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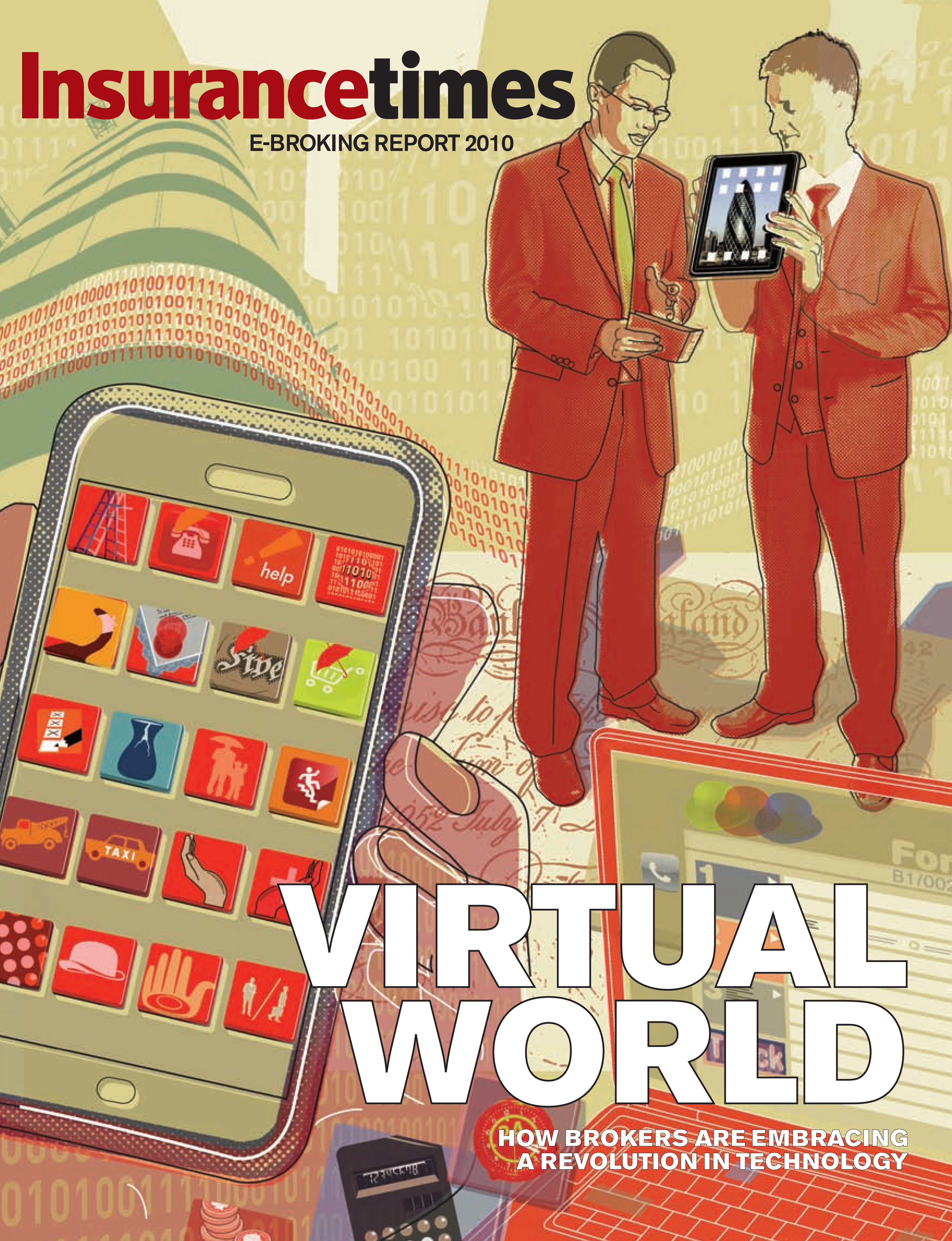
E-BROKING REPORT 2010



VIRTUAL WORLD

HOW BROKERS ARE EMBRACING A REVOLUTION IN TECHNOLOGY

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Speed test

Technology drives efficiency; those brokers that don't adapt to it will be driven out of the market

In the virtual world there is but one reality for brokers: adopt new technology or die, says Ellen Bennett

HAVE YOU GOT an iPad yet? How about an iPhone or BlackBerry? A netbook? If the answer to all these questions is 'no', then chances are you're no great technology fan. So how about this one: have you got an electronic trading system for commercial lines in place? If the answer to this is also 'no', then, as a broker, you have a very big problem.

So it is with some surprise we report this week that, according to initial findings from our annual broker research, only 40% to 50% of brokers are using electronic trading systems for most or all commercial lines transactions (page 11). What are they using for the rest? Carrier pigeons?

It's a simple truth: technology drives efficiency, and those brokers that don't adapt to it will be driven out of the market. They might go bust, they might be snapped up by a tech-savvy consolidator, or they might just slowly wither and die. There are no other options.

If independent brokers and smaller firms are to survive, they have to adopt the latest technologies. Of course, personal service will always give them an advantage – but if their antiquated systems mean they are days slower and pounds more expensive than the guy over the road, they will not make it.

Even the most reluctant of insurers has now grasped this message, and those slow to move to e-trading are this year scrambling to get up to speed. But if that doesn't convince you, have a look at Towergate. Never knowingly behind the curve, chairman Peter Cullum has repeatedly said that online trading system PowerPlace is his biggest area for growth, and he reckons £1bn of premium could soon be passing through its virtual hands every year.

