

# Schemes In Focus:

## Why now for schemes?



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As hard-up businesses push to save money on premiums, where can the broker add real value? One answer is schemes. A broker who has built up specialist knowledge on an industry sector – be it caravan parks, nightclubs or thatch cottages – can offer tremendously valuable advice to clients. Recognising their importance, *Insurance Times* today launches Schemes in Focus, a bi-monthly supplement offering data, insight and analysis on what is likely to be an increasingly important source of income for brokers.

In association with



# Does broker salvation lie in a specialist service?

- Commercial schemes can offer greater financial returns than conventional policies, as they require greater expertise so there is less competition
- Schemes are likely to become increasingly popular among insurers and brokers as they try to establish more differentiated products
- Critics argue that a lack of competition in some markets can lead to less than optimum customer service levels

Commercial schemes are, arguably, the great growth area for insurers and brokers since the credit crunch depressed rates on more conventional policies.

Reading-based insurer MMA formed a dedicated schemes team last year after witnessing a 20% growth in schemes in 2010 (see Scheme doctor, page 22), while Biba recently confirmed that this is an increasingly popular line of business.

UK General is one of the most high-profile examples, having posted a 50% increase in new schemes gross written premium revenue and with an order book worth £260m in the 12 months to March 2012, but there are many others.

Schemes allow brokers to develop specialisms of cover that can be as broad as dealing with retailers or as specific as, say, covering nightclubs. Brokers are far more involved in everything from the wording of the policy documents to, in some cases, even agreeing the premium.

This level of attention is attractive to policyholders, while also good for brokers and insurers, who see better rates as a result of there being less competition than in the crammed comprehensive insurance market.

“Schemes are very much flavour of the month,” says Clear Insurance Management chief executive Howard Lickens. “Everyone is looking for a tranche of business that is performing better than the average. It’s very difficult to grow business with non-differentiated stuff.”

Clear, for example, has developed a popular scheme for tree surgeons, which might seem unusual for a company based just on the edge of London, but is a result of purchasing a Lincolnshire company. Another strong scheme is one the broker has developed for market traders – “those guys who buy and sell fruit and veg”, less they be confused with demonised City bankers.

Schemes are defined very differently across the industry. A typical view is that they truly arrived as a developed package around the turn of the century, though Trident Insurance chairman Robert Marshall is a little dismissive of their origins.

“There have always been various guys who were experts in certain areas; they just weren’t called ‘schemes,’” he argues.

While many brokers and insurers argue the benefits of an almost dedicated service, Marshall – who has

**‘Everyone is looking for a tranche of business that is performing better than the average’**

**Howard Lickens,  
Clear Insurance Management**

developed a few specialist policies for couriers and vehicle fleet – wonders whether a lack of competition might hurt the policyholder.

“People go to schemes because they want a quick response, but if it takes 24 to 48 hours just to get a quote, they might as well go and get something more inclusive,” he says. “Should there be just one supplier [in a market]? I don’t think so. There can be a backlog if there are only so many suppliers to a particular area.”

As schemes grow ever popular, perhaps there will be some more competitive tension, but still enough focus to avoid over-saturation of players in any one specialism.

## Talking points ...

- Why have commercial schemes become so popular?
- Do schemes serve their clients as well as the advocates claim?
- How can brokers find a niche market where they can really add value?

## Discover the Science of Schemes

### UK General puts schemes under the microscope in one informative video

As a leading schemes provider in the provision of high quality, specialist schemes, we take a look at the schemes marketplace past & present, and the future of broker schemes. We discuss:

- Polarisation of the schemes market
- Considerations of volume vs. niche insurance
- The big decision – where is your strategy taking you?

Watch the video at [ukgeneral.com/scienceofschemes](http://ukgeneral.com/scienceofschemes)



**uk general**  
insurance group

# Schemes on the rise

The vast majority of brokers expect schemes to become a more important part of the general insurance market, according to a recent survey

A survey of 150 brokers has found that 83% believe the general insurance market will become more geared towards schemes over the next five years, helping to boost their growth in niches and specialist propositions (question 1).

The survey, conducted by UK General from a mix of broker partners and non-partners, also revealed that one-third said their schemes book grew by over 30% in the past five years, and 15% said it had grown over 60% (question 5).

The survey revealed, however, that there is still capacity to expand schemes business, as 43% of brokers interviewed said that they do not currently participate in the sector (question 3).

