

The Future of Risk Distribution

REPORT 2021

PARTNER





SOMPO
INTERNATIONAL

PROMISE TRUST PROTECT

AT THE CENTER OF
EVERYTHING WE DO

Sompo International, the overseas commercial insurance and reinsurance operation of Sompo Holdings, Inc., is one of the fastest growing global property, casualty, and specialty lines (re)insurers in the world. With excellent financial strength behind us, Sompo is an approachable and trusted partner who will be transparent every step of the way and put people first.

Financial
Strength

A+
SUPERIOR
A.M. Best

A+
STRONG
Standard &
Poor's

A1
GOOD
Moody's

Learn more about us at
sompo-intl.com

Commercial Risk

CR

Insurance & Risk Management News

CONTENTS

COMMENT 4

The future is bright.

A CHALLENGING TIME 5

The hard market and pandemic gave brokers a unique opportunity to show their value to insurers and insureds alike.

SURVEY RESULTS 8

The Future of Risk Distribution survey in numbers.

INTERVIEW: JULIAN JAMES 10

Brokers and carriers must respond to client needs as a matter of priority, believes Julian James, CEO, International Insurance, Sompo International.

A TRIPLE WHAMMY? 12

Timing, capacity and growing concerns about insurers walking away from certain risks are all leading to fears from brokers that the 2022 renewals may be as tough as the year just gone, although others reported a glimmer of hope that rates may not increase quite as severely.

THE COVID EFFECT 14

Covid-19 has lasted long enough but brokers fear the impact may be even more far-reaching than the pandemic itself.

THE FUTURE SHAPE OF RISK DISTRIBUTION 16

Looking into the future and making the right strategic decisions is key to success for any business and, as brokers revealed, there is a lot to consider right now.

ONE OF THE GANG 20

Being part of a network gives brokers a real opportunity to offer global services without the day-to-day costs and headaches of operating offices in locations around the world, according to broking network members.

TALKING THE TALK, WALKING THE WALK 22

Putting the client at the heart of every conversation should be just the starting point in terms of the skills required by brokers right now as the sector works through the hard market cycle, agreed brokers.

CONTENT

HEAD OF CONTENT

Adrian Ladbury
aladbury@commercialriskonline.com

MANAGING EDITOR

Ben Norris
bnorris@commercialriskonline.com

SPECIAL PROJECTS EDITOR

Liz Booth
lbooth@commercialriskonline.com

REPORTERS

Rodrigo Amaral
ramaral@commercialriskonline.com

Garry Booth
gbooth@commercialriskonline.com

Stuart Collins
scollins@commercialriskonline.com

Tony Dowding
tdowding@commercialriskonline.com

Sarah Jolly
sjolly@commercialriskonline.com

Nicholas Pratt
npratt@commercialriskonline.com

DESIGN

HEAD OF PRODUCTION

Chris Morrish
cmorrish@commercialriskonline.com

COMMERCIAL

PUBLISHER & HEAD OF SALES

Hugo Foster
hfoster@commercialriskonline.com
Tel: +44 203 858 0191

OPERATIONS & EVENTS MANAGER

Annabel White
awhite@commercialriskonline.com

MANAGING DIRECTOR

Stewart Brown
sbrown@commercialriskonline.com
Tel: +44 203 858 0190

EMAIL ADDRESSES

Editorial

news@commercialriskonline.com

Sales

sales@commercialriskonline.com

Events

events@commercialriskonline.com

Subscriptions

subscribe@commercialriskonline.com

General enquiries

enquiries@commercialriskonline.com

ADDRESS

Rubicon Media Ltd, Unit 5,
Parsonage Farm Business Centre,
Titchhurst, East Sussex, TN5 7DL, UK

MANAGEMENT TEAM

Steve Acunto, Stephen Acunto, Stewart Brown, Hugo Foster and Adrian Ladbury

MEMBER:

Beacon International Group, Ltd.



Commercial Risk Europe is an online information service supported by a print newspaper published by Rubicon Media Ltd. Member: Beacon International Group, Ltd. Although Rubicon Media Ltd has made every effort to ensure the accuracy of this publication, neither it nor any contributor can accept any legal responsibility whatsoever for consequences that may arise from errors or omissions or any opinions or advice given. This publication is not a substitute for professional advice on a specific transaction. All rights reserved. Reproduction or transmission of content is prohibited without prior written agreement from the publisher.

THE FUTURE OF RISK DISTRIBUTION REPORT 2021

The future is bright

At the risk of sounding like a worn-out record, it has been a tough year for insurance brokers and their clients.

The incredibly challenging renewals of 2021 impacted most insureds – with just a lucky few escaping the worst fallout from the twin impact of a hard insurance market and Covid-19.

It did very much depend on the class of business but most clients were impacted in one way or another. Now, as we look to the 2022 renewals, brokers are reporting it will be another tough round of negotiations.

But there are signs of reducing pressure and, above all, the brokers reported that the last year has given them a great opportunity to spend valuable time with clients and to truly understand the risks involved.

Some 540 brokers took part in the Future of Risk Distribution 2021 survey and almost universally they reported a renewed urgency to improve relationships across the market. There was a feeling that they have become closer to their clients in the past year, while at the same time they have been working hard to maintain good working relationships with insurers to get the best for their clients.

The survey came at a time when insurance brokers were driving most of the merger and acquisition activity in the insurance sector. At the beginning of the year, the segment had just been through the merger of Marsh and JLT, while the Aon-Willis deal looked all set.

As the year unfolded, that second deal collapsed, but there had already been a lot of movement among the broking houses. Those owner-operator brokerages and members of international networks are looking to take advantage and show clients that they can provide flexible and adaptable support as bigger firms concentrate on takeovers.

The future is bright, they believe, as their place in the market has been cemented by the events of the past year.

All that remains is for me to thank all those who have taken part in this year's survey – it's amazing that by the end of the year, we have been able to have some of these meetings in person.

And of course, I say a massive thank you to Sampo International for enabling this survey to happen in the first place.

