Seeking sustainability

InsuranceAge
SENTIMENT SURVEY

The *Insurance Age* Sentiment Survey always offers a fascinating insight into what brokers are thinking and the conditions that they are experiencing in the market. The results of the latest research are no different, with some very interesting feedback.

Over the last 18 months or so we have seen some extraordinary rating movements in the private car arena and the survey suggests that this is beginning to run out of steam. From a personal lines perspective, although 63% of brokers still feel that rates will harden over the next six months, this is down from 80% in the spring. A growing number (almost 30%) feel that rates will stay the same.

Our own experience suggests that market pricing is now beginning to stabilise and the level of rating increases is beginning to ease back. However, against the background of rising fraud and claims inflation in terms of injury claim numbers and rising cost, there must be some concern that the break is being applied rather too hard and a little too soon.

Of course it is very positive news that the government has recently decided to act on referral fees and also appears very interested in addressing the whiplash epidemic and solicitors' fixed costs. But any changes will still take time to feed through and, in the meantime, we will all have to face the consequences. The UK's car insurance market remains one of the most competitive in the world so it is no surprise that it makes money so rarely. I suspect that the days of plenty might yet be few and, as the tide turns, it may be some while until the good times return again.

At the risk of sounding like a broken record, I'm afraid that the news about the commercial lines rating environment remains resolutely gloomy. Responses to the survey suggest that brokers believe that (at best) rates remain rooted at the foot of the cycle and it is clear that fiercely competitive trading conditions mean that market discipline has yet to return. For example, dual pricing is still rife (almost 80% of respondents say that it is still happening) and reading some of the verbatim comments from brokers illustrates that this is something that brokers are deeply unhappy about.

To be honest, I find the whole situation in commercial very puzzling. From their public pronouncements it is obvious that insurers are clearly hurting and it is apparent from the survey responses and market feedback that brokers seem just as keen that rates begin to move up. Everyone seems to accept that the current situation is completely unsustainable. Yet still the news from the frontline is of the usual horror stories. Fleet insurance is an excellent example of a market apparently sleepwalking towards oblivion. The car market has suffered 30% increases in response to disastrous combined ratios for insurers, yet pricing for fleets of cars and vans remains suicidal.

Things in the commercial market really have to change or eventually we will all have to face the implications of a major and very painful correction that will not only be very bad news for the industry but for our customers too.

Now, I recognise that I may be clutching at straws, but perhaps the survey feedback offers just the faintest glimmer of light at the end of a long dark tunnel. A hopeful 39% of respondents feel that commercial rates might yet harden over the next six months. Perhaps more significantly, there has been a 5% increase in those seeing renewal increases on commercial business since the last survey. Personally, I'm not convinced, but let's hope that they are right, and that when the results of the next survey are published we can see the evidence.

One of the potential solutions to the challenges in commercial lines is the continuing adoption of electronic trading. Not only does this put brokers firmly in charge of the business process, it keeps costs low and is very efficient – allowing brokers more 'face-time' with clients.

Although the survey suggests that e-business will probably be most prevalent in cases with premiums of up to £5,000, 12% of the brokers who responded believed that it could work for premiums up from £5,000 to £10,000 and a similar number believed that it could be adopted above this level too. This is a real change of heart and one that five years ago might have been regarded as unthinkable.

At Groupama we've been at the forefront of this revolution and this year we launched the market's first fully bespoke, online combined policy to move the game ahead another step. Trading methods in the commercial market are definitely changing. Isn't it a shame then that its participants still can't get the basics right, apply some discipline and get back to making some money?

Thank you to everyone who took the trouble to respond to the latest Sentiment Survey. Your views are important and your feedback not only helps drive market debate but can help deliver change on the issues that really matter to brokers. So please get involved with the next one – it will be released to coincide with next year's British Insurance Brokers Association Conference.

Laurent Matras, managing director, Groupama Insurances

"Insurers are clearly hurting and it is apparent from the survey responses and market feedback that brokers seem just as keen that rates begin to move up"

Commercial is lagging behind personal lines in terms of rising premiums, according to brokers in the Autumn Sentiment Survey. **Emmanuel Kenning** reports

The Autumn Sentiment Survey has once again produced a strong response with brokers venting their frustration at the practice of dual pricing, supporting a ban on referral fees and ranking their favourite insurers for claims and underwriting in both personal and commercial lines.

