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THE
PROFESSIONAL BROKER:
delivering value
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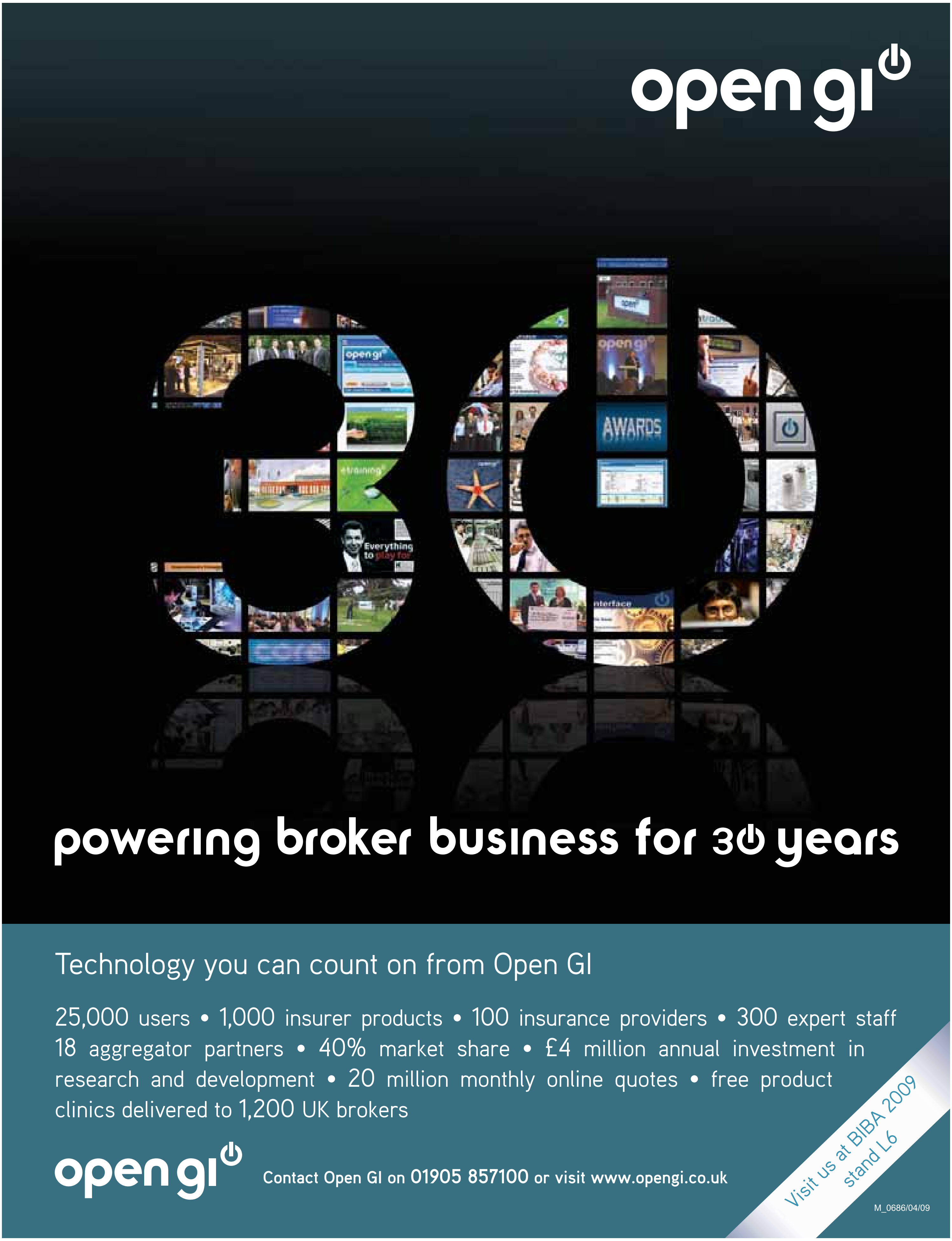
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A flight to quality

The past year's highs and lows will add a new flavour to this year's Biba conference, Insurance Times' Lauren MacGillivray predicts

THE OFFICIAL theme of the 31st annual Biba conference in Manchester is "delivering value". Unofficially, it's "eat a little humble pie".

It's true that the folks at Biba have scored several important victories over the past year, such as getting their way on commission disclosure with a market-led solution. But with the Liiba coup and the credit crunch to contend with, plus insurers taking a tougher stance on commissions, the message is for brokers to cut out the frills and get back to basics.

The best way for a broker to ensure his or her survival in tough times isn't about flashy acquisitions or driving up commissions; it's about giving clients the best advice possible through technical knowledge and being there in times of need.

A recent report published by Biba found that brokers aren't doing enough to explain the value they provide to SMEs. The research found confusion among small businesses about what constitutes advice – and where they should go to get it. But it also discovered that the SMEs that already use brokers put great value on the service they get.

Of course, this isn't news to the best brokers; the profession has been built on value-added advice since it first began. But while challenges like the credit crunch can be devastating, they can also be a healthy reminder of what is most important. Now more than ever, it's vital that insurance not be seen as a commodity.

This year's conference is bound to have a much different feel than those in recent years. The opening reception, gala dinner and other celebrations are still going ahead. But chief executive Eric Galbraith has said the association has "worked very hard to drive down the cost of the conference while building up its value" to attendees.

Keynote speakers Erin Brockovich – a legal consultant, played by Julia Roberts in the 2000 Hollywood movie named after her – plus comic actress Ruby Wax and TV presenter René Carayol, are sure to add sparkle. But the straightforward theme of "delivering value" will be a constant throughout the seminars and speeches.

In the words of Galbraith, this could be a conference that you "really can't afford to miss". See you in Manchester, 13-15 May.

'With the credit crunch to contend with, plus insurers taking a firmer stance on commissions, the message is for brokers to cut out the frills and get back to basics'

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Sea changes

THE DEVELOPMENT OF THE PROFESSIONAL BROKER IN THE UK CAN BE TRACED BACK TO THE 16TH CENTURY AND THE EMERGENCE OF MARINE INSURANCE. LAUREN MACGILLIVRAY LOOKS AT HOW THE INDUSTRY HAS EVOLVED, AND THE PRESSURES FACED BY BROKERS TODAY

THE FACT that brokers are still sometimes referred to as marine and non-marine is a little like "describing all women as non-men", quips one global broker. But it's also a poignant reminder of the broker's beginnings, and how far the profession has come.

Marine, which is the earliest known class of insurance as a business, can be traced to Italy in the 13th century. But the UK made its mark internationally early on, with marine available in England by 1500 and 30 sworn brokers in London by 1574.

With London booming as a trade centre by the 17th century, there was a growing demand for ship and cargo insurance, and Lloyd's coffee house became the place where ship owners met with underwriters to get marine cover. ☞

A MEDITERRANEAN BRIGANTINE DRIFTING ONTO A ROCKY COAST IN A STORM, BY WILLEM VAN DE VELDE, THE YOUNGER, CIRCA 1700

How things have changed. Lloyd's, now a metal fortress at One Lime Street and closed to the public, still handles marine and other specialist insurance. But brokers outside of Lloyd's now hold their own across the UK, arranging everything from home and motor to employers' and product liability.

"The fact that in London we talk about marine, and everything else is non-marine, infuriates the non-marine brokers," Richard Close-Smith, an executive director within the marine division of Willis, says. "But it tells you that there was a time when marine was a bit more important than it is today. Clearly, marine is not as dominant as it was. But it remains a real part of the overall insurance picture."

Captains of industry

In the early years of marine insurance, it wasn't uncommon for people to end up in the profession after having first-hand experience with ships.

Sir William Garthwaite is a former Lloyd's insurance brokerage, named after a ship owner and sugar planter, who gained notoriety following his service to the Admiralty during World War I.

Ian Crumpen, now owner of Nautical Insurance Services in Leigh-on-Sea, Essex, recalls working for the Lloyd's broker 35 years ago. His boss was a senior insurance technician who had also previously served in the navy, during the Second World War. Crumpen remembers that he had worked on supply ships that sailed between the UK and America during the North Atlantic convoys, making harrowing journeys and dodging German U-boats.

"From a junior's perspective, it was quite fearsome to be under the control of someone who'd seen such horrific action," Crumpen says. "It was my first job and you can imagine: there I was working for this old sea dog. He was a tremendous character and ran the office like a ship."

Crumpen, now 54, was 19 years old at the time. He remembers that, in addition to broking, he and his colleagues were to never be late, to wear clean shoes, and make sure they didn't have any dirt under their fingernails.

Eventually, Crumpen went on to work for several other brokers before leaving commercial marine to open his own yacht and motorboat firm 18 years ago. The latest storm for his business to weather is the credit crunch: people aren't buying boats worth up to £10m like they used to.

Losing steam

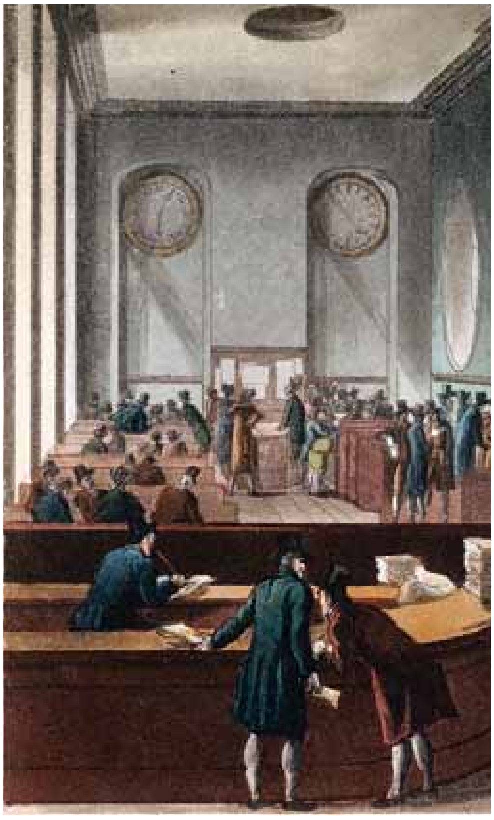
Navigators & General (N&G), the UK's leading pleasure craft insurer and a member of the Zurich Group, confirms a slowdown in the number of new enquiries in the mid-range (£15,000-£250,000) yacht and motorboat market in the latter half of 2008.

A spokesman for the firm says that this appears to mirror the trends in boat sales, which is bound to have an impact on premiums for 2009 as the market becomes more competitive.

As you might expect, the commercial side of things is also taking a battering from the economic crisis. Rates are hardening but ship owners are going through desperate times, with the value of their ships plunging. ☞

> 'Underwriters want to concentrate on the strengths and weaknesses of the case without having to take clients to dinner three times a week before they do business. So that's probably the point at which the brokers came in'
>
> Richard Close-Smith, Willis

Right: An aquatint by Thomas Rowlandson of Lloyd's Subscription Room from the 1800s



Times like these

With a career spanning almost four decades, Biba's Peter Staddon talks to Lauren MacGillivray about his broking days at Lloyd's, and how today's professionals can thrive amid challenging times

IT'S COMMON for those working in insurance to say they "fell into it". But it's more unusual to hear someone call their start in the profession as a "silly situation", as does Peter Staddon, Biba's head of technical services.

Staddon, now 54, started out as a broker straight from school, when he was just 16. He was asked to go and see a Mr Harris in Ibex House, and wandered into the building, which had 70 firms. He was passed along to numerous different offices before he landed a job with marine insurance broker Seascope.

When Staddon started there in 1971, the business – which had been founded a year earlier – was expanding, and he was the first non-insurance person to join. Now a chartered insurance broker, he believes that qualifications can help a broker stay ahead of the game.

"I think more brokers are now trying to get these qualifications and I think Lloyd's has been instrumental in saying that if you are dealing with this, you need to have some sort of professional qualification," he says.

But Staddon also says "anoraks" who enter the profession from school are still essential. "We do need [graduates] because they will probably be the innovators of tomorrow and they might well be good for a leadership role. But you need good people with A-levels to come in, because they need to understand the real dynamics. You need to get inside and understand what it's all about."

Staddon left Seascope in 1986 to join Edward Lumley, in order to expand his expertise into non-marine, and then moved on to a couple of other brokers before joining Biba in 1996.

