

FWD RESEARCH

Client research into the Wholesale Insurance market

21st January 2019

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1. Executive Summary

1.1 Background

- 1 In November 2017, the FCA launched a market study into the London Insurance Market (LIM) wholesale insurance broking market to consider how competition is working in the sector. FWD Research was commissioned by the FCA to conduct qualitative research in support of their market study.
- 2 The research explores the reasons behind decisions for using, selecting and switching wholesale brokers. It was conducted through 53 in-depth telephone interviews with senior executives from the UK and international companies.

1.2 Objectives

- 1 The four key research objectives were to explore whether clients are sufficiently engaged and informed to make effective decisions are outlined below. In particular:
 1. Examining the extent to which clients are aware of the charges their brokers make
 2. Provide insight into how choices are made which will help with any subsequent remedy design
 3. Provide insight into what triggers clients to review their broker
 4. Provide insight into clients' views about value added by brokers

1.1 Summary of findings

- 1 Respondents told us that:
 - On the whole, the LIM **works efficiently**, providing global access to LIM.
 - The LIM is used to access its **niche capacity, expertise and knowledge** that is rarely available elsewhere.
 - The choice of wholesale broker is generally **well informed** and is tested from time-to-time.
 - They generally have **high levels of satisfaction** with service, both pre-sale (quote, underwriting) and post-sale (claims, admin, documentation).
 - They are aware of charges and feel commissions/fees are largely **transparent** (for brokers perhaps more than for some corporates).
 - Almost all feel they get **very good value for money**.
 - Additional services are available and often included for **added value**; although they feel that **wholesale brokers are not especially proactive or innovative**.
 - There is every **opportunity to switch** wholesale broker if needed, with emotion (relationship/trust) the main barrier to doing so rather than physical barriers (admin, etc.).
 - The LIM is built on individuals' expertise, knowledge and understanding of risk leading to robust and lasting personal **relationships; it remains a relationship business**.

- 2 The research has identified some potential issues including:
- Three respondents mentioned the use of restrictive practices between brokers and underwriters. In particular, they referred to “blocking” arrangements in which underwriters working with a broker on a specific risk refuse to quote on that risk for another broker.
 - Four respondents said that broker charges are not fully transparent in some instances. Their concerns relate to reinsurance placements and levels of commission for certain classes of insurance.
 - In some instances, it was claimed there is too much compliance and lack of consistency when implementing increased regulations.

2. Introduction

2.1 Background to the FCA market study

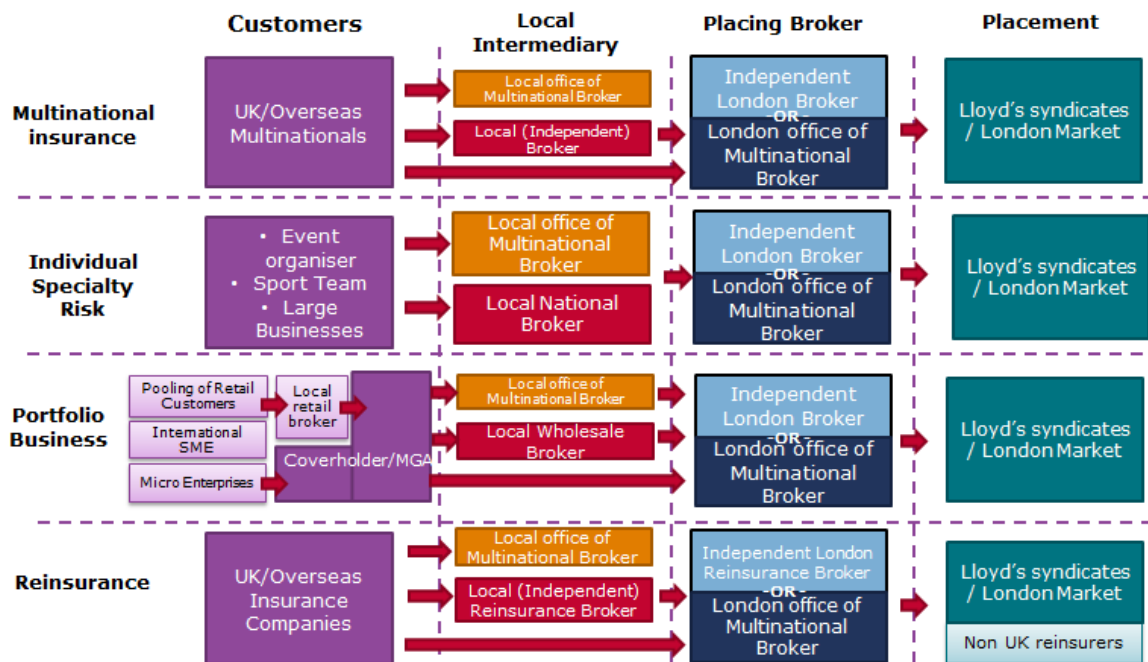
- 1 The Financial Conduct Authority's (FCA) mission statement states that it wants to ensure that wholesale markets demonstrate clear, proportionate and consistent standards of market practice, transparency, open access, integrity and competition on merits.¹ This includes the London Insurance Market (LIM)* which is one of the biggest global centres for placing and underwriting large-scale, complex commercial and specialty risk*, controlling more than \$91 billion in gross written premium (GWP) in 2015². It is almost exclusively intermediated, with brokers placing the risks that are written by UK and international insurance companies and Lloyd's syndicates*. These risks come from the UK and overseas, and include:
 - Large, complex or specialist risks which require bespoke pricing, coverage or capacity* which is not available from local national markets. Examples of this are a global airline wishing to insure a fleet of aircraft, a national contractor insuring significant construction projects or a specialist component manufacturer seeking bespoke product liability cover*.
 - Portfolios of individual client and small and medium-sized enterprise (SME) insurance, such as Surplus Lines* business from the USA (policies which protect against risk which is too high, or unusual, for standard insurance companies to take on, which are typically pooled together and placed as blocks of business³).
 - Reinsurance, both treaty and facultative⁴. Facultative reinsurance is often an integral part of the placement of a large single insurance risk, with London insurers ceding certain exposures they do not want to retain.
- 2 The risks that brokers place in the LIM may be those of their own clients (both in the UK or through international groups or networks) or for third-party brokers (predominantly overseas, but also in the UK).
- 3 The London broker's role is to make sure that their clients obtain appropriate coverage for their needs, at a price that represents value for money for the end-client. Competition between brokers can enable clients to access coverage which best meets their needs, not only in terms of price but in respect of other important factors such as breadth of coverage, financial limits of policies, the insurer's claims handling and its financial strength, and the insurer's risk management services.

In the appendix, there is a glossary of terms to help the reader with the terminology of the LIM. All terms that are included in the glossary are highlighted with an Asterisk () the first time they appear in the report.

1. FCA, *Our Mission 2017, How we regulate financial services*, <https://www.fca.org.uk/publication/corporate/our-mission-2017.pdf>
2. London Matters 2017, The competitive position of the London Insurance Market <https://www.londonmarketgroup.co.uk/lm-2017>
3. This may either be through a binding authority granted to a retail broker, or as the capacity provided to a managing general agent (MGA) - a specialised type of broker which has been assigned authority to underwrite on behalf of an insurer.
4. Treaty reinsurance is the reinsurance of an insurer's whole portfolio of risk or exposures – such as to storm or earthquake. Facultative reinsurance is the reinsurance of single risks, or part of a single risk.

- 4 The Financial Services Authority (FSA), the FCA's predecessor, commissioned work to investigate the wholesale insurance broker sector in 2007. Since then there have been significant changes. A prolonged soft market, with declining premium rates, has put pressure on brokers' earnings from commission set as a percentage of premiums.
- 5 Potentially in response, brokers have developed a range of new and additional services, both for clients and insurers. These include data and analysis services (for insurers), product and programme design, and new approaches to market selection and placement (including the development of facilities).

Distribution chains in the wholesale insurance broker sector



- 6 In November 2017, the FCA launched a market study into the UK wholesale insurance broking market to consider how competition is working in the sector.

2.2 Objectives

- 1 FWD Research was commissioned by the FCA to conduct research in support of their market study. The four key research objectives *exploring whether clients are sufficiently engaged and informed to make effective decisions* are outlined below. *In particular:*
 1. Examining the extent to which clients are aware of the charges their brokers make.
 2. Provide insight into how choices are made which will help with any subsequent remedy design.
 3. Provide insight into what triggers clients to review their broker.
 4. Provide insight into clients' views about value added by brokers.

2.3 Methodology

- 1 FWD Research was commissioned to conduct qualitative research exploring the reasons behind decisions for using, selecting and switching wholesale brokers. The research was conducted through in-depth telephone interviews as the target respondents are senior level, time-poor and difficult to reach.
- 2 FWD Research developed a 'screener' (see Appendix) to ensure that respondents were qualified to take part in the interview. All respondents had to place complex risks in the LIM using a wholesale broker.
- 3 FWD Research developed a topic guide that was approved by the FCA to ensure all topics were adequately covered during the discussions.
- 4 FWD Research conducted 53 in-depth telephone interviews with senior executives from the UK and international companies - either intermediaries* and policyholders*. Interviews lasted between 40 minutes and one hour. Fieldwork dates were from 10th September 2018 to 8th November 2018.

2.4 Respondents

- 1 For the purposes of the market study, the FCA is defining wholesale insurance broadly including risks, from overseas and the UK, placed by brokers with Lloyd's syndicates and insurance companies operating in the LIM. This market study examines large, complex or specialist risks that usually require an element of bespoke pricing and coverage. It will focus on cover purchased by large corporate clients based in the UK and overseas. This excludes the business of SMEs and smaller (non-global or local) corporates, apart from portfolios pooled together and placed in blocks in the LIM (for example, Surplus Lines).
- 2 The target population for this project are clients who have used a wholesale insurance broker to place large, complex or specialist risks with multiple underwriters within the LIM in the last 12 months. Where there is reference to clients, this relates to clients who chose the broker to place the risk within the LIM. In practice, a client could be:
 - The policyholders or beneficiaries of a contract;
 - Another insurance broker;
 - Insurance intermediary, or
 - Other third party, such as non-firms including charities, trusts, not for profit or non-government organisations (see glossary).
- 3 These broad categories of clients can be further broken down into:
 - Corporations
 - UK public sector organisations (PSOs)
 - Insurance brokers
 - Insurance companies
 - Any other

2.5 Sample profile

- 1 The focus of the research is on clients placing complex risks in the LIM and, as a result, respondents are senior executives with an extensive experience of this market. Furthermore, the main objective of the research was to understand why clients were or were not switching wholesale brokers, and therefore the quotas that were set over-represented those who switched recently.
- 2 The sample to obtain these interviews came from the FCA. The FCA provided FWD Research with two lists, sourced as follows:
 1. 154 respondents took part in an online survey by the FCA. During the survey participants were invited to be re-contacted to take part in further insight initiatives. 76 matched the screening criteria and agreed to be re-contacted. Two respondents were screened out at the start of the interview process. Resulting in 74 eligible respondents willing to take part in this research for the market study.
 2. In addition, 2,519 clients were invited by the FCA by email to take part in this research. 30 (1.2%) replied directly to FWD Research that they were willing to taking part in this research.
- 3 In total, FWD Research received 104 contacts from the two lists provided by the FCA and completed 53 interviews, resulting in a 51% response rate.

Below summarises some of the characteristics of respondents:

- 17 had switched in the last 1 to 3 years
- 12 had not switched for between 3 and 10 years
- 24 had not switched in 10 or more years
- 30 respondents work in financial services
- 12 respondents work in corporates
- 20 respondents are based in the UK

- 4 The table below illustrates the results FWD achieved based on the quotas set by the FCA:

Completes /Recruits	PRIMARY				SECONDARY								TOTAL
Customer Behaviour	Surplus lines brokers / brokers USA	MGAs USA	UK Corporates	Non-UK Corporates RoW	UK PSOs	UK non-firms	Non-UK non-firms RoW	Ins. brokers UK	Ins. brokers non-UK RoW	Ins. cos UK	Ins. cos non-UK RoW	Any other	
Switched in last 1-3 years	2	2	1	1		4		1	2		3	1	17
Not-switched for 3-10 years		2	6	1							1	2	12
Not-switched 10+ years	5	3	3			1	1	3	4	1	1	2	24
TOTAL	7	7	10	2	0	5	1	4	6	1	5	5	53

2.6 A note on qualitative research

- 1 Qualitative research is primarily exploratory. It is used to gain an understanding of underlying reasons, opinions, and motivations. The discussion guide used to conduct the interviews is to help guide the discussion and so not all questions are necessarily asked in the same order or in exactly in the same way as not to interrupt the flow of the conversation.
- 2 To reduce potential biases that can arise when conducting qualitative research, FWD Research used four different moderators for the in-depth interviews. Each moderator listened to other moderators' interviews and reviewed other moderators' write ups of the interviews for this research. Furthermore, the discussion guide was set up with both direct and indirect lines of questioning to capture perceptions, as well as deeper reasons for the respondents' thinking or behaviour.
- 3 Because a qualitative methodology is more exploratory, when reporting findings we report both what the majority of respondents said and also point out individual responses that present a different view, or an interesting opinion. Results are not based on a statistically robust sample size and are more subjective in nature. They should be interpreted as providing directional information on the topic being discussed.