Technology isn't a threat. Nor is it an alternative to personal service and good old-fashioned broking: it's an enabler. Brokers that recognise this will still be around to judge if our vision of the technological future (on page 6) was correct. **IT**

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Hail the cyberbroker

What does the future hold? Certainly it will be electronic, but Muireann Bolger asks the experts for their views of what the industry will look like in 10 years' time. Expect to see more networking, 'do it all' centres online, and fraudsters finally beaten

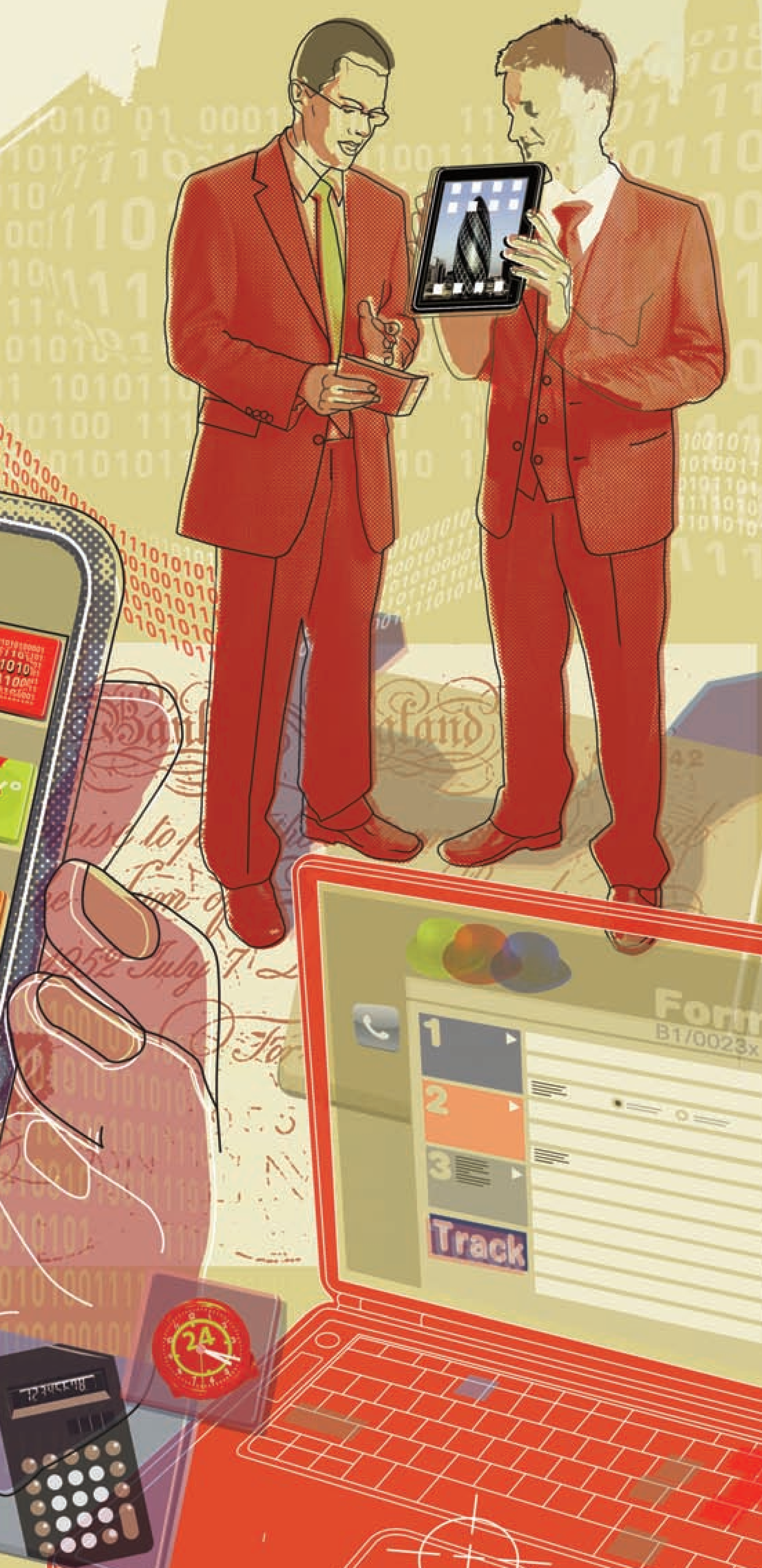
IT IS 2020 AND technology has seen insurance enter a brave new world. Virtual communities collide with reality as consumers routinely use online avatars to buy and renew policies. Holograms ensure that those who are pressed for time can solve the problem of being in two places at once; they also help them to meet stringent rules on carbon footprint allowances. Meanwhile, staying up till the early hours to prepare for CII exams is a thing of the past: industry newbies simply buy microchip implants that feed the mind with updates on emerging theories and trends.

Okay, such changes may be more wishful thinking than distinct probabilities, but there is little doubt that technology is advancing at a dizzying rate. Predicting the future is, as ever, an uncertain business. While it may be some time before brokers can fire up the jetpack for a quick visit to their local underwriter, undoubtedly the sector will see some dramatic transformations. *Insurance Times* asks industry stalwarts and technology experts to gaze into a crystal ball and give us their predictions.

1 An electronic revolution

While many disagree over the eventual direction of the sector, they all agree on one thing – the future is electronic. The transfer of commercial insurance onto electronic platforms has been leisurely so far, but the pace is set to accelerate. Acturis chief executive Theo Duchen expects dramatical progress within the next two years. "I can see a point where 50% of brokers' commercial lines are going to be electronic. If they don't have the right technology, they are going to be in a competitively disadvantaged position. I see that happening within the next 18 months."

But industry heads are keen to stress that this does not spell the end of the broker. Towergate's deputy group chief executive, Amanda Blanc, says: "Commercial will still be broked; you will still need somebody in the middle. The expectation from a customer will be that they will not have to wait two or three weeks for a quote. They'll get their quotes; they will be able to access their own policy and their own quotes online at the same time as being able to speak to somebody."



2 Pay-and-go online servicing portals

Being kept on hold while contacting call centres and laborious form-filling will be distant memories for many customers by 2020. Accessing online portals and self-servicing on personal lines and SME business will become the norm. SSP director Kevin Child explains: "It will be along the lines of online banking. There will be the ability to set up direct debits, make individual payments and actually action things, rather than just quote and buy. We are going to see a full-scale emergence of 'do everything for yourself' online, so you won't need call centres. A lot of brokers are going that way already because they are trying desperately not to recruit lots of staff."

3 Increased expertise

While electronic trading will mean a reduced head count in back offices and a smaller overall workforce, this will increase the specialist knowledge of insurance professionals who will have more time to devote to unusual and complex risks. Aviva's director of regional brokers, Gareth Hemming, says: "I would imagine the calculation of risk data and initial risk price can be done through systems, but that means that both the broker and the underwriter can spend more time on conversations about unusual features and things that can be done with the risk to make it better or different." This belief is echoed by Duchen: "The people needed by insurers and brokers will change. They will become more skilled because they will be dealing with exceptions – the more difficult and complex issues – so there will be a small but much more highly skilled staff."