He still has fond memories of Lloyd's from his broking days. "There was a thing in Lloyd's called bomb alley," he recalls, "which was where a lot of marine insurers could write non-marine lines; they'd write terrorism risks. It was great; it was one of these places where a name just came up, like China Town or Little Venice."

Carpe diem

Staddon remains a strong advocate of the London market. He says that, rather than using a non-UK based insurer and worrying about regulatory and other hassles, brokers might want to consider going through Lloyd's instead.

He also advises regional brokers with large clients to consider captives. "If I can get some regional brokers to get their big clients to think about a captive, then the conventional market in

INSURANCE BROKER:

a definition

According to investorwords.com, an insurance broker is an independent agent who represents the buyer, rather than the insurance company, and tries to find the buyer the best policy by comparison shopping. The term insurance broker became a regulated term under the Insurance Brokers (Registration) Act 1977. The term now has no legal definition following the repeal of Act in 2001. The Financial Services Authority has regulated the sale of general insurance since 14 January 2005. Anyone broking insurance can now call themselves an insurance broker.
Source: Biba

the UK is going to lose income and they're going to have to look for alternative sources," he says. "Therefore, [insurers] might start writing risks they might not have necessarily written. And Lloyd's is no different."

Staddon's fighting spirit is representative of the current generation of regional brokers in that anything is up for consideration. With competition from consolidators and aggregators, and with commission rates under fire, innovation has become the key to survival.

He believes one area where provincial brokers are falling short is succession planning – something he says was done better in the 1970s.

'ONE PERSON FROM AN AGGREGATOR SITE DEFINED THE BROKER AS THE "DEATH RATTLE OF A DYING BREED". I DON'T BELIEVE THAT, BECAUSE I THINK BROKERS ARE INNOVATORS OF THE EXTREME'
PETER STADDON, BIBA

"When I was 21, my director called me into his office and said, 'Congratulations, you're 21, what are you doing with your life? Do you still live at home?' I said, 'Yes', and he said, 'I think you need to become a shareholder.' So I became a shareholder of Seascope."

Commission disclosure is another area where there have been sweeping changes. In the "old days", it simply wasn't an issue. But now that it is, Biba has spearheaded a market-led solution.

"What we've done here is that [a client] has the right to ask [what a broker's commission rate is]," Staddon says. "What we don't want to do is put it in their face, because there's no reason for it. We want to try and move it away from the day-to-day contact between the client and the broker into a much more senior position."

GO WITH THE FLOW

Time will tell if commission disclosure remains unregulated. But just like the marine industry has changed so drastically, nothing stays the same forever. Staddon, ever an ideas man, is optimistic that innovation can still play a part in marine.

"If global warming is inevitable, should we not start thinking about Peterhead in Scotland?" he suggests. "The way to get to Japan is not down and around the bottom of the Cape, it's over the top. That would be a route in 50 years' time if global warming continues."

A neverending enthusiasm and willingness to bend and flex to new conditions is what keeps Staddon still a broker at heart. He considers himself lucky in that he had great mentors – even those who took a non-traditional approach. In the late 1970s, for example, Seascope was pitching for a couple of government contracts. It was told that if it gave more than a 3% pay increase across the company that year, then it wouldn't get the contract. So, the Seascope boss at the time gave all the managers company cars, and all those on low salaries got large pay increases.

"I got a 9% pay increase that year," Staddon says. "It didn't bust the government's requirement because the 3% overall wasn't breached."

He concedes that brokers are facing increasing challenges, such as direct writers. "I've got some real issues with insurance companies that will turn around and say, 'The base model for a direct writer is this, yet the broker is this plus 80%.' How does that work?

"The only reason you've got direct writers is because you've used the profits that you've made through brokers to fund the innovation of direct writers. So basically you're trying to take the food out of the broker's mouth, and I have real issues about this."

But he adds: "I remember one person from an aggregator site defined the broker as the 'death rattle of a dying breed'. I don't believe that, because I think brokers are innovators of the extreme. They will change things, always be there for the client, and know how to work the market."

"World trade is also plunging, so there's less cargo insurance," Close-Smith says. "As a result, although the marine underwriters may feel able to charge a bit more, I think their customers are so weakened that there won't be as much business to play with as there was before."

One illustration of how hard times are is the number of cape-sized bulkers – the big ships that take bulk cargos around the Cape of Good Hope – that are on order (not yet built). In 2003, the number on order represented 15% of the world fleet. But in March of this year, on-order bulkers represented 150% of the world fleet, at a value of $540bn (£370bn). And no one wants them.

"There are a huge number of ships on order in shipyards, mainly in the Far East, but they're not going to happen," Close-Smith says. "Ship owners who've maybe put down a 10% deposit on a ship are not going to build it. If it was ordered for $100m, and yet it's only going to be worth $50m, you'd rather kiss $10m goodbye than order something for $100m and find it's only worth $50m."

Great adaptations

Harsh economic conditions and a formidable regulatory structure mean that brokers have to be prepared for the challenge.

Close-Smith understands how the industry has changed over the years. "When I started in the London market 35 years ago, working with Willis, it was much easier to start your own little firm of marine insurance brokers than it would be today," he says. "It doesn't mean people won't start up new brokers, but the price of entry into the market in terms of compliance, FSA regulations and so many other things, has made it more difficult."

This is why regional brokers have honed in on commercial business for small and medium-sized enterprises (SMEs) – a niche that has been somewhat shielded from global brokers and other threats.

Crumpen believes that the discipline he learned early on has helped him thrive in an industry that has completely transformed from the boom days. He has survived thanks to new technologies that allow him to run a yacht and motor cruiser binding authority facility, via agreements with mainly Lloyd's syndicate Amlin, as well as Navigators & General.

"We're in a niche business – we're probably one of the last few remaining independent insurance brokers specialising in one product, such as pleasure craft," he says. "There's been consolidation by the big brokers buying up other brokers. But there's still room in the market for a small specialist that gives personal service."

Early days

With such a rich history, marine broking still carries a certain amount of romanticism. But since its creation, a huge diversity of business for brokers has emerged. Right after marine came fire insurance, with the Fire Office established in London by Dr Nicholas Barbon in 1681.

With water and fire taken care of, then came hailstorm cover in 1842, livestock in 1844, personal accident in 1848, plate glass in 1852, employers' liability in 1880, and burglary in 1887. More recently to the broker smorgasbord came motor insurance, introduced into the UK around 1896.

The professional broker role emerged early on, out of the underwriters' need for an intermediary to handle the clients and present to them the relevant information in a clear and standardised way. (See box, 'The broker's beginnings'.)

They also became an important part of the accounting system, because underwriters didn't want to have to chase individual ship owners for premiums. As each new area of insurance emerged through the decades, a broker has been there, providing a vital conduit between insurers and consumers. **IT**

> 'The real innovators out in the industry are looking for strategies, but more important, they're looking for stability'
>
> Peter Staddon, Biba

~BIBA's roots and manoeuvres~

Biba, the largest broker organisation in the UK, owes its creation to Lloyd's Insurance Brokers Association (Liba), which was formed in 1910 specifically to look after the interests of Lloyd's brokers.

Following the Insurance Brokers (Registration) Act 1977, Liba agreed to join with the other insurance broker trade bodies – the Corporation of Insurance Brokers, Federation of Insurance Brokers and Association of Insurance Brokers – to form the British Insurance Brokers' Association (Biba).

In 1988, following the introduction of the Financial Services Act 1986, Biba extended its membership to include independent financial advisers, and became the British Insurance and Investment Brokers' Association (Biiba).

Then, in 1999, Biiba removed the word 'Investment' from its title, reverting to the name Biba. It now has around 2,400 members including 160 London market brokers.

Meanwhile, Liba, which had been renamed the London Market Insurance Brokers' Committee (LMBC), remained separate for matters affecting Lloyd's brokers. In January 2009, a breakaway group called the London & International Insurance Brokers' Association (Liiba) formed to handle all the functions previously assumed by the LMBC. Liiba will still work with Biba on an ad hoc basis.

The broker's beginnings

As soon as an insurance marketplace was established, it became difficult to allow the public to access the underwriters. Underwriters want information presented in a certain format, and by people with integrity in whom they can trust. So intermediaries were a natural development.

"Underwriters want to have business written in a relatively standard way so they can concentrate on judging the strengths and weaknesses of the case without having to deal with things like taking ship owners to dinner three times a week before they do business," Richard Close-Smith, of Willis, says. "Underwriters don't want to get sucked into all that; they just want to analyse facts. So that's probably the point at which the brokers came in."

Going provincial

So what about regional brokers, and what is their place in the pecking order?

"You could say Lloyd's did have its feet in the regions, because you'd get some of the major ports around the West Coast going all the way up from North Wales into Scotland. Those people would want to make sure they had cover," Peter Staddon, Biba's head of technical services, says.

But he adds that telecommunications hadn't evolved at that stage; and parochialism has always been a factor. "I dare say Lloyd's would like to say, 'Yes, we were instrumental in the formation of brokers'," he says. "But brokers would've been born out of the need of the regional people's requirements. The same is said for today; it's just that we're using technology whereby we can access a wider market for our clients."

However, there's still a lot of crossover between the London market and regional brokers.

Staddon comments: "There's not really a dividing line as such. A lot of people who deal with wholesale reinsurance would probably think, 'We're different from domestic retail.' But many misunderstand the word retail – they think it's home, motor. No it isn't; it's domestic commercial, and home and motor.

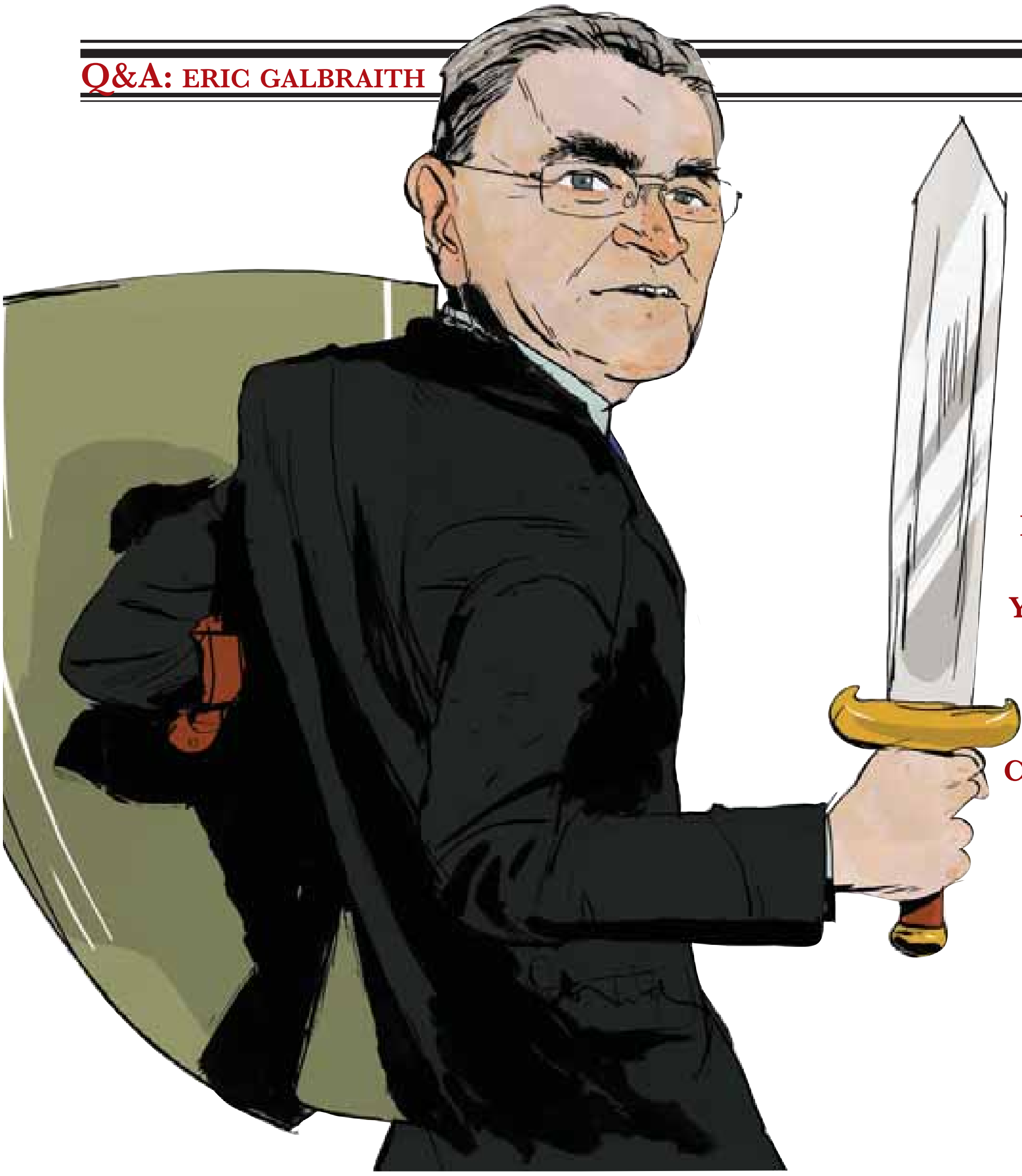
"But Lloyd's has opened the doors, which means more and more regional brokers will have access into Lloyd's. So they'll be looking at Lloyd's in a different light and using it for alternative markets. The real innovators out in the industry are looking for different markets. They're looking for strategies but, more important, they're looking for stability. And Lloyd's is a very good market."

