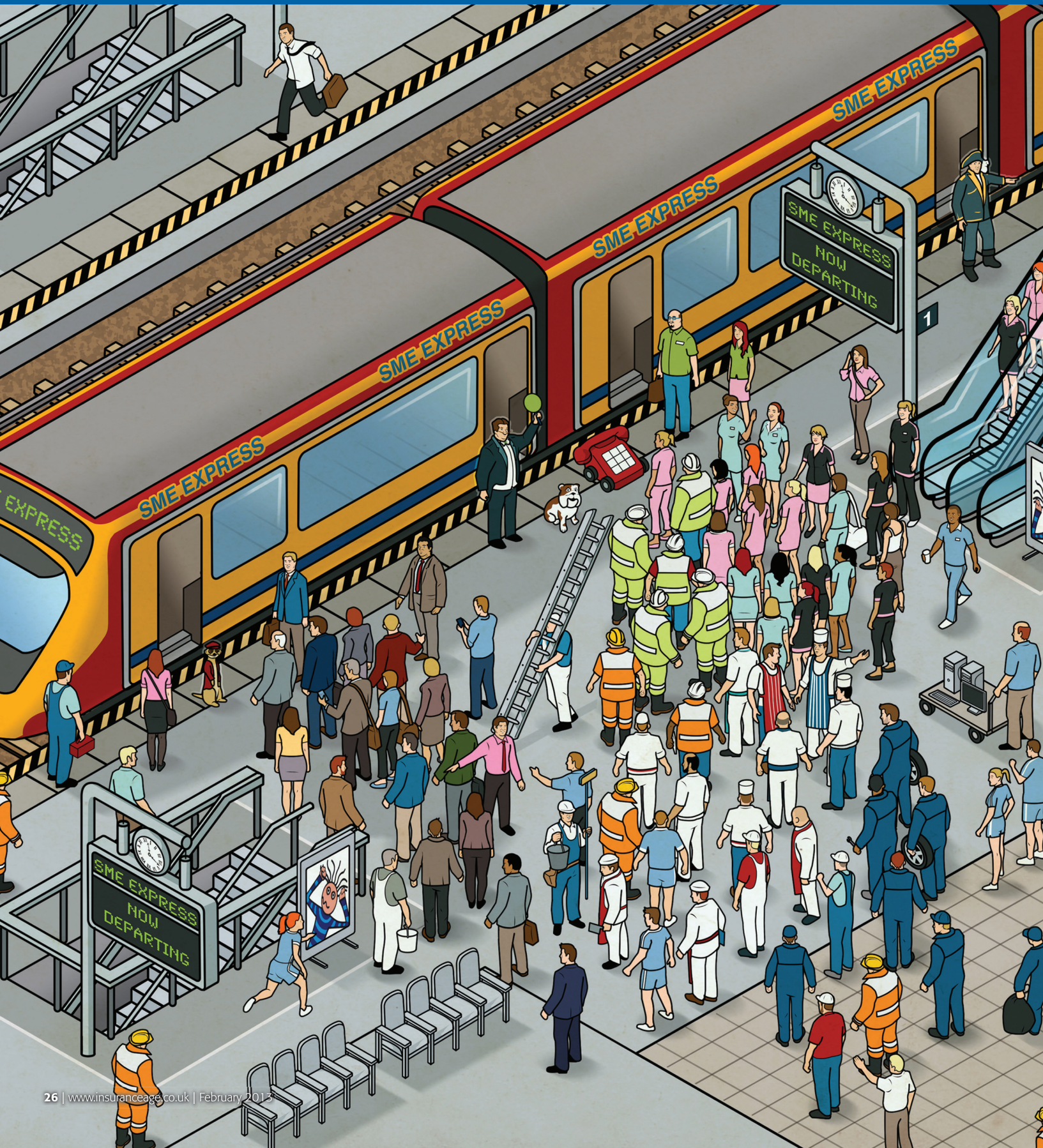
► **Clare:** Insurance is about making a tick on a list for some people. They're not necessarily looking at what can go wrong and whether they're getting the best deal. They just think they have to organise their insurance and why not go to somebody they've heard of?

► **Scott:** It is conceivable that we could benefit from it. If the likes of John Lewis bring people in at the bottom end and they realise that they like that little bit extra and then they move into the genuine HNW market – they could be doing some of the groundwork for us.



# In-depth | SME

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# All aboard the SME express

Competition for SME business is hotting up as small businesses start turning to the internet to shop for insurance, but should brokers be concentrating on the customer or the competition?

**Caitlin Morrison** reports

**S**MEs are constantly being bombarded with new ways to purchase their insurance, new amazing deals on their premiums, and new incredible promises on what providers can deliver to them.

For brokers, it can feel like a perennial game of catch-up, with too many participants to keep track of. Do they focus on their competition? Or the businesses they are trying to draw in? Is there even any point in being involved in the SME market?

Yes, is the resounding answer from the industry, but brokers must be prepared to put a lot of thought and energy into making a success of their SME ventures.

There are a number of options when it comes to attracting SME business, but it seems these options can be fairly neatly divided into two categories – a targeted, well-researched approach to specific market areas, or a ‘just get the business on the books’ method.

According to many market insiders, the scattergun approach has long been abandoned as brokers and SMEs alike try to make their operations more efficient in the current tough economy – although most agree that community brokers who are familiar with their local businesses can usually afford to carry on targeting a wide-ranging client base.

Andrew Crompton, managing director of Bolton-based insurance broker Watson Laurie, admits that, in the past, the firm operated on a trial and error basis.

However, this has changed: “Now we really look at areas of the market to see where there are issues that we can help resolve.”

Mr Crompton concedes that it is a more time-consuming way of bringing in business, but explains that it ultimately makes it easier to “cut to the chase and see whether you are flying kites or not”.

Furthermore, putting time and effort into researching a market increases clients’ trust in a broker, which in turn helps their chances of gaining further new business through referrals.

## New sectors

One way to ease the burden of researching new sectors is to get involved with affiliation groups, and Martyn Denney, head of Marsh’s networks team, believes that brokers are continuing to improve in this regard.

Mr Denney points out that SMEs have become “much more savvy” in looking for advice on their business needs, and adds: “There’s a lot more advice out there on the risks they face, available from the government and from trade bodies.”

However, going down the affiliation route is still a massive boon to brokers because, says Mr Denney, “they are marketing to a customer base that is more interested in reading about what they do”.

