Survey of European Corporate Insurance Buyers

Key Factors in Selecting and Evaluating Insurers

STANDARD & POOR'S

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1 Introduction and overview of the objectives of this survey

Risk management remains the hottest of subjects. And, as Deepwater Horizon and other recent events have highlighted, strategic and tactical choices by corporations about the scale and detail of their use of insurance have a profound influence on their overall risk profile.

One of the most critical of those choices is the selection of the insurer itself.

This survey offers insights into how major European corporations address the challenge of selecting an insurer, including the factors they see as most important, which factors they find easy or difficult to evaluate, and the information gaps they would most like to fill.

The survey also identifies two very different approaches to insurance buying. One focuses on long-term relationships, expert judgement and decisions driven by the particular insurance requirement under review. The other is more rule based and is seen as part of a wider and more integrated risk management function.

While it is tempting to think that the integrated approach will become the most popular going forward, given the general industry trend toward more "holistic" risk management, the detailed results in this survey highlight why many insurance buyers continue to choose the more traditional insurance-focused and relationship-based approach. Corporations find it difficult to assess many critical insurer-selection factors in an objective manner. Consequently, experience, judgement and an understanding of an insurer's culture are seen by many as vital to their decision making. However, if an enterprise risk management approach is the goal, some way of translating the insurance-specific selection process into the wider risk management system is required.

Whichever approach becomes the norm in the future – most likely, some combination of the two – insurance buyers need as much relevant information as possible. We hope this survey contributes by allowing insurance buyers to compare their own approach to that of their peers.

For insurers, too, we hope this new information about what their clients look for is of value.

Brokers, of course, play a key role for most corporate insurance buyers. We included some questions in the survey about what buyers really want from their brokers, and which areas they would like to see them develop further.

Our thanks to all those who completed the survey. We greatly appreciate your time. Also thanks to The Thriving Company who carried out the survey on Standard & Poor's behalf and Commercial Risk Europe whose expert knowledge of European insurance buyers helped maximise awareness of the survey.

Finally, we welcome your feedback. The survey flagged several areas that would benefit from additional research and we are very keen to hear the views of market participants on both this initial report and other areas of interest.

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2 Executive summary

This report is the result of a survey covering the views and comments of 84 European risk managers and others with a key accountability for the purchase of insurance for their firms. All the survey participants work for major corporations and institutions.

It aims to provide robust information about the way in which those responsible for purchasing insurance choose insurers, and how they attempt to evaluate insurer performance. It also covers constraints and barriers to effective evaluation, as well as areas in which risk managers say insurers could improve their performance. The report also explores the role of brokers, perceptions of the value they provide, and ways in which they can improve.

Typically, major corporations employ a considered risk management process to determine the risks that they run and the potential impact, together with the implied cost of capital, before then defining their need for insurance and their more detailed requirements. As one survey participant commented, "The front end of the process is determining risk capacity, the back end is buying insurance". However, risk managers seem to follow one of two distinct philosophies when implementing this common process.

The first can be thought of as an "insurance-focused approach", where the insurance buyer chooses the insurer and the insurance product in a way that is relatively independent of other corporate functions and where the buyer's judgement is pre-eminent. Where brokers are employed, they are primarily used in their traditional role of helping to choose the insurer and generally facilitating the process.

Under the second, more integrated "holistic" risk management approach, the buyer tends to involve other corporate functions, to apply an insurer selection procedure that is based on rules as much as judgment, and to use brokers for their consulting and advisory services as much as for their traditional skills. More information about these two contrasting approaches is given in section 5 of the report.

Risk managers and other insurance buyers take a range of factors into account when determining which insurer to use for key classes of insurance. Some factors such as insurer financial strength, willingness to pay and, to a slightly lesser extent, completeness of cover were of critical importance for nearly all our survey participants. However, issues such as capacity and the extent of the insurer's international network were more important for some participants than others, depending on the nature of their business.

Not all aspects of an insurer's performance are easy to evaluate. While the credit rating awarded to an insurer by a third party is easy to obtain, and most risk managers find it easy to determine the extent of an insurer's international network, other key factors are much less transparent. An insurer's willingness to pay out in the event of a claim is regarded as the most complex factor to evaluate, with three-fifths of participants describing this as "difficult" or "very difficult." The report describes various other items of information that risk managers wish were more easily available, including information about claims reserves. Generally, insurance buyers feel there is a need for greater transparency about certain aspects of insurer performance.

2 Executive summary

(continued)

The survey included a preliminary series of in-depth interviews with a variety of risk managers, and these helped us to identify three discrete sets of factors involved in the choice of insurer. The first is a set of "short-listing" factors, including financial strength, that have to be met by insurers if they are to be seriously considered by the insurance buyer. The second set of factors helps to define the buyer's final choice of insurer, and includes the insurer's understanding of the corporation's business and the insurer's flexibility of approach. The third set of factors currently comes into play only once an insurer has been adopted, and includes a detailed and robust appreciation of servicing and service levels.

Given that some important aspects of an insurer's performance are difficult to evaluate at the point of insurer selection, the decision to make an insurer the lead insurer for a class of insurance and to think of another as "second best" is often driven by judgement. The insurer's apparent understanding of the needs of the client (and the client's business) and its flexibility of approach seem to be the factors used by many insurance buyers to differentiate between insurers. While risk managers tend to perceive headline price as one of the less important selection factors, it can drive the choice of insurer when no insurer has successfully differentiated itself from its competitors on other counts.

These findings have important implications for how insurers and brokers communicate the value they bring to corporate insurance buyers. Survey participants also identified some specific areas of improvement for insurers, including becoming more flexible and innovative, contributing more to the overall risk management effort, improving their processes, increasing their expertise, and becoming less rule based in the pricing of risk.

Most risk managers have a positive opinion of the value provided by brokers, with over 80% saying that brokers were, at a minimum, very useful in helping them fulfil their insurance-buying objectives. Not all, though, are fully convinced by less traditional broker services such as broker consultancy services. A significant number of survey participants felt that brokers should focus more consistently on the client's interests, innovate more, improve their capabilities (in part through better staff retention and development of staff expertise), provide greater value in the overall risk management effort, and improve their processes.

We hope that this report is useful for corporate risk managers and insurance buyers. Currently these professionals have to deal with considerable uncertainty when choosing or retaining insurers, particularly with regard to factors such as willingness to pay and servicing capabilities, which often remain opaque until cover is in place or a major claim is made. This lack of transparency arguably undermines the efficiency of the insurance market. Further efforts to provide insights to risk managers that reduce their uncertainty and improve their decisions are likely to prove valuable.

3 Conduct of this survey

The research underlying this report was conducted in two stages – an in-depth qualitative stage and a quantitative survey - to help ensure it would provide a robust and representative view of how insurers and brokers are evaluated and selected by European buyers.

The initial, qualitative phase of research comprised in-depth conversations, averaging around 45 minutes, with 11 senior risk managers and insurance managers in large European organisations such as Clariant, DHL, GlaxoSmithKline, Maersk, Novartis and Unilever. Each participant had full accountability for securing insurance for their corporations or groups.

These in-depth discussions aimed to identify the key factors, data and general information that risk managers felt was of significant value when selecting insurers or evaluating their performance. This data either already played a role in risk manager decisions, or was data they wished was available.

Our thanks go to the participants. Their comments helped identify the information that risk managers need to evaluate insurer performance and service, and helped us begin to determine the key factors that help risk managers to distinguish between insurers. Their contributions also identified areas where further transparency and provision of data would be useful, and helped us to see where brokers created value in the insurance buying process and how this might be extended.

The in-depth discussions also uncovered clear differences in the approaches and philosophies employed by the risk managers we interviewed. The in-depth interviews provided many of the insights contained within this report and contributed to the analysis and opinions that accompany the more detailed quantitative results.

The second stage of the research consisted of a more robust quantitative survey through telephone interviewing and detailed online questionnaires. In total 84 respondents, all with responsibility for selecting and evaluating insurers, participated. The quantitative part of the survey has produced a new body of data about the significance of different factors that affect the choice and evaluation of insurers, and the difficulties that risk managers face when evaluating these factors. It also provided feedback about the role of brokers and the areas of value they provide. More detail about those who participated is provided in Section 4.

We will continue to accept contributions to the survey from risk managers until the end of January 2011, at which point, an updated report will be produced.

[1] From this point forward the phrase "risk manager" is used throughout this report and refers to an individual who is the focal point of insurance buying and related management

4 About the participants

The survey results are drawn from 84 risk managers and insurance buyers across 15 different European jurisdictions.

All the participants are employed by major corporations and they represent a wide spread of insurance buyers in terms of the amount spent on premiums per annum (Chart 1). Of those divulging their total premium spend, just under a third reported that this exceeded €30m per annum, and the majority of participants were responsible for a premium spend that exceeded €10m each year.

To a large degree, the survey respondents either had responsibility for risk management as a whole, or specific responsibility for the purchase of insurance or the management of insurer relationships (Chart 2). The generic categories "risk manager" and "other insurance buyer" are used in the chart, however, respondents within these categories included Chief Risk Officers, Directors of Group Risk Management, Group Heads of Tax and Treasury, and Heads of Group Insurance. The "Other" category encompasses roles such as Managing Directors and Directors of Risk Appraisal.

