The Insurancetimes guide to commercial lines

Tomorrow's world

From e-commerce to loss adjusting – new directions for business cover

The Insurancetimes guide to commercial lines

Contents

Post-recession world order

The Great Recession may officially be over. But for many businesses it doesn't feel like the recovery has got under way yet.

So says Aviva's latest survey of SMEs, which was carried out in the run-up to May's general election. The survey shows that just one in six small and medium-sized businesses feels optimistic about their prospects in the year ahead.

This sentiment is borne out by this supplement, *Insurance Times*'s first guide to commercial lines. Across the board, from property to professional indemnity, brokers and insurers report that life is tough.

Rates may be edging up in certain niche areas – financial institutions among them – but in others, such as professional indemnity, long-heralded increases are not bearing fruit. Markets remain extremely competitive wherever you look.

Customers of insurance, faced with the prospect of tight margins for a prolonged period, are likely to become ever more price-conscious. And judging by the Aviva research, an increasing proportion of SMEs will be weighing up whether to take out insurance at all.

This despite the fact that hard times will increase the risks of operating without the insurance safety net.

Amidst all this uncertainty, one thing is clear: the second decade of the 21st century is going to look very different to the first.

David Blackman, supplement editor

Customers of insurance, faced by the prospect of tough margins for a prolonged period, are likely to be ever more price-conscious

FIND OUT MORE ONLINE
Go to **insurancetimes.co.uk** and search for:
A hard market on the horizon [27/05/2010]

Editor-in-chief
Tom Broughton
Commercial Lines editor
David Blackman
Executive editor
Ellen Bennett
Art editor
Gary Cook
Group chief sub-editor
Áine Kelly
Senior sub-editor
Laura Sharp
Publishing director
Shân Millie
Managing director
Tim Whitehouse

Group sales director
Tom Sinclair
Display advertising manager
Daniel Tena-Mullor
Brand development manager
Tom Cull
Display sales executives
Kris Oldland, Jon Melson
Recruitment and classified sales
Kate Sloan
Assistant brand manager
Elizabeth Telford
Group production manager
Tricia McBride
Senior production controller
Gareth Kime

Enquiries
Telephone: 020 7618 3456
Editorial fax: 020 7618 3499
Production fax: 020 7618 3482
Advertising fax: 020 7618 3400

Subscriptions
Tel: 0845 313 7557; email: newsquestcs@optimabiz.co.uk; post: Insurance Times, c/o Optima, Units 12-13, Cranleigh Gardens Industrial Estate, Southall UB1 2DB. Subscription rates: UK – £375 one year, £635 two years. Europe – €590 one year, €990 two years. Rest of world – $1590 one year, $2655 two years.
Printed by: Headley Brothers, Ashford, Kent TN24 8HH

Insurance Times is published by Newsquest Specialist Media Ltd, 30 Cannon Street, London EC4M 6YJ.
ISSN 1466-8149

Our liability product for the self employed has been relaunched as Semploy Extra. You'll be surprised what we can now do!

- Quote on almost 500 different trades
- No Claims Discount of 25% available for customers claim free for 5 years or more
- Up to 7 multiple trades rated under a single policy
- Increase from 6 to 10 manual/non-manual workers (other than clerical) at inception
- Optional cover extensions for Contract Works, Legal Expenses and Personal Accident now available
- Northern Ireland businesses now accepted
- New optional cover for Injury to Working Partners/ Proprietors now available
- Tools and Stock in Transit definitions widened, Single Item Limit increased to £1,000

defaqto
2010
TRADESMAN INSURANCE

For more information about Semploy Extra contact our Business Development team on 0845 120 0516 or email talkback@fortisinsurance.co.uk

General Insurance | Life Insurance

www.fortisinsurance.co.uk

Fortis Insurance Limited, Registered Number 354568, is authorised and regulated by the Financial Services Authority.

Jun10

Walk this way

Personal insurance customers have been buying online for years, but the business market has so far kept its distance. Rebecca Thomson reports on steps towards e-trading that brokers cannot ignore. Illustration by Steve Scott

E-trading has become the dominant way to connect with customers in the personal insurance market, but its move into the commercial market has been slower. While the technology enabling e-trade has been around for a few years, it's still not clear if the business world is likely to follow in consumers' footsteps and fully embrace it.

The personal insurance market has changed drastically in the past decade. Price comparison sites or large insurance companies' sites are now the main way for individuals to buy insurance. Products in personal lines are easily bundled into simple packages, risks tend to be straightforward to calculate and consumers want the whole process to be quick and painless.

The business market is very different. There is much more money at stake and companies often want specialised advice. The complexity of the products involved has led to scepticism over whether web technology can change the way businesses buy insurance.

Fortis UK commercial underwriting development manager Gail Smith says the commercial market doesn't have the homogenous volume of products often necessary for e-commerce. And most businesses usually want to buy more than one product.

Brokerbility managing director Ian Stutz agrees. "However small a business is, it's never going to get away from the fact that it needs some kind of advice. You're not going to get a business going to a comparison website because they're more complex," he says.

Many business owners would prefer not to have to worry about insurance, argues LV= Broker commercial underwriter Kevin Hawkins. "Business owners have enough to do to understand complex issues such as establishing the insurance protection their business requires," he says. "They're unlikely to know whether they need gross profit or gross revenue, for example. This is where brokers add so much value."

> **'Changes in technology will start at the bottom with smaller companies. The larger buyers will rely on a bespoke programme'**
> **IAN STUTZ, BROKERBILITY**

It's unlikely that the situation will always be this simple. As the technology evolves and becomes capable of calculating more complicated risks, it may be possible to automate simpler commercial insurance packages. Van insurance for small businesses is one example of a product that lends itself well to e-commerce.

In step with the web-savvy

Stutz adds that as the workforce grows more technology-savvy, demand for web-based business insurance will grow. "There's a generation of people leaving university and going into business who are very used to using the internet," he says. "Once this generation finds its way into businesses and starts to make decisions, we have to have an offering that meets the way they do things."

This will be especially relevant for small and medium companies whose requirements are simpler and more open to automation, he says. All 34 of Brokerbility's brokers are working on providing some kind of e-trade offering.

One possibility is to provide the services of a broker through a website, giving advice over email or via a secure portal. Instant messaging or video conferencing are other possible ways of talking to clients. But these changes will start with smaller companies, and it's not yet clear if they will filter into bigger organisations.

"Changes in technology will start at the bottom with smaller companies. The larger, more sophisticated buyers will be very much reliant on a bespoke programme and need a good deal of face-to-face interaction," Stutz says. "Technology can facilitate the process and make it more streamlined, but it will always be advice-driven. If you run a business, you've got to be certain you've covered every eventuality. The ramifications if you don't are potentially disastrous."

Acturis co-chief executive Theo Duchen says that while e-trade will continue to creep into the business market, the sector will not be entirely open to it.

"A year or two down the road, you'll find 50% of commercial lines will be e-tradable," he says. "But for many products, it just won't be possible. E-commerce in commercial insurance will only be as successful as the products built."

IT advances should help cut cost and inefficiency, making the process more instantaneous and information more accessible, but it won't prompt a sea change. Duchen predicts that the broker share of the market will not change drastically from its current 84%, nor that the substantial shift to e-trade in the personal market will happen in the commercial sector. "Business customers are often more nervous," Smith says. "There's more appetite for advice."

The commercial market is also lacking the catalysts that drove personal lines to e-trade. Sites and businesses such as Direct Line focused brokers on trading in a different way, forcing the change through and making it impossible to ignore. The commercial lines market hasn't followed the same pattern.

According to Smith, e-trade products have been more successful in some countries than others. "In some parts of Europe, [e-trade] is still non-existent," she says. "Places such as Australia

HOW TO BUILD AN E-TRADE OFFERING FOR SMALLER BUSINESSES

Simon Hughes, sales and marketing director at Open GI, advises:

- Ensure your site is easy to use. Avoid jargon, simplify the navigation and use a quote engine that can handle large volumes.
- Focus on a niche. It improves search engine optimisation, which dictates how you are prioritised on Google and will drive potential clients to the site.
- Cross-sell additional products once consumers are on the site.
- Give customers as much advice as possible. Most SMEs will be buying online insurance for the first time and will need an easy way to get in touch.
- Accepting online payment is crucial, but talk to IT professionals or software suppliers about security.
- Make sure promises can be fulfilled – an advertised phone number must have someone to answer it, for example.
- Consider using a 'refer a friend' function to encourage small businesses that have bought online for the first time to recommend your site.

have become a bit more involved with these products – we've had people come over here from Australia to try to help us adapt to new products. But each market needs to move at its own pace.

"We certainly see growth. At the moment, it's at the micro end, but it's increasing. There are some brokers who are increasingly focused on the electronic market."

While e-commerce might not take over the commercial market in the same way as it has the personal, it's not something brokers can afford to ignore. It will continue to have an impact in the less complex, smaller end of the market, and might change the way business is done at the more sophisticated end, through emerging communication technology and faster information sharing.

Experts are optimistic that, handled correctly, e-trade products present an opportunity rather than a threat for brokers.

According to Hawkins, the market is too complicated for brokers to lose their relevance. "Commercial brokers are already using technology to enhance their offering, and there are various platforms on the market they can use to get quotes from. They can then discuss which policy is best for that customer."

Best use of tools

The variety of products on the market means that brokers can advise the client with the help of the technology. There are also platforms that allow them to trade electronically.

"Commercial insurance is not a one-size-fits-all product, so brokers add a huge amount of value," Hawkins adds. "The problem for business owners is that if they buy direct, they may misunderstand the cover or terminology and may end up getting their fingers burnt if they need to make a claim."

Aviva intermediary marketing manager Vince Cox agrees that the best way forward for brokers is to focus on the advice they can give. "The real win here is for the broker to have the relationship with the client and understand their needs, but to also take advantage of any e-trading opportunities with their insurers, making them slick and efficient behind the scenes."

Apathy is not a good option. Brokers must at least be aware of the internet and the opportunities it provides – not least because the web has a habit of taking industries by surprise. As Open GI marketing director Simon Hughes warns: "There are still brokers who, by their own admission, are 'doing OK without the internet'. This may well be the case now, but for how long?

"E-commerce transforms the masses into masters of their own fate. The services that are currently reserved for personal consumers will open up to the micro end of the SME sector. How quickly brokers react, and their ability to embrace the internet, will make the difference between survival and success." **IT**

FIND OUT MORE ONLINE
Go to **insurancetimes.co.uk** and search for:
Lorega goes online with Broker2Broker
[19/05/2010]

How Australia is staying one step ahead

Case study

The Dual Group, which has offices across Europe, the USA, Australia and the Far East, is migrating several of these territories onto a single underwriting platform, *writes managing director Damien Coates.* In our experience, each territory has a different appetite for technology and how to approach commercial insurance online.