2.7 A note on how to read this report

- 1 In this report, key findings are supplemented with verbatim comments from the respondents to illustrate the point and bring the 'voice of the client' to life. To help the reader, as verbatims are taken out of context, we sometimes include information in brackets [] to show that this is additional information. To provide further context wherever possible, verbatims have been attributed to the type of corporate organisation the respondent making the comment represents using global turnover bands (<£500m,£500m-2bn, £2bn+), total number of employees bands (< 1000, 1000-4999, 5000-9999, 10000+) and the number of years since they switched or appointed their main broker (< 3, 3-10 or 10+ years).
- 2 The commentary often includes the number of respondents who expressed this particular opinion. This needs to be interpreted with this in mind as this is a qualitative study and the questions were open-ended and exploratory in nature.
- 3 The summary boxes at the start of each section highlight the key insights provided by respondents. Please note, these findings are not the personal opinions of the authors.
- 4 *In the appendix, there is a glossary of terms to help the reader with the terminology of the LIM. All terms that are included in the glossary are highlighted with an Asterisk (*) the first time they appear in the report.

DETAILED FINDINGS

3 The Wholesale Insurance Broker Market

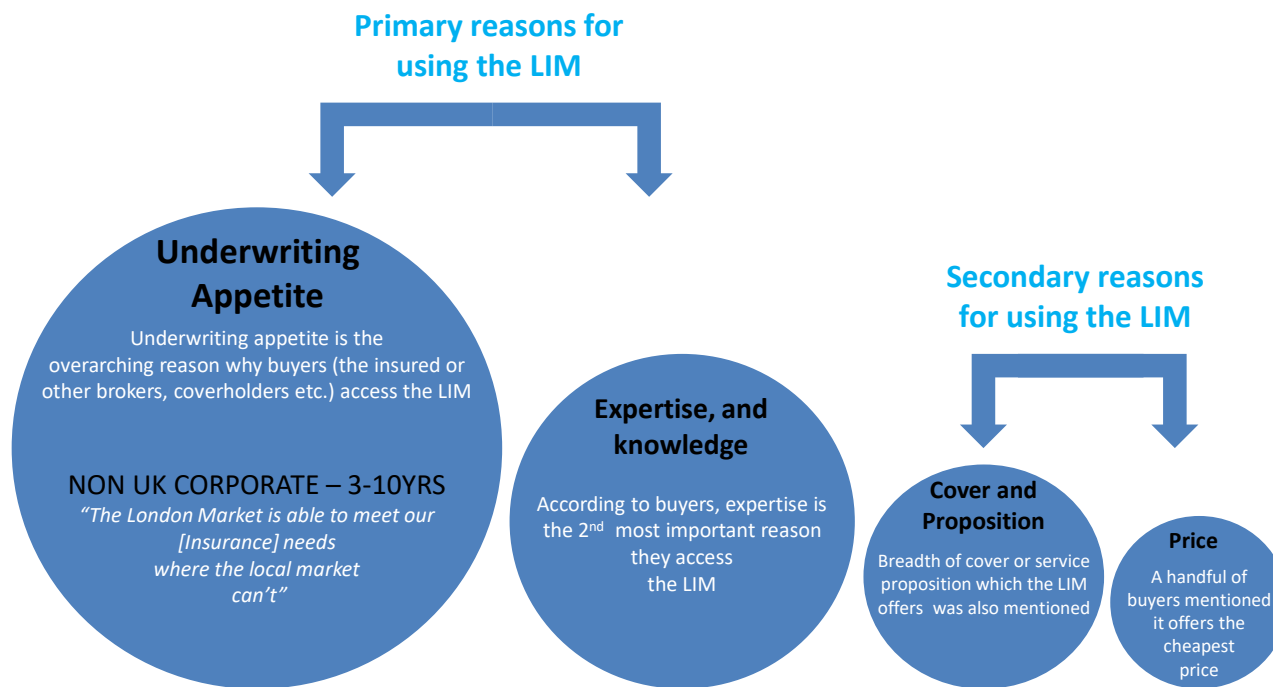
The London Insurance Market (LIM) is a unique market that provides coverage for complex risk when most domestic markets cannot. The LIM is attractive to clients because of its capacity and appetite* for complex risk, the knowledge and expertise of the underwriters and brokers, as well as the breadth of cover and price. Those who want to access the LIM typically use a wholesale broker as it is an intermediated market; they look to the broker for advice as well as to their expertise in certain classes. The relationship with the wholesale broker tends to be a personal one. Respondents find that the LIM offers something other markets cannot in order to meet their complex insurance risk needs. However, the research uncovered a few issues that make it less attractive – the most important ones being complying with increased regulation (mostly from USA brokers or USA MGAs), and underwriters blocking* brokers from getting quotes.

3.1 Reasons for using the LIM

- 1 The primary reason respondents use the LIM is because of the underwriting appetite of the LIM. The research identified that a second pivotal reason is the expertise and the knowledge of the market. In addition, there are two secondary reasons why clients (e.g. corporate clients, brokers, MGAs, insurers, and coverholders*) access and use the LIM. Each client's needs and risks are unique, so the priority of why they use the LIM varies.

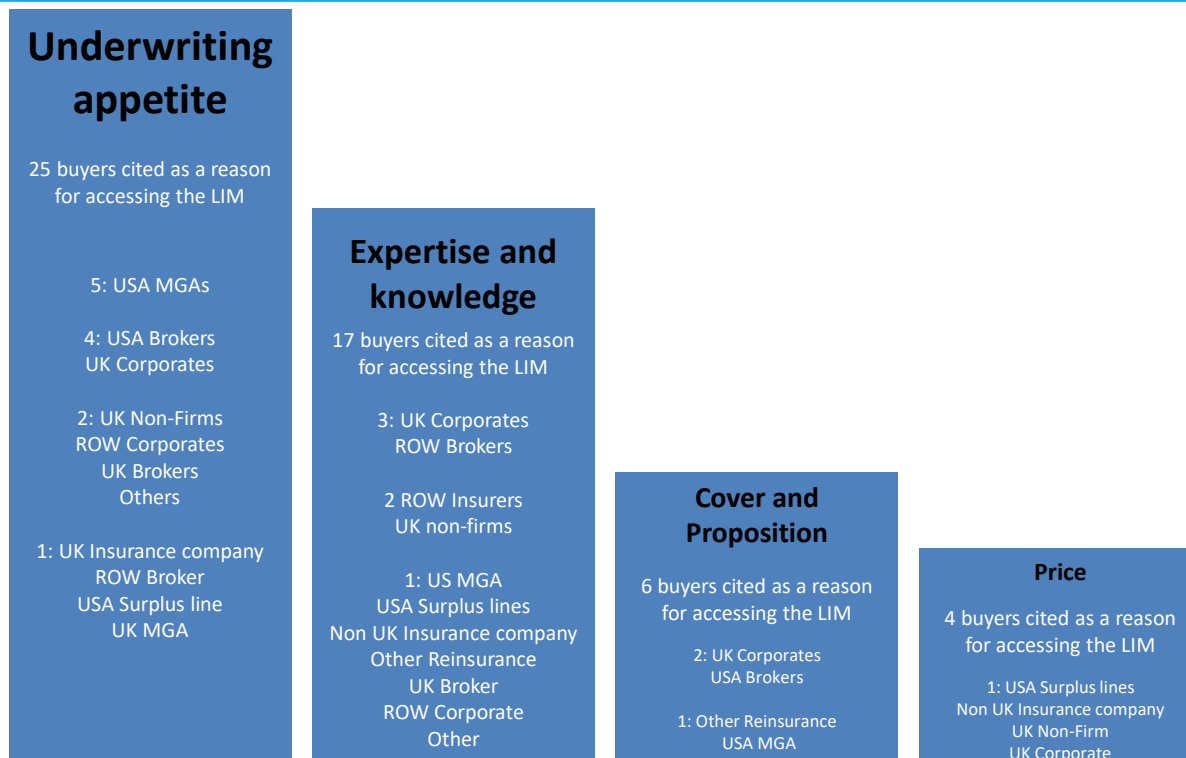
- 2 The following illustrates the four reasons clients say why they use the LIM. The diagram summarises the overarching reasons clients mention why they access and use the LIM, compared to other insurance solutions available to them. Just over a half of the clients interviewed have a single motivation for accessing the LIM, the remaining claim multiple reasons.

Why buyers access the LIM



- 3 The diagram below shows the dominance of underwriting appetite as a primary catalyst for using the LIM, nearly half of all respondents comment that this is their main reason for using the LIM. It also clearly identifies the importance clients place on the expertise and knowledge within the LIM. This knowledge and expertise includes both underwriters and brokers working within the LIM.

The importance of access factors based upon actual interviews from this study



- 4 Finally, four respondents mentioned price as an important reason for accessing the LIM.
- 5 In order to get a robust understanding of the WIBM FWD Research interviewed several different 'types' of clients, as set out and agreed by the FCA. This research has identified that there is no clear trend in terms of which type of clients use the LIM for different reasons. Instead, the research has highlighted that each client's needs are different, regardless of the type of client.

3.1.1 Underwriting appetite

- 1 As shown above, underwriting appetite is the driving force of using the LIM for circa half of the respondents. Underwriting appetite is particularly important for clients (corporates, brokers, Surplus Lines brokers and coverholders) who cannot find insurance cover via other avenues, such as their local insurance markets, due to the high-risk/bespoke nature of their required cover.

SURPLUS LINES USA – <3YEARS *"The LIM has an understanding of risks, whereas there is fear domestically. London is so vast that they have seen it all and can evaluate the risk."*

MGA USA – 10YEARS+ *"Lloyd's also has a greater appetite than the domestic market in the last 10 years."*

UK CORPORATE (£500M-<£2BN TURNOVER; 5,000-9,999 EMPLOYEES) – 3-10YEARS *"Other markets do not have the appetite for complex risk as the LIM."*

3.1.2 Expertise and knowledge

- 1 Whilst underwriting appetite is the overarching reason for using the LIM, it is not the only reason. A third of all respondents value and rate the expertise and knowledge which is available in the LIM. The majority of those respondents who say that expertise and knowledge is their primary motivation for using the LIM believe that London is the only marketplace which has such talent. Not all respondents need such a depth of knowledge and understanding of their risk and the sector they work in. For respondents who may have a more standard but large/global exposure, for example, the expertise and knowledge available in the LIM is of less importance because the risk placement is seen as more transactional* in nature.

MGA USA – 10YEARS+ *"The knowledge of these guys in London is second to none! Lloyd's has the expertise and the understanding of these risks."*

SURPLUS LINES USA – 10YEARS+ *“The London Market is well suited to meet our needs. Lloyd’s is unrivalled for the niche market that we serve. It is the only market that will cover this type of risk.”*

BROKER RoW – 10YEARS+ *“The domestic market is transactional, automated. The LIM is the last market that knows about the art of underwriting. They are very good at underwriting. When asked about a risk, they are open-minded, they will look, they will analyse and evaluate. This is London’s forte!”*

3.1.3 Cover/proposition

- 1 Half of the corporates who use the LIM via a wholesale broker and about a fifth of brokers in this market study say it is the proposition (the insurance proposition or offering includes cover, service and all aspects of the transaction) itself which is a driver for using the LIM. That said, it was only a primary driver for 6 respondents. The proposition for most is not just a financial arrangement. The breadth of cover, claims service, underwriting flexibility, reputation of the underwriters, reputation of the broker and/or bespoke limits (The minimum premium at which underwriters are willing to give a quotation for an individual or portfolio of risk/s) are also important considerations.

UK CORPORATE (<£500M) – 3-10YEARS *“There is definitely merit in having the LIM mentioned in our documents which are going to be seen by lawyers, universities. They don’t give a second thought compared to if you had an insurance certificate for Joe Bloggs.”*

- 2 We have already identified how important underwriting appetite is when accessing and using the LIM. Clients with more bespoke needs (i.e. niche market or more complex risks) also give high importance to the cover/proposition rather than simply prioritising underwriting appetite.

UK CORPORATE (£500M-<£2BN TURNOVER; <1,000 EMPLOYEES) – 3-10YEARS *“There is confidence that the LIM will pay out. You could go to the Far East markets, the French Market, or Italian market, and may not have a 100% positive experience.”*

MGA USA – 10YEARS+ *“Risk appetite is the determining factor. I also go to the London Market because we can get bespoke products versus more standardised products in the US domestic market.”*

BROKER RoW – <3YEARS *“Originally Lloyd’s was the ‘draw card’ for the LIM because it had credibility and could be accessed globally. It is easier to present a London quote to a client.”*

3.1.4 Price

- 1 When discussing price, respondents do not just talk about the cost of their premium but talk about price in terms of value for money. As mentioned, all respondents recognise that the LIM *“is not the cheapest”* (RoW BROKER – 10YEARS +) place to get insurance cover, but that does not mean that all clients using the LIM are less price sensitive. During the interviews respondents demonstrate varying levels of price sensitivity. The large corporates interviewed claim that they are not especially price sensitive for numerous reasons, including the insurance premium being a small percentage of their total revenue and/or the importance of having the appropriate or highest possible level of cover.
- 2 In contrast to large corporates, respondents who purchase smaller, more commoditised insurance need the underwriting appetite of the LIM but give greater importance to price.

UK CORPORATE – 3-10YEARS *“In our business price remains king... therefore, if we can get a better price outside of London, we will. However, I think we get great value for money with our current broker and that is why we use London.”*

INSURER RoW – <3YEARS *“If I wanted the cheapest I could stay local, but that is not what I need. I like working with London: they understand the risks better and offer better solutions which may or may not be more expensive than the local market.”*

CORPORATE RoW (<£500M TURNOVER; <1,000 EMPLOYEES) – 3-10YEARS
“Price is not the main reason; the cover has to be right for us.”

