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BIBA contacts

Eric Galbraith

Chief Executive
020 7397 0201
galbraith@biba.org.uk

Peter Staddon

Head of Technical Services
020 7397 0204
staddonp@biba.org.uk

Graeme Trudgill

Technical and Corporate
Affairs Executive
020 7397 0218
trudgillg@biba.org.uk

Paul Garland

Membership Manager
07808 166124
garlandp@biba.org.uk

Steve White

Head of Compliance
and Training
020 7397 0222
whites@biba.org.uk

Steve Foulsham

Technical Services Manager
020 7397 0234
foulshams@biba.org.uk

Lindsay Campbell

Executive Assistant
020 7397 0221
campbelll@biba.org.uk

Doreen Campbell

Office Manager
020 7397 0219
campbelld@biba.org.uk

Vannessa Young

London Market and
Compliance Co-ordinator
020 7397 0233
youngv@biba.org.uk

Kirsty Gordon

Membership and broker
ASSESS
020 7397 0224
gordonk@biba.org.uk

**British Insurance
Brokers' Association**
8th Floor, John Stow House
18 Bevis Marks
London EC3A 7JB

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Welcome



Leighann Burtrand
Editor of *The Broker*

A winning combination! This issue's cover is all about our double success – first, beating stiff competition to be named Trade Association of the Year at the Trade Association Forum Best Practice Awards. Second, we had a superb response to our member survey on claims, which provided us with strong statistics to demonstrate that brokers are indeed champions for their customers. Members highlighted some fantastic examples of brokers helping both commercial and private customers. Some key findings were established – including 91 per cent of brokers surveyed had secured increased payments for clients in the past year, following an initial lower offer from insurers, and 58 per cent had to fight harder to get claims paid during the recession.

We will be using these valuable statistics to promote brokers to the media, politicians and other stakeholders. I would urge you to make the most of this research, too, to help promote yourselves. Finally, a big thank you to everyone who took part in the survey. And please look out for our *Manifesto Progress Update* which records our progress on our 2009 lobbying issues. Looking ahead to 2010, we are really keen to hear your thoughts on the issues that you would like to see addressed in our next *Manifesto*, so please put some thought into what you want us to focus on and then let me know at burtrandl@biba.org.uk

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“BIBA won Trade Association of the Year at the Trade Association Forum Best Practice Awards”

Change is afoot

I'm delighted to confirm a number of key new BIBA appointments. Swinton's Patrick Smith will become our new Chairman from September, taking over from Derek Thornton. Patrick brings a wealth of experience to us and is also a natural entrepreneur – a gift many of our members possess, no matter what size they are.

Our new London Market Region Committee is also now up and running, chaired by Crispin Speers' Ken Davidson. Ken is someone I've known for many years, we once even worked together. I know he is going to bring an unparalleled depth of understanding and plenty of common sense to the role. He also has a strong committee now in place – which will mean the highest standards of representation for our London market members. If you have an issue we need to address, please contact either myself or Ken.

We're also extremely pleased to welcome Aon's Robert Brown to the BIBA Board. He was appointed Chief Executive Officer of Aon Limited in July 2009. He was previously,

and remains, Chief Executive Officer of Aon Corporate and Affinity, leading Aon's retail broking activities. I know his insights are going to be invaluable.

At the same time, Mike Slack – one of broking's best-known figures – is standing down from our Board – I understand he will also be stepping down as a Non-Executive from the FSA as well. Mike has given an enormous amount of time to BIBA and the regulator, as well as running a successful brokerage and he remains as Chairman of the innovative Tempcover business – one of our scheme providers. I know Mike will remain in contact with us at BIBA, but also wants to spend more time sailing – I wish him all the very best for his retirement, or perhaps semi-retirement, more like, and – as a fellow sailor – a lot of very happy times at sea.

The changes with LMBC and the formation of LMRC have meant a change to our Articles of Association. We have also taken the opportunity to deal with changes in The Companies Act which take effect in October and to update some other minor matters in the 21st Century.

The ultimate recognition – but there's no room for complacency

Members may be aware that we had a rather successful night recently – BIBA won Trade Association of the Year at the Trade Association Forum Best Practice Awards. We also won two other categories and I have to say, the team and I had an enormous buzz when our name was called out. We were not tipped off, and although we are passionate about our industry, you can never tell if others – in this case the judges – are going to pick up on your achievements.

I was so pleased that a small trade association such as ours could achieve this recognition. The judges noted that we only have 16 staff here at BIBA – although in my view, this is how it should be. BIBA is not a centralised organisation – and every one of us is involved in multiple areas supported by our members in all of our regions. It is a members' organisation. We don't forget that we must always show our members that we are good value for them, as well as continuing to achieve results. So, while this is wonderful for us, it is also very much back to business as usual.

BIBA produces *Manifesto* progress report

BIBA's team has produced a progress update on its *Manifesto*, based on its work in the first six months of the year.

Technical and Corporate Affairs Executive, Graeme Trudgill, says: "We're delighted to show progress in all areas. Some – such as continuous insurance enforcement – are going to take longer than others. But we will keep pushing on all *Manifesto* pledges and keep members informed on where we are and our results."

Key issues highlighted include: **Access to and availability of insurance**

BIBA has focused its efforts on the Equality Bill, currently being drafted. We do not believe there is market failure, but instead suggested better signposting and appropriate risk-based pricing, something the Government supports.

Affordability

Emphasising that brokers are best placed to find the right cover at value-for-money prices, BIBA has forged links with consumer watchdog Which? and the Citizens' Advice Bureau.

Internet sales

BIBA wants transparency and to minimise mis-selling. We are pressing for improvement and are in talks with the Comparison Consortium, the ABI, FOS, The OFT and the FSA.

Understanding insurance

Many buyers are confused by insurance and different channels – we are seeking to encourage informed purchases. Recent work has involved providing information for the Department for Business, Innovation and Skills on buying business cover and on how to import a vehicle into the UK for

the DVLA. We are also working with Standard & Poor's on insurer security.

Flooding/Business Resilience

The draft Flood and Water Management Bill is being reviewed by BIBA's Property Committee. We continue to lobby for BIBA's recommendations to be implanted from the Pitt Report. Business resilience remains a major campaign issue.

FSCS

Brokers can be held liable to pay compensation for failing banks through the current cross-subsidy rules. BIBA is battling for this to be overturned, and is speaking to the Treasury, FSA, FSCS, EU and many MPs.

Fair and cost-effective regulation

BIBA lobbied the FSA on its proposed rises in levies and fees for brokers and secured

a reduction in these. We are fighting for a level playing field for brokers and are working with BIPAR and the WFIL.

Motor

Electronic certificates have been held back and BIBA is pressing the Government to speed up in this area – we are pushing for them to be permissible by the end of the year.

Members should check out *Manifesto update* at www.biba.org.uk/Manifesto.aspx



BIBA wins Trade Association of the Year



We did it! The BIBA team celebrates at the Trade Association Forum Best Practice Awards, with Master of Ceremonies, John Sergeant (front left)

BIBA has won the overall Trade Association of the Year award at the Trade Association Forum Best Practice Awards – a top accolade, which pitted us against many larger organisations.

We also won the Commercial Initiative and Exhibition categories at the event.

The judges described BIBA as turning in a "truly remarkable performance" and said we showed "the hallmark of an association that pursues, and achieves, excellence in all its activities whether that be sector representation, communicating with members or undertaking commercial activity. That the association has come back with even stronger entries than last year shows that they do not settle for second place and their commitment to being the best is unrelenting."

BIBA Scotland gears up for regional annual conference

BIBA's Scottish Region has announced the launch of its regional conference, which will be held under the theme of *A New Generation and a Competitive Edge* and takes place on Wednesday 11 November 2009 at Airth Castle, near Stirling, Scotland.

BIBA Regional Executive Clive Hurn, who oversees the running and organisation of this event, comments: "We've put a cracking programme together with leading industry speakers and a great exhibition. Scottish brokers, insurers and industry providers will be heading to Airth Castle to enjoy a busy itinerary at the BIBA Scotland conference. This regional conference is now in its fifth year and is a fantastic opportunity to bring together BIBA Scotland broking members, as well as welcoming those from further afield."

BIBA's recently-appointed Chairman Patrick Smith will address delegates and he brings with him Eric Galbraith, BIBA's Chief Executive and many BIBA staff, including Peter Staddon, Head of Technical Services; Steve White, Head of Compliance and Training, who will also present on compliance issues; Steve Foulsham, Technical Services Officer and Graeme Trudgill, Technical and Corporate Affairs Executive.

- Key speakers include:
- **Ant Middle**, Managing Director, Commercial Lines – AXA
 - **Brigid Murphy**, Director of Trading, Aviva
 - **Steve Kelly**, Regional Director – Allianz
 - **Jeremy Heales**, Head of Small Firms Division – FSA
 - **Alasdair Stewart**, Business Head of Development, General Insurance – Chartered Insurance Institute
 - **David Hertzell**, Law Commissioner – The Law Commission
 - **Derek Plumber**, Managing Director, MMA Insurance
 - **Chris Giles**, Chief Executive Officer, Giles Insurance
 - **Nell Nelson**, inspirational speaker

This year, there will be a panel session chaired by Peter Staddon. The Master of Ceremonies for the day is Jim Spence, BBC Scotland's Senior Broadcast Journalist (Sport). The event will house an exhibition with around 26 exhibitors, including insurers and other affiliated companies and industry providers.