These differences are in part influenced by cultural mores, but on the whole are driven by simple economics. Those countries that have embraced technology and handle the most commercial business online tend to be the countries where volumes are high, premiums are low, competition is fierce and profitability tight. In markets like these, it simply is no longer efficient to underwrite using traditional methods alone.

In Australia, the commercial lines market is already moving more to an aggregator model for SME business. Major brokers are developing IT-based platforms to improve their margins by eliminating duplicate data entry and improving their buying power with insurers, while continuing to provide a competitive offering to the client. Some international brokers are even requesting large insurers contribute financially to the upfront costs of building systems in return for supply.

The next level of growth in Australia is with online brokers building platforms for commercial insurance to be purchased over the web. Increasingly, someone setting up a business is more likely to go to Google than pick up the *Yellow Pages* to call an insurance broker. Online commercial aggregators such as Bizcover are more than likely to hire another Google metrics analyst rather than another account broker.

The Australian professional indemnity sector is a A$1.6bn (£927m) market, with 220,000 active policyholders. It grew by 13% last year. Given that Bizcover receives 75,000 enquiries a year, it is clear that online broking will be a growth area.

This development represents an interesting paradox for the UK, where personal lines aggregators have had phenomenal success, but there has been limited penetration into the commercial lines market. It is believed that in commercial lines, brokers will increasingly segment their business into 'advice based' and 'service based', where the main objective of the service-based segment is to provide the client with an automated online solution.

For insurers and managing general agents, a global platform must be able to answer different broker and client needs in each territory and not attempt to shoehorn them into a system that tells them rather than asks them what they need. Clearly, the needs in Australia are very different to those in the UK, for example.

> **Countries that handle the most commercial business online tend to be those where volumes are high, premiums low, profitability tight**

The key is in finding a platform that will be flexible enough to cater for high-volume, low-premium business, but that also allows room for direct underwriter involvement for a more tailored service where required.

While online platforms for commercial business will increase in countries like Australia, whose markets demand greater efficiency to remain profitable, for insurers and MGAs it is not the golden chalice. Success still depends on good old-fashioned experience, specialist knowledge, sound underwriting techniques and a focus on service … supported, of course, by leading edge technology.

Tools of the trade

Fortis underwriting development manager Ron Munro offers his tips on managing fleet portfolios

Current economic conditions and increased legislation are putting fleet managers under added pressure, as they face more scrutiny from their business leaders to reduce costs while mitigating risks.

We can expect clients to have insurance premium savings high on their priority list along with fuel efficiency, but we also have to question whether they are considering the real costs associated with incidents and not meeting legislation. A comprehensive understanding of a client's fleet portfolio, combined with access to risk management expertise, can offer an end-to-end fleet insurance solution and overall improved service proposition.

Risk assessment tools are becoming an increasingly important requirement from brokers to meet their clients' needs. Clients may be prepared to pay extra for a risk management service, so it's important for brokers to have access to such expertise.

The bigger picture

But before completing a risk assessment, or even submitting a quote or inviting renewal, it's useful to take a step back and check that we have as much information as possible on the client's portfolio.

There are, of course, the basics – in other words, driver information, type of vehicles and whether these are fit for purpose. For example, you wouldn't expect clients to be using a Fiat 500 or similar for round-trips from Southampton to Leeds on a regular basis.

It's also good to know how the vehicle will be used, the number of miles expected and where it will be parked when not in use. We need to understand the type of goods carried and whether these are chemicals or highly desirable items, thus increasing the theft risk.

Does the client operate a 'grey fleet' – employees using their own vehicles for company business – and if so, what are the liabilities? It is useful to remind clients that there is a dual responsibility on the vehicle owner and the client to ensure the maintenance of the vehicle.

Understanding whether the vehicle has a tracker fitted in the event of theft, or where the vehicle is kept overnight, allows underwriters to take these security measures into account. Clients who have all vehicles parked in one location overnight should be aware of the 'accumulation risk' potentially leading to a higher risk of the whole fleet being lost in a fire.

It is important to understand whether the profile of the fleet has changed in the last 12 months or is likely to change. With vehicle manufacturers needing to reduce CO_2, there is a move towards downsizing engines, leading to extra electronics on vehicles. We are also seeing the use of more high-strength steels that are lighter than standard steels and require special bonding, which cannot be easily replicated during repair. Ultimately, these changes could increase the costs of potential claims and the expertise required to carry out repairs.

Understanding and mitigating risk

Under the Health and Safety at Work Act 1974, employers have a statutory duty of care involving risk assessments on the health and safety of their employees, including any driving activity. But SME clients have limited access to risk management expertise, despite needing it most. There are many reasons why we should encourage clients to invest in risk assessment tools that can offer added assurance, not least of which is the recently introduced corporate manslaughter legislation. This can result in the company facing prosecution following a fatal road accident where the employer is found to have breached their duty-of-care obligations.

According to the Health and Safety Executive, up to a third of all road traffic incidents involve somebody who is at work at the time. This may account for over 20 fatalities and 250 serious injuries a week. A road risk programme can reduce crashes significantly and contain cost increases and time off work.

The following key areas are a useful guide to getting the client's risk management profile up and running:

- **Know your drivers:** To comply with section 87 (2) of the Road Traffic Act, clients must go through the process of verifying the driving licences of their drivers. Risk assessments in terms of driver attitudes, experience and history will help identify where additional training is required, whether this be on the road or keeping up with the Highway Code. Teaching effective driving skills not only helps reduce incidents, but also educates drivers on optimum fuel efficiency.

- **Vehicle safety:** There has been a move towards newer technologies to increase the safety of vehicles, such as autonomous breaking, lane-departure warning systems, bumper beams for low-speed incidents and alcolocks, which clients should be aware of. It's favourable if the client can show they provide guidance around whiplash prevention and risks associated with unsecured loads. Organisations such as Thatcham provide a useful source for this safety information.

- **Reducing injury risks:** With third-party injury claims increasing the costs of motor insurance, it's important for clients to recognise the areas within their control to mitigate these costs. Manufacturers continue to take the prevention of whiplash injuries seriously and, according to Thatcham, more than 50% of seats are rated as 'good' for offering protection against such injuries. But there is more that clients can do to educate drivers on the positioning of head restraints to avoid injury altogether. Unsecured loads is another factor affecting injury. We have seen the 'Think' campaign advert where the driver's son does not wear his seatbelt and crushes the driver. Customers driving hatch-backs or vans without protective screens could be subjecting themselves to the same risk when carrying unsecured loads.

- **Document policies and procedures:** It is important to document procedures and monitor their implementation. This may be achieved through the provision of a handbook for drivers, helping them maintain the safety of their vehicle and report any issues. This also allows clients to confirm their policy on distractions such as hands-free kits, satellite navigation systems and pets, as well as requirements for vehicle maintenance, servicing and safety checks.

The costs associated with incidents that may have been avoided through mitigating actions far outweigh the costs of putting risk management programmes in place. Fleet insurance can offer peace of mind. Being equipped with portfolio information and risk expertise provides us all with the tools of the fleet trade.

Driving forces

The twists and turns of the motor fleet market are proving tricky to navigate. **Ben Cook** takes soundings from insurers about their view of the road ahead

Motor fleet underwriters have plenty to worry about at the moment. Claims are up following a bad winter, while fraud is a persistent problem as crooks dream up 'cash for crash' scams. If that were not enough, government reforms to the road traffic accident compensation system have raised fears that insurers will find it more difficult to detect fraudulent claims. And to top it all, rates remain soft, making it tough for insurers to underwrite profitably. Beset with such problems, what do underwriters have to do to be successful in the fleet market?

Allianz's head of commercial motor and motor trade, Roger Ball, says one of the key emerging trends in the fleet market is an increase in claims. This follows an extended period of declining claims numbers.

"We expect the trend from the past five years of reducing claims frequency to reverse this year due to the adverse weather earlier this year and uplifts in vehicle use," he says.

Ball highlights claims fraud as a "significant issue" for fleet insurers. He cites the recent 'cash for crash' scam that resulted in 25 people being sentenced at Liverpool Crown Court for their involvement in defrauding Allianz through bogus claims involving employees of Virgin Media.

The fraudsters' ringleader convinced employees at NTL, now part of Virgin Media, to pretend they had crashed their company cars into another vehicle containing several passengers. When the NTL employee accepted responsibility, the supposed victims made claims totalling thousands of pounds. Ball says insurers need to be "robust in our actions" to counter such fraud.

The problem could be exacerbated by the Ministry of Justice's (MoJ) reforms to the compensation system for low-value road traffic accidents, says Ball.

> 'We face uncertainty regarding the financial impacts of the MoJ reforms … It could encourage increased claims frequency'
> **ROGER BALL, ALLIANZ**

The effect of the reforms, which came into force in April this year, is that motor insurers now have only 15 days to accept or deny liability for road traffic accident claims of up to £10,000. The new system also introduces fixed legal costs for such claims.

"We face uncertainty regarding the financial impacts of the MoJ [reforms]," Ball says. "On the one hand, it will limit legal costs on small legitimate third-party bodily injury claims; on the other, it could encourage increased [claims] frequency – some fraudulent – and will put real pressure on claims teams to arrive at a correct decision at an early stage. This may not always be the right call."

Shrinking fleet sizes

Other issues facing fleet insurers include a decline in the size of commercial fleets, leading >

Broker focus

Alan Boswell Group

Business brokered by Norwich-based Alan Boswell Group totals around £40m in gross written premium, of which motor fleet, at £4m, accounts for 10%. The group handles more than 500 fleet policies for vehicle groups ranging from five to more than 100.

"Fleet is a massive area for us," director David Tuttle says. "It's growing partly because premiums are going up, partly because of growing client numbers."

Tuttle describes the market as in "a state of flux". "While certain insurers are trying to push premiums up, others see an opportunity to make money out of fleet. So while some are increasing rates by around 10%, others are looking for a modest increase and some are renewing at the same terms."

> **'Property rates have been driven down, so there is a changing emphasis, with some insurers placing more of an onus on fleet'**
> DAVID TUTTLE, ALAN BOSWELL GROUP

Tuttle believes some insurers are pushing up fleet insurance rates to offset decreasing rates in the property insurance market. "Over a period of time, property rates have been driven down and down, so there is a changing emphasis, with some insurers placing more of an onus on fleet."