3.2 Reasons for using a wholesale broker to access the LIM

- 1 There are many reasons why clients use wholesale brokers when placing risks in the LIM rather than going direct to underwriters:
 - No one insurer may be able or willing to accept larger risks, and so a broker is required to assemble the cover from multiple insurers in the subscription market;
 - To obtain the broker’s expert advice on their risk needs, and ensure they get appropriate coverage;
 - To use the broker’s knowledge of what is offered in specific insurance sectors as well as use their relationships with the underwriters to efficiently manage the placement of risks at a price that represents value;
 - To work with an end-client’s preferred wholesale broker; and
 - To work with a party that the client is comfortable with.

- 2 The primary reason, mentioned by 18 respondents, for working with a wholesale broker to access the LIM is that clients need an intermediary to access it.
- UK CORPORATE (£500M-<£2BN TURNOVER; <1,000 EMPLOYEES) – 3-10YEARS**
“To Lloyd’s I cannot go direct but to one or two insurers [in the company’s market] I can go direct.”
- NON-FIRM RoW – 10YEARS+** *“To approach the London Market you need to go through a broker.”*
- BROKER RoW – <3YEARS** *“We are not authorised to broker directly into Lloyd’s. It is a regulatory requirement of the LIM.”*
- 3 One non-firm uses the LIM because its risk is so large and so complex that it needs access to many insurers and cannot find any other market who will underwrite it.
- NON-FIRM RoW – 10YEARS+** *“This is a very complex contract and other markets cannot deal with a single contract, they prefer different contracts.... I have more than 100 underwriters for this contract.”*
- 4 28 respondents mention that they use a wholesale broker because of their expert advice.
- INSURER USA – 10YEARS+** *“It is about the brokers’ understanding of the risk and their presentation of the risk, not the location.”*
- UK BROKER – 10YEARS+** *“It’s the transaction – placing the business....they can also offer advice, skill sets on policy wording etc., so more than just a bit of added value.”*
- 5 26 respondents say that they use wholesale brokers for their expertise in a particular area when placing niche risks as well as for the relationships that they have with underwriters.
- UK CORPORATE (<£500M TURNOVER) – 3-10YEARS** *“They are known within our niche industry as being brokers for this type of complex risk.”*
- BROKER RoW – 10YEARS+** *“I try to give a comprehensive service to my clients in my region. I have identified brokers in the LIM who can support me in different lines of business so I can support all of my clients’ needs.”*
- MGA USA – <3YEARS** *“For Marine, Lloyd’s of London is the place for complex risk. They own the expertise. This is my preferred place of business.”*
- MGA USA – <3YEARS** *“It is all about relationships.”*
- BROKER RoW – <3YEARS** *“The broker and the underwriter have a great relationship and can put together a good portfolio.”*
- UK NON-FIRM – <3YEARS** *“It remains a relationship industry.”*

- 6 Two respondents mentioned that they sometimes work with specific brokers at the request of the end-client.

INSURANCE COS RoW – 3-10YEARS *“Large clients, such as oil companies or aviation, have preferred brokers.”*

- 7 Eight respondents volunteer that they are very comfortable with their broker and just want to keep working with them as they work very well together.

SURPLUS LINES USA – 10YEARS+ *“We grew from a very small line in Florida to a substantial line with additional capacity on the East Coast. The underwriters were willing to follow our growth.”*

MGA USA – <3YEARS *“Our strategy is on the same page. We go over the needs of the clients and how to meet those needs. We have lots of communication.”*

3.3 Issues encountered within the LIM

- 1 Although respondents have no major problems with how the LIM is operating, there are a few issues raised by a minority of respondents. These include compliance, “blocking”, appetite, access, transparency and technology.

3.3.1 Compliance

- 1 13 respondents mention issues with complying with increased regulation such as money laundering or bribery regulations. The majority of those are brokers, Managing General Agents (MGAs) or insurers based in North America or in other parts of the world (excluding the UK). Three UK corporates or non-firms complain about the high level of compliance (they did not specify the type of compliance) they have to go through when using the LIM. For those not based in the UK, one of the issues is that this is in addition to the regulations that they need to adhere to in the US or Canada. Respondents suggest these requests by compliance departments may have a negative impact by:

- impacting future transactions (going to another market);
- creating a lot of additional work as there is no consistency in requests;
- impacting the end-client(s);
- limiting innovation; and
- impacting the development of new underwriters.

- 2 Three respondents (brokers and MGAs) based in North America mention an increase in requests from their compliance departments over the years to comply with regulation, although necessary following previous abuses, has gone too far and that any additional regulations could push them to move their business to other markets.

BROKER RoW – 10YEARS+ *“Compliance in the LIM drives us completely nuts. Our volume of business may start to decline as it is more expensive to go through the LIM than domestically. Compliance is making the big difference, it is becoming over the top. The compliance teams within the syndicates are becoming too powerful.”*

MGA USA – 3-10YEARS *“The most extraordinary level of regulation! The level of regulation has reached a point where, if there is anything more, it might not be worth the time and money it takes to place on LIM.”*

MGA USA – 10YEARS+ *“The LIM has become more difficult to deal with because of the regulatory and corporate issues. It is still a good market but may not be as good in the future unless they can make it easier to do business.”*

- 3 Another point brokers and MGAs in the US raise is that, not only do they need to comply with the US regulations in 50 States, they have additional requests from the underwriters’ compliance departments. In addition, requests are not consistent, resulting in extra work to provide all of the information required. Having to deal with regulations from both countries is nothing new for these brokers who have been working with the LIM for decades. Their main grievances are the increase in rules and regulations and the resulting increase in the demands from compliance departments.

MGA USA – 10YEARS+ *“The way to go is to have more standardised, more specifics on compliance and regulations. The interpretation varies within the various syndicates so we need to do additional work. This is non-existent in the US retail domestic market.”*

INSURER USA – 10YEARS+ *“Compliance has increased everywhere. There is also inconsistency on the information needed; with the primary wanting as much info as possible, but sometimes that is too much info or request for different info. There is a lack of consistency throughout the conduct chain.”*

SURPLUS LINES USA – 10YEARS+ *“The LIM is trying to control the US markets as if they were local companies in the UK. Very intrusive and cannot make up their minds as to what they want.”*

BROKER USA – 10YEARS+ *“Compliance requests seem to be getting ridiculous! Some of the requirements are very cumbersome to the policyholder, the broker and the syndicates. It seems that every syndicate has different requests. It is not a friendly environment in any way shape or form! It makes it more difficult to get renewals.”*

UK BROKER – <3YEARS *“Need to simplify the regulation. Be more precise with the regulation because when we are not sure, we are told to do what you think is right and if you are wrong we will fine you!”*

- 4 Two respondents, a US broker and an MGA feel that this added regulation, which is intended to protect the end-client, is now penalising the end-client in several ways. First, having to comply with all of the regulations has resulted in developing compliance departments that are a new cost to doing business in the LIM. The MGA respondent mentions that the end-client is the one who ends up paying for this extra cost. This impacts clients since brokers are spending more time on the compliance issues than on servicing clients, resulting in either lower service levels or fewer clients being attended to.

MGA USA – 3-10YEARS *“Regulation on top of regulation is unfair to the customer! All of these costs along the way get back to the customer. These costs were not there before! It just drives up costs to the consumer.”*

UK BROKER – <3YEARS *“If I have simpler regulation, I can focus on my clients, get more clients and because I have more clients I do not need to charge the fees that I charge. It is self-fulfilling!”*

- 5 Two MGAs commented that the current amount of LIM regulation is preventing the market from being innovative as every change has to be approved by their compliance department. In many cases, maintaining the *status quo* is easier than trying to improve the current offering. These respondents comment that Lloyd’s reputation for being able to insure anything is undermined by increased influence of the underwriters’ compliance departments.

MGA USA – 3-10YEARS (1) *“It just chokes out creativity and change. Once you have all of your compliance, making a change is just too long.”*

MGA USA – 3-10YEARS (2) *“Compliance is holding back creativity! I remember the days when you could go to Lloyd’s and have a unique risk (like the legs of Marilyn Monroe!) and get it covered. There were rules back then, but it was probably ‘loosey goosey’. But now the regulatory pendulum has gone too far. When you are in the US you are dealing with a market with compliance divisions at Lloyd’s, at the underwriter, and at the broker, and I have to comply with 50 states!”*

- 6 For the first MGA mentioned above, the very essence of Lloyd’s could be at risk as the current level of regulation is preventing underwriters from developing and innovating as their hands are tied. They go on to comment young underwriters are not learning the skills of underwriting which are unique to Lloyd’s and which made Lloyd’s unique in the global world of insurance.

MGA USA – 3-10YEARS *“For me the biggest risk is the regulatory monstrosity! It used to be that Lloyd’s was self-regulated. A lot of criminality in the 80s and early 90s meant more regulations, but they went too far!”*

MGA USA – 3-10YEARS *“It alarms me that underwriters now find mediocrity acceptable. Even senior underwriters cannot clear a risk until compliance has checked it! Underwriters knew the market, developed an expertise over time, but now young people are not given the opportunity to develop that expertise. Four times in the last 12 months, I met with underwriters who loved the business, but could not do anything until it had been approved by compliance. They are professionally deflated! They no longer develop the level of expertise that made Lloyd’s what it is!”*

3.3.2 Restrictive practices between brokers and underwriters

- 1 Three respondents, all overseas brokers, mention the use of restrictive practices between brokers and underwriters. In particular, they refer to “blocking” arrangements in which underwriters working with a broker on a specific risk refuse to quote on that risk for another broker.
- 2 The respondents explained that the number of quotations available to end clients could be restricted when either brokers or underwriters prevent other brokers from obtaining quotes on the same risk.
- 3 Two of the respondents said that large brokers can use their market influence to block access to underwriters due to their strong relationship.

BROKER RoW – 10YEARS+ *“A top 10 broker can deliver where others can’t.....the clout they have in blocking brokers is fantastic. They will work with us exclusively and block others from getting quotes from favourite underwriters and get their agreement to work with [BROKING FIRM] and their retail broker....which gives us a significant advantage.”*

BROKER RoW – 10YEARS+ *“They always try but sometimes, they are blocked by other brokers, the most competitive is blocked. Those are the rules! Have always been the rules. Whoever gets there first, gets the deal. This is how the market works. First come, first served! Underwriters cannot quote to every single broker.”*

- 4 The third respondent said that syndicates and insurers can also block access by only quoting to one broker for the same risk, preventing other brokers from pitching for the same business.

BROKER RoW – <3YEARS *“Lloyd’s is funny. If two brokers come to an underwriter for the same risk, the underwriter will get back to them to clarify who is the lead broker. It is a disadvantage as you cannot get two quotes.”*

3.3.3 Appetite for covering complex risk

- 1 The LIM is renowned for its appetite for covering unusual and complex risk. However, this appetite varies for certain classes leaving clients in a difficult situation to find coverage. Furthermore, for small or SME risks, minimum premiums can be set too high, forcing clients out of the market. The appetite of the LIM can be impacted so clients are forced to find alternative solutions by either going to other markets around the world or using lower rated insurance companies.
- 2 They may even find alternative capacity than insurance to protect their potential losses. One respondent, a UK corporate, was forced out of the LIM as no underwriter wanted to cover their risk.

SURPLUS LINES – 10YEARS+ *“The London Market can change their appetite quite quickly.”*

BROKER RoW – 10YEARS+ *“The larger brokers tend to be less interested at the small end of the market (there is not enough money in it for them) and so larger brokers have introduced minimum levels. This is not an issue for me as it just allows smaller brokers the chance to see the business.”*

UK BROKER – 10YEARS+ *“I am concerned that underwriters are introducing ‘significant minimum premium barriers’ and this leaves a gap in the market for risks which are uninsurable or have to go to unregulated insurers to be covered.”*

INSURANCE COS – <3YEARS *“Minimum premium levels are a frustration but are inevitable.”*

UK CORPORATE – 3-10YEARS *“We almost had to close down because we could not get insured. The LIM is refusing to insure this industry. Nobody in Lloyd’s will issue cover for car rentals. The broker has tried, having daily conversations.”*

3.3.4 Access via a wholesale broker

- 1 Most respondents value accessing the LIM through a wholesale broker as they have the knowledge and the expertise. 28 respondents access brokers for their expertise, 26 respondents work with brokers for their niche experience. However, three respondents would prefer to access Lloyd’s directly and feel they cannot, as to place a risk with Lloyd’s they believe that they need to use a Lloyd’s appointed wholesale

broker. Furthermore, the LIM is very difficult to navigate as it is like no other insurance market and it is hard for people outside of the market, such as end-clients, to source the information necessary to find coverage for their risks. One respondent comments that, while a directory of who underwrites/brokers specific classes may exist, in practice clients have to use their relationships to find out any information. Lastly, 3 overseas respondents comment underwriters make it difficult to access directly.

OTHER REINSURANCE USA – 3-10YEARS *“Not allowed to access the LIM without a Lloyd’s approved broker.”*

BROKER RoW – <3YEARS *“The ‘facility structure’ of the LIM is uncompetitive and stopping me accessing the LIM directly.”*

SURPLUS LINES USA – 10YEARS+ *“Trying to train someone on how Lloyd’s works is very difficult because it is very different than the US market. Also not sure LIM underwriters would work directly with a US coverholder.”*

3.3.5 Use of technology

- 1 The LIM is a relationship market, but several respondents think that the LIM is in danger of being left behind if it does not adapt to online distribution and other new technologies. However, for respondents it is important for Lloyd’s to maintain its personal touch and use technology to improve processes and efficiency.

