COMMERCIAL LINES

timestwo

AN **INSURANCE TIMES** PUBLICATION | JULY 2007 | £10

Jumping ship

David Cooper reveals how he has steered through stormy waters to grow Allianz Insurance's London property owners' business

contents

timestwo

Round table in association with:

Because change happens ZURICH

Andrew Holt

For those commercial lines brokers looking to bank in on their status, things have never been so good. Whether it be consolidators, large brokers or insurers wanting to do a deal, commercial lines brokers are in big demand.

Few acquisitions can surpass the purchase earlier this year of Smart & Cook, Stuart Alexander and Layton Blackham by AXA. Not surprisingly, each of the men behind these broker firms think it is a good deal. But they also highlight it also has benefits for clients and stakeholders while arguing they can maintain their independence (page 12). Where this acquisition trend will end up is anybody's guess.

Fraud is forever part of the insurance process and this is as true within commercial lines. The ABI has produced research showing that commercial lines fraud costs £550m a year. As a percentage of the overall book of business it is more costly than personal lines (page 17).

The industry, thanks to the Insurance Fraud Bureau, is tackling this head on. But help is needed to actually prosecute fraudsters, sending out a message that police are willing to deal with fraud seriously enough. Unfortunately this has been lacking, but signs are this is changing.

David Cooper has shown with his London Property Owners team at Allianz Insurance that the property market is a good place to be. His own story of jumping insurer ships make fascinating reading (page 6). But the commercial lines market overall remains soft, with some predicting this will remain the case until 2009 (page 28).

And on the technology front, after its launch back in 2004, imarket seems to be finally bedding in to be the commercial lines portal for brokers, at least for some smaller type of business (page 32).

As one market player states here, it has been a long investment and struggle.

Not before time will add critics. But at the same time, possibly too much spotlight has been put on imarket, and it should be seen as just one of many mulitiple technology led routes to market. **IT**

introduction

timestwo

EDITORIAL
Editor: Tom Broughton
News & Special Projects Editor: Michael Faulkner
Associate Editor: Andrew Holt
Reporter: Emma Jones
Reporter: Tom Flack
Reporter: Nathan Skinner
Feature writer: Anita Anandarajah
Chief sub editor: Terence Verbeek
Art editor: Clayton Crabtree
Sub editor: Scott Skinner

Publishing director: Jon McGowan
Managing director: Tim Whitehouse

ADVERTISING
Head of sales: Tom Sinclair
Account manager – display: Daniel Tena-Mullor
Account manager – Nicola Pinkney
Account executive – display: Dean Harris
Account executive – display: Yash Puwar
Account manager – recruitment & classified: Steve Turner
Sales executive –recruitment: Analisa De Clifford

PRODUCTION
Group production manager: Tricia McBride
Senior production controller: Gareth Kime
Senior digital workflow controller: Arlene Gocul

CIRCULATION
Head of marketing: Stuart Kelly
Circulation manager: Sally Downing
Publishing director: Jon McGowan
Telephone: 020 7618 3456
Editorial fax: 020 7618 3499
Production fax: 020 7618 3482
Advertising fax: 020 7618 3400
ISDN: 020 7248 3996

SUBSCRIPTIONS
Insurance Times, c/o WDIS Ltd, Units 12-13, Cranleigh Gardens Industrial Estate, Southall UB1 2DB
Tel: 020 8606 7506 Fax: 020 8606 7301

Subscription rates: UK/Ireland – £310 (€485), one year; £527 (€820), two years. Europe and overseas – £685 (€1,070, $1,310), one year, £1,160 (€1,819, $2,225), two years.
Printed by: Headley Brothers, Ashford, Kent TN24 8HH

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

www.insurancetimes.co.uk

Plain sailing for Captain Cooper

Having successfully shipped his property owners' team from Norwich Union to Allianz Insurance, David Cooper tells Andrew Holt of his growth targets and future plans

When David Cooper jumped ship from one leading insurer to a leading rival, he had to make sure the vessel he was commandeering was not going to sink, leaving him up a creek without a paddle.

The early signs are good. His move from being head of Norwich Union's (NU) London property owners' last June to join Allianz Insurance in the same role has been a fruitful journey.

He has achieved the first year target of £10m in nine months. And he was hoping to reach £15m by 30 June, which he has also achieved.

Profile

But like any captain, he is only as good as his crew. It was a positive for Cooper that the mutiny from NU was full blooded, with all his team following him to swap ships.

"We had taken the [NU] business as far as we could, from £50m to £175m and it was important to take the next step," says Cooper on the rationale behind the move.

NU bosses were not impressed and told him to walk the plank, suspending him in the process. "It is fair to say they were not happy," says Cooper. The crew of 12 include many experienced staff.

The approach NU took in trying to prevent the mutiny was interesting. "They spoke to each member of staff individually to convince them to stay, but they underestimated the team ethic we all hold together. Within 48 hours they knew our positions," says Cooper. None budged an inch.

With that Cooper and his team departed. "Some of the team could join in a month, but I was put on gardening leave," he says of the legal processes each member had to endure.

Developing business book

It wasn't a case of building a new ship entirely, as Allianz already had a London property owners' vessel but there was a demand to sail in deeper waters.

"There was a team of five to build on, and it had grown in the three years previously to a £20m business." But Allianz's aim was to build this up substantially and it needed the crew to do it.

Making the move was all the more easier given the support Cooper and his crew got from the captains of the Allianz Insurance business. "We had huge support from Chris [Hanks] and Andrew [Torrance]."

The Allianz London property owners' team has three years to put on a further £35m in business and five to put on £100m. "There were exp-ectations in what we bring to the business at set out at the negotiation stage," says Cooper. And he adds: "We have created a business with a wider breadth of brokers."

Developing the company's book of business for the division is key to Cooper's responsibilities and he now heads up a team of 23 with Allianz's structure meaning that sailing beyond local waters is part of the business outlook. "Working with Allianz Global, we have a seamless operation, globally," he says.

It is within the broker market that it is becoming strong competitive waters. "We have key broker relationships with all the major commercial brokers, Aon, Wills, Marsh, Heath Lambert and the bigger national brokers have been taking a bigger share of this business. But other professional brokers like Stuart Alexander and Layton Blackham work well with the medium to smaller end of the market. There is a lot of expertise out there in the broker market, but dealing with large corporate clients, larger nationals have the edge."

And what about AXA buying brokers? Doesn't this muddy the waters of the broker-insurer relationships. "In the short-term the placing of business is not an issue. But it could be in the long term," says Cooper.

Like elsewhere, the London property market is soft. On the overall view of the market Cooper says: "The market will be soft for 2007 and in 2008 we will see an upturn which will last three to four years with premiums rising 4%–5%."

According to property consultant DTZ, the commercial marketplace continues to attract

Do you want to build your property owners portfolio?

A successful partnership is built on solid foundations.
Allianz Insurance provides you with the financial stability and strength of a global brand.

We offer bespoke solutions to cover the more complex needs of London property owners, whether UK or globally based.

Our dedicated London market property owners team provides you with unrivalled technical skills and the local knowledge to deliver a superior service.

For further information on the London market please call David Cooper on: 0207 264 3773 or visit www.allianzebroker.co.uk

Allianz Insurance plc | Commercial

Allianz

ACMIS1538 07.07

Profile

core investors with capital inflow reaching £69.5bn in 2005 alone. DTZ says the UK market was also extremely liquid in 2006 with £49bn of commercial property transactions, largely in the office and retail sectors. Of this, over £19bn and 505 transactions occurred in central London.

Investment opportunities

According to Aon, certain capacity terrorism hotspots like Canary Wharf, make it difficult to obtain acceptable premiums for new risks. Cooper says this is not the case. "We see that all areas are available for cover. Tower 42, Canary Wharf, they all can get cover."

London property owners themselves are a diverse bunch. They can be vast behemoths like British Land or Land Securities controlling billions of pounds; pension funds, banks and insurers who want to diversify their range of property investment; or small personal investors with a portfolio of a handful of properties.