Chart 1 – Annual total premium spend of participants

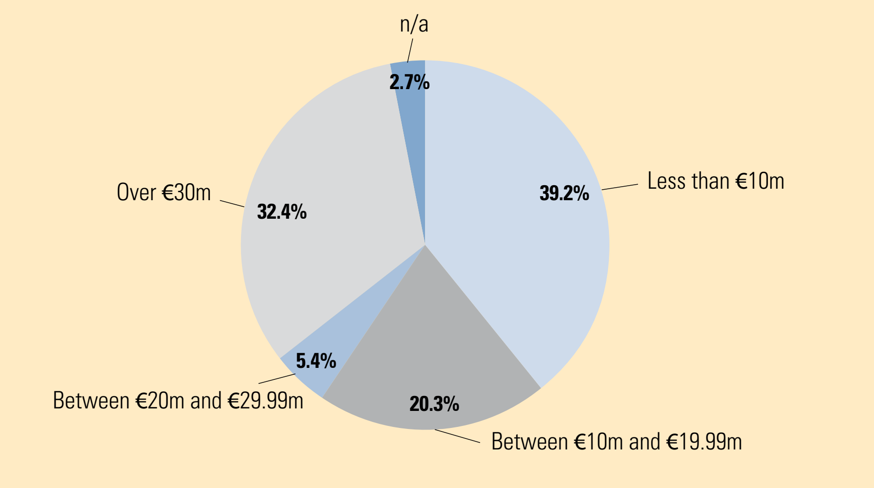
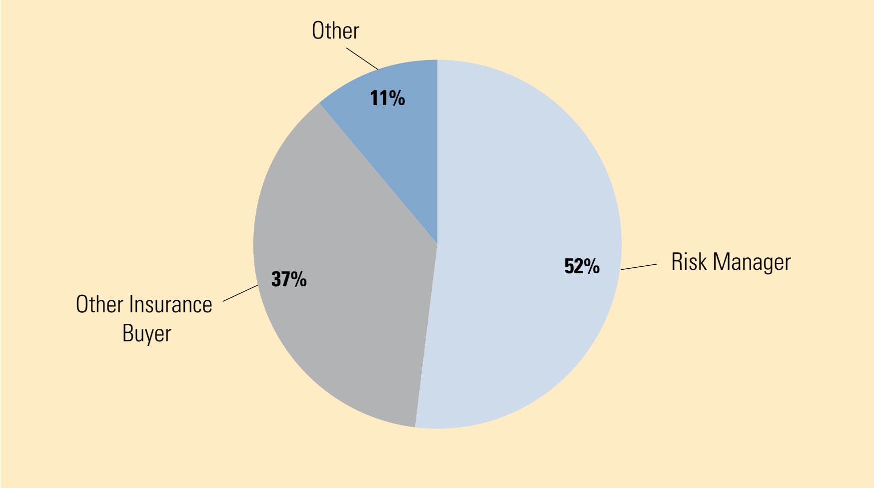


Chart 2 – Roles of Participants



5 The process of determining insurance needs and the different philosophies used

The first stage of the survey, consisting of a series of in-depth interviews with a range of risk managers and insurance buyers in major institutions, identified both some commonality across the approaches used to determine insurance needs and to select insurers, as well as some significant differences in both process and underlying philosophy.

All the interviewees followed a considered process for determining the risks their corporation ran and their potential impact, together with the implied cost of capital. This process leads risk managers towards a conclusion about the risks it makes sense to retain, those that can be insured through a captive, and those that should be insured through external parties. For most risk managers, the process also involves determining which risks are global and which can be managed or insured on a local basis. Some explicitly frame their insurance purchase as part of the organisation's wider risk management strategy.

The analysis is typically conducted before focusing on the choice of insurers for any insurance programme or class of risk. As one participant put it, *"The front end of the process is determining risk capacity, the back end is buying insurance"*.

However there are clear differences between the approaches of different companies. Some risk managers were very focused on the buying of insurance as their core responsibility, while others were engaged in the company's overall approach to risk management. While some participants had only limited contact with other corporate functions and departments involved in the overall risk management process - perhaps simply advising and communicating about their decision - others were more engaged with, for example, colleagues in Treasury, in Operational Risk, or indeed the CFO.

Some survey participants clearly gained information, such as risk management studies or benchmarking data, or clarity about direction, from such departments. Sometimes their role was still simply to advise the CFO/Treasury except when the most significant global programmes were considered. However those with increasingly close communication with colleagues in the wider Enterprise Risk management function saw this as the "direction of travel" for their company, with ever greater sharing of information.

Many of the risk managers who were interviewed in person reported that the process of reviewing and choosing insurers requires a significant investment of time and effort. This includes the time spent educating insurers about their business and any changes to it, as well as providing all the information and data required by insurers.

Again, there are significant differences of approach. At one end of the continuum, a risk manager said that the number of insurers able to meet all of the company's needs was so low that they did not have a formal short listing process. This was unusual, with many more participants having some form of process to determine a short list of panel members, for example, and then the specific insurers for each class or programme. Some have a deliberately long-term approach and begin to engage with insurers some 2-3 years before the insurer is included on a panel.

All the in-depth interviewees recognised the value of long lasting relationships with insurers and there was a common desire to build ▶

5 The process of determining insurance needs and the different philosophies used

(continued)

mutual understanding between their company and its insurers. However again there were clear philosophical differences in how the relationship should be managed. Some undertook fairly light reviews while others said that, in the normal course of business, they would formally review the performance of an insurer each year, have a very significant review after three years, and then expect to roll the programme over for a further year provided performance was good. Some participants said "we don't shop around every year". For others, however, an explicit annual review allowed, in the words of one insurance manager, *"flexibility if something moves in the external market"*.

Stewardship meetings, where the insurer and perhaps the broker meet with the company to review various areas of performance and potential improvement, seem to be increasingly common. However, one head of insurance buying, whose organisation currently begins collating information for the insurer 10 months before the renewal date, aims to reduce the investment of time and effort involved in relatively routine renewals. This corporation would prefer a renewal process that focuses only on information that has changed.

There are also clear differences in the use of brokers. Some companies are using them exclusively or predominantly for their traditional expertise in helping secure the right cover, at the right price, from the right insurer. Others are engaging more broadly with them on a consultancy basis, for example, turning to them for help in managing risk and managing relationships with insurers more generally. This point is covered more extensively in section 11.

Figure 1 on page 10 provides an overall view of the key differences in approach and philosophy among buyers of insurance, based on the in-depth interviews with risk managers and insurance buyers. The bottom half of the figure is divided between two extremes and, indeed, our survey evidence suggests that most companies fall into either the "insurance-focused" or "holistic risk management" approach with only a few mixing elements from both approaches.

The "insurance-focussed" group tends to believe that the need for long-term relationships and high levels of mutual understanding mitigate against a more rules-based process to insurer selection. Conversely, one risk manager has instituted a highly structured tender process for insurance programmes that includes the scoring of each insurer on 20 different criteria, which are then weighted differently depending on the class of insurance under review. This risk manager believes that the approach has generated benefits and uncovered variability in the performance of insurers:

"the process drove better value, coverage and terms as a result....it got them (the insurers) to sharpen their pencil"

However, this phase of our research suggests that such an extensive process-driven approach is not common.

5 The process of determining insurance needs and the different philosophies used

(continued)

Figure 1: Summary of commonalities and differences in approaches to determine needs and to evaluate insurers

Common at company level:

Determination of risks

↓

Determination of insurable risks

↓

Determination of risks to insure

↓

Determination of risks to insure via captive and via 3rd party

↓

"Insurance-focused" approach	**"Holistic Risk Management" approach**
• Insurance buying primarily operating independently of other company functions Brokers used to facilitate process to review and/or choose insurer • Insurers used purely to insure • Choice rarely driven by applying a rules based approach • Ongoing evaluation based on judgement with no/limited measurement of performance indicators	• Other company functions involved in choice • Brokers also provide analysis and risk management services • Insurers provide additional data, risk management or ancillary services • More rules-based assessment of key factors relevant to choice of insurer • More documentation and measurement of performance indicators

6 Choosing a lead insurer

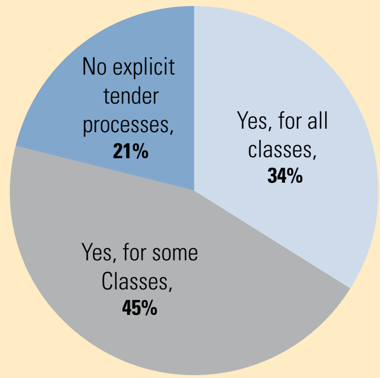
The following section focuses on the details of the factors used by risk managers to select insurers, and their relative importance. This includes information about the relevance of factors both as explicitly reported by participants, and what analysis suggests may drive the differentiation between lead insurers and others.

a) The use of explicit tender processes

As Chart 3 shows, most risk managers use tendering processes for some or all of their insurance needs. Only about 1 in 5 of the participating risk managers do not use explicit tender processes at all. Those who do not use explicit tender processes reported various reasons for this. Sometimes the longevity of a relationship with an insurer meant the risk manager felt tendering was unnecessary. Others relied on their broker's recommendation, or felt there was a very limited set of insurers who were active and could meet their needs for a given class of insurance.

However, these risk managers were in the minority. Some of those taking part in the face to face or telephone interviews noted that they took a long-term view of insurer relationships, and therefore did not review them every year. Even so, they would periodically conduct a rigorous review to make sure they gained the best outcome for all of their classes/programmes or, at a minimum, for the most significant ones.

Chart 3 – use of explicit tender processes



b) What participants viewed as important selection criteria.

A range of factors are important to the risk managers and therefore influence the choice of insurer, from financial strength through to headline price. After identifying the key factors during our in-depth ►

6 Choosing a lead insurer

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interviews, we asked participants in the quantitative survey the following question:

Thinking about how you choose a 3rd party insurer generally, please score the importance of the following factors. Here a score of 1 means irrelevant and 10 means of absolutely fundamental importance.

Table 1 lists the factors and summarises their perceived importance for risk managers when they are choosing insurers generally.

All of the factors are viewed as important by the vast majority of risk managers. Clearly the evaluation and selection of insurers does not typically rely on a small set of factors.