MGA USA – 3-10YEARS *“I like the way Lloyd’s is heading with technology but I hope they are not taking away the personal interactions, the one-on-one, as this is a relationship business. They could be more efficient with technology – that would be ideal.”*

UK BROKER – 10YEARS+ *“Only thing with this online stuff is Lloyd’s is a little bit resistant I feel. I hate to see it get left behind because people will create these things in time and to say it can’t be done is rubbish, need more can do attitude – energy, time, ambition and cost. I see a time when they will lose business; the simple stuff will go and they’ll be left with all the difficult stuff, all the nasty drivers – online is the way it’s going at lower level, SME, if you have the right application form.”*

- 2 Lloyd’s is piloting a new digital distribution platform that will enable brokers and insurers to quickly, easily and efficiently connect with Lloyd’s underwriters. This online platform will be launched in 2019 and is meant to attract smaller regional brokers, as well as international underwriters.

3.3.6 Transparency over broker charges

- 1 Four corporate and one broker, expressed concerns over transparency when it comes to broker charges. Respondents mention that when the wholesale broker is receiving a commission, as opposed to a fee, and also when clients are not as familiar with the LIM. However, five respondents mention that improvements have been made and that charges are much clearer today. The main area of concern is obtaining transparency of remuneration where the broker arranges the inward* transactional insurance placement with the insurer for whom they are also placing the outward* reinsurance. Please see Chapter V on broker remuneration for more detailed information.

UK CORPORATE – 3-10YEARS *“I certainly wouldn’t say they were transparent as there are a lot of additional fees which are there and outlined, but not sure relevant or needed.”*

UK CORPORATE (£500M-<£2BN TURNOVER; <1,000 EMPLOYEES) – 3-10YEARS *“There was a period when underwriters were giving additional commission for documentation. Not sure if still applicable. There should be more disclosures.”*

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS *“Yes, we’re in a good place except for clarity around reinsurance commissions. But we’ve had to work at it to get the information. It has not always been volunteered where there are layers”.*

4 The relationship with LIM broker

Longevity and strength of the relationship between the client and the wholesale broker is mentioned by all respondents. As the LIM is a relationship market, it is not surprising that, for most, the individual broker is more important than the broking firm they work for. However, for many, it is a combination of both the individual and the broking firm that makes a really successful relationship. The majority of respondents claim they are very satisfied with their wholesale broker and most only conduct informal evaluations. As such there is an open dialogue between the client and the wholesale broker, any issue in service is raised promptly.

4.1 Longevity of relationship

- 1 Clients (both intermediaries and corporates) in this market tend to have very long and strong relationships (see Section II subsection 2) with their wholesale brokers. 24 respondents have been with their broker for over 10 years. 29 have changed broker in the last 10 years. Because the objectives of this research were to understand reasons for switching or not switching brokers, these numbers probably over-represent the true incidence of switching.
- 2 To put this into context, between 1993 and 2007, FWD Research conducted interviews biannually among 250 UK large corporate insurance buyers on behalf of GIMRA (General Insurance Market Research Association). The studies consistently found that the average length of relationship with brokers was between 9 and 11 years and the frequency of asking an alternative broker(s) to quote was between 4.3 and 5.7 years.

4.2 Type of relationship

- 1 There are two types of relationship between clients and wholesale brokers that came out of this research: those that have a very strong relationship and those that have a more transactional relationship.

4.2.1 Strong relationships

- 1 Almost all of the respondents we spoke with have a strong relationship with their broker in terms of the duration and closeness of their relationship. It is often a very personal relationship which has been built over many years. When respondents were asked to describe their relationship with their wholesale broker, many use the word

trust. The wholesale broker is not seen as a supplier, but as a partner by 20 respondents, both intermediaries and coverholders. Two brokers say that their wholesale broker has the same goal as they do and work together to reach that goal. Lastly, for seven brokers and MGAs outside of the UK, the relationship is reciprocal as they use the wholesale broker to access the LIM but the broker in turn uses them to access the local market. For some corporates, a political element involving a reciprocal business deal can overarch the relationship, e.g. a legal firm might use a global wholesale broker to place their risks while the same wholesale broker is a client of theirs as they handle the global legal advice/contracts for that wholesale broker.

4.2.1.1 Long term relationships

- 1 Since many respondents have been working with their broker for a very long time, the relationship is now often beyond the business relationship and becomes a personal one. Two brokers specifically mention that personal nature of the relationship.

BROKER RoW – 10YEARS+ *“We have a very strong relationship, on a business and personal level.”*

BROKER RoW – <3YEARS *“My brokers could be godparents to each of my children!”*

4.2.1.2 Trust is key

- 1 25 respondents mention ‘trust’ when asked to describe their relationship with their broker. Over the years they have developed the relationship and trust their broker to represent them well in the market and get them the best deal.

OTHER REINSURANCE USA – 3-10YEARS *“To do business, you do not deal directly with the underwriters, so you need to trust someone in the middle.”*

UK BROKER – <3YEARS *“This is very heart of the LIM. It brings trust. It is not easier or the most efficient; if they are off you can’t speak with them but you trust what he will do and he will trust what you present to him. That’s the whole point and you get sensible terms.”*

MGA USA – 3-10YEARS *“He is very smart, has good personal values. When you work with someone you are comfortable with, you know how he works and he knows how you work, you trust him. Trust only develops over time!”*

NON-FIRM RoW – 10YEARS+ *“We trust the people we are dealing with, we trust the market. We want a broker in the London Market because of our past experience with brokers around the world. London Market brokers offer quality and honesty.”*

BROKER RoW – <3YEARS *“You know people, you trust them. Trust is all important. You are dealing with distance, time and terminology. If the broker*

has no idea about the process you would lose the underwriter. You have to be confident who you refer to, who presents your risk to the market.”

UK CORPORATE (£500M-<£2BN TURNOVER; 5,000-9,999 EMPLOYEES) – 3-10YEARS *“The importance of types of relationships and levels of trust is very high. If we didn’t trust them we probably wouldn’t be using them.”*

MGA USA –10YEARS+ *“There is a lot is trust in the type of business that we do.”*

UK BROKER – 10YEARS+ *“I trust the way they do it, they trust me the business I produce, make it as easy as possible for them to write. I quote the client from my model and they tend to rubber stamp it....it takes out the negotiation and the client is always accepted.”*

4.2.1.3 Relationship is a partnership

- 1 20 respondents (14 intermediaries and six corporates) see their relationship with their wholesale broker as a partnership. They work very closely together and do not consider them as a vendor; they are part of the team.

MGA USA – 10YEARS+ *“We win and lose together.”*

CORPORATE RoW (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 10YEARS+ *“I would use one word to describe our relationship: partnership. Because we see them as part of our team. They are an outsourced part. We have operational meetings together regularly. If things go well, we celebrate together; if things go badly, we resolve things together. We really try to foster that approach and not treat them as a service provider.”*

4.2.1.4 A two-way relationship

- 1 Intermediaries outside of the UK consider that this partnership is a two-way relationship where both parties benefit from working with the other. Clients work with the wholesale broker to place business on the LIM and the wholesale broker works with the client to place business on local markets.

MGA USA – 10YEARS+ *“It is an ongoing relationship and they are as much our client as we are their client.”*

MGA USA – 3-10YEARS *“We have a semiotic relationship: we use them and they use us.”*

4.2.2 Transactional relationships

- 1 In contrast, two corporates just have a transactional relationship with their broker. They only use the broker to place the risk and do not interact with them; as a result they do not get much advice from their broker or utilise their expertise. They only work together at renewal and not more regularly, unlike the majority of the intermediaries and policyholders we spoke with.

NON-FIRM (£500M-<£2BN TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+

“They do not have to do a lot for it. There is not a lot of interaction but as it hasn’t changed in 10 yearsIt’s a bit like the electric bill, you just pay it, don’t you?”

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+

“Placing the insurance, the transaction they are very good at, but everything else they are not expert at.”

4.3 Individual broker vs. broking firm

- 1 When asked to prioritise the relationship of the individual broker and the broking firm, the majority believe that the individual is most important as the individual brings the expertise and builds the trust. 16 have followed and many would follow the individual if he/she moved to another firm.

MGA USA – <3YEARS *“My brokers have moved around in the 20-30 years I have been doing business with them. Typically it is the individual, this is how it works. Each broker will have something special, specific expertise.”*

BROKER USA – <3YEARS *“The industry operates pretty standard, but individuals are the ones you trust, not companies.”*

- 2 However, the broking firm is also important as it brings its brand and its reputation. For many it is important to work with a global partner to ensure that their broker has access to global resources and information. Also, three respondents feel that large broking companies have a lot of market power enabling them to negotiate good terms. Some smaller brokers specialise in certain classes and have gained an excellent reputation in those classes, making it easier to place risks in those niche classes.

SURPLUS LINES USA – 10YEARS+ *“We began our relationship 13 years ago. They are an outstanding broker. They approached us but then we researched them. They are small but have a great reputation.”*

MGA USA – 10YEARS+ *“They can do everything that I need. They have the scope; they are big enough but still feel like a small company.”*

UK CORPORATE (£500M-<£2BN TURNOVER; <1,000 EMPLOYEES) – 3-10YEARS

“A big brokerage house may have more clout; they can get better rates because of the volume.”

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS *“Our broker heads the relationship with insurers....there are four of us in-house looking after 23 sales companies in 160 countries and our people on the ground are finance not insurance people. We look to [BROKING FIRM] to be an extension of our team globally, a staff resource, our back office and a front office, so if there is an issue in Brazil, the broker has people on the ground who can come out to us.”*

- 3 For most, it is the combination of both relationships that makes a successful partnership. The individual needs to have the support from the company in order to best perform.

BROKER RoW – 10YEARS+ *“It is more weighted to the individual but you need to have both as the broker needs to also have backing.”*

SURPLUS LINES USA – <3YEARS *“You need a brokerage firm with a good reputation but you need the individual’s knowledge and personal integrity.”*

- 4 This issue is also impacted by the corporate policy overarching certain relationships, as referred to in subsection 2a in Section III (strong relationships), i.e. where there is reciprocal business in place it is harder to follow the individual and the relationship is mostly at a company level.

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“Not sure how easy it will be to switch as they also give work to us. They are a client, we handle a lot of their [type of] work. When I mentioned we would be reviewing the process and probably going to RFQ they said of course we have such a good relationship with you across the firm. So from an ethical perspective I’m not sure. I think we have to be objective and make our own decision – this fact (i.e. broker is a client) should not impact what is the right thing to do.”*

4.4 Satisfaction with wholesale broker service

- 1 Respondents express very high levels of satisfaction with the service received from wholesale brokers, especially amongst intermediaries. As most have had a long and strong relationship, they receive the service levels they expect and therefore are satisfied. 21 respondents praise the individuals they work with. In addition, the majority of respondents tend to be unaware of any problems within the LIM. The more knowledgeable respondents of the broker's day-to-day function and activities are the most satisfied in their wholesale broker as they fully appreciate the value the broker brings. Less knowledgeable respondents are also satisfied with their wholesale broker but require more information.

WB Service	Satisfied	Not Satisfied
Intermediaries	34	1
Corporates	15	3

BROKER RoW – 10YEARS+ “I am very comfortable with my brokers. The service they provide is very good. Happy with the terms they obtain.”

BROKER RoW – 10YEARS+ “We have always been very pleased with the standard of service we get from London, as have our clients.”

BROKER USA – 10YEARS+ “Outstanding! Collaborative, respectful.”

- 2 However, one MGA had a specific issue with a broker not honouring their contract and trying to poach their clients, which resulted in the appointment of a new broker who they are very satisfied with. Four other corporates, feel that their broker could do more and that they are not very innovative, or provide the advice that is in their best interest.

MGA USA – <3YEARS “It was a complete mess so we had to move the business. They were enriching themselves on my back. This behaviour was unprecedented in the marketplace. It was a very negative, very costly experience.”

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS “Relationship is not perfect but a good cultural fit and we’re happier with the new team. There have been periods of complacency. They could be cleverer at renewals. They sometimes fail to consider our structures; if deductibles can be increased is not always looked at and there can be a slow response to overseas companies. Better at policy certainty where our lead Marine insurer changed after 10 years. Opportunities to improve claims scenarios and accelerated closure of open items.”

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+

“The relationship is good. They are nice people who focus a lot on relationship building, and they know us inside out. But on the other hand it’s difficult. Service delivery could be improved and they are not innovative.”

CORPORATE RoW (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 10YEARS+

“Broker is perfectly adequate at buying, but not as good to provide advice: to buy less or not to buy if that is really in our best interest.”

- 3 Overall the majority of respondents (35) believe that their broker finds them the best deal. The outcome for the end-client is what is most important and makes respondents satisfied. Several wholesale brokers conduct a full market search when trying to place a risk.

WB Finds Best Deal	Always	Not Always	Not Sure
Intermediaries	22	8	1
Corporates	13	2	1

SURPLUS LINES USA – 10YEARS+ *“Broker provides the best solution. They look at the whole market. We talk about it, who they should approach, who are the potential syndicates.”*

BROKER USA – 10YEARS+ *“They do a very good job at looking at the whole market.”*

BROKER RoW – 10YEARS+ *“200% certain [BROKING FIRM] has found us the best solution possible to meet our insurance requirements.”*

- 4 However, wholesale brokers leverage their knowledge and expertise in this particular class of business and just contact the syndicates who are most likely to be interested in underwriting the risk. Sometimes the market is very small, with just a few underwriters, when dealing with a risk in certain niche classes. In this instance the wholesale broker’s service and strength of relationships in finding the best deal remains necessary.

UK NON-FIRM (£500M-<£2BN TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“The two elements of reassurance I get from [BROKING FIRM] are the price does not change and, when I have queried it, they have looked and not been able to beat it. [BROKING FIRM], I assume, have the clout to find the best deal.”*

BROKER RoW – <3YEARS *“They extract the best deals because of their relationships, and get the best outcome for my clients. It worked to our benefit to leverage these relationships.”*

UK CORPORATE (£500M-<£2BN TURNOVER; 5,000-9,999 EMPLOYEES) – 3-10YEARS *“They go to known insurers who know who to quote for. In the past our broker had approached 28 insurers. Most were not able to quote. Then they got three quotes, probably from the brokers you would have expected to quote. That is why you use a professional broker.”*

- 5 Two respondents, who are not dissatisfied with their broker overall, do mention that they cannot verify that their broker has gone to the full market and presenting the best possible deal.