Events such as the London Olympics have created opp-ortunities for investors to purchase new venues that could rise significantly in value in London.

The sale by Swiss Re of Lord Foster's Gherkin in the heart of the City for £630m is the most a single office block in the UK has ever fetched. Allianz and Cooper, interestingly, have this covered. Cooper's team also has recently had much success employing two blue-chip clients to add to his growing list of blue-chip companies.

Cooper says: "At least two major wins secured by the team have been driven primarily on service commitment rather than price."

But having been a mutineer from one ship does he not fear that his team could leave him? "I hope not. It is not something I have thought about. We are a closely connected team and work very well together and I hope will continue to do so for some time." **IT**

Commercial brokers

The state of independents

Caroline Jordan says that acquiring an independent broker could be good business for both buyer and seller

Prospects have never looked so good for commercial insurance brokers prepared to give up their independence. The question is whether there are sufficient good businesses out there to satisfy the circling consolidators and larger broker firms looking to snap up smaller rivals?

When it comes to quality, few acquisitions can surpass AXA's

Commercial brokers

purchase earlier this year of Smart & Cook, Stuart Alexander and Layton Blackham.

All three firms are strong commercial brokers that had established management teams behind the scenes and high profile individuals at the helm in Paul Meehan of Smart & Cook, Stuart Reid of Stuart Alexander and Chris Blackham of Layton Blackham.

And the brokers concerned insist that it will all be for the good. According to Paul Meehan, group chief executive of Smart & Cook: "I am confident that this move will be beneficial for our people, our clients and our stakeholders. It is important that we continue to trade independently and AXA will run this business at arms length, leaving market issues to Stuart, Chris and I. It delivers a secure and exciting future for the group."

But now that AXA is in on the act, are other insurers scouting for broker acquisitions?

Royal & SunAlliance (R&SA) may be regretting the sale of Swinton to MMA as Swinton recently announced a 26% rise in profits and a growing share of commercial and niche business.

In recent years, R&SA has made disposals and reduced its headcount.

But it is producing excellent financials and its official line, according to a spokesman, is: "We have no formal plans to start acquiring businesses, but we do want to help brokers who are committed to remaining independent."

This could be in a variety of ways, he adds, and although he wouldn't go into details, these will probably range from cash injections to business support and consultancy.

Attractive target

Meanwhile, R&SA distribution leader Jim Noakes comments: "Commercial brokers are attractive targets because they generally have such a loyal customer base. There are many firms out there that are keeping as many as 98% of their clients year on year – whereas it is a very different picture in personal lines."

He says that a lot of businesses can also perform better with some expert tweaking. "If there are good people and a loyal customer base then it is not too difficult to re-engineer the financial margins.

You can put in better IT and often make savings. Right now there is a lot of cheap money out there, so it makes sense to invest now."

Indeed, Australian bank Macquarie has recently set up a UK operation that will focus on providing brokers with finance for acquisitions. This is a core strength of the bank from down under and it believes there are many opportunities in this market.

But, are quality commercial independent brokers now a scarce resource? According to Noakes, they still exist but may not be for the taking: "There are still brokers out there who value independence and don't want to sell out. They are turning away consolidators – a lot still treasure freedom."

Tempting independents

Towergate has a dedicated acquisition vehicle to buy up smaller brokers. Cullum Commercial Ventures (CCV), is headed by Tim Johnson. He agrees that it is mainly commercial firms which are in its sights and says a typical ratio would be around 80% commercial and 20% personal lines.

For the broker that has mixed feelings about selling, consolidators such as CCV will offer a range of tempting packages. Johnson explains: "There are brokers who want to retain an active role and not sell up entirely. We work a deal where we would buy a partial stake of, say, 30% and then have options to buy the rest over an agreed period, which might be in five years.

"It is a halfway house, as the owner can still control the brand and premises, but also have cash for, perhaps, school fees or the house in Spain."

Johnson insists this is the classic win-win situation. "Brokers are entrepreneurs that have their eyes open when it comes to a good deal. Many are in their fifties and finding the compliance regime onerous – we have our own team to relieve them of this issue. And if there is investment in their firm, the team can sort out succession issues and help bring in the right people. There are plenty of quality regional business out there – in fact I'm about to announce another deal."

Last December, broker THB sold its provincial retail operations to Towergate and said the funds it

‘There are still brokers out there who value independence and don’t want to sell out. They are turning away consolidators – a lot still treasure freedom’

Jim Noakes, Royal & SunAlliance

received would be used to boost its balance sheet and invest in the remaining business. Just weeks ago it took on a new wholesale London market broking team from Heath Lambert.

Andy Hawkes, managing director of THB Risk Solutions, the division which provides products and services to over 500 commer-cial brokers, comments: “I meet brokers all the time who want to remain independent. One well-known example is David Slade of Perkins Slade who has frequently stated this is his intention for the business.

“But brokers now have more choice when it comes to exit strategies. CCV, for example, has different models which gives the selling broker more control.”

He says there are “a lot of generalists out there” and emphasises that specialism is alluring to an acquisitor. But, he points out: “There are problems if you have a scheme which is very much run by an individual. The risk is they take the business with them. Then the person buying the firm needs to sort out the succession planning.”

Mark Grice, head of broker services at accountancy firm Mazars, says commercial brokers will remain in demand. “The vast appetite of the consolidators shows no sign of diminishing and recent figures have suggested firms were being bought at the rate of one a week in 2006.”

He says brokers considering a sale should focus on profitability rather than size. “Owners need to factor in both market conditions and growth cycles to decide whether an exit is a sensible and timely decision.

“The business needs to be operating effectively and achieving optimum financial performance to boost value and make it an attractive purchase proposition.

“Ensuring that your corporate and financial documents are up to date is vital in speeding up the sale process and achieving the best price.”

There is no doubt that big money is chasing the switched-on commercial broking firm. And, considering the amount of interest, for the broker who wants to move on, it could well be worth holding on to squeeze out every last penny. **IT**

Make the industry come to you...

Don't sift through masses of emails for the stories you want.

If you're in commercial lines, you can now customise your email newsletters to get the latest news from just your industry sectors.

Choose the sectors you want to hear about, including:

London/Lloyds, Broking, Commercial Lines, Claims, Technology, Run-Off, Personal Lines and many more...

Pick the types of alerts you want to receive, from:

Breaking News, Daily Alert, Weekly Round-up, Sector-Specific alerts, Latest issue highlights

PLUS you can even choose the day of the week to receive our weekly round-up!

All these options are available from the main sign up page.

Insurancetimes .co.uk

Keeping pace with fraud

While it can't be completely eliminated, insurers are finding ways to identify and reduce fraudulent claims. Ann Hesketh reports

Arson, staged burglaries, claims exaggeration, accidents that didn't happen – insurers are all too familiar with these common scenarios when dealing with fraudulent commercial claims.

And although the industry has worked hard to address the problem, with insurers reporting improved fraud detection rates, fraudsters have also stepped up a notch to keep themselves ahead of the game.

Mihir Pandya, fraud manager at Allianz, says that the industry is reaping the benefits of a more focused approach to commercial lines fraud. However, he admits that the work being done so far is only the tip of the iceberg.

He says that anecdotal evidence suggests that, in the past, commercial interests may have outweighed requirements to look into fraud risk. "I'm not convinced this is the case now. Over the last three years we have had a cross-division fraud group at Allianz, through which we share ideas and identify risks."

But fraudsters are getting more sophisticated by the day and some believe that while the industry congratulates itself for the positive results it has achieved, criminals have already moved on to explore new avenues for defrauding insurers of their money.

"Fraudsters will pump the tyre up until it bursts," says John Beadle, UK counter fraud manager at Royal & SunAlliance. "They know the level they can get way with and are constantly probing the system to find out which level they are likely to get detected at. The industry needs to be constantly alert to new scams and ways to commit fraud."

According to figures released by the ABI, commercial lines fraud is costing the industry over £550m a year. Beadle explains that although fraud in commercial lines does not seem to be as prevalent, in terms of percentage of overall book of business as it is in personal lines, it is more costly.