4 Web-based communities are the only ones that matter ...

The tentacle-like reach of Facebook is set to continue apace as founder Mark Zuckerberg continues in his mission to register every person on the planet. PowerPlace chief executive Matthew Reed explains that the widespread and reassuring appeal of online communities will become increasingly important to insurance. "Aleksandr Orlov of Compare the Meerkat has close to 750,000 friends on Facebook – that is a personal lines aggregator to which three quarters of a million people have chosen to give their details. That is staggering. It is the comfort provided by the community element, the comfort →

you get from other people making the same decision, knowing that if you do make a mistake that nearly 750,000 people have already done the same thing. That is really very powerful."

According to Blanc, recognising and utilising the power and influence of networking sites will become a no-brainer for brokers. She says: "Facebook has four million users and LinkedIn has 700,000 users; for us to assume that this isn't going to affect the broking world is like putting your head in the sand and pretending that nothing is going to happen."

5 … but face to face is still in vogue

Business transacted through cyberspace is set to become the norm, but this will conversely lead to widespread craving for the reassurance of face-to-face contact and verbal explanation when buying certain products. AXA's head of personal lines intermediary, Mike Keating, says: "I don't at any point see a scenario where the entire UK population doesn't want or need to speak to somebody. In fact, we are already seeing signs of apathy about the internet and the comparison sites."

Child argues that call centres will evolve rather than disappear. The provision of personalised face-to-face voice calls over the internet, instant messaging and even video conferencing is set to take over the traditional call centre as a means of liaising with customers and clients.

6 The industry goes upwardly mobile

Smart phones and more sophisticated applications are set to have as big an effect on broking as the internet. Insurance applications will become more commonplace and easier to use. Hemming says: "You can certainly see the development of new apps; we even see it now in travel insurance with the rise of 'text now to buy travel insurance'. You can imagine there might be some commercial products like that in the future."

On top of this, messaging technologies will help brokers to quote and handle insurance away from the office, leading to more flexible working hours. Allianz head of SME and affinity markets, Dave Martin, points out that increasingly sophisticated camera applications will record and help assess damage in the wake of an accident, linking it directly to data warehouses such as the Motor Insurance Database – and speeding up the claims process.

7 Better relationships

Technological advances are likely to mean that insurers, brokers, clients will get along much better. Poor systems connectivity, particularly between insurers and brokers, has long been a sore point for industry players fed up with time-consuming and

> 'Facebook has four million users. For us to assume that this isn't going to affect the broking world is like putting your head in the sand'
> **Amanda Blanc, Towergate**

unnecessary duplication of information. Lark Insurance's chief executive, Stephen Lark, says: "I think there has to be definite improvement between system connectivity between insurers and brokers. There are attempts made to improve it but there is still a lot of keying and double keying."

By 2020, it is expected that new and more sophisticated platforms will cut out this waste, facilitating better communication and fewer errors between parties. In addition, policyholders will be able to access instant information about their policy. Groupama's commercial lines director, Malcolm Smith, says that a claimant will have the option of keeping tabs on the progress of their claim, ensuring they are happier and better informed. He says: "Claims tracking and claims reporting online will become common in five years."

8 More sophisticated fraud technologies

Efforts to detect and trace fraudsters will become increasingly sophisticated as better data streams provide instant access to credit history and automatic links to conviction records. Advances in voice risk analysis will help claims handlers pinpoint variations in voice patterns or micro tremors that indicate deception.

Business development director at voice risk analysis experts DigiLog, Kior Koskas, explains: "Future developments in integration and database management will greatly improve the speed at which claims can be processed and the ease with which they can be identified as high risk. As a result, insurers will benefit from faster, more efficient fraud detection, as well as seeing a reduction in the cost of processing claims and substantial savings by paying out to fewer fraudsters."

9 Second life becomes a passport to the top

Spending hours in fantasy worlds such as World of Warcraft, where fans use avatars to fight rivals, join factions and oust evil kings, will no longer be seen as the preserve of the teenage geek. Instead, they will be a must for any aspiring industry go-getter. Expect to see at least one major consolidator announce that reaching level 60 will replace GCSEs as its minimum qualification for entry into the business … **IT**

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Back to the future [18/03/10]

Taking the direct route

Our annual Broker Service Survey shows that the most popular e-trading option is to access insurers' own websites. But many still rely on email, fax or the telephone, as Carol Wheatcroft reports

THE ARRIVAL OF the internet brought e-trading to the insurance industry. Insurers were quick to recognise the productivity gains and the chance to deliver products and services offered by this new channel. Recognising that brokers wanted to be able to compare and contrast quotes from a range of insurers without the need to access individual websites, a group of leading insurance companies launched the e-commerce portal imarket.

Not to be left behind, brokers too understood the benefits of this new technology; underwriting agencies recognised that they could achieve productivity gains and reach new customer bases by using newly created networks to distribute schemes and other services.

Insurance Times has been monitoring the shape of this changing marketplace in its annual Broker Service Survey. Early results from this year provide some interesting insights.

The survey offered respondents a range of e-trading options and invited them to indicate how often they used these – for commercial and, separately, for personal lines. The options included: direct access to insurers' websites, access via imarket; e-trading on broker networks such as Towergate's PowerPlace or Brokerbility Network's Brokerbility Information Gateway (BIG); trading through virtual underwriting agency iprism; and trading either using bespoke systems or package systems available from software houses such as Open GI, Acturis, SSP and Insurecom.

Direct access to insurers' websites was the most popular option, with the vast majority of respondents indicating that they used this option at least some of the time (figure 1). The result is not surprising as insurers were the first to market with e-trading and have worked hard to alert brokers that products and services could be accessed through this channel. The data also indicates that more than a third of brokers rely on insurers' websites for most or all of their e-trading.

Clearly many brokers still have neither the resources nor see the opportunity for a commercial return from investment in e-trading technology, preferring to rely on more traditional means of communicating with their insurer partners, such as email, fax or the telephone.