Eric the brave

BIBA'S CHIEF EXECUTIVE ERIC GALBRAITH SPEAKS WITH LAUREN MACGILLIVRAY, REVEALING HIS TAKE ON THE ECONOMIC CRISIS AND OTHER PRESSURES FACING THE INDUSTRY, AND WHAT'S IN STORE FOR THIS YEAR'S CONFERENCE

ILLUSTRATIONS BY QUINTON WINTER

How tough has the past year been for brokers in light of the credit crunch?
It is fair to say that the credit crunch has affected everyone, with clients going out of business or reducing headcount, turnover and wages. This all puts pressure on workloads and, of course, income, whether you are working on commission or fees. However, I do not believe that it is the past year that needs to be our focus; the next 12 months is when the impact of the crisis will really be felt. Members are advising us that the general insurance market remains competitive, with the exception perhaps of some specific specialist classes of risk, but I have no doubt that we are moving towards a harder market and this will present further challenges to both Biba members and their clients. On a very positive note, the current economic crisis highlights the value of a broker's advice in providing good risk management and tailored insurance protection. ☞



'SEVERAL OF OUR LARGEST MEMBERS ARE LOOKING AT YEAR-ON-YEAR INCREASES OF FSA FEES IN THE ORDER OF 90% PLUS, AT A TIME WHEN TRADING CONDITIONS HAVE NEVER BEEN TOUGHER'

What has Biba done to help brokers survive the financial crisis?

We've been working exceptionally hard to promote and protect brokers' and intermediaries' interests. We are in contact with Europe, UK government and, importantly, opposition parties, as well as a variety of governmental departments and other organisations. Much of our work goes on behind the scenes at Canary Wharf, Westminster and Brussels, so we cannot always reveal our hand, but members can be confident that we are a strong team fighting in their corner on every issue.

Key initiatives include challenging the cross-subsidy within the Financial Services Compensation Scheme (FSCS) levy and the FSA fees, and creating a dialogue and greater understanding of the importance and value of our sector with organisations such as Which?, Citizen's Advice Bureau, BERR (Department for Business, Enterprise & Regulatory Reform), and other bodies. Raising the profile of small, large, national or international brokers, and demonstrating their worth, helps members to survive.

Brokers also have other membership benefits, such as free entry to the Biba conference, exclusive schemes and facilities, the PI Initiative, our lobbying on issues such as travel insurance and electronic motor certificates, and our work on comparison sites. There's also, of course, the very important assistance we give to members on regulatory issues.

Consolidation was the major issue of 2007 but has slowed down. Is it still a concern?

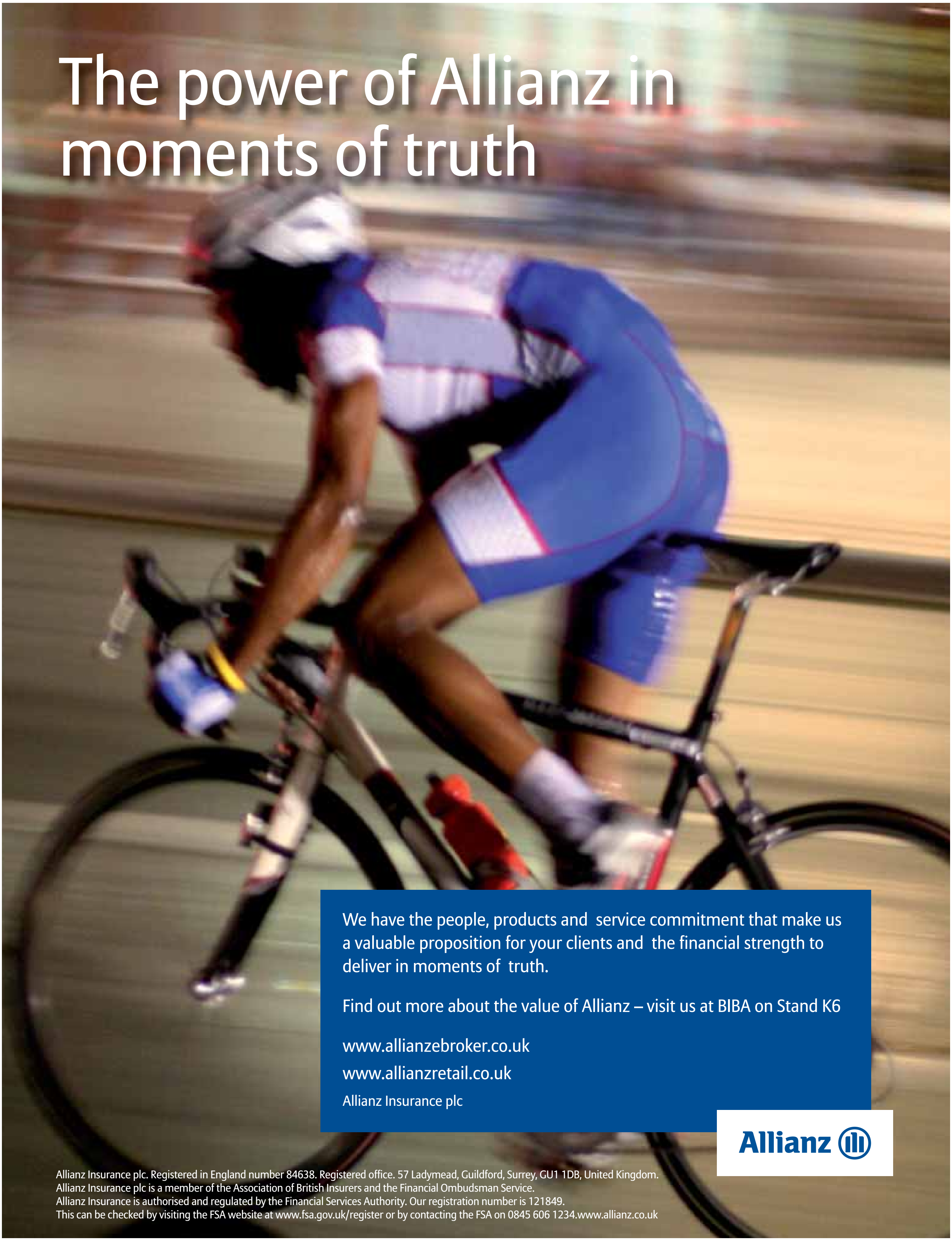
Consolidation has been an issue for the past five or six years, but this has slowed for obvious reasons in the current financial environment. I would not refer to consolidation as a concern. It reflects the dynamic and ever-changing nature of our sector, and we are already seeing new broking organisations falling out from the earlier years of consolidations. I believe our sector is still attractive to investors, but perhaps we need to see some returns on previous investments and consolidations before any sort of activity emerges again. Most organisations are more focused on survival for the time being.

What are your members saying about the FSA's proposed hike in fees?

Biba members have contacted us in some numbers to voice their alarm about the substantial increase in year-on-year costs of FSA fees and levies. Several of our largest members are looking at rises of 90% plus, at a time when trading conditions have never been tougher. Increases of this magnitude cause huge budgeting issues for firms, especially for those whose budgets have already been set. We are aware of businesses that may well have to lay off staff to accommodate the fee increases. This surely is an unintended consequence from the FSA's perspective. If the FSA needs more money to regulate other types of higher risk firms, it should pay for it, not us. Biba has reacted strongly to the proposed increases, but it also needs members to join us in writing to the FSA and MPs.

You had a big regulatory win this year, achieving a market-led solution on commission disclosure. What was that like?

We were pleased that the FSA recognised that the most appropriate and proportionate way to deliver their five key outcomes for commercial customers was the Biba-led market solution. FSA industry guidance was a time-consuming ☞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process, and we are grateful for the support and co-operation received from other associations, namely Liiba, ABI and The Institute of Insurance Brokers. This is the first piece of industry guidance that relates to insurance and is, to the best of our knowledge, the first in respect of commercial customers. It was pleasing that the FSA recognised that our sector can take on board an issue, like it did with contract certainty, and find an acceptable solution without the need for the regulator to enforce more rules.

Do you think enough brokers have professional qualifications? And will they follow the life insurance side eventually with regulated requirements?
I believe professional qualifications are an essential element of demonstrating professionalism within our sector. Later this year we will be joining with the Chartered Insurance Institute and others from our sector to look at how we can work together to avoid potential regulatory intervention. Watch this space.

How big a threat is Liiba to Biba?
I see this as an issue of ensuring that the sector has one voice, and I have already said that I do not believe we need more associations. However, we are where we are, and it is essential that this is not seen as divisive externally or internally.

What's your opinion about insurer crackdowns on commission rates?
There will always be demands on commission income and/or remuneration, and during the prolonged period of soft market rates, it is inevitable that these come under pressure. Expenses and technology play an important part in the ultimate cost to the client, and brokers have quite rightly looked at ways to improve or even protect their income stream.

The word commission is frequently used to represent the overall remuneration to the broker or intermediary, and it is essential that where work transfer is involved we are comparing like with like. I would not wish to see downward pressure on actual commission rates. Many of the challenges we have seen on the cost of distribution concern service to clients at a more competitive price.

Are brokers getting more plugged into technology?
Definitely. Technology today is absolutely fascinating and provides a huge opportunity. Contra to this is that it presents a threat and challenge by introducing different ways to communicate with clients and insurers, which can, in some instances, diminish the apparent value and increase commoditisation. However, in my opinion, the cost benefits and opportunities outweigh the downside.

Turning to the Biba conference, what do you think the hottest topic will be?
In among all the talk about surviving in the downturn, many of our members will be looking at opportunities. I would not wish to try to guess

'IT WAS PLEASING THAT THE FSA RECOGNISED THAT OUR SECTOR CAN TAKE ON BOARD AN ISSUE AND FIND AN ACCEPTABLE SOLUTION WITHOUT THE NEED OF THE REGULATOR TO ENFORCE MORE RULES'

the hottest topic, as in our sector this can change from week to week, but there will definitely be discussions concerning the cost of regulation, the cross-subsidy in the FSCS, and underwriting disciplines, particularly in multidistribution.

What's the main message brokers should take away from the conference?
The conference is all about demonstrating value among all the day-to-day issues that intermediaries address while servicing clients. The opportunity to take time out to speak to other brokers, insurers and suppliers will help them to add value to their businesses. Members will have the chance to discuss a variety of current issues and will, I am sure, take away a number of value-added benefits and ideas.