"If you look at the industry in general, you see a marked improvement in fraud detection over the past few years," he says. "But whatever you do you will never eradicate fraud. All you can do is identify the risks and make sure you have sufficient controls in place to mitigate them."

Identifying fraud

In an attempt to address some of the issues, the ABI anti-fraud committee is carrying out more work to identify and understand the main risks within the commercial arena. "We are getting views across the industry," says Pandya, "and the first step is to understand our current knowledge of how we identify fraud. This will enable insurers to examine their own fraud strategy to make sure they are looking in the right places."

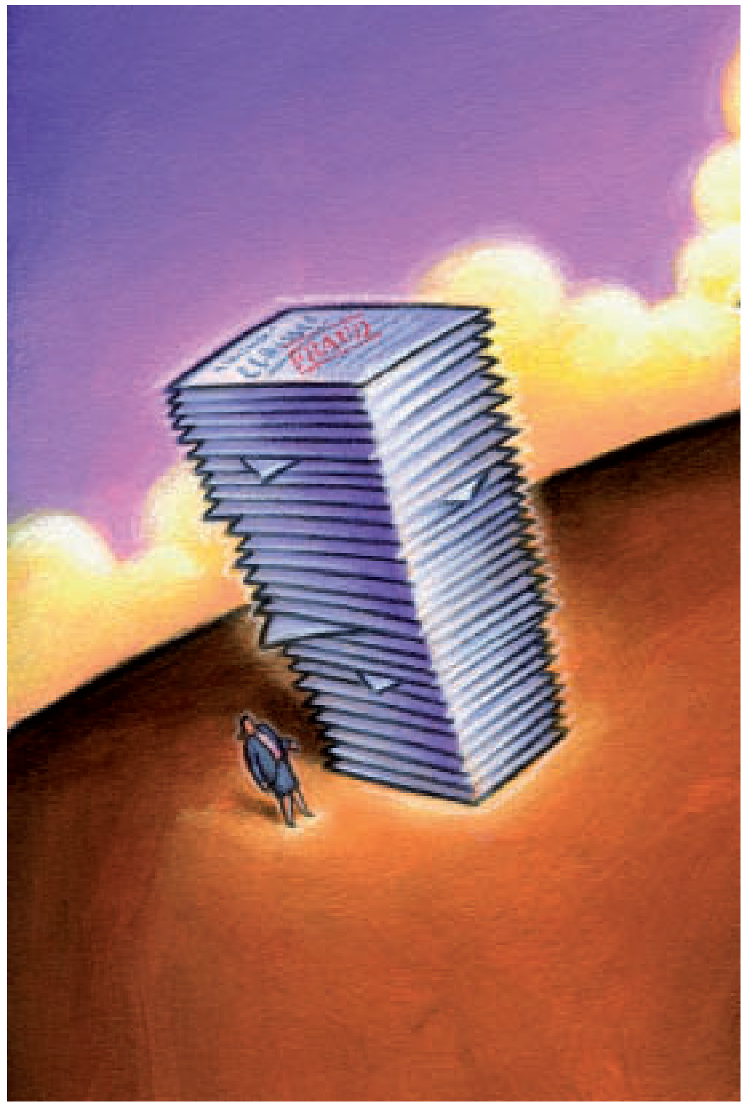
He adds that insurers tend to investigate the same two or three profiles of fraud, which means that they are still exposed to risks they don't know about. "I worry when people say fraud detection doubled over the past year. How do we know, for example, that for every year that fraud detection doubled, the risk didn't quadruple?"

But fraud detection is only part of the story. Another important step for the industry is to ensure that fraudsters are prosecuted. And if in the past insurers have blamed the police for not taking fraud cases seriously enough, Scott Clayton, claims fraud and investigations manager at Zurich, says that the landscape has now changed.

"The level of sophistication in commercial lines fraud is arguably greater than in personal lines," he explains. "People whose businesses are failing, for example, see an insurance claim as an opportunity to address some of the financial pressures. We are building up more experience in these cases and we have found that if we take a strong case to the police they are happy to prosecute."

He adds that having a team of dedicated fraud personnel helps maximise the chances of filtering through potentially fraudulent claims, providing the police with the data they need to press ahead with prosecuting the perpetrators. "It's a team effort. We have in-house investigators who work closely with our loss team, from major losses right down to small business claims."

One of the main hurdles for



'Fraudsters will pump the tyre until it bursts. The industry needs to be constantly alert to new scams and ways to commit fraud'

John Beadle, Royal & SunAlliance

It's a shame there's no similar device to warn if an employee is thinking of suing.

Companies wouldn't dream of operating without fire insurance. And yet many don't bother with Commercial Legal Protection Insurance.

This is crazy, because they are more likely to face a legal claim than a fire incident. Society is becoming increasingly litigious - there are over 100,000 tribunal cases every year and ongoing changes to employment, discrimination and health & safety law create new headaches all the time.

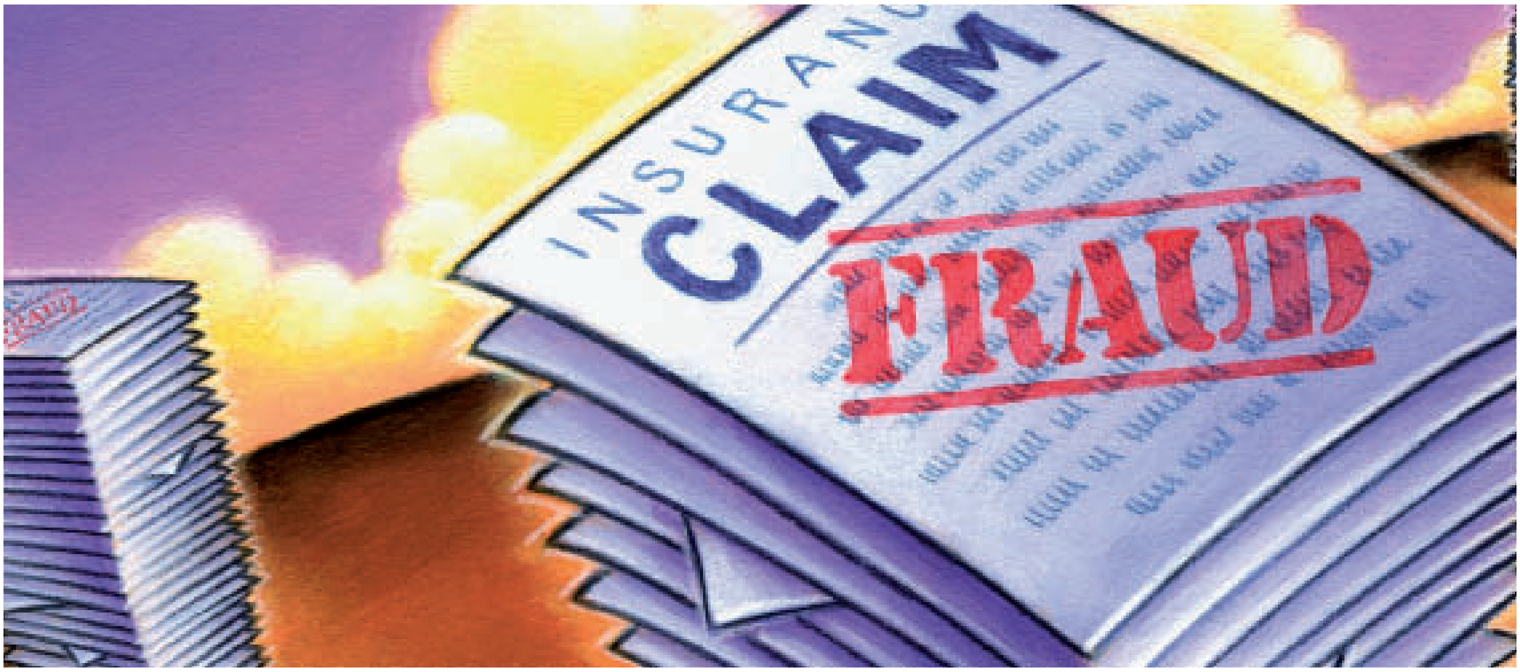
Abbey offers comprehensive and affordable market leading cover with products that are also effective employment and legal risk management tools. They are suitable for businesses of any size and can be tailored to suit any number of individual requirements. Contact us now for further details.

