

What does the future hold for premium finance?

Jonathan Swift caught up with Close Brothers Premium Finance sales director Paul Trail and commercial director Steve Wallis to find out how the sector is evolving and to reveal some of the results of a survey of brokers carried out earlier this year



How has the sector coped with the ► pandemic?

Paul Trail: “Pretty well from my perspective. If you look at the personal lines market, volumes were down 20% at the peak of lockdown; but that has been balanced out by the commercial volumes which were up by the same amount. From a premium financing view it has been pretty flat, but we have been very busy with forbearance requests and customers concerned about how they were going to make their payments.”

Steve Wallis: “I agree that in overall

terms the sector has handled it pretty well; the majority of brokers I have spoken to have coped remarkably well given the circumstances.”

► What is the data telling you about renewals and new business? And what is happening to commercial premiums?

Trail: “What we have seen is that a whole raft of people who have never taken premium finance before – or historically might have had it 10 years ago but their balance sheet has since been so good they never considered it [up until now] –

looking to conserve cash. So we have had some very large commercial enquiries via brokers with some big premiums.”

Wallis: “Obviously we only see what we see, it is not the entire market but it is a large amount of gross written premium. Heading into the early stages of the lockdown, and during that initial period, there was a drop off in new business that we were writing which was compensated by an increase in renewals.”

“And we were seeing renewals premiums holding up pretty well. Since lockdown has been eased we have seen new business ►

come back very strongly. We are not at a business-as-usual position yet, but never-the-less the numbers are much stronger.

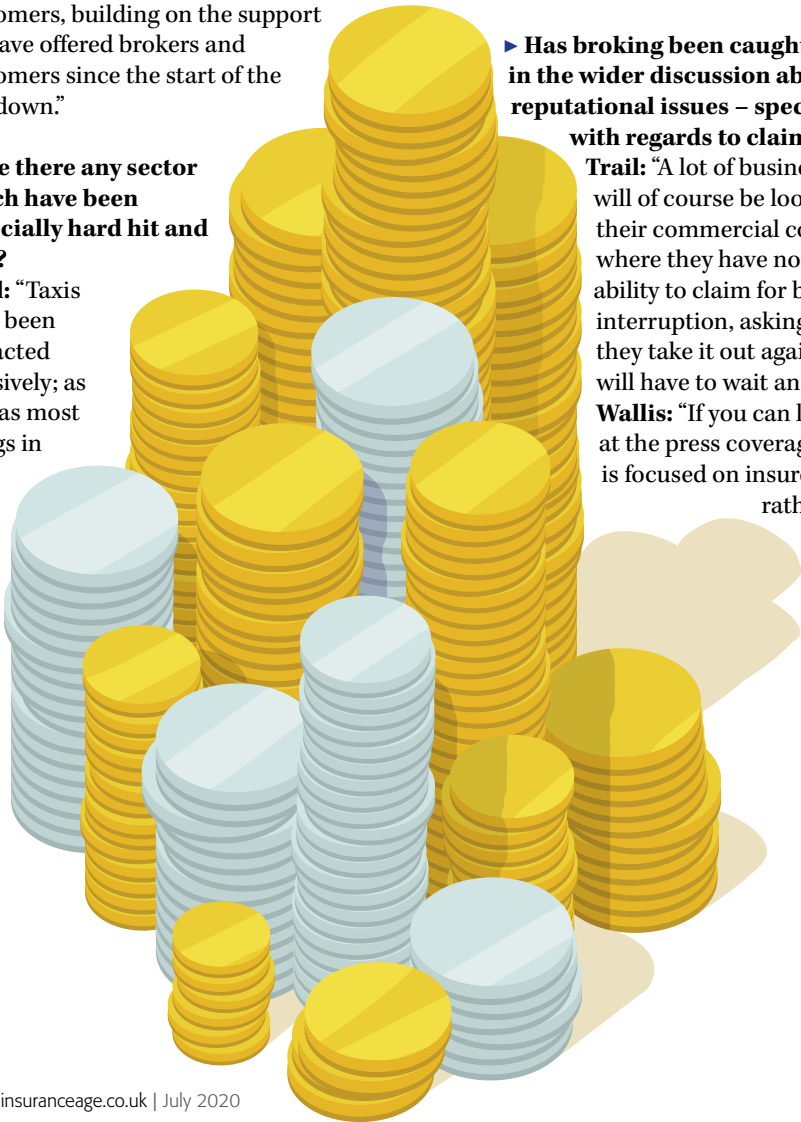
“With commercial premiums I looked at what the average was during the early days of lockdown compared to now and there have been some increases, although that is difficult to quantify on a like-for-like basis as it is we’re talking about different parts of the year. But I would say there has been an indicative increase and a slight – but only slight - hardening.”