Biba is known for hosting entertaining conferences. But has this year's budget been affected by the financial crisis?
We have, of course, reviewed the budget and are already considering how we might improve or change next year's event. I hope we have provided a conference that delivers value in its plenary sessions, in its seminar programmes and of course with the exhibition. In fact, rather than cut back on seminar programmes, we have increased the variety of choice, maintained the high quality and reduced our costs. IT

BIBA09

Manchester Central

BIGSTOCK

Conference schedule

Wednesday May 13

18.00-20.30 Exhibition opens with an informal reception

Thursday May 14

08.30 Exhibition opens
09.30 Conference opens
10.00-11.00 The Delivering Value debate, chaired by **René Carayol**
11.00-12.30 Networking session in Exhibition Hall
12.30-14.00 Lunch in Exhibition Hall
14.10-15.00 Seminar sessions:
- **'The 'innovation mindset – an entrepreneur's personal journey'**, Sahar Hashemi, co-founder, Coffee Republic
- **'Rating agencies in the spotlight – how do they respond to the turmoil and the loss of market confidence?'**, Peter Hughes, vice-president, Standard & Poor's
- **'The growth of internet selling, how can brokers compete?'**, Patrick Smith, chief executive, Swinton Group; Hayley Parsons, chief executive, Gocompare; and Andrew Girdwood, head of search, Bigmouthmedia
- **'Climate change – making it simple for brokers to support their clients'**, Alex Matthias, energy management leader, RSA; Dr Paul Pritchard, corporate responsibility manager, RSA; and Chris Hurst, energy development consultant, RSA

15.00-16.00 Refreshments in Exhibition Hall
16.10-17.00 Seminar sessions:
- **'Developing a tool kit for survival'**, Rupert Merson, partner, BDO Stoy Hayward
- **'Delivering value in the claims process'**, Angus Tucker, president, Chartered Institute of Loss Adjusters
- **'Pollution liabilities. Are you insured if the proverbial hits the fan?'**, Wayne Harrington, environmental risk manager, ACE Europe; and Jo Newson, director, Gallagher London

17.30 Exhibition closes

Friday May 15

08.45 Exhibition opens
09.30 Conference opens
09.35 Keynote session: **Ruby Wax**
10.30-11.10 Seminar sessions:
- **'Peak performance in tough times'**, Mark Davies, founder, The Holistic Company
- **'Adding value when cost is an issue'**, Matt Allison, director, 3t Transformations
- **'What does BIBA do for you?'**, A panel of senior BIBA personnel

11.10-12.00 Refreshments in Exhibition Hall
12.10 Keynote session: **Erin Brockovich**
13.00 Conference closes
13:00-14.30 Lunch in Exhibition Hall
14.30 Exhibition closes

The keynote presentations

The Delivering Value debate

René Carayol

Thursday 14 May –10.00-11.00
Discussing such pressing issues as surviving the recession to building a lasting brand, this session promises to delve into the reality of broking in the 21st century. Hosted by business guru and TV presenter René Carayol, no subject will be off-limits.

Rapport and leadership

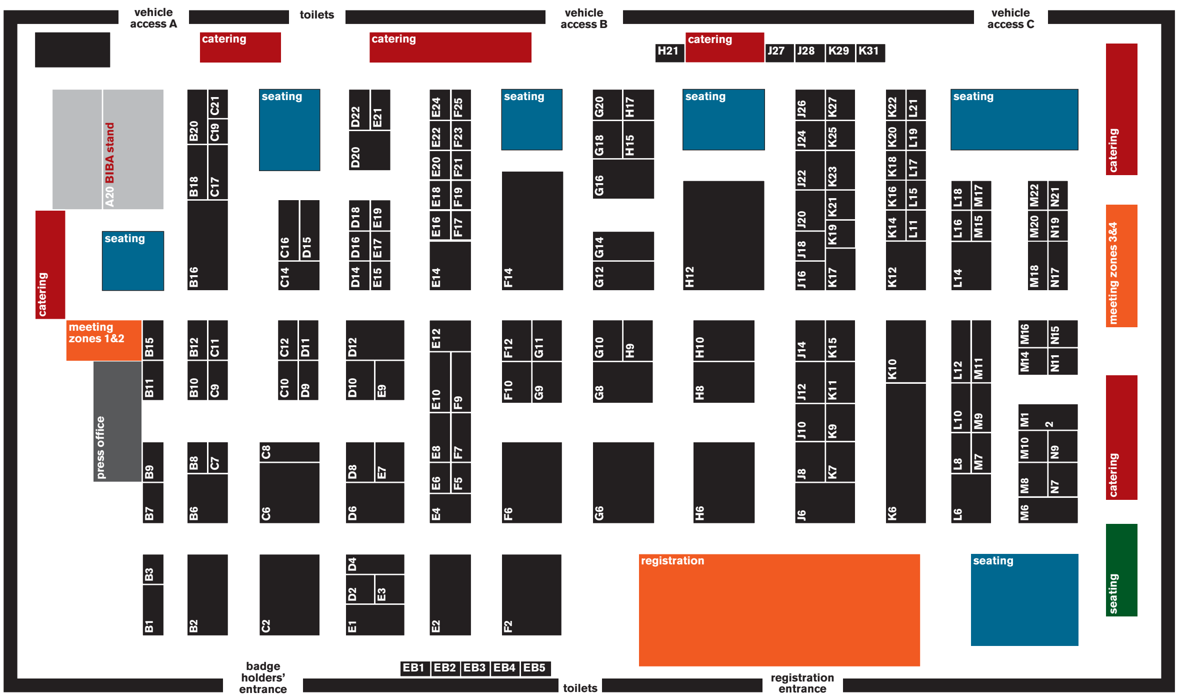
Ruby Wax

Friday 15 May – 09.35-10.25
People work at their best if they feel genuinely listened to – not talked at. Comic actress and executive coach Ruby Wax will show how, by way of some simple practical exercises, leaders can come to a deeper and more direct level of communication with their staff, clients and colleagues.

"Take it from me, life's a struggle. But you can win"

Erin Brockovich

Friday 15 May – 12.10-13.00
As dramatised in the eponymous, Oscar-winning film, filing clerk Erin Brockovich played a crucial role in uncovering a contamination incident spanning three decades, threatening the health of countless residents of the southern Californian town of Hinkley. The outcome? Only the largest tort injury settlement in US history, of $333m.



FLOORPLAN CORRECT AS AT 28 APRIL 2009

exhibitors

365 Group	K22
Abbey Legal Protection	**K27**
Ace European Group	F12
Acturis	**M14**
Addleshaw Goddard	EB4
Affiliated FM	**B6**
Ai Claims Solutions	G20
AIG UK	**F2**
Allianz	K6
Alternative Risk Management	**J18**
AM Best	E18
American Appraisal UK	**D22**
Amlin Insurance	J22
Angel Underwriting	**C9**
Ansvar Insurance Co	EB2
APC Underwriting	**D4**
ARAG Legal Services	F10
Arista Insurance	**J24**
Aspray	B11
Association of Medical Insurance Intermediaries	**C7**
Aviva	H12
AXA Insurance	**H6**
Barbon Insurance Group	K11
Beazley Group	**E7**
Bennett Underwriting Agencies	J20
Biba	**A20**
Blue Insurances	J8
Bluefin Insurance Services	**K7**
Broker Network	J6
Bureau Insurance Services	**K29**
CallCredit	N21
Carraig Insurance/ Direct Commerical	**G10**
Carroll London Markets	J12
Casualty & General Insurance Co (Europe)	**D14**
Catlin	J14
CFC Underwriting	**E15**
CFH Total Document Management	C10
Chartered Insurance Institute	**B16**
Chaucer Insurance	G16
Citybond Suretravel	**F23**
Climatewise	N17
CNA Insurance Company	**G12**
Cobra London Markets	C21
Cobra Network	**C19**
Comet Replacement Services	D10
Compuquote	**K14**
Crisis Survivor	B2
Cunningham Lindsey (UK)	**C14**
DAS Legal Expenses	B1
Davies Group	**M11**
Defaqto	K19
Direct Fleet Insurance Services	**L8**
Ecclesiastical Insurance	G9
Electrical Contractors' Insurance Co	**L10**
Equity Red Star	B7
Event Insurance Services	**D20**
Evergreen	L12
Evolution Legal Service	**K16**
Evolution Underwriting	K15
Figtree Systems (Europe)	**E22**
Financial Ombudsman Service	L15
Financial Services Authority	**K20**
First Recovery	E8
FirstAssist Legal Protection	**J28**
Fitch Ratings	E24
Fortis Insurance	**G8**
FSJ Broking	E17
GAB Robins UK	**J27**
Gallagher London	E16
General Legal Protection	**C12**
Government of Gibraltar	B9
Groupama	**F14**
Guernsey	L14
Harris Balcombe Group	**K17**
HCC International Insurance	D12
Heritage Insurance Management	**M18**
Hiscox Insurance	K12
Home & Legacy	**K9**
Homeserve Emergency Services	E3
Howden Insurance Brokers	**H9**
HSB Engineering Insurance	J26
IGI Insurance Company	**H17**
Imperial Consultants	D9
Infoterra	**M17**
Ingham Underwriting	F7
Insurance Age	**H8**
Insurance Times	G18
Insurecom	**L11**
Interiura UK	E20
K Drewe Insurance Brokers	**K31**
Kay International	B8
Kindertons Accident Management	**C16**
Lawshield UK	B20
Liberty International Underwriters	**G14**
LV=	C6
Lockton	**E21**
Lorega	D15
M Consulting	**E19**
MIDAS/NWDA	M10
Markel (UK)	**E1**
Marketform	L16
Motor Insurers' Bureau	**D2**
MSL Legal Expenses Insurance	F21
Nacora Insurance Brokers	**M22**
NIG	C2
Novae Group	**H15**
Online Insurance Jobs	K25
Open GI	**L6**
Palladium Insurance Marketing Services	B3
Peninsula Business Services	**E6**
Post Magazine	H8
Premium Credit	**E12**
Prime Professions	F19
Professional Broking	**H8**
Provident Insurance	D16
Proximo	**E9**
QBE	E2
Qlikview	**E10**
Quinn Insurance	D6
RBS Finsure	**C2**
RL Davison & Co	G11
RSA	**F6**
Rushton International	H21
RWA Compliance Services	**K18**
Simplyhealth	C8
SSP	**E14**
St Mary Underwriting	L19
Standard & Poor's	**F5**
Stephensons Solicitors	EB1
Sterling Insurance Company	**J16**
Swinton Group	F25
THB	**F9**
The Insurance Charities	L21
The MPLC	**D18**
Thomas Miller Advisory Services	B15
Tokio Marine Europe Insurance	**C17**
Towergate Partnership	G6
Tradewise Insurance Services	**F17**
Transactor Global Solutions	M6
Travelers Insurance	**D8**
ULR (Uninsured Loss Recovery)	J10
Ultimate Pet Partners	**D11**
Westinsure	K10
World-Check	**M16**
WR Berkley Insurance (Europe)	H10
Wrightsure Services	**E4**

Battle of the booths

This year's Biba conference offers visitors some novel experiences, from a "diary room"-style confessional, to a chance to challenge a snooker champ. Lauren MacGillivray picks out the best in show

THE BIBA conference provides exhibitors with a rare chance to woo hundreds of brokers in one location. With more than 140 confirmed stands, you can be sure that stall owners will be making every effort to stick out from the crowd and get your attention.

Insurance Times has learned that the Broker Network isn't exactly playing fair. It will have an actual pub, called the Independence Inn.

"It is built around our brands Broker Network and Countrywide, with 'pub grub' menus on the table, which will detail our propositions," a spokesman said. "We will be serving beer, wine and soft drinks, all in branded bottles and glasses. It will look and feel like a modern gastro-style public house. Our plasma screen will show newly filmed footage of our members and employees talking about life in Broker Network and Countrywide."

> 'Stopping at CFH's booth will make you feel ethical after all the excess – it's giving away trees'

If you fancy a more flash tipple, you can head to the Bluefin bar, which promises "flamboyant and colourful" cocktails.

Meanwhile, the fame-seekers among you might want to check out Towergate's stand. It will also be serving beer, but has added a "diary room" where you can let off steam or even tell a joke on camera. You might feel a bit shy, considering Towergate's senior management plan to man the stand. But it could be worth your while: Biba chief executive Eric Galbraith will be choosing the most thought-provoking and entertaining entries for a prize. Be warned, though: highlights of the contributions will be shown on the main screen of Towergate's stand on Friday morning.

Alternatively, if your liver's still hurting from opening night, you can always indulge in an ice cream instead. QBE's stand will be a 1950s-style American ice cream parlour, where delegates will be able to get scoops with sprinkles, or a fruit smoothie.

That winning feeling

Meanwhile, if you feel like getting sporty, you can test your mettle on The Chartered Insurance Institute's stand by pitting yourself against snooker legend Mark Selby. The world number four from Leicester will be taking on all-comers at the eight-ball green baize game, following the World Snooker Championships at the Crucible in Sheffield earlier this month.