Clive says: "With modern technology and communications there is increasing emphasis on working remotely. To really get the best out of our businesses it is essential that we have direct face-to-face contact. Outside speakers and forums are a great platform to encourage fresh

thinking – it's what makes our industry thrive! The regional conference offers brokers an excellent opportunity to talk about the areas that really matter and to pick up new ideas and new contacts. In addition, it encourages networking and meeting friends old and new."

When members register, they are also entitled to bring a young member of staff under the age of 30 free.

The BIBA Scotland Regional

Committee is indebted to the support of the four main sponsors to the conference: Aviva, NIG, AXA and Allianz.

MMA will again be sponsoring a £500 holiday voucher and Oak Underwriting a surprise £250 prize for the prize draw. Premium Credit is sponsoring the buffet lunch.

Other sponsors include RSA, Fortis, Chaucer Insurance and Tokio Marine and the conference is being run in association with the Chartered Insurance Institute.

How to book your place...

To make a booking, members should contact Helen Fullerton of conference organisers, MCI Glasgow. **Telephone: 0141 249 6850 or email: helen.fullerton@mci-group.com**

Brokers can also find out more about the event by contacting

BIBA Regional Executive Clive Hurn at hurnc@biba.org.uk or **telephone 07836 609960**.

You can also register online at the BIBA Scotland website page: <https://b-com.mci-group.com/Registration/09BIBAIR.aspx>

Airth Castle – an outstanding venue

Although it is a one-day event, a number of brokers choose to stay on at Airth Castle Hotel and Spa.

Airth Castle, which is near Stirling, has been around since the 14th Century and is an enchanting place with towers and turrets, but is also a modern and luxurious hotel.

It is in a spectacular setting, overlooking the River

Forth and the unspoilt countryside of Forth Valley and Central Scotland.

There's a state-of-the-art fitness centre and swimming pool and partners will enjoy the pampering at Airth Castle's Cloud Nine spa – where there is also a dedicated programme of men's wellbeing treatments.



The beautiful grounds of Airth Castle

In full flight for brokers

School may have been out for summer, but BIBA's team has been working exceptionally hard to represent members, as **Leighann Burtrand** explains

It seems as though the summer has flown by and I admit, I did take a week off to go on holiday – but what a homecoming... shortly after my return, BIBA won the Trade Association of the Year Award at the Trade Association Forum Best Practice Awards.

From my perspective, it was particularly rewarding to know that judges who were not insurance specialists were able to appreciate our commitment to our members and that we have been striving to do even more in the past few years – especially in lobbying, working with the regulator and seeking to encourage more people to understand the advantages of using a broker.

But while we had an amazing night, there has been a huge amount going on behind the scenes, so here is a taste of some of our summer activities on behalf of members.

Political

- Responded on the UK consultation on the European Commission's proposal for an Equal Treatment Directive and to DEFRA on the Draft Flood and Water Management Bill.
- Responded to the Government consultation document *A Safer Way* on making Britain's roads the safest in the world.
- Attended the Enterprise Forum's *Engaging with the Conservative Party and effective dialogue with business* with the Chairman of the Conservative Party, Eric Pickles MP.
- Attended the Department for Work and Pensions Review Board to review the *Employer's Liability Tracing Code* for 2008.
- Attended the new National Fraud Authority's regional summit.
- Attended the House of Commons' SME Manifesto consultation launch.

- Responded to the Treasury with regard to terrorism cover in travel insurance policies.
- Responded to the Department for Transport regarding electronic motor certificates.
- Responded to the Department for Transport consultation paper on significant personal injury.
- Met with KPMG, which is collating information on trade credit insurance for BIS (formally BERR).
- Promoted brokers and lobbying issues to the South West Regional Development Agency.

Regulation

- Met with the Competition Commission with regard to payment protection insurance.
- Discussed liability capping issue with the Office of Fair Trading.
- Met the Financial Services Compensation Scheme.
- Attended the Financial Ombudsman Service's Industry Liaison Working Group.
- Attended trade association briefing meeting by the FSA's Practitioner Panel and Small Business Practitioner Panel and an FSA

"It was particularly rewarding to know that judges who were not insurance specialists were able to appreciate our commitment to our members"

Leighann Burtrand

European and International Round Table, as well as four other FSA meetings.

- Met separately with the Treasury, the FSA and a senior EU civil servant to discuss the revision of the Insurance Mediation Directive.

Media

- Handled more than 170 media enquiries. Highlights included interviews with the *The Guardian*, *The Times* and *The Daily Telegraph*. We also:
- Appeared on the BBC's *Working Lunch* twice to advise on motor insurance and the benefits of brokers.
- Took part on the BBC's regional *Breakfast* shows on how brokers can assist in finding cover for flooded buildings and obtain travel insurance for swine flu, as well as recording a Radio 4 *Moneybox* programme on young drivers.

Other trade groups

- Attended a meeting with the Royal Institution of Chartered Surveyors regarding disclosure.
- Worked with the Law Society on solicitors' PI cover and launched a new buyer's guide.
- Met with Polaris Plus to discuss key software house issues from members.
- Met with CILA to discuss revisions to market business interruption wordings.
- Submitted BIBA's state of trade report to the Confederation of British Industry (CBI).
- Took part in the second General Insurance Professionalism Task Force hosted by the CII.
- Met health insurer BUPA to explain the working of BIBA's PMI Focus Group and question market practices.



Patrick's rise to the top

Swinton has some 580 branches and employs 5,000 staff, managing 3.25 million policies. It is the UK's third largest insurance retailer. Patrick was educated at Cambridge University and has a degree in Mathematics.

2009: Chairman, Swinton

2001: Chief Executive, Swinton

1995: Managing Director,
Norwich Union Direct

1992: Director of Personal Lines,
Norwich Union

1992: Chairman, Hill House Hammond

1990: Managing Director,
Norwich Union Healthcare

1986: Group Direct Marketing Manager,
Norwich Union

1978: Director Technique,
Norwich Union, France

1971: Actuary, Norwich Union.

Meet BIBA's new Chairman

Patrick Smith takes up the reins from September. He tells **Rachel Gordon** what motivated him to take up the role... and a few of his business philosophies, too

Q: Why did you agree to become our next Chairman?

A: I'd been on the BIBA Board before and also brought my company, Swinton, into BIBA membership, because I could see the value – brokers need a strong, single voice. I've had a wide range of experiences within the insurance industry – from working on the direct side and in France and I hope this will bring a different perspective.

I also know the current Chairman, Derek Thornton, and how much he has gained from doing the job. Additionally, I come from a different background to most of those who've held the role previously.

Q: What do you feel are the big issues facing brokers?

A: Obviously one of them has to be the rise of the web. More people are buying with a low level of contact – yet brokers must get across the expertise and support they can offer their clients. At Swinton, we have shown the High Street does have a place but we have concentrated on web business too. And for all of us, the way we deal with intense price competition as we come out of a recession

is something we need to focus on. Last, direct business is nothing new, but it is clear that Direct Line is taking the SME market seriously. The challenge for brokers is to show that they can provide a better service.

Q: Do you think there is still a place for the small broker?

A: Absolutely, whether they are niche, or simply serving their local communities well. At Swinton, we have bought many brokers over the last seven years or so – at least 250 – almost always because there was no succession plan. But these were highly successful businesses run by great people – I've got to know many of the principals, who have stayed on with us.

Q: What do you believe is the value of a trade association?

A: It is essential to have a trade association to represent brokers, but it is easy to take for granted the work that goes on. I have seen at first-hand how much BIBA does and have been particularly impressed in recent years. Apart from the political and regulatory work, BIBA also acts in an educational capacity.

All of us in the industry are aware that many people still don't know the difference between buying direct and a broker. I fully support that people should have a choice – but it should be an informed choice.

Q: How will you balance your role at Swinton with being BIBA Chairman?

A: Fortunately, I am now Swinton's Chairman with Peter Halpin taking over as Chief Executive, so I do not have the same pressures on my time. BIBA has a very able in-house team and I will look to provide hopefully useful input as and when required.

Q: Is there a business tip you could pass on to members?

A: Some years ago, I was in a management training session and in a throwaway line, the trainer emphasised the need to understand the difference between efficiency and effectiveness. It made me take a step back and look at what I was doing. You can be too focused on being efficient and lose sight of the bigger picture. You can also be inefficient but get the job done well – it's a question of choosing to do the right things.



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London Calling

“We’re going to be engaging with London market brokers and then acting on their behalf. I have an excellent team around me”



BIBA has set up a new committee, led by Ken Davidson of Crispin Speers & Partners (above), to cater specifically for the needs of London market brokers.

Vannessa Young – who will run the secretariat – explains how it will operate

London market brokers have a new champion – a BIBA committee established to focus uniquely on their interests and in representation to the Financial Services Authority, Europe, the UK Government and other stakeholders.

The London Market Region Committee (LMRC) will be chaired by Ken Davidson, Chairman of Crispin Speers. It will be integrated into BIBA's existing committee structure and replaces the former London Market Brokers' Committee, which was disbanded at the start of the year.