► **How has Close Brothers worked with the regulator to manage forbearance?**

Trail: “We started to offer forbearance as soon as the coronavirus took hold, and have worked closely with the regulator and our broker partners to ensure the best possible outcome for our mutual customers, building on the support we have offered brokers and customers since the start of the lockdown.”

► **Are there any sector which have been especially hard hit and why?**

Trail: “Taxis have been impacted massively; as well as most things in the



leisure sector, from restaurants to night clubs. Parts of the motor market have struggled and the motorbike space is down, but as it is seasonal many riders only insure themselves for the summer when they can go out, but it has recovered.

“Overall the market is presently steady and there is nothing out of kilter with where it might normally be. I do think there will be some hardening on some rates, but I would be hard pressed to see how motor insurers can put premiums up when they have had very few claims for a period of time and their loss ratios must be better than they have been.”

Wallis: “Those who deal with young drivers have also been challenged. It is very much a case that insurance is a proxy for the economy and so those sectors that have been inactive have been hit hardest.

► **Has broking been caught up in the wider discussion about reputational issues – specifically with regards to claims?**

Trail: “A lot of businesses will of course be looking at their commercial cover and where they have not had the ability to claim for business interruption, asking will they take it out again? We will have to wait and see.”

Wallis: “If you can look at the press coverage, it is focused on insurers rather than

Paul Trail



brokers, and the challenge is the man or woman in the street who do not distinguish between brokers and insurers. They will just see that it as insurance one and the same.

“But brokers are among the most brilliant and tenacious people I have ever met. If I go back to when I started in insurance just after Direct Line had launched, everyone told me personal lines broking was finished and it would be all written directly, which of course has not happened. So brokers have the ability to withstand any market, regulatory and technology change. Whatever comes their way they have the ability to adapt; they’ll find whatever way is necessary to thrive.”