If you're after more than bragging rights, there are also prizes up for grabs. Sterling is holding a contest to see who can come up with the best name for the Sterling lion. The winner gets a meal for two worth up to £150. Just write your suggestion on a business card and pass it to the team at the stand. The winning idea will be drawn from a list of the best on the final day of the conference.

Then there's Cunningham Lindsey's "money grabber game", based on *Grab a Grand*, the Noel Edmonds show from the '90s. Those who visit the loss adjuster's stand can enter a tank for 30 seconds and try to grab as many Cunningham Lindsey notes as possible while jets of air blow them around – not as easy as you might think.

After each session, the amount of notes the player has collected are counted. The person with the most at the end of each day (excluding opening night) can win a prize of up to £150.

Meanwhile, CFH Total Document Management will be promoting its Docmail online mailing service. It may not sound as exciting as a pub or free money, but stopping at its booth will make you feel ethical after all that excess – it's giving away trees.

"Yes, real trees – saplings obviously – because we are a printer with a conscience," says the company's marketing director, Karen Broadway.

Broadway adds that the UK has less woodland than Morocco, and something needs to be done about it. Therefore, over the past 12 years, in conjunction with The Woodland Trust, the company has planted more than 70,000 trees under the CFH Toptree banner. **IT**

Cool it: QBE will be serving refreshments from its 1950s-style American ice cream parlour

Growing concern: CFH Total Document Management will be giving away trees as it proves itself a printer with a conscience

BIGSTOCK, ISTOCK

Pollution solution

A RECENT EU DIRECTIVE INCREASES THE POWERS OF THE UK'S ENVIRONMENT AGENCY – AND THE POTENTIAL PENALTIES FOR BUSINESSES. KATIE PUCKETT OUTLINES THE LIKELY IMPACT OF THE LEGISLATION, AND HOW INSURERS AND BROKERS CAN CAPITALISE ON IT

LIKE THE Roadrunner, who happily rushes along, always oblivious to a giant pile of rocks overhead planted by Wile E Coyote, so too are most UK policyholders blissfully unaware of the European Environmental Liability Directive (ELD).

The Roadrunner always manages to escape without a scratch. But the environmental directive has been in force since March, and lack of awareness could lead to mammoth liabilities. In other words, the rocks will fall unless brokers take action to warn policyholders.

"Brokers need to educate clients on the increased potential requirements of the ELD and then offer them some sort of protection," Joanna Newson, a director at broker Gallagher London, comments.

GETTING TOUGH

The directive's been a little slow to arrive in the UK, having first hit the EU's statute books in April 2007. It's been in force in other countries for a year or more, but it's still not in place in Scotland or Northern Ireland.

It's also not entirely new. Under various pieces of UK law, companies have always been responsible for the pollution they cause – the EU directive just brings it all together, harmonising liabilities across member states to a minimum level. But the potential impact is far greater.

Previously, if a company caused, say, a fuel-tank leak into a local river, the Environment Agency would clean it up and then bill the offending company for the remediation. Now, the Agency has the power to demand additional improvements to damaged areas.

The legislation also makes the polluter responsible for reporting incidents to the local authority or Environment Agency. And it encourages third parties to report pollution and compels the authorities to investigate every report they receive. "We fully anticipate increased claims," Newson says. "Some interested green groups will be looking at certain polluters, and we're in a 'green environment' where penalties are only going to get tougher."

Until test cases hit the courts, there's no telling what kinds of demands the Environment Agency will make or what kind of resources they will devote to investigating it. In Spain, where the directive was implemented much sooner, there are several active claims, but they are still working their way through the legal system.

"There's no precedent whatsoever," Newson says. "In theory, the liabilities are potentially greater, but no one knows until the first cases go through what scale they will be on."

> **'WE FULLY ANTICIPATE INCREASED CLAIMS. WE'RE IN A "GREEN ENVIRONMENT" WHERE PENALTIES ARE ONLY GOING TO GET TOUGHER'**
> JOANNA NEWSON, GALLAGHER LONDON

FILLING THE HOLES

Companies usually expect that their public liability or property cover will protect them in the event of pollution. So it can come as a shock when they discover – at the worst possible time – that it's excluded.

Since the early 1990s, public liability policies have limited cover to sudden and accidental pollution, and pay out for damage to third-party property only. Meanwhile, property policies only kick in when pollution results from an 'insured peril' such as fire or flood, and is sudden and accidental.

The policy may also exclude the removal of contaminated soil – unfortunate since most pollution claims arise when damage occurs gradually. In such a case, the clean-up will often involve removing large amounts of contaminated soil at considerable expense.

Specialist pollution cover has traditionally been a headache for brokers. Policies were aimed at the property industry and linked to land transactions, to cover any historical pollution they may later discover on the site.

"Solutions have been expensive and difficult to obtain; you probably need a site survey, and then you get the premium and the client couldn't afford it," Newson explains.

The new directive, on the other hand, applies to operational pollution. The good news is there's clearly an opportunity here for insurers and brokers.

Ace Europe has offered premises pollution liability cover for about two years. The policy is worded to cover exactly those liabilities companies are exposed to under the directive.

These include legal costs arising from sudden, accidental and gradual pollution, remediation costs, and the costs associated with investigating the incident and legal defence. ☞

HOW TO SELL IT

Biba members can access premises pollution liability cover via a preferential scheme from environmental insurance specialist Gallagher London and underwriter Ace Europe. At the BibaEnvironmental.com website, brokers can get quotes within just three screens and bind cover on the spot with policy documents issued immediately.

For UK-registered companies, the vast majority of business is written online, using postcode profiling. Only 5% of cases, covering limits over £2m or excluded industries such as waste, for example, are referred offline. Premiums start at £650 for £500,000 aggregate limit of indemnity and £2,500 retention.

To use the system, all you need to know is:

- **Title of company to be insured**
- **Current and prior use of each location to be insured (selected from a drop-down list)**
- **Address and postcode for each location (up to five in total)**

But the system doesn't only produce quotes. There's also a raft of useful documents to demystify the new legislation and terms of cover – ideal for swotting up before talking to clients.

Meanwhile, Newson recently devised a preferential scheme to help Biba members explain and sell premises pollution liability cover to their clients. It aims to help brokers explain and sell what has historically been a high-cost and complex product. So far, Ace and Gallagher are the only players behind the Biba scheme.

Shaping the market

Insurers are understandably reluctant to take on indefinite liabilities after their experiences with asbestos, which has left them exposed to unknown damages for years to come.

Like other new classes launched in recent years, then, cover for operational pollution is only written on a claims-made basis – that is, insurers will only pay out for claims made while the policy is valid, rather than for later losses that could be proven to have occurred during that period.

But the policy also has a retro-inception date, which means that, if it is renewed annually, it will still pay out for gradual pollution losses that have taken place any time since cover was first taken out. Newson says this makes the policy more valuable the longer it is in place.

Wayne Harrington, Ace Europe's manager for environmental risk in the UK and Ireland, believes this type of product could make the leap to the mainstream within a few years.

"The operational risks have always been there, but the environmental insurance market hasn't been focused on them," he says. "That has changed over the last three years, as the legislation came in, but there still remains a huge amount of ignorance out there. The risks are real and, though the market has done well at transactional insurance, there's a bigger market out there."

Harrington's team was set up in late 2005, to build on Ace's success in America selling separate annual pollution policies.

"It took a lot of time and effort to come up with the right solution," he says. "Using the same business model wasn't going to work. We needed to open up the market for smaller companies, to simplify the product, and make it accessible and cost effective. You can't expect people to buy cover when they can't afford it and they don't understand what it is."

One of the biggest hurdles to expanding pollution cover was the sky-high premiums traditionally associated with the product. Making the cover easier to obtain will be key, says Harrington. "If you write enough of it, you have a spread of risk, different geographies, different businesses, a good mix of liabilities and cover."

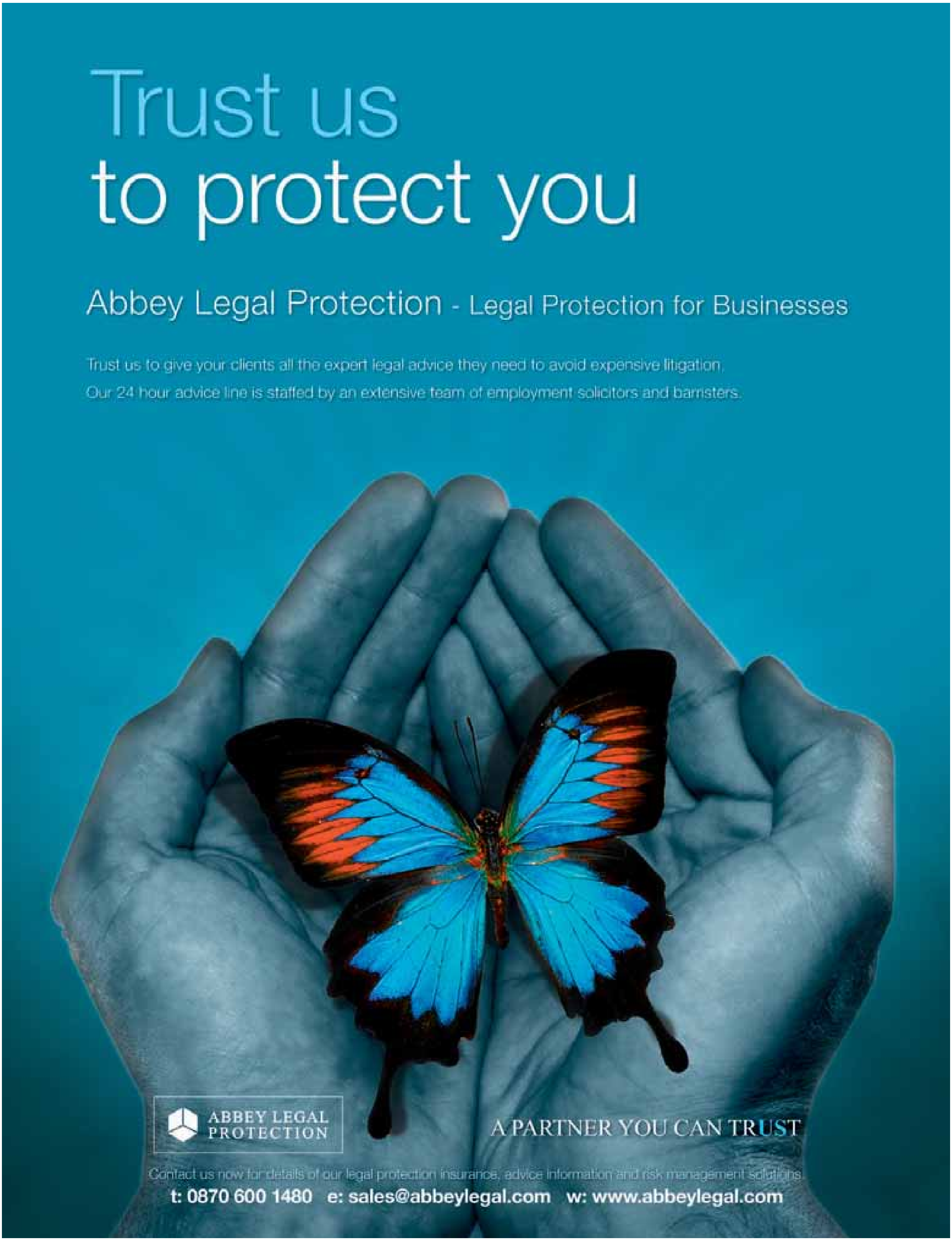
Covering operational rather than historical pollution may be uncharted territory in the UK, but it's actually cheaper, he adds. "When you look at historical pollution, there's a large amount of historical information, and a lot of due diligence to do. For operational risk, it's a lot more about looking at risk management of the company.

"Some industries create more risk than others by the nature of their business. There needs to be a much more commercial approach applied; it's been far too heavily engineered." Online quoting and binding also cuts costs out of the distribution channel, reducing premiums still further, he adds.

Harrington believes there is no reason why annual environmental insurance shouldn't become as commonplace as directors' and officers' is. But, first, clients need to understand the need for and availability of such products.