The experience of brokers in the personal lines sector continues to be one of rising renewal premiums. Despite recent reports of car insurance rises tailing off, even more brokers (86%) have seen rises than in the first survey of 2011 when 84% said premiums were on the up. However, as Groupama's Laurent Matras notes in the introduction, expectations are dwindling with less brokers expecting the uplift to continue.

The contrast with the commercial market is stark. Graph one confirms that less than half of all brokers are seeing any premium rises and graph two shows that even less (40%) expect any improvement soon. The clearest indication of a market gripped by paralysis is that half of all respondents – an identical percentage of brokers as in the Spring survey – state they believe rates will stay the same over the next six months.

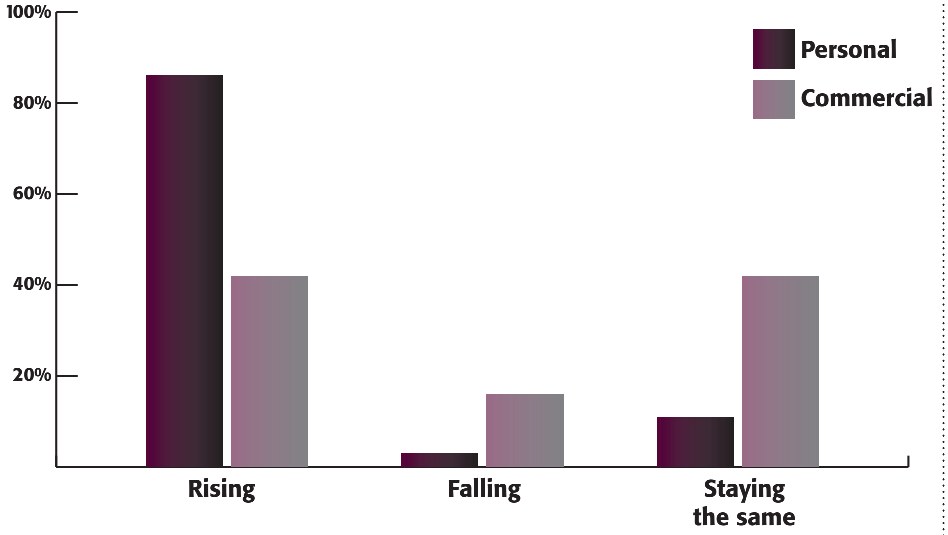
Despite the differing sentiments surrounding market hardening in the two different lines of business, it is notable that in both sectors (see graph three) brokers believe underwriters are being more selective over business. In each case over three quarters of respondents have seen an increasing level of selectivity.

When it came to rating the insurers, Aviva once again swept the board. Across both lines it was rated top for both underwriting and claims service. Janice Deakin, intermediary and partnerships director at Aviva, described the results as "fantastic".

"To get all four shows that we have momentum in the business and the support of brokers," she said.

The experience of brokers in the personal lines sector continues to be one of rising renewal premiums

Graph 1: What is happening to renewal premiums?

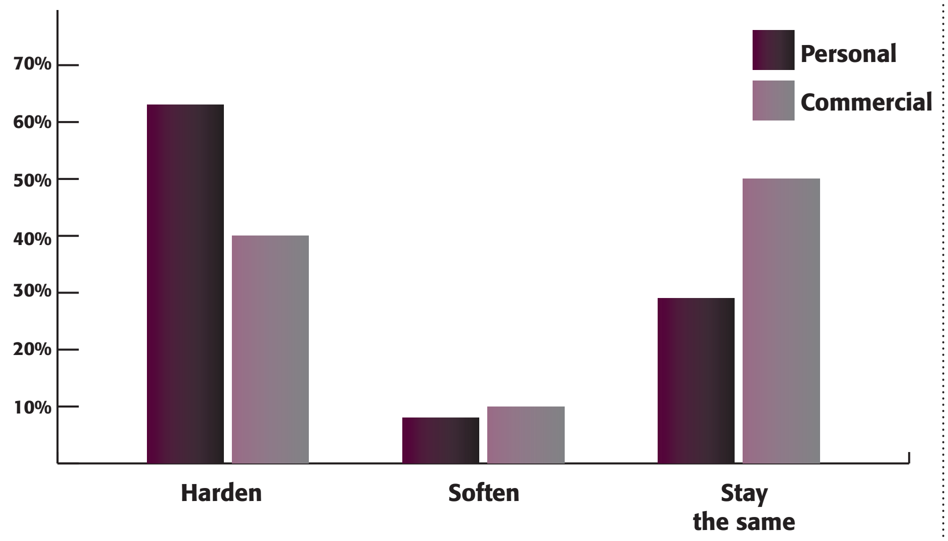


While admitting the insurer was "far from perfect", Ms Deakin said it had big plans to retain its crown in all categories in 2012.