Table 1 – perceived importance of factors when choosing external insurers

Rank	Factor	Average scored importance (of 10)	Percentage of times factor importance scored 6 or below
1	Financial strength	9.21	2%
2	Willingness to pay	9.03	2%
3	Completeness of cover	8.69	2%
4	Understanding your specific business and its needs	8.40	6%
5	Insurer rating	8.34	5%
6	Flexibility of approach	8.25	9%
7	Technical expertise	7.83	16%
8	Extent of international footprint/network	7.76	22%
9	Headline price	7.37	23%
10	Capacity	7.36	27%

6 Choosing a lead insurer

(continued)

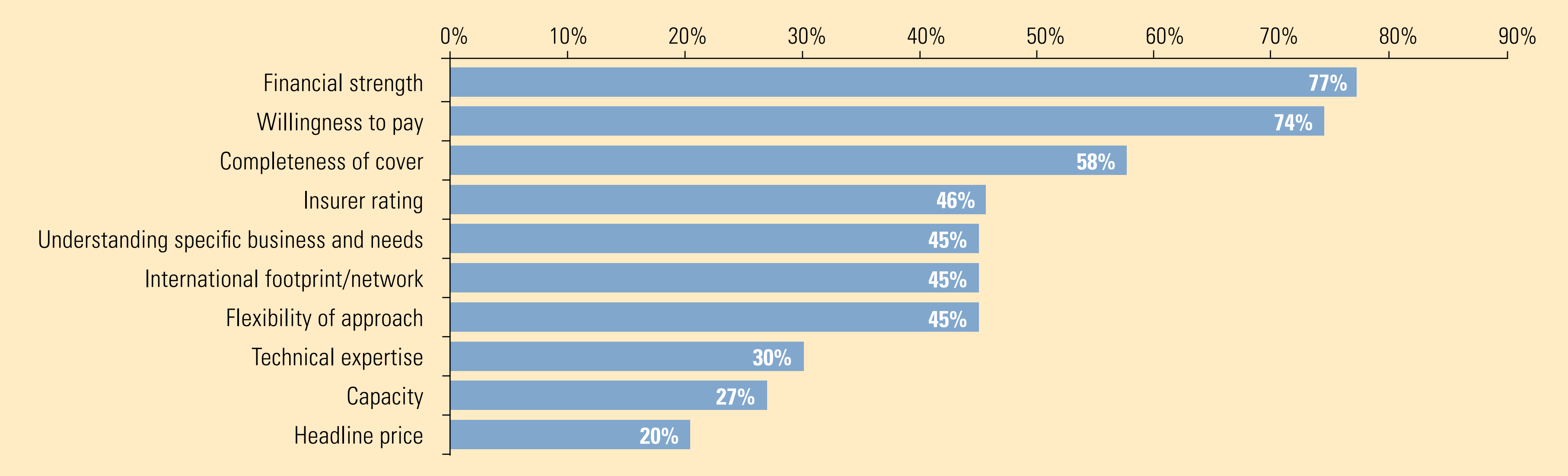
However, there are nuances in how risk managers view the importance and relevance of these factors to their decisions. Chart 4 shows the proportion of respondents scoring each factor as 9 or 10 for importance.

In almost every case, the financial strength of the insurer is a key factor. An average "score" of importance of 9.21 out of 10 is extremely high and reveals this to be a fundamental factor for all but a very few risk managers: 77% rated this factor as a 9 or 10 in terms of its importance.

During the in-depth interviews, different approaches to the analysis of financial strength were described. Some risk managers use a range of inputs and, in some cases, undertake their own analyses of financial strength. Those risk managers who report a more holistic approach to risk management and insurance buying often draw on sources of data and underlying analysis undertaken by colleagues in Treasury or Finance divisions.

Ratings from a third party agency (most commonly Standard & Poor's) are closely associated with the evaluation of financial strength and are a requirement in almost every case. However, ratings are used in different

Chart 4 – proportion of respondents scoring factors 9 or 10 for importance



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ways. Some participants in the in-depth interviews said they took advantage of the detailed commentary underlying each rating and any available financial data.

Other interviewees seemed to be driven largely by the need to follow corporate policy; these interviewees paid less attention to the information underlying the rating but they still regarded the financial strength rating itself as a "stop/go" criterion for any insurer to be long-listed or short-listed. Those in the corporate centre often use ratings as a way to stop local offices from using local insurers that are not perceived to be sufficiently financially strong. Here, the key issue is that the insurer attain a minimum rating, and any distinction above the minimum, such as the difference between an A rating and an AA rating, is less significant in the decision making process. Some risk managers have, and have exercised, the option to stop using an insurer and receive a pro-rata refund where an insurer's rating has fallen below the floor set in their internal guidelines.

The importance of the insurer's willingness to pay was very highly scored. Just under three quarters of the survey participants rated its importance as 9 or 10. One participant in the in-depth interviews noted that, "*We have insurance for one reason – to pay claims*". At the same time, evaluating this factor effectively is a real challenge or, as one interviewee put it:

"it is a conundrum...I wish I could tell you (how to do it)."

Part of the problem is that some managers have little substantive claims history to draw from, especially for certain lines of business. Some participants canvass brokers' opinions on this factor but more regularly there is an attempt to form a judgement about the underlying ethos of the company and its senior management and how this will drive the behaviour of claims staff. While some participants were fairly sanguine about what might happen in the event of a major insurance claim, others noted that they would appreciate the comfort of seeing some hard data about the size of the claims reserve held by each insurer, as this would indicate their attitude towards claims.

Completeness of cover is clearly very important to the majority of participants. Well over half scored this factor as 9 or 10 on the scale of importance. However, many of the risk managers participating in the in-depth interviews felt that a corporation's approach to risk management, particularly the precise identification of risks that the company wished to insure, could act to make the overall breadth of cover less important. For some, specifying risks, cover and wording more precisely can be more desirable than simply purchasing the most comprehensive cover.

The buyers of insurance view the insurer's understanding of their business and its needs as highly important. This was introduced as a key factor in the quantitative survey after being regularly mentioned in the in-depth interviews. The insurer's knowledge about its client is often seen as being built up through the longevity of relationships. Risk managers invest significant time and resources in communicating to insurers about their business, their underlying approach, and detailed information on risks accepted. They recognise both the extent of this investment and that it can act as a barrier to changing insurers in some cases.

6 Choosing a lead insurer

(continued)

The importance of the flexibility of an insurer's approach was also mentioned by several of the participants in the in-depth interviews. Throughout the study, different aspects of flexibility were mentioned, for example, in respect of cover arrangements, servicing, and pricing structures. One telephone interviewee described the difference between one insurer who had an "insurance approach" and another that had a more flexible "commercial approach", which they preferred. Flexibility was also described in terms of the degree of focus on the client's needs rather than the insurer's needs. Risk managers say that insurers sometimes make changes in how they operate to improve their margins or the insurer's process efficiency that detract from service. For example, insurers might move back-office capabilities to more remote locations even though this reduces the pool of capabilities and skills available to serve the client.

Risk managers say that an insurer's technical expertise in a particular class of insurance is relevant, though this factor's significance does depend on whether the risk manager views the insurance class as relatively "routine" – for example, motor insurance – or as a more significant risk that requires a much deeper understanding. Technical expertise is also seen by some as more important for new types of risk. It is also important to note that "insurance" rather than pure "financial" technical expertise is valued. However, the value from the insurance buyer's perspective is often driven by the understanding of their company and sector that the insurer demonstrates when applying technical expertise, rather than technical expertise in some purer or more general sense. The degree of empowerment of the insurer's technical experts is also important as one interviewee expressed with a clear, if deliberately exaggerated, example:

"It's no good having someone with technical expertise but who has to ask 15 people before he can pay a claim"

While the extent of an insurer's international network and footprint is ranked eighth of the ten factors, this does not mean it is unimportant. Two-thirds of participants scored its importance as 8 out of 10 or above. Whether the factor is relevant depends in part on the extent of the client's own global network, though even some companies with extensive international operations are comfortable with local insurers "taking the strain" where the lead insurer does not have an international network. For some risk managers, the concern is not so much the geographic area covered by the insurer's network, as whether the insurer has effective control over it. Several participants were not convinced by partnership or "franchise" arrangements and felt that servicing and administration could suffer if the insurer did not have managerial control.

Perhaps surprisingly, only one in five survey participants gave a top rating of 9 to the importance of headline pricing. The reason seems to be summed up in a comment by one interviewee:

"We get a lot of people knocking on our door...we don't respond to the cheapest deal"

For most insurance buyers, it is more important to find the right overall solution for insurable risks than to force premium levels down in an aggressive manner. Indeed, some risk managers noted that they took a fairly long-term approach to headline price, and that consistency in

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(continued)

pricing over the insurance cycle was more important to them. The ideal is that pricing is based on a healthy long-term relationship with the insurer that allows for a degree of "give and take" on pricing across the cycle. Related to this, some risk managers wanted to reinforce the point that they did not respond favourably to opportunistic insurers that offer cover when conditions are good, but disappear when conditions are more challenging.

However, this does not mean that price in absolute terms is irrelevant, as we explain in our discussion about how risk managers select between lead insurers and "next best" insurers.

Capacity received the lowest overall score for importance, though in some instances it is clearly critical. A number of participants noted that they were unlikely to use a substantial amount of the capacity of any one insurer for any given class, thus the insurer's appetite for a particular risk and the length of its involvement in a given class of business were more important.

Finally, some participants mentioned more detailed factors which they would like to be able to evaluate and that could have an impact on their choice of insurer, for example, the investment policy of insurers.

c. How first choice and second choice insurers differ

Insurance buyers rate many of the factors used by them to select insurers as highly important. Given that a number of insurers can fulfil these key criteria, how do insurance buyers then draw a distinction between lead insurers and those felt to be "second choice" or next best?