ABBEY LEGAL PROTECTION

TELEPHONE: 0870 600 1480
EMAIL: sales@abbeylegal.com
WEB: www.abbeylegal.com

Abbey Legal Protection is a trading division of Abbey Protection Group Limited which is authorised and regulated by the Financial Services Authority in respect of insurance mediation activities only.

Fraud



insurers is to change the attitude of potential would-be fraudsters that see the industry as a soft target.

"We will always have this battle with the public," says Clayton. "We need to use these prosecutions to try and change the public perception that people can get away with fraud."

Apart from trying to change perceptions, Pandya believes that there is much more the industry can do, beginning with tackling underwriting fraud. "We still see commercial policyholders not disclosing material facts at the inception of the policy," he says. "Underwriting fraud is a serious issue that we, as an industry, need to tackle."

Targeting gangs

Organised gangs, which can move from personal to commercial lines fraud, are another target for the industry. Yet while insurers are fully aware that these gangs operate in personal lines, staged motor accidents being an example, there seems to be a gap in awareness when it comes to commercial lines.

"We can see patterns emerging with the same gangs moving into other areas such as employers' and public liability," says Pandya, adding that Allianz has seen savings over the past two years from its liability book. "There is a lot more organised fraud going on in these areas. It's a gap that the industry needs to close by sharing data across all types of business."

He mentions that many firms such as garages, which are currently involved in facilitating motor fraud, also have their own insurance policies. "If these people have no qualms in committing motor fraud, what would stop them committing other type of frauds?"

But tackling fraud is easier said than done. Insurers always need to thread the fine line between picking up on potentially spurious claims and hindering the entire claims process.

"It is a fine balance," says Pandya. "You could stop and look at every claim. By doing that genuine policyholders would suffer. On the other hand, you could let everything pass. We need to find a middle ground." **IT**

'How do we know, for example, that for every year that fraud detection doubled, the risk didn't quadruple?'

Mihir Pandya, Allianz

Insurance Times together with our partner, Zurich, held a round table discussion where a panel of experts gave their views on corporate property

IN ASSOCIATION WITH:

The panel

Rachel Gordon, chair, *Insurance Times*
David Frankland, account executive, Cooper Gay
Stephen Foulsham, technical services officer, Biba
Wendy Hopkins, partner, Beachcroft
Allan McNeilage, director of loss adjusting services, Cunningham Lindsey
Ray Robinson, technical consultant, Aon
Adrian Spencer, property claims director, Zurich
Swenja Surminski, policy adviser on climate change, ABI
Graham White, head of property, Zurich

Corporate property

Chair: What is the current state of the large corporate property market?

Graham White: You only have to go back five years and a lot of major insurance companies were retracting from the corporate market. We had the World Trade Center attack, we had Independent falling over and everybody wanted to leave the corporate area of underwriting. Yet now we are in a market that has turned around and competition is fierce. The softening is coming at us in three areas. One is pricing, one is the sort of programmes that are being put together without any understanding of the customer needs, and another is the use of capacity. We are at a position in the market where most insurers suggest they are making money. My concern is that unless you have a robust pricing mechanism around a technical price, then the problem that we saw four or five years ago could come back in the not too distant future. We have a blurring of what is a technical price and what is a market price.

David Frankland: Risk management is a key factor and there has been improvement in this. Several years ago, with people retracting from the market, there was a much greater focus on having to improve risk management to get the deal. Now, in addition to the softer market, a lot of companies have improved their general view on risk management. Therefore, you get very good prices for the risks that are out there that are well-managed. We have seen some very large UK composites who are back in the market having exited it and are keen to pick up business. Norwich Union is one which, as a broker, was not involved in the corporate business for quite a while.

Wendy Hopkins: With the softer market, everyone is going for volume and market share. The risk is that, when the rates start to harden, there will be a huge increase in rates. The risk follows therefore, that you might not retain business on renewal, and the distinguishing feature at that point will be service provision rather than price.

Stephen Foulsham: Picking up on the risk management point, what we would all like to see, in terms of business continuity, is perhaps insurers taking account of companies that are putting plans into place, since this is clearly a demonstration of good management.

Adrian Spencer: Risk management will be a differentiator when risks come to market, if climate change continues at its current rate of acceleration, we will find that it becomes a hygiene factor and we see much greater prevalence of better-managed operations on the market, with business continuity plans to support them. They will not be able to survive in certain parts of the country as prevailing weather patterns become more dominant.

Chair: Is pricing becoming reckless in this sector?

White: The problem that we have in the soft market is the desk-topping approach, which really just allows you to go past green if you have the best price. How can you understand the risk, the client's needs, or the disaster recovery programme requirement, when you are just looking at a quick review of an account to see whether you have the right price? Price must relate to the risk, and the information that you can get from sources like survey reports, risk management reports and disaster recovery reports.

Chair: Do you think that with some insurers, head office will say, 'we must price the risk correctly' while the regional offices will say, 'we really want to win this business'?

White: There is always that healthy tension – that should be the case. The problem is around knowing the customer and the trade you are in, and knowing if you have a proposition that can be sustainable in the long term. Do our customers really want to know that their business has been priced under the capability of paying out based on a gut reaction, or do they really want to know that it has been based on a long-term, sustainable capability?

Foulsham: It is also in everybody's interest to have stability in the market. I do not think that anyone wants to move risks around the market every year or two.

Chair: Are too many brokers desk-topping larger property risks?

Frankland: Generally speaking, the risks we are talking about are all packaged and are all on a fee basis, so that you are trying to get the best deal for the customer, which includes price, cover, security of carriers, and longevity – will they be there for claims? It is always hard for brokers. We want to keep clients for as long as we can. Working with them and building a relationship with insurers always seems to work, but you are sometimes asked, even by clients, how much premium they will have to pay for certain cover. What do you do? Do you say, 'as a matter of policy, we do not do that', or do you give them a number? It is to be avoided because you can get it badly wrong.

Foulsham: It is a difficult time for brokers. The broker is trying to do the best for the client, but there is a lot of aggression out there among insurers. I do not think that packaged policies really lend themselves very well to the larger corporate risks, although Ace has just launched its Spectrum package for bigger businesses. Desk-topping, to a certain extent, has always been there in one shape or form.

Ray Robinson: I was an underwriter for many years and hated brokers putting something in front of me, which sometimes was not very well prepared, and then asking for a quote. You know that, possibly, they are going to renew with an existing insurer and that you are just being used. You can spend an enormous amount of time on it, so the temptation to desk-top is there, and you have to pick the ones that you think you really stand a chance of getting and go for those.

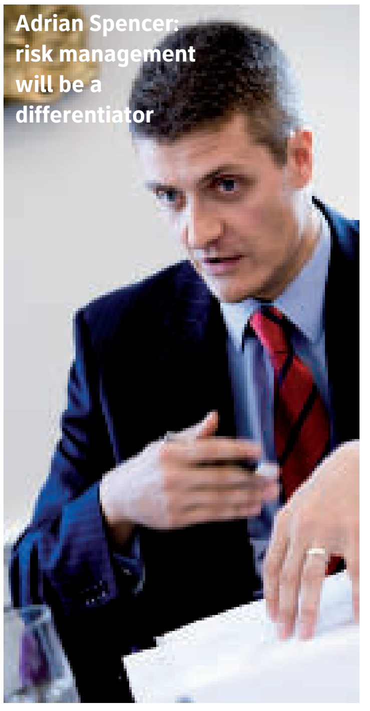
Hopkins: You are really being used as a stalking horse on price?