UK BROKER – 10YEARS+ *“I would like to see ‘more transparency’ about which markets each LIM broker went to so that, if needed, they could send to another LIM broker who could contact markets not yet approached. This would be fairer for the customer.”*

UK NON-FIRM (£500M-<£2BN TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“We had a premium rise one year and I asked them to do a market review, which they did but came back with same insurer as others were slightly more – but I’ve no way of knowing if it was a whole of market search.”*

4.5 Evaluation of broker service

4.5.1 No formal key performance indicators

- 1 As many as 46 respondents do not have KPIs for measuring broker performance. Most intermediaries look at the results of whether the broker successfully placed the risk and obtained good terms and good premiums, and then evaluate more subjectively the delivery of the service received.

MGA USA – 10YEARS+ *“What the LIM broker provides would be hard to get with the same KPIs as for employees or projects or company.”*

MGA USA – 3-10YEARS *“We evaluate them typically on their ability to place the business and then more subjectively on the relationship.”*

BROKER RoW – 10YEARS+ *“It has more to do with perceptions, nothing you can measure. It is about their market positioning, where we think the broker is in relation to the syndicates, are they taking full advantage of their relationship.”*

- 2 However, this does not mean that they do not evaluate the service they receive from their broker on a regular basis. Feedback is constant and takes multiple forms depending on what works best for those involved. Because of the strong relationships, respondents say they have open channels of communications with their wholesale brokers, ensuring quick feedback. Feedback might take the form of:

- Informal, ad hoc feedback;
- Regular meetings;
- Renewal time, and pre-renewal several months in advance;
- Audit; and
- Certain respondents keep alternative relationships.

BROKER RoW – <3YEARS *“The formal process is to get on the phone with them if things are not getting back to us in a timely fashion.”*

NON-FIRM RoW – 10YEARS+ *“No need for KPIs. We have plenty of knowledge to know if they are providing a good service. Since 2009 we have an audit in place. We send letters to both the broker and the underwriters to confirm that they are placing the risks in the contract.”*

UK CORPORATE (<£500M TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“Other brokers present what services they can offer, but none of them come close to what our broker currently offers.”*

BROKER RoW - 10YEARS+ *“We have tested our broker to ensure they are doing what we need them to do. We found that other brokers could not match premiums or terms offered by broker, so yes we test competency from time-to-time and automatically on large business.”*

- 3 In addition to their own internal informal evaluation of the wholesale broker, some intermediaries are regularly talking with the broader market and checking on how their wholesale broker is performing and what their reputation is in the marketplace. This information helps confirm their gut feeling about their wholesale broker.

BROKER USA – 10YEARS+ *“I look at the market, get feedback from the syndicates’ underwriters and they enjoy working with our broker.”*

SURPLUS LINES USA – 10YEARS+ *“The feedback we get from syndicates is that they are the best. They make us look good!”*

4.5.2 Key performance indicators

- 1 The seven respondents who do have KPIs in place tend to be policyholders as most have formal contracts (three are Insurance companies and four are corporates). However, there does not seem to be any standard KPIs that they use to evaluate the brokers' service as they vary for each risk placement. One corporate lists the following as the KPIs they use:

- Renewals – start 1st Jan for end of May renewal;
- Overseas company visits with local handbooks (e.g. North America or Russia getting [Broking Firm] people out to our sites);
- Closure of open items;
- Training policy; and
- Invoice issue.

INSURANCE COS RoW – 3-10YEARS *“Each contract has its own standards as required. Contains our expectations. KPIs are in each placement agreement on a policy basis; we do not have standard KPIs.”*

CORPORATE RoW (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 10YEARS+ *“KPIs are in our service agreement and we overlay them with our specific needs. We decide what they are every November.”*

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS *“In our KPIs we also have a penalty for under performance: 25% of the fee is at risk. But by having ongoing reviews rather than one big annual review we hopefully do not need to enforce that.”*

5 Appointing a broker

Respondents believe there are enough wholesale brokers to choose from. The majority do not have a formal process in place to appoint a wholesale broker and for the process to be initiated they would need for something to go wrong. Only corporates have a standardised tender process that they follow at the end of the contract. There are many factors that impact the selection of a wholesale broker, with the three main ones being the expertise, the individual and the relationship with the underwriters. Price only comes in the next tier of factors. Several intermediaries use multiple wholesale brokers so they feel they do not need to appoint new brokers as they are already creating competition between the brokers. Reasons for not switching are more emotional than physical. Few see any advantage to switching unless there is a problem with the current wholesale broker. Cost is not a reason to change as most feel they are paying a fair price. Among those who have switched, a few found the process very easy, while most said it was a lot of work.

5.1 Choice of brokers

5.1.1 Enough choice

- 1 Even though there has been some consolidation in the market, 33 respondents say that there is enough choice of wholesale brokers. The majority of respondents are not actively in the market looking for new brokers, but they are aware of the choices available as they are in regular conversations with other brokers in the market.

SURPLUS LINES USA – <3YEARS *“There are enough people that have experience if we needed to go another direction in the LIM.”*

OTHER REINSURANCE USA – 3-10YEARS *“There are too many. It is not difficult to find one.”*

MGA USA – 3-10YEARS *“There are brokers of every size. From one-to-two guy shop to the mega-brokers. They cover every class of business, every type of risk. It is crowded.”*

- 2 Some respondents have a restricted pool of wholesale brokers because they need global scope, or want an independent broker or are in a niche business. The majority of those working with the top five brokers do so because they need the global network and global knowledge of the broking firm to ensure they get the best deal and best terms for their global risks. Similarly, when working with specialty risks, the number of brokers who are experts in that niche can be relatively small, thus limiting choice. However, none of the respondents impacted mention that this is a major

hurdle to finding a good broker or that there are any issues with lack of competition in this market.

BROKER RoW – <3YEARS *“It is harder to find the independent brokers. Once you find them, you cultivate them. It is like this Aviation guy; it was a referral from someone I trusted. He has the same passion as me for airplanes. We had an immediate understanding of what needs to be done.”*

UK CORPORATE – 3-10YEARS *“Because it is a global scheme, we must deal with a global broker.”*

5.1.2 Differentiation amongst wholesale brokers

- 1 When initially asked about whether broking firms are differentiated, respondents do not see a lot of difference in terms of their offer when thinking about the broking firms as a whole.

MGA USA – 3-10YEARS *“There are a lot of similarities in the class of business they write, in their corporate structures, their governance, their portfolio and type of business. Every broker does Property; all claim to have expertise in a wide variety of lines of business.”*

UK CORPORATE (<£500M TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“Most of the largest entities are pretty much interchangeable.”*

- 2 That said, 28 respondents mentioned they use brokers for their expert advice, 26 claim to use their broker for their niche experience, 7 claim to use their broker for their global reach and global services. Therefore some respondents do see that broking firms differ in terms of expertise, size, culture and their relationships with underwriters.

SURPLUS LINES USA – <3YEARS *“Some may be well known as Energy, Marine; some have other specialties, are in niche areas.”*

BROKER RoW – 10YEARS+ *“There is not as much difference as they lead you to believe. It is a relatively small pool of underwriters, so it comes down to the relations with the syndicates.”*

NON-FIRM RoW – 10YEARS+ *“I think what is most important is the way they do business, their code of ethics. That is what might be different.”*

MGA USA – 3-10YEARS *“There is a lot of differentiation based on the status in the market as well as the relationships with the syndicates and underwriters.”*

- 3 Not surprisingly, the other major differentiation is the individual broker *per se*; his/her expertise, personality and relationships.
MGA USA – 3-10YEARS *“There is differentiation driven as a result of expertise. I want people who are experts in their field.”*
BROKER USA – 10YEARS+ *“There are some good ones, but not all people and things are equal.”*
INSURER USA – 10YEARS+ *“It is a people industry. It depends on the person. Different person, different style.”*
MGA USA – 3-10YEARS *“In terms of capabilities, not much difference but it comes down to the relationship and trust!”*

5.1.3 Accessing information

- 1 24 respondents feel that they can get all of the information they need to make decisions. The respondents’ extensive knowledge of the market as well as relying on their wholesale broker, ensures access to all relevant information.
- 2 As respondents are senior in their organisations, most are very experienced in the LIM, know how to access the information and who to go to find all of the information they need to make decisions.
- 3 Respondents gather information mainly by having discussions with brokers, peers and colleagues. Collecting information via their wholesale broker reinforces the importance of the relationships. Some of the added value services of a wholesale broker are the advice, sharing of knowledge and open discussions with their clients.
BROKER RoW – <3YEARS *“The more interest [you show] in them, the more they will share. There is incredible knowledge in Lloyd’s but you need to ask the right questions. Ask better questions and then get better answers and engage with them and then they will open up. They will be eager to share with you their knowledge and the insights they have gained over time.”*
BROKER USA – 10YEARS+ *“When not living in the Lloyd’s market, it is very important to have this open relationship as the client is not always right. The broker knows the market better, so we get honest feedback.”*
- 4 The WIBM is not an easy market to navigate and 14 respondents feel that the brokers’ knowledge of the LIM is how their wholesale broker adds value. 18 respondents claim they can only access the LIM through their broker. However, less

frequent or less experienced respondents are less likely to find it easy to find the right information.

BROKER RoW – <3YEARS *“If only there was awareness or a publicised list of brokers allowed to trade in Lloyd’s with their expertise!”*

5.2 Process for appointing a broker

5.2.1 Trigger for appointing a broker

- 1 49 respondents, both corporates and intermediaries, are satisfied with their current broker and 46 say they have no intentions of switching wholesale brokers in the near future. Recent switchers identify four possible reasons for switching wholesale broker and two corporates suggested a fifth reason:
 - When the individual moves company;
 - When extremely unhappy with previous broker, e.g. poor service, poaching clients;
 - When broker no longer supports the class of insurance;
 - When there is a need for consolidation; and
 - When testing the market and an alternative broker identifies a better proposition.
- 2 As we will see in detail in the following two sections, most users of the LIM do not have a formal process for reviewing their relationship with their broker and do not conduct regular tenders for appointing their broker. To provide some supporting context, as alluded to earlier, FWD Research’s UK Large Corporate Insurance Buyer’s studies on behalf of GIMRA (General Insurance Market Research Association) between 1993 and 2007, consistently found that the average frequency of asking an alternative broker(s) to quote was between 4.3 and 5.7 years.
- 3 While clients claim they have strong working relationships with their wholesale broker, they say that there needs to be an external trigger to start the process of appointing a new broker.

UK CORPORATE (£500M-<£2BN TURNOVER; <1,000 EMPLOYEES) – 3-10YEARS
“If I have an issue with my broker, irrespective of what I need to do, I would switch. I would need to have a reason to switch.”

BROKER RoW – 10YEARS+ *“At this stage no need to switch brokers. Something would need to happen in order for me to change broker.”*

5.2.2 When the individual moves company

- 1 Because of the nature of the relationships between users and wholesale brokers, 16 respondents (12 intermediaries and four corporates) say they follow the wholesale broker they work with. Many have switched in the past to follow their wholesale broker and many say they would switch if their broker left in the future.

UK BROKER – <3YEARS *“I tend to move around with the broker.”*

BROKER RoW – 10YEARS+ *“I started to work with [BROKING FIRM] because my broker at [BROKING FIRM] left and moved so I moved on with him.”*

- 2 However, if their current broker moved to another broking firm, the client will not necessarily follow. Typically, when a broker changes broking firm, clients will evaluate the current team, the current service they are receiving and look at the broking firm their wholesale broker moved to, to see if this firm would meet their needs. Based on that analysis, clients would make the decision to switch or not.

MGA USA – 3-10YEARS *“If my current broker moved to a mega-broker I would probably not follow and go to a smaller broker.”*

INSURER USA – 10YEARS+ *“The LIM is relationship driven. The broker is the day-to-day contact and so you need a good relationship with that person. If the person moves, you may follow or may not. It is not just one person, there is a team.”*

5.2.2.1 When extremely unhappy with previous broker, e.g. poaching clients

- 1 Two respondents, one corporate and one MGA, have switched wholesale brokers due to poor service (see section III; subsection 4 on Satisfaction with wholesale broker). Furthermore, the majority would see a decline in service as a reason for potentially switching wholesale broker. Respondents told us that the service they receive from the wholesale broker is one of the most important reasons for working with a wholesale broker and continuing that relationship, so a bad service experience would be a trigger for switching.

UK CORPORATE (<£500M TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“Service and lack of specialist knowledge; we asked them questions and they just could not answer them.”*

SURPLUS LINES USA – <3YEARS *“You would only switch if poor service or if many people were leaving which could mean there are some issues we are not aware of.”*

5.2.2.2 When broker no longer supports the class of insurance

- 1 Clients working in a small niche typically have a choice of just a few brokers who will support that class of business. One broker was working on behalf of a client in a niche and had to switch wholesale broker two years ago because his wholesale broker decided to no longer support this niche.

UK BROKER – <3YEARS *“They pulled out on me but I was already going to go but they made it happen quicker.”*

5.2.2.3 When the client adopts an internal consolidation policy

- 1 Corporations tend to favour using just a single wholesale broker for placing their complex risks on the LIM. This is most certainly due to the simplicity and convenience of having just one intermediary to work with, building a strong relationship with and creating a better understanding of their risk and their business. Furthermore, placing this risk is not the primary activity of the company and the respondents. Sometimes, corporations look at their global activities and prefer to consolidate with just one wholesale broker, even if contracts are local. Furthermore, when corporations merge, the issue of the wholesale broker comes up and an assessment needs to be made as to which wholesale broker will be retained.