"We are going to rely heavily on brokers to do that," he says. "They're there to understand clients' risk and advise them of the products available. If they don't do that, they're not doing their jobs." **IT**

'There remains a huge amount of ignorance out there. The risks are real and, though the market has done well at transactional insurance, there's a bigger market out there'
Wayne Harrington, Ace Europe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Think different

AS THE recession drags on, brokers are leaving no stone unturned in their search for new business. Some, like Jeremy Pace, are even looking in their own bathrooms.

Pace, managing director of general insurance firm Pace Ward in Stoke-on-Trent, successfully pitched to his own builder for work, as part of his quest to find new clients who are managing to survive the downturn.

"If you don't ask, you don't get," Pace says. "People are still spending money in some areas. Anyone who's changing their business model is doing well. This client used to install bathrooms for new-build housing, but now they're doing them direct for the public. The numbers aren't huge, but they're starting two new jobs a week, they're booked up until the end of June, and the average spend is between £8,000 and £15,000."

THE TIME FOR RESTING ON LAURELS HAS LONG SINCE PAST. THE BROKERS THAT TAKE STEPS TO ADD VALUE AND DIVERSIFY MAY FIND THEY BOAST A GROWING BUSINESS WHILE THOSE AROUND THEM STRUGGLE. KATIE PUCKETT REPORTS

ILLUSTRATIONS BY JOE MCLAREN

Across the sector, brokers are all too aware of the pressures facing their clients. According to Biba, half of all small and medium-sized businesses are cutting their insurance spend. And despite Ernst & Young's forecast, published last month, being more optimistic than many others, it still predicted no upturn until next spring. By that time, many more businesses will have folded. So what does this mean for brokers?

INNOVATE TO ACCUMULATE

As clients go under or their turnovers and wage rolls shrink, brokers' commission or fee income is dropping. Survival strategies fall broadly into two categories: winning more business – in niche areas or through existing clients – and cutting back on costs through better use of technology or joining with other firms or networks. Some firms have to reconsider their business models completely.

FIGURE 1:

diversification

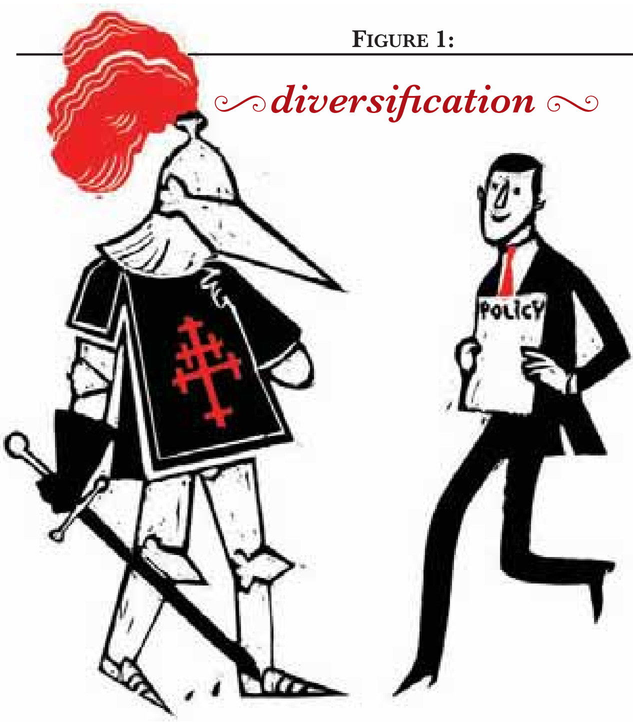


FIGURE 2:

cross-selling

FIGURE 3:

targeted marketing

Graeme Trudgill, Biba's technical and corporate affairs executive, believes brokers must work harder than ever to demonstrate the value of their services. "Clients are cutting back," he says. "They're buying the 'need to have' rather than things that are 'nice to have'. Companies' wage rolls have reduced, so premiums have reduced, and so commissions have reduced. It's very, very competitive out there."

But diversifying can help brokers buck the downward trend. For example, Pace Ward's income was up 14% for the first six months of this year versus the same period last year. "We've increased our marketing spend quite significantly," Pace says. "We're targeting niche areas where we've been quite successful, asking existing clients for referrals."

The firm has done well in the car sales market and with traditional manufacturing businesses, which are themselves branching out, like that bathroom fitter. Pace has also taken out advertising in magazines aimed at the high net worth market. "They're quite valuable clients. A family fleet policy might be worth £3,500 to £4,000, for instance, but it's still just one policy for us to administer."

He echoes Trudgill's concerns about brokers demonstrating the value of their services. "Brokers are traditionally good at what they do, but what they're not good at is telling people what they do. If we go and see clients and give a presentation, what they don't see is work behind the scenes, the dialogue when we're describing their business risks to half a dozen underwriters."

Playing catch-up

It's not just recession weighing down on smaller businesses: there's a greater regulatory burden too, and it's driving some of them to drastic changes.

WH&R McCartney in Motherwell, Lanarkshire, is a family-owned business that has changed little since it was established in 1932. Third-generation director Graeme Robb says it has been driven to modernise fast.

"We saw the way insurance was going, so we're trying to drive our business on to a more professional set-up, for want of a better word. It had to be done," he says. "How we were operating was very old fashioned. We didn't know how to delegate and we were completely overloaded at the top of the business."

Now, instead of clients having a single point of contact within the firm who would deal with every aspect of administering the policy, they have several. Tasks are split across the team, freeing up valuable management time.

With so much personal lines business now done direct or via the internet, commercial lines now make up 90% of the firm's work, which is more than ever before. Robb is also chasing new opportunities in specialist markets such as charity and social welfare.

"We've been targeting clients instead of just waiting for business to fall our way, which we had been guilty of," he says. For the last three years, this strategy has seen the business grow between 7.5% and 10%, though this year growth will be flat.

Connecting people

Some brokers believe networks are the best way to help them access new markets. Both Pace Ward and WH&R McCartney are members of the Broker Network, and attribute that to at least part of their success.

Pace Ward joined nine years ago, and Pace says that it has only been able to serve some of its new specialist clients because of that. "We can approach more niche insurers that not all brokers can, and we have bulk buying power, so we've got a very broad market we can access. On our own, they wouldn't maintain an agency with us."

But while networks may have given brokers greater clout with insurers in the past – Broker Network's total gross written premium is ☞

FIGURE 4:

networking

more than £500m, compared with £3.3m for a minnow like WH&R McCartney – the tide appears to be turning.

Insurers, wringing the cost of their distribution channels, are either starting to rebel against the higher commissions demanded by the networks, or are setting up their own quasi-networks to reclaim control of the market.

This is putting off some brokers from joining. "We can see both the benefits of it, and potential downsides," says one company director, who has chosen to remain independent. "Insurers are starting to react against networks and what they see as bully-boy tactics in terms of driving commissions up over the years."

"They're reacting badly to what they see as being forced into business dealings they might not otherwise have done," he continues. "We have stood or fallen on our ability to grow accounts with underwriters and negotiate the most favourable terms that we can without having to use the might of a network to do that."

Networks are only worthwhile for smaller brokers, believes Robin Lucas, managing director of Lucas Fettes & Partners, which has nine branches and 200 staff. "We are a profitable and acquiring business – why would we want to join a network when all it means is sharing responsibility? I think networks are for smaller brokers who don't have all of the agencies or critical mass to ask for terms that are competitive."

"Start-ups have a good place in networks, before they're big enough to fly on their own," Lucas adds. "I think of a network as a nursery: it's a good place to start; it's not a good place to finish."

ECONOMY DRIVE

The other benefit to networks is that they offer centralised services to cut the burden of administration, marketing or, most importantly, regulation on small businesses. Pace uses Broker Network's services to create marketing materials and target potential new business via telemarketing. And if his firm didn't use Broker Network's compliance services, he says, this would take an employee three days of work every week, rather than two a month.

Meanwhile, Trudgill suggests the decision to join a network is often a case of personality as much as anything else.

> 'WE'VE BEEN TARGETING CLIENTS INSTEAD OF JUST WAITING FOR BUSINESS TO FALL OUR WAY, WHICH WE HAD BEEN GUILTY OF'
>
> GRAEME ROBB, WH&R MCCARTNEY

"We have many members who like to be independent; they don't want to answer to anybody and they have strong opinions of where they want the business to go. Others like to be part of a community. Being independent means you can react to things faster and you're not spending money being part of a network, but if you do, you can get a higher commission rate on business and there are benefits you can lean on in a recession."

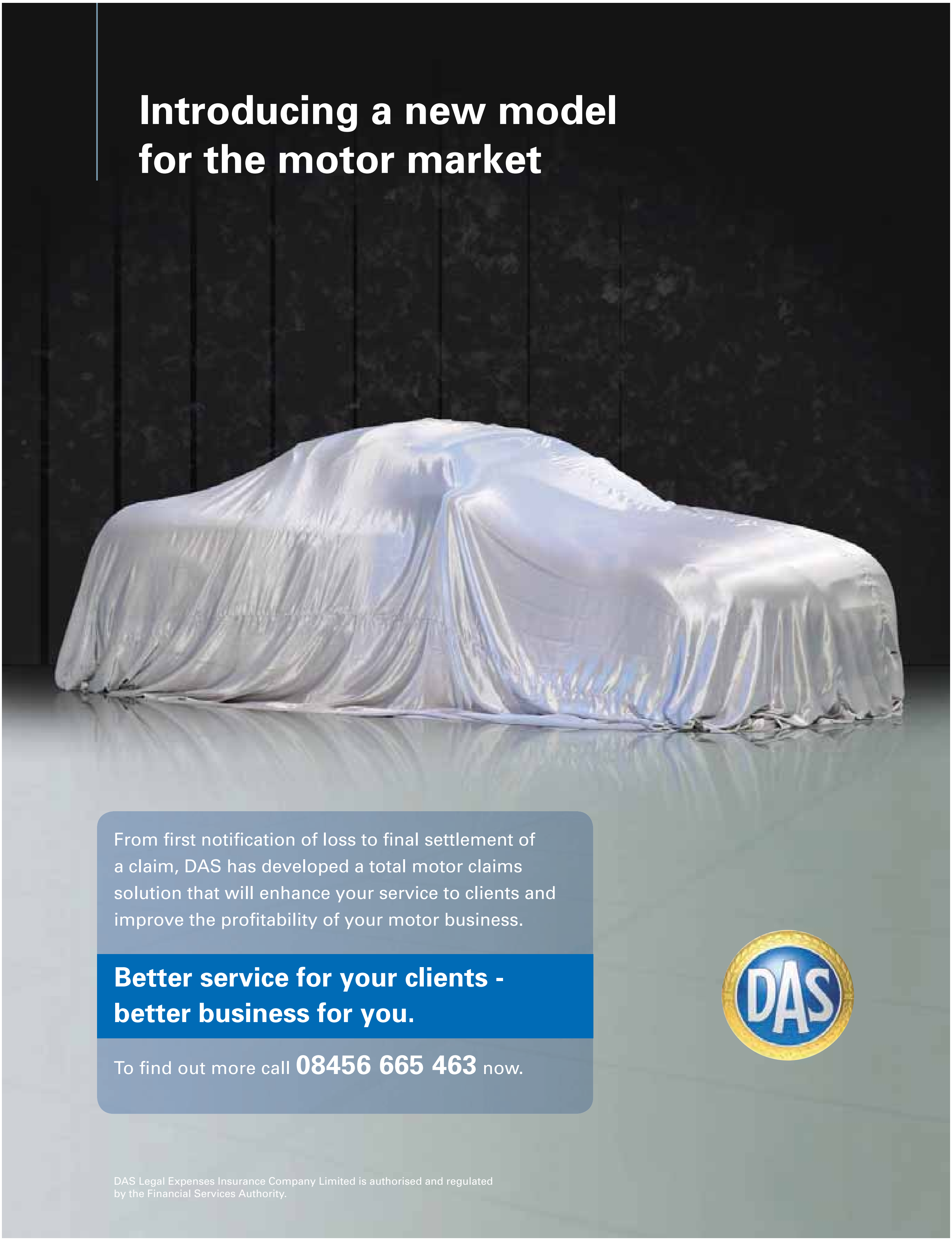
But some brokers may not survive the recession at all. The pace of consolidation in the broker market may have slowed down considerably in the past year, as finance became scarce, but Trudgill expects it to continue. "Smaller brokers might merge with each other so they can have a full-time marketing person, a full-time IT person, a full-time regulation person," he points out.