To explore this, the participants in the survey were asked to consider the performance of both their lead insurer and their next best insurer across all factors in a specific class of insurance that was very important to them and for which they could recall reviewing their relationships.

The respondents applied their reviews to a broad spread of insurance classes (Chart 5), with a particularly rich sample for overall Casualty and Property classes. We take a closer look at the results for these particular classes later in this section of the report.

6 Choosing a lead insurer

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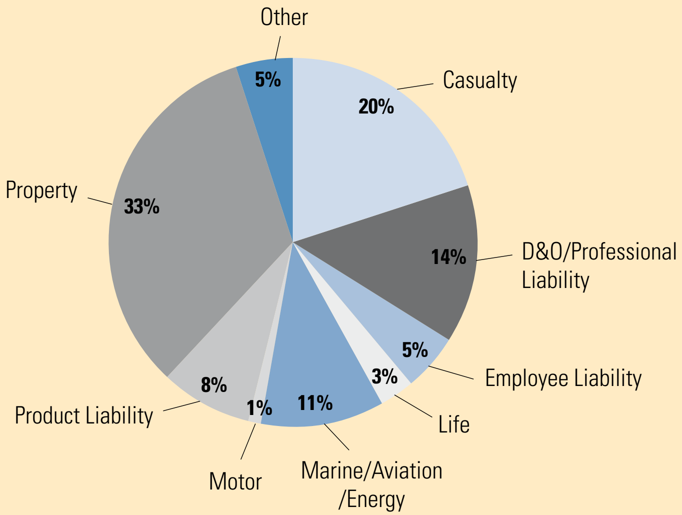
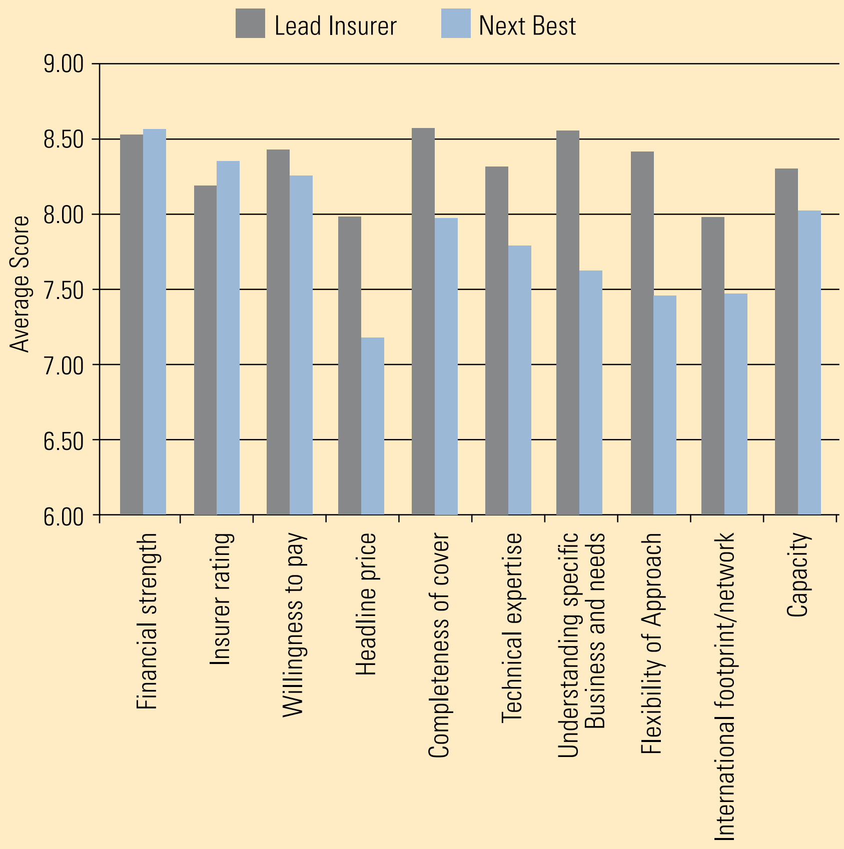
Chart 5 – classes reviewed by participants



The results of the exercise can be seen in Chart 6, which compares the average scores of lead versus next best insurer across all the key factors that influence the selection of an insurer.

Chart 6 – average scores of performance (all classes) for lead insurer and "second choice" or "next best" insurer



6 Choosing a lead insurer

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Overall, and across all insurance classes, there are only relatively small differences between the average scores of "lead insurer" and "next best" insurer with regard to many of the factors with the highest perceived importance (identified earlier in Table 1 on page 12).

This leads to some counterintuitive results. For example, the lead insurer is, on average, scored marginally lower for *insurer financial strength and insurer rating* than the "next best" insurer. As some of our telephone interviewees indicated, the reason for this is that financial strength is a "must have" but it is not a differentiator. That is, a sufficiently strong rating or appearance of financial strength is a prerequisite if an insurer is to be seriously considered, but financial strength or rating distinctions above an acceptable level are less critical.

Conversely, the differences between the overall score of the lead insurer and "next best" are highest in relation to *understanding business needs* and *flexibility of approach*. This might suggest that, consciously or otherwise, risk buyers use these factors to distinguish between rival insurers on the "short list". This is supported by the comments of telephone interviewees and the answers that participants gave when defining the key differences between their first and second choice as lead insurer for specific classes of insurance.

The factor with the next highest difference between the scores of lead and second-choice insurers is *headline price*. This is notwithstanding the fact that this factor received the second lowest score overall for perceived importance. One possible explanation is that price plays a greater role than risk managers themselves recognise. Additionally, some risk managers suggested that where they do not recognise a meaningful difference in performance in terms of the other criteria, headline price becomes the de facto decision point.

While *willingness* to pay is scored extremely highly for importance in Table 1, the difference between the perceived performances of the lead insurer and the second choice for this factor do not appear to be very significant. Some interviewees said that it is very difficult to evaluate the performance of any insurer on this factor until the corporation has gained experience with them. The difficulty of evaluating willingness to pay may be the reason why, though it is important, it does not currently seem to drive the selection of the lead insurer. Also, only those insurers where the buyer judges there is likely be to a high willingness to pay tend to be shortlisted.

The influence of each factor on the choice of lead insurer may vary across different classes of insurance. Sufficient responses were received about the performance of lead and second choice insurers in the overall Casualty and Property classes for tentative conclusions to be drawn about the factors that drive the choice of lead insurer in these areas. These conclusions are summarised in Tables 2 and 3, though as they are not based on large amounts of data, any differences should be viewed as indicative.

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(continued)

Table 2 – top differences between 1st choice/lead insurer and "second choice/next best" insurer[2] in Casualty insurance

CASUALTY

Rank	Factor	Lead insurer avg. score	Second choice avg. score	Difference
1	International footprint	7.53	6.33	1.20
2	Headline price	7.27	6.50	0.77
3	Flexibility of approach	8.67	7.92	0.75
4	Understanding your specific business and needs	8.20	7.75	0.45
5	Completeness of cover	8.33	7.92	0.42[3]

Table 3 – top differences between 1st choice/lead insurer and "second choice/next best" insurer[4] in Property insurance

PROPERTY

Rank	Factor	Lead insurer avg. score	Second choice avg. score	Difference
1	Headline price	8.04	7.00	1.04
2	Understanding your specific business and needs	8.35	7.52	0.82[5]
3	Flexibility of approach	8.00	7.29	0.71
4	Technical expertise of insurer	8.13	7.52	0.61
5	Completeness of cover	8.17	7.67	0.51[6]

[2] Note these tables are based on limited numbers of responses so should be viewed as indicative rather than conclusive.

[3] Difference between this value and the average scores of lead insurer and second choice insurer shown on the table a result of rounding error

[4] Note these tables are based on limited numbers of responses so should be viewed as indicative rather than conclusive.

[5] Difference between this value and the average scores of lead insurer and second choice insurer shown on the table a result of rounding error

[6] Difference between this value and the average scores of lead insurer and second choice insurer shown on the table a result of rounding error

6 Choosing a lead insurer

(continued)

Key drivers of choice reported by participants

Participants in the survey were also asked:

What would you say, in your own words, was the key difference between your first and second choice as lead insurer for that class of insurance?

The responses give a further degree of insight into the distinctions between insurers that corporate risk managers and insurance buyers make.

When we grouped the responses into broad categories, two categories were significantly more populated with responses than any other.

The first of these categories can best be described as the "connection" between the company and the insurer, and the ability of the insurer to respond and tailor the service that it provides to the company. Over half of those answering the question referred to the lead insurer's flexibility or understanding of their business and needs. One example of this was:

"(The) flexibility in terms of wording and scope of coverage, (their) understanding of needs related to business."

The history and length of the relationship between the lead insurer and insured was also significant for a number of participants. Several appreciated the mutual understanding and trust that this had produced, and indicated that the relationship was unlikely to change unless there was some kind of event or discontinuity. While the customer's decision to begin the relationship may have been based on the insurer's appetite for the business or its pricing at a particular point in time, the customer expressed only a limited interest in changing insurer:

"(The difference is) long term relationship. Originally, service levels were important, and (we) now would only seriously consider changing if (there was a) huge price differential."

"Price difference did not justify the upheaval of change."

However, the next most commonly mentioned issue, noted by around half of participants, is indeed that of price, and/or the premium required for a given level or scope of cover:

"Willingness to compete on price, and insurance cover."

Often, price was linked with another factor that marked out the strength of the lead insurer, such as claims handling, or technical expertise.

However, for a significant minority of participants, price became the deciding factor in the absence of any other distinguishing feature or difference in performance among potential lead insurers. This was either because the participant only short-listed institutions that met all their key criteria, or simply because no insurer had been able to differentiate itself on the factors being evaluated. Perhaps the headline price represents the last remaining opportunity to choose one insurer over another, if performance seems substantially equal in all other important respects.

6 Choosing a lead insurer

(continued)

"If they all agree with respect with conditions, they have to meet all criteria and then price is defining."