In general, the size of commercial motor fleets is decreasing as a result of the prevailing economic climate, according to Tuttle. "Some clients are cutting back on their number of vehicles. Contractors are laying people off, which means they're reducing their vehicle fleet," he says.

New providers have not seen fit to enter the fleet market, Tuttle says. He adds that less fleet business is being placed at Lloyd's and more is being written by composites such as Allianz and Aviva. "It goes through cycles," Tuttle says."If insurers are looking for rate strength, this plays into the hands of the Lloyd's market; otherwise you'll see business flowing out to composites."

TOP TIPS FOR SUCCESS IN THE MOTOR FLEET MARKET

• Insurers must push up rates to be profitable

"We have seen five years of failing to keep rates in step with claims inflation," Allianz head of commercial motor and motor trade Roger Ball says. "To be successful, we need to see the market achieve greater uplift in price than is currently being secured."

• Improve insureds' risk management

Give clients a risk management induction, and give them a handbook and incident pack so they know how to obtain all the relevant information at the scene of an accident.

• Brokers should work closely with insurers to find out why certain lines perform well or poorly

Get information about why claims frequency is high – for example, are there a lot of window claims? If claims frequency is low, explore the contributory factors – is it good risk management?

to smaller pools of vehicles being used more frequently, increasing the risk of claims.

"Recession is having a negative impact on the number of 'perks' vehicles and is increasing vehicle use as we emerge into better conditions with fewer vehicles," Ball says. "There are worries that risk management expenditure may be cut when savings have to be made."

Groupama Insurances assistant technical manager Mark Underford says insurers are struggling to make profits in motor fleet. "On rates, the fleet market remains extremely soft," he says. "It is difficult for insurers to carry even inflationary increases on well-performing business at renewal. We have seen some providers giving quotes on new business at levels below the incurred claims cost per vehicle."

He adds that such conditions make it difficult to retain and attract business at profitable levels.

Recent developments have prompted some insurers to leave the fleet market, while new players have thrown their hats into the ring, Underford says. "HSBC has recently pulled out and we have seen the departure of Quinn," he says. "Meanwhile, Fortis and LV= have emerged as players."

Asked what an insurer needs to be successful in the fleet market, Underford replies: "Good broker relationships, and the use of risk management [techniques] to turn around poor-performing risks. Insurers also need innovative rating strategies and flexibility in developing new lines of business."

Ron Munro, underwriting development manager at Fortis Insurance, which has entered the fleet market during the past year, says the market is "very competitive", with many insurers trying not to lose market share.

He believes many customers are reducing the size of their fleets, a trend that can have benefits for insurers. "People are trying to contain costs – they may be driving fewer miles or not renewing their vehicles so often," he says. "They're thinking: 'Could we do it by phone or call centre?'. This means there are fewer vehicles on fleet risks, so fewer premiums – and also, hopefully, fewer claims."

> **'The fleet market remains extremely soft. We have seen some providers giving quotes on new business at levels below the incurred claims cost per vehicle'** MARK UNDERFORD, GROUPAMA

Management issues

Whether customers are experiencing an increase in rates depends largely on the way they manage their fleet, says Munro.

"It depends what the customer is doing: have they cut back on their mileage? Have they undertaken risk assessment?" he says.

Successful underwriting partly depends on brokers presenting as full a picture as possible of the potential risks to insurers, Munro argues.

"In one scenario, we may, on a six- or seven-vehicle fleet, get just the address, the type of vehicle and the claims experience when we're presented with a risk," he says. "But on another similar-sized fleet risk, we may get all that information as well as information about what the fleet operator does to manage their risk. It's important to a build a good relationship with brokers and clients." **IT**

FIND OUT MORE ONLINE
Go to **insurancetimes.co.uk** and search for: *RSA extends repair service* [10/05/2010]

Does it still add up for SMEs?

Insurance premiums have been an obvious place for smaller businesses to make cutbacks during the downturn, so the pressure is on to safeguard that line of business by giving firms added value. **Nic Paton** reports

Depressing though it may be for insurers and brokers, there is no sign yet that price is loosening its grip as the key trend driving commercial lines insurance for small and medium-sized enterprises.

In a climate where confidence among SMEs remains, at best, muted – a survey by Aviva in April (see box overleaf) suggests that just 14% of small-business owners were optimistic about economic prospects for the year ahead – the >


Made to measure,
not made to fit

Broker focus

Bluefin

There is little sign of any sustained, post-recession recovery in commercial lines, Bluefin chief trading officer Graham Coates warns. For insurers and brokers, the focus will continue to be on working smarter, as well as harder, to maintain profitability.

"For many SMEs, the economic conditions are still very tough. Over the past year, SMEs has been the business area that has probably suffered the most," he says.

"We are not seeing any noticeable increase in premiums, nor is there a trend in specific products. But the number of liquidations, the amount of economic attrition and reduction in core activity have all slowed."

The market remains attractive for many insurers, which makes it more challenging,

> **'There is still far too much capacity, and insurers are falling over themselves to pick up SME business'**
> GRAHAM COATES, BLUEFIN

Coates argues. "There is still far too much capacity, and insurers are falling over themselves to pick up SME business. So there is a lot of competing for new business rather than pushing at rates.

"There has also been more activity from some of the newer players. Normally you could rely on the big five composites to compete with each other. But we've been seeing a lot more trying to compete for a contracting market."

With less appetite for consolidation or acquisition, the focus has to be on organic growth, he argues. "It is imperative to hang on to customers. Firms need to put time and effort into how they interact with customers, how they improve their sales skills and lead generation."

Within such a competitive environment, how insurers interact with brokers – the flexibility or accessibility they offer, the access to a dedicated team or personal contact – will make a difference.

Increasingly, too, the technological solutions or platforms on offer are becoming more important.

priority is very much about negotiating premiums down to the lowest level and trimming costs wherever possible.

"Price is still the key driver; it is the major issue. A lot of businesses are looking simply to get the lowest level of cover they can at the moment that will keep them legal," Aviva commercial product manager David Bruce says.

Growing body of non-insurers

Aviva's research also revealed – worryingly for the industry – that a significant and growing proportion of SMEs admitted to not holding any commercial insurance on their business at all. In total, 15% of those surveyed admitted that they did not have any cover in place, compared with 12% six months ago.

Within that overall picture, however, the recession has been throwing up some intriguing smaller shifts in claims and buying behaviour, argues Allianz's head of SME affinity and broker markets, David Martin.

There has been, for example, an increase in theft and malicious damage claims, while the cold weather over the winter has also led to a sharp rise in claims.

"There has been a big increase, too, in accidental damage claims," Martin says. "This perhaps indicates that people are more prepared to claim for incidents they might not have done before because things are that much tighter financially."

Despite this, there has not been a significant rise in fraud claims – something that has often followed previous downturns, says LV= commercial director Mike Crane.

"We have not seen business disappearing as much as you might have expected. Although the restaurant and pubs sector has caused concern, there have not been the same volumes of business failures as in previous recessions," Crane says.

"A lot of small businesses seem to have been running quite tight ships anyway, so they were not as over-extended, although there has of course been some contraction going on.

"One of the things brokers are telling us is that a lot of businesses are asking them to look around more. Insurance is perceived as another cost and, as such, there is a focus on whether it can be trimmed back," he adds.

A survey by QBE in February found that a third of SMEs were happy to trim costs even further by simply buying direct from the insurer and cutting out the broker altogether. A 10th of those surveyed were sceptical about how using a broker might help them at all. Just 11% said they turned to their brokers for advice, with 5% saying they would use insurers.

Need to offer added value

What this suggested, argued the research, was that while SMEs did understand their legal commercial insurance requirements, the industry was missing a trick in failing to educate the clients about the extra practical advice it could offer.

The research showed clearly the dominance of price in the thinking of SME managers when it comes to commercial lines – 'competitive price' was the top priority for three-quarters of those polled. Nevertheless, 45% still primarily bought on the basis of broker recommendation, it added.

Providers and brokers have been working hard to adjust to this new, tougher climate. In May, for example, broker Heath Lambert announced it was combining its commercial affinity and small business division with its personal lines unit. In the same month, hot on the heels of AXA unveiling an SME-focused financial lines unit, RSA said it was relaunching its SME offering. This follows moves by Fortis last October to significantly revamp its commercial underwriting and business development structures to position itself better within the SME arena.

At Allianz, whose market share has grown by 5%-6% despite the downturn, a key initiative has been the development of more sophisticated rating engines, so improving pricing techniques and postcode accuracy, says Martin.

"We can now identify claims trends right down to the street level. We know more about our customers than ever, which means we are able to be more accurate in terms of delivery and our customers are more able to plan their insurance costs over the longer term," he argues.

Martin also sees his company playing a bigger role in helping to educate SMEs about the importance of risk management, even when times are tough financially, using Allianz's 'risk director' suite of risk management tools to both brokers and policyholders.

"For the future, I see increasing confidence coming through within the SME sector, particularly around insurance costs. Clients are looking more at risk management and we are trying to educate SMEs about their risk exposure," Martin says.

Competitive rates

Overall, rates remain competitive, says Crane, confounding expectations last autumn that there would be a hardening. Nevertheless, market share

FIND OUT MORE ONLINE
Go to **insurancetimes.co.uk** and search for:
Navigating out of recession [17/06/2010]

TOP TIPS FOR SUCCESS IN THE SME MARKET

- With many SMEs focused solely on price, the key differentiator will need to be value. So assess what else you can add – advice on risk assessment, prevention, better service, a better claims helpline or assistance with red tape.
- Consider how you can augment or package your products to make them more attractive to SMEs, perhaps by incorporating additional products, such as business travel insurance or accident cover, within the core package.
- Look at your technology and IT platforms. Are you delivering in the right space or in a way that is most convenient? Are your ratings engines or claims management processes as accurate and effective as they could be?
- Focus on your point of difference – if everyone is chasing down to the minimum premium, what new angle could you come up with?
- Don't overlook the basics of understanding your underwriting inside out.

is up and LV= is writing 50% more business than this time last year, he adds.

Brokers are demanding more efficiency and there is a greater appetite for electronic trading products. "Price is still important. But brokers are still looking more at the whole equation; what is the best deal," Crane says.