A hard core of respondents "never use" e-trading (figure 1); 5%-10% "never use" insurers' websites, while as many as 40% "never use" imarket or bespoke systems. By removing the "never use" respondents from the analysis (figure 2), it is possible to see that respondents with their own bespoke systems use e-trading more often than those without; more than 50% of respondents with bespoke systems use e-trading for "all or most" transactions, compared with 40% accessing insurer sites directly and 20% relying on imarket for "all or most" transactions.

As the survey aims for a marketplace snapshot, it cannot assess e-trading volumes. However, businesses that have invested in bespoke systems have most likely designed their internal workflows so that staff are encouraged, even obliged, to use the system and use e-trading more frequently.

More than half the respondents said they e-traded using imarket, indicating a strong

➔

A hard core never use e-trading; as many as 40% never use imarket or bespoke systems

awareness of the e-commerce portal. In fact, these results are not a true measure of imarket's penetration, which is far greater: it has links to virtual underwriting agency iprism and no doubt other market players too.

By slicing and dicing the survey data, it is possible to see that when network/alliance members are compared with all respondents, the network/alliance members access insurer websites directly for fewer transactions (figure 3). This makes sense, as brokers who are network members often have access to systems run by underwriting agencies that will help to satisfy most of their e-trading needs. Additionally, underwriting agencies may work with a panel of insurers, thus further reducing the need for brokers to access insurer sites directly. Examples include Towergate's PowerPlace and Brokerbility Network's BIG system.

These findings are only an early indication of survey results. Further analysis of these and other issues, including e-trading comparisons between commercial and personal lines, and profiles of brokers' use of e-trading technology, will be available in the survey report. **IT**

If you would like to find out more about the survey, please contact lizzie.telford@insurancetimes.co.uk

FIGURE 1 How frequently do you use electronic trading systems for commercial lines? 'Never use' respondents are included

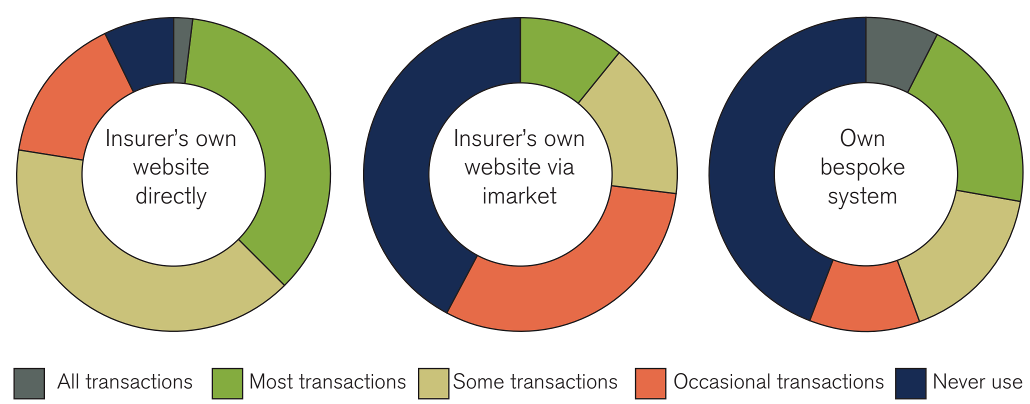


FIGURE 2 How frequently do you use electronic trading systems for commercial lines? 'Never use' respondents are removed

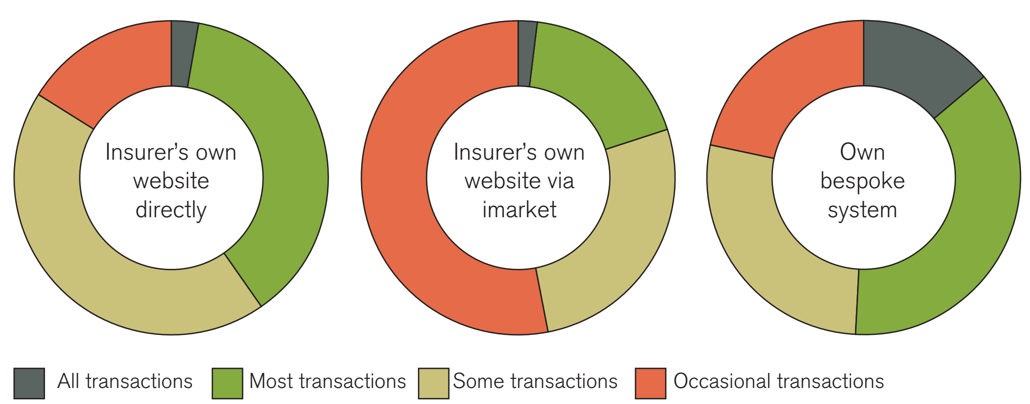
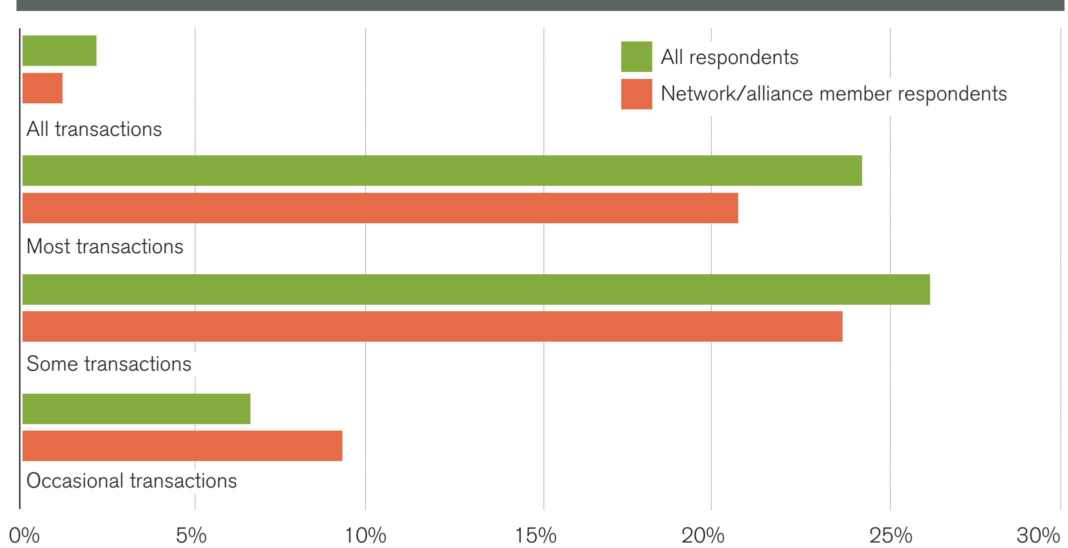


FIGURE 3 Commercial Insurance – how frequently do you use insurers' websites?