“We would certainly support our brokers in partnering with affiliation groups,” he states. “But they need to view it very objectively as to what groups they are getting involved with.”

It is clear that brokers should take every precaution to make sure that the affiliation

groups they decide to work with have “an actual affiliation”, as Mr Denney terms it. There is no point embarking on a partnership with a group if its members do not have the “emotional connection” whereby they will accept the advice on insurance.

There can be confusion between whether a group of companies comprises an affiliation or merely a database, although for brokers with deeper pockets, a database can still prove to be a very useful tool.

Of course, there are other ways in which brokers can make their SME business more efficient, not least of which is the way it is transacted.

Many SMEs are extremely time-poor, and so face-to-face meetings with intermediaries are little more than irritations to be avoided at all costs. Instead, brokers should be taking advantage of the internet in dealing with SME clients.

Andy Jenkins, operations director at Russell Scanlan, is in charge of introducing efficiency measures to the broker, and claims the small business unit has been the net beneficiary of changes within the firm.

“We realised that to process and transact SME business in the traditional way was just totally inefficient,” he explains. “More and more of our clients are communicating with us via email.”

While SMEs have the same complex insurance needs as their larger counterparts, their operating models can be quite different.

“Research shows a lot of administrative work is done outside of the 9 to 5 timeframe, so [brokers] have got to find the times that suit the people that are looking for their help,” states Mr Jenkins. “You need to think creatively about things like that.”

And Ashwin Mistry, chairman and managing director at Brokerbilty, advises ►

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**“To process and transact SME business in the traditional way was just totally inefficient”**

**Andy Jenkins**

brokers to apply more creativity to all aspects of their firms.

According to Mr Mistry, brokers need to “look at their businesses as businesses”. They need to know the rate of return they can expect from dealing in certain market sectors, which of those sectors they are most comfortable operating in, the kind of staff needed and, perhaps most importantly, the products that will draw in computer-literate, price-conscious customers who carry out their own research online.

“There has been the beginning of a commercial creep to aggregator websites,” says Mr Mistry.

“Brokers need to decide whether they are going to invest in products that respond to what’s available online.”

With SME, the problem that commentators come back to time and time again is price – because it is usually to blame for the drift towards online purchasing. And as commoditisation comes in across the board then aggregation can only be a matter of time.

SMEs at the smaller end of the scale are the most affected and thus influenced by cost, leaving brokers with a decision to make. Is it worth selling to businesses of this size, given that premiums are likely to be minimal?

Margins in the SME space are very tight, and Neil Johnstone, managing director at Lorega, does not foresee a quick return to SMEs having much spare cash at their disposal.

This can have a knock-on effect when it comes to service.

“It’s difficult for brokers to invest a lot of resource when a customer of small wealth makes a claim,” Mr Johnstone explains.

Certainly on the sales side of the equation there is no point in a broker over-extending themselves for little to nothing in return.

Mike Owen, head of Bluefin Solutions, states: “The key for us is to find where we can add value – can we add value at the bottom end? Probably not.”



Mike Owen

**“We have to adapt the way in which we deliver service and product both in line with our need to make a profit but more importantly in line with customer expectation”**

## Looking ahead

### Are rates improving? Is the SME market looking brighter?

● As seems to be the case with anything SME-related, it is difficult to get a firm consensus on the direction the market is headed in, but it seems to be fairly positive.

As Richard Coleman, director for SME commercial broker at Zurich, points out: “There are less crazy decisions being made out there.”

And while there haven’t been many new start-ups launching, or new capacity entering the market, Mr Coleman does not see this as being necessarily negative: “It’s unclear whether that’s a capacity issue or a talent issue - is all the talent already in the industry?”

“I don’t think customers are short on choice at the moment so it’s not particularly concerning.”

Graeme Durlacher, small business development manager at Allianz, offers a mixed view of the situation: “There are areas you can see where [rates are] very positive, and other areas where we would like to see more catching up.”

While Allianz’s business has grown, he feels there is still too much capacity in the market place: “It’s very competitive.”

Brokerability’s Mr Mistry feels that there is a lot of global pressure on rates to stay where they are, and states that he does not expect to see rates going up by any more than 2-3% over the next 18 months. However, he is looking forward to the year ahead: “It will be an interesting 2013 - you can see by the number of revolving doors that it’s a very dynamic market.”

And finally Bluefin’s Mr Owen advises market observers to avoid becoming overly optimistic, although he has seen signs of rate hardening in the SME sector, quipping: “I’m a Welshman and I’m a Welsh rugby supporter and I’ve seen false dawns before.”

Many brokers have given up on the micro end of the SME market, but most feel that anything above this is still worth chasing.

He continues: “I personally believe that the complexity of business insurance is such that, at some point, people will gather their information online but they will come offline to trade.

“We have to adapt the way in which we deliver service and product both in line with our need to make a profit but more importantly in line with customer expectation.”

### Fees or commission?

One of the solutions offered to brokers who are struggling to profit from SME business is charging fees instead of commission.

However, this was dismissed as “an irrelevance” by insiders across the market.

Mr Denney summarises his position as such: “I think more and more clients will just start asking brokers what they are earning on a piece of business.

“Clients will look at the transaction and ask ‘Does this feel fair?’”

And although increases in price may be unpalatable to most business owners, regardless of the economic climate, if a client is already on board and experiencing the best service a broker can offer, they are unlikely to be driven away by a justified step up in premium.

If a broker can keep an SME on the books until the point of a claim, at which time said broker proves their worth by resolving everything in as timely and neatly a fashion as possible, then it is highly probable that a long-term broker/client relationship has been cemented.

But how do you maintain that relationship? Even those set in stone can crumble.

Communication is the key. The growth of email as a means of staying in contact with customers has already been touched on, but Mr Denney feels that brokers can benefit from looking at the attributes for which they have long been known.

“Brokers have always had a customer pipeline because they have always been excellent networkers,” he expands.

“More and more they are doing something with that pipeline – they are keeping in touch, sending information, trying to build up a relationship before they want the customer’s business at renewal time.

“Brokers do a great job of dealing with clients’ risks, they just need to do a better job of explaining that to the client.”

Not an entirely gloomy outlook for brokers then, but for those seeking a quiet life, perhaps SME is a market best left untapped. ■





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# The tech solution

Brokers may feel like they are being squeezed out in the fight for the SME market, but technology could help them stay competitive with direct providers and aggregators, explains **Andrew Pearce**

The steady squeeze on the SME market from direct providers has stiffened competition for brokers' bread and butter business.