"We will be making the most of our branch footprint (we have the biggest network) and it is about how we make it even better and put more skills in closer to the broker," she said.

Hard on Aviva's heels for commercial underwriting was second placed Axa. David Williams, claims and underwriting director for Axa Commercial, said he was pleased that the insurer's refocusing on brokers was already bearing fruit, although he admitted to being surprised at how quickly the sentiment ▷

Graph 2: What will happen to premium rates over the next six months?



had improved on the last survey (3rd). "Our whole strategy is based around having more branches with more local decision makers working closely with our brokers. It shows our decision to move empowerment closer to brokers is what they wanted and is working," he argued.

Another insurer focused on toppling Aviva in 2012 is Ageas, who tied for best claims service in personal lines. Mark Cliff, managing director of Ageas Insurance, stressed the settled team had helped the ongoing success. "We are really chuffed about it," he said. "Our challenge is to get to number one. We are consistent in claims for settling quickly and keeping brokers informed. They know the claim will be dealt with fairly."

One tool that has long been touted as the solution to a lack of market hardening in commercial lines has been technology. Mr Matras defines the results as "unthinkable" five years ago and the spread of opinions perhaps raises as many questions as answers. As graph four shows, placing business between £2,000-£5,000 remains the most popular limit level however, intriguingly, while a quarter of respondents believe it will be higher, far more voted for over £50,000 than £25,000-£50,000. It appears then that those convinced by the power of technology believe the sky may be the limit. Unthinkable perhaps for 95% of respondents, but who can say what the status quo will be in five years' time?

The related issue of e-trading leading to aggregators and direct providers creeping into brokers' commercial business likewise remains a persistent concern. Six months ago, 87% of respondents expressed some degree of unease and the level has been broadly maintained with only 15% in this survey claiming they have no anxiety about the prospect.

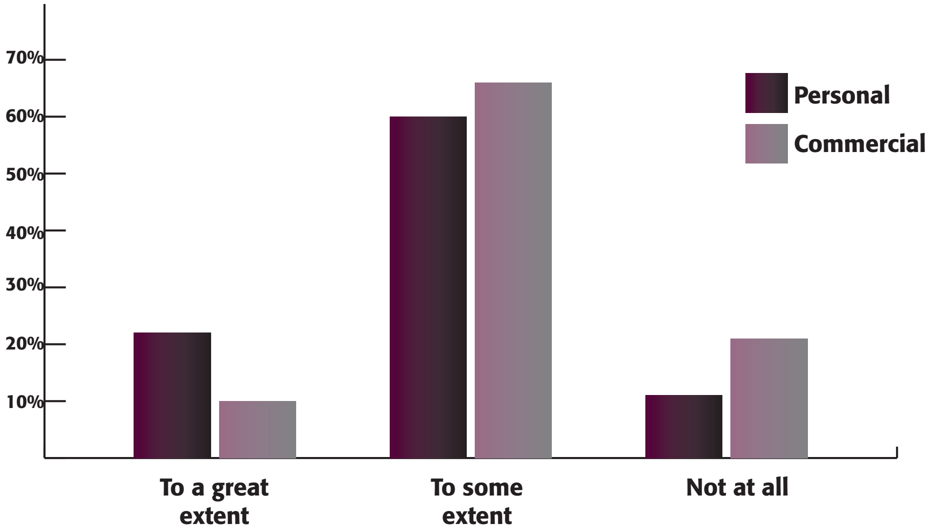
Meanwhile, although 92% of respondents work for companies with a website, most appear not to be in any rush to deliver a quote and buy facility on it. One third already have the functionality (see graph six) but with only a further 14% working on adopting the technology there is no prospect of the 50% barrier being breached by the beginning of 2012.