"Rating levels are going to remain very competitive and there will be more of a move towards electronic solutions. There is a real demand for greater sophistication around price, while at the same time addressing all the other costs that might be in the equation. It is not just about having a good price, it is about having a

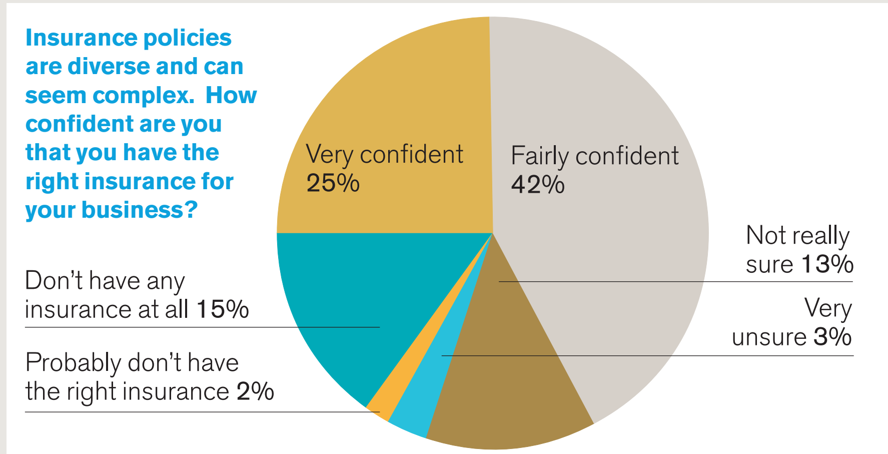
> **'A lot of businesses are looking simply to get the lowest level of cover they can at the moment that will keep them legal'** DAVID BRUCE, AVIVA

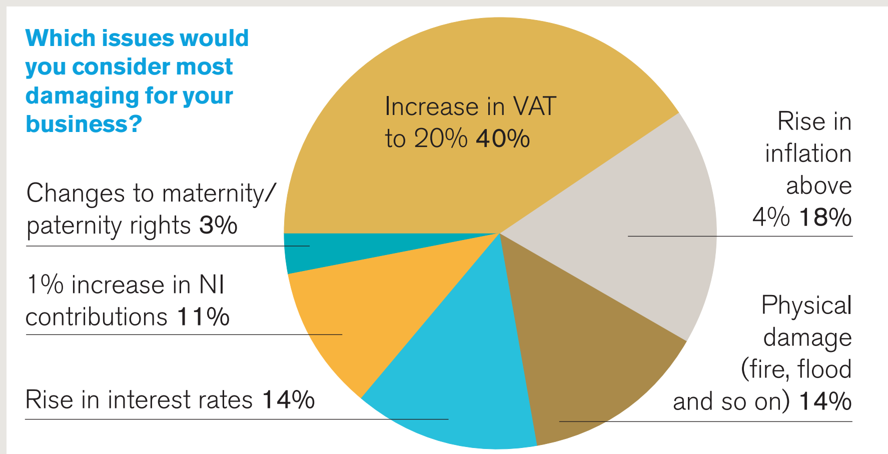
way of handling that business that is cost efficient."

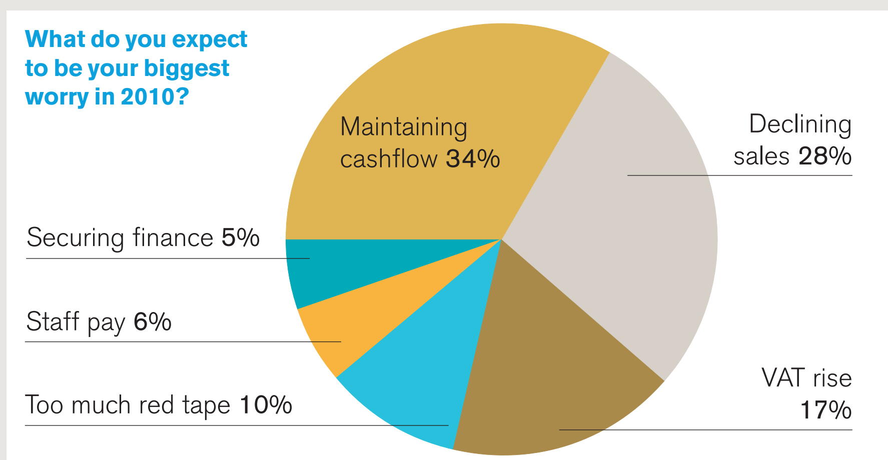
Similarly, at Aviva there has been an emphasis on offering more packaged products, argues Bruce, as well as 'add-ons', such as help with red tape, claims help lines and counselling services – anything that will give an added-value point of difference, he says.

"Packaging gives people a level of cover that allows them to trade up or increase their limits, or which offers extra cover – perhaps such as business travel insurance or accident cover – something they might otherwise have felt was outside their reach," Martin says.

"We are also working more closely with brokers. They are the people who can really look at a business and what it needs. It is about selling a level of cover that will fit the business – although it has to be at a competitive rate." **IT**







What SME managers think

Research from Aviva

A growing proportion of senior SME managers have admitted that they don't hold any commercial insurance on their business, according to a recent survey by Aviva.

The insurer's quarterly survey of businesses in the small to medium-sized sector, published in April, showed that 15% of respondents said that they did not have any cover in place, compared with 12% six months ago.

The survey also showed that the outlook for 2010 was muted. Some 60% of those surveyed said they expected conditions to "remain difficult" for the rest of 2010 and a further third (32%) believed there was a "real risk" of a double dip in the economy.

Only 14% were optimistic that green shoots would appear during 2010 and just 9% had seen an improvement in their prospects during the first three months of the year.

Signs of growth?

Don't be fooled by the first signs of an upturn in the property and construction markets. As Katie Puckett finds out, the challenge for insurers may be only just beginning

Despite floods, freezes and fears of vandalism, commercial property remains a steady favourite for insurers – much to the chagrin of those who have been trying and failing to increase rates.

Providers flocked to the construction and property market during the boom years, and most of them are still around. "It's still a very soft market," Zurich Insurance property underwriting manager Larry Stokes says. "There's too much capacity and it's hard to know what will change that, unless there is a major catastrophe or something drastic happens to the stock market."

Commercial policies are concerned not with the market value of a property but with the cost of rebuilding it if it is damaged or destroyed, which is subject to a range of factors and may bear little relation to the headline price. A crippling recession in the construction industry, for example, means that labour and materials may be much cheaper. However, stricter building regulations requiring new methods of construction and new products have pushed up, and will continue to push up, rebuilding costs and make risk assessment more complicated.

"Issues such as green building, the use of sustainable materials and changes to traditional ways of building have an impact on claims costs," Allianz manager of property and commercial reinsurance Peter Adlington says. >

Broker focus

Kerry London

Independent broker Kerry London has been in business since 1986, specialising in property insurance. Its property team of about a dozen people is spread across four offices. They serve clients ranging from small businesses with a single property to one of the largest retailers in the UK, and a full range of premises, from warehouses to shops.

According to senior property broker Grant Martindale, property will remain a major focus in future. "It has always been one of the key segments for us, particularly over the past few years. It's one of the main areas we're looking to develop and grow."

Martindale and his team are well aware of insurers' concerns over unsustainably low rates. "We're seeing a dual market at the

> **'There are reasons why rates could increase, but it doesn't seem to be happening'**
> GRANT MARTINDALE, KERRY LONDON

moment, where insurers are looking to increase rates on existing renewals, but don't want to lose business. So rates are remaining fairly static. There appears to be plenty of capacity. There are a number of reasons why rates could increase, but it doesn't seem to be happening at the moment."

During the recession, Martindale has found himself discussing concerns over the growing number of vacant properties with both clients and insurers. "Landlords don't have a tenant to pass premiums on to, and there's a much greater focus on the premium when they're paying it themselves. They're more interested in tendering business."

Insurers are also trying to limit their exposure to portfolios containing a large proportion of vacant properties. "Some business may take a little longer to place than it might have done a few years ago," he says.

But while clients still focus on price, it is not the only issue when buying insurance – a crumb of reassurance for insurers determined to push up rates. "We've had more conversations with clients about insurers' security over the past year or two. That's more at the forefront of their minds these days."

Local authority clauses, which require insurers to pay for improvements to reconstructed buildings, have also become more wide-ranging in recent years, potentially pushing up the cost of claims, adds Adlington.

There are wider factors to consider too. Changes to fire brigade working procedures, for example, will have an impact on how quickly a fire can be tackled. "Traditional fire stations are closing and consolidating," he says. "It has nothing to do with the quality of the firemen or their equipment; it is to do with where they are and how they are allowed to respond."

Rising claims costs

So while rates have remained largely static, the cost of claims has been steadily increasing. "Risk exposure is expanding," Adlington says. "But the premium base is not matching that growth. It is being eroded, and the cost per pound of exposure has crept down. A true rate rise is difficult – you see people coming up with increases but if you strip out inflation and other changes, they're not doing that well."

Entering the recession, property insurers feared an avalanche of claims as homes, shops and offices were left vacant and vulnerable, and higher unemployment was accompanied by the customary rise in vandalism and arson.

Landlords struggling to find tenants, be they small investors in the residential buy-to-let sector or the UK's property giants, also tend to cut spending on maintenance and reduce their insurance coverage. "Where you see less maintenance of buildings and industrial plants," Stokes says, "equipment has a longer life cycle. So potentially there could be more losses from, say, electrical fires."

Such fears have in part been confirmed. "It's been quite obvious that there's been an upturn in the number of unoccupied properties," technical manager for property within Aviva's commercial property underwriting team, Ian Shelley, says. "You would expect that as businesses find it more difficult to trade, an increased number would have gone into liquidation.

"From an insurer's perspective, unoccupied properties present challenges and we want to know what's being done about controlling that risk. It's always a concern when risk management is seen as an area for potential cost savings."

Mothballed construction sites

The recession in the construction industry also increases the risks, as half-built sites are mothballed. "Developers have been putting sites on hold, although there are small signs that in London, for a number of prestigious buildings, they are beginning to talk about planning applications again," Shelley says.

But while insurers do report more claims due to vacant properties, the great increase in crimes against property has failed to materialise – so far. "Traditionally, recession very quickly leads to an

> **'Risk exposure is expanding but the premium base is not matching that growth. It is being eroded'**
> PETER ADLINGTON, ALLIANZ

increase in theft and arson, both by third parties and your own insured. While there has been an adverse move, it's been nowhere near as marked as in previous recessions," Adlington says.

Although there are some green shoots visible, insurers are certainly not assuming the worst is over. Austerity measures promised by the new government will inevitably lead to greater redundancies among the semi-skilled and unskilled workers, who have typically been more likely to commit these crimes.

The other group of usual suspects are young people aged between 16 and 21 who are not in education, employment or training. The growing number of these so-called NEETS is a significant cause for concern.

