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A RECORD NUMBER OF brokers responded to the latest *PB* Sentiment Survey and, given that the research took place during the busiest holiday period of the year, it is clear that they are keen to have their say on a wide variety of industry issues.

The feedback on market conditions makes for interesting reading. While almost 60% of those responding still believe that personal lines premiums will continue to rise over the next six months (a repeat of the previous survey's result *PB* May 2009, pp. 38-44), the jury does seem to be out on commercial lines pricing for which, worryingly, only a small majority still feels that rates will continue to rise (see graph 1). In the previous survey in April, almost 70% believed prices were rising and the suggestion appears to be that these much-needed increases may have stalled.

Perhaps part of the reason for this can be found in the responses to the survey questions relating to dual-pricing, for which over 90% of responding commercial brokers are seeing cheaper quotes for new business than for existing clients, with almost 30% experiencing this practice to 'a great extent' (see graph 3). Brokers are heavily critical and withering in their comments: aside from failing to reward loyalty and being unfair to clients, they point out that the practice is also forcing unnecessary re-brok-ing and delivering less income for all concerned.

In a market that insurers believe remains under-priced, lower prices for new business than those on offer for renewal business is the economics of the madhouse. Commercial rates need to continue to rise to correct a lack of market profitability; we should expect greater discipline from both insurers and their supporting brokers to help this happen.

Things are not helped by pressure on clients arising from the current recessionary environment. The survey demonstrates that the squeeze continues, with over 80% of respondents reporting that at least some clients have ceased trading and a whopping 97% saying that customers are actively looking to cut back on their insurance arrangements. Against this sort of background, it will be very challenging to achieve necessary pricing increases but, for the good of the market, this needs to happen and insurers and brokers need to cooperate to educate clients appropriately.

According to the survey, the recession is causing headaches for brokers on a number of fronts; falling incomes, failing clients and credit control issues are all contributing to some sleepless nights.

For the first time, the survey also asked questions about the extent to which brokers relied on value-added services to boost income. A third of respondents said that this dependence has increased over the past year with legal expenses covers, instalments and credit hire being the most popular options (see graph 7). On credit hire, almost 40% admitted that referral fees were a reason for offering the service, although in a clear message to insurers one-third said that this was because it offered clients a better service (see graph 9). The insurer community needs to better understand because it is becoming an expensive issue.

Swine flu and brokers' readiness to cope with a potential epidemic also came under the spotlight. While 46% of respondents say they have some form of business continuity plan, over one-third has nothing in place – worrying for the brokers concerned but also for the clients they serve. Interestingly, over 25% are already seizing the opportunity to provide advice to clients, which is encouraging and again demonstrates both the professionalism and entrepreneurial nature of broking.

Finally, the survey took its usual look at insurer service. There is an increasing belief that some players are cutting back, with 65% of responses believing this to be the case. I can only hope that those who remain dissatisfied with their suppliers continue to vote with their feet.

Thank you to everyone who responded to the survey – your input is invaluable.

Laurent Matras, managing director, Groupama Insurances

The record participation rate in this year's second *PB* Sentiment Survey has produced a wealth of useful information and thought-provoking statistics, writes **Emmanuel Kenning**.

ONCE AGAIN, THE feelings of brokers on issues from rate hardening to the effects of the recession have been revealed in the *PB* Sentiment Survey. Furthermore, in keeping with tradition, participating brokers have given their views on the best insurers for underwriting and claims services over the past six months.

Expectations about premiums have changed since the last survey. It is the topic that stimulated most participation, generating the largest number of responses in the poll. In May, 67% of participants expected the market to harden in commercial lines whereas now the figure is down to 48% (see graph 1). In personal lines, opinion has held steady at 56% expecting a hardening as compared to 58% previously.

For renewals in personal lines (see graph 2) there has been a considerable increase in the number of brokers (59%) finding premiums rising when compared with a year ago (48%). Similarly for commercial lines, the share of brokers with falling premiums (16%) is far below last year's result (35%).

The figures are in line with the opinion expressed by David Smith, Zurich's UK managing director of general insurance (broker division), when he spoke exclusively to *PB* in August. In the webTV interview – available online at broking.co.uk – he argued the case for rate hardening and pointed out: "The last thing

a broker wants to do is go to a customer and provide them with a cheap price this year and then go back next year with a 30% increase. Some people will have to take the lead."