Similarly, it appears that social media is yet to fire the collective imagination of brokers. Only 34%, a small increase from the 29% in this year's Spring survey, say they use it in any form to contact current or potential clients and promote their business' offering. Among the limited number that do engage with the available opportunities, graph seven reveals Facebook and LinkedIn as being neck and neck as the preferred tool for brokers to employ.

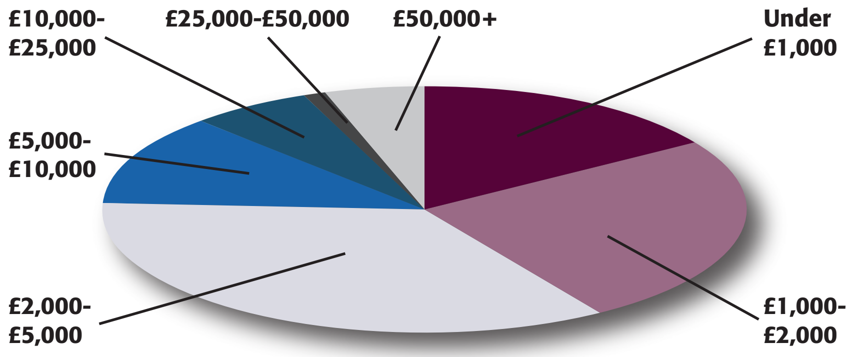
But what still gets brokers hot under the collar is dual pricing. The issue has consistently generated the highest number of direct responses with the general tone oscillating between disappointment and anger with only the odd drop of resignation dropped in to dilute the fury as can be seen in the box on p40.

Among the numerous queries about how dual pricing would stand up to ▹

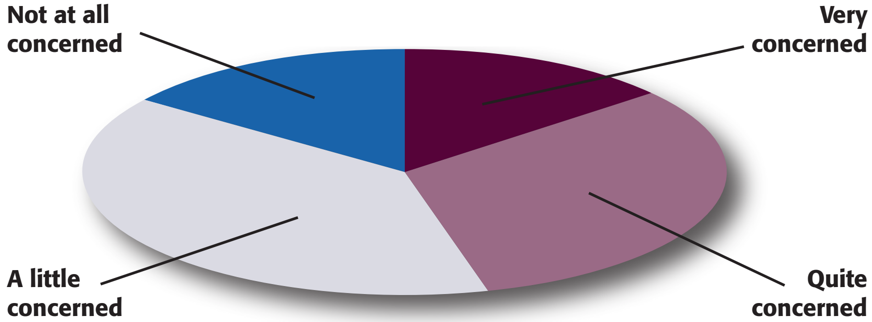
Graph 3: Are underwriters being more selective over business?



Graph 4: Do you feel there are limits to how much premium per individual policy can be placed electronically?



Graph 5: Are you concerned about direct providers and aggregators eating into your commercial business?



BEST UNDERWRITING SERVICE

Personal lines	Commercial
1 Aviva	1 Aviva
2 Ageas	2 Axa
3 Chubb	3 Allianz
4 Oak	4 LV
5 Allianz	5 NIG

scrutiny under Treating Customers Fairly, one response stood out underlining the disadvantage that existing business faces in the market. According to one broker, the day has now arrived where they have to cancel business with an insurer, only to then put it back on cover with the same carrier "just to get a more competitive premium".

Another hot topic among brokers has been the ongoing debate surrounding referral fees. Graph eight indicates that only 1% of brokers view them as essential to their business. The overwhelming majority, 89%, state they are not important to their business and, separately, 65% want them banned. Many had strong views on the subject to share with former minister Jack Straw, who has campaigned for such a goal, although, as the box on page 41 shows, there remains a degree of scepticism about whether it can ever be properly enforced.

Surprisingly, what had far less impact, was the merger of the British Insurance Brokers' Association (Biba) with the Institute of Insurance Brokers. The trade bodies will be pleased that only 2% of respondents opposed the merger but a surprising 47% said they were indifferent, as displayed in graph nine. The main concern raised surrounded the fear of smaller brokers losing their voice in the amalgamated body. For Eric Galbraith, chief executive of Biba, the news was positive. "Hopefully, now the merger has happened, then we will be able to demonstrate the benefits that it will bring, such as a single lobbying voice and a combined effort to protect, promote and represent brokers," he said. "This includes smaller brokers who have always made up a large percentage of Biba's membership."