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Slowly does it

Technology hitches have left commercial insurance lagging behind in the race towards online trading. So what will prompt brokers to move to these platforms for their business clients? Michael Glackin investigates

'The most effective platforms are the ones where you can input the risk details. It will quote then and there or you can refer the risk to the underwriters'
Tony Gibbs, Macbeth Insurance Brokers

THE LONG-PROPHESIED migration of commercial insurance onto the internet has proven to be more of an orderly canter than a stampede. But while electronic trading in commercial insurance has not come close to matching the overwhelming success of online trading in personal lines, the launch of platforms such as imarket, Acturis, Broker Direct, iprism and Towergate's PowerPlace are testimony to the way that the market believes trade is moving.

And if, at the end of the journey, small and medium-sized businesses purchase their insurance via the internet, there will be deep repercussions for brokers.

A recent report by Defaqto on commercial SME insurance reveals that almost a quarter of the products available in the office and retailers markets can now be found online. For the most part, the increase is at the small end of the SME market but, as software systems become more sophisticated, it's likely that larger SMEs will be able to follow their colleagues online.

There are many obstacles, not least of which is whether the insurance industry can come up with commercial products that can be easily accessed online. Although the Defaqto report shows that two-thirds of the top 20 financial price comparison websites now provide access to business insurance, either as introducers to online providers or by providing quotations through a limited panel of insurers, the systems are not as sophisticated as those used in personal lines.

Mindful of the way technology has progressed in the past 10 years, some brokers, particularly the smaller firms, are looking at alternative revenue streams to mitigate the impact of large chunks of their business moving online.

But right now brokers want online trading platforms to provide faster access to underwriters for complex risk policies and more flexible question sets to ensure they can best serve their clients' needs. **IT**

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SMALL BROKER

Macbeth Insurance Brokers sales director, Tony Gibbs, uses most of the online trading platforms, including iprism, Acturis and company extranet sites.

"The most effective are the ones where you can input the risk details. If it's a book standard risk, it will quote it then and there. You press the button and you get your documents. However, if it doesn't tick all the right boxes … you can refer the risk to the underwriters and they open up a dialogue with you. Those are the ones we like the best because you can put on the things that aren't standard risk."

To this end, Gibbs' favourite trading platform is iprism. "It has one policy wording but you're getting quotes from a range of different companies. It's fantastic for run-of-the-mill risks because it's simple to use and, from a compliance perspective, it enables you to show that you've done a fair analysis of the market. The premiums are competitive too.

"In terms of our smaller per capita liability stuff, which was spread all over the place, we've consolidated that and, where we can, put everything through iprism. The only downside is it doesn't integrate directly into your back-office system. But even though you have to duplicate entering data, its merits outweigh the downside."

Like many brokers, Gibbs has been unimpressed with the industry's flagship platform, imarket. "Going onto the imarket network used to be a nightmare. The passwords expired right away – you tore your hair out using it," he says.

Gibbs is acutely aware of the threat that online trading poses, especially as question sets and software improve.

"It's one of the reasons we are looking more at niche markets, areas where direct insurers won't be able to threaten us – at least for a while – such as larger commercial risk and more complex liability risk. Basically, we're trying to stay one step ahead of the direct insurers."

But while wary of the threat, Gibbs adds that insurers and clients need to realise that the current software is still neither sophisticated nor flexible enough to accommodate all commercial lines business.

"There's a lot of onus on clients to put the correct information into the system. I've had a case where I quoted a roofing contractor for a liability policy and he told me he got it online for a quarter of the price because he had described himself as a building contractor rather than a roofer. You've got to be very careful about how you enter the information or you'll find that your claims won't be paid."

'The biggest benefit is increased efficiency. In the long term, the expectation is that small and medium-sized business clients will buy this way'

Gareth Brady, Hughes Insurance

REGIONAL BROKER

Northern Ireland-based broker Hughes Insurance uses Open GI – the software system used by almost half of UK brokers – for all its personal lines business. "We find their range of solutions are a really good fit for our business," chief executive Gareth Brady says. "They've been an effective partner in driving efficiencies in our processes and delivering growth."

But when it comes to commercial cover, Hughes' preference is to use company extranet sites, primarily Fast Trade (Aviva's extranet site), QuoteMac (Anglo Pacific Consultants), IQuote (This Insurance), Semploy Extra (Fortis), Zurich Commercial, UK General, Travelers and Chartis.

Brady had originally registered to use imarket but says that "technical issues with the site and problems with insurers" forced him to abandon the platform.

"We're awaiting implementation of PowerPlace; that is our preferable route now due to the connection with Open GI and the efficiency savings for letter and document issue that will be available," he says. For Brady, extranet sites provide speed and convenience, with Anglo Pacific's QuoteMac coming top. "QuoteMac's best points are its extensive range of products," he says. "It has a good referral process to underwriters too."

He says sites are often unavailable because of technical problems, but his main bugbear is the need to multi-key information for various quotations.

The biggest benefit is the potential for increased efficiency. "It reduces turnaround time for quotations. If sites are able to provide a platform for multiple quotations, it will help to increase efficiency more. In the long term, the expectation is that small and medium-sized business clients will purchase insurance via this source."

With that in mind, there's a good chance that regional brokers such as Hughes could find themselves surplus to requirements as systems become more sophisticated.

Brady concedes that it's a risk but is optimistic that there will always be a need for professional advice for the bespoke requirements of business cover. "I think the expectation is that the more complex commercial risks will continue to use the expertise provided by a broker."

LARGE NATIONAL BROKER

Bluefin SME broking manager, Mark Davies, also looks to insurer extranet sites. "Insurers' sites have all the information readily available for a broker to have confidence in making an informed selection, such as policy summaries, endorsement wordings, policy wordings and the like. The platforms operated by Zurich, Aviva, AXA, Allianz and NIG are by far the most user-friendly platforms. Other insurers such as Markel, Groupama and MMA are comparable, but in terms of a slick and steadfast operation, they are a close second."