Enjoy the read!

Liz Booth
Editor

A challenging time

The hard market and pandemic gave brokers a unique opportunity to show their value to insurers and insureds alike, as they explained in the Future of Risk Distribution 2021 survey



◇ MARKET

news@commercialriskonline.com

With 54% of brokers saying their relationship with insureds has remained the same and 30% reporting that it has improved, only 16% feared the hard market of the past two years has damaged their relationships.

However, those figures revealed by the Future of Risk Distribution 2021 survey are just a snapshot of what has become a very complex market in the past couple of years.

Risk managers have been answering some tough questions from their boards about insurance and its relevancy – the question of whether to retain more risk, develop a captive or even go to the capital markets is on the lips of many CFOs across Europe.

Brokers have been caught between a rock and a hard place, arguing the case for continued insurance programmes with insurers and then persuading clients that this is the best deal they can get.

They are working on placing insurance programmes, while also offering added-value services to their clients and looking at the alternative options. So, it is no surprise that 86% of them believe an insurance programme should form an integral part of a company's overall risk management and resilience strategy, rather than being

Brokers admitted to a certain degree of fatigue after the 2021 renewals

dealt with separately as a pure asset-protection tool.

But it is also no surprise that brokers admitted to a certain degree of fatigue after the 2021 renewals – which lasted into May for some – and ahead of the 2022 renewals, which look to be as equally challenging for certain lines of business.

The brokers surveyed said it was critical they remembered that they have a duty to remind their clients of the basic principles of insurance, particularly in such a hard market. They admitted it should come as no surprise to any insured to hear that insurers had been taking a look at their overall exposures and, after an event such as the Covid-19 pandemic, it would only be natural for them to consider the impact of systemic shocks and reduce their willingness to support all clients as before.

“They simply threw out a lot of business and left us with a small window to renegotiate or find new insurers”



However, some of the decisions had been surprising. “Most of our renewals are on 1 January, and in August and September last year we were sent cancellations for most of our book. They simply threw out a lot of business and left us with a small window to renegotiate or find new insurers. It was also extremely tough to get answers out of them and time was ticking,” warned one broker.

PERFECT OPPORTUNITY

It is not all bad news. All intermediaries should welcome a hard market, according to some of the brokers surveyed. They emphasised that a hard market in which insurance is hard to find provides the perfect opportunity for brokers to show their value to clients.

This has been true throughout the Covid-19 pandemic, which has created some unique challenges for the whole insurance market as well as for risk managers and their organisations, but which has also given brokers an opportunity to go that extra mile for clients.

And while it may have been harder for some brokers to simply track down underwriters working

“People are at home and everyone seems to have more time to talk. We have had a lot of very useful conversations”

from home, they reported that they have managed much longer and more meaningful conversations with clients.

“People are at home and everyone seems to have more time to talk. We have had a lot of very useful conversations and had the opportunity to discuss risks in much more depth than we previously could – whether it is because we are not travelling or whether because people aren’t held up in physical meetings, I don’t know, but either way it has worked well for us,” one said.

One of the Spanish contributors to the survey summed it up: “A hard market should be the preferred environment for brokers because this is when we can demonstrate our value – anyone can be a broker in a soft market. But now is the time to be a good broker.

16%
said the hard market has damaged relationships

Lockdown in Regent Street, London: the pandemic added some complexities to the conversations between clients, brokers and insurers

“I believe a good understanding of the risks and of the new policies available is key, as well as the ability to be able to find answers for our clients.”

Speaking about the state of the market generally, there was broad agreement that the hard market is all part of a regular cycle and that a soft market will follow once more in due course.

However, the group also agreed that the pandemic has added some complexities to the conversations between clients, brokers and insurers.

As one of the brokers said: “It is important to differentiate parts of the market and not assume it is the same across the board. But one thing that insurers did very well with in 2020 was their speed of preparation ahead of the 2021 renewals.”

He said that some insurers on the employee benefits side, in particular, had prepared for the renewals by July last year – an impressive feat, he said, given the pandemic and difficulties with home working to contend with. He is optimistic that early preparation will roll over for the 2022 renewals.

However, it was not the same in property and casualty classes, and that was where he found it harder to





find capacity and there were fewer options in terms of insurers willing to take on risks.

That early start was critical, he said. “The worst thing was that renewals could only start in October. Insurers broadly were blaming reinsurers, saying it was hard to settle the reinsurance coverage before then.

“We had to do a lot of work with our customers to explain the many changes, both in terms of capacity but also in terms and conditions,” he added.

Overall, the brokers agreed that the 2021 renewals had been much tougher than the previous year, involving both increases in costs and decreases in capacity and availability, particularly in financial lines. Areas such as D&O and management liability were the hardest to find, he said.

NEW CHALLENGES

But it is not just the risk managers and insurers who were challenged by Covid-19. Brokers also found their worlds upended. Teams had to work from home and find new ways of communicating.

This proved hard for those managing young and inexperienced teams. Without managers at their side, it was harder for some younger brokers to do the job. But the brokers reported that it was a testament to the future of broking that many did just that and have learnt a lot from the hard market.

Brokers also had to cope with health and safety concerns among their teams and are now managing the challenges of bringing employees back to work safely. As the conduit between insurer and insured, they have also been playing a waiting game for their clients and the insurers to return to the market.

