

# **THE FUTURE ROLE OF THE BROKER**

## **by Ken Davidson**

In using the word broker in this presentation, I am referring to general business only and not life, pensions and financial planning.

There have been many articles written and many conferences held on the future role of the insurance broker. There is nothing unexpected in their conclusions but many brokers fail to acknowledge that the high profit, high reward, seat of the pants environment of the last two decades is over. Even if they understand the situation, many don't know what to do about it and more disturbing some don't want to know what to do about it.

The future is "back to basics":--

1. Identify customer needs and wants.
2. Add value through broker services.
3. Be professional.
4. Focus on what you are good at.

How does the customer see the future role of the insurance broker?

Although there will always be customers at every level of business who want the cheapest price, the thinking customer looks to the broker to add value to the insurer's product or offer a service which may or may not be related to an insurance product.

I identify four main categories of insurance brokers:--

Personal Lines  
U.K. Commercial  
Specialists  
Multinational

### **Personal Lines**

Never has the personal lines broker seen such upheaval in his market. The fact that many insurers are competing openly with their producing brokers for the same

clients supports the belief that U.K. insurers are never satisfied with shooting themselves in one foot and usually shoot themselves in both.

There are too many direct writers in the market and the public are confused. A recent Mori poll suggests that the direct writers' market share may have flattened out and it is only a matter of time before the unfocused, unprofitable and those unable to provide a quality service have to retrench. In the meantime there is a role for personal lines brokers to act as consultants, on a fee basis, to advise the public as to which direct writers' package is most suitable – how otherwise can the public assess the various levels of cover on offer, the restrictions, the service levels of the insurers and the value and quality of the free gifts.

### **U.K. Commercial**

In the U.K. Commercial market there are too many brokers chasing a book of business which, at best, is static. Whilst there will always be a future role for the commission earning U.K. Commercial broker, the route for real growth will be by specialisation, acquisition or acquisition leading into the risk management, fee driven league.

Whilst insurers are fighting their supporting brokers for personal lines business, the opposite is happening with commercial lines. Many insurers are seeking business paying between £5,000 and £100,000 premium via favoured brokers which, longer term, will see brokers dealing with fewer insurers and vice versa. These close relationships lend themselves to shared technology, increased efficiency and hopefully cost and service benefits to the client. For businesses paying less than £5,000 premium, several technology driven schemes are available to help the broker service the small account and give the insurer volume business.

### **Specialist**

The U.K. market has always thrived on a large number of specialists – or to use the current lingo niche brokers – for wholesale reinsurance and retail business.

As the insurance market returns to risk taking as opposed to cash flow underwriting, underwriters realise they cannot be expert at everything and a thorough understanding of the risk is critical to survival. Underwriters have also recognised that specialist knowledge creates competitive advantage and are now demanding a

higher level of expertise from their producing brokers.

Specialisation breeds innovation through a thorough knowledge of customers' changing needs brought about by economic or social change. Innovation is the lifeblood of a strong market for the future and the specialist brokers' dual role is to satisfy their customers and utilise market capacity to find new business.

Traditionally, brokers have been quite happy to use each others' expertise on specialist facilities for their clients' benefit but there is a disturbing trend by the major broking houses to bring this specialist business in-house. Whilst many have their own specialist facilities and staff, the move is revenue driven and the breaking of long term relationships is not always to the clients' benefit.

### **Multinationals**

Under this heading I include the major U.K. broking houses and Anglo Americans.

According to the S.G. Warburg, in a recent report, the broker's role is rapidly changing from insurance middleman to risk manager. Most larger buyers of insurance are making increasing use of alternative risk financing and captive insurance companies. Once a client takes this route, he seldom returns to the traditional insurance market, and to survive, the broker has had to develop a range of risk management services to complement the traditional broking service. The charge towards consultancy has brought a reduction in brokerage and an increase in fee income. In 1993 the 12 major U.K. brokers received 24% of their income as fees. As with the U.K. commercial broker, competition is fierce with some brokers working on loss-leader fees.

As world trade becomes more international with larger business units, the sophistication of risk financing will grow. In turn the demand for a wide range of loss control services will also grow. Clearly the future role of the multinational broker is to provide his client with the widest range of services on the widest geographical spread.

A recent development, causing me concern is the setting up of catastrophe reinsurers in Bermuda by certain mega-brokers. Whilst the idea of helping worldwide reinsurance capacity is admirable, I am always nervous if a broker controls that capacity especially when control of catastrophe reinsurance rates has such a

profound effect on the rates the client eventually pays.

## Conclusion

The future role of the broker is changing and for those who recognise this soon enough the future is good. Those who don't recognise the need for change will disappear.

# LIABILITY UPDATE

by Robin de Wilde Q.C.

## Introduction

1. In this Seminar I propose to discuss three cases, the first is *Banque Bruxelles Lambert SA v Eagle Star Insurance Company Ltd* which is now going around the Temple in samizdat form and has been partly reported in the Journal, Professional Negligence, Volume 10, No. 2 1994 pps 37-72. The second case is *Bolitho & Others v City and Hackney Health Authority* [1993] 4 Med LR 381 which has been heard in the Court of Appeal and is supposed to be going in the House of Lords. The third case is *White v Jones* [1993] 3 WLR 730 which has been argued in the House of Lords and the speeches from their Lordships are eagerly awaited.
2. I have chosen three different cases namely a surveyor's negligence case, a medical negligence case and a solicitor's negligence case, each of which illustrate the movement and development of what is a discrete area of the law, the law of professional negligence. I believe that you will find the application of the principles of the law of negligence to each of these three different factual situations intriguing.
3. I would also like to make three other points:
  - (i) Firstly, the standards of professional are now required to be higher today than they were 30 to 50 years ago.