So, while the property market itself may have taken a turn for the better during the past three months, for property insurers the worst could still be to come. **IT**

FIND OUT MORE ONLINE
Go to **insurancetimes.co.uk** and search for:
Property rates to stay down [16/06/2010]

TOP TIPS FOR SUCCESS IN THE PROPERTY MARKET

- **Emphasise the importance of cover**
Make sure clients understand the full consequences of cutting maintenance and insurance cover, especially for vacant properties. Failure to invest in security could invalidate a claim, and if the sum insured is too low, insurers will only pay out for a proportion of the damage claim.

- **Be aware of post-recession issues**
Recovery will bring its own challenges, as rebuilding costs, stock levels, and therefore the sum that should be insured, rise. Also look out for the results of diversification – new parts of a business may have reached a significant size.

- **Learn from the past**
In offices with a young team, few will remember the last recession-hit soft market of 30 years ago. Don't forget to ask the older generation how they handled it back then.

In the frame

New laws, financial scandals and recessionary strategies are all playing their part in creating a volatile climate for D&O insurers. **Ben Cook** finds out how the market is reacting

With little sign of imminent economic recovery, directors' and officers' (D&O) insurers are bracing themselves for an increase in claims activity as the Serious Fraud Office and Office of Fair Trading (OFT) investigate possible recession-related wrongdoing by company directors.

In addition, legislation such as the Companies Act, the Corporate Manslaughter Act and the Bribery Act could provide aggrieved parties with the tools to hold directors to account.

Chartis' London manager of commercial D&O, Alexandra Grant, says regulatory investigations in both the USA and UK are a "genuine cause for concern". She says: "In the USA, they are coming from the Department of Justice, while in the UK it is the Serious Fraud Office and the OFT that are increasingly active."

Grant says that as such bodies step up their activities, they are pursuing "individuals as well as their companies" and raising the possibility of fines and even imprisonment. "The cost of defending regulatory claims cannot be underestimated," she says.

Slow response

Grant expresses surprise at the results of a recent survey by Chartis, which showed that a significant proportion of companies had failed to respond to the potential threat to their businesses posed by the Corporate Manslaughter Act.

"At our recent corporate governance seminar, we asked companies how they were reacting in light of the first company having been charged under the Corporate Manslaughter Act, and what actions they were taking. Only 18% said they were taking specific actions," she says. >

Broker focus

Lockton

Global D&O business brokered by Lockton totals about £340m in gross written premium, £150m of it placed in the UK. Executive director Chris Hewitt says D&O is expanding because insurers see it as attractive business.

"Carriers are hungry for income to be generated. The loss ratio and the revenues mean it's a profitable business for underwriters and has been for years," he says.

Hewitt says the appeal of the D&O market is reflected in the entry of new operators such as Argo and Taurus in the past year. "There is great demand for cover – directors realise that they do need it."

The Companies Act 2006 is a key reason for the increased take-up in D&O cover, he says. "[The Act] means directors have more

> **'There is great demand for cover – directors realise that they do need it'**
> CHRIS HEWITT, LOCKTON

onerous risk liabilities, and it gives the law teeth to challenge what directors are doing," he says. The Corporate Manslaughter Act has also played its part because, while the Act does not impose direct liability on directors, it will result in directors being subject to greater scrutiny. So the associated legal costs – and the need for D&O cover – will be greater.

Hewitt says the total D&O capacity in the UK market has increased by 25%-30% in the past 18 months. The recession has not had a big impact. "We've not seen a huge amount of bankruptcies, though they are there," he says. He argues there has not been a surge in D&O claims because people have taken the view that companies have folded because of the recession, not necessarily due to "decisions made by the management team".

But Hewitt believes the situation could change. "If we don't see recovery in the next 12 months, directors could face cases where they are accused of trading insolvently."

Rates have gone down by as much as 25% in the past year, says Hewitt. "In the commercial arena, it's a free for all." But he points to an uplift in financial institutions rates as banks and investment managers have come under fire.

"It is surprising that half of those who responded to the questionnaire are still either taking no action or keeping a watching brief. That raises the spectre of possible future D&O claims if companies do not already have robust corporate governance processes in place."

Partner at law firm Clyde & Co Neil Beresford believes that the recently enacted Bribery Act could trigger D&O claims. "The act cuts through to individual directors and there might be test cases.

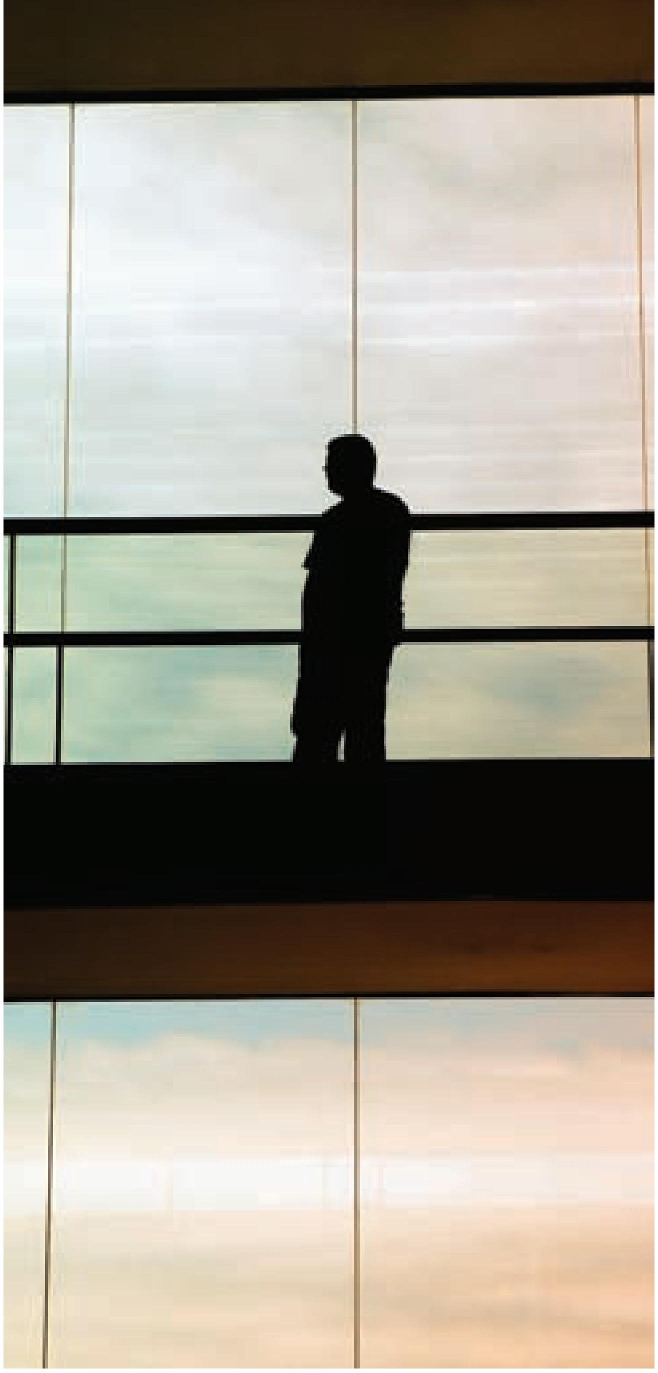
"For example, if you are the UK arm of a big multinational that pays bribes in the Ivory Coast, to what extent are you responsible as a UK office or as a director?"

Wider perspective

Markel UK underwriting manager Simon Fell says more run of the mill issues drive claims in the D&O market. "There has been significant publicity within the D&O market as to potential claims arising from the Companies Act 2006, extradition proceedings and the Corporate Manslaughter Act," he says.

"And while this will inevitably lead to a greater number of potential claims in the future, the present driver is regulatory investigations from the likes of HM Revenue & Customs for unpaid tax or OFT probes relating to construction industry price-fixing."

Angel Underwriting D&O regional business development executive Gary Green believes the spotlight will be most firmly trained on financial services companies. He says: "After the recent scandals regarding Bernie Madoff and Allen Stanford, the market in general seems to have returned to focus on the D&O exposures associated mostly with financial institutions, particularly those with US exposures. Therefore, capacity in these sectors remains tight." >



> **'Now, concerns extend to businesses hit by the recession or exposed to currency fluctuations – this by definition is virtually all companies'** ALEXANDRA GRANT, CHARTIS

TOP TIPS FOR SUCCESS IN THE D&O MARKET

• Underwriters should choose risks carefully
"It's about understanding the business of the insured," Lockton executive director Chris Hewitt says. "It means drilling deeper into the business – how is their balance sheet structured? What debt do they have? Can they service the debt? If you don't ask these questions, those accounts will give you grief."

• Brokers should keep underwriters informed of changes to risks
"[An insured] maybe had five locations, now they have two. If one of those burns down, you have a major logistical issue," Hewitt says. Such changes need to be relayed to the underwriter, he says, because underwriters will be "looking for opportunities to deny cover as investment returns have collapsed".

• Brokers need to educate clients about the importance of D&O cover
"A high proportion of businesses don't insure [against D&O claims]," Markel UK underwriting manager Simon Fell says. "Underwriters need to explain the benefits to brokers in everyday language that can be passed on to the client. It should involve looking at what could potentially happen within the client's trade."

Grant argues that it is increasingly difficult to ascertain which industries will be most likely to prompt D&O claims.

"Historically, telecoms, software and pharmaceutical companies have fallen into this category," she says. "Now, concerns extend to businesses that have been hit by the recession or are highly exposed to currency fluctuations – this by definition is virtually all companies".

Employment issues

Green says that the tough economic conditions have led to D&O claims relating to "insolvency and creditor actions, internal disputes between directors, and employment disputes".

He cites the example of employers sacking staff for alleged misconduct without going through the correct procedures as they are anxious to get people off the payroll in an era of belt-tightening.

"Where additional coverage is included, such as employment practices liability," he says, "we are seeing insurers looking more carefully into a firm's recent employment history for redundancies or involuntary terminations before releasing terms."

Green does not believe the recession has had much impact on rates. "Apart from D&O risks for financial lines businesses, we have seen premiums remain pretty constant over the past 12 months for D&O," he says.

Fell says there has been pressure on rates during the past 12 months, with falls of 20% in some cases.

He adds that D&O cover has, in general, become cheaper to buy over the past decade. "Ten years ago, D&O cover for a small business would cost £1,000 to £2,000, but now you can get it for £150. The reasonable price means there has been great take-up of the product."

Despite these falls, says Fell, more operators are entering the market. "Insurers have seen D&O as profitable and there has been a standardisation of the product. In the past, our regional offices may have had competition from just two other players, but now it might be 10 different players competing."

