

Insurance Times Investigates

NFU Mutual reaps a bad harvest

With a huge year-on-year profit slump, internal wrangling and the competition ready to pick off dissatisfied customers, the rural insurer needs to act
By Ellen Bennett

Who would say no to a 155% pay rise? Not rural insurer NFU Mutual's chief executive, Lindsay Sinclair. But his £1m-plus pay cheque caused ructions earlier this summer, as the insurer has just posted some of its worst ever results, with profits down 57% year on year, and an underwriting loss of £150m.

The row couldn't have come at a worse time for NFU Mutual. *Insurance Times* has learned of dissatisfaction among its powerful networks of agents as Sinclair's management team tries to transform the business. There's ire among customers, too, as premiums soar – and a group of formidable insurer rivals are circling like vultures.

NFU Mutual is one of the UK's largest insurers, with a gross written premium of £1.21bn, coming in at 16th place in the *Insurance Times* Top 50 Insurers list. That's ahead of household names such as LV=, Ageas and Brit. But it keeps a low profile in the market, and despite repeated requests, refused to speak to *Insurance Times* for this article.

So NFU Mutual's rationale for awarding Sinclair such a hefty pay cheque on the back of such poor financial performance remains a mystery. One local newspaper site blog reads: "Only two words come to mind – and they are 'snout' and 'trough'."

A change of strategy

The row exemplifies the growing discord between the old school self-employed NFU Mutual secretaries who distribute the insurance, and the new management, led by Sinclair.

A former banker and one-time chief executive of ING Direct, Sinclair was a rare outside appointment for the insurer, where many staff had worked their way up through the ranks, often from backgrounds in farming. Under his leadership, since 2008 NFU Mutual has parachuted in staff from the commercial insurance market, and diversified outside rural insurance. It is also believed to offer capacity to larger brokers on big cases outside its rural specialism.

The rationale behind the strategy isn't clear – but if the 2010 results are anything to go by, it's a long way from success. NFU Mutual attributes its annus horribilis to industry-wide problems such as the sharp rise in bodily injury claims; exceptional weather-related losses; and a spate of agricultural thefts. When the results

were released, the insurer issued a statement from chairman Sir Don Curry saying: "We experienced very different market conditions for general insurance, personal and commercial lines business in 2010. The industry saw rises in car insurance premiums, particularly for young drivers, while home insurance premiums continued the gently accelerating trend of rate rises that began in 2009."

'We experienced very different market conditions for general insurance, personal and commercial lines business in 2010'
Sir Don Curry, NFU Mutual

"Insurers were also dealing with an increasing number of homes damaged by extreme weather and flash floods, often in places that had no history of flooding."

Rate increases for farmers

The losses, coupled with the industry trend for rising motor premiums, have prompted significant rate hikes at NFU Mutual.

These couldn't have come at a worse time. In 2009, in celebration of its centenary, NFU Mutual gave all its members (ie policyholders) 20% of their premium back, as a mutual bonus. This year, the mutual bonus has dropped back down to its usual level of 10% but, for policyholders, this feels like they are being asked to pay more. The rising rates coupled >

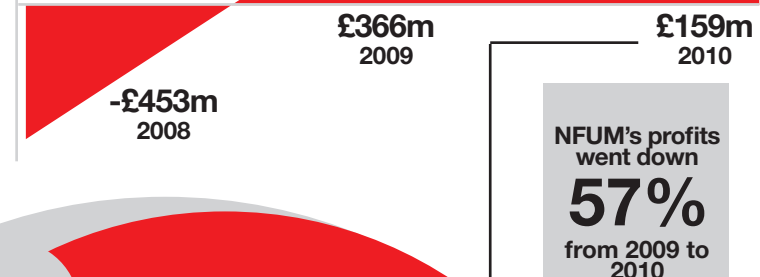
The numbers:

NFUM's underwriting loss worsened
27%
from £118m in 2009 to £150m in 2010

GWP rose slightly in 2010 to
£1.2bn
from £1.1bn in 2009

Chief exec Sinclair's pay is up
155%
from £460,000 to £1.17m

Overall profit/loss:



Major threats include:

- A spike in rural thefts this year
- Bodily injury claims on the rise
- Exceptional weather events

Internal pressures include:

- Poor results last year
- Internal management changes
- Inefficient distribution strategy

NFUM's blighted crop

NFU Mutual controls **65%** of the rural market ...

DATA: NFU ANNUAL REPORT

... and the industry smells opportunity

AIUA
BIB

Merger on the cards? AIUA, owned by Towergate, and BIB, owned by sister company CCV, are both backed by capacity from RSA. AIUA is a market leader and both are on a growth drive. Market watchers predict a merger between the two brands sometime soon.

Aviva

In search of a crop The UK's largest general insurer is active in the rural market and, like other players, is looking for growth.

AXA

Boosting its rural book AXA's Leeds branch manager Andy Halstead says: "We have made significant investment in both recruitment and product development and have recently launched a refreshed property and casualty wording tailored specifically for agriculture."