Robinson: Yes, but I also found in the property owners' environment we were in an ideal situation where you would work with clients over a long period of time and build up trust.

White: One thing that we notice is that, where a customer is price-orientated, they are least likely to invest in the risk improvements that you want them to.

Chair: Is terrorism cover generally available in this sector?

Robinson: The UK system is probably the envy of the world. The prices seem a bit high, but the system works.



Adrian Spencer: risk management will be a differentiator

'Contract certainty is welcomed in claims, because it means we know what we have to deal with'

Adrian Spencer Zurich

Foulsham: As far as larger businesses are concerned, they do tend to buy it because they find it difficult to justify to their shareholders not buying it. Where I think we are seeing a bit of a problem area is the SME market becausethey are not buying it.

Hopkins: An issue that I have seen when dealing with terrorism claims, based on the old ABI standard wording, is that the ➔

→ exclusions in respect of terrorism, or perhaps contamination, are not necessarily broad enough to address the contamination of premises through biological or chemical agents by malicious persons or by unwitting victims of malicious persons. For example as with the Litvinenko [polonium contamination] scenario. There is perhaps a need, from the ABI's perspective, to revisit what tends to be the standard wording for terrorism cover, because we are seeing insurers coming in at the same price with much broader exclusions.

White: That is compounded when a programme requires either co-insurance or the purchase of additional direct reinsurance, because each company has a different view about their terrorism wordings and exclusions. As a reinsurer of last resort, we find that it works for us in the UK. Pool Re arrangements do exist, but in certain territories there are no controls whatsoever.

Chair: We are currently seeing some extreme weather. Is the industry pricing correctly for climate change?

Robinson: About 15 years ago, I was asked to give a talk on global warming. I spoke to reinsurers who were concerned about the soft market. They said that there is something happening out there with the weather and that they were expecting far bigger losses in the future. They were very concerned that nothing was being priced in for that. Really, nothing changed until the World Trade Center, and I had the impression that reinsurers were in control for a while and things got better. Now, it seems as though they have lost control – or at least do not have the same control.

Swenja Surminski: The message that we give out to insured parties is that they cannot expect this to continue and that they should enjoy the soft market as long as they can.

Hopkins: The emphasis is very much on working in partnership with their risk carriers and understanding their needs with transparency. There is no such thing as a bad risk, just a bad price. They would much rather know exactly what it is that they have purchased than what they have cover for, particularly in the major catastrophe events.

Allan McNeilage: Better pricing and better risk management suit loss adjusters too. People would think that this weather is manna from heaven for us, on the basis that, prior to the end of May, we were up 56% in some sectors in new work in comparison to last year, most of which was weather-related. However, the real difficulty and challenge for our business is to manage these unforeseen events that are occurring with such regularity.

Chair: Where is the ABI on the topic of climate change?

Surminski: We are now at a stage where the insurance industry is not really disputing the science behind this, and the *Stern Review* put it all together into evidence that there is some sort of human-induced change in climate. There are two strands to it. One is the mitigation aspect: what can we do to reduce emissions and to prevent further climate change in the future, which then involves corporate responsibility, carbon footprints, and products; the other is how we are dealing with the climate change that we are seeing now and that will continue over the next 30-40 recently launched its adaptation manifesto – a statement that


Swenja Surminski: The insurance industry doesn't dispute the scientific argument of climate change

summarises all the activities and actions required from government and business in terms of adapting and making sure that we are ready to deal with climate risks.

Chair: Has contact certainty been achieved with large corporate property policies?

Spencer: Contract certainty is welcomed in claims, because it means that we at least know what we have to deal with, rather than having to wait months, or even years, for that certainty to appear.

Hopkins: The FSA has recognised that the market has done great things to reach the position that it has done, but that there is further need for work to be done. The emphasis is on ensuring that the contract is clear and unambiguous, that it is signed off prior to inception and that, returning to the point on transparency, when there are any subjectivities, you know exactly what is coming and what is not. I would be interested to hear what the market feels about whether enough has been done and whether this self-generated approach is the way to achieve reform.

Foulsham: We have all done a pretty good job. Biba has been asking for returns from its members last year. The achievement of contract on commercial classes seems to be around the 90% mark currently. The policy issue level is about 85%. I would echo what Wendy said – subjectivities are a possible area where more work still needs to be done. My feeling on those is that, if you have subjectivities built into, say, a survey requirement and a timescale, once you reach the end of that timescale, the contract is really up for renegotiation.

Robinson: I would not disagree with that, but what about the quality of the policy document and the drafting? There was a time when policy drafting was a skill which was taught. These skills are in short supply, although we have technology that should make the process much easier. I was recently involved in a case where some lawyers had been sold a policy that was supposed to cover the eventuality that some new premises were not ready on time and they would incur extra costs running their old premises. When I looked at the policy, it →

'Out of £700m of fire losses, half are reckoned to be arson'
Stephen Foulsham, Biba

Wendy Hopkins: There is an increased amount of regulation coming out of Europe

➔ mentioned school fees, because somebody had just taken a school fees policy and adapted it.

McNeilage: The biggest difficulty that we have at the outset is the lack of clarity, particularly on the urgent instruction. Often, absolutely no attempt is made to provide details of warranties that could be very relevant to the whole process. The impact of a warranty is perhaps not that widely understood sometimes, and when we do go back and ask, 'we are too busy to answer' is sometimes the response.

Frankland: It also brings the client into play, in that they have the policy wording before renewal, and it is incumbent on them to check it. You are bringing them into the whole scenario. If there is something wrong, you find that out prior to renewal, as opposed to, as in the old days, six months or even longer after renewal. It also makes you start the renewal process much earlier.

Chair: What are the trends in large property claims?

Spencer: On the cost front, we are seeing claims costs increase. We are going to see some issues that will no doubt accentuate when we get close to 2012, especially in the South East, with the dynamics of supply and demand. We are already seeing issues with plumbers. Escape of water costs, frequency and average costs across the market are going up.

Robinson: Why are so many businesses going under after they have had a major fire. Is it an indictment of our industry that that happens? I read that 50% of major fires lead to companies going under. Is that because they do not have business interruption insurance or because the business interruption insurance is not adequate? Do they not have a proper recovery plan?

Spencer: My understanding of that statistic is that it is around their internal competency to manage a business continuity situation. They have not taken it as seriously as other companies. Insurers obviously have a part to play in helping them understand that statistic and the fact that it is not an urban myth.

McNeilage: The broker, of course, has a role to play here too. Going back to the claims process, if we know the client in advance of anything happening and have an understanding of their business, with the approval of the insurer, it makes it so much easier. However, there are businesses that just do not want to know if you mention business interruption.

Surminski: In the run-up to the Olympic Games we are now aware of the skills shortages That puts the whole capability of dealing with a major flood event or a major incident in a completely different light. This is something that often comes up on the skills side, and which we have been asked to take up with the government, in terms of ensuring that there are enough people out there with sufficient education and training to deal with the job required to the required standard.

White: There is a higher frequency and severity among our large losses. And even though we have improved our claims assessment and handling, even today, our major causes of losses are arson and electric – exactly the same as 40 years ago. There is something that we are not doing to change the profile of the claims that we have. With weather events potentially coming along with increased frequency and severity, this is another issue to think about. We have been at the forefront of the development of sprinkler protection for the new programme that is going ahead to completely replace all of our secondary schools over the next 1015 years. We do have an awful amount of knowledge about arson. We support the Arson Control Bureau, yet as an industry, have not found a solution to reducing our exposure to arson losses – the biggest cause of losses.

Robinson: Going back almost 40 years, I worked for a fire manager, who predicted that the time would come when the premium for arson would be separately identified on the policy.

White: The problem that we have is that the fire brigade and police define arson in different ways.

Foulsham: Out of £700m of fire losses, half are reckoned to be arson. I know that the Insurance Fraud Bureau (IFB) has had a lot of exposure on motor staged accidents, but if you take that to the next degree, serious commercial property fraud, for want of a better term, is clearly a prime target to try to save lots of money.