In common with his smaller peers, Davies also finds little to recommend imarket. "The over-complication of presentation-driven platforms, such as imarket, have historically made them difficult and clumsy to use," he says.

What he needs most from an online platform, he says, is knowing that a "decision maker" is available if a risk he is seeking cover for doesn't tick all the boxes in the rigid online format. "It could be the most crucial development of online trading," he says.

For him, the biggest single difference online trading has made is the speed of transactions. "Product comparisons and quotations can be gained in minutes. It's by no means the finished article, but with insurers and brokers continually seeking to be one step ahead of their competition, a user-friendly system that's slick and understandable, that supplies the essential information when it's needed, and gives a route for direct access to a decision-making underwriter will win the confidence of those in the broking market that are reluctant or uninformed. Online trading will continue to change and shape the way that business is transacted."

But with that in mind, does Davies fear that even large brokers such as Bluefin will become surplus to requirements as systems become sophisticated enough to do more complex commercial insurance?

"Online trading versus the need for a broker is an age-old argument. When online trading systems first became prevalent, there was a panic that the broker would become obsolete. The very same panic swamped the industry when direct insurers asked the consumer to 'cut out the middleman'. We, the broker, are still very much here. Insurers and consumers understand the benefit of the technical advice that a broker can offer," he says.

'The over-complication of presentation-driven platforms, such as imarket, have historically made them difficult and clumsy to use'

Mark Davies, Bluefin

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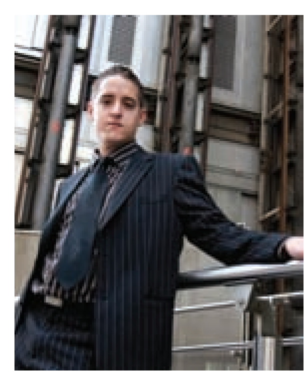

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Square mile e-volution

Nothing will ever replace face-to-face negotiations in the London and Lloyd's market, but e-placement will minimise the mundane and maximise time for complex business, discovers Helen Yates

AFTER MORE DOWNS than ups, the London market is closer than ever to trading electronically.

In June, testing began via the Exchange. Eighteen brokers, all relevant 48 Lloyd's managing agents and 19 IUA members are connected and ready to send and receive marine-related endorsements as electronic messages.

An endorsement pilot will follow and it is hoped that this market initiative – allowing brokers, underwriters and system providers to communicate via a single connection point – will help the Exchange to gain the critical mass it needs.

The pilot begins in September and underwriting and claims operations manager at Beazley, Ian Fantozzi, says this is a milestone. "We've seen initiatives for electronic placement before but we've never had this kind of take-up and we've not had the level of interest we now have from the brokers.

"We've certainly got the key names involved and we may not get this opportunity again. We want to make it as easy as possible for brokers to place business with us."

He continues: "If we can expand the distribution channel by having this electronic route, then it opens up the opportunity for the brokers to place business with Beazley and the market in general."

Past initiatives to automate the market have had less success with Kinnect proving the most high-profile failure. Costing Lloyd's £70m, the over-ambitious technology platform was shelved in 2006 when the project leaders realised they were fighting a losing battle.

By contrast, the Exchange has emphasised simplicity from the start. The main aim is to get market practitioners connected to each other and able to speak the same language.

The language is the industry-agreed ACORD XML messaging. Beyond that, individual brokers and underwriters can decide what technology they want to use and how advanced they want it to be.

"At the moment all brokers and carriers will have different back-office systems," Fantozzi says. "The part that is consistent is the gateway technology and the standard. In order to gain maximum benefit from electronic placement, the brokers and carriers can integrate their gateways to their back-office system."

The aim with the endorsement pilot is to save time on straightforward market processes in order to free brokers and underwriters to focus on complex negotiations.

"We'll never move away from the face-to-face aspect because we're a specialist insurer at the end of the day," Fantozzi says. "We want to make the placing process more efficient so we can focus on specialist underwriting."

According to those involved in the pilot, the days of brokers queuing at Lloyd's, weighed down by heavy files to do something as perfunctory as changing an address, will soon be behind us.

Head of strategic business applications at Miller, Steve Spicer, says: "What the technology can do now is take out the things that do not need face-to-face negotiation skills to complete and streamline the end-to-end process. There's no doubt that the historic London process includes a lot of straight admin tasks that involve expensive resources, both on the underwriter side and on the broker side."

Segmenting the business

If e-broking is to be a success in London, it is essential to segment the business appropriately. "The London market is not Direct Line Insurance," Spicer says. "There's very little that formula-driven, but there's no doubt there is a high-volume low-value end of the market where it is more cost-effective to place electronically than by traditional face-to-face methods. Individual organisations have to look at their book of business and identify where the opportunity lies."

There is a clear business case for automating the market's less complicated business.

Beazley estimates that it will see potential savings of up to nine months of manpower by channelling its 30,000 marine endorsements through the Exchange each year. Nevertheless, the enthusiasm for electronic initiatives in London has typically received a mixed reception.

The bigger brokers were always going to buy into integrated electronic messaging first, Spicer explains. "Rekeying stuff in order to send messages is a bit pointless, particularly when you're only five minutes down the road from the guy you want to talk to," he says. "There's a different perspective on electronic placement depending on the scale of the operation. The business case is different depending on whether you're a 'local' London broker with no international reach, a big global broker with lots of international reach or someone who wants to avoid brokers altogether and just wants to place business directly."

> 'Individual organisations have to look at their book and decide where the opportunity lies'
> **Steve Spicer, Miller**

Until all brokers and underwriters have their messaging systems aligned with their back-office processing, some rekeying will be necessary. In a subscription market, it is also necessary to have everyone on board otherwise intermediaries will be forced to perform every task twice. While all managing agents have signed up to the endorsement pilot, there are a number of insurers missing from the company market.

Timing is another issue for brokers. They do not want to lose the upper hand when introducing a complex new risk to the market, explains Spicer. "Like it or not, brokers often like to determine who they see, when they see them and what is said when they see them … and for high-value insurance contracts I don't blame them in the slightest because they want the best deal for their clients.