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“Last switch not to do with any dissatisfaction with [BROKING FIRM], but the US relationship with [BROKING FIRM] was dominant and we wanted one broker.”*

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS *“Our broker was chosen as in 2008 we were sold by our parent company who had two brokers at time: [BROKING FIRM] doing our Liability, Motor, EL, etc. and [BROKING FIRM] doing Marine and Property. We did not want split brokers so, as our new parent company also dealt with [BROKING FIRM], we brought it all under one roof.”*

5.2.2.4 When testing the market and an alternative broker identifies a better proposition.

- 1 Five respondents mentioned that going out to tender ensures that they get the best deal they can. They value their relationship with their current broker but do not want individuals to become complacent and not get the best deal. Having a proper tender ensures that clients are testing the market to find the best solution.

UK CORPORATE – 3-10YEARS *“It is like any long-term relationship and there will be some disruption, but that will not stop us from choosing the broker who can get us the best deal.”*

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ “We asked the question of [BROKING FIRM] but it is all new to them! ‘You’re fine where you are’ is their view and there is no need to do anything different. I just don’t know why they won’t engage – the best brokers will make suggestions – is it relationships with insurers, or do they not have the expertise or possibly they just take the least line of resistance, i.e. laziness? I just don’t know why..... it seems to suit brokers and insurers to get their fees and not necessarily be the best deal for the client. I expect them to volunteer a solution, at least give the pros and cons of moving to a global policy and where the market might go, but all they do is tinker around the edges without thinking about what’s in the best interests of the client.”

5.2.3 Tender process

- 1 A tender process to appoint the wholesale broker is mainly carried out by corporations (6 mentions), non-firms (2 mentions), governmental bodies and some insurance companies (2 mentions). Having a formal tender process is most likely due to the fact that government contracts need to go through a rigorous process while most major corporations have a procurement department that will require all contracts to be awarded following a tender process. This process enables a fair assessment of multiple suppliers and helps to make the decision a more structured one to award the contract to the best proposal.
- 2 The exact process varies but is usually lengthy and time consuming. A request for tender (RFT) is a formal structured invitation asking suppliers to submit a proposal and a quote to provide products or services for the public sector, while the private sector tends to have a request for proposal (RFP), which is less stringent. Typically several companies are pre-selected based on certain criteria (size, location, specialty, current relationship,) and sent a RFT or RFP. The companies reply with their proposals and then a number are shortlisted for a presentation. Following this presentation, the decision is made as to who wins the contract. The main person involved with the wholesale broker typically puts forward a recommendation to the Board or to a specific committee for final sign off.

UK CORPORATE (£500M-<£2BN TURNOVER; 5,000-9,999 EMPLOYEES) – 3-10YEARS “Tender process is three months to build up trust and get to know people involved. Taking on an employee, like them, work with them, trust them.”

NON-FIRM RoW – 10YEARS+ “We are a government agency so we first need to get approval for the budget. I put together the conditions and send to the contracting officer. He is in charge of putting the tender out. I only provide the information; I am not involved in sending out the tender. We put together a committee to review the proposals, make a recommendation. The contracting officer will appoint the broker. It is a very transparent process.”

UK NON-FIRM (£500M-<£2BN TURNOVER; 5,000-9,999 EMPLOYEES) – <3YEARS

“The next tender is due in 2019 and we will go to anything between five to eight brokers, including large established ones to smaller more independent brokers, to ensure we have a full market view.”

INSURANCE COS RoW – 3-10YEARS *“For larger risks like Energy, yes we go through a formal tender process. Four or five groups are represented to evaluate the proposals. For smaller risks, no formal tender process, just request for quotes to get the best price.”*

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+
“We’ve told them to expect [a tender process] as procurement dictates that we have one every three years. We will invite four brokers in all, including the incumbent.”

- 3 Contracts are awarded for one, two, three or five years, so this process takes place regularly depending on the contract. However, according to our respondents, often the incumbent wins the business as they understand the risk, present it best and are most competitive on price.

NON-FIRM RoW – 10YEARS+ *“We just went through the process a few months ago and appointed [BROKING FIRM] again as they could provide all that was required and were the cheapest!”*

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS
“[BROKING FIRM], the incumbent, gave a far better, notably better response. They were head and shoulders above the rest. They listened to company requirements, understood our needs, our brief. It was a bespoke programme that was suggested by [BROKING FIRM] rather than the template response from [BROKING FIRM] – from them there was little engagement. The right questions were not asked.”

5.2.4 Informal process

- 1 Local brokers, MGAs and other intermediaries tend to have no formal process to appoint the wholesale broker they are working with to access the LIM. For several, the relationship is often inherited or historic, while for the majority the appointment is mainly done by having internal discussions and meetings, as well as talking with potential brokers. Some also have discussions with underwriters to find out who are the best brokers in specific classes of risk.
- 2 These intermediaries also tend not to have a formal review process in place which typically goes hand-in-hand with a tender process. It is also worth noting that some of these brokers or intermediaries tend to be small niche players, too small to put in place elaborate tender or review processes.

SURPLUS LINES USA – <3YEARS *“We review our interactions with our LIM amongst the executive team. I have the most interactions so I have the most to do with the evaluations.”*

MGA USA – 10YEARS+ *“The choice was based on personality and expertise. I had a good feeling about them. They had good guys who were worthy competitors when I was working at Lloyd’s.”*

OTHER REINSURANCE USA – 3-10YEARS *“Some brokers are good on certain risks, some have facilities, some are well known, some have unique knowledge of the market, of how to reach the market.”*

MGA USA – 3-10YEARS *“We know other brokers in the market and approached three. We have talked to two and are looking at the best expertise.”*

SURPLUS LINES USA – 10YEARS+ *“When we originally appointed [BROKING FIRM], it was done without a tender process. It was an information conversation and process.”*

BROKER RoW – 10YEARS+ *“There is no process to select a broker as it is mainly a personal relationship.”*

BROKER RoW – <3YEARS *“I called the underwriter who used another broker so appointed the other broker. I identified the other broker, understood who they were, who would work with me, so appointed them and transferred the relationship. Former broker felt disappointed as they were not given an opportunity to bid on the business. I just had no time to get them up to speed.”*

SURPLUS LINES USA – 10YEARS+ *“I made a connection, they have what I needed, the team was good. I have worked with our current lead for 20 years.”*

5.3 Main factors for selecting a wholesale broker

- 1 There are many factors when selecting a broker and these vary in importance for each client but can be grouped into three tiers as summarised in the chart below:



5.3.1 Tier 1: Primary selection factors

- 1 When looking for a wholesale broker, whether through a formal or an informal process, the most important factors are around the individuals, the knowledge and their expertise, as well as the relationship they have with the syndicates. These decision-making hygiene factors are seen as critical to the success of the relationship and of the outcome of the placement of the risks.

INSURANCE COS RoW – 3-10YEARS *“It is all about relationships. Who presents the best possible risk, the best services? Their knowledge and experience.”*

BROKER USA – <3YEARS *“We basically looked for full service independent brokers, with experience in LATAM and with people that we know can deliver. Let's remember this is a people business.”*

MGA USA – 3-10YEARS *“We are not just looking for a quote. We need a strong relationship with the syndicates. We look at their background, how much business they place, in what markets.”*

5.3.2 Tier 2: Secondary selection factors

- 1 General service, claims service and price are in the next level of factors. Price is not a primary factor when selecting a wholesale broker: it has an impact but is not the main decision factor, especially for corporates as the price paid to the wholesale

broker is only a fraction of the overall cost of insuring the risk. Getting the right coverage is more important.

- 2 Service is also an important factor when appointing a wholesale broker. However, service cannot be easily evaluated, if at all, in advance of appointing a new broker. Claims service is also important, as this is a fundamental reason the end-client has purchased the insurance. Should there be a claim; clients want to be reassured that the claim will be settled fairly and quickly.

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+

“Saving money is not a reason for change – it’s who can deliver the best possible service and if they have greater expertise. If another is more expensive but their service and solutions are better quality then we would not be put off. Price is secondary or tertiary.”

BROKER RoW – 10YEARS+ *“I expect excellent service, overnight service, that is very important.”*

5.3.3 Tier 3: Tertiary selection factors

- 1 Respondents mention other factors such as reputation, additional services, and size of brokerage or advice given as being taken into consideration in the evaluation for appointing a wholesale broker. These factors vary in importance for each respondent. Reputation of the firm is always something that is considered, mostly when selecting the shortlist of companies being approached.
- 2 When respondents mention reputation, this covers the broker’s reputation for good service and for understanding of the market, as well as accessing the right syndicates. Some are looking for large broking firms, while others prefer smaller independent brokers. Some are looking for specific services and many consider the advice that the broker can provide when comparing brokers.

UK NON-FIRM (£500M-<£2BN TURNOVER; 1,000-4,999 EMPLOYEES) –

10YEARS+ *“We have oversight committees and if you throw in a name like [BROKING FIRM] it gives reassurance...”*

BROKER RoW – 10YEARS+ *“My broker is in the top 10 global brokers and so brings resources smaller brokers may not have.”*

CORPORATE RoW (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 10YEARS+ *“We need a single firm for our business around the world. The small brokers cannot provide these. We need scale to provide consistent service.”*

MGA USA – 3-10YEARS *“I try to avoid working with the mega-brokers because I am a small business, I would get lost in the shuffle, may not get the service or have them work with some of my competitors.”*

5.4 Barriers to switching

- 1 Work conducted previously for the FSA⁵ suggested that switching rates among brokers was probably lower than 10% per year. FWD Research's own assessment, based on our Large Corporate Insurance Buyers surveys for GIMRA (General Insurance Market Research Association)⁶, found that only about 8% of large corporate clients invite other brokers to pitch for their business each year and that the average time amongst these clients is actually about every five years.
- 2 In this research, we have over-represented those who switched and cannot evaluate the proportion of switchers accurately as our study was qualitative in nature. However, this research still confirms that switching brokers is not a regular occurrence.
- 3 The FCA put forward the hypothesis that switching costs may be high or other barriers exist and as a result brokers may not face sufficient competitive pressure. This research reveals that the main reason for not switching is that clients are typically satisfied with the service and expertise from their wholesale broker and cost is not a major factor. Indeed most respondents have not switched brokers in over 10 years as they are very satisfied with the service provided by their wholesale broker, and the level of trust and knowledge built up over the years means that most are not planning on switching in the near future.
- 4 Only two respondents felt 'tied' or 'locked' into a deal and, for both, this was due to internal political reasons; all others felt they could switch if they wanted to.

5.4.1 Using multiple brokers

- 1 10 respondents use multiple brokers to access the LIM. Having several brokers to choose from for each risk provides clients with no reason to switch brokers as they already use a pool of brokers and select brokers based on the type of risk they have to place, as well as all of the other factors mentioned in the previous section. In addition, having multiple brokers creates competitive pressure on the brokers and allows clients to ensure they receive a good level of service.

5 As stated in the FCA's WIBM – Terms of reference document. (<http://www.crai.com/sites/default/files/publications/commercial-insurance-commission-disclosure.pdf>). A report by Charles Rivers Associate, commissioned by the FSA, and published in December 2007)

6 Referencing FWD's Large Corporate Insurance Buyers survey on behalf of GIMRA, between 1998 and 2007 between 17% and 24% never invited an alternative broker to quote averaging 22%.

SURPLUS LINES USA – <3YEARS *“Other brokers could also do a great job which is why it is important to have multiple relationships to work with.”*

UK CORPORATE (£500M-<£2BN TURNOVER; <1,000 EMPLOYEES) – 3-10YEARS
“We use multiple brokers when accessing the LIM. It gives a balance by not putting all your eggs in one basket.”

INSURER USA – 10YEARS+ *“We would not be saving money as we use multiple brokers. We are not wedded to a single company.”*

5.4.2 Main barriers

- 1 As price is only a secondary factor in selecting a wholesale broker (see section IV subsection 3), it is not a driver of change. Price differences are not substantial enough to result in moving the business to another wholesale broker. The main reasons not to switch wholesale broker are seemingly emotional rather than physical barriers.
- 2 Most respondents have worked with their wholesale broker for more than 10 years and have developed a strong relationship and do not feel the need to challenge it.

BROKER RoW – 10YEARS+ *“Brokers are just like a bank. Once you develop a relationship, there is no compelling reason to switch unless they drop the ball. There is no motivation to move.”*

5.4.2.1 Personal relationship/trust

- 1 Due to the strong relationships, eight fear that the hardest part of switching would be the emotional impact. Because respondents have invested so much time in building the relationship and establishing the trust with their wholesale broker, several feel it would be difficult to change and start the process all over.

CORPORATE RoW (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 10YEARS+
“Anyone can switch broker. There would be some extra work, additional processes, but where it becomes difficult is on the emotional tie. You develop a trusted, personal relationship. It is like changing lead insurer. That is the hard bit!”

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS *“It’d never be easy to switch. Yes there’d be a feeling of disloyalty and social awkwardness but, at the end of the day, for a company our size the operational change is huge....”*

SURPLUS LINES USA – 10YEARS+ *“I feel we have a great relationship. Trying to unravel that would be very difficult. It would not be an easy transition, we know them so well.”*

5.4.2.2 Transfer of knowledge

- 1 Six respondents who operate in a small niche are very comfortable with the level of knowledge and understanding that their broker has on their specific risk. They are concerned about finding people who do understand their risk, their operations and having to train and transfer knowledge if they were to change broker.