"In the end there was no significant difference - therefore the first choice was obvious due to their flexibility to negotiate."

A number of other areas were mentioned by around one fifth of the respondents and they clearly sometimes drive the choice of insurer, albeit less frequently than "connection" or "price".

The first of these concerns the **resources, size** or **capacity** of the insurer. These responses sometimes relate to the insurer's international capability, with one response mentioning the lead insurer's "fronting capacity in all countries of operation".

A similar number of mentions were made of the level of insurer **experience** or **expertise**, which might refer to technical expertise but is not necessarily limited to it:

"(The) 1st (choice) has more extensive experience in the type of risk transferred...larger portfolio, larger team..."

Other risk managers formed a judgement about the overall level of appetite or activity that an insurer showed for their type of business, or indeed their **long term commitment to the sector**. One respondent summed this up as:

"Lots of insurers struggle to differentiate – (the) initial choice is down to activity in the market and also depends on what you see as their strategy - change in this is a negative factor and frustrating."

As mentioned elsewhere in this report, insurance buyers appreciate a consistency of approach. Some participants outlined more positive perceptions of those insurers who were seen to operate in a market for the long term and who price and build relationships accordingly, for example:

"Long term commitment to the construction sphere, underwriting expertise, support and service."

This contrasted with perceptions of insurers who were seen to be opportunistic, or to quickly buy market share by offering low premiums. The concern here was that the insurer's pricing or appetite for the business would change again in the future. This was mentioned by one participant in relation to **client service** and **servicing**:

"(The difference is) one of service and knowledge of business, given (named insurer) provides a unique service in servicing claims. (Other named insurer) were competitive on price but we couldn't put price above service and price would not have been sustainable."

Service issues were noted by a significant number of participants. For one respondent, the availability of added-value services, in the form of back-up teams and medical visits, was the reason their lead insurer won the business.

While claims servicing or claims handling services were occasionally mentioned, the overall willingness to pay was not explicitly mentioned.

6 Choosing a lead insurer

(continued)

Similarly, financial stability or insurer rating were both only mentioned on a relatively small number of occasions.

It would seem that, for most insurance buyers, the financial stability is a pre-requisite (as indicated in Table 1), allowing them to be "in the game", and therefore is a less important factor for differentiating between insurers in the final selection process.

Meanwhile, willingness to pay is so difficult to evaluate that it is also difficult to use to distinguish between the performance of insurers. More robust information and data on this factor might help risk managers to distinguish between lead insurers and next best insurers, if it were available.

d. Conclusion: Summary of how insurers are chosen by many risk managers

Our overall conclusion from the responses given by risk managers is that many factors are taken into account when an insurer is selected. Figure 2 provides an overview of how factors appear to be used in the initial short listing and then the final choice of insurer. It is unusual for any of the factors shown in Figure 2 to be irrelevant.

In many cases, acceptable performance on several of these factors (left hand column, Figure 2) is required before an insurer can join the short list. However, understanding the client's business, and demonstrating a client-led, flexible approach may have a greater role in the final choice of lead insurer (the particular class of insurance under review will have some impact here).

Headline price can also be significant, particularly where risk managers find it difficult to differentiate between the performance of insurers with regard to all the other factors.

6 Choosing a lead insurer

(continued)

Figure 2: A schematic of factors most often used to choose and evaluate insurers

Short- listing insurers	Choosing insurers	Evaluating performance
• Financial strength • Rating • Perceived willingness to pay claims • Understanding of sector • Technical expertise • Completeness of cover May also include: • International coverage/footprint • Capacity	• Understanding of company • Flexibility of approach • Price/price for specific cover (if insurers perform similarly on all other factors)	• Experience of claims paying • Service performance (incl. speed of providing documentation)

7 Evaluating performance

There are important gaps in the information currently available to those evaluating the performance of insurers. Sometimes a real understanding of an insurer's performance is only gained when something goes wrong – which, of course, is too late.

Some survey participants noted that it can be particularly difficult to evaluate the performance of insurers with regard to the "soft" factors of performance, such as an insurer's willingness to pay an insurance claim, before becoming a client.

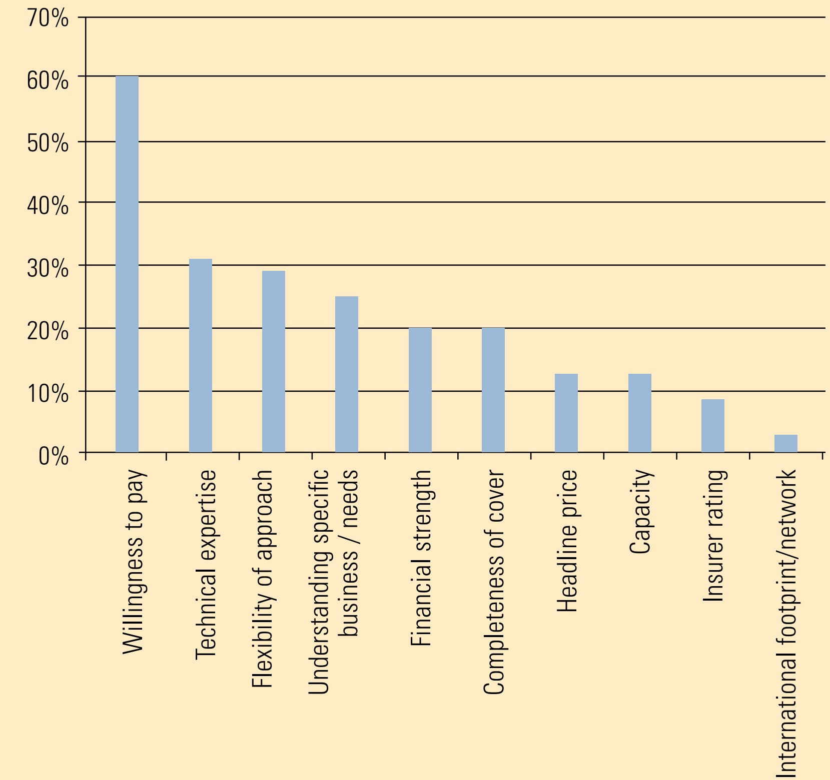
a. The relative ease (or difficulty) in evaluating insurer performance

Risk managers report that reliable factual data does not exist or is difficult to access in a number of areas. This means they regularly have to exercise judgement, or rely on their beliefs.

Participants in the survey rated how easy it was to evaluate each factor of an insurer's performance, on a scale ranging from very easy to very difficult.

Chart 7 shows each factor together with the percentage of respondents who viewed that factor as difficult, or very difficult, to evaluate.

Chart 7 -Percentage of participants viewing each factor as difficult or very difficult to evaluate



7 Evaluating performance

(continued)

Not surprisingly, the more "fact based" the criteria, the easier it is to evaluate. Most risk managers find capacity and insurer rating easy, and in many cases very easy, to evaluate. There is wide access to ratings data and information (for example, from Standard & Poor's) and more participants viewed this as "very easy" to evaluate than any other factor. Few risk managers appear concerned about any difficulty in ascertaining the capacity of the insurer. Sometimes this may be because they believe their demands on an insurer's available capacity will be relatively low.

It is noteworthy, however, that between a quarter and a third of the survey participants say they find issues such as technical expertise difficult to evaluate. This may well be an area where insurers or brokers could improve their communication.

Risk managers typically also felt that it was easy, or very easy to evaluate the extent of the insurer's international network, at least in factual terms. The bigger challenge seems to be forming a judgement about the quality of that network, and its likely servicing or administration capabilities. Some interviewees said they wanted to understand the insurer's level of ownership, and/or management control, of the network. They felt less comfort with partnership arrangements, or majority holdings without formal line management control, believing that this often led to inconsistencies in service and quality.

Headline price and completeness of cover were also judged to be easy or very easy to evaluate by the majority of respondents. That said, some risk managers described challenges. These tended to relate to difficulties in ensuring that they could compare "apples with apples" in terms of what was covered under the pricing arrangements, and the complexities of doing so where insurers proposed different approaches to pricing. Some risk managers use brokers to resolve this problem.

Similarly, most rate financial strength as easy or very easy to evaluate. Some of the interviewed participants did have some concerns, however. They felt that complex company structures and a perceived lack of transparency in the financial reporting of insurers meant that it was potentially dangerous to rely simply on the company's published financial results. Use of ratings and other analyses (even in-house analyses) were used by many to overcome this, but the fact that evaluating financial strength is regarded as significantly more difficult than evaluating ratings suggests that an information gap exists here.

So far, we've considered mainly "hard" or quantifiable measures, whereas the main difficulties lie in the evaluation of what one participant described as the "soft" areas, such as willingness to pay. Below we describe the key challenges in each of these areas and the ways in which risk managers and insurance buyers currently evaluate these factors.

7 Evaluating performance

(continued)

b. Challenges in Evaluation

Willingness to pay

Willingness to pay is clearly viewed by many risk managers and insurance buyers as the most difficult factor to evaluate. In fact, no participants at all viewed it as "very easy" and only 2% saw it as "easy".

Comments included, ***"we don't really do this in a sophisticated fashion"*** and ***"you are relying on a promise"***.

Equally, the uncertainties associated with assessments of insurer willingness to pay concern some risk managers, who remarked ***"you may use an insurer who pays all the claims...until the big one"***. The survey participants occasionally noted examples of the insurer "promise" not being met. The problem is compounded where an organisation lacks significant claims experience for a particular line or class of insurance. In one in-depth interview, the interviewee noted that the insurer's rationale for not paying had been, "we have never had a claim like this". Another participant has not used a particular insurer for a decade because, in their view, a legitimate and well-founded claim was not paid.