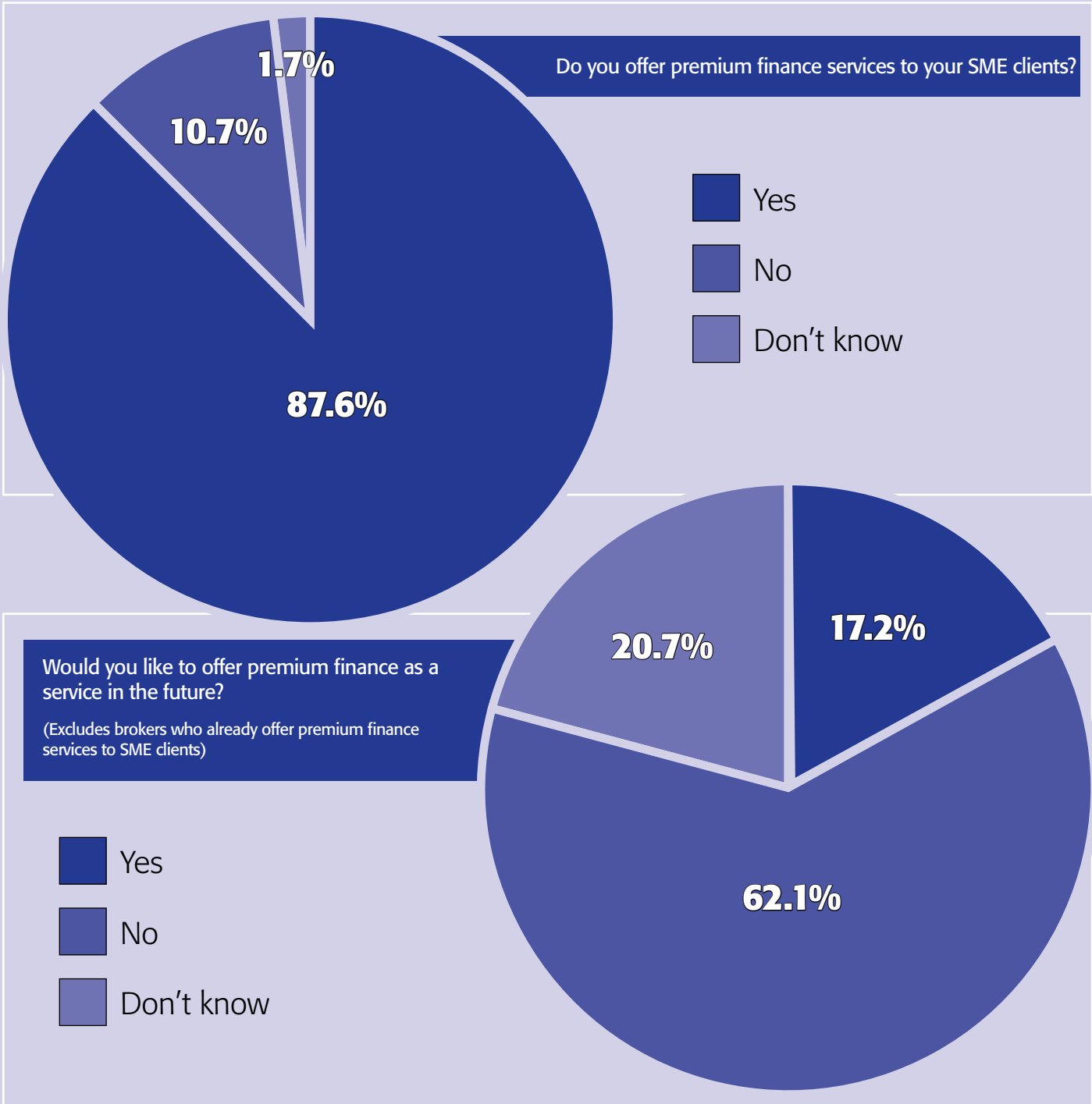
How can brokers use technology (specifically payment services) to help and support their clients?

► **How can increased finance penetration help brokers boost revenues?**

Wallis: “They have the ability to earn as part of the finance the customer takes out to spread the cost of their insurance premiums, which is obviously a benefit. And there is a point around renewal retention too, in that if you put a payment method in place that makes it straight forward for the customer to be able to renew, then that is helpful.” ►

Highlights from the survey

In February 2020 *Insurance Age* in association with Close Brothers Premium Finance canvassed more than 200 brokers for their views on premium finance. Here are some of the results...



Steve Wallis



► **Do you think commercial broking clients want to better manage their cashflow, and what will brokers be able to do to help them?**

Trail: “Absolutely, because every business in the UK, no matter what sector you are in, is looking to manage their cash flow going forward because there is still so much uncertainty.”

Wallis: “I agree it will be critical in terms of choice. And payment services can help them.”



► **Can you expand on how payment services can help financing better for brokers and their clients?**

Trail: “What it does is help them not having to worry about reading a script to each and every customer. And if I was a commercial lines broker that would sell it on its own because I no longer need to be concerned whether my customer account manager has done the right thing. That’s all taken care of through the technology. Secondly, it gives customers a choice over whether they pay cash, credit card or premium finance.

Wallis: “For insurance brokers it takes away the effort that is required to present a finance offering and complete the transaction. And from a client’s perspective it is presenting them with a set of choices of how to pay – including different instalment/payment options – so they can assess them and make a payment without any need for manual intervention through a single seamless online journey.”

► **How has payment services performed so far, and what is the ultimate ambition for the technology?**

Trail: “We just want to fit seamlessly in the background and make the journey for the customer as straightforward as possible; and anything we can do to assist with that, to cut down the amount of paperwork the policyholder receives, helps the broker.”

Wallis: “The rule of thumb for commercial insurance broking is they get about 20% of the customers paying by finance; which in our view is some way below what it should be. And if I look across some of the stats around the performance of payment services, scanning down the numbers of all of the brokers that are using it with any sort of regularity are seeing finance penetration numbers above that number; typically 30% and in some cases even higher. Which proves more people will take finance if it is offered to them online and in a manner that is easy to use and understand.”