"This is a new approach. We want our London market brokers to be an integral part of BIBA, to share in all the benefits of membership and for us to work closely together. We fully recognise that the London market has its own unique aspects, but there is also plenty of crossover – it's an exciting proposition," says Eric Galbraith, BIBA's Chief Executive.

Inclusive

The London Market Brokers' Committee split from BIBA and a new trade body, LIIBA, was formed. This has a strong focus on international and reinsurance business into Lloyd's and with reform of the London market. "We have no plans to compete and instead will focus on those brokers who are primarily doing UK and European business and, where appropriate, we will work together," says Eric.

The arrival of LIIBA has had limited impact on BIBA's numbers – and LMRC is already attracting the attention of London market brokers who had previously shunned trade body membership. "We want brokers to know that this is going to be an accessible committee. It has an inclusive approach and anyone who has met Ken will know that he's passionate about the London market, broking and in promoting the insurance industry as a whole," adds Eric.

Ken is a big advocate of trade body membership and is a wholehearted supporter of LMRC being at the hub of BIBA. "We're going to be about engaging with London market brokers and then acting on their behalf. I have an excellent team around me and, who knows, in time we may well bring others on board. The difference is that this committee will have the opportunity of representation on the BIBA Board, the General Insurance Brokers' Committee, regional and technical committees."

Ken says he believes there are a number of big challenges facing London market brokers. "Some of the things they are concerned about include the financial

security of their clients and insurers' solvency, the increasing cost of regulation, the increasing reduction in commission rates and the fact that too many insurers are still chasing market share."

"Our objective is to take all these issues and more on board and we want to hear members' issues and problems – LMRC is here to make things happen," he emphasises.

Despite a high powered career, Ken has always found time to participate in industry associations – and he is urging brokers to give LMRC their support. "Throughout my career, I have not just wanted to be solely focused on my job within the company – you understand more by having a wider perspective. I have found meeting and discussing mutual interests very rewarding through outside industry activities. It is often comforting to know that your problem is not unique and the chances are that a fellow member has a solution. I am a great believer in participation and you only get out of an organisation what you put in."

Some 30 years ago, Ken reveals that he worked briefly with Eric when they were both in Glasgow at Bowings, which later became Marsh. "We both ended up in London, and have also seen many aspects of broking, both in strong markets and recession. I've always found broking a very exciting career, and although we are seeing some areas such as travel taking a hit as a result of the economy, overall, I'm confident that markets are now recovering. I also hope through LMRC we can help promote broking as a career – we need bright youngsters on board and they need to realise how many opportunities there are."

Knowledge

No London market broker needs reminding that regulatory standards are high. Ken says he is opposed to excessive regulation. "It is quite wrong where you have a largely compliant market that regulation should impose a huge workload and cost. You are always going to have some rogues and of course they should be rooted out – but the regulator should focus on these firms and less on those businesses which are focused on their customers and are well run."

He adds he hopes LMRC can also help increase the regulator's knowledge. "I know that the FSA has struggled in the past to find employees with understanding of the more specialist areas. You cannot just be a civil servant, you need to really need to know how a market operates if you are to regulate it."

Who is on the LMRC?

Chairman

Ken Davidson, Chairman of Crispin Speers, LLB(Hons) A.C.I.I., A.C.I.Arb

Committee members:

- **Amanda Blanc**, Chief Executive Officer, UK broking division of Towergate
- **Tim Coles**, Chief Executive Officer, Howden Insurance Brokers
- **Adrian Colosso**, Chief Executive Officer, Heath Lambert
- **David Meur**, Managing Director, Genavco Insurance
- **Lawrence Shortland**, Managing Director, RL Davison & Co
- **Guy Holland-Bosworth**, Chief Executive, Hayward Aviation
- **Ian Sparling**, Compliance Officer, COBRA London Markets

Ken Davidson – experience in spades

Ken's career is exceptionally wide-ranging. His previous and current achievements include:

- Chartered Insurance Practitioner
- Past President of The Chartered Insurance Institute
- Past Chairman of British Insurance Law Association
- Currently Vice-President of the Insurance Institute of London
- Trustee and Director of The Insurance Charities
- Council Member of City & Guilds.

He has more than 40 years' insurance experience, employed by RSA, Lucas Industries, Aon, Marsh, Frizzells, Kingsmead Underwriting Agency at Lloyd's and Barlow Lyde & Gilbert Solicitors.

He is currently Chairman of Lloyd's brokers Crispin Speers & Partners, Chief Executive Officer of Harel (UK) and Chairman of Ascent Insurance Brokers.

Ken is also involved with the City of London as Past Master of the Worshipful Company of Wheelwrights and a Liveryman of the Worshipful Company of Insurers.

LMRC is now up and running and feedback from existing and prospective members is welcome. Brokers who want to know more about LMRC should contact Vannessa Young at youngv@biba.org.uk or 020 7397 0233



Is self-insurance right for your clients?

Asks Peter Child of Heritage Insurance Management Limited on behalf of Guernsey

The current tough economic conditions are causing risk managers and insurance buyers in all sectors to re-evaluate their costs and to examine alternatives. With the general expectations of a hardening market in the insurance sector beginning to be fulfilled, brokers throughout the UK are looking at the most cost effective ways that they can provide risk transfer solutions for their clients.

Most brokers will doubtless already be considering the level of self insurance that their clients currently retain. They will possibly be looking to increase that retention, particularly if the clients possess good loss histories, in order to minimise the effect that the hardening market will have upon their clients' premiums.

The obvious downside of increasing self retention is that no matter how good a client's loss history, they can never be 100 per cent sure that they will not have losses which will impact upon that increased self retention. As a result there is a concern that clients might take a hit on their balance sheet, which in these times with credit both expensive and hard to come by, it is especially important to avoid. This risk has to be considered against the cost of transfer to the insurance market, which is no longer as effective as it once was, as the twin drivers of the market's need to increase premiums, and the clients' need to drive down costs collide. There may be benefits therefore in considering using a formally structured programme and an appropriate self retention vehicle.

Solution

Captive insurance company and protected cell ("PCC") structures, that have been successfully formed and domiciled in Guernsey for many years, have proven to be an ideal vehicle for those wishing to reduce insurance overheads and protect their balance sheets from unforeseen costs.

The captive concept allows clients to set up subsidiary insurance entities to which they pay premiums to take part of their self insured retention. It formalises the self retention structure and creates a fund to meet losses within the retention as they arise.

One of the major advantages of the captive or PCC structure is that it retains any underwriting profits for the captive owner. By combining an increased self retention with a formal captive participation, the client is able to benefit from the underwriting profit that would otherwise have been ceded to the traditional insurance market.

When risk is transferred to the insurance market, a typical insurer will be taking 25 per cent of the premium to cover costs. Also, it is typical for insurers to rate premiums based on the experience of the market as a whole. Those clients are therefore being penalised twice, once in paying for the insurer's costs and again in paying to subsidise the poor loss experience of their peers. These cost inefficiencies can be partially eradicated if a captive structure is

chosen. With a captive, clients can save money by paying rates based on their own experience and not passing these premiums on to the third party market.

Another benefit includes access to the reinsurance markets, which effectively enables the client to purchase from the wholesale rather than retail insurance market. As one might expect there can be significant cost savings to be made through accessing the wholesale market direct.

Those with captive structures may also benefit from increased investment income. The investment income arises because of the delay between paying a premium and receiving a claims payment. For liability covers this can be a period of many years, and with traditional insurance the investment income accruing to the premium funds during this time would be for the benefit of the insurer.

A final advantage of the captive structure is that it effectively enables clients to provide for reserves for events that they believe may happen based upon their loss history over a number of years. Clients can create an Incurred But Not Reported (IBNR) reserve – effectively clients build up rainy day funds beyond the level of known claims, to the level of claims that they expect will arise out of any one year. The captive is a tax efficient vehicle for this eventuality. With on balance sheet arrangements, funds set aside to meet such an eventuality are likely to be disallowed from a tax perspective.

The costs of setting up a captive have sometimes been seen as an obstacle for brokers, but the advent of the PCC structure has added a wider choice of captive options and reduced the entry costs. A typical stand alone captive might require the client to inject at least £100,000 share capital, with average minimum annual running costs of £40,000 a year. However, using the protected cell route in order to take advantage of the captive concept, clients can look at an entry cost as low as £10,000 to £20,000, depending on the level of reinsurance they buy. The other advantage is that the structure can be set up in only a few months.

About Guernsey

Firmly established earlier in the year on the OECD 'white' list, Guernsey, with its robust yet pragmatic regulatory environment, is an ideal location. The jurisdiction has built a wealth of experience and expertise in the management and administration of captives, and was the first location to

introduce the PCC concept.

Guernsey has grown to become the leading captive insurance domicile in Europe. Organisations from Europe, USA, Middle East, Asia, South Africa, Australia and the Caribbean, as well as the UK have established captives in Guernsey showing its international reach.

It is more than ten years since Guernsey introduced the PCC legislation which offered small and medium sized enterprises an entry into a market which was previously the preserve of the multi nationals. However, there remain many firms that have not considered the captive concept option and with markets hardening and a sharper focus on clients' costs, this is the time to re-assess the options.