UK General head of commercial schemes Tony Bloomer said the survey showed the growing importance of schemes, but he urged brokers to really focus on their proposition. "What is important is that niche and specialist markets do not fall victim to commoditisation," he said.

"There must be a premium written in for the key technical and underwriting skills required to write specialist schemes."

Bloomer said the survey identified other challenges for the schemes market, such as the likely increase in broker demand for delegated authority and the significant value ascribed to underwriting support.

When asked to rate the importance of insurer support in helping them become more involved in their schemes business, 55% of respondents said it was "very high" (question 4).

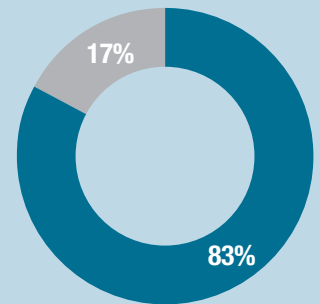
Around 37% of brokers said customer service support and support in underwriting capability were "very high" in importance when it comes to helping them develop their schemes business.

On the other hand, brokers said they were very confident with recruitment capabilities. Of those surveyed, 46% said it was not an issue in developing their schemes business.

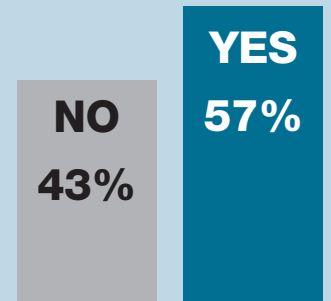
Brokers with gross written premium of between £1m and £5m made up 44% of the interviewees, 21% were brokers with up to £1m GWP, 10% had GWP of between £20m and £50m, while 6% had GWP of more than £50m (question 2).

**1** Finish this statement:  
Over the past five years the UK general insurance marketplace has ...

- become more geared toward scheme business
- become less geared toward scheme business