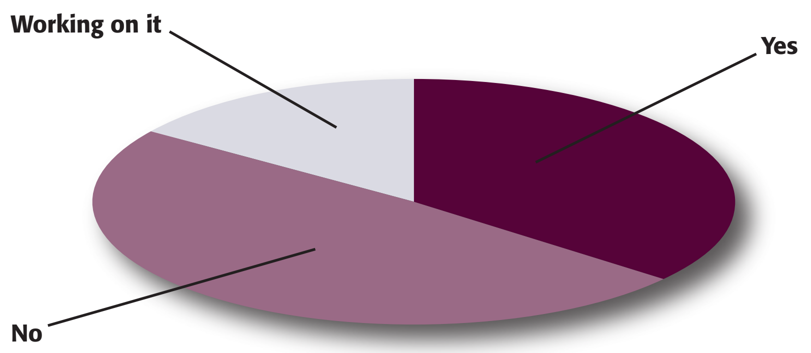
When our survey asked brokers where the new trade behemoth should train its guns, one name came across loud and clear: the Financial Services Authority (FSA). Brokers are looking for "lobbying regarding the uncertainties of changes in the regulatory structure" and in particular want a better system with a fairer compliance cost. One respondent advised focusing on "the FSA's (and its successor's) attitude on costs and the endless regulations, which, in the end, do not provide real protection for the client."

Even more overwhelming was the response to questions on the *Bribery Act*. An impressive

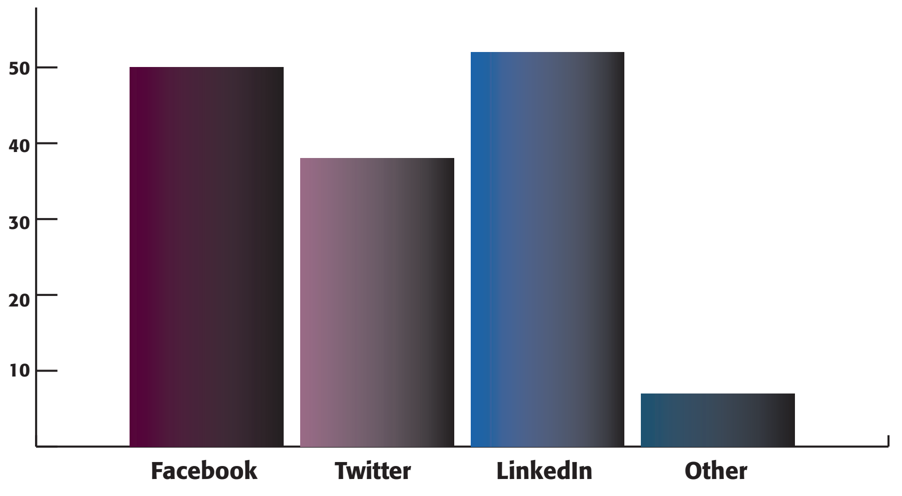
BEST CLAIMS SERVICE

Peronal lines	Commercial
1 Ageas + Aviva (tied)	1 Aviva
	2 RSA
3 Chubb	3 Zurich
4 Axa	4 Allianz
5 Hiscox	5 Ageas

Graph 6: Do you have a quote and buy facility on your website?



Graph 7: If you use social media, which ones?



OPINIONS ON DUAL PRICING

"Probably inevitable, but I can't see that it is sustainable in the long run. Existing customers are going to feel hard done by and are therefore likely to seek alternatives which just results in a continuous merry-go-round of customers"

"It seems a pointless strategy"

"It sits very uneasy with me that 'new customers only' get a better quote – there should be loyalty discounts for renewals to bring the premium under the new buiness equivalent"

"It is crazy. It is cheaper to retain business than get new business and clients appreciate a reduction for renewal which makes them more loyal"

"Should never be done, as it encourages churning"

"Most insurers do this"

"It encourages clients to move insurer more often than is good for the insurance market"

"Not in favour but it has always been part of the insurance landscape, inadvertently or otherwise"

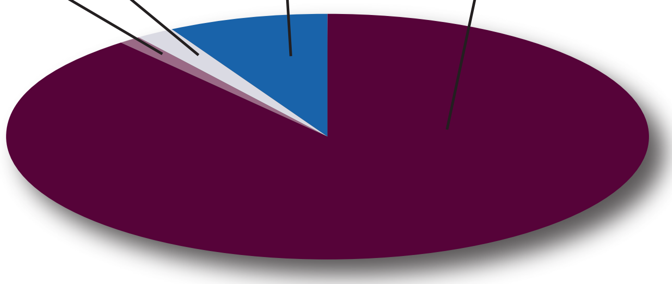
"Is it Treating Customers Fairly?"