"As long as the electronic process retains that 'visit first, electronic afterwards' flexibility when needed, the inefficiencies of scanning and rekeying can still be avoided and there's every chance of succeeding."

No silver bullets

Many relationship-critical processes in the London market will never be fully automated. The value of operating in and around Lime Street will remain the selling point of the specialist London and Lloyd's insurance market. The current challenge is in segmenting the business to gain more efficiency. "This is a long-haul job. There are no silver bullets or magic pills. From a market point of view, there's got to be a collective understanding that there are real benefits for everyone," Spicer says.

But ultimately, the market needs to work towards straight-through processing (STP), something the banking sector has enjoyed for over a decade. STP is a realistic aim for the market but one that needs to be realised over time, says business development director of Lime-St.com, Jeff Ward. Lime-St.com is a broker's platform for electronic trading, allowing users to create and send electronic messages via the Exchange.

"It is unrealistic to think that, within a few short years, brokers will be able to extract copious amounts of data from their systems and send that to underwriters, who in turn will STP it into theirs," he says. "That Herculean task requires wholesale change to everyone's systems. Yes, one day it will happen, but I firmly believe we will need to evolve relatively slowly towards that model over the next, say, five years.

> 'No market is an island when it comes to straight-through processing. We see this in everyday banking – and so it must be in insurance'
> **Jeff Ward, Lime-St.com**

"Much more achievable right now is the STP of documents and supporting data," he continues. "This is a huge benefit for everyone – the synchronisation of document management and workflow systems across the market. There's no scanning, no rekeying of reference data, everyone with the same version of the documentation. And this is what we are doing right now, starting with the Lloyd's Exchange pilot."

Most market participants recognise they cannot continue to operate without technology, particularly with competitor jurisdictions embracing the electronic age. A second attempt at creating a New York Exchange (which originally failed in the 1980s) is under way, with the operations working group of this US rival to Lloyd's thought to be focusing efforts on introducing messaging technology.

"No market is an island when it comes to STP," Ward says. "As we see in everyday banking, STP knows no boundaries – a credit card used in Australia will debit your account in the UK within seconds and that transaction winds a scenic route to arrive here. So it must be with STP in insurance.

"The real benefit is where the originator of the data, not the London broker, keys the data in and kicks off the process. Then, as it makes its way through the producing chain, it is augmented by the various players, acquiring additional data and value until it arrives in London where the London broker finally places it and it arrives at its ultimate destination in the underwriter's systems." **IT**

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The times they are a-changing [16/07/09]

Let's get personal

About half of the UK's insurance business now passes through one of 100 aggregator portals. But while it may suit customers in search of ever-lower premiums, writes Michael Glackin, many brokers are concerned about long-term damage to the industry

ALONG WITH GIVING us the most annoying/wonderfully funny (delete to taste) television advertisements, aggregators have revolutionised the insurance industry with their pile it high and sell it cheap philosophy.

But brokers are still wary of the aggregator model as a vehicle for driving business. On the one hand, aggregators have transformed the fortunes of a number of brokers whose volumes have soared on the back of comparison websites. They have also provided insurance companies with the opportunity to sell their wares direct to millions of customers.

But they stand accused of dragging prices lower, damaging the overall profitability of the market. Meanwhile, some brokers fear they will be driven out of business as more consumers choose to buy direct – a threat that is likely to intensify as aggregators extend their reach into other lines, particularly commercial.

Ten years ago, there were fewer than half a dozen financial services aggregators in the UK. Today there are about 100. But only four are of any scale: Gocompare, Moneysupermarket, Confused.com and Comparethemarket. Between them, the big four spend about £280m a year on advertising to ensure they stay on top of an increasingly competitive market.

Moneysupermarket insure, home services and travel division managing director, Graham Donoghue, says the four spent about £84m on above-the-line television advertising last year. Moneysupermarket, for example, spent north of £15m on its TV campaign featuring comedian Omid Djalili promoting the art of haggling.

Is this kind of spend sustainable? Gocompare founder and chief executive, Hayley Parsons – employer of the best-known tenor since Pavarotti – thinks it is. "Yes, there is a lot of money going into advertising, but for us it's working really well," she says.

With an estimated 50% of the UK's insurance business now passing through their collective portals, including up to 70% of private motor insurance, Parsons has a point. But as the advertising spend shows, you need deep pockets to get a foothold in the market and that means there's little prospect of fresh competition.

> ‘When we heard Tesco Compare was coming into the market, we went for a big launch. I took out a loan facility for £30m. That’s the kind of cash you need to launch now’
>
> **Hayley Parsons, Gocompare**

“It’s easy to start a site but hard to make it successful,” Donoghue says. “You need a minimum of £30m to start a site of scale, so cash is a big barrier to entry these days.”

Parsons agrees. “Our original plans when launching Gocompare were relatively small. But when we heard that Tesco Compare was coming into the market, we decided to go for a big launch. I took out a loan facility for £30m with the intention of becoming one of the top three. We made it [into the top three] and Tesco didn’t. But that’s the kind of cash you need to launch now,” she says.

Despite the number of players, Donoghue and Parsons dismiss talk of consolidation. “What they can deliver versus what we already deliver means there is no value in them for us,” Parsons says.

Brokers’ relationship with aggregators has gone from an initial scepticism to co-operation, but is now approaching something akin to suspicion and downright annoyance.

At a time when insurers are suffering declines in premium income, coupled with a sharp increase in claims and lower profits, many are concerned that the premium-led nature of aggregators is damaging the industry.

“By its very nature, it’s a competitive, premium-driven model that effectively forces prices down,” This Insurance product development manager, John Mason, says. “Insurers are chasing to be top of the list when the customer hits the quote button.” (This Insurance, the commercial underwriting business of JLT’s Thistle Insurance, does not work with aggregators.)

But in some respects, consumers can be the worst culprits in driving prices down. AXA’s director of personal lines (intermediary), Mike Keating, says it is becoming apparent that business derived from aggregators performs less well than that from traditional routes, partly because it is easy for users to manipulate online question sets.

“People input information they believe will get them the cheapest quote … we have to look at how that can be effectively policed. The classic is mileage; everyone seems to do 6,000 miles a year and, of course, every car is garaged. We can do Q-checking and while, at present, it’s post-claim, it does mean that if people aren’t honest when supplying their details, their claim can become invalid,” he says.