Miller professional lines broker Simon Tyndall anticipates that more insurers will begin offering D&O cover, partly due to the "positive claims experience" in the market.

"There is no shortage of new commercial D&O capacity entering the market, with a number of underwriters on the move to new vehicles or existing markets," he says. "There has been a significant increase in primary D&O underwriting appetite in recent years. There are also plenty of rumours suggesting that more are set to join."

Green also acknowledges that during the past 12 months, there have been new entrants in the SME D&O market. But – like many aspects of the sector – it is too early to tell what impact this will have yet. **IT**

FIND OUT MORE ONLINE
Go to **insurancetimes.co.uk** and search for:
Take us to your leaders [29/04/2010]

Policies in the spotlight

Directors' and officers' policies have played a part in two recent high-profile financial scandals involving Ponzi schemes.

Travelers and Bernard Madoff

Travelers succeeded in dismissing a lawsuit relating to the fallout from the collapse of Bernard Madoff's fraudulent Ponzi scheme earlier this year.

In April, the district court for Connecticut judged in favour of Travelers and its subsidiary, the St Paul Mercury Insurance Company, against a string of banks that had been involved in administering Madoff's scheme.

The banks had accused Travelers of breach of contract after the insurer refused to pay out on their D&O policy for legal fees relating to a law suit by investors in the scheme.

The district judge ruled that the policy's insolvency exclusion barred coverage under the policy.

Lloyd's and Allen Stanford

Lloyd's has declared it is no longer willing to pay out for different lawyers defending the alleged Ponzi scheme operator Allen Stanford, after indemnifying more than $6m (£4m) costs on lawyers from 10 firms. Stanford is charged with defrauding investors out of $7bn.

In May, Lloyd's told US district judge Nancy Atlas, who is presiding over the case, that it was refusing to pay for Stanford's most recent – and fourth – criminal defence team.

In March, Lloyd's was told by the court that it had to pay for Stanford's legal representation, following a court order to pay legal costs, citing a money-laundering exclusion on Stanford Financial Group's D&O policy.

Feeling the squeeze

Predictions of a general spike in rates for PI cover have not been realised, writes **Michael Glackin**. Surveyors and solicitors are suffering as more claims are made against them but, elsewhere, competition means that the market is underwriting for income rather than profit

For all the fears of a spike in rates as the recession increased claims, it appears that intense competition in PI is keeping prices pegged in all but a few high-profile sectors. Admittedly the increases in the affected sectors, primarily those connected to property and construction, are steep. However, the consensus within the industry is that, overall, PI rates are flat and are likely to remain so.

"Other than for certain trades that have been quite badly clobbered by rate increases, like surveyors and solicitors, the doomsayers were wrong," Clear Group's professional risks director, Daniel Innes, says.

"Those who thought that increases in the market were going to happen haven't seen them. We are still seeing soft rates for all clients and it's as flat as it's been for the last two or three years, horribly flat.

Innes' view is echoed by Aviva's senior class underwriter, Andrew Mitchell. "The mainstream market is soft and remains extremely competitive," he says. "The only exceptions are solicitors and surveyors."

A combination of the recession, which has sharply reduced clients' earnings, and market over-capacity have created something akin to a perfect storm in PI, leaving insurers struggling to improve rates despite an increase in claims.

"Most clients, particularly those connected to construction, are seeing large falls in income," Towergate's retail managing director of PI, Alan Eyre, says.

"Premiums for those companies are effectively based on their income, so they are expecting to see a reduction in pricing when it comes to renewal, and that means insurers are under pressure to be competitive with their >

Broker focus

Howden

The soft market in professional indemnity can't last much longer, claims Howden executive director Lance Rigby.

Rigby reckons insurers have been smoothing over the PI market by releasing large amounts from their reserves, but this money is running out. He says there is an overcapacity in the market, as the reluctance by Lloyd's to allow start-ups in the area or to give the green light to established syndicates looking to move into PI proves.

"Although some people might not like to admit it, it's widely accepted that PI as a class is losing money," Rigby says. "The Lloyd's franchise board has been trying to manage the amount of capacity in the market, believing it to be too soft and not

> **'Although some people might not like to admit it, it's widely accepted that PI is losing money'**
> LANCE RIGBY, HOWDEN

sustainable. Some of the big Plc insurers have been releasing reserves over a period of time to supplement their underwriting performance, but those reserves are running a bit thin now."

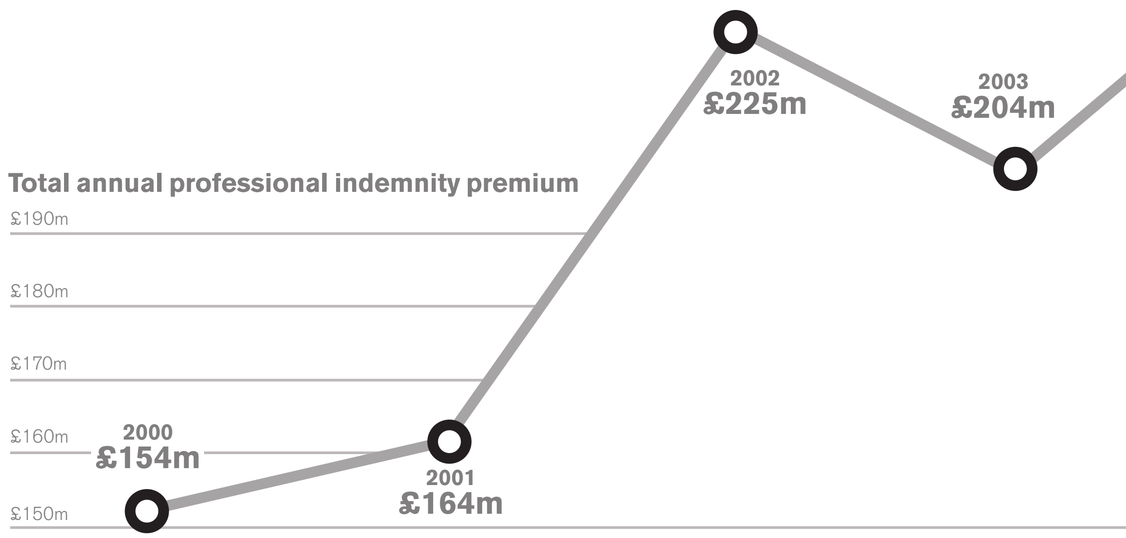
It's not an entirely clear picture, however. Insurers' risk appetite varies across sectors, and while most are still keen to write risks in IT-related and new media-related professions, they are more nervous about construction, property and law. The markets in these areas have already hardened as a result. Elsewhere though, prices are still low.

"For the market to harden, a couple of things need to happen," Rigby says. "We need to see the reinsurance market getting a bit tougher – and we've had the worst start to a calendar year for a long time in terms of catastrophic events, so that might be on its way.

"Also, insurance has been a desirable investment opportunity for non-insurance capital over the past few years. There might be a view that that will change as the market picks up."

Whatever happens, for Rigby one thing is certain: the hard market will return, and the sooner the better.

PI market: total premiums and market shares



rates. There's no real sign of that changing at the moment."

At the same time, the increased profits that PI enjoyed in the so-called glory years of 2002-05 attracted the attention of large insurers and others, including managing general agencies (MGAs) and direct writers. Their entry into the sector has left the PI market with a glut of underwriters and has kept a brake on premium increases.

"MGAs definitely keep pressure on prices," Mitchell says. "Direct writers are a factor, too, but there's not a huge awareness of them in the traditional professions, who prefer to stick to specialist brokers."

While brokers and insurers bemoan the lack of momentum in prices in most sectors, clients in the areas most badly hit by the recession are facing huge spikes in premiums, and in some cases withdrawal of cover.

'Some insurers do not want certain risks'

Insurers who cover surveyors and solicitors are taking fright at the sharp increase in claims against both professions, due mainly to the UK's spectacular property crash over the last two years.

Despite growing criticism, banks and other lenders are still threatening solicitors and surveyors with legal action for overvaluing properties during the boom.

Innes says: "Surveyors have been penalised horribly and solicitors, too, especially firms with a low number of partners. We have heard of two-partner solicitors facing 200%-plus increases on premiums – and their information was fundamentally unchanged from the previous year.

"Some insurers just do not want certain types of risk and are pulling out of those sectors. Because of the nature of solicitors' PI, where it is all due on one day, it's very easy for insurers to say 'we no longer want any of this business'. So rates rise horrifically or clients simply can't get cover."

In fact, the market for solicitors has hardened so much that last October's renewal season saw the number of law firms in England and Wales entering the assigned risk pool – with its 27.5% premium rate for the first £500,000 of cover – doubling to around 500 firms, or 5% of the total market.

"Normally, when the housing market is fine, surveyors' claims are generally to do with defects; things that have been missed in the survey," Markel (UK) underwriting manager Simon Fell says. "The problem now is that claims are linked to valuations. People are defaulting on mortgages and, because of that, we're seeing an increase in over-valuation claims as lenders seek to recover their financial loss.