For Robb at WH&R McCartney, organic growth is preferable, but he has earmarked a few acquisition targets. "We're talking to local brokers, where maybe people are due to retire over the next three or four years."

Meanwhile, brokers acting as managing general agents, underwriting policies on behalf of insurers, have already been shunned by major insurers including Norwich Union (soon to be Aviva) and Axa.

Trudgill believes this trend will continue: "In recession, everyone talks about getting back to their core business. Insurers will be focusing on traditional underwriting rather than competing on price. They want to bring back control."

But it's still too early to tell what permanent changes the broker sector might undergo. Trudgill says: "It's still an unknown out there. Brokers are certainly spending very carefully. There's pressure on everybody." **IT**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Steeped in history

Independent broker Russell Scanlan has retained both its collegiality and its charm through 130 years in the industry. Katie Puckett traces the firm's progress from a romantic 19th century beginning, to a robust 21st century business

HISTORIAN SIMON Schama would have a field day sifting through the archives of Britain's independent family-run brokers. Behind the unassuming shop fronts, there's a treasure trove of social history and piles of documentary gold just waiting to be discovered.

Russell Scanlan, which was established in 1881, is a stellar example of this. Among its records, you'll find a policy insuring Boots the Chemist against damage by zeppelins – rigid airships, similar to blimps, which were popular from the early 1900s until the Hindenburg ignited in 1937.

There's also a large collection of "firemarks": the metal or ceramic emblems that buildings used to display to show which private fire-fighting companies were contracted to them, as well as accounts from a long-dissolved insurer of coal and iron mines – dated before this type of business was nationalised in 1947.

Chairman Bill Russell, 72, joined his father's firm in the early 1960s and has been working there ever since, helping to build it from an office with a handful of people into a staff of 35. Henry Russell died in the early 1980s, and his son inherited the firm. He prides himself both on the company's rich history, and its ability to modernise.

The firm now specialises in commercial SME and high net worth private clients, and had an annual turnover of about £1.8m for the year ended 31 July 2008. With 2,500 clients, it posted £12m in premiums brokered.

"The business has evolved but has also remained the same traditional and old-fashioned firm," Russell says. "It's based on servicing local companies, organisations and private clients, typically within an hour's drive of Nottingham."

"What has changed is a huge expansion in the number of clients we look after," he adds. "At one time, you could have easily known all their names. But I can point to a number of clients I inherited from my father, and we're still doing business with some of the same people, over 50 years later. That's the most outstanding thing for me."

The early days

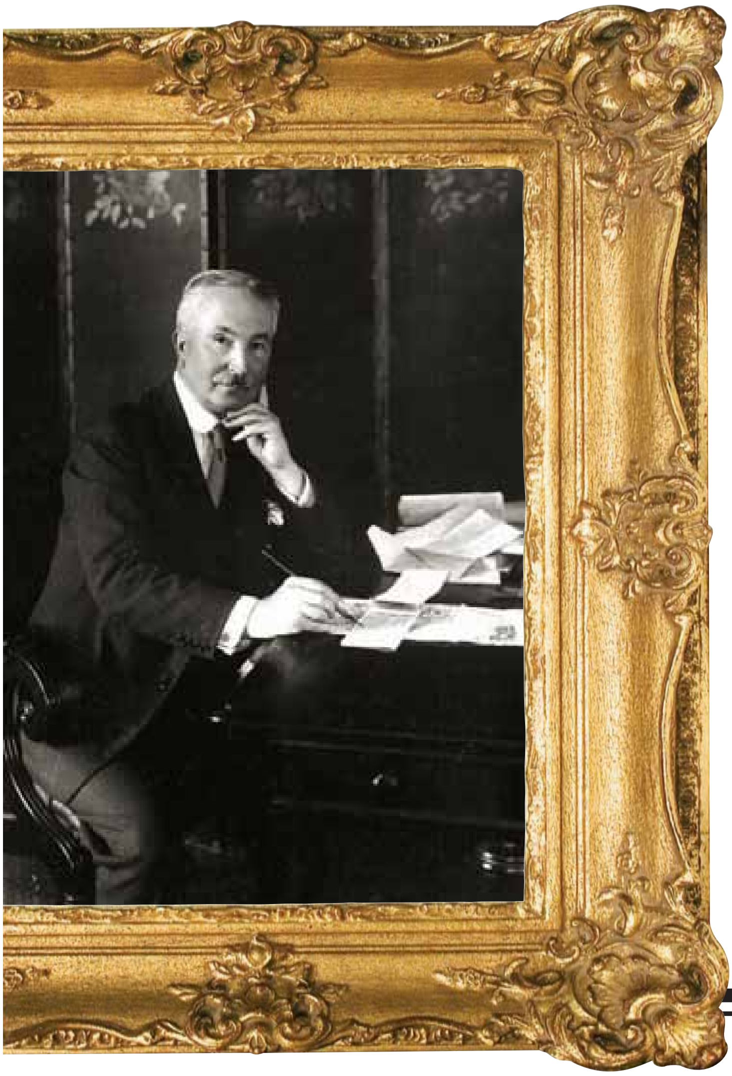
The business was originally founded by an Irishman named Philip Scanlan, who came over to Nottingham from Dublin to marry a local girl – her family's business is still on the firm's books today.

When Russell first began working for the company, it was entirely paper-based: handwritten ledgers, renewal cards, policy records – which the brokers filled out themselves for their clients.

"You had separate policies for each type of business: fire peril, business interruption, EL, PL," he explains. "Any fairly small business could have five or six policies instead of a combined one. There was a lot more paper around: there were card indexes for each one."

Nowadays, there's of course far less paper, as well as fewer individual policies. There are also fewer insurers around, owing to consolidation.

"I would bet that, in my time, there would be 20 insurance companies with branches in



Through the ages: (l-r) Henry Russell; Philip Scanlan; Andy Jenkins, Mike Dickinson and Bryan Banbury

Nottingham, names that people in the market now would never have heard of: Atlas, Royal Exchange, North British, and Ocean Accident. All of them are just memories now," Russell says.

Ironically, the market was much less competitive in some ways, with practices that the Competition Commission would take a very stern view of today. Historically, Britain was still powered by heavy industry and manufacturing. Insurers agreed tariffs for industrial risks between them, each quoting the same price.

"There would be a woollen mills tariff for any place that manufactured woollen garments with a basic rate of say, 10 and six pence. If premises had more than one floor, they'd add on another two and six pence, and so on."

But Russell says brokers still had an important role to play: "It was to make sure the insurance company did it properly, that the client got a fair rate and was getting a good service."

Weathering the storms

Like many independent family-run businesses, Russell Scanlan has survived a great deal in its long history. But current demands are especially hard for a small broker to weather.

One of the biggest challenges for a modern company is regulation. Russell doesn't want to seem outdated, but he sounds a little wistful remembering when brokers in the Midlands "knew each other and, by and large, one behaved in a civilised manner", before sharp practice crept in and the market required a firmer hand.

Another challenge the company faced was relatively recently, during the collapse of major insurers such as Independent in 2000, and the massive Lloyd's losses in the 1990s.

"That was desperately difficult because we had clients whose policies were suddenly not worth ☞

"I can point to a number of clients I inherited from my father, and we're still doing business with some of the same people, over 50 years later"

Bill Russell, Russell Scanlan

BELOW: A SELECTION OF "FIREMARKS", JUST ONE ELEMENT OF THE RICH ARCHIVES OF NOTTINGHAM BROKER RUSSELL SCANLAN

the paper they were printed on," Russell explains. "Fortunately, because we'd always been very selective about where we placed business, and looked for the highest possible standard of financial stability, we weren't as affected as some."

More than ever, Russell and the company's directors have had to find ways to bring the business into the 21st century but without losing the traditions of professionalism and good service that have made it so resilient.

PEOPLE FIRST

One of the traditions is investing in up-and-coming talent; Russell has watched many young brokers grow up over the years, and is proud of the firm's contribution to the local economy.

"One of the nice things is that the business has provided employment for a lot of very good people over the years. We're stable, we encourage staff to stay. We have really good, qualified people, and we look after them. You get a high-quality person working for the organisation and that's something clients can relate to."

Bryan Banbury joined the company in 1988 as an account handler, and is now managing director. "It shows you can work hard and come up through the ranks," he says. "This is what we're hoping is going to happen in future, for people in the ranks now to take over when we're old and grey."

Banbury was around in the 1990s when Russell sold his shares in the company to colleagues Ian Chaplin and Mike Timberlake, and was one of four directors who took over the company through a management buyout in November 2007. Timberlake died in 2000, but Russell and Chaplin continue to play an important role within the firm. (Chaplin is now a consultant in the commercial team.)

These days, securing new business has become a major focus for the broker, and there are now three staff members who focus solely on chasing new leads. Russell also heads a department that looks to cross-sell policies to existing clients.

Banbury says: "We want to provide a service all the way through. Our idea is either to pick up commercial clients and talk about personal lines, or pick up home insurance clients and talk to them about commercial policies, if they have a company."

THE SECRET OF SUCCESS

Russell Scanlan also joined the Unitas Alliance in March. Banbury says he wasn't looking to join a network per se, but he felt an affinity with the 11 other brokers in the network. "They seemed pretty much the same as us: clients value what they do," he says. "The key for us is the word 'independent'; that's really important for the company."

Independence is something that Russell Scanlan fiercely protects, and the broker consolidation trend is something it is determined to resist. Russell says: "When you've been used to making decisions yourself, as we all have for many years, the idea of being told what to do doesn't appeal. We've got the motivation to keep going and we will do."

All in all, the business seems unstoppable – although at 46 years old, Banbury says the credit crunch is by far the worst environment he's experienced. The biggest difficulty, he says, is convincing cash-strapped clients of the value of their service, as insurers raise rates at the worst possible time.

"The professionalism we show is going to be really important through that, so clients understand they're getting value for money even though it's not cheapest," he says.

But Russell is more sanguine: chalk it up to a historical perspective. The company has kept trading through recession before, and there's no reason why it shouldn't survive this one too.

"It's obviously very sad if firms that you know and clients you deal with can't survive; we've seen plenty of it," he says. "But if you've still got the basis of your business, and you've built up a reputation for being honest and truthful, and doing a good, professional job, you'll be able to prosper." **IT**

"THE PROFESSIONALISM WE SHOW IS GOING TO BE REALLY IMPORTANT THROUGH THE CREDIT CRUNCH, SO CLIENTS UNDERSTAND THEY'RE GETTING VALUE FOR MONEY"

BRYAN BANBURY, RUSSELL SCANLAN

the missing link

Hiring a loss adjuster specifically to assist in putting together a complex claim can shave off significant time, resulting in a happier client. Katie Puckett considers how this can work in practice

Illustrations by Joe McLaren

It's never been more important for brokers to demonstrate the value of their services to clients. But, for some reason, they sometimes overlook the claims side of things – a client's biggest hour of need. If you really want to impress policyholders, reassert yourself as their best port of call in this regard.

Biba is so taken with this idea that it has invited Angus Tucker, president of the Chartered Institute of Loss Adjusters (Cila), to speak at its conference on exactly this subject. It's an area most relevant for medium to large commercial claims, where there can be substantial losses from property damage and business interruption.

"These days, most commercial entities work on fairly tight margins; they don't have staff sitting around," says Tucker, who also works as a director at financial and business adviser Grant Thornton. "Following a major disaster, it's very, very rare that you'll get an absolute loss of a building or operation, so the rest of the business will still be operating, and management and staff will still have their day jobs.

"They'll also be occupied trying to recover business from the disaster, protecting their client base in case competitors try to woo them. So they're already doing two full-time jobs, and then they've got to do all the onerous data mining to put the claim together."

Call the experts

This is where brokers can shine. When a claim occurs, the broker is already the first person a client calls. But they're not necessarily the best person to help them, Tucker believes. "Brokers can provide a lot of support but they are experts in insurance broking, not insurance claims. These are two very separate disciplines." In Europe, he adds, loss adjusters are known as "claims experts".