About the author

Peter Child BA ACII is a Client Insurance Manager with Heritage

Insurance Management Limited. Peter has 15 years' experience in the insurance industry having started his underwriting career with the trade credit and political risks insurer Euler Hermes. After seven years in the London Market he returned to Guernsey to work as a regulator with the Guernsey Financial Services Commission ("GFSC") where, as Assistant Director, he was responsible for all applications and approvals submitted to the Insurance Division. Peter returned to the commercial sector in 2005 and joined Heritage in 2007. He speaks at various insurance conferences from time to time and is a committee member with the Guernsey Insurance Company Management Association (GICMA).

For more information on captive insurance in Guernsey:

Tel: 01481 720071

E: captives@guernseyfinance.com

Web: www.guernseyfinance.com





Crisis, what crisis?

There remains worryingly low awareness among smaller customers about business resilience.

However, brokers are well placed to plug this knowledge gap, advises **Steve Foulsham**

Research just completed on business resilience by BIBA shows that many small and medium-sized enterprise (SME) business owners would come unstuck if they were faced with an unexpected shutdown.

And while there are minor indications that some SMEs are better prepared, overall, the lack of understanding is a concern, both for the individual firms concerned and the UK economy.

BIBA originally undertook research on business resilience in 2006. This was a year after the Buncefield disaster, then in 2007 came exceptionally heavy flooding – we wondered if this would raise awareness. As the results show, more companies are switched on to coping with a flood. But, it seems, overall many businesses are just adopting an “it won’t happen to me” attitude.

For example, we found that those who said a disaster would significantly impact on their businesses within a day was only 27 per cent. In reality, this is quite unrealistic – and it has been well documented that the Home Office estimates that 80 per cent of

businesses without a business continuity plan close within 18 months of a major incident.

I can remember from my own experience as a broker that if a company has to deal with something unexpected, common sense can go out of the window.

It is not only the business owner who may be running round like a headless chicken – that firm’s customers and suppliers may also panic. News spreads fast in our wireless era and if a company cannot be contacted, then suppliers may think they won’t be paid. Deliveries will be disrupted and some may think the worst – that the firm has ceased trading. Customers will quickly look round for someone else. Even if the insurance claim is on the way to being settled and a clean-up is taking place, it may be too late to salvage the business.

So, how can brokers make a difference? We appreciate that national brokers are well staffed in terms of having in-house risk management professionals. But a basic understanding of the issues can go a long way to help many SMEs.

And, let’s not forget, the arrival of direct

Brush up your business resilience knowledge

There's no excuse for brokers to be unfamiliar with the main business resilience issues affecting SMEs. It could be that some brokers choose to build the cost of providing guidance into their fee propositions – or to work with a specialist company, or simply offer basic hints and tips free of charge.

The first port of call should be for brokers to visit the BIBA website. Here brokers will find comprehensive information including a business resilience checklist, a business continuity planning aide-memoire, a planning template and a motor fleet health and safety road risk checklist.

There is also information at the Crisis Survivor website at www.crisissurvivor.co.uk/html/information_sources

“A basic understanding of the issues can go a long way to help many SMEs”

Steve Foulsham

writers in the SME market means brokers must be alert to protecting their accounts. I would be extremely surprised if a direct insurer was to give their customers much guidance on business resilience.

We are not talking about incredibly technical advice. Sometimes even obvious things, such as having a full and up-to-date telephone and email contact list of everyone in the company and key customers can make an enormous difference.

BIBA associate Crisis Survivor provides risk management strategies for SMEs. Managing Director, Tony Gimple, comments: “Brokers are the natural advisers to help their clients address risks. And from the rising number we are talking to, it is clear they are

waking up to the opportunities – it's a real business differentiator.”

Range of services

Crisis Survivor has developed a range of services which brokers can offer clients and earn commission from. A broker can earn around £300 from recommending a standard audit, which will be carried out by specialists and go far beyond what a typical insurer surveyor would provide. It covers areas such as risk, insurance, damage control, restoration, law and technology and the main benefits are:

- improved resilience and business value
- potentially lower insurance premiums
- reduced exposure for directors' personal liabilities
- improved credit ratings
- pre-qualification to tender for publicly funded and larger private sector contracts

It is easy to think of disasters as being purely fire, terrorist or weather-related. But the ongoing swine flu pandemic could force a business to close – as could a disaster in a neighbouring business premises. And let's not forget business interruption cover, which goes hand in hand with a business resilience strategy. The economic downturn has prompted many SMEs to look closely at their insurance costs and some may be tempted to cut back on business interruption, perceiving cover to be too costly.

Material damage will cover replacement of lost or damaged assets but it will not pick up any reduction in sales, the inability to meet fixed costs because of a reduction in income – business interruption will pay for reasonable increased costs that are necessary to keep a business running.

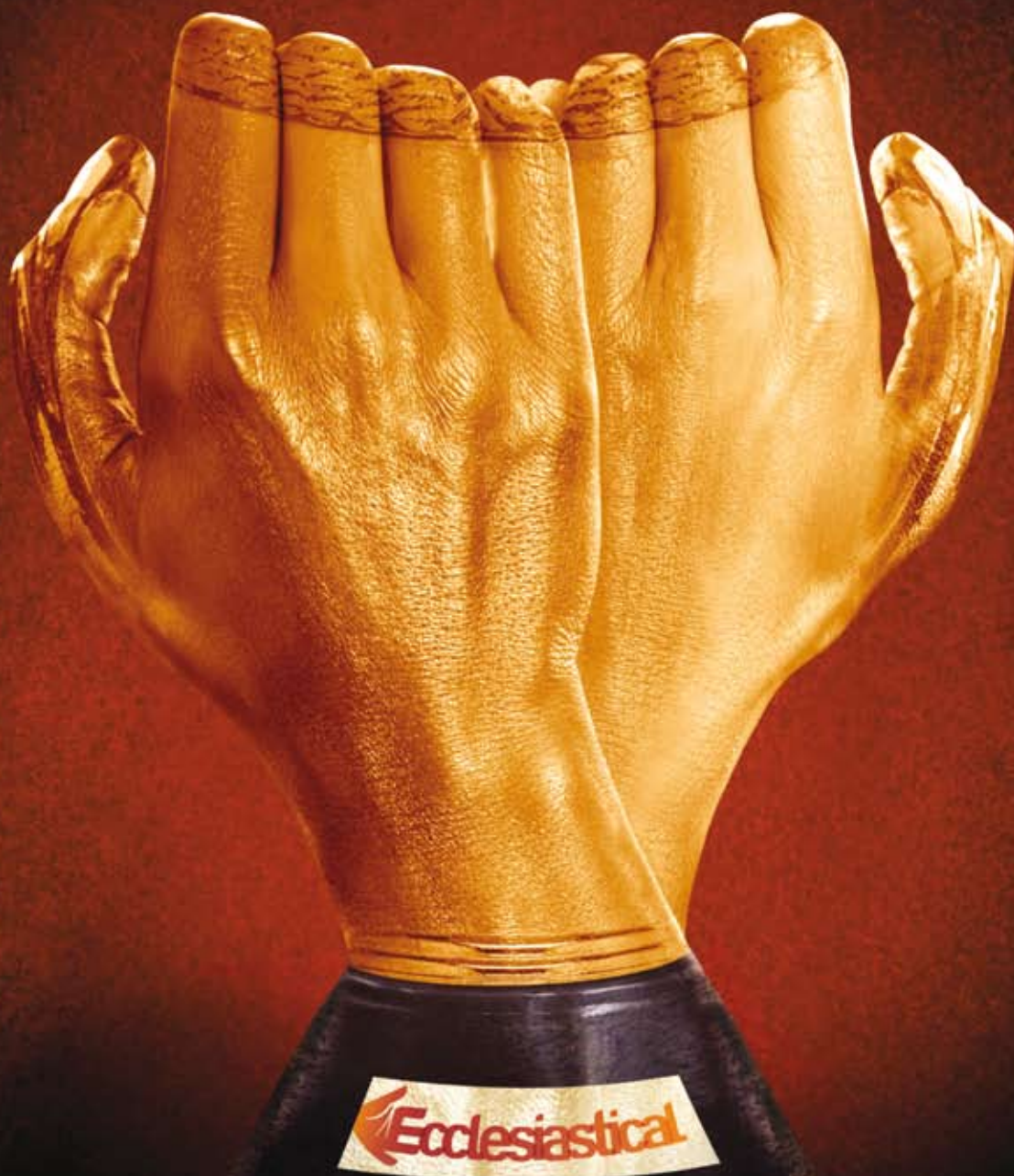
When cover is incorrectly arranged, claims handling can take longer, which can result in conflict. In the most complex cases, it may make sense to recommend a business interruption survey – loss adjuster QuestGates has recently set up a service, developed with brokers.

QuestGates will provide access to the necessary levels of accountancy and loss adjusting skills along with a pricing structure, which it said would be transparent to both the broker and client. Alistair Steward, Business Development Director at QuestGates, says: “The provision of business interruption surveys aims to remove the risk of insurance cover being insufficient to reinstate a business following a major incident. While always unsatisfactory, a reduced claims settlement could be catastrophic in the present credit crunch trading conditions.”

BIBA's Business Resilience Survey

BIBA engaged researcher Populus and we spoke to some 200 managing and finance directors of SMEs – then contrasted the results with our 2006 survey.