Looking to the future

► **What is the Close Brothers view on the outlook for commercial broking?**

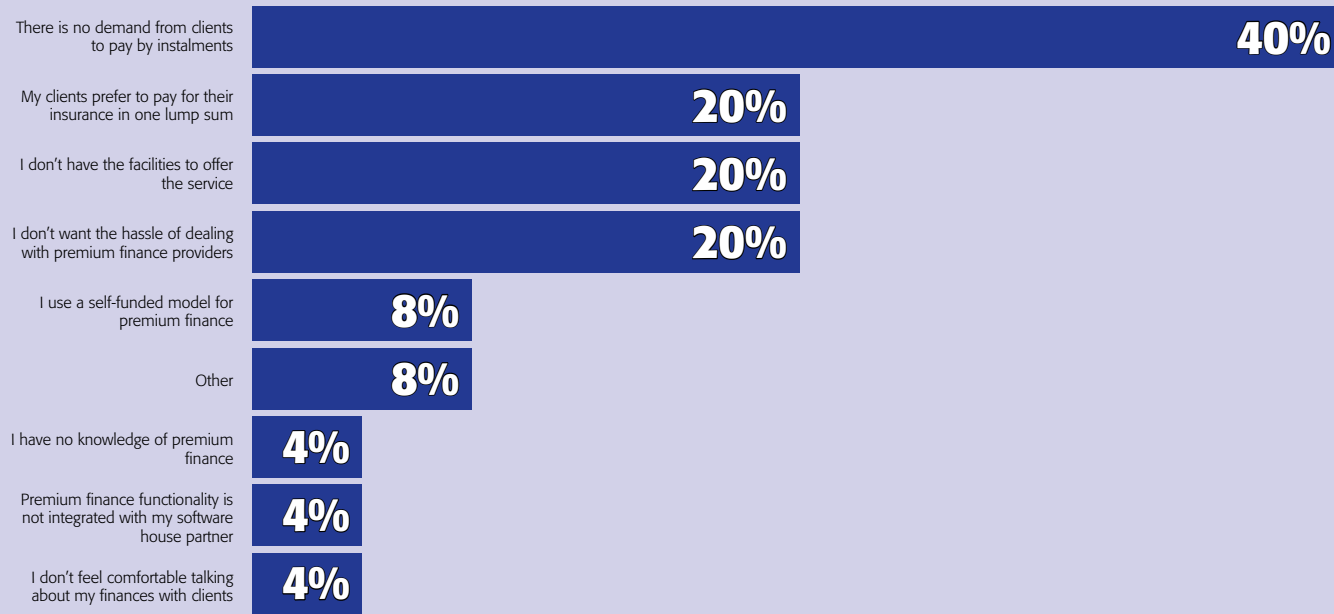
Trail: “Consolidation will carry on with private equity supporting it; and there will be the odd new player that is spun out of one of the bigger ones that have been acquired and look to go again, like Phil Barton from Marsh Commercial, who’s recently launched Partners&. So the consolidators will get bigger and there will be fewer small independent brokers, which concerns me a bit as it is nice to have new entrants.”

Wallis: “We’ll see more and more commercial brokers embracing technology, which is a ►