Insurers typically appoint a loss adjuster to confirm whether there is a valid claim and determine how much it is worth. But the insured remains responsible for putting the claim together, which is often an arduous and complex job. The broker can help by stepping in and appointing a second loss adjuster who works strictly for the client.

"They [the second loss adjuster] can identify and source all the documents – effectively becoming the claims department of the broker's client," Tucker says. "The insured is still doing ☞

THE LOSS ADJUSTER

Once the loss adjuster is comfortable there's a valid claim under the terms of the policy, they work with the insured on immediate loss mitigation measures. They will then decide the level of payout, requesting supporting documents and other evidence from the client. They may offer some advice to the client to help them put the claim together, but they are working for the insurer first and foremost.

THE OPPORTUNITY

When the claim is reported to the broker, they could help the client by offering the services of a loss adjuster to prepare the claim. A second loss adjuster can help them source all the documents and evidence required to back up the level of damages and present it in a way that the insurer's loss adjuster will understand. This ensures the claim can be settled as quickly as possible.

THE BROKER

The broker has arranged cover for the client, and will be the first person the client calls when disaster strikes. The broker contacts the insurer and sets the claim in motion. As the process goes on, they may advise the client on compiling the claim.

THE UNDERWRITER

The insurer must be satisfied that the claim is genuine and how much it is worth. To do this, they appoint a loss adjuster.

THE INSURED

It falls upon the shoulders of the insured to compile their own claim, including all supporting documents. This could mean going through many months of invoices or receipts to ascertain stock levels, or dealing with surveyors to work out how much it will cost to rebuild premises.

two days work in one, but this takes the third away. It's a huge logistical effort, even if there's no dispute. But the loss adjuster will know how the policy requires the claim to be represented and what's needed to support it, and they can do it far quicker."

In some cases, a claim that might take two years to settle could be dealt with in 14 months, he suggests. "Someone working with the insured can identify problems early on, before they become major issues six months down the line. It's also about managing the client's expectations. The loss adjuster can identify very early on what the policy covers."

Meanwhile, the big accountancy firms have long been offering claims preparation services to their audit clients. Then, a few years ago, the big three brokers, Marsh, Aon and Willis, set up dedicated in-house departments to gain some of this territory. Smaller brokers may not have the resources to employ an in-house team, but they could still join forces with a local independent firm to offer the service to clients.

Get in on the act

Neil Greaves is a chartered loss adjuster and UK practice leader for Marsh's forensic accounting and claims services team (FACS). After 20 years working on major losses for various practices, he joined PricewaterhouseCoopers in 2001 and then in 2005, moved with three colleagues to Marsh to set up the FACS team.

"When one of PwC's clients has an insurance claim, they would probably tell the audit partner they needed to make a provision in their accounts. At that stage, [the audit partner] could say, 'PwC has a team to help you prepare that claim'."

Marsh decided this was something it should offer its clients. "A lot of managing claims is paper-pushing," Greaves says. "Brokers don't need to get involved in unnecessary admin or nodding at meetings. We wanted to be involved in the claims process in a way that can actually add value, engaged at the coal face with clients helping to prepare the claim. If they need forensic accountants to pull out numbers to compile a business interruption claim, we've got that. If they need building expertise to get a quote for rebuilding their building, we have that too."

'A loss adjuster working with the insured can identify problems, and manage the client's expectations. They can identify very early on what the policy covers'

Angus Tucker, Chartered Institute of Loss Adjusters

Accountants may have spotted the opportunity first, he says, but claims preparation should be an intrinsic part of the service a broker offers. "If you've got an expert risk adviser who arranges your insurance contract for you, it seems to be completely rational to expect that risk adviser to stand side by side with you when you have a major loss, not to send you down the road to PwC or Deloitte or KPMG," Greaves argues. "It should be a core offering for brokers."

Added value

The UK takes a different stance on claims preparation services to most of the rest of the world. Here, clients pay a fee for the service when the claim occurs. But elsewhere in Europe, the US, Australia and the Far East, a small amount is added on to the premium when the policy is taken out to pay the costs of a claim.

For Greaves, this makes sense. "If it's a cost that the client wouldn't have incurred if the claim hadn't happened, why shouldn't it be recoverable? In comparison to multimillion pound loss, it's negligible. It should always be an option."

When Greaves pushes the issue with insurers, he finds the reaction mixed – some fear, he concedes, that including the charge within premiums will open the floodgates and lead to extra services on every claim where they're not needed. "It all comes down to value. On claims of £5,000, frankly we won't add any value as a broker, and I don't think we need to get involved if the client is being looked after by a competent loss adjuster."

On the whole, though, Greaves finds that the working relationship between brokers and adjusters who are working for insurers can be constructive. "I like to think most adjusters on major claims see this as a positive, and would recognise there's a value in having somebody help the policyholder prepare the claim in a professional way, and a way they can understand, whether that support comes from their accountant or broker," he remarks. "They may not agree with everything in the claim, but at least they can understand it." **IT**

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Calculated risk

The subprime mortgage crisis left a dent on the reputations of the credit rating agencies. Angelique Ruzicka reports on how these agencies operate, and the calls within the industry for change

CREDIT RATING agencies are supposed to be the almighty seeing-eye; the ones that brokers can put unwavering faith in when it comes to determining the credit worthiness of insurers.

But with some of these agencies having awarded top ratings to bonds backed by subprime mortgages – and with these same bonds subsequently falling in value and being blamed for the start of the credit crisis – questions have been raised over whether their accuracy can be trusted.

Reputation is everything for brokers; their business model is built on client trust, and when that trust is broken, it can do irreversible damage. So what should a broker do when it comes to rating agencies?

The consensus is that there aren't any real alternatives to rating agencies. But that doesn't mean brokers can't be savvy about choosing the right ones, and also do their own homework on insurers.

"Credit rating agencies are a necessary evil," says one broker, who does not want to be named. "If they weren't around, what would you do? We do get their [insurers'] accounts and have a look through them, and keep an eye on what's in the news from different websites. But if ratings are going to drop, that's what we are looking at."

Not all brokers are critical of rating agencies. John Batty, a director of Caunce O'Hara, says his company gets updates from rating agencies every month. "If we want to check the current security rating of any insurer, then we just log on to the internet," he explains. "We can't say that we take ratings with a pinch of salt because overall they are probably more accurate than anything else we have."

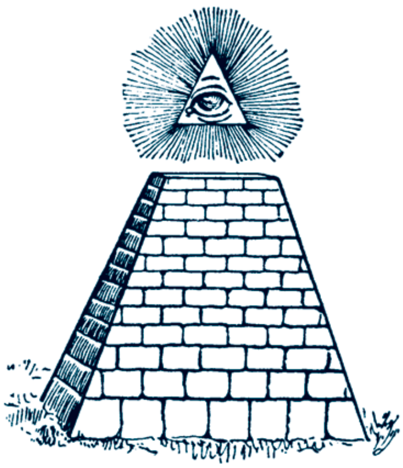
Rob Jones, managing director of S&P, adds: "Most of the criticism that has been levelled against agencies has focused on the ratings of structured finance instruments and less so on the ratings of corporates, including insurers."

Quality control

However, with brokers relying so heavily on ratings, they have to draw the line somewhere. And that line is usually when insurers are rated BBB or less.

"Triple B is the cut-off used by the national brokers, and that is what we use," Batty says. "What you normally see is a triple A to a triple-A minus. Norwich Union has been downgraded recently, but it wasn't enough of a swing to cause us any concern."

But he adds: "If it went from an A to a B, then it's something we would look at, and try and analyse the reasons for it." ☞



Ratings Explained

Confusingly, credit ratings come in many forms, and each agency uses different methods to calculate ratings. The most well known are Standard & Poor's (S&P), A.M. Best, Moody's, and Fitch Ratings. S&P, for example, rates companies from AAA – its highest rating – down to D, where companies are considered in danger of defaulting. (For explanations of S&P's ratings categories, see box overleaf.)

Of the brokers *Insurance Times* talked to, most tended to use S&P and A.M. Best. One source says this was down to preference: "We use these agencies [S&P and A.M. Best] as they are probably the best known and the standard quoted by most of the industry."

So what exactly are ratings and how do agencies reach their conclusions? On the former, Moody's describes a rating as "an opinion of credit quality of individual obligations or of an issuer's general credit worthiness". But it further warns that "ratings are not recommendations to buy or sell, nor are they a guarantee that default will not occur". Moody's says its ratings represent a rank ordering of credit worthiness, or expected loss.

To formulate their conclusions, agencies use multiple sources of information, including annual reports, prospectuses, and market information such as stock price trends. They also rely on economic data from industry groups, articles from academic sources, reports from meetings with the debt issuer, and expert sources in the industry, government or academia.

> **'Credit rating agencies are a necessary evil. If they weren't around, what would you do?'**
> Broker source

'The position of rating agencies has been questioned following the banking crisis, and no doubt changes will be made'

Eric Galbraith, Biba

The Broker Network, which has a securities committee to assess the different ratings and to monitor the stability of all the insurers on behalf of its members, adopts a similar approach.

"We don't offer risk placements through any insurers that fall below a certain criteria. We won't let members place business through us if they do," a spokesman says.

Meanwhile, another option is to improve the quality of rating agencies. And in light of the economic crisis, there have been many calls for agencies to make their calculations more transparent. "The position of rating agencies has been questioned following the banking crisis, and no doubt changes will be made," Eric Galbraith, chief executive of Biba, says.

A question of ethics

What still sits uneasy for most customers using rating agencies is the way in which agencies are remunerated. Agencies are paid by the companies they are rating, and critics say this creates a conflict of interest.

"The financial crisis has revealed problems with the role of credit rating agencies and that, up to a point, there is a conflict of interest with their business model," says a spokesman from the European parliament.

Rating agencies have been regulated by the US Securities and Exchange Commission (SEC) since 2005, but the financial crisis has prompted the European Commission (EC) to step in and add further rules. The EC wants to regulate rating agencies and has introduced proposals that are currently being discussed by the European parliament.

The proposals include rules that credit rating agencies may not provide advisory services or rate financial instruments if they don't have sufficient information to base ratings. Agencies must also disclose their model methodologies and key assumptions on which they base their ratings, and must publish an annual transparency report.

In addition, they need to have three independent directors on their boards whose remuneration does not depend on the financial performance of the agency. When *Insurance Times* went to press in April, the European parliament was due to vote on the proposals before the elections in June this year.

Some brokers welcome the idea of more regulation. One says: "It would be nice, as everything else is regulated. Agencies give you an overview of their ratings but they don't get down to how they work it out, with turnover versus assets versus people and loans. Don't make it overcomplicated; make it relatively simple."

Until the models are improved and more stringent regulation kicks in, Galbraith suggests that brokers try to minimise their reliance on agencies.

"Rating agencies are one source to obtain information on measuring insurer security in our sector. Other key factors in considering the selection of an insurer should be their willingness to pay claims and the overall service levels provided." **IT**

Standard & Poor's: Long-Term Issuer Credit Ratings

AAA: An obligor rated AAA has extremely strong capacity to meet its financial commitments. AAA is the highest issuer credit rating assigned by S&P.

AA: The obligor has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.

A: This denotes strong capacity to meet financial commitments but the obligor is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than those in higher-rated categories.

BBB: An obligor rated BBB has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet financial commitments.

BB, B, CCC, and CC: Obligors rated BB, B, CCC, and CC are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and CC the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB: An obligor rated BB is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to an inadequate capacity to meet financial commitments.

B: This rating suggests more vulnerability than those rated BB, though the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC: This indicates that an obligor is currently vulnerable, and dependent upon favourable business, financial, and economic conditions to meet its financial commitments.

CC: An obligor rated CC is currently highly vulnerable.

Plus (+) or minus (-): The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major ratings categories.

R: An obligor rated R is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favour one class of obligations over others, or pay some obligations and not others. Please see S&P's issuer credit ratings for a more detailed description of the effects of regulatory supervision on specific issues or classes of obligations.

SD and D: An obligor rated SD (selective default) or D has failed to pay one or more of its financial obligations (rated or unrated) when it became due.

A D rating is assigned when S&P believes that the obligor will fail to pay all or substantially all of its obligations.

An SD rating is assigned when S&P believes that the obligor has selectively defaulted on a specific issue or class of obligations, but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. A selective default includes the completion of a distressed exchange offer, whereby one or more financial obligation is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.