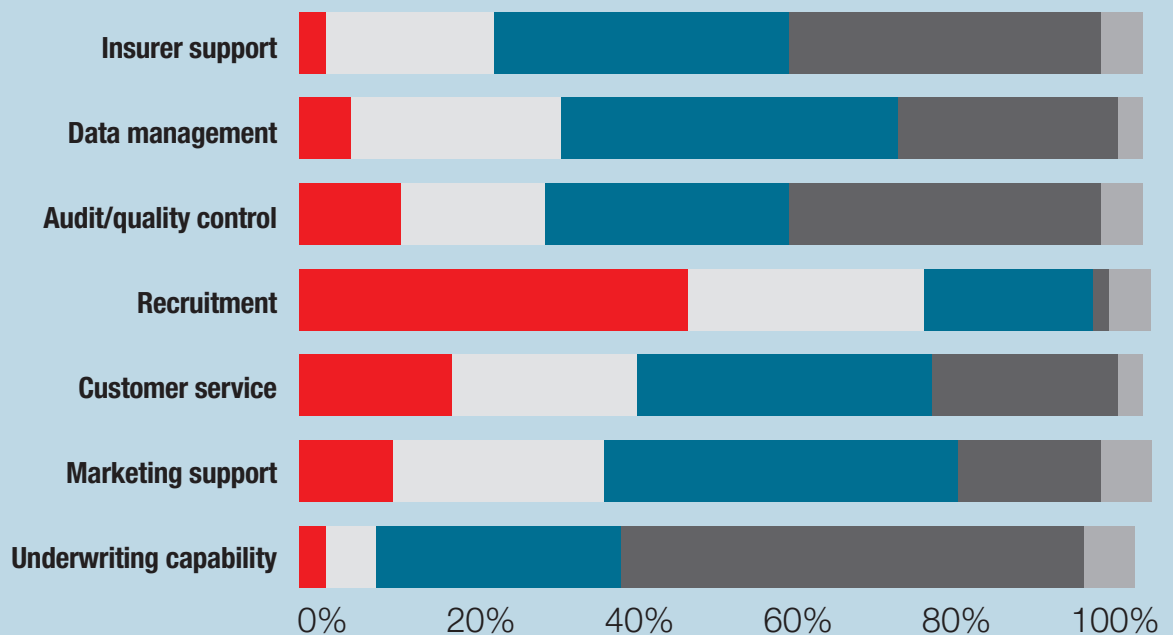


**3** Are you currently active in the schemes marketplace?

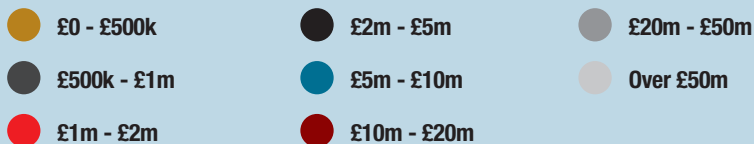
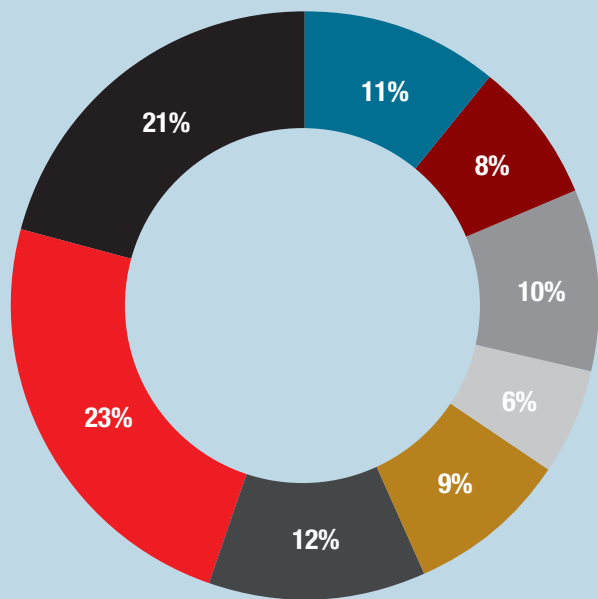


**4** For your business to become more involved in scheme business, rate your need for support in the following areas:

- None
- Some
- High
- Very high
- Don't know



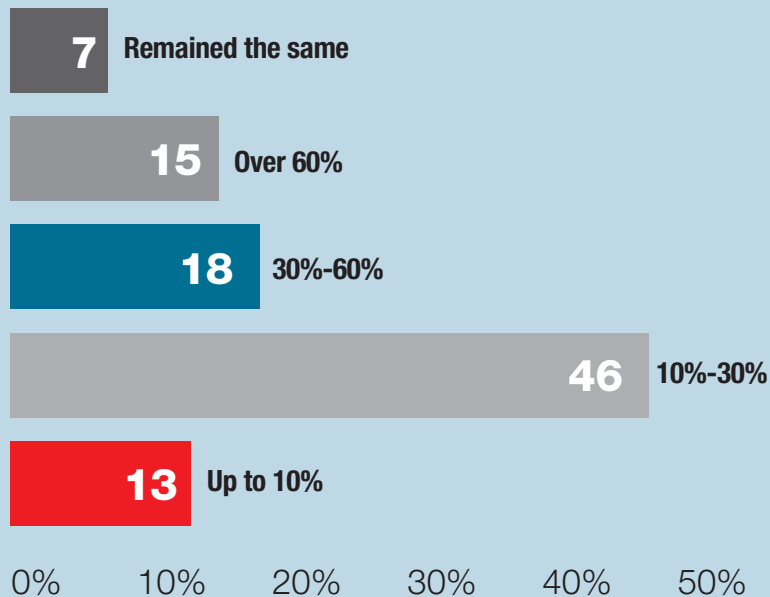
**2** What is your estimated GWP?



## ‘Specialist markets must not fall victim to commoditisation’

Tony Bloomer, UK General

**5** What growth has your scheme business seen over the past five years?



**EXPERT VIEW**

## SCHEMES BROKERS LOOK TO PARTNERSHIPS



**TONY BLOOMER**  
HEAD OF  
COMMERCIAL  
SCHEMES,  
UK GENERAL  
INSURANCE LTD

Amid our often complex market, the UK’s brokers are clear about one thing: the schemes market is going to grow significantly over the next five years. More than 90% are positive about future schemes growth, and 34% of those are expecting a substantial increase in the size of their schemes books. Our team at UK General, the leading schemes and specialist insurer, surveyed over 150 brokers in the early summer, and the results were significant for the future of schemes as a key revenue earner.

We found that the growth in schemes will create challenges for brokers and insurers alike. Brokers will need to decide between niche and specialist schemes or becoming a volume player. And if they do go down the specialist route many believe they’ll need stronger support from insurers.

The research showed that, of those brokers who are already writing schemes business, 66% of brokers rate their need for insurer support as high, and they’re pinpointing underwriting (rated high by 69%), delegated authority (64%) and customer service (55%) as the key areas.

Other requirements rated as being of high importance by brokers included marketing (40%), data/information exchange (31%), audit/quality control (22%). For brokers who did not currently write schemes business, 84% rated the need for insurer support as highly or very highly important should they choose to enter the schemes market.