In terms of dual pricing, only 9% of respondents had seen no evidence of it in commercial lines (see graph 3). Most respondents were critical of the fact that loyalty did not seem to be being rewarded. One pointed out: "Gone are days when the insurers have any consideration for loyalty, so the customer now reacts similarly and shops around more, none of which helps the broker much in often patching up a situation between insurer and customer."

Many also questioned why the situation arose at all, arguing that renewing business was surely less expensive than new business and that dual pricing "can only lead to churning and adding to the expenses".

In a new question for *PB*'s Sentiment Survey, respondents were also asked for their experience of change in the cost of new business premiums (see graph 4). A fairly even split between rising (43%) and staying the same (39%) could be

Underwriting service: what you value

"Knowledgeable underwriters, timely service."

"Flexibility, good pricing structure, don't pigeon-hole trades."

"Competitive premiums and excellent electronic documentation issue."

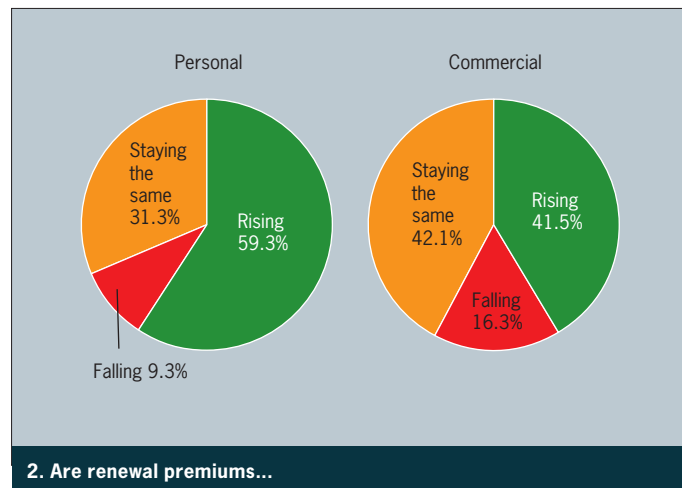
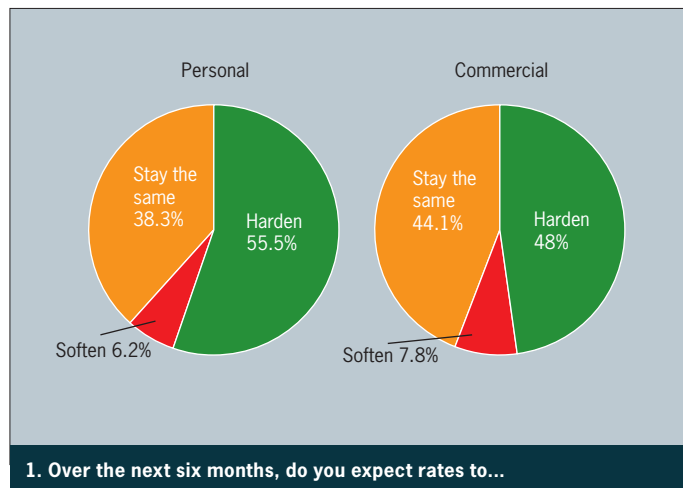
"All rapidly fluctuate and generally as good/bad as each other."

"Willingness to quote in most cases."

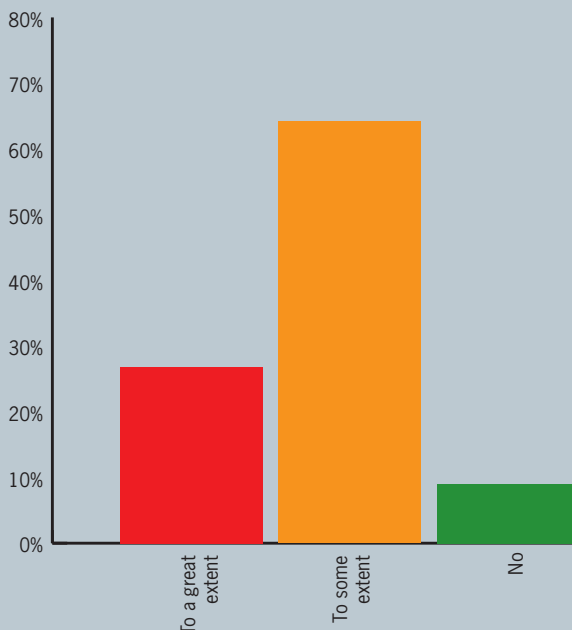
"Dedicated help teams with quick and easy referrals."

"Happy to work with brokers and they are very aware of which business is for them and which is not."

"They still provide a personal service not a call centre."