But it appears that brokers are not overly worried about losing business at the hands of hungry meerkats or greedy Gio Compario. And they are certainly not lying down and accepting defeat. Instead, optimism is rife that opportunity still abounds within this increasingly crowded arena. It is easy to see why. In 2011, the SME insurance market was estimated to be worth £5.4bn GWP with SMEs accounting for 99.9% of all private sector businesses in the UK.

And, aside from the raw data, it is difficult to argue against the technology and innovations being employed by brokers and insurers from the micro end up to ensure that today's SME customers don't become tomorrow's aggregator converts.

Indeed, wholesale broker Keelan Westall has seen its residential trading platform Dynamic enjoy steady growth since its January 2012 launch.

According to the firm's managing director Wayne Tonge, the online technology now boasts 400 broker users, representing some 4,500 policyholders.

"Aggregators won't go away, they're here to stay and brokers need to be innovative," he explains. According to Mr Tonge, Keelan Westall has harnessed the advantages of specialising in property owners policies. This niche understanding is one of the key factors he cites as driving its SME success.

"If you select a niche you can really make it work," he assesses. "If you're out here trying to win business in all markets and all sectors it can be difficult – you could be a jack of all trades."

## Niche knowledge

Certainly, as the old saying goes, knowledge is power. Thus a sector specific offering in the SME battlefield can be extremely effective.

And a Zumba quote and bind system is probably about as niche as insurance can become. But this is an area CFC

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**"Aggregators won't go away, they're here to stay and brokers need to be innovative"**

Wayne Tonge

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Underwriting has looked to sew up for brokers since February 2012, with the aid of its in-house transactional platform. In short, this supports quoting, binding, mid-term adjustments, payments and renewals.

CFC underwriting director Andy Holmes is adamant that, coupled with technology, this structured high-volume, low-premium approach, which puts brokers in the middle of the chain system, is crucial in the current environment, especially at the bottom end.

"There's life in the micro sector, but if you're just doing open market micro without the structure, that's tough," explains Mr Holmes. "It's a marriage of technology and insurance."

CFC now counts the likes of Aon, Willis and Marsh among its broker clients. In 2012, it announced it would provide the latter with all of its SME professional indemnity cover. In truth, Mr Holmes readily admits he is often "amazed" by the archaic methods employed by many brokers when it comes to writing SME business.

"Some are still writing on a piece of paper," he insists. "No one is making a profit but people feel duty bound to carry on as it's always been done that way."

Standing out from this crowd is therefore a key component when it comes to securing SME business.

And HCC Insurance – which has also established a niche in speciality insurance markets – offers brokers an online portal to provide quote and bind, renewal and mid-term adjustment capabilities. Its technology also allows brokers to view the whole audit trail of the policy.

Yet Robert Goldhawk, HCC senior underwriter, believes that, along with

## Spotlight on software houses

● It may have taken longer than expected, but the software houses are now beginning to see the fruits of their SME labour.

Certainly, for Simon Macray, insurer liaison manager at Transactor, the shift of commercial lines SME business online was not as rapid as the soothsayers originally predicted.

"Anybody would agree that SME online has not moved as quickly as people have forecast," he explains. "About 12/18 months ago, people didn't expect it to take as long as it did."

However, it would appear that the tide is now turning. By all accounts, increasing quantities of MGAs, insurers and specialist niche providers have entered the market over the past year.

Mr Macray assesses: "More specialised capacity has definitely come onto the market."

"We have certainly seen a big explosion of that new capacity in terms of the number of new MGAs with more non-standard niche products."

Transactor's market view was indeed echoed by fellow software house Acturis. Not only has the technology specialist observed more SME online providers emerge, but the potential of e-traded products is also being pushed.

"We have seen more players come onto the e-traded market," states Jeff McCracken, Acturis' UK sales and marketing manager. "More products are also being enabled for e-trading and insurers also want the footprint and ability of these products to be wider, as well as more distribution channels."

Looking ahead, despite the recent influx of capacity, optimism remains that the commercial market still boasts significant potential over the next 12 months.

"A significant amount of the commercial market is untapped," explains Jason Moseley, head of e-trading, SSP. "There is a drive to look at more complex risks and get these traded in a more automated fashion. The greater action is in the middle-market territory."



## Safeguarding brokers' roles in SME

● SME business is a key segment for many brokers and they remain the dominant distribution channel. But should insurers be doing more to make certain they stay that way?

It is generally accepted that buying from a broker ensures the price is competitive, that customers receive a high level of service and that, most importantly, clients receive advice on which cover is appropriate for their needs. For insurers, supporting brokers goes way beyond magnanimity as bespoke propositions will remain the route of choice for business clients.

There is a lot of talk around commoditisation, but business insurance has many variables. Would an SME buyer necessarily realise a cheaper policy bought direct may have varying elements of cover?

### Immediacy

There is no point in a broker delivering great service if the insurer is unable to offer the facility to produce documentation and support immediately. Insurers must work with brokers to ensure they have the right business models based around efficient technology and should assist them with web development so that there is a joined-up and fully integrated service available.

Providers need to ensure that the Statement of Facts and question sets are straightforward and accessible. In the event of a technical query, brokers should be able to speak to an experienced underwriter straightaway and as a result, be in a position to advise clients in a prompt and professional manner. This means the customer gets accurate guidance from someone they trust – and this is likely to be a far more satisfying experience than having to get through to a traditional call centre.

### Professionalism

This is brokers' major selling point. The term 'trusted professional adviser' is often bandied about, but it needs substance. If a broker is targeting a particular sector, can the insurer bolster expertise and offer cover with real differentiation? There are also considerable benefits if insurers can provide brokers with exceptional training and development opportunities.

There is a lot of lip service around this – and the odd seminar is not going to lead to a market-recognised qualification. It is about long-term commitment on both sides. The Allianz commitment to professionalism – providing scholarships, access to the claims and underwriting academy, and secondments to broking staff – is testament to how partnerships are changing.

These provide the opportunity for us all to gain greater levels of understanding, technical knowledge and wider experience.

But whatever route is chosen, insurers need to make that investment and brokers need to invest time, energy and focus. The pay-off is that ultimately, the broking firm's reputation – and the customer – will be the beneficiaries.

Do they understand the intricacies of business interruption? Do they know if trade credit cover is required and why legal protection is likely to be a necessity?