“We had to do a lot of work with our customers to explain the many changes, both in terms of capacity but also in terms and conditions”

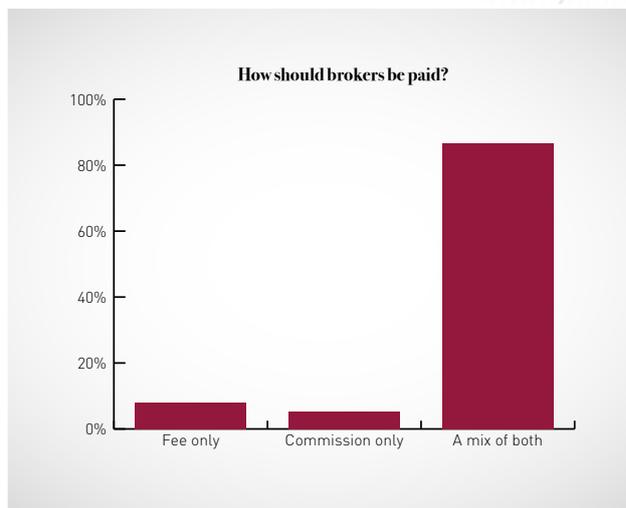
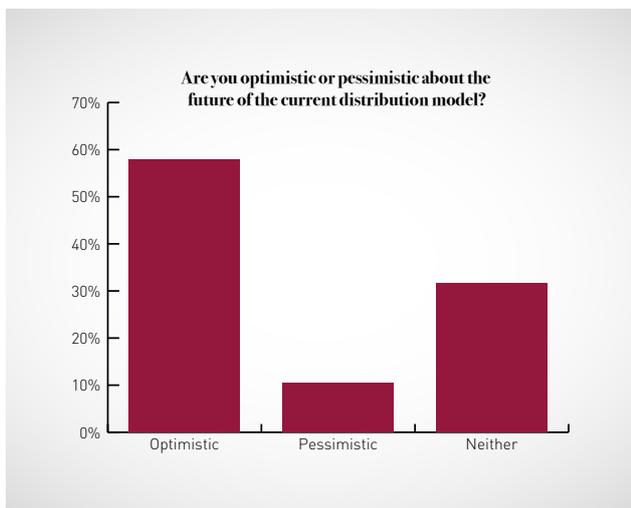
The pandemic and hard market also gave brokers a chance to prove their worth as clients struggled to secure cover

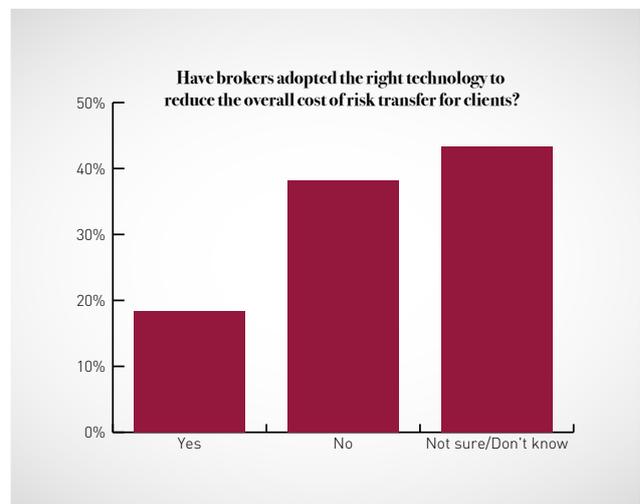
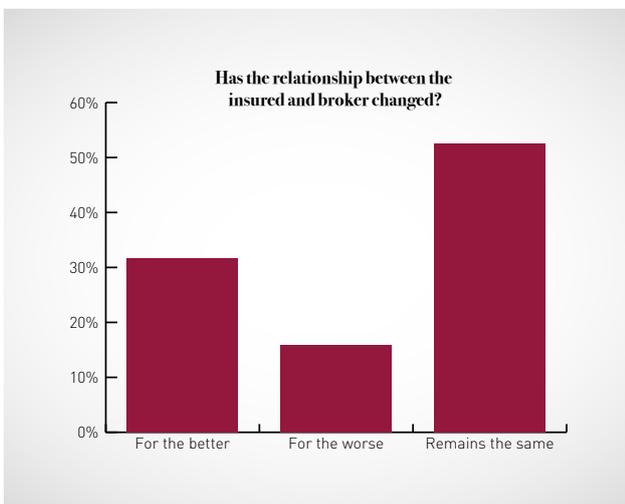
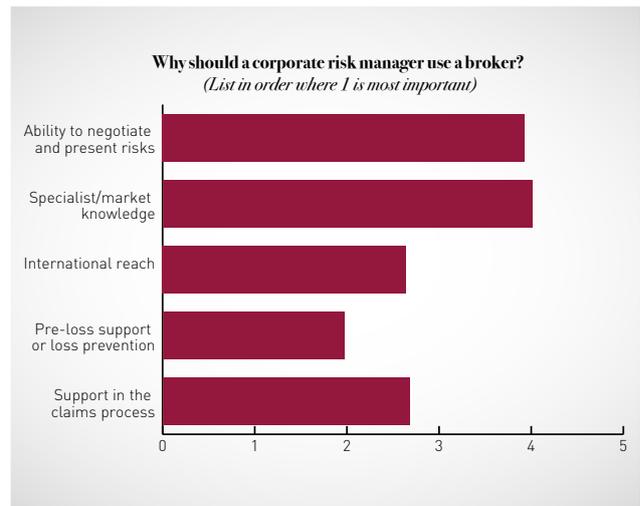
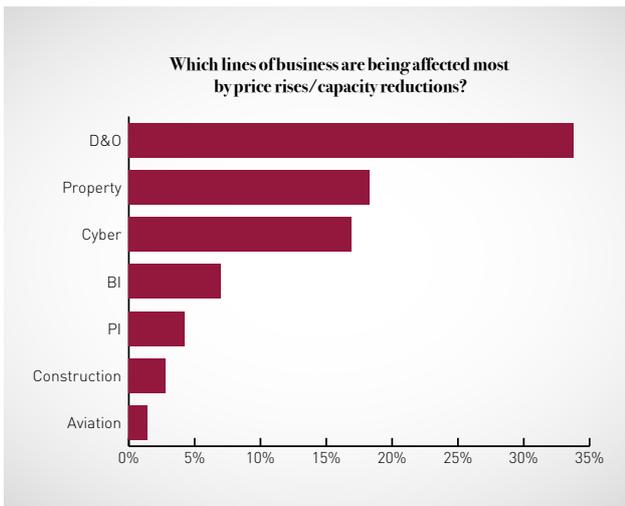
Going forward, they said, it has taught them some valuable lessons about managing systemic shocks but, more importantly, they said it has also given them a unique opportunity to showcase the benefits of using a broker. They hope that renewed and reinvigorated relationships with insureds will stand the test of time.