- Forty-five per cent of businesses have no, or at very best, rough plans to deal with the effects of flood or storm damage.
- Businesses are most likely to plan for the loss of physical equipment; loss of IT, premises, telecoms and plant are the risks most likely to be covered by Business Continuity Plans (BCPs).
- BCPs are least likely to address negative publicity and the loss of overdraft and loan facilities.
- Only 37 per cent of businesses have credit insurance protection in terms of their suppliers and/or customers.
- The number of businesses saying a disaster or serious disruption on their premises would “significantly impact” their company within an hour has increased slightly, from 19 per cent in 2006 to 24 per cent in 2009. However, the number saying the impact would occur after an hour but within the day has decreased by a corresponding number – from 31 to 27 per cent.
- Businesses are now more pessimistic about their ability to operate without their office than in 2006. The number saying that if a disaster left their office unable to operate they could recover in less than a week has dropped from 39 per cent in 2006 to 28 per cent in 2009. The numbers who claim it would take more than six months for their business to recover has nearly trebled – from four per cent in 2006, to 11 per cent in 2009.
- Few (15 per cent) of the directors interviewed were aware of BS25999 in relation to Business Continuity Management – this is the British standard to help minimise work disruptions.
- There has been a slight rise in the number of businesses with comprehensive business interruption cover; from 84 per cent in 2006, to 88 per cent in 2009.



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* of those brokers who named an insurer in the survey, the majority named Ecclesiastical as the best insurer for care, charity, education, faith and heritage insurance. **The services provided by Ecclesiastical Risk Services do not require authorisation by the Financial Services Authority. ***Research carried out by FWD, an independent market research company. Source: Ecclesiastical claims satisfaction survey 2008





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Of those brokers and organisations who named an insurer in the survey, the majority named Ecclesiastical as the best insurer for charity. Research conducted by FWD, an independent market research company.



Whose hands are going to be most helpful?

Smaller brokers are suddenly back in favour with big insurers – and while **Edward Murray** counsels caution, he also finds there are some interesting propositions on offer

Insurers have made quite a noise in recent months about their intentions to re-engage with smaller brokers across the country and while the flattery is welcome, anybody will tell you that diamonds are a girl's best friend.

So if insurers are genuinely committed to striking up a long-lasting relationship with regional brokers, they are going to have to prove their intentions are genuine for the long-term and show there is some glittering substance behind the promises.

Many believe that the larger insurers have been stung into action in the regional broker market because they are not getting the quality of business they want from the larger consolidators and managing general agents to whom they are paying more than they would like for the business. In recent years, volume has been king and it seems that quality has suffered.

Ronnie McCaul, Commercial Insurance Manager at EH Ranson in Edinburgh, comments: "Insurers have found that to deal with the largest intermediary players in the market they have had to sign up to terms which have proved unsustainable."

Good returns

This is an unfortunate truth of handing over large swathes of delegated authority to broker partners who, despite their best efforts, are unable to price and place risks as strictly as an in-house underwriter would.

In turn, Ronnie says insurers have again come knocking on the door of the smaller broker. "Insurers are looking at where they can make a good return and dealing

with smaller independent brokers is one way of doing that. They get better business because we know our clients very well and the insurance company sees the risk and can rate it accordingly."

Aviva accepts that it has not always put regional brokers at the top of the priority list in recent years and perhaps this is understandable given the commercial pressures that have been at play.

However, the moves the insurer is now making to get back into bed with these smaller brokers is not purely a one-sided affair. Sally Leeman, a spokeswoman for the insurer explains: "We are certainly not doing it for face only and we believe there is going to be a real benefit for both parties."

She adds: "We have been tidying up the offering for the local independent broker on the back of what brokers have been saying to us." So just what is it that Aviva is offering?

Profit share

Officially launched at the beginning of June, Aviva's Broker Independence Group is aimed at those placing less than £800,000 with the firm on an annual basis. Aviva says it has created a team of account managers to handle the business from these brokers, and will be offering a profit share reward to promote growth, a wider range of products, access to specialist schemes and compliance and legal support. Like the services offered by many groups or networks in the market, some of these will be free, while for others, brokers will have to pay.

Brett Hannon, Managing Director at Belmont Regency in Derby, says many brokers will be waiting to see just how serious

Aviva and others are about working with some of the smaller brokers in the market.

He says: "I think it is early days, but it is nice to see them go down this route. They thought they could bypass the smaller broker, but it turns out our relationships with clients are here for the long term and our retention rates are high."

To bolster what it is doing with its Broker Independence Group, Aviva has also launched an online trading platform for brokers, called Fast Trade. The platform aims to allow brokers to get quotes online and improve access to documentation, which has long been a bugbear for intermediaries and their clients.

However, it is not only Aviva that has been making efforts to woo regional brokers and there are some who simply feel this is an area they have always worked hard to support.





"Insurers have found that to deal with the largest intermediary players in the market they have had to sign up to terms which have proved unsustainable"

Ronnie McCaul



Groupama says that supporting smaller brokers in the market may be a current trend for some of its larger rivals at the moment, but it has always been committed to the sector and will remain so in the future. Indeed, the insurer recently went through a restructure and split its sales and distribution function into two teams concentrating specifically on personal and commercial lines respectively.

Allison Andrews, who became Head of Commercial Distribution on 1 July, says the move was a way of evolving the service it offers to its brokers and comments: "It is not about standing still and watching others join the party."

Improvements

Roadshows are set to take place later in the year, while a deal was also struck recently with compliance and business support firm UKGI to help give independent provincial brokers access to the tools they need to run their operations. Allison simply says: "Insurers will be judged on their delivery."

Brett says he wants a better overall service, with improvements in document issue and claims processes and a reduction in dual pricing where different rates are offered direct and through brokers.

While he is keen for relationships with insurers to get better and he has listened to the noises that have been coming out of the insurers' publicity machines, he adds: "From a cynical point of view, these are things that tend to come in and out of fashion."

For his part, Ronnie says EH Ranson would like to see fewer lines of authority and underwriters who did not always have to refer things upwards. He would also like to see a more consistent level of service and says: "Some of the big insurers are like an octopus with eight legs and it is difficult to get a single point of contact. One part often does not know what the other is doing."

Ronnie says he has certainly perceived the change in atmosphere with insurers keener to speak with provincial brokers, however he also says this has yet to feed through into a significant change in the way business is done.

Any relationship can only blossom in time and the hope from the broker community must be that whether insurers are reaffirming their commitment to this market or courting it seriously for the first time in years, that they continue to make efforts long into the future. Only through such commitment will the larger insurers ever be comfortable bedfellows for their smaller broking partners.



"It is not about standing still and watching others join the party"

Allison Andrews





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The calm before the storm?

There has been no rise in claims against brokers but, as **Simon Fenn** explains, the unstable conditions mean it could all change...

Although the insurance sector has emerged relatively unscathed from the current financial crisis, there is speculation insurance brokers could be adversely affected by errors and omissions (E&O) claims, as clients try to stay solvent by taking professional advisers to court.

This is clearly a treacherous time to be trading. The first quarter of 2009 saw 1,311 companies being placed into administration in England and Wales, according to recent statistics released by the Government's Insolvency Service.

Lockton's insolvency practice grew its business 25 per cent last year, so we have first-hand experience of what is happening out there. Yet the figures also mean 25 per cent more businesses went to the wall in that period and that will comprise clients and prospective clients who will no longer be paying insurance premiums.

However, all the signs as far as our own broker clients are concerned are that the number of claims (small and large) against insurance brokers remains fairly low. Naturally, we continue to monitor the environment closely, both as an insurance brokerage that is exposed to E&O risks itself and also as a placing broker in this market. So are we of the opinion that claims against brokers are still to manifest themselves? In short, the answer is probably not – but avoid complacency.

The relatively soft market of recent years, together with low interest rates, has resulted in insurer profits dipping sharply – an environment that has only been offset by the lack of any major E&O claims issues. We believe our clients are potentially exposed to:

- fraudulent claims by clients resulting in disputes with the original insurers and hence possible E&O claims against the broker
- possible disputes over legitimate claims which, for one reason or another, insurers suspect might be inflated or fraudulent or which they simply don't want to pay.

In both scenarios, the strength of a broker's documents will be a key aspect in their defence should any allegations be made against them, which is always a possibility in today's environment, when individual companies' livelihoods are at stake.

A recent example occurred when a property claim notified to a broker was disputed by the original insurer because it suspected it was fraudulent, despite the fact the broker involved had no reason to believe this was the case. Some ill-advised and clumsy comments by the loss adjuster had, unfortunately, drawn the broker into the dispute and given rise to an E&O notification. We have seen a number of such notifications over the years and, more recently, have also seen one or two claims against brokers which could be attributed to the economic downturn. But numerically no more than in an average year. Every year we would expect half a dozen or so financially significant notifications for larger brokers. That number has not changed.

The key message is that it would be unwise to be complacent and be rigorous with your own record keeping to mitigate the risks. The old rules still hold true: keep your documentation and files in good order, log conversations and ensure that both your clients and markets fully understand what is required of them and then put it down in writing. Keep in close and regular contact with any lawyer or loss adjuster that works for the insurer and (assuming your relationship with them allows for it) request sight of their draft report – if there are adverse comments in the report on a claim which might be seen to apportion a degree of blame in your direction, it might be worth asking the loss adjuster to have another look at the wording of their report.