Clearly, a broker is best placed to advise. They may also provide risk management guidance and support in the event of a claim. Some customers already know this, yet many more won't, even if there is now far more information available online and customers are likely to do some research to ascertain price.

There is an important role for insurers to provide support so that advice from a broker can be safeguarded within the SME marketplace, and these can be categorised as follows:

### Value

The value of the broker proposition to insurers and customers alike is unbeatable in the current market paradigm. What matters is that customers understand what they are paying for and appreciate that choosing to buy from a broker means a superior service and a quality product. However, having some scope to adjust pricing is crucial and, for instance, at Allianz we are providing our brokers with net-rated products allowing them to flex commission as required, helping them bespoke the right combination for individual clients.

### Competition is nothing new

Reports frequently suggest aggregators and direct writers are making a serious play for volume. There is talk of the 'SME battleground' and an overcrowded marketplace.

But there also needs to be some perspective. This is a large market – according to the Federation of Small Businesses, SMEs account for 99.9% of all UK private sector businesses. As for insurance, this sector has always been competitive – direct has been around for years, banks have long been providers and pretty much every broker will want a share of the action.

Of course, online is on the ascendant, but this affects every retailer. SME buyers may feel confident about researching online and they are probably going to be increasingly price conscious. However, their need for advice and first-rate service is unchanged – they simply need to know who provides it.

Insurers can work with brokers in a variety of ways to maximise their potential. Beyond this, brokers have always been skilled at adapting and evolving – with the right strategies, and by working with the right insurers, they are well placed to stay at the forefront.

*David Martin, director, SME markets, Allianz Commercial*

e-trading expertise, old-fashioned business broking principles are also still part of the basic foundations on which SME success should be built.

"Historically, brokers have played an absolutely vital role [in SME business]," he asserts. "You can't commoditise certain products, it's not like the motor market. It's difficult for people running SMEs to make informed decisions."

Crucially, today's SMEs could be tomorrow's multinationals. And no matter

**"You can't commoditise certain products, it's not like the motor market. It's difficult for people running SMEs to make informed decisions"**

**Robert Goldhawk**

how small or innocuous the business appears to brokers, you can bet your last widge that the SME boss in question is passionately protective of his or her creation.

"SME is not SME, they want to be treated with the same respect and understanding as Bill Gates," summarises Mr Goldhawk.

However, it is not just the more niche players that remain positive about the SME business outlook.

Paul Hodgson, director of commercial underwriting at Covéa Insurance, is insistent >

that the growth of aggregators is “by no means the death knell to brokers”.

In particular, Mr Hodgson identifies the challenges brought about by technology as an opportunity.

What's more, the insurer operates in the bespoke SME, micro SME and schemes sectors. Describing many of the schemes and facilities currently being written as “particularly clunky”, Mr Hodgson recognises that lowering costs and boosting efficiency through the broker-insurer SME chain is key to success.

In short, this entails removing duplication from the process, improving data flow and boosting both back and front office functionality to help brokers compete for SME business.

### Word of mouth

Nevertheless, although technical improvements in service infrastructure are clearly vital, it is often easy to forget that for the high street grocer and the sole-trader electrician, much of their business is nurtured through word of mouth.

And thus the need for brokers to widen their reach and distribution through the savvy use of social media – the modern day word of mouth – is now more acute than ever before.

Brokers' ability to do this has been supported and encouraged by Axa, which regularly holds training clubs giving guidance on how broker websites are designed and set up, as well as how they attract leads. Furthermore, a recent white paper written by Ignition – an Axa-owned marketing development firm – set out to tackle brokers' most common web mistakes.

Less than a year ago Amanda Blanc, CEO of Axa Commercial Lines and Personal

### TECH VIEWPOINT

#### NICK GIDDINGS, CEO, POWERPLACE

“There is no escaping that the SME space is competitive. SMEs themselves have become enriched with knowledge and now have the ability to select different routes to purchase insurance cover based on their needs.

“Naturally this has left some brokers with a daunting prospect of either satisfying SMEs or re-thinking their approach to attracting new business.

“We cannot shy away from the fact that the adoption of e-trading for SME still remains a long way short of personal lines volumes.

“However, moving forward as an industry, technology and integration will continue to develop further and in my opinion will define how brokers do business in the future for all markets – not just SME.”

### SME IN NUMBERS

Source: Federation of Small Businesses

At the start of 2012, SMEs accounted

for: **99.9%** of all UK private sector businesses, **59.1%**

of private sector employment,

**48.8%** of private sector turnover. SMEs employed **14.1m**

people and had a combined turnover

of **£1,500bn**. In the

financial and insurance sector, only

**25.3%** of employment was

in SMEs. However, in the agriculture,

forestry and fishing sector virtually

all employment –

**95.4%** – was in SMEs.



**“A broker needs to have a clear strategy. They are thinking more and more about profit and about which insurer is supporting them to understand their products”**

Chris Maguire

Intermediary, warned brokers that they risked losing the SME space to the direct market if they ignored the benefits of e-commerce.

The provider boasts a healthy spread of SME products in its Simple range and Chris Maguire, manager at the insurer's Bolton branch, believes it is the smaller brokers with limited marketing resources that require the most support.

“A broker needs to have a clear strategy,” he ascertains. “They are thinking more and more about profit and about which insurer is supporting them to understand their products. They are then building their placement strategy around that.”

### Who will prevail

Overall, brokers are receiving support from both sides of the insurer spectrum, with niche and established players championing their SME strategies and structures.

Yet, which set-up works best remains open for debate. The composites boast an international brand, coupled with a breadth and scale that specialist players could only dream of. On the other hand, niche players are often recognised for having more direct contact with their brokers, coupled with the ability to operate more swiftly on their feet.

Both spheres will passionately argue their own merits but, as Mr Goldhawk diplomatically assesses: “The correct brokers working with the correct insurers can provide the correct product regardless of whether the insured is an SME or the largest company in the world.”

What is not in doubt though is the continuing importance of SMEs of all sizes to the health and revival of the UK economy. “SMEs are key to the UK's recovery and the insurance industry has to play a part in helping them do so,” summarises RSA SME trading director David Swigciski. “We need to continue to work with any consumer or broker to support the greater good.” ■

### INSURER VIEWPOINT

#### MALCOLM SMITH, COMMERCIAL LINES DIRECTOR, GROUPAMA INSURANCES:

“While aggregators have made some in-roads on micro-SME through partnerships such as Simply Business and Powerplace, there is no indication that aggregators are interested in attacking the SME heartland of core commercial combined and motor fleet products.