The payoff for choosing the specialist route, with the opportunity to create bespoke propositions, flexibility, differentiation, knowledge-based servicing and advised sales, must lie in the premium/value mix. Brokers and schemes providers need to use the special features of schemes to offer something better for the specific needs of customers they are targeting – and that’s got to be worth a premium. The market must not miss the opportunity to deliver an added-value proposition through schemes, while rates remain low in the conventional open market.

UK General’s partnership approach to specialist schemes is endorsed by the research findings. For example, 81% of brokers believe demand for delegated authority will increase, but insurers will need to be satisfied that broker partners have the in-house skills to underwrite and manage sometimes complex books of schemes business.

Brokers who write specialist schemes will require skilled individuals who really know their market sector and deliver a knowledge-based sales and service proposition, rather than adopt a rules-based sales and service process. Of the brokers surveyed, 79% believe their schemes business will increase or substantially increase in the next five years, but to do so they will need market expertise.

The emerging schemes market offers some challenges, but with this comes a multitude of opportunities for brokers.

*Tony Bloomer has managed a wide range of general insurance schemes in specialist markets covering*

*commercial, household and motor. He was previously schemes director at Ecclesiastical.*



## Scheme in focus

# Travel and tour operators

- The travel agency market is well enough developed that there is some price competition
- Seventeen Group reviews its Arnold Fisher travel industry scheme to ensure it remains relevant to clients

Seventeen Group bought the Arnold Fisher tour operator and travel agents scheme in 2004, and today it remains one of the two market leaders in that sector. The other is Vantage Insurance Services, which started life 13 years ago as a service company for a Lloyd's of London syndicate.

Arnold Fisher started life as a general insurance business in the early 1970s. In 1992, when new travel regulations were introduced, it helped tailor the insurance needs of existing clients, among them Club 18-30, and through the decade developed into a true sector specialist.

The scheme's primary underwriter is RSA, and the product is not just taken directly to clients, but has also been distributed to "several hundred" other brokers, according to Seventeen managing director Paul Anscombe.

The scheme covers office insurance and the statutory liabilities that have grown to protect customers as tour operators struggled to fulfil their obligations in lean years.

Anscombe says that although it is still a specialism, the sector is sufficiently developed for a range of competitors to have emerged.

"The trouble is if we have a £10,000 premium and these other schemes compete on price, some carriers will still go for them," he says.

Nevertheless, Arnold Fisher is now

broker to the Association of British Travel Agents, which Anscombe feels "enforces" the scheme's reputation for quality. He says the company also makes sure it is "continually reviewing the product", which is important for the clients as they deal with the problem of fewer people going on holiday during the downturn.

Anscombe thinks that his company could increase the size of the business fairly rapidly, but that would hit the underwriters as there would be too much capacity in the market.

### PAUL ANSCOMBE SEVENTEEN GROUP



Anscombe says he became a schemes convert eight to 10 years ago, when he felt that the days of the general broker were coming to

an end. Since then, Seventeen has seen its schemes business steadily grow to make up more than 50% of the company's work. Anscombe wants the schemes business to eventually account for three-quarters of the business's revenue, though this might take two to three years.

## Scheme doctor

Chris Withers,  
MMA Insurance

The MMA schemes manager talks about the challenges of schemes, the best way to set them up and how to meet customers' demands for tailored products

### Q: What schemes have you introduced recently?

**A:** We've launched some schemes for health clubs and gyms. You have to look at what industries will survive through the difficult times, and leisure is always going to be important. Healthclubs and gyms come with some specific risks, so a standard commercial combined policy won't always give the most appropriate cover.

### Q: How long does it take to set up a scheme?

**A:** At one end you've got the delegated authority intermediary, underwriting on behalf of the insurer, where there's a real opportunity for the intermediary to take risk on behalf of the insurer. I would say you're looking at a minimum of three months. But there are a number where the broker will put a banner over it to say it's a scheme because it has something unique around the service or pricing, but with no delegated authority. We can deliver those within a matter of weeks.

### Q: What takes the most time when setting up a full scheme?

**A:** The due diligence can and should take the longest amount of time, so when you start trading there are no surprises. Also testing that we understand what the customer needs. Time is often seen as a negative factor, but time spent understanding each other and what you're

## Scheme news

### Flux capacity for Groupama

Groupama Insurances has unveiled plans to underwrite a new non-standard motor insurance scheme for specialist broker Adrian Flux. Groupama already underwrites almost £20m of the broker's non-standard personal motor schemes. This is expected to rise to £30m by the end of the year.