One of the problems is that there is little recognised and transparent quality data in this area. Some risk managers use their own professional networks and reach out to their peers to gain the benefit of their experience. The lack of transparency makes some risk managers uncertain about changing their insurer. Staying with the incumbent, where there may be some experience of their willingness to pay claims, at least reduces the uncertainty, though it also acts as a hidden constraint on finding a better deal.

Some participants attempted to make a judgement based on symptoms or proxies they could identify. For example, this included their assessment of the general attitude of the insurer and how its senior management were aiming to position the firm in the market. Others form a view on how "open" the insurer's staff seem to be and invest time in getting to know the managers of claims departments.

One interviewee looked out for any reluctance to set aside reserves against claims but noted it would be valuable to have more representative data on reserves. On some occasions, risk managers rely on the advice of their brokers. But one noted that they were making a judgement ***"based on relationships, and (you) hope they don't rely on the small print"***.

All that said, risk managers have had the experience in the case of a major claim, where as described by one participant:

"An insurer can move from being a strategic partner to focusing on their concerns about their balance sheet rather than concentrating on validity of the claim."

7 Evaluating performance

(continued)

Technical expertise

We mentioned earlier that technical expertise is assessed by risk managers in terms of how well the insurer can apply their technical insurance expertise within a particular business context. Many interviewees noted that they relied heavily on their dialogue with counterparts at the insurer in order to judge technical expertise, rather than more formal measures. They take into account not only the answers that underwriters and others provide to any questions, but also the content of any questions they are asked; this is seen to demonstrate expertise and sector knowledge and is viewed as a source of value.

The ability of insurer staff to show genuine interest in the company and to direct that understanding into the way in which the insurer models the company's risks is seen as a key indicator by many. One interviewee also noted that a background in operational risk and the ability to form a broader view is beneficial.

Some participants noted that, as well as performance in meetings, the outcome from site visits is important, as is the quality of report that is generated from the visit. However, risk managers recognise that real knowledge and judgment about the technical expertise of the insurer can often only be gained from prolonged engagement with an insurer, usually as a client.

However, some risk managers said they also fall back on the views of others, such as their industry peers or brokers, or on proxy measures of technical expertise. Some interviewees regarded market share, and having other customers of similar size and sector, as one indication of the level of insurer expertise, in the absence of any other data.

Flexibility of approach: understanding the client's business and its needs

Risk managers say that customer service, in its broadest sense, is difficult to evaluate effectively. One indication used to estimate the insurer's focus on service is simply the response from the insurer when asked how it will manage the account. However, risk managers also try to gain a sense of service levels from the behaviour of insurer staff in meetings and any signals that they are service minded and interested in the service received by clients. Several interviewees said that requests in meetings to "just send me some information about that" tend to give a poor impression.

Many risk managers "keep an eye" on relatively easily measured factors such as the speed of invoicing, and the speed with which policy documentation is received. In particular, delays in documentation can unnerve risk managers. While several of the in-depth interviewees said that they tracked measures in service level agreements, these are usually regarded as describing the bare minimum level of service rather than properly describing true expectations around customer service.

One interviewee is alive to signs of "changed behaviour" that could lead to a reduced quality of service from an insurer. Another noted

7 Evaluating performance

(continued)

that, though full ownership of a local insurer by a reputable parent should lead to a high standard of service, this was not always the case. The interviewee's experience indicated that, if local management and procedures remain unchanged, service can still be poor. One participant noted that, in the final analysis, good service meant effective claims payment, and everything else was secondary.

Risk managers recognise that many insurers are devoting more time and attention to customer service and that processes to gain feedback from clients are becoming more widespread. However, the present lack of data in this area means that some risk managers continue to rely on information from risk manager associations and their industry peers when attempting to fill the gap.

Section 9 notes some of the areas in which participants felt information is currently lacking, or where more data would be useful.

8 The importance/difficulty of evaluation "grid" and implications

Figure 3 maps each of the important factors used by risk managers to select and evaluate insurers against the two axes of perceived importance and difficulty in evaluation

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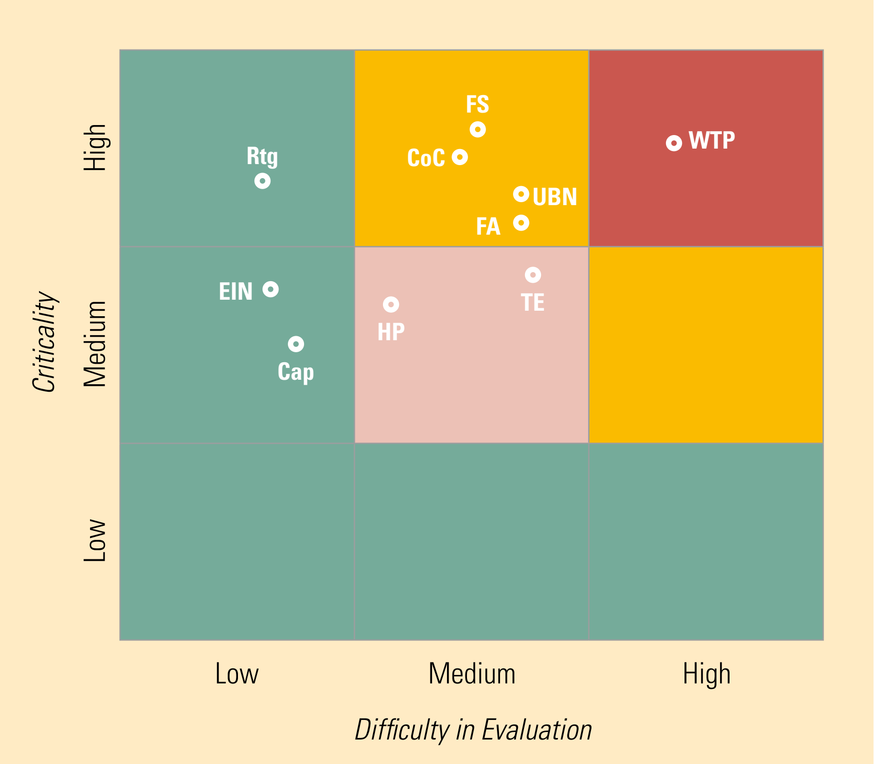
Figure 3: The criticality/difficulty grid of factors used to evaluate insurers



KEY:

FS = Financial Strength
RTG = Insurer Rating
WTP = Willingness to Pay
HP = Headline Price
CoC = Completeness of cover
TE = Technical expertise
UBN = Understanding specific business and needs
FA = Flexibility of Approach
EIN = International Footprint/Network
Cap = Capacity

The grid is split into four colour coded areas:

- **Red** Very important and difficult to evaluate areas. Potentially an area where most effort should be made to improve insight.
- **Amber** Areas that score highly on one dimension (importance or difficulty) and medium or high on the other dimension. These are areas where additional insight would prove useful.
- **Pink** Areas of medium importance and difficulty.
- **Green** These are areas that risk managers find relatively easy to evaluate.

For the most part, no significant action is needed for those factors shown in the green areas. However, increased insight could be beneficial in all other areas.

8 The importance/difficulty of evaluation "grid" and implications

(continued)

Willingness to pay

Willingness to pay received the second highest overall score for importance, and overall is viewed as significantly more difficult to evaluate than any other factor.

Notwithstanding its importance, currently it seems that this factor is not used to differentiate between the lead insurer and the next-best insurer. This is probably because risk managers find it difficult to gain robust information that allows them to compare the willingness to pay of different insurers. Market perceptions, anecdotal information from peers, and broker opinions all have some value. However this is an area where more robust and transparent information could be of significant benefit in terms of increasing the choices available to risk managers and offering them comfort when they wanted to change insurer.

Financial strength

This is perceived overall as the most important factor. While most risk managers find it "easy" or "very easy" to evaluate, 40% do not put it into either of these categories. Some risk managers are concerned about company complexity and a general lack of transparency when they try to review the financial strength of insurers. Possible solutions include drawing on the information and analyses held elsewhere in the risk manager's company (for example, Treasury divisions) or making more use of the detailed information that underpins external credit ratings.

Completeness of cover

This is perceived as the third most important factor overall. While most risk managers find this factor "easy" or "very easy" to evaluate, 38% do not. The main difficulty here seems to lie in making robust comparisons between the detailed cover proposed by different insurers, while also keeping in mind the headline price so that the risk manager can secure "the best cover at the best price". It may be that some risk managers could use the resources and knowledge available at brokers more effectively or, conversely, that brokers should make this more consistently available.

Understanding of business needs, flexibility of approach and technical expertise

While technical expertise is in the pink area of the grid, the evaluation of the insurer's understanding of business needs and its flexibility of approach both lie firmly in the amber area. These areas are fairly intimately connected and essentially all rely on "soft" information and, to a large extent, judgement calls. Some in-depth interviewees said they found it valuable to first consider how they intend to explicitly score and weight these factors within their overall evaluation, and then use this to determine the time and tactics they use to judge the insurer's relevant expertise through appropriate questioning. There may also be a role for more consistently available benchmark data on the performance of insurers in these areas.

9 Missing data and information of potential use

Some risk managers identified the information that they would like to have to hand when selecting an insurer, but which they view as currently unobtainable.

Some of this information can be characterised as "benchmarking" data that would allow the risk manager to compare their company's activities and experience with those of its peers. For example, it could be used to gain insight into the company's strategy and tactics when using insurance, its experience with claims processes, protocols, and speed of payment, and insurance costs.

Risk managers would also appreciate the provision of more detailed financial information about insurers so that they can answer questions such as:

- What is the investment policy (and level of investment diversification) of an insurer?
- How diversified is their business?
- What levels of claims reserves are held?
- How long is the "tail" for each insurer?

Some risk managers would also like to gain further qualitative data about insurers, for example, the future direction of individual insurers, and assessments of underwriting teams were mentioned.