What were the main challenges presented to brokers across Europe during the recent tough set of renewals?

- Finding placement solutions in a very short timeframe for their clients
- Giving the same time to all their customers
- Difficulties related to the health situation and distance work
- They were sometimes overwhelmed – their young teams were not always experienced enough to cope with this new market
- They didn't have the power to influence the insurers' decisions

The Future of Risk Distribution survey in numbers





Clients must be number one priority

Brokers and carriers must respond to client needs as a matter of priority, believes Julian James, CEO, International Insurance, Sompo International

◇ INTERVIEW

news@commercialriskonline.com

The most important people in the insurance chain are the buyers, and it is imperative that both brokers and insurers deliver on what is needed by the insureds.

So said Julian James, CEO International Insurance at Sompo International. “Insureds have faced huge challenges presented by the Covid-19 pandemic and even now are facing energy and transport challenges; and at the same time, they have been finding insurers reducing their risk appetite and capacity for important lines,” he added.

There is a risk, he said, that brokers and insurers alike have been too introspective, thinking about their own position at the expense of their clients. “We need to adjust our lens to look at these issues through our clients’ eyes,” he suggested, adding that doing that might create some opportunities for the market.

“We should be thinking about solutions to help with the risks facing insureds, rather than designing products to suit us. I think brokers are equally culpable as insurers on this.”

However, James stressed: “Overall, brokers are doing a good job of representing their clients when talking to insurers. But if clients are not seeing that, then we must make some changes. My take is that the market is not quite as developed as it should be about looking at the world through the clients’ eyes.”



There is still “an unbelievable obsession with pricing”, he said, “instead of discussing what we should be doing for clients”. He is by no means negative about the efforts put in by insurers and brokers in the last 18 months, saying that by and large, the sector coped very well with the pandemic and delivered on its promise to offer coverage and pay claims. “Let’s not wear the hairshirt too much,” he said, “there were a lot of things done very well during the pandemic.”

James believes that organisations that have put risk management at the core of their structures will have done a better job during the

Julian James believes the insurance sector coped very well with the pandemic overall

pandemic and had better outcomes, “but it is not just about analysis of risk but increasingly about the level of communication between insureds and insurers, and that is not always down to the size of the company or insurance programme”, he explained.

“Those with solid risk management will understand the risks and be able to engage in a more open dialogue with the market” and brokers have a key role to play in that dialogue, James added.

DIFFICULT LINES

However good the risk management and dialogue, though, there are

some problem areas that James believes will remain difficult for the months ahead, including D&O, errors and omissions, as well as professional liability. “That does reflect the history of losses,” he said. “A poor loss experience will impact the ability to find insurance in the months ahead.”

But risks are also undergoing change, thanks to the pandemic, and that will also have influenced insurers’ views of those risks. “Take the airline industry, for example,” said James. “It is a great example of the upheaval. Planes were no longer up in the air but parked up waiting for a change in the market. The risks have changed as a result and insurers have reflected that in their programmes.” Communication between brokers and clients, and then with insurers, has been essential for everyone to understand the new risks and adapt.

“What characterises the insurance industry is continual change and challenge,” said James. And that is something brokers and their clients will need to bear in mind for the future too, he said, adding: “There is no substitute for proper communication.” He remains confident that the broker model will remain relevant well into the future as clients look to their brokers, not

“We should be thinking about solutions to help with the risks facing insureds, rather than designing products to suit us. I think brokers are equally culpable as insurers on this”

just for insurance renewals and changes, but also for advice and support around their risks.

“As the world of risk continually evolves, clients need proper advice,” he stressed. “They need to find the right insurance capacity for their risks and brokers are generally doing a very good job of finding that for them. The role of the broker is as strong as ever.”

CONTINUAL IMPROVEMENTS

Being able to stay ahead in terms of managing risks and being prepared for future risks is likely to involve greater use of technology in the future, predicted James, and brokers are likely to need to invest.

But, he said, this is all part of a broader picture of continual

improvement that any business needs to do to thrive. “Brokers need to stay front and centre of the risk conversation. We have already evolved massively from the days of brokers standing in front of the underwriter waiting for their opportunity to present a risk on paper.

“Now, basic stuff is handled so quickly, courtesy of technology – £500m of capacity can be found in an afternoon. And that is a good thing for the market and clients alike.”

James also believes that clients will continue to want choices about who they deal with. While consolidation has been a feature of the broker sector of late, he said there is still sufficient choice for clients both in terms of brokers and carriers and again market evolution will always be part of the landscape. “It is healthy for us and for the client,” he added.

Overall, he said the market is in a good shape for the future and there are signs of confidence emerging. “We have actually increased our risk appetite in a very uncertain world. You can’t look through rose-tinted glasses but I think the insurance sector – carriers and brokers – have responded well in the crisis and done what was expected of us.”

Sompo building in Shinjuku, Tokyo: the insurer has increased its risk appetite in a very uncertain world



A triple whammy?

Timing, capacity and growing concerns about insurers walking away from certain risks are all leading to fears from brokers that the 2022 renewals may be as tough as the year just gone, although others reported a glimmer of hope that rates may not increase quite as severely



◆ RENEWALS

news@commercialriskonline.com

Slowly but surely, it seems that brokers and their risk management clients have seen the worst of this hard market. But that is not to say the 2022 renewals will be anything but tricky.

This time last year, brokers were battling as insurers chose not to renew entire programmes, walked away from certain classes or reduced their capacity in others – often all very last minute and leaving brokers and their clients scrambling to find the right cover in the nick of time.

This year, there is a hope that the worst is over and that insurers have reduced their appetite as much as they needed to and that placements can be fixed in a calmer fashion.

However, brokers are not wholly confident. They are already

working hard with clients to prepare programmes and to have the best levels of information about risks to present to insurers in the coming weeks.