Make sure you study the report in detail and if you feel you can offer constructive amendments then do so. Above all, be even more diligent at maintaining a well-documented file. The E&O claims environment is flat at present – but that could just be the calm before the storm.

Simon Fenn is a Director and Partner of Lockton, a BIBA-accredited PI broker



Initiative wins award

The BIBA PI initiative has won the 2009 Trade Association Forum Best Practice award (Commercial initiative). Judges said that the initiative took a problem for BIBA members and turned it into a commercial opportunity, providing benefits for members. Eric Galbraith, BIBA Chief Executive, commented: "This is an excellent example of how BIBA is helping members and we are delighted with this recognition."

We'll stand by you



91%
of respondents have secured an increased payment for a claim on behalf of a client following an initial lower offer from the insurer

A major BIBA member survey has found that brokers can make a substantial difference to their clients' claims experiences, as **Rachel Gordon** reports

It is often said that claims are the shop window of general insurance, but it seems that it is brokers who provide the best results on behalf of their customers, while those who have bought direct may well find they leave empty-handed.

BIBA recently surveyed some 350 of its members and found that an astonishing 91 per cent said that, in the past year, they had secured an increased claims settlement following an initial offer from an insurer.

BIBA's Chief Executive, Eric Galbraith, says: "Brokers are focused on their customers and the last thing they want is someone – who potentially may be devastated by what has happened – to then have to start battling with an insurer. We certainly know it is a tough market for insurers and that in some cases, there may be issues with a claim, but we know our members will intervene if they believe a claim settlement offer is not fair."

But are insurers concerned that brokers are overstepping their boundaries? This is a sensitive area and there are certainly more than a few cases of brokers threatening to pull accounts if a claim is not paid – which, if the claim is not justified, is a form of coercion.

Assistance

David Williams, AXA's Claims Director, comments: "The involvement of brokers in claims is highly variable. There are plenty of cases where a good broker will assist with providing information and support the client and we would encourage that. But trying to

block speaking to the client when we need to find out details, or demanding to see every piece of correspondence, is not helpful. The question has to be: What value is the broker bringing?"

He adds that all insurers could probably do more to ensure brokers are kept fully up-to-date on a claim if they request this. "There are many claims handled quickly and competently that brokers have no involvement in. And if there is too much interference, then the broker could even delay matters. If the broker is not a claims expert, they could also confuse the client. A broker must add value rather than simply try and justify their existence."

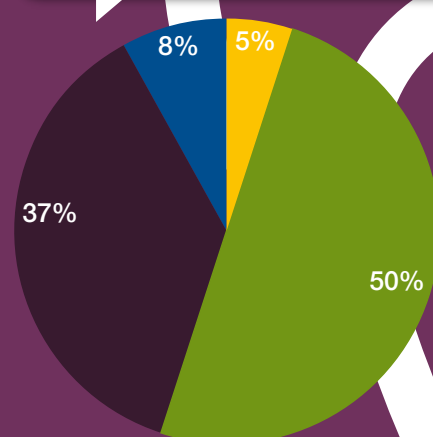
And Phil Bird, Groupama's Director of Claims, adds: "It depends if they can assist. Brokers may well get involved in a useful way if there is a large commercial claim because these are more complex and frankly, this business can be more valuable. But many are also confident of the insurer's service – and taking a hands-off approach can be absolutely fine for the customer."

Alan Hornby, Manager with Grimsby brokers Sutcliffe Solloway, says his firm frequently speaks to insurers to assist with clients' claims, both large and small, for commercial and personal lines. "Yes, our involvement has increased. One case that springs to mind is where a customer lost an antique ring. Although it was on the schedule, the insurer only offered her a quite unsuitable replacement through a high street jeweller.



What is the average percentage uplift on claims that you regularly negotiate on behalf of a client?

0-10% 10-20% 20-30% +30%





"The fact is that brokers are claims professionals and treat claims seriously"



"There is too much emphasis on the insurer's preferred supplier – but not everyone wants this. Several weeks later, we secured a cash settlement and she was able to buy another ring from a local jewellers who specialised in antique jewelry. If she'd been on her own, she said she'd have given up."

Andrew Higgins, Claims Executive for broker The Alan Boswell Group, formerly worked for an insurer – and so has brought valuable experience to his clients. He says he welcomes the opportunity to have ongoing contact with clients when they are most in need of guidance and that this is not a deskbound job – he often visits companies who have experienced losses.

Alan Boswell is a broker who takes claims support seriously and has a team of 10. He comments: "It's usual for us to negotiate on behalf of clients – and I would say it's an increasing trend. We recently ensured that a declined agricultural claim was overturned, resulting in our client receiving £30,000. A farming client had their barn damaged, but the insurer tried to avoid paying out – citing various reasons, including a delay in making the claim and that the damage was not covered under the wording. We visited the farmer, re-presented the claim and the original decision was overturned. The farmer was so delighted he has passed on our details to two other farms we don't currently insure."

Insurers may argue that brokers are not claims professionals – this is certainly not the case with a number of larger firms.

Chris Sydenham, Claims Director at London broker, Tysers, says: "The fact is that brokers are claims professionals and treat claims seriously. It is a core broker role to ensure that clients' claims are settled quickly and efficiently. Brokers must be fully aware of the intimate details of the cover under the policy, as well as the regulatory environment in which we all now operate."

He sees claims support as being all part of the service: "Brokers expect

their clients to know their business and, by the same token, clients are entitled to expect brokers to fully understand insurance. If the claim is managed properly, the broker's involvement should free up time, enabling the client to focus on his business rather than on the minutiae of the claim."

And he is a firm believer in claims specialist brokers being experts in their roles. "Brokers are likely to be more aware than clients of recent relevant case law, as well as current market practice, which is of particular benefit when there are grey areas of coverage. The recent spate of piracy incidents off Somalia provides a good illustration. Brokers have worked with marine and kidnap and ransom insurers to establish basic ground rules for the ransom payments where there have been conflicting views of the recoverability of these expenses under the different policy forms."

Loss recovery

Brokers have always intervened on behalf of their clients, but their workload in this area is now rising. There is no doubt that the recession is making insurers scrutinise claims more closely – some 58 per cent of the surveyed brokers said they were having to fight harder to get claims paid.

A larger broker is likely to have in-house claims professionals. However, for smaller provincial firms, the work of helping clients prepare claims, negotiating higher settlements and seeking to overturn a repudiation could well now be handled by broking staff who are far more used to providing cover.

One option is to recommend loss recovery insurance, which provides claimants with a dedicated adjuster who works on the client's behalf. John Sims, Lorega's Chief Executive Officer, says: "Brokers often do not have the time to work extensively on claims. A Lorega Adjuster ensures they are kept in the loop however – and the broker knows the client is





94%
of respondents
overturn a
claims rejection
occasionally or
often

in safe hands." An alternative is to work with a claims specialist, such as Balcombe Group, a company which has sought to build relationships with brokers over many years.

Balcombe's Marketing Director, Nigel Parker, says: "We are used to being called on by brokers to assist with complex claims – where it is vital that the client receives a high level of expertise and support. We work closely with the broker – in fact, as part of their team – to ensure there is complete understanding of the policy wording and we can handle any necessary site visits, ensuring the adjuster's work is accurate and challenging it if necessary. We're well aware brokers are doing more to assist their clients with claims – and this can be time-consuming – in areas such as business interruption, it can also be extremely complex. We can help to take the load off them, ensure the client has quality representation and there is the best settlement possible."

Fraudulent claims

Meanwhile, John Sims says some insurers can be negative about brokers' roles – and accuse them behind the scenes of being "control freaks" and as being "little more than post-boxes."

"They should also be careful if discussing interim payments. But many brokers often influence insurers positively and they are absolutely right to take a supportive role and be there if the client needs them."

Meanwhile, as recent ABI figures show, insurance fraud is on the rise – it estimated there has been a 30 per cent increase in

Have you had to
fight harder on
behalf of clients
to get claims
paid during the
recession?

Yes No



fraudulent claims, to £730 million. Insurers will argue more fraud means there needs to be closer investigation of suspicious claims.

Phil Bird comments: "If they have awareness of a criminal act, then brokers have a legal duty to report it. Where they just have suspicions, then it is more difficult, it very much depends on how accurate they feel these are – and if they feel fraud is likely, then it is good practice to speak to the insurer." David Williams adds: "We've had some brokers prove very helpful in this area and no one in the industry wants to encourage fraud – and, a broker could run into regulatory trouble if they did not act on fraud and we would consider cancelling the broker's account in these cases."

Finally, the relationship between brokers and loss adjusters has historically not always been an easy one – and at worst, can be adversarial.

However, GAB Robins says it is seeking to work more with brokers. Robert Binning, Director of the adjuster's major and complex loss service line, says: "Brokers can play an important role in ensuring claims run smoothly and efficiently. Their relationship with their client is a vital component in this respect. A broker attending meetings is seen to be supporting his client and furthermore can help to explain issues and decisions being made about the claim, perhaps more effectively than the adjuster can on their own. They know the client, but also appreciate the specific requirements of the policy, so can be helpful."