McNeilage: An integral part of the investigation has to be the trends leading up to such activity.

Chair: Are fire brigades now more likely to leave a commercial building burning?

Hopkins: There is a greater onus on them to deal effectively with situations where there is a threat to life, and the industry is slightly nervous that might mean that, where there are commercial premises, particularly if they are unoccupied, there will be more total loss scenarios, because the resources will not be deployed.

White: There are pluses and minuses. The fire brigade will assess whether they go to a fire or not in the future. At the same time, they are spending more time on fire prevention.

Chair: Are greener planning and reinstatement set to have an impact on property claims?

Hopkins: There is an increasing body of regulation coming out of Europe, as well as the proposed conduct guidelines being laid down by the Overseas Development Institute which is creating pressure on businesses to have greener, more sustainable buildings. This is something that should be built into the pricing of property cover.

Surminski: If everyone is building that way, it becomes much cheaper. You also have to take into account that it might be a low or zero emission house, but how does it deal with climate risks? How does it react when it is really hot or there is a storm or a flood? That is where we see two strands: one goes down the energy efficiency route and making it sustainable; on the other hand, there is the flood resistance/resilience approach.

White: We have to remember that climate change and all of these other environmental issues are emerging ones – they are new to us. Many people in the industry, rightly feel that it is a threat. But to me, the opportunity arises from the premise that, as an insurer, we have to provide products that are available and affordable.

Spencer: It is going to be incumbent on the industry to get up to speed on the technical developments. It is almost going to become a new industry. Insurers are going to start demanding that expertise from the supply chain in terms of support and new regulations and demands that require customers to partially or fully reinstate completely new things.

Chair: Are large corporates taking disaster recovery seriously and is it now a legal requirement? Are there other legal issues affecting claims?

Foulsham: It is for brokers, in order to comply with the FSA.

Hopkins: There is not legal requirement as such, but certainly, really through pressure from the insurance industry, companies are now recognising the need to have a business continuity strategy in place. But, there are also one or two legislative developments which repealed about 100 pieces of existing regulation and became the primary fire legislation for all non-domestic premises. That transferred the onus onto those involved in the property – either the managing agents or the business itself – to conduct risk assessments, rather than relying on sporadic visits from the fire authorities.

White: There is also a director responsibility to shareholders. There was a recent change in what was called PAS 56, which is now Business Continuity Management (BCM) BS25999. This is a British standard which is hoped to become a worldwide standard, and is there to help and assist directors, in plain English terms, to build and put together a disaster recovery programme.

Foulsham: All the case studies are there. It should be on the agenda of every broker's renewal review meeting.

Spencer: The challenge that organisations have is that they appoint a business continuity manager and they feel like they are ticking a box.

McNeilage: It is like having a health and safety representative.

Spencer: Yes, but is it lived and breathed in the organisation? Does every manager know what they have to do? Does every manager appreciate the dynamics of what happens when you are under three feet of water? A lot of box-ticking is going on at the moment in many organisations, and it is incumbent on the market to raise the game.

Foulsham: It is the old 'it will not happen to me' syndrome. It does not have to be floods or terrorist attacks that 'only happen in London, not to me', but the other things that insurance does not always cover, such as pandemic flu. These are things that will still affect your business, even though you might not necessarily be getting an insurance payment for it. I think that they need to look at it in a wider context.

Surminski: A disaster protocol is going to be launched on 24 July. The ABI has been involved, as has the Chartered Institute of Loss Adjusters, the Fire Officers' Association and the Association of Chief Police Officers.

Chair: Do some adjusters feel that insurers' insistence on using supply chain management removes flexibility?

Spencer: The whole area of the supply chain is an issue that we need to keep working at. We have recently introduced a building repair network for our commercial customers, operating on a direct labour model, so you start to move out the subcontractors from the process and have greater control over the repair works. You also have the national coverage. We are selling that to the corporate market as a benefit and, again, moving away from price.

Graham White: Directors have a responsibility to shareholders on business continuity

Foulsham: Following the July 2005 bombings in London, adjusters could not get access to the site because the police cordoned it off. There was a requirement that the industry should be allowed to get in there, get on with the work, and get these claims paid. That is where that came from.

McNeilage: It has always been the case. Others can march in and the people who are ultimately going to be paying or recommending payment of these losses have been historically precluded from being on site, so this will be very welcome. It applies to places like Carlisle too.

McNeilage: I am not totally anti the supply chain on the basis that it does offer an awful lot of advantage – the question was around the flexibility and whether or not it impedes flexibility. The big insurers should be using the right type of people. If we are able, at the same time, to work in partnership and bring in some of those that we would turn to as well, it seems sensible to me. Claims are all about trying to let people know what is happening and to make it easy for them. **IT**

Maintaining profits in vola

Managing profitability, says Andrew Cave, is more about managing ordinary business cycles than

Some things don't change. While much of the business world has started fretting about the term 'sustainability', insurers know full well how difficult it is for their own profits to be consistent over the long-term.

A recent Lloyd's and Biba study found that more than 80% of brokers believe that maintaining profit throughout the insurance cycle is still the greatest challenge for the insurance industry as a whole. And the commercial lines market is a good example of the problem.

While major disasters and catastrophes hog the headlines, insurers' profitability is more often tied to the prosaic but inevitable volatility of premium pricing that is endemic to the industry.

But why is the commercial lines market so soft? What effect are factors such as climate change and terrorism having on the commercial lines market? And what is the outlook going forward?

Malcolm Smith, commercial lines manager at Groupama, is in no doubt that the market is still fiercely competitive.

"On existing business, we think renewal premiums will be about 7.5% down this year," he says, "which is the same as last year and the year before. We are now in the third year of reductions at that level and the overall effect is cumulative."

Jon Bates, operations director at Anglo Pacific Consultants, is even more pessimistic.

"With the market as it is, with economic conditions as they are, and with no sign of any fundamental change on the

tile times

reacting to disasters

immediate horizon, we believe that the market will remain soft into 2009," he says.

So what is going on? The answer, Smith says, is a changing one. "Last year, it was property rates that were coming under most pressure. Now it is liability rates, which are the result of liability doing better over the last couple of years. The market is reacting to that.

"Insurers have had three very good years of profitability on the commercial side so there is no let-up in their appetite to offer competitive rates on commercial lines."

He adds: "There are some players in the market who were not there previously. Lloyd's operators are now competing in a marketplace that was traditionally the preserve of composite insurers. This year has possibly become even more competitive."

Bates believes further consolidation in the sectors could have a marked impact.

"With insurers flocking to this line, attracted by its traditional profitability, and keen to bolster their books with sterling, the market remains very competitive.

"Of course, managing the cycle is as much a challenge to brokers as it is to insurers. Those in the industry that have invested in technology and have efficient systems will be best equipped to steer a profitable route through the cycle.

"With efficient systems in place that are attractive to both insurers and brokers, levels of client service will remain high even as premiums soften.

Market overview

"Our underwriting platform leads us to believe that rates will remain reasonably stable over the next few years before we see an upturn in the cycle."

Managing volatility

Other structural explanations abound. Amanda Blanc, chief executive of UK broking at Towergate, believes the key to managing the volatility in the market is by maintaining local links.

"Large and niche brokers and those with a local presence are better positioned to maintain profit through the current soft market cycle.

"It is only when you are close that you can fully understand the risks you are presenting to underwriters, and this undoubtedly has a positive impact on the underwriting profitability of a business."

She adds: "If you underwrite from a centralised location, how can you possibly understand areas and the businesses in them and recommend a suitable risk management proposition.

"The passion that the niche brokers have for understanding their customers and building products for them ensures that they provide best advice, which in turn ensures that the businesses are protected and produce better loss ratios."

None of that, however, is much solace to commercial lines insurers anxious to get rates climbing again.

Jon Woodman, trading director at Royal & SunAlliance, says: "Over the past three or four years most commercial lines business has seen reduced rates.

"There is a lot of capacity in the market and, generally speaking, insurers have enjoyed a very benign experience from natural catastrophes.