“All available research indicates that, other than for simple ‘package’ products, most SMEs lack the knowledge and confidence to assess and place their own commercial insurance and continue to value professional advice and support from brokers.”



# InsuranceAge masterclass **SCHEMES**

18th April – Birmingham  
24th April – Leeds



The InsuranceAge Schemes Masterclass will be a half day event offering expert advice on how to successfully shape your niche in the schemes market, giving you the edge against other brokers. Featuring a range of tailored and expert-led workshops, whether you are a schemes broker or just exploring this potentially lucrative opportunity, the event will give you the tools to get started or take the next step.

#### Benefits of a successful scheme:

- For the customer, there is the advantage of obtaining cover that neatly meets their requirements
- For insurers and brokers giving policyholders what they want to ensure business is held in the long term and less open to attack from competing brokers and insurers
- It can increase the value of a broker business, making it more attractive as a prospective acquisition

Our programme for 2013 has been carefully tailored to suit all level of experience and will feature a gripping panel discussion where panellists will talk through their experience of creating schemes, what worked well, and what would they change for the future.

We will be holding two events this year in both Birmingham, on the 18th April, and Leeds on the 24th April and delegates will be able to choose based on their location which event they wish to attend.

**If you are interested in sponsorship opportunities please contact Chris Finnegan on:**  
**T: 020 7316 9632**  
**E: [chris.finnegan@incisivemedia.com](mailto:chris.finnegan@incisivemedia.com)**

**The 2013 programme and registration is now available, visit [www.insuranceage.co.uk/schemes](http://www.insuranceage.co.uk/schemes) to find out more.**

## Time for the broker talent search



In the rush and excitement to bring in new broking teams there are a few things employers should remember, says **David Coupe**

While bonuses may not be at the level of our banking cousins, the spring of 2013 could bring a flurry of broker and team movements. In the excitement to secure the best talent, things can get a little messy. Litigation surrounding the teams moving between brokers makes a frequent appearance in the press. Therefore, adopting the right process for securing the right people, at the right price, and avoiding the legal pitfalls, is crucial. So, what is it all about?

Brokers and broking houses are looking for good remuneration and rewards based on the production of profitable broking business. To achieve this there must be a mutual understanding of their respective needs and ambitions.

For the individual broker or team, better reward is a given. But not all options fit their specific needs. For instance, brokers with normal everyday debts and bills to pay may have little interest in tax-free options on shares in an unquoted company where there is no guaranteed liquidity event. Long-term incentive plans and share incentive schemes defer the broker's reward and are tied up with rules and restrictions, and many employees are cynical about their true value. Therefore, although perhaps not so tax efficient, cash bonus schemes are often perceived as having greater benefit to the team members.

The broking house wants a clean profitable book of business without any portent of litigation. The starting point should be does the business fit? Is there 'synergy'? A poor

fit or team not strategically beneficial to the business is doomed to fail.

The second aspect is the 'ownership' of the business. Clients do attach themselves to individual brokers or teams. However, that bond is often not as strong as believed. While a large insured may like a team, persuading them to move to a smaller broker can be nigh on impossible.

If the new recruits do not produce, this leads to problems on both sides. Profit margins are reduced and calls for redundancies may come. Thus, building contractual flexibility into remuneration and bonus packages – upwards and downwards – must be considered. While the individuals may worry about the motives of this, it gives certainty to both parties, and manages expectations. Individual brokers cannot keep moving from job to job on a regular basis since it will dent credibility.

### Keeping to covenants

The third aspect is how will the business be delivered? The former employer will often have the individuals under contractual gardening leave and/or restrictive covenants. The team members must take advice and honour their binding covenants, and the new broking house must not induce any breach of those covenants. This is distinct from the broking house doing this on their own account without collusion with the team.

The problem is that covenants are often badly drafted. Further, lawyers exacerbate this by rarely giving definitive advice upon their enforceability. Due to the prohibitive

### TOP TIPS Top tips for recruiting teams

- 1 Be very clear about the strategic relevance and fit of any new team. How will they enhance or expand the existing business?
- 2 Be practical about covenants and assume some team members will be unable to solicit business for six or more months, and plan accordingly.
- 3 Be creative and responsive with reward structures – what will best meet all parties' needs?
- 4 Build contract flexibility into remuneration and bonus packages to legislate for ups and, more importantly, downs in performance.
- 5 Consider whether business transfer is a more effective and less contentious route to acquiring a team.

cost and expense, no party wants to test the covenants out unless there is a real need to do so. Therefore, unless no covenant exists, the practical way is to assume the main members of the team will be out of circulation for six months or longer and unable to solicit business. The cost and risk of this should not be underestimated in assessing the business proposition.

The broking house must look at the covenants and notice periods of the whole team. This is where the junior team members have great value – they deliver continuity before the senior members can join or become effective, and will be on shorter notice periods and less onerous covenants. This often makes the business case stronger. Even without them, one should see how it is possible to bring on and maintain the business of the team. This is where existing synergies really assist, since building on what is already there is much easier than building afresh.

There has been a general recognition that team moves are often not the cheapest way of developing business. Client retention can be difficult, especially if litigation occurs. Therefore more teams are moving as part of negotiated business transfers, where the former employer simply takes a share of the income for say a year, and releases the employees. There is a loss of income to him, but there is also a reduction in salaries, pension contributions, benefits and national insurance, and the avoidance of huge litigation bills. Also it can often be a means by which the run-off of the account, with the attendant cost and professional indemnity risk, can be passed over to the new employer.

*David Coupe is principal at EC3\Legal*



# Two's company



IAIN WINFIELD

Romero Insurance Brokers' Justin Romero-Trigo and Simon Mabb tell **Andrew Pearce** why chartered status is so important and how they have managed to thrive during the recession

► **What is Romero's background?**

**Justin:** I set the firm up in 1997 having worked at [broker] Hart & Co. The same year Hart & Co was sold to Investec – I didn't want to go into the arena of 20-30,000 employees where you couldn't make a difference, so I set up Romero.

► **What are Romero's main lines of business?**

**Justin:** Romero is a £40m GWP business, including [specialist separate firms] Nightclub Direct and Millennium Leisure and Club Insure. The specialisms are varied, we are heavily into construction and property owners. We've also got a separate brand called Educator, [in which] we do colleges and independent schools and we also do some very big retail clients.