He adds GAB Robins previously ran a number of surgeries for brokers in flood-affected areas where they were able to discuss outstanding claims and explore how these could be settled quickly. "These surgeries also provided the opportunity for adjusters to get

feedback from brokers on the claims process and potential areas for improvement. We are now developing this further with an initiative to work with brokers focused on effective management of the claims process, reducing cycle times and improving communications."

BIBA is determined to show how brokers are prepared to put in an enormous amount of work on occasion to ensure their clients are treated fairly. There are always going to be two sides to every claim – and certainly not all are black and white. But one aspect is certain, if a good broker is on the case – and it's viewed as a genuine one – then insurers need a very good reason for turning it down.

Members can obtain a copy of
the full report from our website:
www.biba.org.uk

Fine strategy could be a painful one

The financial stakes have been raised as the regulator seeks what it terms as 'credible deterrence' – **Vannessa Young** looks at what this means for brokers

The Financial Services Authority's (FSA) plans to hit non-compliant firms and individuals in the pocket where it hurts by linking enforcement penalties more closely to income should prove a wake-up call for the industry.

Firms could see some fines treble after February 2010 under proposals in Consultation Paper 09/19 to create a consistent and more transparent framework for calculating financial penalties. In future, fines could be based on up to 20 per cent of the company's income from the product or business area linked to the breach over the relevant period.

Individuals will receive more severe treatment than firms facing the prospect of fines of up to 40 per cent of their gross personal income (including bonuses) derived from their job for the period relating to the breach in non-market abuse cases. The minimum starting point for those individuals involved in market abuse cases will be £100,000.

The paper comes amid concerns at the FSA that enforcement actions to date have not resulted in improved behaviour among firms. The regulator has looked at financial penalty-setting within other authorities and in other jurisdictions when creating its framework which has been designed to be easy to use, broad and flexible and allow the use of discretion.

"The minimum starting point for those individuals involved in market abuse cases will be £100,000"

Cases will be grouped according to three types: those against firms; those against individuals for non-market abuse; and those against individuals for market abuse. The framework will have five steps which all cases will have to go through:

- Step 1:** Remove any financial benefit resulting directly from the breach.
- Step 2:** Set a figure to represent the nature, impact and seriousness of the breach.
- Step 3:** Make any adjustments to take account of any aggravating (eg, Did the firm cover up the breach?) or mitigating circumstances (eg, Did the firm report the case to the FSA off of its own back? Or did it try to make reparation?).
- Step 4:** Make adjustments (could be up or down) where appropriate to ensure that the penalty has a deterrent effect.
- Step 5:** If applicable, apply a settlement discount (the existing 30 per cent discount to firms for early settlement will still be available).

The FSA recognises in the paper that it is taking a more stringent line against individuals. However, the regulator justifies this on the grounds that action against individuals has a 'significantly greater impact in terms of deterrence than action against firms' and that this focus on individuals is a key element of its credible deterrence philosophy. Chapter five of the paper sets out the FSA's proposed alternative approaches in cases where an individual argues that a penalty levied against them will cause real financial hardship.

The proposals should establish a more transparent and coherent system. What will be difficult to determine is the impact that increased financial penalties will have on the FSA's enforcement process. The FSA could see more firms challenging its enforcement decisions as the raised financial stakes mean that they have more to lose. The increased number of appeals to the Financial Services and Markets Tribunal could slow the overall speed of enforcement. Conversely, firms may decide that the cost of mounting an appeal is prohibitive, both in financial and reputational



terms, choosing to settle early, thereby reducing income from enforcement actions, but speeding up the process. Time will tell.

BIBA members still have time to get involved in discussions about CP09/19. Comments about the paper can be sent to the compliance team at BIBA to feed into an official response that is being prepared. Alternatively, members may respond directly in writing to the FSA by email at: cp09_19@fsa.gov.uk. The consultation period closes on 21 October 2009. The FSA aims to publish feedback and the final amendment to the *Handbook and Enforcement Guide* text in the first quarter of 2010.

Vannessa Young is BIBA's Compliance Co-ordinator



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Pick of the bunch

Insuring empty properties, maximising revenue from premium finance and accurate property valuations are part of BIBA's extensive portfolio, explains **Steve Foulsham**



Finding a home for empty property

The Empty Homes Agency estimates that there are currently some 840,000 empty homes in the UK. The National Land Use Database figures indicate that a further 420,000 homes could be established within disused commercial properties in England, including former pubs and space above shops. This adds up to more than one million homes currently lying empty.

With so many properties currently lying vacant, this is the right time to re-introduce the BIBA-approved scheme for Unoccupied Commercial & Residential Properties, administered by Camberford Law.

As a member of BIBA, brokers automatically have access to the scheme which can underwrite UK risks for either short- or long-term unoccupancy. In addition to the buildings which can be covered against a range of perils, the cover can also be extended to include

landlords' contents, as well as loss of rent. Subsidence cover is also available as an option. Property owners' liability is included at £1,000,000, with higher limits available upon request.

The scheme has been carefully put together in order to provide the widest possible cover at the most competitive premium and is supported by an underwriting team at Camberford Law who turn around enquiries with diligence.

Proposal forms are available to either download or complete online at www.camberfordlaw.com/properties along with further details of the cover provided by the scheme.

For further information, contact Alex Smith or Paru Gohill of Camberford Law's Property Underwriting Department on 020 8315 5000 or email properties@camberfordlaw.com

Premium finance: an effective way to generate revenue

There's never been a better time to promote premium finance to your clients and bring a welcome boost to your commission income, according to provider Premium Credit.

The company is the number one premium finance provider in the UK and Ireland and the only one to be endorsed by BIBA. Premium Credit can assist brokers in a number of ways.

In particular, the tough economic climate means that more and more clients may be looking to spread their costs when the time comes to pay their insurance premiums. After all, whether they are businesses or private individuals, managing cash flow is far easier with regular, manageable payments, instead of having to deal with that one big financial hit.

The benefits of premium finance mean a broker can:

- generate more revenue through finance commission
- give clients more payment options and choice – an additional service that could provide clients with financial peace of mind
- increase client retention and further develop the client relationship by making contact pre-renewal.

Premium Credit prides itself on delivering premium finance at genuinely competitive interest rates on commercial, personal lines and professional indemnity insurance policies. The company is easy to deal with, too – transacting business online via a fully-supported system is simplicity itself.

With more than 20 years' experience in the industry, Premium Credit has gross advances of £2.95 billion, finances more than 1.5 million borrowers and processes 19 million direct debits annually.

What is more, Premium Credit can also help you spread the cost of the BIBA membership fee and gives members access to a special rate of 0.5 per cent less than non-trade association members when it comes to paying FSA fees.

For more information, contact Cristian Jackson, National Sales Manager on 07899 841315, email cristian.jackson@pcl.co.uk or visit www.premiumcredit.co.uk



A safe pair of hands for valuations

Cunningham Lindsey Valuation Services undertakes surveys for members to establish rebuilding values for insurance purposes. This enables policyholders to set the sum insured in the knowledge that they are adequately covered.

Cunningham Lindsey's surveyors value all types of property, ranging from domestic housing, including listed buildings, to substantial commercial properties and large sites where there are multiple buildings of varying specifications.

Much of the work relates to portfolios where property owning or management companies insure numerous sites throughout the country. As the premium that they pay is considerable, even a small decrease in sums insured can result in significant savings.

It must be remembered that the rebuilding cost can be very different from the market value. The rebuilding cost gives the price to reinstate the property on a like-for-like basis. The market value, however, is the price that might be paid for its purchase and includes many other factors, such as the type of building, its position, the neighbourhood or site value, etc. During the recent recession, market

values have fallen significantly and they are likely to continue to fall.

The question arises – similarly, are rebuilding costs and prices evidentially falling, such that valuations for insurance purposes should be reduced? In truth and to date, the answer is no – there has been no clear indication that this is the case. At present, it is considered unwise to make any downward changes to rebuilding costs, certainly until there is sustained evidence that construction prices have stabilised, and then a longer-term view can be taken.

Current reinstatement costs must be based upon known and available data, and leave adjustments for the future trends to the accepted methods of indexation, which uplifts the day one cover for inflation or reduction.

The Cunningham Lindsey valuation team draws upon its extensive knowledge of costs associated with reinstatement of properties following an insurable loss.

For further information, contact Luke Lockhart at Cunningham Lindsey Valuation Services on 0116 281 4698 or email: valuationsservices@cl-uk.com

Steve Foulsham is BIBA's Technical Services Manager

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BIBA's portfolio of exclusive schemes and facilities is a range of specially negotiated products and services. Offering unique benefits to BIBA members and their clients, both retail and commercial. They can improve efficiency, reduce costs, offer a competitive edge and provide a home for those difficult to place risks.

Hand-picked, the schemes range from travel insurance to brokers' own PI cover. They offer benefits to brokers with enhanced commissions and access to specialist markets with nominal support.

BIBA schemes and facilities are approved by BIBA's General Insurance Brokers' Committee and are monitored by BIBA's Technical Department.