"In pricing terms, insurers expect a certain amount of weather losses, so when they are not affected, more people are encouraged to come into the market, which has the effect of depressing prices.

"What's interesting is that events like the July 7 bombings and Hurricane Katrina would have been expected to cause major reverberations in the market but that didn't really happen. People quickly realised that these were unique events."

Woodman believes a similar sense of detachment is preventing the climate change debate from having much effect on commercial lines pricing.

"There does not seem to be a direct relationship between climate change warnings and short-term pricing," he says.

Stabilising prices

The issue is not whether profitability needs to rise – most insurers have enjoyed good returns over the past three years – but whether more premium falls, of the kind seen in the last three years, will suck the industry into another of its periodic crises.

Woodman doesn't think so and argues that some smoothing of the pricing cycle is called for.

"Brokers and customers ultimately value the stability of prices and smoothing of pricing is undoubtedly in the interests of both.

"Our belief is that having sustainable profitability is important. It gives stability to our customers.

He adds: "The million dollar question is whether the trends of the past three years will continue. But it is a matter of writing business at rates that are sustainable.

"We have a strong belief that we need to write business to make an underwriting profit and that is ultimately the only sustainable proposition for customers and shareholders." **IT**

Some might struggle with forward thinking…

But our eye's on the future

The insurance market is changing fast and brokers need their business partners to rise to the challenge.

That means offering easy access to a full range of user-friendly commercial products that can put them in the driving seat - with quick quotes, guaranteed premiums, immediate cover confirmation and swift document issue.

So at Groupama, we've optimised our commercial product range for electronic trading. From comprehensive tradesman's covers right through to small fleets, property owners and the usual packages - our brokers can find what they need at Optima Online – our innovative broker extranet.

And if they prefer to access our services through imarket – they can log on there too – with the bonus of end to end connectivity with a growing number of software houses.

So for a switched on approach to SME business keep an eye on the future – with Groupama.

Groupama Insurances 24-26 Minories London EC3N 1DE
Telephone: 0870 850 8510
www.groupama.co.uk

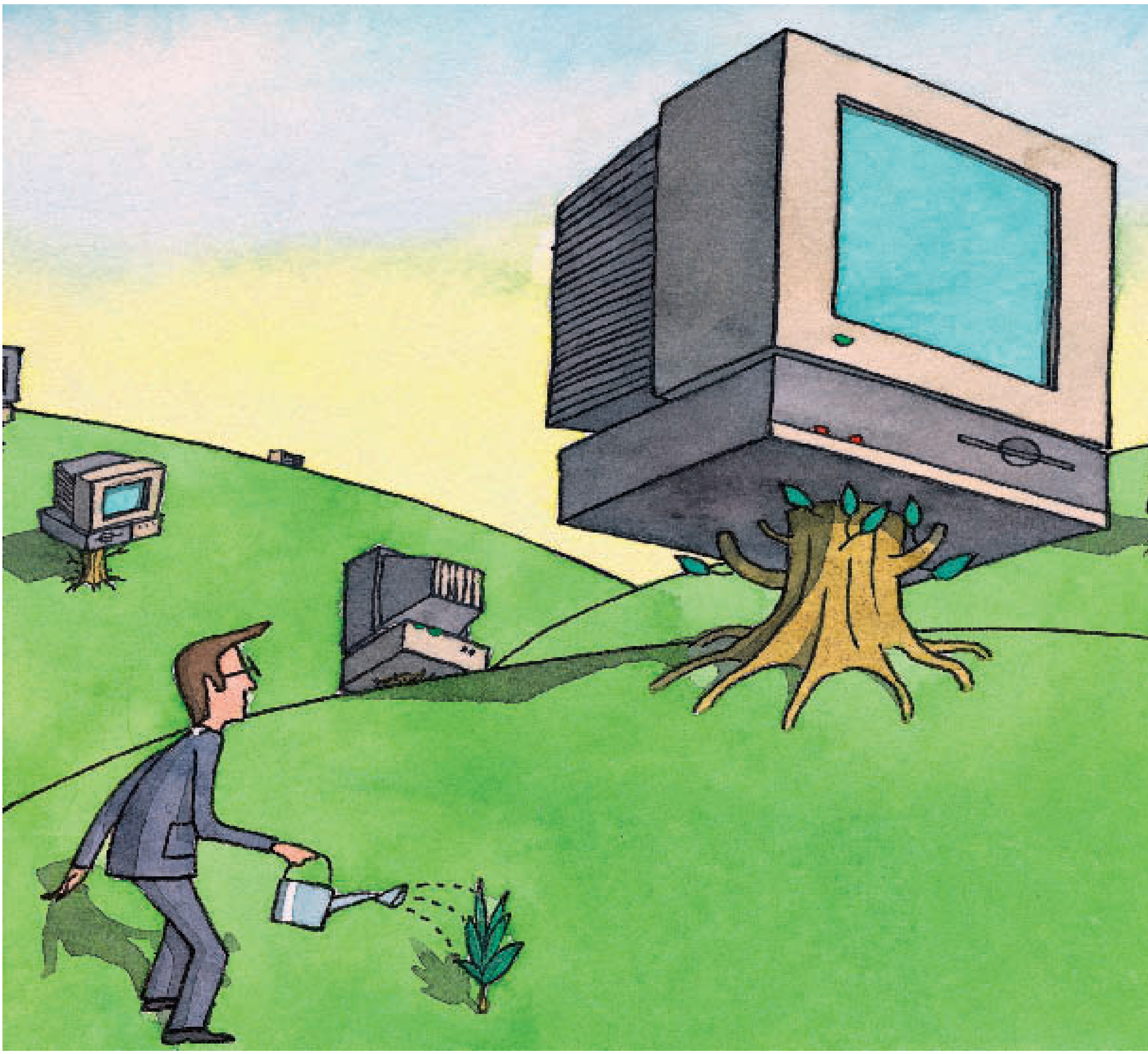
Authorised and regulated by the FSA

Groupama

Insurances

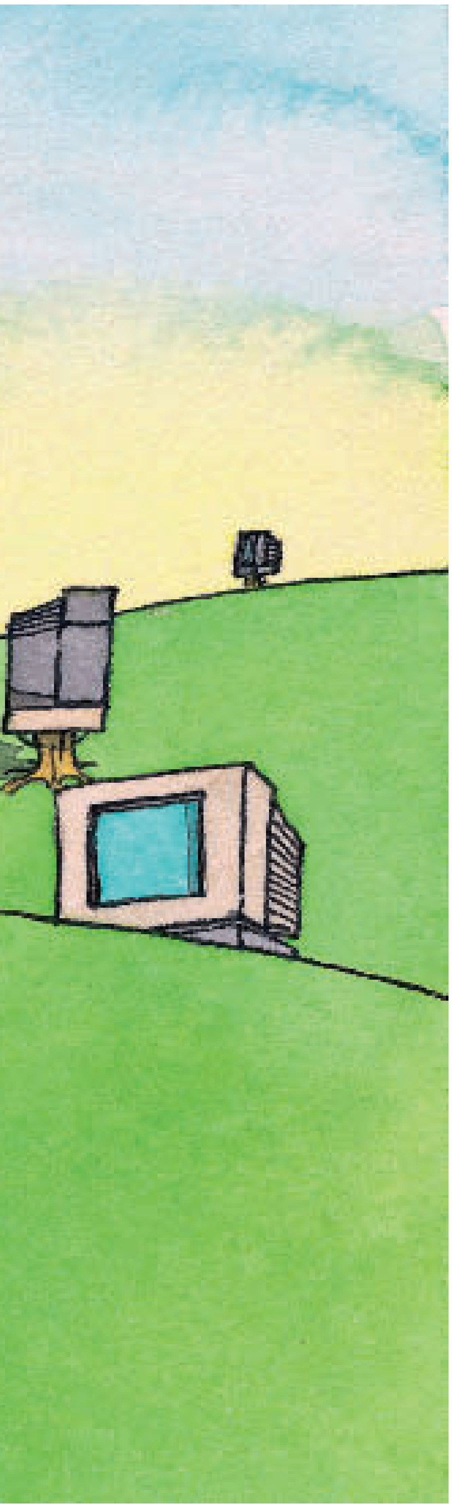
Future Focused

Is imarket finally flou



rishing?