It is all about preparation, they agreed. As one Dutch broker said: “After such dramatic action last year, this year’s renewals should be smoother, simply because insurers have ejected so much business that they simply did not want any more. Key this year is the ability to keep lines of communication open between insurer, broker and insured.”

“Key this year is the ability to keep lines of communication open between insurer, broker and insured”

Brokers are already working hard with clients to prepare programmes

That view was echoed across the continent, as brokers said there was a glimmer of hope that insurers were satisfied with the cuts already made. However, they were not promising rate cuts or event freezes.

“I think rates will still be rising,” explained one broker, “but perhaps at a lesser rate than last year.” Another suggested the increases would be in the 10%-20% range, rather than the 300%-400% experienced in some classes last year. But another reported those massive hikes are continuing.

And they are also worried about how long it will take to get programmes signed off and agreed. “It is about the timeliness of terms being presented and giving us some mobility to react. We start out larger renewals 90 days ahead of a plan, we have a strategy, we have agreements and then you engage with the underwriting side of the equation and it doesn’t fall into



place,” said one. “It seems we are on their schedule. That is fine but we need mobility.”

LIMITS

Another major concern is around limit stability, as one respondent explained: “You might have had a \$10m tower going into renewal and that tower is priced the same per million but you only have \$2m from that same underwriter, and all of a sudden you have \$8m that is attached against a contract or bank agreement and you need to find cover.

“That is the biggest concern, along with it taking three times as long to produce. For example, you book a Zoom call and then it gets put back and before you know it, it has taken three times as long to sort out.”

Another added: “Capacity is also key. If I look at the co-insurance market in the Netherlands, it is shrinking. So, finding 100% capacity is the essential thing but we are faced with differences in pricing and in terms, so it is taking three times as long to do a normal renewal.”

RAY OF HOPE

Some brokers, however, had words of comfort for the insureds, believing that now insurers have fixed their positions and chosen their preferred lines of business, it is unlikely insureds will face the same nightmare again in the 2022 renewals.

But that might depend on the relationship between broker and insurer, said a German broker. “It is much more important to have a good relationship with the insurer now,” he said. “If you are discussing a usually profitable piece of business with the insurer, it is a little easier.”

For another broker, the biggest challenge was to ensure insureds understood what was happening and the implications of the changing market conditions.

“You book a Zoom call and then it gets put back and before you know it, it has taken three times as long to sort out”

Rotterdam city: One respondent pointed out that the co-insurance market in the Netherlands is shrinking

“They needed to realise very fast that the market was truly hardening, after so many years of a soft market in which insurers had tried to talk up a harder market but failed. This time it was for real,” he said.

Another concluded: “We see a lot of insurers that are cherry picking. We are seeing what they don’t want to insure but it is only the insurance industry who can do this job. We need them to offer cover to our clients.”

What could risk managers be doing to help their broker secure the best terms and conditions in such a market?

- Structure and document all the risk management actions taken by the company
- Communication is key on all prevention measures and on the reality of risks
- Meet with insurers to reassure them
- Build partnerships and respect them
- Be honest and do not bid on policy every year to find the lowest premium.

The Covid effect

Covid-19 has lasted long enough but brokers fear the impact may be even more far-reaching than the pandemic itself, they explained as part of the *Future of Risk Distribution 2021* report



◇ PANDEMIC

news@commercialriskonline.com

Living through the pandemic has highlighted some of the gaps in insurance coverage – and plenty of its benefits too.

During the first half of 2020, arguments raged across Europe about how and when business interruption (BI) policies would be triggered, what would be paid and whether the policies were fit for purpose.

Brokers were caught in the middle of much of that argument at the smaller-operator end of the market. For most of the larger risks, the debate was redundant because policies were bespoke and BI policies had been properly discussed at placement stage.

However, there were still some who choose to blame their brokers,

saying they did not have a full enough discussion before placing their programme.

Among those surveyed, most of the brokers argued that pandemic cover had not been a source of conflict with their clients – because they had spent sufficient time with clients ensuring everyone understood exactly how any cover would respond under a given policy.

In a warning for risk managers, they said that too often insureds are in a hurry and do not dedicate enough time to their insurance

As businesses closed due to lockdowns, arguments raged about how and when BI policies would be triggered

“We did not mislead our customers about cover. However, the pandemic highlighted ambiguity in some policy wordings, which created uncertainty”

programme, being eager to get the deal done and move on.

However, the brokers believe that more time spent analysing and stress testing under a range of scenarios pays off in the long run, ensuring that the right cover has been purchased.

One French broker explained that, in the immediate aftermath of the first lockdown in France, the French government investigated how many insurance programmes would pay out on the pandemic.

The resulting study found some 93% of wordings were crystal clear that there would be no payment for pandemic-related losses. Of the remaining 7%, some 4% were “grey”, while just 3% would cover pandemic-related losses.

And a UK-based broker added: “We did not mislead our customers about cover. However, the pandemic highlighted ambiguity in some policy wordings, which created

uncertainty. Ultimately it comes down to communication and managing expectations to ensure insureds understand if and how their policy will respond.”

CYBER THREAT

The pandemic was not just about BI of course. The brokers said that it has also pushed cyber risks much higher up the threat list. “Cyber risk has been heightened by the pandemic – the use of iPads and working from home have all increased the risk. It is something that many companies have found hard to manage,” noted one respondent.

Cyberattacks and ransomware attacks have increased significantly during 2021, which the brokers put down to the impact of home working in 2020 and employees unwittingly exposing their companies to attacks.

Brokers are also worried by the wider economic impact which, they feel, has yet to play out. All of that, they said, will drive the need for a closer look at insurance programmes, ensuring they remain fit for purpose in a new world economy.

“Insurers have all been working from home and they are distanced from the job and their employer”

Those risks also spill over into fears of political violence in certain parts of the world and, more recently, concern about a surge in terrorist activity.