► **What proportion of Romero's business is schemes-based and what makes a scheme work?**

**Simon:** Heading towards 20%. A lot of people think they can write a scheme but it's about adding value to that customer base and doing something different than a bog-standard broker. A scheme has got

## "Acquiring for the sake of a book of commercial business worth £3m that's down the road isn't on our radar"

**Simon Mabb**

to do more than knock 10% off the conventional rate.

► **Does being chartered make a difference for clients?**

**Justin:** Completely, a lot of clients won't know what it's about because their broker, who isn't of that status, won't mention it and think they can get away with it. We have to up our game and we've done that and will continue to do that.

**Simon:** We have at least one chartered broker in every office.

**Justin:** In there won't be many brokers that can say that.

► **How do you identify new opportunities?**

**Justin:** Sectors that aren't congested, where we can go in and do something better. If we say we're going to do something, we'll do it, we always do it, we always deliver. You can guarantee that we will deliver. If we tell you we will give you £5m we will give you £5m. There are a lot of brokers out there that say they're going to do something and for whatever reason the wheels come off and it collapses and they never get to stage B. We're a firm believer that you put your money where your mouth is.

► **Are any acquisitions on the horizon?**

**Justin:** The view over the next 12 months is to grow significantly in Manchester and Halifax and we are opening up in the North East – we would like to think April/May time. The other cities that we like to look at, either for this year or next, would be a Sheffield/Nottingham base. Within those five offices we can be really successful.

**Simon:** Acquiring for the sake of a book of commercial business worth £3m that's down the road isn't on our radar because you end up with a business you don't want. ►





Justin Romero-Trigo

► **How has Romero adapted to the economic climate?**

**Justin:** We've cut our cloth accordingly in terms of pay and cars. We're in it together with the clients as well. Even in these tough conditions, where a number of brokers have seen their books of business go down, ours has never. We can organically go out and pull up some trees.

**Simon:** Through the recession period, Romero's income grew by 60%. Often any drop-off has been replaced by new business. There's masses of building projects in Leeds that have been mothballed for four years. You've got clients paying £120,000 premiums, suddenly the following year they're paying £25,000. One big client disappeared overnight so we had to write new business to nearly stand still. Once we washed that though then the new business started to push on.

► **What have been the main growth areas?**

**Justin:** Retail and manufacturing.

**Simon:** We have been able to take our claims model and add value for those [clients] that need to save money. If you don't manage your claims then your costs go through the roof. Suddenly insurance has become a bigger part of their spend – if you can help your clients control that a little bit better than it makes a big difference on their bottom line.

► **How have you improved your claims model?**

**Simon:** Insurers have been bitten during this recession. They're looking at cost, their biggest cost is claims, so if they can nip off a percent here or there, that's £100m territory. Conversely, that's when you need your broker to work that bit harder to make sure you're not that 1% on the border not getting paid.

A lot of brokers will just send it into the insurer and they [the insurer] is saying 'Mr Client, very sorry but your claim is not being paid'. We don't accept that... We picked up a piece of business recently where the claim had been declined six months previously and the broker hadn't even told the client.

**"We bounce a lot of ideas off each other. It's really important that you trust each other implicitly – he watches my back, I watch his"**

Justin Romero-Trigo

► **What would you change about broking?**

**Simon:** There are loads of us doing a great job but there are some flogging mortgages who happen to do a household product and they're giving bad advice which is knocking the reputation of brokers. Chartered status is really important – the likes of Biba need to get a bit more teeth because anyone can sign a cheque and become a member. The consumer doesn't understand whether you're a Biba broker, not a Biba broker or whatever. There's a lot the CII, Biba and the like can do to try and assist us as an industry.

► **What would you like the incoming Financial Conduct Authority to do?**

**Simon:** [Regulators] tried to concentrate on the big boys and [they] are the ones that run really well – they've got compliance teams. It's some of the other people that are probably a bit shady underneath that they really need to concentrate on.

► **Where will Romero be in two years?**

**Justin:** It would be nice to have those five offices in the regions, get the GWP up to £60m, another two or three new schemes and keep attracting quality individuals. We want those quality people to come here and develop. At Romero, the sky's the limit.

► **Describe your business relationship**

**Justin:** The results speak for themselves –

**PROFILE**

**Romero Insurance Brokers**

- **Chairman:** Justin Romero-Trigo
- **Managing director:** Simon Mabb
- **GWP:** £40m
- **Location:** Leeds, Halifax and Manchester
- **Established:** 1997
- **Number of employees:** 105
- **Main lines:** Construction, retail, manufacturing, sport and leisure



Simon Mabb

we bounce a lot of ideas off each other. It's really important that you trust each other implicitly – he watches my back, I watch his.

**Simon:** I turned up in June 2008 and within three months we were in a recession. I remember looking at the P&L stuff that was coming in during January and February and thinking I'd be getting rid of me! Once you're in it you've just got to knuckle down and battle it out. We didn't lose a single person during the recession, we've got a lot of our competitors around here laying people off even now.

► **How have you tackled the soft market?**

**Justin:** I see this as the norm now. Quite a few underwriters have done various schemes too cheaply and they've caught a cold. I can't see any uplift in the rates. There's still some dual pricing which can be quite infuriating as a broker. You've got a really good piece of renewal business and insurers are trying to put a 5% increase on. It's run like a dream and you're saying 'what are you doing?'

► **Have you had a few tough conversations with insurers?**

**Simon:** If you end up at the point where they're sticking their head in the sand, often you have no other choice but to move [a piece of business]. Because if you don't you don't know the client hasn't already got another alternative price. It's quite the norm now for clients to go out and get alternatives. And if that broker has done a good job on the new business, they're going to be struggling to justify [that price]. 'Hang on a minute, have you been robbing me for the last couple of years?' We will have those conversations.

► **Romero is suing former corporate manager Andrew Templeton and Eastwood & Partners Insurance Brokers for an alleged breach of contract. Can you comment?**

**Simon:** We're probably not in a position to comment at this stage while on-going legal matters are happening. ■



# InsuranceAge events



The broker market boasts some of the most innovative, customer-centric businesses in the country. *Insurance Age* is at the heart of the market and our events provide critical content, exceptional networking opportunities and the chance to celebrate excellence in the sector.

We look forward to seeing you at another *Insurance Age* event next year.