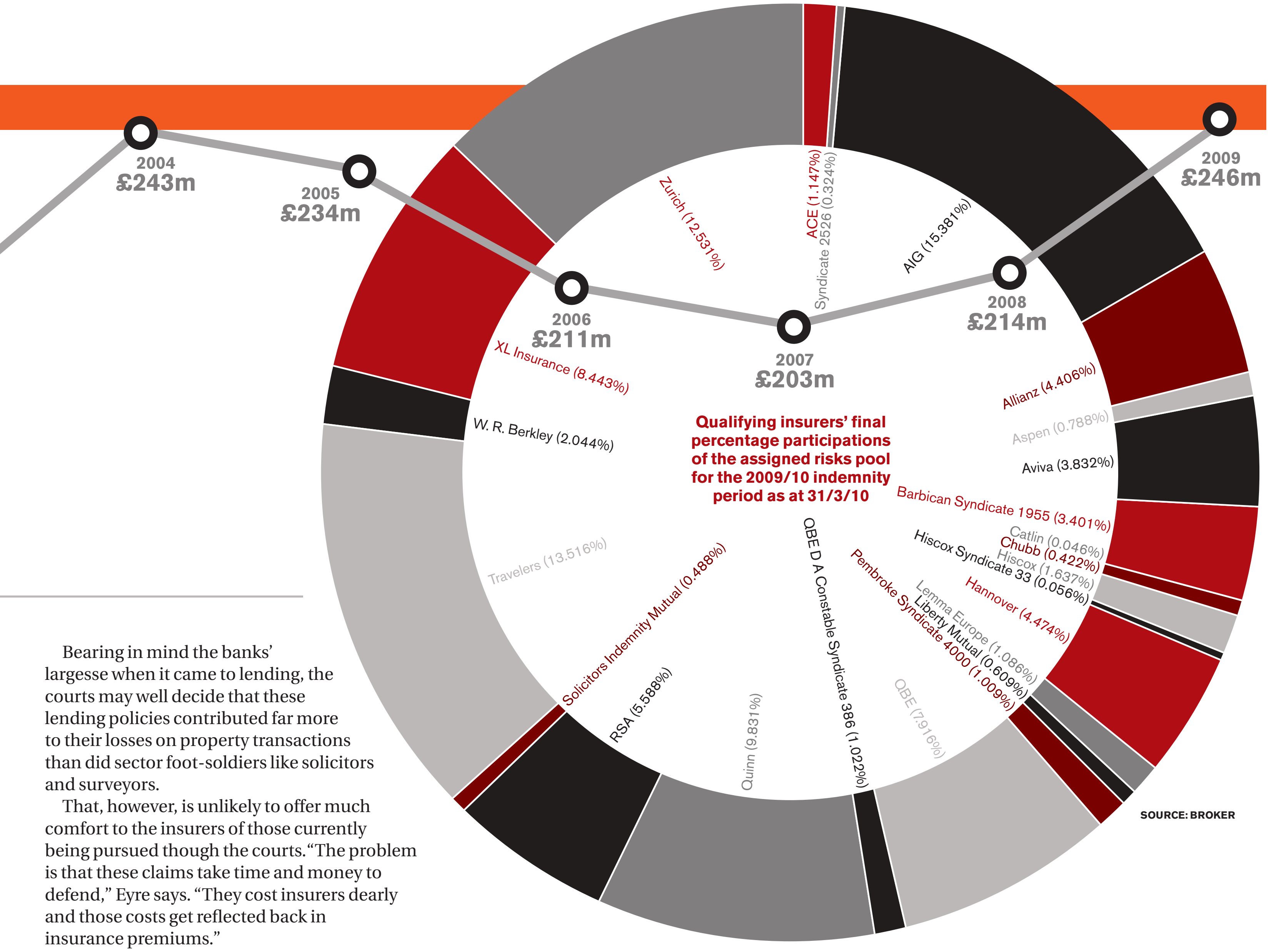
"A lot of those claims are being pursued by financial institutions that have the mechanisms and clout to pursue those actions against surveyors and solicitors."

Eyre adds: "Solicitors undertaking conveyancing have to follow certain guidelines. If they fail to meet those in terms of either disclosing

> **'It's very easy for insurers to say "we no longer want any of this business". So rates rise horrifically or clients simply can't get cover'**
> DANIEL INNES, CLEAR GROUP

information or following all the necessary processes of the conveyance, they could find themselves exposed to a claim. Lenders are now looking at a number of conveyancing transactions very closely, with the aim of finding a potential weakness and making a claim."

The use of so called 'confetti letters' by lenders – mass mailings from 'no win, no fee' solicitors usually accusing surveyors and solicitors of negligence – is widely seen as another example of UK banks' desire to find somebody to pick up the bill for their own transgressions.



SOURCE: BROKER

Bearing in mind the banks' largesse when it came to lending, the courts may well decide that these lending policies contributed far more to their losses on property transactions than did sector foot-soldiers like solicitors and surveyors.

That, however, is unlikely to offer much comfort to the insurers of those currently being pursued though the courts. "The problem is that these claims take time and money to defend," Eyre says. "They cost insurers dearly and those costs get reflected back in insurance premiums."

And things could get worse. In addition to increases in claims against solicitors and surveyors, a recent report revealed that 13 claims were heard against accountants in the High Court last year – a sharp increase on the previous four years, when only four claims were heard. The likelihood is that there will be more claims against other professions in the coming year.

Beware the backlog

"There's been a big change regarding financial advisers," Fell says. "Certain investments have failed because of their backers, like Lehman Brothers and the Icelandic banks.

"We've also got a situation with pension investments, where the expectations of customers aren't being fulfilled because of the current economic climate and the fall of the FTSE. It's not necessarily the fault of the financial adviser, but a lot of people are now, with hindsight, challenging the original advice they were given."

Insurers are also seeing problems in management liability. This could affect those offering directors' and officers' cover as claims start to arise from allegations of wrongful or fraudulent trading.

In fact there is a time-bomb of pending claims ticking away. "In an economic downturn, there are more disputes because people aren't making the returns they were hoping for, and they look to recover costs. Those claims take time to filter through and they hit the insurance companies where it hurts," Eyre says.

His view is confirmed by Fell. "There's a slight backlog in processing these claims," he says, "because the number of notifications is probably unprecedented. "You've got to be careful because the claims experience you're currently carrying for a particular class might not be accurate."

Fell sounds a note of warning: "The financial ombudsman could still be reviewing the files and it may be six months or 12 months before something starts to happen. You could have existing notifications on your business that haven't realised into a true notification because it's still waiting for the process to be properly gone through."

But surely it follows that increased claims must at some point lead to increased premiums? "It should follow through and it will have to at some point," Fell agrees. "We are getting to the stage where we are seeing that there are difficulties in certain classes of professional indemnity. We would hope to see things moving in terms of rate changes, but it will affect certain professions; it won't be across the board."

The last straw?

There is a school of thought that the Irish Financial Regulator's decision to force Quinn Insurance into administration and prevent it writing any new business in the UK – to avoid "further financial losses from its currently unprofitable UK business" – could prove to be turning point for the PI market.

Quinn is a major underwriter of solicitors' PI providing cover for almost 3,000 UK law firms. "The situation with Quinn may make some insurers sit up and take notice, or it may lead to a feeding frenzy for the better bits of business, which will keep things flat," Aviva's Mitchell says.

"The soft market has defied expectations. We expected it to be on the up by now but it's been bumping along the bottom much longer than anyone anticipated. Maybe the failure of an insurer is the catalyst for change."

But not everyone shares even that guarded optimism. "There doesn't appear to a genuine sign of an appetite by insurers to increase rates," Eyre says. " There is more of an appetite for premium income. I think the market is probably underwriting for income rather than profit at the moment." **IT**

This article originally appeared in Insurance Times

FIND OUT MORE ONLINE
Go to **insurancetimes.co.uk** and search for:
PI market is madness says MGA founder
[03/06/2010]

PRESENTED IN ASSOCIATION WITH

garwyn group

Brokers and loss adjusters have buried their differences in recent years. As **Nic Paton** hears, these former adversaries can also become a business-winning double act

United front

When Nick Patterson, commercial director of specialist loss adjuster Garwyn, joined the industry nearly a quarter of a century ago, relations between brokers and loss adjusters were "almost non-existent", he recalls. "Brokers were often seen as an impediment or even an obstacle to getting a claim settled as equably as possible."

Things have changed. As Patterson says: "The broker/loss adjuster relationship is now of critical importance.

In fact, when Garwyn won last year's Insurance Times Loss Adjuster of the Year award, it was predominantly in recognition of its work with brokers. In one case, working closely with the broker, the firm came up with a solution to problems with a client's book, which was being hammered by frequent employer liability claims, rising premiums and a large excess. "The broker was saying to us that there had to be another way and we were able to come up with a direct claimant practice, which in turn led to much reduced premiums," Patterson says.

Crucial connection

Garwyn's experience is far from uncommon. As Chartered Institute of Loss Adjusters executive director Malcolm Hyde points out: "The broker relationship is very important. The worst thing that can happen is not getting on with the broker."

Over the past couple of years, there has been a clear trend towards brokers and loss adjusters working more closely together, agrees Bobby Gracey, business development director at loss adjuster Crawford & Company. "Historically, loss adjusters' services have been secured by insurers, not brokers. But now it makes much more sense for loss adjusters to be aligned more closely to the needs of brokers. Brokers want a safe pair of hands because this is increasingly an issue of client retention and risk," he says.

Client expectation is an important factor, particularly in terms of managing situations when a settlement ends up being worth less than the broker's customer desires.

Lorega Solutions operations director Angus Tucker says: "In days gone by, you just went to the broker to purchase a policy and that was it. But people's expectations have grown. They expect more in the way of value for money, so they expect far more from their broker than just >

setting up a private insurance policy. They expect active involvement in claims support," he says.

When working for a large insurance company, the chances are the loss adjuster will be appointed by a panel, which makes it harder to build a trusted, longer-term relationship. Nevertheless, it can still be helpful for adjusters and brokers to work together.

"It makes life much easier if the broker is there. If there is a sticking point in the claim, it is often much easier for them to iron it out," loss adjuster Carmichaels director Graham Eades says.

Building the relationship

So, how should this relationship be built and how can loss adjusters enhance a broker's offering to the market? Tucker believes the first element is simply for both sides to identify and be clear about what their role and involvement will be.

"Depending on how the policy has been set up, the broker may be acting as an agent for the insured or the insurer. The broker will have different duties depending on who their client is. The broker can perform a variety of roles, as can the loss adjuster, so the relationship is going to be dictated by who is wearing which hats," he says.

Crawford & Company offers a dedicated broker hub – another increasingly popular add-on with loss adjusters. In its case, this is called Brokercare, through which brokers can instruct Crawford directly, access dedicated relationship managers and log into their IT system to see how or at what stage a claim is being handled.

"If the claim is going to be less than expected, we can share that with the broker, who has that trust and relationship with the client and so can explain that bad news to the insured party themselves," Crawford's Brokercare account manager, Jason Jones, says.

Gracey agrees with this. "It is about ensuring that there is better communication, better understanding that the right decision has been made, and improving an area that historically has been very difficult."

This closer relationship is becoming especially important within commercial lines, adds loss

HOW LOSS ADJUSTERS CAN WORK MORE EFFECTIVELY WITH BROKERS

- Be more proactive on communication – particularly around adverse issues regarding a claim or in terms of ironing out misunderstandings and managing expectations.
- Provide more regular client correspondence reports, more involvement in client meetings where appropriate and electronic access.
- Offer quick notification of accidents and claims, as well as the option of an online accident reporting system.
- Set up a dedicated hub, point of contact or relationship manager, or create a dedicated broker unit.
- Take more of a partnership approach, especially once it has been identified what the broker and loss adjuster role will be within the specific claims process.

WHAT LOSS ADJUSTERS DO

Loss adjusters help insurance companies and policyholders resolve complex or contested insurance claims. Although independent, they normally take their instructions from an insurer and their fees will be paid by the insurance company.

Their role is to act as an independent mediator, to accurately assess claims on site and ascertain the proper liability of the insurer within the terms and conditions of the policy.