Added to that, clients are worried about their supply chains and brokers are spending time once more ensuring the right cover is in place and explaining what is and isn’t available from the insurance markets.

Time is also being spent calming risk manager fears about the uninsurable risks and growing concern that things like cyber cover might disappear as insurers choose to back away from that particular class of business.

Brokers said that, overall, the impact of the pandemic will be with us for many years to come.

Port of Hamburg, Germany: clients are worried about their supply chains and brokers are spending time ensuring the right cover is in place

What the risk managers said

- Risk managers knew that the operating loss due to Covid-19 was not covered for this type of event
- Brokers need to help risk managers determine what to insure or not, the optimal deductible levels and coverage limits
- They must help their clients to better market their risk exposure and prevention actions well in advance of renewals
- They must propose options and not only one take-it-or-leave-it solution. They must be imaginative.

CLAIMS

The brokers’ job is not done once the programme is placed of course and the pandemic has also impacted claims settlement.

The picture has been changing during 2021 but certainly at the start of the year, brokers were reporting that working from home during the pandemic had had a noticeable impact on claims settlement.

The brokers agreed that it has been much harder to get claims settled this year. Insurers, one said, “have all been working from home and they are distanced from the job and their employer”.

Another broker reported tales from underwriters and claims handlers alike about the struggles they are having in maintaining work from home and the difficulties it is causing in communication between teams – all of which is being reflected in the service that clients receive.

“One underwriter told me: ‘Before, I lived for my job and was prepared to work long hours, but now I no longer live for my job.’ And that is a problem for our clients because they, and us, are just not getting answers to questions,” he said.

There is hope and expectation that these issues will die down as people return to offices but the brokers agree that only time will tell as to whether some of these mindshifts are here to stay – and if a new work ethic will emerge.



Planning ahead: the future shape of risk distribution

Looking into the future and making the right strategic decisions is key to success for any business and, as brokers surveyed for the Future of Risk Distribution 2021 report revealed, there is a lot to consider right now



◆ ROLES

news@commercialriskonline.com

Will humans be replaced by machines? That is a question that continues to vex everyone from world leaders to business leaders.

It is a question that challenges every business, insurance broking included. In this sector, the question has been whether machines can successfully underwrite risks and thereby remove the underwriting role and with it, the brokers.

Will brokers be needed if insureds can simply type in a few details and the machine can spit out the required premium? That,

of course, has been the pattern for retail insurance but commercial insurance has always remained apart.

Brokers argue that they are needed to fully understand the complex and bespoke nature of commercial risks. But does that remain true? And how can brokers maintain that argument

Technology will be a key differentiator in the future

“The data needs to be better shared between insurer, broker and loss adjuster if we are to make improvements. For that we need standardisation”

and remain valid as technology plays an increasing role across the whole insurance sector, including corporate insurance?

SEARCHING FOR GROWTH

Some 70% of European brokers predicted that their growth will come from within Europe in the next five years, followed by Asia.

But how will that growth come? And what will the shape of those brokers be? Those were the questions facing brokers who responded to the Future of Risk Distribution 2021 survey.

In the main, they agreed that the future of brokers was rock solid, with 57% of those surveyed saying they were optimistic about the future. However, 44% did believe that broker consolidation



was reducing choice for insurance buyers.

With the survey responses split fairly evenly between those who worked for large groups (43%) and those from network brokers (43%) – the remainder working wholly independently – the respondents felt their model was the right one and would survive into the future.

The brokers agreed that one of their value-adds was that they worked closely with their insured clients to develop strong insurer relationships for the longer term.

That tripartite relationship has never been more important than in the current hard market, which has allowed brokers to demonstrate their value like never before. “Mid-sized brokerages like us work hard to develop those relationships. We are really about working together for the good of our client for many years to come,” said one.

Overall, they were confident about the future, although they were also very aware of the need to adapt with changing times.

NEW WAYS OF WORKING

Technology, for example, will be a key differentiator in the future. The brokers admitted that many

of those technological changes are being driven by the insurer and they have no option but to embrace the new ways of working imposed by the carriers.

In many ways, they agreed, that was no bad thing. Innovation in terms of technology has fuelled efficiencies, given all three parties greater transparency and allowed new products to be developed.

So far, the brokers said, there was little sign that technology could replace their role entirely. For the moment, the carriers are offering different solutions, requiring different pieces of information and until there was just one system, brokers would still be needed. It might ultimately change the way brokers work, they agreed, but for now the question

The tripartite relationship has never been more important than in the current hard market

is whether or not technology is delivering on the promised benefits.

The complexity of corporate insureds’ programmes would probably ensure a healthy future for brokers, they said, along with the need for bespoke solutions.

And before a machine could replace them, there needed to be a much better flow of information.

That was a particular issue in terms of claims, one said: “The data needs to be better shared between insurer, broker and loss adjuster if we are to make positive improvements. For that we need standardisation; and at the moment all the insurers are promoting their own systems.”

Another suggested that standardisation was needed across the whole continent and predicted that this was where a major disruptor could take advantage.

Still another suggested that brokers should be more proactive. “We are lagging in terms of technology. A lot of things could be standardised – the quotation process for example, where everyone uses different formats and questions. Each risk is a little different but the questions are the same.

57%
said they were optimistic about the future

“Mid-sized brokerages work hard to develop those relationships. We are really about working together for the good of our client”

“A lot of smaller businesses, particularly in personal lines, will see more competition from tech firms into the future,” he warned.

“Technology is changing everything,” said another. “We have no choice but to invest in technology or we risk losing everything. As the insurers move onto new platforms, we have to move with them or in the end we won’t be able to function.”

BEYOND TECH

However, the brokers were also adamant that the future was not just about technology. They also have to consider their own operating style. Some 86% of those surveyed felt that a mix of fees and commission was the right model for them, with just over 8% saying it should be a fee-only model and 5% wanting to rely on commissions alone.

And above all, they agreed, the conversation should really be about the relationships. They believe that the hard market has actually strengthened relationships with insureds and shifted brokers away from such a tight relationship with insurers in favour of their clients – and that was no bad thing, they said.