For more information on BIBA schemes, or to order a copy of the *Schemes and Facilities* or *PI Initiative* brochures, please contact Steve Foulsham, Technical Services Manager, on **020 7397 0234** or email: foulshams@biba.org.uk

BIBA Schemes and Facilities



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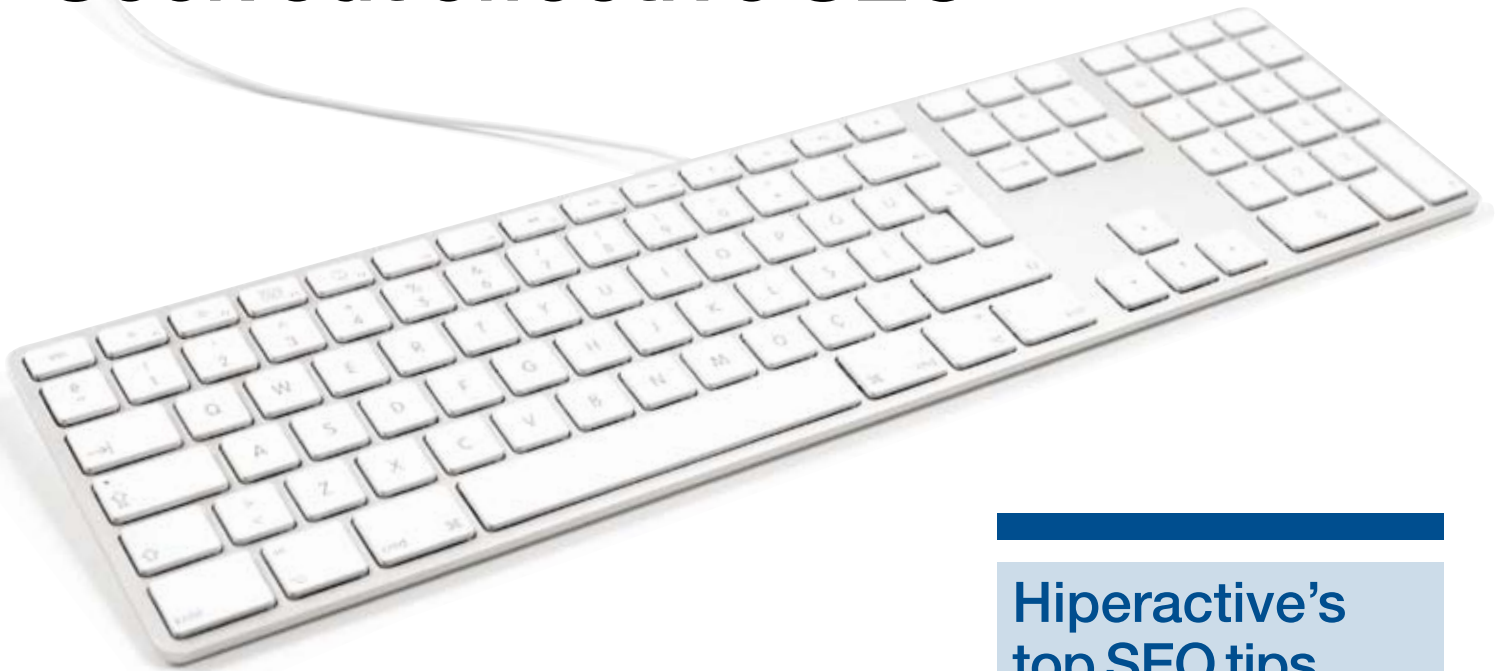
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Your business

Search engine optimisation, familiarisation with physical security issues and finding a key differentiator provide food for thought

Seek out effective SEO



Search engine optimisation is now a crucial tool for many switched-on brokers, particularly those with niche businesses.

A minority of brokers may be in the fortunate position of having their own in-house 'techie' who can take on this role, but many more are working with consultancies, who advise on the right strategies and manage the broker's website.

Hiperative.net is one of the search engine optimisation specialists who is experienced in working with brokers – and also provides services to BIBA.

“Good web design is key – you should make it as easy for people to deal with you as possible”

Bob Gratton

General Manager Paul Hunt comments: “A lot of search engine optimisation is common sense, but unless you know how it works, you can miss out on a lot of business. It frustrates me when I see so many good brokers who are failing to take advantage of search engine optimisation – added to this, their websites may not be properly configured, there can be problems with images and the text can be confusing.

Nothing gives us greater pleasure than to work with such brokers and see things change around.”

So, what is search engine optimisation and why is it important? Well, it is about having a website that appears higher in search rankings. Many customers use search engines such as Google and the trick is to ensure your firm's website is readily accessible.

Paul adds: “Too many brokers use their name in title pages – when actually, if it is niche business, such as thatched homes or classic cars, they get far more business if pages had names linked to this.”

Bob Gratton, who is broker Bollington's Product and Underwriting Director, says: “Income versus costs should be easy to measure – you can vary the daily spend to fit in with how people are using the net to make searches. It is also easy to analyse what is working and make quick changes, for example, to the search words used. Again, targeting specific trades enables specific URLs to be purchased which take enquirers to a specific internet landing page for that trade where the unique selling points can be promoted.”

He adds: “Good web design is key – you should make it as easy for people to deal with you as possible and will give you a head start over others whose website is clunky and difficult to navigate.”

Hiperactive's top SEO tips

- When creating PDFs, don't forget to add in title, key words and descriptions as these are some of the methods search engines use for finding out what information is held.
- Always fit in the head meta tags for the title, description and keywords – these are used by search engines.
- Regular updates – however small – will keep search engines coming back. The bigger the gap between updates, the less frequently your site will be visited.
- Regular blogs can be a useful tool.
- Aim for around 500-800 words of relevant text per page and sprinkle your three or four keywords in text about every 100 words or so.
- Remember when embedding images to fill in the 'alt' tag with something relevant – for example, 'Thatched homes need appropriate insurance' if this is your niche, for example.
- Keep links to a reasonable size, ie, less than 100 per page.
- A site map helps search engines find all the pages on a larger site more easily.

Be safe in security knowledge

BIBA is in the process of gathering relevant information on physical security issues and expects to have much of this in place on the website by the end of the year – it may also provide a training workshop at next year's conference.

Technical Services Manager Steve Foulsham comments: "This is an area that can confuse brokers – clients may want clarification on warranties linked to alarms for example or on locking systems. However, insurers' policies can be badly worded and even out of date."

To ensure brokers are up to speed, BIBA has started regular meetings with sector experts Martyn Halliday, Liaison Manager with certification body, the SSAIB, and Mike Briggs, a broker who is now a Risk Management Consultant.

Steve explains: "For example, one of the problem areas perpetuated by insurers is that they state brokers should insist on a NACOSS system. This is inaccurate.



Left to right: Mike Briggs, Risk Management Consultant, BIBA's Peter Staddon and Steve Foulsham and Martyn Halliday, Liaison Manager, SSAIB

NACOSS itself no longer exists, it merged with the Inspectorate of the Security Industry and beyond this, installations by SSAIB are equally reputable."

Clients may also want to know what the situation is with false alarms. It has been well publicised that police may ignore an alarm because these can waste so much time. "Alarms can now be based around sequential signalling, which involves alarm confirmation technology," says Steve. "Any new alarm being installed should include this, to maximise the chance that police will attend if it is activated."

He adds that lock requirements can also be misleading – an insurer may say it requires

mortice locks, but these do not work on UPVC. There are acceptable alternatives, but the broker may need to specify what is used.

BIBA is also working with RISC Authority, an association funded by insurers, which is poised to produce a document called *Security-intrusion and hold-up alarm systems: considerations for installers and other stakeholders*. This will set out the insurers' requirements for the installation of an intruder alarm system. "We'll be producing a condensed form of this or help members obtain copies," adds Steve. "In the meantime, if brokers have queries, please contact me directly and I will endeavour to assist, or pass their queries on to one of our experts."

Strategy

Spot the difference

James Dyson will claim that his revolutionary rotary-powered vacuum cleaner is responsible for the incredible achievements made by his company.

While this statement is accurate, Dyson's phenomenal market penetration suggests that much of the success can be attributed to its ability to differentiate itself.

Most brokers understand the need to try and differentiate themselves, but, unfortunately, most are failing to do this. It is relatively easy to differentiate from a direct writer or price comparison site – they are usually cheaper, but a broker can offer better service, quality and choice. So how does one broker differentiate themselves from another?

Service, price and quality are no longer valid, because every broker seems to be offering the same thing. From the customer's perspective, most brokers are the same; the products are the same.

If the holding broker has kept the customer happy and is there or thereabouts



Frazer Dewey

on price they will probably keep the business, regardless of the time invested by the quoting broker, who earns no financial gain for his efforts.

Insurance is not the only market to be saturated with products and it may be helpful to look outside the financial sector to see how others have overcome the problem.

Referring back to the vacuum cleaner market, most people now choose Dyson because 'it is the only vacuum cleaner to provide 100 per cent of the suction 100 per cent of the time'. This statement is not about it being a better price, or higher quality, or about providing a better service; indeed, independent tests have shown that there are more powerful vacuum cleaners on the market. What it does create is a perception that it is more powerful, and therefore better quality.

For a broker, finding a differentiator is not easy; it needs to be something that your competitors will find difficult to replicate and that fills a perceived gap in the marketplace.

If your brokerage is perceived to be better, you can charge a premium price, thereby giving you greater margin. This means more profit, more investment in staff and better returns for investors.

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