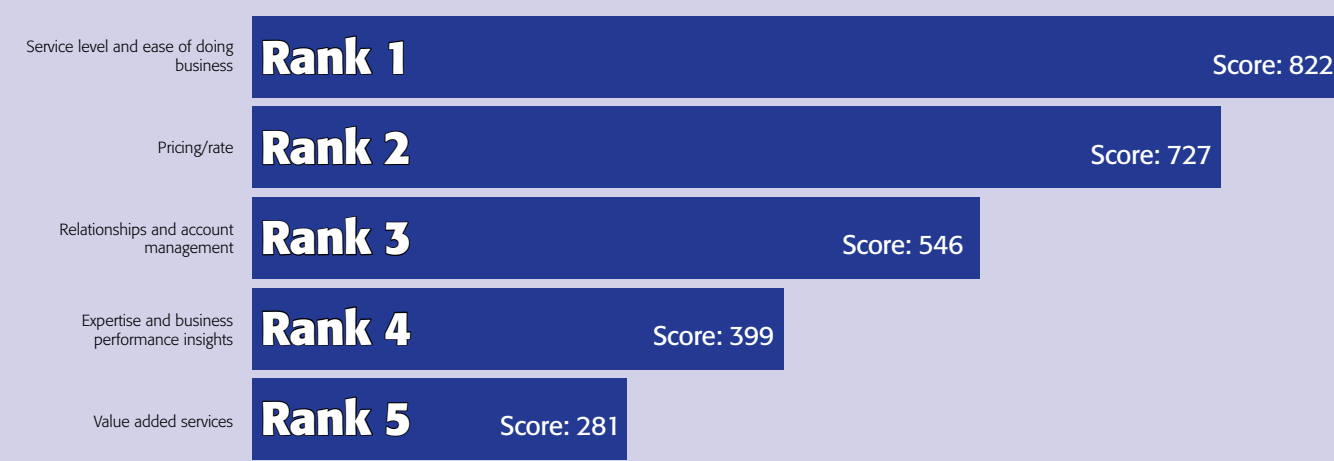
Highlights from the survey

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Thinking about why you don’t offer premium finance services to your clients, tick any of the following statements that apply:
(Excludes brokers who already offer premium finance services to SME clients)



If you do offer premium finance services for your clients, please rank the below FIVE options in order of importance when it comes to working with your premium finance provider:
(Excludes brokers who don’t currently offer premium finance services to SME clients)



trend I have seen emerging over the last few years in terms of how they transact with us. For a long time personal lines brokers have sought to trade with us in a way that did not exist in commercial, but now you can see similar demand among low premium [commercial] brokers where they want automation to support them transact efficiently. With the assistance of technology, the outlook is strong.”

► **Is there a trend for suppliers (like Close Brothers) to do the heavy lifting – in terms of investment in technology – for the benefit of broking partners?**

Trail: “We have a team of data scientists who we put into three or four brokers via a request from them each year. And what they do is focus on a particular area of concern for that broker, which is what happened 18 months ago with Brightside

pay for their insurance, following the pandemic?

Trail: “I think more people will be talking about premium financing, especially in commercial lines. But in personal lines that [demand] will stay roughly where it is.”

Wallis: “More businesses will be prudent in managing their cash flows and will be looking for opportunities to help them with that so our expectation is more people will look to finance.”

► **What other changes do the team foresee for broking in the UK?**

Trail: “If we finally get a hardening market in the next two years brokers will do reasonably well; especially those in niche markets that tend to fare better than those that deal with more run-of-the mill stuff. I suspect a lot of personal lines brokers will also start to look at small commercial and

Wallis: “Everybody has embraced technology as a way of working as a result of Covid and I think that can offer an opportunity to enhance the client experience. One example that springs to mind is that I know some brokers are using voice analytics to detect potential fraud with calls. But that could go further in terms of video conferencing on camera where you get additional visual clues that could indicate someone is not being entirely truthful.”

► **What other services do the team see Close Brothers being able to offer brokers in future?**

Trail: “From a financing perspective we are happy where we are in growing payment services. Being part of a bank means we can also offer a lot of different solutions from asset management to motor finance to asset finance.”

Wallis: “I keep abreast of wider payment industry trends and payment services for us provides a framework that no longer relies on existing payment technologies. I think we are going to see payments evolve massively over the coming years. Nobody likes paying with cash for many good reasons; cheques are cumbersome and awkward; and bank transfers aren’t that great because a broker still has to reconcile it manually – and that is testing because people tag them with references like ‘my insurance’ and get the amount wrong. As a result, I see the emergence of online payment methods that allow transactions – not limited to low value, but higher value commercial as well – to be completed in a much more integrated fashion.” ■

who wanted our help to manage their cancellations. So we put our specialist team in and they worked with the broker to change the processes and technology with positive results.

Wallis: “We also have strong relationships with the bigger software houses and emerging insurtech providers too. Through these we get economies of scale in that if we do it once, multiple brokers can benefit. And this is a no brainer for us in terms of making investments that support brokers, their clients and deliver the best experience.”

► **Does Close Brothers expect a significant change in the way businesses**

trying to adapt it into their models. I don’t think there will be too much disruption, but margins will continue to get squeezed. One thing I can see changing is that we won’t see too many non-UK based insurers coming into the market after the number of recent failures. They all seemed to go into the same marketplaces, thinking they could make quick money, but failed.”