Some of these areas are, in fact, already covered in the detailed information and analysis that underlies the ratings process for each insurer. A small number of participants felt that greater ratings coverage of "local" insurers, and the faster provision of information and updates from ratings agencies, would also be helpful.

10 The role of insurers and how they can add more value

Here, as elsewhere, some dichotomies of view emerged about where insurers currently contribute to effective risk management and where they can add more value.

Many risk manager interviewees saw the contribution of insurers as being mainly valuable in the provision of "the right coverage at the right price" and an effective transfer of risk. Some considered that "we do our own risk management and analysis" and that, for example, the additional benefit to be gained from insurers was in the provision of technical and economic expertise to price risk effectively.

It was also clear that perceptions of value are strongly influenced by the degree to which insurers demonstrate understanding of the insured's business, and the sector in which they operate. Risk managers see this as needing to be driven by genuine interest in the company and its risk profile, and an appetite to invest significant time and to be passionate about providing the best solution for the client. Part of this was summarised by one participant, who said that staff needed to be "insurance rather than finance oriented" to provide the best value.

This can have secondary benefits. One interviewee noted how the questions asked by the insurer, and the understanding of the industry and their peers that this demonstrated, enabled them to improve their own thinking.

Some participants remarked that they felt risk engineers provided a greater contribution to their risk management approach than underwriters, and that accessing the best risk engineers together with their expertise aided risk management.

There were a number of suggestions about how insurers can improve the value they provide, which related to the following areas:

- Being more flexible and innovative – for example, more creative in developing products to deal with new risks; coming up with new ideas around risk transfer; and being more proactive.
- To contribute more to the overall risk management effort of their clients – including the provision of better analysis of risk. Other examples were to more positively challenge their clients, or to provide more information, news and intelligence, benchmarking of peers, or statistical analysis to help risk managers.
- To improve their processes – particularly in respect of claims. Some view claims systems as being consistently poor, and suggestions were also given about the value of providing less bureaucratic and faster paced processes in respect of claims or renewals.
- To implement better processes for localised documentation, and local administration.
- To increase their expertise, better identify the really key clauses for a client, and read more of the information that companies provide. ▶

10 The role of insurers and how they can add more value

(continued)

- One interviewee was frustrated at what they saw as the rigidity of pricing risk. They felt that this was driven by senior policy makers arbitrarily determining the return they wanted on capital. This, in turn, limited underwriter discretion to price according to the real risks faced by the insured. The implication was that giving underwriters more discretion would generate improved value for the company being insured.

11 The role of brokers and how they can add more value

a. The perceived contribution of brokers

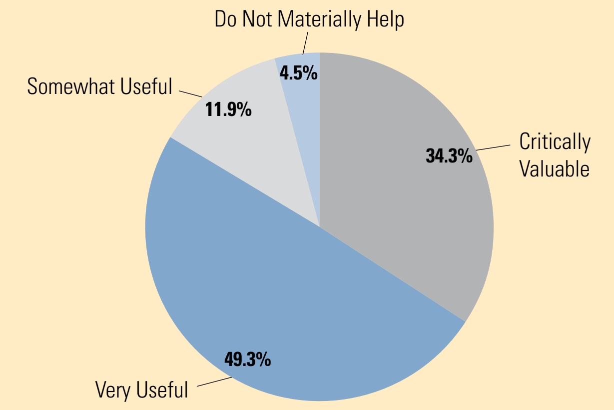
Participants were asked to select which of the following statements most accurately described the contribution that brokers make to their insurance buying objectives:

- *Their input is critically valuable in helping me meet my insurance buying objectives*
- *Their input is very useful in helping me meet my insurance buying objectives*
- *Their input is somewhat useful in helping me meet my insurance buying objectives*
- *Their input does not materially help me meet my insurance buying objectives*

The results, as shown in Chart 8, show that the vast majority of risk managers and insurance buyers see brokers as providing significant value. Five out of six participants said that, at a minimum, broker input was very useful, with over a third describing it as critical.

However, there were differences in how participants valued the various contributions made by brokers, as described below. ▶

Chart 8 – The role of brokers in helping risk managers/insurance buyers meet their insurance buying objectives



11 The role of brokers and how they can add more value

(continued)

b. The perceived importance of various brokers' activities

Participants rated the importance of various activities, where a score of "1" meant they were irrelevant and a "10" meant they were of fundamental importance. The results are summarised in Table 4.

Ensuring that policy wording meets the insured company's requirements is perceived as the most important activity. In general, the more "traditional" elements of a broker's role, such as policy wording and securing the best cover at the best price, are recognised as important by many risk managers.

However the "added value" and consultancy elements were not recognised as useful so regularly, with more than two out of five respondents to this question scoring assistance with overall risk management efforts as "6" or lower. Equally, while risk managers occasionally expressed enthusiasm for the value a broker had brought to claims management or working to secure payment, the general perception of the value of this activity (or the way it was performed) was less positive.

Table 4 – Perceived importance of brokers activities

Rank	Factor	Average scored importance (of 10)	Percentage of times factor importance scored 6 or below
1	To ensure that policy wording meets our requirements	8.89	6%
2	To secure the best cover at the best price for us	8.74	9%
3	To provide us with key analysis and insight	7.86	17%
4	To assist in payment of claims	7.46	26%
5	As consultants to assist us in our overall risk management efforts	6.71	42%

11 The role of brokers and how they can add more value

(continued)

The in-depth interviews conducted during this study also revealed divergent views about the optimal use of brokers.

Some participants made a very clear distinction between a ***"business partner and consultancy versus a route to providers and reduced premiums"***.

Clearly, some risk managers see brokers remaining largely within their traditional role. For example, their market knowledge helps them to explain and provide clarity on insurers' coverage and to provide insights about the choice of local insurers. Participants also saw them as being helpful in ***"getting to those people who are really the decision-makers at insurers"***. This blend of market intelligence and knowledge, together with their support when negotiating with insurers and their ability to reduce the ***"burden"*** of co-ordination and communication with insurers, represents their core value for several interviewees.

With regard to the choice of insurer, brokers were predominantly seen as providing an "advisory" rather than decision making role. In particular, they were able to review policy wordings and provide "best of breed" wordings. Other key areas of value included the ability to provide insights on various insurance options and, more broadly, help risk managers and corporations to achieve their goals. The ability of the broker to determine the right approach to securing an optimal insurance programme is widely valued.

Many of the in-depth interviewees agreed that the value provided by a broker was closely related to their ability to be "service minded". Their general ability to communicate with other stakeholders to "explain the company's story" was seen as important.

While some interviewees used brokers' consultancy services, they tended to describe only a sporadic use of special analyses, benchmarking, consultancy, or assistance in claims processes. However, one interviewee described a much deeper relationship with the broker: ***"I think of them as my team that happen to work for someone else"***.

Another participant who used the more consultative services of a broker said that their usefulness derived from the broker having the ***"right people who understand the company's business and what our values are"***.

11 The role of brokers and how they can add more value

(continued)

c. How performance could be improved

Overall, satisfaction with the value provided by brokers appears to be fairly high, given that 83% of participants saw them as either critically valuable or very useful. However, there was no shortage of suggestions for how brokers could improve performance.

These mainly related to the following categories:

More consistently pursue client interests

Some risk managers feel that brokers prioritise their own interests, or those of the insurer, over those of the insured. One of the in-depth interviewees felt that brokers should "step away" from decisions made for short-term gain and think much more from a long-term perspective.

One participant described the ways in which brokers could improve performance as being:

"By really working for clients instead of insurers...by being busy with clients instead of their own internal (re)organisations or profit centres. By understanding the client needs and look(ing) for real solutions."

There was also a concern that *"at the moment, in the 10% of instances where client interests and brokers diverge, often brokers will follow what is in their interests"*.

Others noted that brokers could improve their management of clients. They felt that it was often obvious that they were competing with other clients for time, and that the broker's responsiveness was suffering as a result. It was felt that more consistent accessibility, availability and more consistent responsiveness would improve the performance of brokers from a client perspective.

One participant felt that there was a somewhat deeper problem, and that performance would be improved by:

"Listening closely to what the client asks for and following it, not what they think the client needs. Too many brokers are arrogant and think they know best and don't always deliver what has been requested."

Innovate more

This category was also mentioned several times. Sometimes the desire for more innovation was described as "different thinking" or as providing more valuable help than "just data". In the words of one participant, broker performance would be improved by:

"Thinking outside the box a bit more regularly. I like it when other people come up with alternative means/approaches to meeting the goal."

One respondent mentioned that brokers should look to evaluate new ways to provide insurance and new insurance structures, and some of the in-depth interviews also revealed a desire for brokers to improve their ability to identify new solutions and provide new products.

11 The role of brokers and how they can add more value

(continued)

Improve capabilities and technical expertise (in part through better recruitment and retention of staff)

This issue was brought to the forefront by several participants. One said that brokers could improve by hiring more technical expertise on a broader range of businesses, while another felt that insurers needed to broaden experience and have more up to date knowledge across various markets.

More than one participant focused on the impact of employee turnover on the service and value provided to them:

"The brokers' employees change jobs too much. There is no stability. After 2 years there is a new contact who does not know anything of our business and insurance programmes. We have to start educating them again. What is their added value?"

Another participant felt that moving back office staff to remoter locations had a negative impact on the talent and quality of staff available to brokers:

"Often the back room people can affect the quality of the service you can get - as a client you want a strong back team with good quality - if they are out in the sticks, admin performance can suffer."

Better understand risk management, and provide more value and insight

A number of respondents suggested that brokers provide more data, analysis, insight and/or recommendations. These suggestions concerned both the overall risk management effort at corporations, where some participants felt brokers needed to enhance their understanding, and the insurer selection process. There was also a desire for a more integrated approach from brokers. Examples of this type of feedback included:

"They should be more proactive and should consider what value they add on each job for the client. Do more than provide facts but provide recommendations."