UK NON-FIRM (£500M-<£2BN TURNOVER; 1,000-4,999 EMPLOYEES) –

10YEARS+ “The difficulty we have is people find it difficult to understand what we are and what we do and it’s not always easy to investigate alternatives because of the time required can make it more costly – so it’s easier to stay where we are.”

UK CORPORATE (<£500M TURNOVER) – 3-10YEARS “It is talking with someone who understands what I am talking about. There are a lot of people who would not have a clue about what we are describing.”

5.4.2.3 Alternative services

- 1 One respondent was concerned about not getting the same additional services that they are currently receiving should they switch.

BROKER RoW – 10YEARS+ “It would be easy to switch brokers but it’s not something we want to do. The thing to be careful about is the alternative services such as the engineering department.”

5.4.2.4 Time to research

- 1 Considering changing their wholesale broker would result in having to do a lot of research to identify the right firms and the right individuals to approach for one respondent. Appointing a new broker is not an easy task and most of all is very time consuming.

BROKER RoW – 10YEARS+ “It is not easy, you need to do quite a bit of research to identify the strengths and weaknesses of individuals.”

5.4.2.5 Business priorities

- 1 Internal client business priorities can sometimes dictate who is used and can make it difficult to consider alternative choices especially where reciprocal business deals overarch the relationship.

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+

“[BROKING FIRM] have a fantastic reputation in the US as the preeminent broker. So it was just convenient to take them on here [the UK] too, we did not conduct a beauty parade though. [BROKING FIRM] also give work to us, they are a client, we handle a lot of their [TYPE OF] work.”

5.5 Advantages of switching broker

- 1 For almost all respondents, there is no reason and no advantage to switch. After probing, only three potential advantages are mentioned: wholesale broker charges, reducing complacency and creating improvements.

5.5.1 Broker charges

- 1 Six respondents do believe that switching broker could lower broker charges, but it is not that important to them: they are concerned that they might save a little but that it might not be worth the savings in the end. Some have a good sense of what it takes to service their account.

BROKER RoW – 10YEARS+ *“All comes down to value. Can they offer the same level of service? What we need to keep in mind is what it costs the customer. We need to keep the overall cost down for the customer, which is the main motivation.”*

BROKER RoW – 10YEARS+ *“Possibly [save us money], but it could be a short-term gain for a long-term pain.”*

UK CORPORATE (<£500M TURNOVER) – 3-10YEARS *“That would not be the point of it! If I save £500 and end up with a greater risk if something happens, then it would be the worst £500 I have saved in my life! It is the quality of the insurance that is important.”*

MGA USA – 3-10YEARS *“It might [save us money] but it is not our goal.”*

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS *“Other brokers will always undercut by 25% to get the business in year one, but it is not a sustainable cost to service our needs for 25% less as service will be impaired.”*

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“Challenging them on price does not come to mind for us; we are used to paying a good sum for a good quality professional service – it just feels about right. If we did challenge them I get the feeling they’d say ‘this is how it’s always worked so why are you questioning?’ It’s a difficult conversation!”*

5.5.2 Reducing complacency and improvement

- 1 Switching brokers or adding a second broker can improve the outcome and ensure that the wholesale broker works to get the best deal for the client. As mentioned below, sometimes complacency settles in a long-term relationship.

- 2 Introducing a new broker into their pool of preferred brokers can provide a fresh look at the risk and the service. As also mentioned below, wholesale brokers that have been placing the same risk for many years do not necessarily look for new solutions, they just renew the policy. Appointing a new broker can result in having a new approach to the risk and providing the client with a better deal.

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS *“We use [BROKING FIRM] exclusively but have now relationships with three others and meet three to four times a year for a business update, their take on emerging risks, new products, etc., so we always have someone waiting in the wings since the RFQ last year; as a result of this, we’ve enjoyed far better engagement with [BROKING FIRM] and it keeps them focused and on their toes.”*

MGA USA – 3-10YEARS *“Switching broker can have a positive impact as it creates competition. If a broker is not aggressive enough, having two brokers can help push that.”*

CORPORATE RoW (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 10YEARS+ *“These relationships need to be tested from time-to-time. There is the honeymoon event, when a new broker is enthusiastic about the new account. It gets fresh and energised. A broker who has been with you for years just goes on to do the same thing year after year.”*

NON-FIRM RoW – 10YEARS+ *“They helped revisit the words of the contract to improve it.”*

5.6 Switching suppliers and services

- 1 Eleven respondents have switched wholesale broker in the last 3 years, looking at those who have, there are three main lessons that surface. Respondents who are intermediaries say they find it easy to switch wholesale broker, while respondents who are policyholders find it less easy.

5.6.1 An easy process for brokers

- 1 Intermediaries who switched find that Lloyd’s makes it easy to switch. The paperwork seems to be very straightforward and because all brokers use the same platform, all the information is on one system. Also, Lloyd’s has a very clear procedure on how to transfer business, resulting in a very smooth transition when needed.

OTHER REINSURANCE USA – 3-10YEARS *“It is very easy. All you need is just a letter of authority.”*

MGA USA – <3YEARS *“The transfer happened in one day! I can’t compliment Lloyd’s enough on how easy it was to transfer!”*

5.6.2 Policyholders express significant effort is needed

- 1 Three corporates and one broker who did switch mentioned that switching requires a lot of work internally, meetings to transfer knowledge, recreating reports and requesting new documentation. Change means new processes need to be implemented and new relationships need to be formed.

NON-FIRM RoW – 10YEARS+ *“It was a seamless transition with a lot of work. This was due to the professional level of the brokers.”*

UK CORPORATE (£500M-<£2BN TURNOVER; <1,000 EMPLOYEES) – 3-10YEARS
“It was ‘laboursome’ but not impossible! There is a lot of documentation needed to insure vessels and not all are produced in the UK, so there is a time delay. All documents have to be checked. It is just setting everything up. When you switch there is a lot of information you need to provide because they have different procedures.”

BROKER RoW – <3YEARS *“Getting them up to speed took some time. We had to educate them about the clients, where negotiations had gotten us to over the years.”*

6 Broker remuneration

Respondents regard wholesale broker charges as being transparent; except for a few corporates who tend to be less knowledgeable of the LIM. Intermediaries prefer commissions, as they often split them with other intermediaries, while corporates prefer fees as they are clearer. Almost all respondents find that their wholesale broker provides them value for money. This is through the wholesale broker providing access to the LIM, their expertise, their relationships with the syndicates, their advice and the opportunity cost of hiring staff to do this.

6.1 Charges

6.1.1 Awareness of charges

- 1 Almost all respondents (51) are aware of what they pay their wholesale broker. All intermediaries are aware and many mention that the commissions are clearly stated in the terms of business agreement (TOBA) in place. Most corporate respondents are also clear about what they pay.

OTHER REINSURANCE USA – 3-10YEARS *“The commission is on the placement slip. It has to be disclosed by law.”*

SURPLUS LINES USA – <3YEARS *“It is in the binding authority documents.”*

NON-FIRM RoW – 10YEARS+ *“Because our process is very thorough, we specify that they need to provide a fee. All is covered in the fixed fee, no commissions.”*

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“We’ve a 25 pp T&Cs document; we know we pay a £640k fee pa.”*

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS *“100% clear on what fees we pay.....Fee for placement of transaction as try to get insurance premiums net rated from insurers so it is completely transparent. All extra services are on separate contract, e.g. risk engineering and clear separate amounts.”*

6.1.2 Transparency of charges

- 1 26 out of 32 intermediaries say that their wholesale brokers receive commissions. Intermediaries find the whole process transparent, as charges are laid out clearly in the TOBA and this commission is then split between the wholesale broker and the

local broker or intermediary. Since they negotiate how the commission will be split, they find the whole process transparent.

BROKER RoW – 10YEARS+ “Cost - that is pretty much the clearest and easiest bit of the transaction.”

MGA USA – 3-10YEARS “Yes, very transparent. We have a great understanding as we determine how we split. We use the same formula for every contract. It is fair.”

INSURANCE COS RoW – 3-10YEARS “The market is sufficiently transparent because I am an experienced buyer. All info should be provided to the client, the client should not have to request for it.”

UK BROKER – <3YEARS “We negotiate, it is part of the contract.”

- 2 However, four corporates feel that broker charges are not fully transparent. They are unsure if everything has been disclosed or if they are made aware of all of the commissions paid to the various intermediaries (such as local broker and wholesale broker). Since the underwriter, and not the end-client, pays the commission that the brokers then split, it seems that some corporate respondents are unclear about how much commission the wholesale broker gets on the transaction.

- 3 Those who pay a fee to their wholesale broker (11 respondents) are more satisfied with the current disclosures as the fee is negotiated up front. Lastly, some corporates are not concerned about how much the wholesale broker charges, as they look at the total cost, and what the broker charges is not relevant.

UK CORPORATE – 3-10YEARS “I certainly wouldn’t say [broker’s charges] were transparent.”

UK NON-FIRM (£500M-<£2BN TURNOVER; 5,000-9,999 EMPLOYEES) – <3YEARS “The only concern, and it is a large one, is that remuneration needs to be more transparent so that people know what they are paying for and ‘who is getting a cut’.”

UK NON-FIRM (£500M-<£2BN TURNOVER; 5,000-9,999 EMPLOYEES) – <3YEARS “Although pricing is more obvious now, the LIM is still an ‘opaque industry’ and this is ‘detrimental’ as it allows people to speculate ‘who gets a cut.’ Please have an insurance summary with pounds and pence on it.”

- 4 Two corporates are concerned about other commissions that their wholesale broker might receive, especially with the reinsurance contract. The reinsurance of the risk is done as a separate contract and most often information about that contract is not disclosed to the end-client. Respondents believe that other commissions paid to the wholesale broker could be made more transparent if the same broker is placing the inbound risk and the outbound reinsurance. None appeared to be able to gain clarity on this.

CORPORATE RoW (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 10YEARS+

“Never sure when there are hidden commissions. What is up front is transparent but then could place as a separate contract.”

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS *“Only area never been entirely comfortable with is reinsurance commissions. I have asked but there are complete Chinese walls between [BROKING FIRM] and [REINSURANCE BROKING FIRM], I don’t believe there is anything untoward and have no evidence selection of markets is driven by commission.”*

- 5 One broker raises concerns around the commission paid to a broker for Kidnap and Ransom cover. Not only is the commission very high, but it seems that the amount paid to the broker is not clearly disclosed to the end-client who would probably not be happy paying as much to the broker as for the cover.

UK BROKER – 10YEARS+ *“K&R: the commissions are very high (50%) which is why it is so profitable. Underwriters are tempting brokers with ludicrous commissions and it’s detrimental to the client who is paying for it and does not realise that.”*

6.1.3 Comparing charges

- 1 33 respondents find it easy to compare charges and make sure they are getting competitive rates. They do this using various approaches, either through their discussions with underwriters and other brokers or through a formal tender.

INSURANCE COS – <3YEARS *“Yes it is very easy [to compare fees from different brokers] because it is all upfront and clear.”*

SURPLUS LINES USA – 10YEARS+ *“We would not save any money because I have talked to other brokers and everybody was impressed that we pay little as we do.”*

MGA USA – 3-10YEARS *“I know what they are paying other brokers; it is within the range of what I am paying.”*

INSURANCE COS RoW – 3-10YEARS *“Because we do tenders, we see the average slip commission and they are the same – for Energy 20%, for Aviation 15% - so what we are seeing is very similar.”*

- 2 However, five respondents, who use just one broker, or who do not go out to tender or do not understand their current charges, cannot easily compare what they are paying with the rest of the market. Furthermore, as clients are placing complex risks, it is sometimes difficult to compare as many other factors can impact the price.

OTHER REINSURANCE USA – 3-10YEARS *“It is not easy to compare broker charges as it depends on many factors, such as the client situation, expiry dates, incumbent broker and the size of business.”*

UK CORPORATE – 3-10YEARS *“Since there is only one option, I never been able to compare charges.”*

6.1.4 Flexibility of charges

- 1 The research clearly identifies that, when necessary, intermediaries can negotiate with the wholesale broker the overall commission to win the business. Asking for net premiums is not uncommon so some commission can be rebated to the client. The overall charges from the wholesale broker are therefore not fixed. Commission levels vary by class of risk and on the size of the risk, as well as whether there is any pressure to reduce the commission in order to secure the deal.

BROKER RoW – 10YEARS+ *“When I have to reduce to be more competitive, the LIM broker is always very cooperative.”*

BROKER RoW – 10YEARS+ *“I always know how much commission the underwriter gives. We usually split 50-50 with the LIM broker. If we need to have a rebate in order to be more competitive then we usually reduce and do 50-50.”*

6.1.5 Commission vs. fee

- 1 The LIM has traditionally remunerated wholesale brokers via a commission. This is still the case but fees are starting to gain some ground. The research clearly shows that almost all brokers prefer commission while corporates have a preference for fees.
- 2 Brokers prefer commission as this is how brokers have traditionally been remunerated for their services and they believe it a fair way of charging for their services. This preference is also related to the fact that wholesale brokers share their commission with other intermediaries.

MGA USA – 10YEARS+ *“A commission is clear. Fair for them, fair for me.”*

BROKER USA – <3YEARS *“We share with them the commission that we manage to get. We couldn’t possibly pay them a fee, it wouldn’t be fair to anyone.”*

MGA USA – 10YEARS+ *“Paying a commission is a fair way to do it. I have never worked on a fee basis. It is more common in other parts.”*

- 3 Although brokers prefer receiving a commission, most brokers agree that a fee works better for very large risks or very small ones as the commission would either be too much or too little to cover the work performed. In general, the fee is the exception, not the norm.