3. In commercial lines, are you seeing evidence of dual-pricing?



seen in the personal lines sector. For commercial lines, 34% of participants reported that premiums are falling – almost double the rate of personal lines.

Capacity issues

On underwriting capacity, at least two-thirds (78% in personal lines and 66% in commercial respectively) of the respondents had seen no change over the past year.

One respondent noted that there is “lots of capacity in particular from smaller, newer entrants”, while another stated “[there is] still too much capacity, which is artificially keeping the market softer than it should be.”

Despite these levels of capacity, there remains a significant (and in personal lines growing) level of belief that underwriters are becoming more selective in the business they write (see graph 5). For personal lines, the figure has risen from 28% a

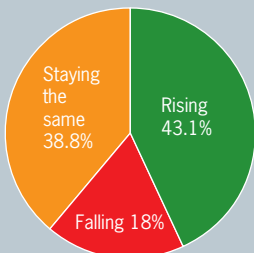
year ago to 43% believing that underwriters are more selective. In commercial lines the headline figure of 54% is even higher, although it is down from 58% six months ago.

When asked to name names, brokers rated Fortis as the best insurer for personal lines underwriting service

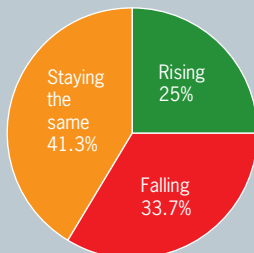
Best insurers for personal claims

- 1 Fortis
- 2 Chubb
- 3 Aviva
- 4 Hiscox
- 5 Zurich

Personal

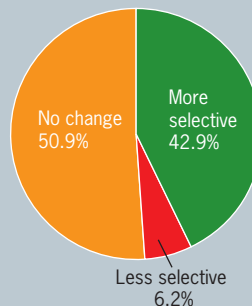


Commercial

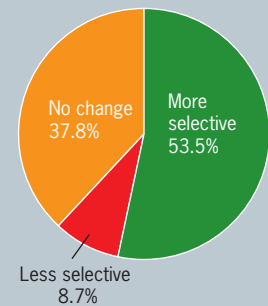


4. Are new business premiums...

Personal



Commercial



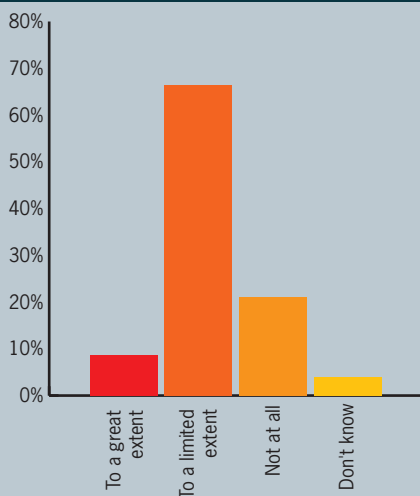
5. With business, are underwriters being...



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6. Are you considering cutting costs and expenses or have you done so already?



– its fourth top rating in a row; it was also voted best insurer for personal claims. Mark Cliff, managing director at Fortis, commented: “It is rewarding to see that our brokers are rating Fortis in top position for personal lines underwriting and claims service. Our focus has been on development of our product range, while remaining true to our high-service, low-cost ethos.”

Chris Hanks, general manager of commercial business at Allianz, said that his firm was “absolutely delighted” to have come top for commercial underwriting services. He commented: “It is a vindication of the investment and time spent on training our underwriters. We are consistent and transparent: brokers know what we are about.”

Opinions on claims service

“Very understanding where circumstances are not straight forward.”
 “Staff readily available and good reporting structure.”
 “All pretty useless.”
 “Feedback from our customers tells us how good their service is.”
 “Very swift response, fair settlements, qualified handlers.”
 “Large claims departments with excellent IT.”
 “They are marginally better than the rest who are just poor.”
 “The positive service is carried right through this company.”

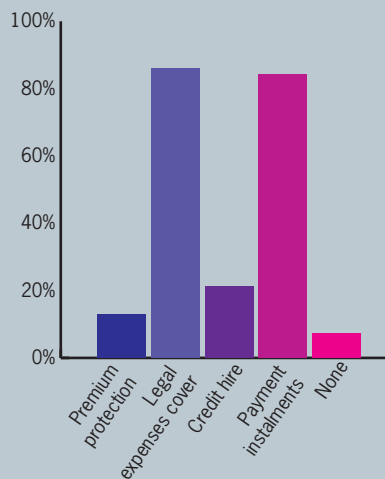
In commercial lines claims, Aviva made it three wins in the last three surveys – since the category was introduced it is the only insurer to have won. Janice Deakin, corporate sales director at Aviva, reflected on the win: “This comes at a time when our commitment to the commercial sector couldn’t be stronger: our upcoming television advertisement encouraging our commercial customers to contact their local broker for advice is a great example of our commitment to the broker channel and recognises how valuable that two-way support is.”