### UK General signing

UK General signed two new schemes worth more than £1m gross written premium last week. It is now targeting to grow its portfolio to 500 schemes over the next year.

### NIG buys AIM schemes

NIG has bought the rights to the SME book of schemes specialist Affinity Insurance Management (AIM), a managing general agent that has recently stopped trading.





looking to target and do together is well spent. Otherwise you end up trying to fix it later on. There are no shortcuts to a successful scheme.

**Q: What are common challenges in setting up a scheme?**

**A:** The main thing is we go into a scheme because there's a gap, an opportunity. Once you've identified that, you have to make sure the marketing is linked back to that. If you've got a

## 'Customers don't want to buy something off the shelf. They want something that has been tailored to their needs'

product that's hard to get hold of, and you're going to broaden out distribution, you need to make sure that's what you promote. The biggest challenge we face is that the reason we go into it isn't always what is then promoted. It is possibly the most single important factor we find: remembering who it is you are trying to appeal to, and staying true to that. Elsewhere we see a lack of consistency. We need to stick to this being a long-term ambition and not the current vogue.

**Q: Are schemes worth the effort when there are so many standard policies to choose from?**

**A:** Yes, and the reason I think they are is that consumers are more savvy. They don't want to buy something off the shelf, an office package, shop package or commercial combined. They want to buy something that has been tailored to their needs. From an insurer's point of view and from an intermediary's perspective, we need to keep that within our market to stop the commercial products being commoditised. If the customer is getting something they feel is unique, then we've all done our job well. Anything else is open market, generic market product, and there aren't many customers in that space these days.

### Rural eyes growth

Rural Insurance revealed last week that it is aiming to double its size within three years to become a top three player in the agricultural market. It intends to introduce broker schemes for smallholders.

### Aro opens new office

Aro Underwriting Group this month launched a new office in Tonbridge, Kent. The schemes and affinity specialist, which focuses on property and casualty, set up in June 2011 and is on target to surpass £5m in GWP this year according to managing director James Bright.

### EXPERT VIEW

## HOW SMALLER BROKERS CAN ACCESS SCHEMES



**NEIL MARTIN**  
MANAGING  
DIRECTOR OF  
SCHEMES AND  
AFFINITIES,  
UK GENERAL  
INSURANCE LTD

Bob Dylan's classic tune "The Times They Are a Changing" was a deft commentary on the 1960s, as America's youth threw off the post-war era to embrace love, freedom and protest. For the UK's smaller brokers, the times are also changing, but not necessarily for the better. Insurance is essential for businesses, but if those businesses are going to the wall, then there's less business to go round for brokers.

But brokers are nothing if not dogged, and it isn't all doom and gloom for the smaller brokers.

The continued interest in and growth of the schemes market has thrown smaller brokers a revenue-earning lifeline that could make all the difference.

Why? Partly because niche and specialist schemes deliver higher premiums, thanks partly to the need for expertise; and partly because building a good schemes book in, say, thatched roofs, or curry houses, is self-perpetuating, attracting more customers keen to benefit from the policyholder advantages derived from a successful schemes book.

A really smart scheme gives the broker complete control over all elements of the transaction, from the administration

## Niche and specialist schemes deliver high premiums, thanks to the need for expertise

to the selling price to ultimately the broker's commission. This allows them to position their products alongside the larger brokers and make sure their products are price-competitive.

But how do the smaller brokers access schemes business, and isn't the requirement for infrastructure a hefty barrier to entry? Well, no it isn't, because smaller brokers can use a wholesale broker to access schemes, using this as a platform not just to access the scheme itself, but also to build market knowledge and access net-rated products.

There are a range of software houses available to the interested broker, and the UK General website, for example, enables smaller brokers to access wholesale brokers and trade a wide number of products through a host of providers.

And, having found their affinity group of choice, smaller brokers can create truly bespoke products that fit their interest and risk criteria, attracting the higher margins that such products deserve. Wholesale brokers, like big insurers, cannot specialise in the same way because as lower-margin businesses they tend to need volume, leaving the way open to the smaller broker to make a handsome return, build their expertise and provide a valuable service to their clients.

*Neil Martin is a qualified accountant and international business graduate who has over 15 years experience in the insurance industry. He previously led strategic partnerships*

*in the affinity arm of BGL group, before moving to UK General as managing director of schemes and affinities.*