Visit [insuranceage.co.uk/about-events](http://insuranceage.co.uk/about-events) for more information on all *Insurance Age* events in 2013.

Interested in becoming a sponsor or an exhibitor? For more information on commercial opportunities at *Insurance Age* events, contact Chris Finnegan on 020 7316 9632 or email [chris.finnegan@incisivemedia.com](mailto:chris.finnegan@incisivemedia.com)

An  incisivemedia event  
[incisive-events.com](http://incisive-events.com)

If you would like to be kept informed about any of the events please email [harriet.truman@incisivemedia.com](mailto:harriet.truman@incisivemedia.com)

## UK Broker Summit 2013

7-8 March, South Lodge Hotel, West Sussex

An exclusive invitation only conference for c-level brokers to discuss top flight issues facing the UK broking community.  
[ukbrokersummit.com](http://ukbrokersummit.com)



## Insurance Age Masterclass Schemes

18 April, Birmingham, Radisson Blu Hotel

24 April, Leeds, Queens Hotel

Offering expert, practical advice on how to successfully carve your niche.  
[insuranceage.co.uk/schemes](http://insuranceage.co.uk/schemes)



## E-Broking 2013

27 June, Manchester, Etihad Stadium, Manchester City Football Club

Combining high quality and relevant content with live e-trading demos.  
[insuranceage.co.uk/e-broking](http://insuranceage.co.uk/e-broking)



## The Three R's

Regulation, Regulation, Regulation

July, London, venue TBC

Providing an understanding of the new regulation and how to manage it.

## UK Broker Awards

6 September, The Brewery, London

The only broker-focused insurance industry awards in the UK recognising excellence and innovation in the UK broking sector.  
[ukbrokerawards.com](http://ukbrokerawards.com)



## Broker Expo South

26 September, Ascot Racecourse

An event with opportunities for networking, education and business for brokers.  
[brokerexposouth.co.uk](http://brokerexposouth.co.uk)



## The Aspiring Broker

October, London, venue TBC

Highlighting the skills needed to grow in Insurance Broking.

## Broker Expo

14 November, Ricoh Arena, Coventry

The event where brokers do business, with over 100 exhibitors and 750 visitors.  
[brokerexpo.co.uk](http://brokerexpo.co.uk)



## THE STATS

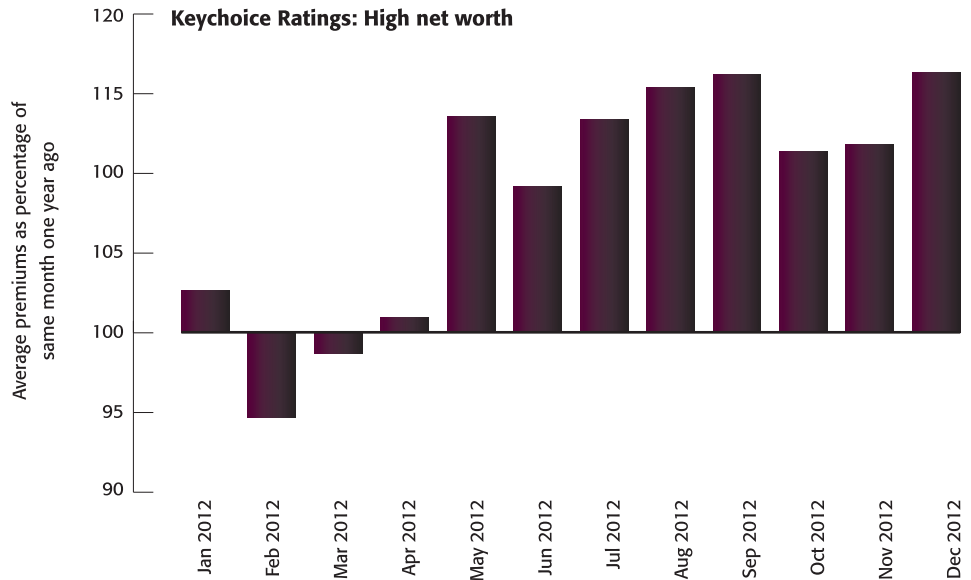
● Historically, high net worth (HNW) has been attractive business to write. Client loyalty and big-ticket products are just two qualities which undoubtedly appeal to brokers. Throw rising premiums into the mix and it's a match seemingly made in broking heaven.

Indeed, last year premiums were up compared to 2011's rates for 10 out of the 12 months. Furthermore, the average monthly premium rise was 8.6%. Even more noteworthy was that the HNW market played out its business against a backdrop of relative flux.

In 2011 the market witnessed eye-catching acquisitions by key players such as RSA's swoop for Oak Underwriting. And a report released by Defaqto last year warned HNW brokers to batten down the hatches in the face of a growing market-share onslaught from banks and direct providers.

However, despite these changes and warnings, rates continued to buck the trend. This was largely fuelled by 2012's flooding events, which hit claims especially on the household side, forcing specialist insurers to hike rates. In particular, heavy rainfall in Wales, the South West and high winds in Scotland throughout the year had a knock-on effect.

With increasing capacity provided by new entrants, as well as the range of products also growing in the market place, insurers have been forced to strike it right between premium rises and competitive pricing. For, although the high net worth arena is famous for its strong relationships, customers have become noticeably more price savvy. As one industry expert cited: "There's a balance between insurers looking for rate increase



with being aware that customers have got a finite wallet to purchase their insurance.

"There are definitely options out there to write business, people are shopping around."

The growing menace of a triple-dip recession should ensure customers remain equally price focused and demanding throughout 2013. But, despite this, the general mood is that the market will continue to replicate 2012's performance with further rate growth on the agenda this year.

So, back to those 2012 figures to see the indicators of what the sector may expect, although as ever the caveat of no promises remains in force. The first four months of the year began in relatively modest fashion. January and April recorded meek rises of 2.67% and

0.95% while February and March witnessed premiums fall by 5.32% and 1.27% respectively.

But May heralded the start of the year clicking into gear with a lofty 13.6% premium rise. And this was followed by a further seven months of consecutive premium rises with July (13.4%), August (15.4%), September (16.2%) and December (16.3%) all recording notable and healthy increases.

Indeed, the statistics would seem to prove that despite the reported influx of new entrants to the market there remained plenty of scope for premium growth. The market's customary USPs of bespoke service, specialist and flexible underwriting, together with tailored policies appear to still be winning over demanding customers despite price rises. Here's to 2013.