Technology does have a role to play in that – being able to share more information helped cement their personal relationships, for example.

But the key to success has been good communication. Spending more time with insureds sorting out their programmes has not only allowed the brokers to see and understand their client risks better, but it has shown off the expertise of the broker to the client.

One suggested: “I think the role of the broker is changing and that will force insurers to maintain the relationship with the broker. The hard market has shown clients the need to understand insurance and how it works.”

They all agreed that the hard market has been more time consuming but the payback of that has been this improving

“The hard market has shown clients the need to understand insurance and how it works”

relationship with insureds. And they are confident that when the market turns once more, that relationship will remain important.

“Insureds will need us to have those tough conversations with insurers, both at the underwriting stage and when it comes to claims. We can help steer the clients through what is insured and what is not covered. We are acting much more like advisers than we did in the past and that is a good thing.”

Almost half of the brokers surveyed (49%) believed that specialist knowledge of the markets was key for insureds in choosing to use a broker, while a further 38% said the ability to negotiate was also a deciding factor.

Interestingly, very few (1%) said it was about handling claims on behalf of the client and only 7% said it was about international reach.

In a more complex world, they agreed, concentrating on what they do best was allowing their clients to concentrate on what they do best. It was important, they said, to recognise that risk managers were doing more than managing the insurance programme and by taking some of that heavy load off their shoulders, the brokers were ensuring they had a valued role for the future.

MAKING CLIENTS’ LIVES EASIER

Reverting to the use of technology, the brokers agreed that it was an extremely useful enabler and that they have no choice but to embrace it. However, they also believed that the advice role was the missing part that was hard for technology to replicate and which, for now, was the reason why their future remains bright.

“Our biggest opportunity is to work with clients on identifying any problems created by insurers and to make their lives easier. We can do that through creating platforms but we do not want to simply have such a platform imposed on us by the insurers. Because that will not serve our customers as well as it will the insurer,” said one.

“Technology will allow us to do business better and spend more time with our clients – and that is a big win,” the broker added.

86%
felt that a mix of fees and commission was the right model

What risk managers want

- Risk managers from across Europe called for brokers to become more innovative. As one summed it up: “Many of us have limited resources and are dependent on our brokers for expertise, so I think they need to be more innovative. A property policy has looked the same for 30 years.”
- There was also concern about the broker mega-mergers and the ultimate impact on the shape of broking to come. Most of the concern from risk managers on the future of risk distribution was about those mega-mergers, with most of the risk managers worried that they would lose their personal contacts, as individuals or even whole teams might choose to move on, or be made redundant. One predicted a “bloodbath” as mergers result in whole teams becoming redundant.
- They said the shape of broking may well shift if the mega-mergers were to continue, with new speciality brokers emerging. While that was not seen as a major issue – more choice was a good thing, they said – the risk was that they would have fewer large brokers to call on to manage their programmes.
- There was a suggestion that the giant brokers “need to start delivering on their promise”, according to one risk manager, who added: “For us, the negative is that the bigger they get the less attention we get, which means customers will be unhappy and will start leaving too.” There was also concern from other risk managers that as the mergers go through, brokers will be concentrating on keeping their jobs and on internal survival, at the expense of focusing on their clients.
- Another concern was that brokers have not made the distinction between risk management and insurance management, and still consider all risk managers to be insurance managers instead of understanding the broader, often strategic, role that risk managers will have within a business.
- Brokers need to find their own role and work out where they really belong in the value chain.

One of the gang

Being part of a network gives brokers a real opportunity to offer global services without the day-to-day costs and headaches of operating offices in locations around the world, according to broking network members who were taking part in the Future of Risk Distribution 2021 survey



◆ NETWORKS

news@commercialriskonline.com

Some 43% of respondents to the Future of Risk Distribution 2021 survey belonged to a network of brokers, while 43% were from a major group and the remaining 14% were independent brokers not in a network.

For those in a network, when asked what they saw as the major benefit of their structure, the overwhelming word was “independence”. The brokers said that by standing outside a major group, they were able to control their own destiny and shape their businesses as they chose.

For those within a major group, the answer was that they were part

of a major international brand with the global reach that goes with it. They said they could offer a global service to global clients.

For the independent brokers, whether or not they sat within a network, the key was that independence to structure as they chose. They said it allowed them the flexibility to work with clients on their own terms and to be much more agile and flexible than the larger groups, which can be hindered by having to report upwards and by standard procedures.

NETWORK BENEFITS

For those within a network, however, there were some added benefits.

As one explained: “Our future is uncertain and we have to be more careful – that is why I like meetings

Many respondents said that being part of a wider group while operating independently was the best of both worlds

and networking, so that I can keep pace with the changes ahead and understand what our business is facing; and also to understand how to face up to those challenges.”

Being part of a wider group while operating independently was the best of both worlds, they agreed, because they can call on expertise in other markets when required but are not paying for offices or staff in myriad locations.

That is the value of the network to which they belong – it provides confidence that they can speak to partners in other countries and know their client will get the same level of service as they would expect in their home market.

“We are discussing the business with likeminded professionals who will service our clients properly



because they share the same ethos and [do not work] not purely on the basis of commission,” said one.

Another agreed, adding: “My client will be treated as a principal wherever the business is located and will not simply be handed over to whoever is on the list, regardless of the fit.”

A third broker likened the arrangement to that of a family: “It is a different philosophy but it is one that we share. It works well and serves our clients best.”

They also believe it is a future-fit model. Overall, those surveyed agreed that mid-size brokers will have a real role to play well into the future because of the value-add they can offer.

CUSTOMER SERVICE

Looking at the recent spate of mergers among the largest players, they said only time would tell how customer service will evolve among the new groups, but they questioned whether the large groups would be able to provide a competing level of service to what they are able to offer.

“Larger companies will have to focus on internal issues through the merger processes. That will have an impact in terms of lost customers and also a loss of talent.

For us, there is a moment to seize an opportunity,” said one French broker.