Best insurers for commercial claims

- 1 Aviva
- 2 Allianz
- 3 Chubb
- 4 Zurich
- 5= Fortis
- 5= NIG

Recession

When it comes to the recession, the news is far from cheering. A year ago, 95% of respondents reported that their clients were ‘to some extent’ or ‘significantly’ cutting back on their insurance after being financially squeezed. Six months later, the result was identical. Now it has increased to 97% and the level of responses in the ‘significantly’ category has hit a high of 29%. The picture for



7. Which value-added services do you offer clients?

Best insurers for commercial underwriting service

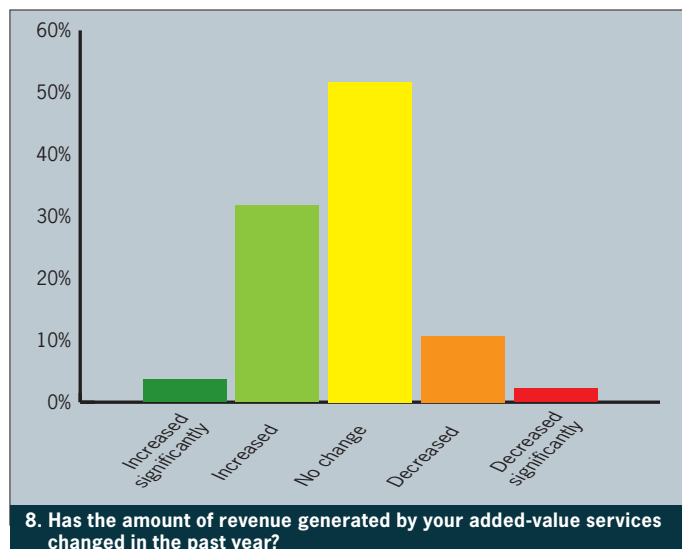
- 1 Allianz
- 2 Axa
- 3 Aviva
- 4= Arista
- 4= NIG

clients going out of business is, unsurprisingly, just as bleak. Only 16% reported that no clients had gone out of business during the recession; a year ago the figure was 44%.

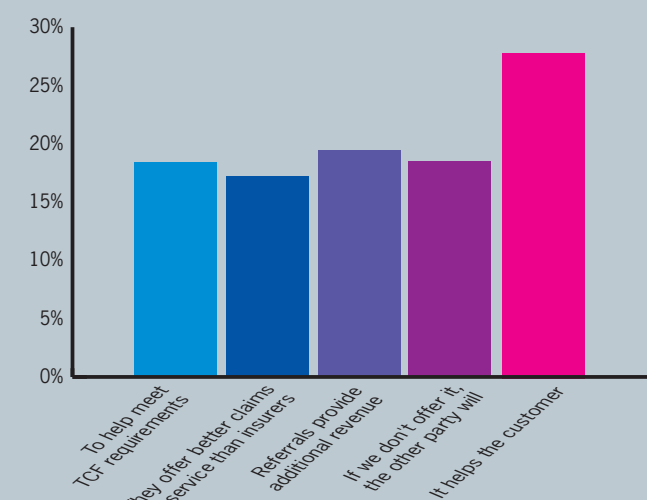
In terms of their own businesses a total of 75% of respondents have cut expenses as the recession deepens, although the majority of these have done so only to

a limited extent (see graph 6). When asked to detail the precise headaches that the recession has thrown up, replies focused on clients ceasing to trade, late premium payments and a lack of new business enquiries from start-up companies.

Several respondents highlighted the challenges that aggregators and direct sellers provide. One participant explained how the recession has exacerbated the situation: "Although we have lived with and put up with direct dealers for some time, the fact is that, during a recession, people are looking to save on premium. Offers of free contents, 10 months for the price of 12 and so on are going to attract custom away from the broker market because these offers are not available to us."



9. Why do you offer credit hire services?



As one respondent noted, it is not a situation limited to personal lines: "It's now creeping into small business insurance." Another explained: "Clients, particularly commercial, take the attitude of [a personal lines customer with an aggregator], and are expecting cheaper cover."