### A.M. Best Company: Top 10 total property and casualty insurers in the UK

Rank 2011	Rank 2010	AMB	Company Name	Rating	Ultimate Parent	GWP (£000s)	Underwriting Result* (£000s)	Combined Ratio (%)	Loss Ratio (%)
1	3 <sup>1</sup>	86524	Aviva Insurance	A <sup>2</sup>	Aviva	4,452,784	-189,468	104.4	69.5
2	1	86257	Royal & Sun Alliance Insurance	NR	RSA Insurance Group	3,966,807	-112,850	104.6	72.1
3	12	87648	UK Insurance	NR	RBS Group	3,557,547	-76,279	105.2	69.7
4	2	92588	Axa Insurance UK	NR	Axa S.A.	3,092,874	-148,577	104.1	72.8
5	6	84804	Bupa Insurance	NR	Bupa	2,153,516	104,964	94.5	75.6
6	4	87416	AIG Europe	A	AIG	2,148,438	-42,014	102.7	69.3
7	5	86485	Ace European Group	A+	Ace	2,119,591	42,966	97.0	58.1
8	7	86160	Great Lakes Reinsurance (UK)	A+	Munich Reinsurance Company	1,911,364	32,833	N/A	N/A
9	10	86373	Allianz Insurance	A+	Allianz SE	1,763,088	69,892	93.9	62.2
10	11	86126	QBE Insurance (Europe)	A	QBE Insurance Group	1,279,613	-70,129	N/A	N/A

\* Underwriting result excludes investment income. Some ratio figures are not available (N/A) because more than 1% of these companies' property and casualty insurance business is accounted for on an underwriting year basis, for which earned premiums is not disclosed on the FSA return. Figures in above table are based on FSA returns of financial year 2011 for total property and casualty insurance business (reporting category 002). <sup>1</sup> 2010 ranking relates to Aviva Insurance UK Ltd which transferred its portfolio into Aviva Insurance Limited. <sup>2</sup> Rating relates to AMB 78773 Aviva Insurance Limited. Ratings as of January 9, 2013. Source: A.M. Best's Financial Suite - Best's Statement File - UK



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**First job?** A junior equity sales trader for Nordic investment bank, Alfred Berg.  
**E-trading or manual?** Manual, as it allows us to offer a more bespoke service.

**Bishop's Finger or Beaujolais?** Nothing at the moment as I'm beginning 2013 with a complete detox, but come mid February a glass of Beaujolais will be very welcome.

**Best insurer service?** I'm afraid I can't answer this one...

**Sweet or savoury?** I'm not a massive foodie, but savoury wins out. I don't really have a favourite dish – I like anything that can be delivered!

**Most switched on industry figure?** Hayley Parsons, founder of Go Compare. I might not be the biggest fan of her opera singer or think aggregators are right for all insurance buyers, but there are too few women in senior positions in this industry and she has achieved a lot.

**Playing or watching?** Playing. I'm quite a strong, competitive character and love to get involved where possible.

**Your house is on fire, what do you rescue?**

My children – Max, 8, Ben, 7, and Sid, 4.



## What brokers should do

Brokers should be emulating Joanna Lumley and they certainly shouldn't be ashamed of hanging around in their speedos, says Axa's **Mathew Reed**

► **Brokers should trade online because...**

...it gives them time to do the bit they are really good at (and enjoy) – giving proper advice to clients who need more than a vanilla product.

► **Brokers should apologise to insurers when...**

...they don't work in partnership with their product provider by not giving them all the facts. Insurers are much better when they're not kept in the dark.

► **Brokers should consider joining a network...**

...if it actually helps them run a better business.

► **Brokers should not be concerned about corporate hospitality...**

...because floating around the Med in speedos is a completely ethical way to do business.

► **Brokers should be campaigning for...**

...one public voice for insurance – look what Joanna Lumley did for the Gurkhas and how Angela Knight kept bankers from being spat on in public!

► **Brokers should get involved with claims...**

...because what else is insurance for?

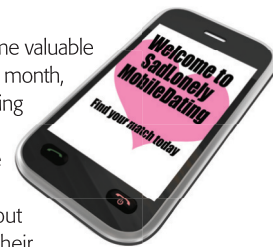
► **What really grinds my gears about brokers...**

...is nothing, I used to be one. Oh hang on, they do all have better cars than me.

Matthew Reed, managing director intermediary, Axa Commercial Lines and Personal Intermediary



# You couldn't make it up



● **Insurance Age** learned some valuable facts about the British public this month, and all from a press release touting mobile phone insurance.

We discovered that almost one third of the nation's mobile phone users would rather cut out alcohol for a month than lose their phone. We didn't believe this for one second.

And we also learned that almost one quarter of those surveyed would rather go without sex for a month than go without their mobile. What the release failed to mention was that for a person this attached to their phone, enduring celibacy for a month probably isn't a matter of choice.

● **It takes a lot** to astound the hardened hacks on the *Insurance Age* desk. But last month, this oddity did indeed take place. On this occasion it wasn't a bizarre press release or garbled PR message, but an impromptu phone call from ex-Cheeky Girl fiancé and former wrestler, not to mention former Lib Dem MP, Lembit Opik. Following his ill-fated venture into the wrestling ring – which saw him rushed to hospital – Mr Opik has now become the face of insurance professional training for Leadenhall Consulting. The industry has been crying out for a charismatic personality to raise its profile among the general public for years. And Mr Opik is surely the man for all occasions. One particularly hat-doffing moment came when to prove that he knew what he was talking about, Mr Opik employed an underwriting metaphor to describe his ill-fated wrestling career: "It was an uninsurable bad risk – I know what a bad risk looks like now – I'm no stranger to making the wrong call!" The campaign starts here.



● **Given the benevolent nature** of *Insurance Age*, it is no surprise that we are often inundated with charitable requests. But one recent appeal really took the dog's biscuit (bear with us, the awful pun will soon become clear).

For the newsdesk was approached by a certain broker who asked us to vote for his firm's office dog in the Office Dog of the Year Competition. Yes you heard right. Suckers for a cute canine we are, so the votes were cast and happily the anonymous broker later told us that his pet pooch scooped a creditable third place. Unfortunately, while we were busy commending said broker on the performance of his four-legged chum, it suddenly dawned on him that he had left the office for the weekend without the hound in tow. Needless to say, the broker made a quick-sharp return to the fortunately still-staffed office to collect his award-winning pet. Barking!





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