There was also an acknowledgement that buyers like a choice. The brokers said that, with all the mega-mergers (whether concluded or not), many buyers were concerned that their choice was dwindling.

The network brokers felt that they were in an increasingly strong position to support their clients and could offer them a reasonable alternative. Risk managers had cited issues around tendering – saying it has become an issue if they need to see tenders from three or four brokers of a certain size and there are simply no longer enough of the giant brokers left.

But the network brokers feel confident they can offer a workable alternative, being able to rely on partners across the world to deliver the right service to the client.

“It is a skills partnership and there is motivation and a recognition that we must all do the very best job for each other”

Many buyers were concerned that their choice was dwindling due to mega-mergers in the market

What risk managers want

- “Communication is key,” said one. Risk managers want their brokers to be transparent and to give them direct access to the insurer so that they have the opportunity to explain their risks fully.
- Risk managers want their broker to spend enough time on their risks, both in meetings with insureds and then with insurers.
- Risk managers want their broker to ‘sell’ their risks properly and successfully to insurers, to ensure they have the right coverage at a fair price.

By using network partners, they stressed, they could pick out the right expertise to suit the client, not just by geographical location but also by specialty – if the client was a pharmaceutical giant, a logistics specialist or a retailer, the right local partner could be called on.

A network, concluded one Spanish broker, was “an equitable partnership, it is a skills partnership and there is motivation and a recognition that we must all do the very best job for each other”.

Talking the talk, walking the walk

Putting the client at the heart of every conversation should be just the starting point in terms of the skills required by brokers right now as the sector works through the hard market cycle, agreed brokers surveyed for the Future of Risk Distribution 2021



◆ SKILLS

news@commercialriskonline.com

Communication is the one essential skill cited by brokers and risk managers alike when it comes to the question of what skills a broker needs in today's climate.

Above all, said the brokers surveyed for the Future of Risk Distribution 2021 survey, they have to be client-centric.

"Our focus has to be on our clients and to deeply understand their needs and to combine that with their risk assessment capabilities to help them manage their insurance requirements and deliver the best solutions," said one.

The hard market has given brokers a renewed opportunity to showcase their talents and to demonstrate their skills in

negotiating, as well as displaying their understanding of the risks.

Empathy and communication are also needed to ensure that brokers get to the heart of the risks with their clients. And then, once those risks are fully understood, brokers must have the ability to 'sell' the risk to insurers. "The challenge was in trying to sell the business as a good risk rather than facing general across-the-board increases," said one respondent.

As another broker said: "Now it is about answering to the risk managers and delivering on our promise."

CHALLENGING TIMES

"Now it is about answering to the risk managers and delivering on our promise"

Empathy and communication are needed to ensure that brokers get to the heart of the risks with their clients

The brokers admitted that handling each client has become a more expensive business, as each client programme has taken a lot more time – and many more meetings – to place. This has been a real challenge during the past year and one broker admitted he has had to become far more organised and focused.

They have also had to start work on renewal programmes much earlier than in the past, ensuring there is sufficient time to organise new capacity if their usual insurer is unable to offer as much cover as before.

That is something that has challenged the brokers and they agreed that experience has counted for a lot in the past couple of years.

"They were sometimes overwhelmed and their young teams were not always experienced to face this new situation. They



didn't have the power to influence in a decisive way the decision of an insurer," admitted one broker, highlighting a valid criticism.

And in certain territories, such as Spain, it has heralded a sea-change in the shape of the local broking environment.

"We had many family brokers, mom and pop companies," explained one broker from a larger group. "But they have struggled to give each client enough time and we have seen them close under the weight of the extra costs."

He believes that, in many ways, this consolidation will benefit the

sector in the longer term because newly merged entities will be stronger and better resourced, able to compete with the giants on more equal terms and ultimately do a better job for their clients.

There is still stiff competition for business among brokers but generally they seemed comfortable that they could win clients through that combination of understanding the risks and communicating it well. Good communication is key, they agreed.

NEW CHALLENGES

One respondent noted: "It seems that at the beginning, the hard market was difficult to realise and communicate well on both sides. There is definitely a lack of experience of dealing with a hard market and using lessons learnt." But there was also recognition that brokers were stepping up and taking on the new challenges.

There was also agreement among the respondents that

Many of the brokers cited the race to use technology as a challenge for the future

simply chasing down commission was no longer an option. Brokers need to cement relationships and offer sound advice to clients if they are to survive.

Those operating mid-sized brokerages said they had no option but to step up. "We own our businesses. It is a question of survival for us. We have to care what happens to our client and to keep their business for years to come if we are to survive. It makes a difference in how we operate and sets us apart from the mega brokers," explained one German broker.

"It is our role to get closer to these companies and to support them," said another.

Many of the brokers cited the race to use technology as a challenge for the future. When the computer says 'no', it can be hard to persuade an underwriter to take a fresh look at a risk; and the brokers recognised that they need to work as hard on the relationship with insurers as they do with their clients.

But they argued that they still deliver real value – as long as they recognise the need to evolve to meet changing times. And that's another skill that will be required as they face the future.

What risk managers want

- They should have a good reputation and be a partner with insurers for a long time
- Trust is important
- Knowing the risks, strengths and weaknesses of the client
- Reactivity and good communication with the risk managers
- Have a good knowledge of the market and insurers
- Have actuaries and data scientists at our disposal to challenge insurers' evaluations.

“There is definitely a lack of experience of dealing with a hard market and using lessons learnt”



SOMPO
INTERNATIONAL

At Sompo International,
our ring is more than a logo,
it is a symbol of our promise.

PROMISE TRUST PROTECT

AT THE CENTER OF
EVERYTHING WE DO

Ethics and integrity are the foundation of delivering on our commitment to you. We believe that core values drive success, and that when relationships are held in the highest regard, there is nothing that cannot be accomplished.

30+
LINES OF
BUSINESS

9000+
EMPLOYEES

29
COUNTRIES

Learn more about us at
sompo-intl.com