Rural

Gearing up for growth Owned by the Primary Group and backed by capacity from Ageas, Rural is on an aggressive growth drive. "Our stated aim is to go from 2% to 5% market share," says managing director Simon Stevens.

NIG

Sowing the market seeds NIG backs Farmweb, one of the major brands in this space. NIG head of agriculture Andy Brock says: "NIG have produced a suite of products for FarmWeb to develop business in the rural community. NIG will continue to support the market requirement."

Insurance Times Investigates Rural insurance

with the smaller mutual bonus means that some farmers are seeing their premiums spiral by one-third year on year.

They're not happy. On a popular online farmers' discussion forum, there are numerous posts detailing NFUM's price hikes and swapping contact details for local brokers. A typical post reads: "Just in for lunch and spluttering over the morning mail from NFU. Three vehicles renewal – total premium £2,600. Last year £1,670. 'It's gone up,' they say. No accidents, convictions or changes in personnel during the year – and they say, 'computer says no'. Can anyone recommend a good broker?"

In bygone days, the strong relationship between farmers and their local agent, or group secretary, could have helped ease this strain. The group secretaries have historically had extremely close relationships with the clients, offering a range of financial products, advice and other

One bugbear is that the insurer has tried to take the management of major accounts away from the local secretaries, under the control of its Stratford head office. Another is that it has tried to make its agents sell different types of insurance, encouraging them to chase tradesmen and SME business.

There have also been rows over remuneration: whenever one agent leaves and is replaced by another, NFU Mutual is said to push commissions sharply down.

This has led to a strained atmosphere between the insurer and its distribution network, with a number of departures. It's a problem the insurer can ill afford. "NFUM lives or dies by its agents," says one rural broker who happily recounts how he won dozens of new clients following a popular NFUM agent's departure from the company.

NFU Mutual has traditionally controlled around 60%-65% of the

'People understood the need for change, but they felt that management's attitude was, "never mind the farmers"' Broker source

services. This unique distribution model has been one of the insurer's greatest strengths, and an often unbreakable defence against rival brokers and insurers looking to break into their market.

Centralising the business

But worryingly for NFU Mutual, there is dissatisfaction among its ranks of group secretaries.

The insurer has been increasing its central control of the self-employed secretaries as it moves towards a more corporate way of doing business. "They're moving away from the warm and cuddly rural idyll," says one former agent who recently left to become a broker. "People understood the need for change, but they felt that management's attitude was, 'never mind the farmers'."

For decades, the group secretaries had been autonomous, managing close relationships, sometimes over generations, and having a high level of clout with head office on their customers' behalf. But that's changing. "Bit by bit, there's been a corporate stranglehold," says the former secretary. "NFU Mutual has been desperately trying to take back more and more control over what the secretaries do."

rural insurance market, but competition for the remaining third is fierce – and getting fiercer. Aviva is a player in this area, as is AXA, and both are aggressively trying to increase their books. Towergate and CCV own two of the major underwriting agencies – AIUA and BIB – both backed with RSA capacity. Primary Group's Rural is on an aggressive growth drive, and there have been several incidents of teams moving between these players in the past few months.

"There's a general anticipation that prices will increase, and everyone seems to be fighting for position at the starting line," says AIUA's sales manager Barry Wicks. He estimates that requests for quotations have gone up by 50% this year as farmers begin to look around for cheaper options.

NFU Mutual needs to take action, and fast. The insurer has said it expects to return to profit next year, though it has yet to detail how. It has enviable goodwill from the farming community, as well as a strong record in dealing with customers – it recently won a Which? Award for service. But it is under attack from competitors and beset by internal divisions. Sinclair has a big job on his hands to earn that hefty payrise.

Motor woes

NFU Mutual was the biggest loser in the 2010 motor market, according to a survey by Ernst & Young. Its net combined ratio deteriorated from 130% to 135%.

But NFU stressed its performance was affected by some underlying factors. Earlier this year, a spokesman said: "The doubling of our mutual bonus scheme had a significant impact on our net combined ratio in 2010.

"Each year, the scheme rewards our members with discounts to their premiums.

"Our net combined ratio for motor in 2010 was within the margins we had expected and better than the industry average."

Crime spike

NFU estimates that thefts from farms in Scotland, where the trend is worse, have risen 67% in the last two years.

Crimes of this nature reportedly topped an overall cost of £1.4m in 2010. The most popular stolen items include small power tools. A statement issued to coincide with its annual survey on rural crime said: "Making outbuildings more secure is an effective deterrent."

We say ...

- NFU Mutual is trying to move with the times, but it needs to set and communicate a clear strategy – and carry its key people and partners along with it.
- If the insurer really wants to grow in the commercial market, it should look at expanding its relationship with the broking market. Group secretaries are not necessarily the right distribution route for these lines of business.
- The level of activity in the rural market will put NFU Mutual under increasing pressure.