"It's tearing the industry apart – on the one hand they want our account to grow but on the other they are prepared to undermine us with lower premiums for new business on the same risk"

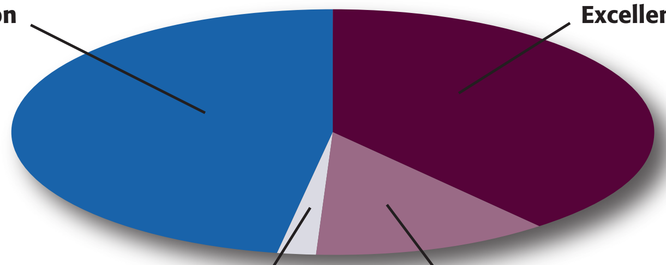
"It's a fact of life"

"It is the bane of our industry and is merely delaying a hardening market"

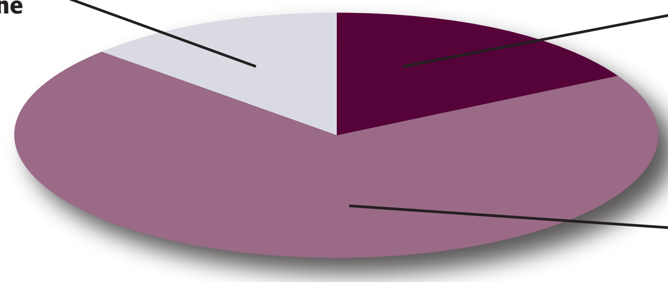
Graph 8: How important are referral fees to your business?



Graph 9: What best sums up your feelings about the merger of Biba and the IIB?



Graph 10: Have you been invited to join an insurer's broker club in the past 12 months?



OPINIONS ON REFERRAL FEES

"They should be banned – insurance companies should be the last people encouraging ambulance chasers"

"Banning them will simply push prices up to compensate for the lack of revenue. Ultimately we need to address the root of our increasing blame culture"

"It makes my blood boil and should never have been allowed in the first place"

"There will always be a loop hole found so these fees are charged in another way"

"They distort the market and the companies we represent can compete without them"

"Referral fees are not the problem. The hourly rate/solicitor fees are the problem, along with red tape which prohibits insurers settling claims earlier"

"The practice should be more regulated and transparent - once you ban something a way round it/loop hole will be found"

"They should've been banned years ago"

"Ban them because they further tarnish a less than professional image of the insurance market"

"Control of fees will work much better than prohibition"

"They are a contributory factor in the burgeoning claims culture and a ban is appropriate"

"They were one of the worst things to ever happen in the insurance industry"

93% of brokers claim to be aware of the Act's implications, with 84% saying their business had communicated with staff on the topic since its implementation earlier this year.

An interesting and growing split in the market is revealed with 13% of brokers saying they are already in an insurer's broker club (see graph 10) and even more (17%) claiming to have been invited to join in the past 12 months. Admittedly this leaves more outside than in, however, it indicates a rapid rate of change. One broker speculated they were an attempt to cut networks out of the food chain while another praised their existence as a means for brokers to achieve critical mass.

Sadly, given the current state of the economy, the Sentiment Survey was destined to finish on a relatively downbeat note. When asked to consider exclusively their commercial lines clients, only 17% reported working with businesses that expected to grow in the next 12 months, with almost as many (16%) saying their clients envisage shrinking in 2012. With these figures in mind there is no doubt the market will remain tough in the run up to next year's Sentiment Surveys. ■

● Thank you to all that took the time to complete this broker-only survey. The next one will be conducted in March 2012. If you did not receive the survey and would like to take part in future ones, then please email tracey.curran@incisivemedia.com with your contact details. All participants were entered into a draw to win three Kindles and the winners were: Neil D'Mello of Barnett & Barnett; Alan Douglas of Bluefin; and Debbie Savine of Mark Richard Insurance Brokers.