After a lengthy bedding in period imarket is finally living up to its promises. John Sullivan reports on the prospects for the technology portal



It's been a frustratingly long time in getting there, but perhaps there are finally sure signs that the industry's attempt at a standardised technology portal for conducting business, imarket, is at last the success it always promised to be.

With 11 insurers, six software houses and 2,600 brokers registered to use the system, it ought to be.

But as the industry knows, even until recently there has been continued criticism of its user-friendliness.

In recent months, though, and following broker feedback, a new trading portal has been introduced which has meant improved forms for comparative quotes.

Furthermore, Biba's full range of member schemes is now available through imarket.

So does this mean that the system is finally the fully fledged commercial insurance portal for brokers it always promised to be?

Malcolm Smith, commercial manager at Groupama, one of the founding members of imarket, is optimistic about the prospects for the portal as things stand.

As far as he is concerned, there have been three main criticisms levelled at imarket by brokers in recent times: that they couldn't obtain comparative quotations; that not all insurers were providing full quotations on screen; and that brokers didn't find it user friendly in all cases.

So have these issues really been addressed as far as he is concerned?

In many ways, yes they have. "Things have changed. The software houses are linking up through the imarket portal. I've had dealings with Acturis and one broker has recently linked in with us this way and is now providing us with high volumes of Tradesmen's business, to the extent that we've had thousands of policies in the last couple of months," he says.

Another improvement in the way imarket works, Smith adds, is that quotations from all insurers now all come up on screen in less than a minute, which is definitely what brokers want. "Also, imarket is changing the forms and making them easier."

Future of imarket

So do such changes really mean that the wider success of imarket is only a matter of time? Well, as previously, the answer for this lies very much in the hands of the software houses who link into the system.

"We are hoping very much that as other software houses come online and brokers come on board it should become the common market portal we've all been hoping for from the beginning," says Smith.

"It's been a long investment and a struggle, but it's horses for courses really," says Paul Upton, chief underwriting officer at managing general agency Evolution Underwriting.

"A widely accepted view is that a lot of the sets on imarket were too long, and it's true that old habits die hard. In my view it will always be more relevant for smaller package type business.

"A lot of brokers have done tie ups with composites for sub £5,000 business, and that will always be done in the traditional manner."

He is in no doubt that for certain classes of business in certain sectors it works.

"How far up the premium scale you go and how complex a risk can you handle with imarket is more open to question. I suppose it will always remain in the more commoditised sector. Just look at how much of the business there is done anyway, where you're often dealing with a call centre,

> 'We are hoping very much that as other software houses come online and brokers come on board it should become the common market portal we've all been hoping for from the beginning'
>
> **Malcolm Smith, Groupama**

Technology

where you might have to wait half an hour to get what you want. When faced with a choice of doing business that way or imarket instead, then it's easy to see why brokers would want to use imarket."

Vivek Banga, director of e-commerce at NIG, is pleased with the progress imarket has made with regard to the issue of comparative quotes, as he says that's the direction everyone is moving in. He adds that using imarket makes it easier to achieve integration with other software houses, so that "an Acturis broker can get an NIG quotation from an imarket engine".

Comparative quotes

But has imarket really the support it needs to be a real success? "I think enough people are on board," he says. "All the software houses are there and the insurers are there." However he says that the "real tipping point" will come when the issue of comparative quotes is really sorted out once and for all, as this is what brokers really want.

At the moment if a broker is using a particular software system then they may not be able to get the comparative quotes they want by using imarket. However, this is not to say that such difficulties can't be ironed out in time. "In personal lines it happens all the time, so there is no reason to believe that we will not reach multiple quotes for packaged business," says Upton.

How soon then can we expect to see such comparative quotes fully incorporated into the system – weeks, months or years? After all, the industry has been already been waiting for imarket to really deliver what brokers want for years, and there is a feeling out there that people aren't prepared to wait for ever.

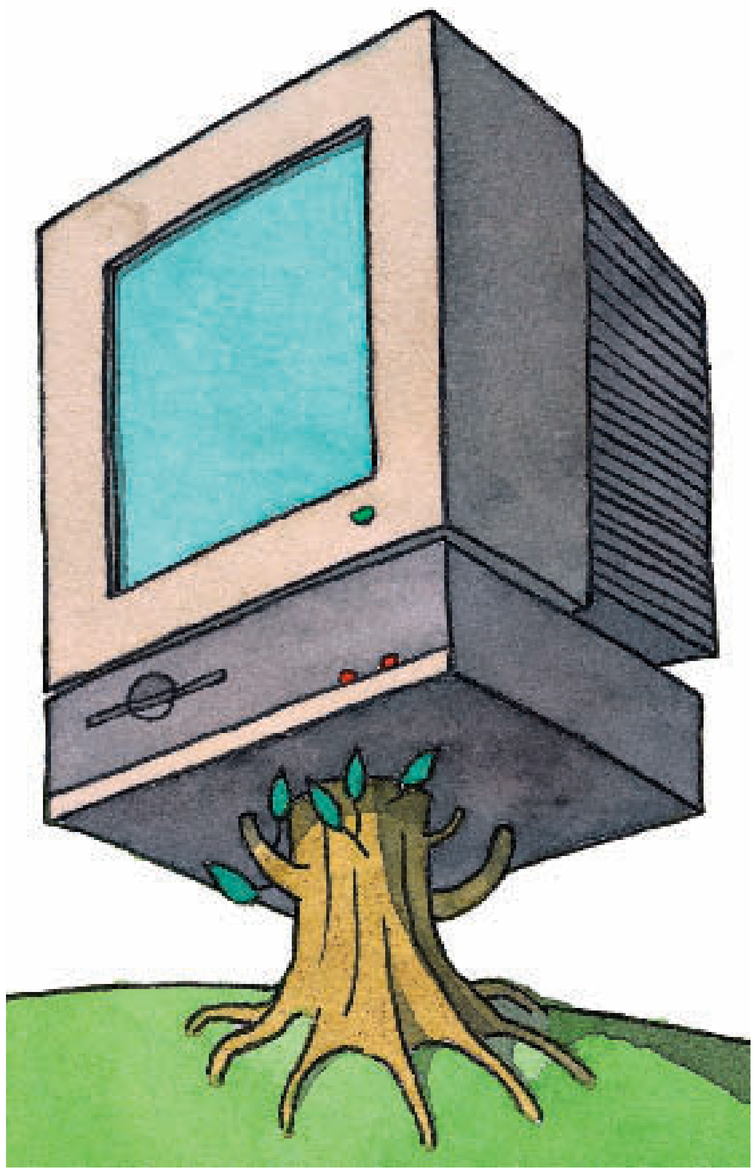
Banga see the prospects for imarket as encouraging, believing that complete comparative quotes for packaged business will be reached "by the end of next year".

Perhaps, though, as Upton remarks, we shouldn't be overly obsessed with the prospects of imarket and imarket only.

As he says, "the industry has always felt a moral obligation to standardise processes, but different people have different systems, and here at Evolution we have our own bespoke system. So I see imarket as one of a number of possible solutions available in the market, but it's not the end state".

Banga agrees that we shouldn't get overly fixated on imarket. "From our perspective we've taken a view that there will be multiple technology-led routes to market and we should have the choice as to which route to use as brokers.

"And from our standpoint there are multiple routes we use. We invest in an extranet and in imarket and some brokers have their own systems which link up with us. The market is evolving and there will be multiple routes. Maybe in time there will be one single system, but it's too early to say what that will be at the moment." **IT**



'The industry has always felt a moral obligation to standardise processes, but different people have different systems. imarket is one of a number of solutions available in the market, but it's not the end state'

Paul Upton, Evolution Underwriting