To this end, they will investigate the cause of a loss, confirm that the policy conditions and warranties have been observed and make preliminary enquiries into the nature and probable extent of the claim the policyholder will be submitting.

They will also advise the claimant on measures to mitigate the loss or consider whether someone else may have been responsible for the loss. If so, they will obtain statements and physical evidence to use later in negotiations when recovery of insurers' outlay from a third party or their insurer will be sought. They can also act for the policyholder in a claims advisory capacity, assisting with preparation and negotiation of the claim.

Within commercial lines, claims tend to be more complex and of a larger scale than for domestic claims. They will often involve issues such as business interruption and liability. Where claims are contested, a loss adjuster will often be required to investigate the cause of a loss.

Commercial lines therefore tend to be handled by more experienced loss adjusters although, as the Chartered Insurance Institute argues, the principle remains the same: "Assess a loss and help the policyholder to begin recovery."

> **'The broker can perform a variety of roles, as can the loss adjuster, so the relationship is going to be dictated by who is wearing which hats'**
> ANGUS TUCKER, LOREGA SOLUTIONS

adjuster GAB Robins' sales manager, David Harrington. In May, the firm launched a suite of broker services under the banner EYE Claims, to help intermediaries work more efficiently and enhance the standard of its claims services.

For example, it provides brokers with remote access to their claim files – subject, of course, to the insurer's approval. Brokers can see photographs taken on site or upload documents straight into the file. Similarly, if a policyholder phones a broker, the broker can then access the information themselves while on the phone. This means there is less delay, and certainly much less to-ing and fro-ing between adjuster, broker and policyholder.

Understanding each other

Adjusters can help too by training a broker's junior claims handlers – perhaps by taking them out of the office and on site. This means, as Harrington puts it, "they will get the smell of smoke from a fire or see the devastation of flooding".

Similarly, when there is a nominated account via a broker, in the case particularly of larger risks, the adjuster can familiarise themselves with any risk prior to losses occurring.

"Commercial lines policies in particular rely on expertise and knowledge when handling these claims," Harrington says. "Bringing that personal relationship between adjuster and broker helps with complicated claims and provides for greater and improved dialogue and faster communication."

He adds: "Commercial losses require prompt attention, particularly in trying to bring businesses back to trading as quickly as possible to reduce loss of profit and so on. Having an adjuster that the broker trusts means they are more likely to pick up the phone and talk through a particular point in a relaxed, professional manner."

"Settlement of a claim is a tangible product of all the trust that has been invested by the policyholder in buying the policy in the first place," loss adjuster Quadra Claims Services Graham director Cranford-Smith agrees. "It is not hard to see why the broker – being the face of the insurer as far as the policyholder is concerned – is a major stakeholder in the claims settlement process. So a loss adjuster who fails to engage the broker in the claims process does so at their peril."

And in the current fragile economic climate, at a time when business (and relationships) cannot afford to be squandered, anything that helps to smooth the challenges of the claims process – whether for broker, adjuster, insurer or policyholder – must be a good thing, argues Patterson.

"Particularly in a soft market, brokers have a lot of power. It is when a claim occurs that the value of a product is proven," he says. "Because brokers are so much closer to clients, they are in a much better position to demonstrate that value and show the adjuster the value of the insurance product." IT

FIND OUT MORE ONLINE
Go to **insurancetimes.co.uk** and search for:
In the face of disaster [10/06/2010]

Case study: the Cumbria floods

It is during catastrophic events such as major floods that the value of an insurance policy is thoroughly tested. This is also the time when the relationship between the broker and loss adjuster comes under the most searching examination.

If customers receive poor service from an adjuster in their hour of need, their perceptions of the broker will inevitably be tainted.

And floods don't come much bigger than the one that hit Cockermouth, west Cumbria, last November. Over the course of 24 hours, 340mm of rain fell over the region, resulting in floods that reached a depth of six feet in places.

Director of Bluefin's local office, Philip Jackson, says that it was invaluable to have experienced adjusters on hand in the immediate aftermath of the flood. He namechecks GAB Robbins northern area director Chris Day, who had overseen the adjuster's post-Hull flood efforts two years earlier. "It was great to have him there because he understood the process," says Jackson, adding: "Importantly, he was also able to tell us what to expect."

Since the incident, the Bluefin team has developed close working relationships with the adjusters who converged on the town in the wake of the disaster. Jackson describes relations as "very open and transparent".

But he cautions that the potential for conflict is always present. As Jackson acknowledges, adjusters have to "walk a difficult tightrope" in order to maintain their professional integrity.

But generally he believes the adjusters working in west Cumbria have demonstrated that their chartered status is deserved. "I have found adjusters to be the best candidates for getting the best out of the policy," he says.

He also admits that brokers are sometimes happy to leave it to adjusters to deliver what he describes as "unpalatable messages" – when a policy cannot deliver what the customer either hoped or expected.

Jackson believes that the relationships established during recent months will stand his customers in good stead. And these relationships would be even better if firms with large enough potential claims could be assigned a nominated adjuster, he believes.

> **'I have found adjustors to be the best candidates for getting the best out of a policy'**
> PHILIP JACKSON, BLUEFIN

Although insurers have proved resistant to the idea, he believes that such an arrangement would improve the management of the claims process.

"It gives the adjuster personal knowledge of the business and means that when they arrive they are not starting at first base," Jackson says.

Need for speed

Delays on claims reporting lead to cost pain, says Garwyn Group commercial director Nick Patterson

Among the many issues that increase costs for clients is a delay in claims notification. Yet with all the advantages of web-based systems, online reporting and communication now at our disposal, this problem is avoidable.

The insured often sits on a claim for weeks – albeit sometimes for entirely legitimate reasons – before passing it on to the broker. This raises all manner of issues, the most significant of which is unnecessary legal costs.

It's a fact that any delay in defending a claim makes it much more costly. Currently, when a letter of claim is issued, it can go from the insured to the broker to the insurer before it reaches the insurer's claims team or handlers, such as Garwyn. If the claim is not passed on promptly, it can arrive on our desk too late to stop the claimant taking action.

If a claim is acknowledged within 21 days of receipt and a formal protocol-compliant response sent within three months of that acknowledgement, it will prevent the costs of either a pre-action disclosure application or, worse, substantive proceedings. The need for speed is clear.

Any delay in claims notification also has an impact on the scope and cost of insurance cover available to the insured. In one recent case, the insured had sat on a series of accident-at-work claims. Crucially, it was renewal time and no reserve had been made for the claims. The insurer was less than impressed once the claims had been notified and threatened to withdraw cover. The broker was left to settle the issue and keep both parties happy.

Ministry of Justice reforms put in place to speed up the process only cover road traffic accidents. What about other compulsory insurances, such as employers' liability or product and environmental liability claims? These all represent a huge handling, investigation and settlement cost if there are delays in notification. It is a cost that the broker, sitting between the insured and the insurer, must manage.

Easier reporting measures

So what's the solution? Well, the first step is to make it easier for businesses to report accidents, as well as helping them take a more proactive approach to managing their risk.

At Garwyn, we've addressed this with an online accident reporting system – the first of several initiatives to enhance the first notification of loss process, to manage claims costs and premiums for insurers, brokers and policyholders.

The system allows businesses to record accidents and injuries at work, from the minor to the most serious. It also enables businesses to comply with Riddor (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) by providing the facility to report accidents directly to the Health and Safety Executive.

Each incident is reported in a simple online environment by the employer and includes the facility for incidents to be notified automatically to nominated senior personnel. A reporting function reveals trends in incident types and hot spots, enabling businesses to respond quickly to incidents and work with their broker and insurer to manage risk. It also provides vital information for premium renewals.

It is vital businesses not only have the right health and safety practices in place, but also the documents to defend themselves

Although early reporting is key to reducing costs and the potential for litigation, the reporting information is also valuable in identifying areas of risk. Speed of investigation through early notification and accurate reporting of accidents at work can also help defend the insured against fraudulent cases.

Case history

In a recent case defended by Garwyn, the claimant worked for a national retailer. She maintained she had fallen on some stairs after she tripped on a box and cut her finger. She said her finger became infected due to falling into rat urine, which in turn caused her to contract Weil's Disease. She also claimed a back injury.

The retailer denied this, saying the claimant had cut her finger a couple of days earlier on a box. The finger then became infected and caused them to send her to her GP on the day she alleged the accident happened. The retailer's diary confirmed the time the claimant left (earlier than she alleged) and that the manager to whom she said she reported the accident was off sick. Witnesses confirmed this too, saying they knew of no accident or rat infestation, nor that boxes were stored on the stairs. Medical records also showed that the claimant did not attend her GP and arrived at hospital an hour before she said the accident had occurred.

The records also failed to make reference to an accident at work or a fall on the stairs. Neither was any diagnosis of Weil's Disease made. Indeed, the records indicated that the injury had occurred after being cut on a box.

The claimant was invited to discontinue before the defence was prepared, but she declined. She later agreed to discontinue and pay the defendant's costs at court on the morning of trial, resulting in a saving of more than £40,000 for our client.

GARWYN'S BROKER CHECKLIST

- **Ensure an early notification claims system is in place within client businesses.**
- **Collect management information to support renewals.**
- **Make sure the correct processes are in place for reporting accidents at work.**
- **Support risk management – prevention is better than cure.**
- **Work with a liability adjuster with proven skills and IT systems to support the above.**

Documentary evidence

This case shows the importance of evidence being kept long after an incident is reported. The diary was key to disproving part of the claimant's case and the medical records were also informative. The claimant's solicitors took 10 months to disclose the mandates to access these and only then after a court order.

This was a good result, but insurers and their clients are often frustrated by an inability to mount a sustainable defence to civil claims. This could be because liability is far from clear cut, the circumstances are unclear, the accident is uncorroborated, or a combination of all of these. Cases are settled for various reasons, one being lack of documented systems. Such failings often only come to light once a liability adjuster, such as Garwyn, becomes involved.

Claims Defensibility, a new review service from Garwyn Health and Safety, tackles these issues head on. Following an examination of health and safety systems and processes, it identifies strengths and weaknesses and creates an action plan to improve the prospect of defending claims successfully.

With awards of six figures not uncommon it is vital that businesses not only have the right health and safety practices in place, but the documents and processes to protect themselves.

With commercial rates hardening, brokers are under increasing pressure to manage costs for their clients and this will lead to a move from ground-up cover to non-conventional covers with high excesses. Now more than ever, brokers need to help clients mitigate their claims and losses. Supporting the early notification of claims is a good place to start.