"Make more of a "decisive" help, give a definite opinion. They give you data and info but don't give benefit of their professional expertise/wisdom."

"Have an integrated approach to the separate parts of risk assessment, management and risk transfer."

"Deliver extra value on questions not just related to renewal, e.g. the consequences of financial crisis and impact on insurers."

Brokers were felt to have data, or access to data, that could be of value to risk managers and insurance buyers. Examples of this offered by the survey participants include data on claims experience, up to date loss statistics, and data about the operational capabilities of insurers such as the ability to deliver policies as part of a multinational programme. Fuller risk surveys or risk analysis were also mentioned.

11 The role of brokers and how they can add more value

(continued)

- It was also felt that brokers could and should more clearly demonstrate the value of their consultancy services, though a smaller number of responses indicated that brokers should stick to their core, traditional business. As mentioned earlier, there is something of a dichotomy of views among insurance buyers on this topic.

Improve day to day service, project management and processes

Some participants thought that brokers could improve their general administration, and one commented that the way of working was still too "paper driven" and that better IT support would improve brokers' performance. Other comments recommended that brokers improve their consistency of service across different locations. One final and specific idea was that brokers could help in collecting information and documentation in local languages, as well as offering assistance with local wordings.

12 Potential future evolution of approaches

During the survey, several interviewees made interesting remarks about recent changes they have experienced, or how they saw approaches to risk management and/or choosing insurers evolving in the future, either for their own company or major companies in general. Some of the key themes are summarised here.

The first one is **centralisation** of insurance buying. This has happened for several of the participants in this study over the past few years and most report that there have been material benefits, from their perspective. These include the ability to reduce the total cost of risk management, for example, through securing economies of scale and increased buying power. It is felt that the results include a better use of captives and better coverage, and that the potential for duplication in cover arising from more localised purchase of insurance has been reduced. The amount of unnecessary cover has also been reduced.

The next theme is a move towards **greater engagement with** others in the corporation involved in **operational risk or enterprise risk management**. Participants who have experienced this process are very aware of the value of the additional information and insight available from colleagues. They also believe that it is a two-way street, in that those involved in operational risk can benefit from a better understanding of the activities of insurance buyers.

Given the significant size and buying power of the companies included in this study, it is perhaps not surprising that some wish to secure more **value from the ancillary services** that insurers can provide. These are seen to be of potentially significant value. As well as the insights that risk engineers can provide on improved ways of working, some participants noted areas such as improving employee benefits, or reducing costs and administrative burdens (for example, resolving motor accidents where the insurer has entered a partnership with major car manufacturers or servicers).

One participant is aiming to "push the boundaries" a little and reduce the effort involved in the provision of information at renewal time by instituting a more **continual** or **"tacit" renewal process**. This is designed to reduce the "big bang" or peak in resources needed to provide information before review by instituting a more regular (for example, monthly) sharing of information and by moving the process to one of advising of material changes in circumstances, rather than re-confirming existing data. ▶

13 Future development of this analysis

As mentioned in the introduction to this report, a key objective was to provide an extra source of information about the various ways in which risk managers and their colleagues both choose insurers and aim to evaluate their performance.

Gaining an understanding about the specific factors used by peers to choose and evaluate insurers can help build a better understanding of good practice and aid risk managers in this part of their role. We aim to provide risk managers (and indeed brokers and insurers) with more transparency about good practice, and to this end aim to build up a more quantitatively robust source of information which can be made available for market participants, on the drivers of choice and evaluation and how insurers are perceived to perform.

This is an evolving programme and comments on what participants would find useful and most helpful are welcomed. Please feel free to provide your opinion to either Stuart Shipperlee or Robin Dicks at the contact details below:

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14 Appendices

a. Detailed table of scoring of importance of each factor in choice of insurer

Percentage giving importance score (x/10) of...	1	2	3	4	5	6	7	8	9	10
Financial strength	0%	0%	0%	1%	1%	0%	4%	17%	20%	57%
Insurer rating	0%	0%	1%	1%	1%	4%	12%	36%	27%	19%
Willingness to pay	0%	0%	0%	0%	1%	1%	9%	15%	29%	45%
Headline price	1%	0%	0%	1%	5%	16%	31%	25%	12%	8%
Completeness of cover	0%	0%	0%	0%	0%	2%	14%	25%	27%	31%
Technical expertise	0%	0%	0%	0%	4%	12%	22%	33%	19%	11%
Understanding specific business and needs	0%	0%	0%	1%	1%	4%	16%	32%	18%	27%
Flexibility of approach	0%	0%	0%	0%	3%	7%	16%	30%	28%	17%
International footprint/network	3%	1%	0%	4%	9%	5%	12%	22%	24%	21%
Capacity	0%	0%	3%	3%	8%	14%	27%	19%	15%	12%

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(continued)

b. Detailed table of scores of chosen lead insurer on all factors (all classes)

Percentage giving importance score (x/10) of...	1	2	3	4	5	6	7	8	9	10
Financial strength	0%	0%	0%	0%	0%	8%	10%	25%	34%	23%
Insurer rating	0%	0%	0%	0%	4%	8%	11%	31%	31%	14%
Willingness to pay	0%	0%	0%	1%	1%	3%	13%	32%	28%	21%
Headline price	1%	0%	0%	0%	4%	7%	17%	32%	24%	14%
Completeness of cover	0%	0%	0%	0%	3%	6%	13%	17%	35%	27%
Technical expertise	1%	0%	1%	1%	0%	8%	8%	23%	34%	23%
Understanding specific business and needs	0%	0%	0%	0%	6%	3%	8%	21%	38%	24%
Flexibility of approach	0%	0%	1%	0%	0%	8%	14%	21%	31%	24%
International footprint/network	3%	0%	0%	1%	8%	3%	17%	20%	24%	24%
Capacity	0%	0%	1%	1%	3%	3%	13%	27%	35%	17%

14 Appendices

(continued)

c. Detailed table of scores of second choice/next best insurer on all factors (all classes)

Percentage giving importance score (x/10) of...	1	2	3	4	5	6	7	8	9	10
Financial strength	0%	0%	2%	0%	0%	3%	10%	29%	34%	23%
Insurer rating	0%	0%	0%	0%	2%	5%	15%	34%	27%	18%
Willingness to pay	0%	0%	0%	0%	2%	5%	16%	39%	23%	16%
Headline price	3%	0%	0%	5%	8%	10%	23%	34%	10%	8%
Completeness of cover	0%	0%	0%	2%	5%	0%	26%	34%	24%	10%
Technical expertise	2%	0%	0%	2%	2%	11%	19%	29%	27%	8%
Understanding specific business and needs	0%	2%	0%	0%	5%	13%	26%	24%	23%	8%
Flexibility of approach	0%	0%	3%	5%	0%	11%	26%	31%	19%	5%
International footprint/network	5%	2%	0%	3%	6%	3%	19%	27%	19%	15%
Capacity	0%	0%	3%	2%	3%	6%	13%	29%	27%	16%

14 Appendices

(continued)

d. Detailed table of scores of most common insurers used

Note: participants identified specific insurers as lead insurers and second choices. However this table, while it includes scores for the most regularly mentioned insurers, does not specify individual insurers. The insurers included are those most regularly mentioned – however scores should be viewed as indicative rather than statistically valid owing to the relatively small numbers of incidences for each insurer at this stage.

KEY:

FS = Financial Strength

RTG = Insurer Rating

WTP = Willingness to Pay

HP = Headline Price

CoC = Completeness of cover

TE = Technical expertise

UBN = Understanding specific business and needs

FA = Flexibility of Approach

EIN = International Footprint/Network

Cap = Capacity

Insurer	FS	RTG	WTP	HP	CoC	TE	UBN	FA	EIN	Cap
A	7.75	7.55	8.15	7.75	8.75	8.55	8.35	8.50	8.80	8.15
B	8.80	8.67	8.13	7.47	7.67	7.33	7.47	6.80	7.93	8.33
C	8.85	8.15	8.38	7.46	7.92	7.77	7.77	7.69	8.54	7.69
D	9.38	9.13	9.50	7.50	9.25	9.13	9.00	8.88	6.50	8.88
E	9.00	9.00	9.43	7.86	9.00	8.57	9.29	8.43	6.71	8.29
F	7.88	8.13	8.75	7.38	7.75	8.13	8.00	8.00	8.13	8.38

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(continued)

e. Detailed table with views of difficulty in evaluating each factor

Factor/% rating	Very easy	Easy	Neither easy nor difficult	Difficult	Very difficult
Willingness to pay	0%	3%	37%	40%	20%
Technical expertise	8%	34%	26%	29%	3%
Flexibility of approach	11%	43%	17%	29%	0%
Understanding specific business/needs	11%	40%	25%	23%	2%
Financial strength	14%	46%	20%	18%	2%
Completeness of cover	12%	49%	18%	20%	0%
Headline price	11%	52%	25%	11%	2%
Capacity	22%	51%	15%	9%	3%
Insurer rating	46%	37%	8%	8%	2%
International footprint/network	31%	52%	14%	2%	2%

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(continued)

f. Detailed table of explicit scoring of importance of broker activities/roles

Importance of brokers by activity/score out of 10	1	2	3	4	5	6	7	8	9	10
To secure the best cover at the best price for us	0%	0%	2%	0%	3%	5%	6%	23%	17%	45%
To ensure that policy wording meets our requirements	0%	0%	0%	0%	5%	2%	3%	20%	32%	38%
To assist in payment of claims	2%	2%	5%	5%	8%	6%	18%	14%	22%	20%
To provide us with key analysis and insight	2%	0%	3%	2%	5%	6%	15%	26%	23%	18%
As consultants to assist us in our overall risk management efforts	2%	9%	3%	3%	6%	18%	17%	17%	12%	12%