Brokers continue to watch nervously as the aggregators’ grip becomes tighter. Macbeth is a small London broker, and its sales director Tony Gibb says the continuing advance and use of technology, with the aggressive marketing of aggregators, is squeezing brokers out of some lines.

Donoghue concedes that some brokers are suffering. “But if you take our top 10 clients in terms of volume, about 40% are still through brokers. If we can acquire customers cost-effectively and pass them through to brokers, then that’s a model that works for everyone. Where brokers have a strategy for working with aggregators, it tends to work quite well.”

Parsons agrees. “On car insurance, we have 120 partners. A large percentage of those are brokers and they pick up around half the business. If you look at online car and home insurance, brokers have benefited much more than direct insurers in terms of volume that they never would have achieved before.”

> ‘People input information to get the cheapest quote. The classic is mileage. Everyone seems to do 6,000 miles a year’
>
> **Mike Keating, AXA**

Because large segments of the personal lines market are still not fully covered by aggregators, both Donoghue and Parsons see the future of comparison sites remaining firmly fixed on private insurance. “Car insurance is more mature, of course, but home insurance is a couple of years behind that,” Donoghue says. “Travel insurance offers scope, there’s only around four million policies sold through comparison sites out of a market of about 20 million, and life insurance is growing incredibly fast.”

Although aggregators have moved into commercial, they are surprisingly less sanguine about the prospects of a wholesale shift of the market to the internet in the near future.

“I’d be really keen to see it take off and work but I think we’re many years away from it,” Parsons says. “Before comparison sites can look at it, insurers and brokers have to get their act together with regard to online quotability. Until there is a solid online quoting foundation across insurance and brokers, I don’t think commercial insurance is something that aggregators can do a lot on. It will get there, but it’s a long way off.”

Donoghue adds: “We all do commercial, but it’s quite crude and tends to be more of an advertising listing vehicle than a true comparison, which is partly due to the technology. Expanding it isn’t specifically on our radar.”

But Henderson’s group broking director, Gordon Brain, believes large chunks of the commercial market will eventually fall prey to aggregators, although he insists they’re unlikely to replicate the dominance enjoyed in personal lines. “There are concerns, but in reality it’s only small SME and packaged business that lends itself to online. In terms of complex risk or corporate, aggregators are a long way off.”

Brokers: breathe a sigh of relief. **IT**

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A smart move

Ignore the rise of the mobile phone app at your peril, says Rebecca Thomson. It may be early days, but you need to be ready to pounce when the technology is right for your business

MOBILE APPS ARE ONE of the new clutch of technologies revolutionising the way that many sectors work. Analyst firm Forrester Research estimates that social media marketing is growing by about 34% a year, double the average growth rate of most online media. And as smart phone use continues to climb, no business can afford to ignore them.

Applications can be branded and customised, freeing brokers from having to build their own. They can be integrated with existing systems – as long as those systems are web-enabled – which means that a decent smart phone app could become part of a formidable social media package.

Stephen Korow is vice-president of technology at Decision Research Corporation, which has just launched an iPhone app for the insurance industry.

He admits that consumer demand is low at present but sees demand increasing as insurers become aware of what the new systems offer for interacting with policyholders – particularly in claims handling.

Greater reach

"A message across multiple channels will have far greater reach as audiences become more segmented," he says. "Ignoring the mobile phone segment ignores many potential customers, and makes the job of maintaining market share that much more difficult," he says.

The potential is certainly there. Smart phones are aware of their user's location, so could input data using GPS technology. For instance, a camera could capture a car number plate; recognition technology could then upload that information or provide evidence in a claim.

But buying an insurance policy is not the same as signing up to Twitter: it's a complex process and making it work well on a mobile phone will take a little longer.

BGL managing director of claims, Martin Overton, says the move into insurance apps is "good news"; his company, for instance, is

focusing heavily on the online market as customers become more comfortable paying for policies online.

But there are issues with using mobile applications for claims handling – not least the inability to detect fraud and the complexity of the process.

"It requires an in-depth knowledge of the policy and knowledge of insurance and personal injury law," he says. "Quite often the customer perception of their claim will change as a consequence of talking to someone who understands it. If it's all managed via an app, you may struggle with the accuracy of the data coming through and customer dissatisfaction is likely."

Any app also will need built-in triggers capable of detecting fraudulent claims – just as staff are currently trained to detect suspect words or situations.

Overton says that many of the apps on the market now are "quite weak" as they involve little more than the downloading of forms. "They're either not providing enough information to enable the claim to be processed, or are so detailed that you wouldn't want to be on an iPhone doing it. It's all relatively expensive, but only saves about 30 to 60 seconds. Customers are not demanding or expecting it right now."

Ask what works

One obvious compromise is to use an app to simply log a claim. AXA managing director of claims David Williams says his company does this, insisting that it's a lot cheaper to register a claim via a mobile app than it is through phone or paper forms.

He says each part of the insurance market needs to think about how their customers might use the technology – and how useful it might be. "Customers use smart phones to communicate in every other part of their lives, so why not insurance? Rather than one-size-fits-all, it's a case of looking at the needs of the customer and asking what works."

Korow says that as the technology develops, increasingly complicated risks could be handled via mobile internet.

"Specific risk information can be mashed up with focused data available through complimentary web services … a much clearer understanding of the risk being underwritten can be developed. If additional information or detail is required by an underwriter, images can easily be transmitted to them."

Bluefin head of marketing Peter Elliott says that no app has caught his eye yet. "In the high net worth market, policyholders paying significant premiums value the personal advice and professional service that a broker provides – especially if a claim becomes problematic.

"But we do have to do our best to communicate with customers in the way that they want to be communicated with. Brokers have to be very flexible and respond to the requirements of their customers."

The best approach, Korow says, is to keep a sharp eye on the development of the technology and the market, and to be ready to enter the fray.

"As the utility and value increases and other complimentary services are merged – such as finding the closest affiliated towing company or calling a cab – these applications will be relied on more and more." **IT**

> 'Rather than one-size-fits-all, it's a case of looking at the needs of the customer and asking what works'
>
> **David Williams, AXA**

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