Several areas of business were also highlighted by respondents. Some have lost travel insurance business due to fewer people travelling, others pointed to the building trade. One respondent highlighted: "It has been significantly affected, which has a knock-on effect on commercial business. This applies to the smaller firms whereas the larger, well-established companies seem to be weathering the storm. However, even they are cutting their employees wages, for example by not offering overtime, which leads to people putting off having work done on their properties, for example."

Service reduction

Brokers also feel that insurers are cutting their services at the moment. Just under 10% believe insurers to be cutting back to a great extent, while 56% feel there are cutbacks but of a more moderate nature. It is a reversal of the situation a year ago, when 78% felt that there were no cutbacks.

Worryingly only 46% of respondents have plans to cope with swine flu should there be a pandemic and 17% are working on one. In respect of giving advice about the issue, 27% claimed to offer guidance to their clients.

In these straitened economic times when brokers have to prove the value of their advice and the importance of their expertise to stand the best chance of survival, the most popular value-added service on offer to clients is legal expenses cover (see graph 7). Due to the nature of the services, brokers are often able to offer more than one, so close behind in popularity was a payment instalments offering. Unsurprisingly the least number of votes were cast for offering no value-added services.

Those that generate revenue from such services declared that, in the last year, there has predominantly (52%) been no change in the amount of money that the services generated, although 32% have seen an increase and, for a small element (4%), it has been a significant increase (see graph 8). The main reason given for providing credit hire services (see graph 9) – a controversial topic at the moment, especially with Axa pulling out of ABI's general terms of agreement – were that it helps the customer (28%) and provides an additional revenue stream from referral fees (19%).

Finally, it is pleasing to report that despite the doom and gloom of the recession brokers have as positive a view of the future as ever (see graph 10). Six months ago, 23% of respondents were 'extremely positive' about the coming year and 60% felt 'positive'. Halfway through the year, both the percentage of brokers 'extremely positive' and 'positive' are absolutely identical.

Eric Galbraith, chief executive officer at the British Insurance

Comments on value-added services

"Needs to be carefully done in an up-front way with the client to avoid being otherwise criticised."

"Need to be pushed to cover ourselves from a TCF viewpoint but some clients can least afford any extra spend at the moment."

"Someone who drives a company car for their business needs something more than a Ford Ka as a courtesy vehicle."

"All brokers must offer something further than usual services."

"Important source of income for brokers and excellent retention tools – good value for clients compared to buying direct from similar suppliers."

"In the right situation they are a valuable asset."

Brokers' Association, commented: "Brokers are, by nature, optimistic. They have to work with their clients and deal with the economic climate."

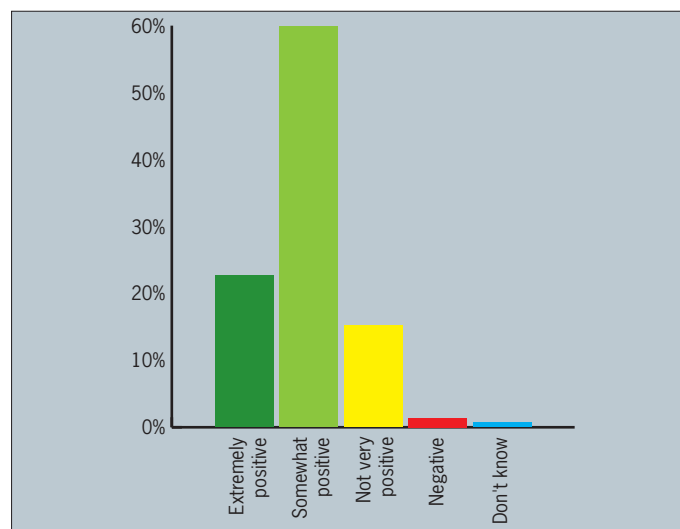
However, he warned: "We should not underestimate the continuing challenges around reduced turnover, wages, clients going out of business, the continuing potential for fraud, the cost of regulation, reducing margins and what appears to be an ongoing soft market."

■ Thank you to all that took the time to complete the broker-only survey; the next one will be published in May 2010. If you do not receive the survey and would like to then please e-mail ro.osborne@incisivemedia.com with your contact details.

Winners of the competition are: Dorry Haley of Eastwood & Partners; Grant Robertson of Miles Smith; and Nick Williams of Tern Valley Insurance Services. **PB**

Best insurers for personal underwriting service

- 1 Fortis
- 2 Zurich
- 3 Aviva
- 4 Chubb
- 5 Hiscox



10. How positive do you feel about the next six months?