BROKER RoW – <3YEARS *“If I had one large placement (in the millions), then it would be an advantage to work with a fee. But when trying to set a fee it is always difficult to decide how much is included.”*

BROKER RoW – 10YEARS+ *“It is simpler to be dealing with commissions. When dealing with retail customers, it is always on a commission basis. Only on very large accounts do you need to negotiate a fee.”*

BROKER RoW – 10YEARS+ *“It is usually a commission as I work on small accounts. To be competitive on very large accounts I would work with a fee; the LIM broker would also work with a fee. But there are very few such accounts in my country that would need a fee.”*

- 4 Twelve of the 16 corporate respondents, who go direct to a wholesale broker, prefer a fee as they feel it is more transparent. As most of these respondents place very large complex risks in the LIM, this is actually in line with what brokers also believe is fair to pay for their services.

UK NON-FIRM (£500M-<£2BN TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“I prefer fee to commission so as not to muddy the waters. As it’s fixed rather than variable then in theory we are winning if the premium goes up.”*

UK CORPORATE (<£500M TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“A fee is better. It is just more transparent, it is not hidden. It works better for us.”*

6.2 Value for money

- 1 Almost all respondents find that their current wholesale broker offers value for money. The value of wholesale brokers lies in the following:
- Their service especially on claims handling (24 respondents mention this);
 - Their specific expertise (in an industry, on a particular risk)(24 respondents mention this);
 - Providing access to the LIM (14 respondents mention this);
 - The information they can provide (updating their clients regularly about the Lloyd’s market, about syndicates, about what is going on) (14 respondents mention this);

- The relationships they have with the syndicates (who they know and have strong relationships with) (10 respondents mention this); and
 - Their performance/results (6 respondents mention this)
- 2 No respondents claim to have measurable KPIs in place as part of determining the value for money the wholesale broker brings. Most feel that, because it is based on the service provided (and most do not have a formal evaluation process in place – see Section III subsection 5), evaluating value for money is extremely subjective.

MGA USA – 3-10YEARS *“Again it is a subjective evaluation. As long as they are efficient, profitable and meet my clients’ needs, then they offer value for money.”*

UK CORPORATE (<£500M TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“We look at what we are getting back in terms of service, coverage and their knowledge. But it’s not as if, if service levels drop 10%, we would move. It is not as formal as that, it is more of a gut feel.”*

6.2.1 Providing access to the LIM

- 1 First and foremost, wholesale brokers provide access to the LIM. Intermediaries and policyholders do not have direct access to the LIM and have to go through a wholesale broker to place any risks on the LIM. This is the primary reason for using a wholesale broker and respondents do value that access.

MGA USA – 3-10YEARS *“At the basic level, it gives me access to the LIM. There are just a few syndicates that allow you to access direct. It is ‘pay for play’. Accessing the market comes at a cost!”*

SURPLUS LINES USA – <3YEARS *“They are giving us access to something we could not do ourselves and would cost a lot. We are not out there. We do not have a lot of clout in the market but they have.”*

6.2.2 Their specific expertise

- 1 As we have seen, respondents select their wholesale broker on their specific expertise. This expertise is how the wholesale broker adds value. They bring knowledge of the market, knowledge of the industry, and knowledge of placing certain types of risks that is unparalleled.

UK CORPORATE (£500M-<£2BN TURNOVER; 5,000-9,999 EMPLOYEES) – 3-10YEARS *“It was good value for money. No way a client would have the same market knowledge and expertise for that amount of money.”*

UK CORPORATE (<£500M TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+

“We get value for money from the service, the knowledge and expertise they have. We value that and we pay a fair price for it.”

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS

“Absolutely, the amount of time we take from them, [BROKING FIRM] have upped their head count from three or four to eight or nine on our team. They’ve woken up and got a kick in the shins from the RFQ and now [BROKING FIRM] senior management get engaged with us as well from [BROKING FIRM]’s Board. Probably they think they are over servicing it and may not even be covering their costs.”

6.2.3 The relationships wholesale brokers have with the underwriters

- 1 The value wholesale brokers bring is in the relationships they have with the various Lloyd’s syndicates. There are over 100 syndicates and each syndicate comprises of a pool of underwriters. Wholesale brokers have built relationships with the underwriters over time and will use these relationships to place the risks and obtain the best deal for the client.

SURPLUS LINES USA – 10YEARS+ *“Our broker gives the best advice on who might be a potential syndicate based on growth, their own knowledge and how much they are willing to share.”*

BROKER RoW – 10YEARS+ *“They need to have a good reputation with standing syndicates to provide the best opportunity to place my business.”*

6.2.4 The information wholesale brokers can provide

- 1 Another benefit that is impossible to quantify is the information that wholesale brokers gather while working in the LIM. As they work in the market, they enable the intermediaries and policyholders to benefit from this intimate knowledge about what is happening in the marketplace.
- 2 Wholesale brokers are often viewed as an extension of the team, providing vital information to make better decisions.

MGA USA – 3-10YEARS *“He goes above and beyond giving me advice, helping to place the business.”*

BROKER USA – <3YEARS *“The London broker is part of our team, and we are part of their team. They are our ears, eyes, muscle, etc. in the market they operate, placing the accounts.”*

UK CORPORATE (£500M-<£2BN TURNOVER; <1,000 EMPLOYEES) – 3-10YEARS

“The broker will review your wordings, and obviously negotiate the best deal

for you. Keep you updated on a regular basis. A good broker will give you good insight. Who is pulling out, who is staying in.”

6.2.5 Their service

- 1 49 respondents are happy with the service they receive from their wholesale broker. Service is definitely something that they include when looking at whether their wholesale broker provides value for money.

MGA USA – 3-10YEARS *“Helping get claims paid on a timely basis.”*

SURPLUS LINES USA – 10YEARS+ *“Our broker does a tremendous amount of work helping with the underwriters, maintaining the relationships, working with annual audits...”*

6.2.6 Their performance/results

- 1 For several intermediaries, because their relationship with the wholesale broker is a partnership, looking at whether their wholesale broker provides value for money amounts to looking at how they are performing. This is because they could not get the revenue if the wholesale broker did not perform well in placing the risks.

BROKER USA – 10YEARS+ *“They are an extension of our team. We look at our results.”*

- 2 When looking at value for money, 10 respondents (seven intermediaries and three policyholders) look at using a wholesale broker as an opportunity cost. It is cheaper to use a wholesale broker and pay the commission or fee than if they had to hire employees to do the job. Those who are based outside the UK see an even greater value as they would have to set up an entire operation in London.

BROKER RoW – 10YEARS+ *“The LIM is an expensive place to do business. We could not afford to have an office there. They are our London presence.”*

CORPORATE RoW (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 10YEARS+ *“We get value for money on a global basis on admin, compliance and dealing with all of the bureaucracy. With the number of people we have got working on our account, we get reasonable value for money.”*

MGA USA – 10YEARS+ *“They do a good job, they cover the market. Their ideas and thoughts on placement of the business are invaluable.”*

- 3 Two respondents mention that their wholesale broker provides value for money as there has been no increase in fees in several years.

UK CORPORATE (£500M-<£2BN TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“We pay a lot less than other similar firms pay. Fees have not increased for seven years.”*

- 4 On the other hand, two respondents are not happy with the value their wholesale broker brings. The first is a corporate who felt that their wholesale broker did not give them enough time to look for alternatives at renewal time when prices increased on their policy.

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“They increased the price just three days before renewal, giving us no time to look for alternatives. We’ve no way of double check value for the money. They are too close in hand with the insurers, it’s not objective. Next year I have requested renewal documents six months in advance, not three days before they are due, so we can take back control.”*

- 5 The second is a broker who is frustrated for not having direct access to the LIM in what they see as a commoditised market.

BROKER RoW – <3YEARS *“LIM brokers are ‘way over priced’ because they are not adding any value in this highly commoditised market.”*

6.3 Conflict of interest

- 1 An important area of interest for the FCA was to look at conflicts of interest in the sector and how they affect competition and client outcomes. The FCA hypothesised that when brokers select placement options for their clients there may be incentives to choose the insurer or product which provides them with the highest remuneration, rather than the insurer which best meets the clients’ needs.
- 2 Based on the results of this research, 46 respondents do not currently see any conflict of interest in this sector. Two respondents mentioned old conflicts that have since been resolved by the Spitzer investigation. Two mentioned they like to work with smaller independent wholesale brokers, as opposed to the larger ones to prevent any possible conflicts of interest that can arise when servicing other clients placing similar risks or direct competitors.

MGA USA – 3-10YEARS *“From our perspective, there really are no conflicts of interest with the underwriters and the brokers. Their job is to work for me. They need to get me the terms I need to place the business with them.”*

OTHER MGA UK – 10YEARS+ *“We look to provide the best service for our brokers and their clients. I can’t identify any conflicts.”*

MGA USA – 3-10YEARS *“I am not worried with my current broker. He would not take on business that competed with mine. That is why I like a small broker to avoid these conflicts.”*

INSURER USA – 10YEARS+ *“There can be conflicts of interest with facilities or MGAs as they serve a single provider. But it is not a challenge. There now are no conflicts of interest since the Spitzer investigation; there are significant Chinese walls.”*

- 2 However, six respondents (outlined below) do raise some concerns. These are concerns about potential conflicts of interests, rather than actual unresolved issues, as no respondent can provide any evidence of conflicts of interest but thought it might happen.

6.3.1 Close relationship between the wholesale broker and the underwriter

- 1 The close relationship between wholesale brokers and LIM underwriters is one of the primary reasons why people select their wholesale broker in the first place. However, these relationships can sometimes be seen as supporting a conflict of interest as the broker may not look for the best deal for their client and just renew with the same underwriter.

UK CORPORATE – 3-10YEARS *“I have concerns and am nervous about how comfortable things are between the broker and the main insurer, and that the broker is not really going around pushing our business to get the best deal. The concern was heightened when an overseas element of our business got a ‘better quote’ from the LIM than our incumbent broker, and had to ask London insurer to reduce premiums as a result.”*

CORPORATE RoW (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 10YEARS+ *“When you have a broker placing the same policy year after year, feeding the insurer, it is very difficult to break the relationship even if it is not in the best interest of the client. It is the human relationship factor. Brokers are not truly independent.”*

6.3.2 Seeking the highest commission

- 1 Some are concerned that wholesale brokers look to place business within facilities which earn commissions which may not always be in the best interest of clients. But once again, respondents speculate that this could be happening but have no evidence that it is currently happening in the market.

CORPORATE RoW (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 10YEARS+ *“If a broker facility is taking a 20% commission, then there is a massive incentive to place with the facility to get the additional income.”*

BROKER RoW – 10YEARS+ *“Aware some brokers have preferential commissions with some carriers. But there are more important things – what concerns me is the security of the insurer being used and the claims philosophy of the company and that’s where the LIM brokers earn their money.... Clients tell me the only thing they are concerned about is will the insurer go belly up and will they pay my loss.”*

UK NON-FIRM (£500M-<£2BN TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“Only potential conflict would be if there is volume override which we’re not aware of any; potentially, if [BROKING FIRM] put 90% of their business to [INSURANCE COMPANY] and then we’d be concerned – would ask the question why – but if it’s 10% then there’s no concern.”*

6.3.3 Doubling commission with the reinsurance

- 1 Four respondents do mention the issue of reinsurance. The concern is when brokers could look to place the risk with a company that could then also do the reinsurance, thus earning double commissions. It is an area that lacks transparency and awareness amongst some corporates.

CORPORATE RoW (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 10YEARS+ *“There is an inherent conflict of interest with placing the reinsurance. The broker gets a commission on placing the risk, but then could get another commission on placing the reinsurance. That should be declared to the client from the broker. There is an enormous incentive to place the initial risk with an insurer who can also do the reinsurance.”*

6.3.4 Contingent commissions

- 1 Since this was an area of concern for the FCA, FWD Research probed extensively on contingent commissions*. Contingent commissions or volume overrides for reaching certain targets exist when brokers earn additional commission when placing a certain volume of business with an underwriter. Four respondents mention they are aware that they existed in the past but were dealt with the Spitzer investigation, and are not currently aware of any volume overrides that their wholesale broker gets.

BROKER RoW – 10YEARS+ *“I think about eight years ago there was a contingency commission. It was mentioned in the slip that there was an additional fee. I have no problem as long as it is in black and white.”*

INSURER USA – 10YEARS+ *“I am not aware of any, but these are very dangerous things. You can write as much business as you want to get the volume, but it is not necessarily profitable! It can happen with facilities.”*

6.3.5 Restrictive practices

- 1 FWD Research asked respondents about any knowledge of underwriters working exclusively with a broker, preventing any other brokers from getting a quote. Most respondents were not aware of any such practice. Three respondents, however, said that in their experience underwriters will not provide quotes on the same risk to multiple brokers (see Section II subsection 3 on restrictive practices). One respondent describes ***"It is of course a double-edged sword" (BROKER RoW – 10YEARS+)*** depending which side of the blocking you are on and, as such, it is seen as a fact of doing business rather than a conflict.

MGA USA – 3-10YEARS *"This is about understanding how Lloyd's works. It is first in through the door. I just need to get there first."*

MGA USA – 3-10YEARS *"For some programmes that people have, may not permit getting quotes, but that is it."*

BROKER RoW – 10YEARS+ *"A top 10 broker can deliver where others can't...the clout they have in blocking brokers is fantastic. They will work with us exclusively and block others from getting quotes from favourite underwriters and we have got their agreement to work with [BROKING FIRM] and their retail broker...which gives us a significant advantage."*

6.3.6 Handling competitors

- 1 Two brokers expressed some concern about their wholesale broker handling risks for competitors which could lead their wholesale broker not to provide them with the best deal. They are aware of the situation, monitoring it and discussing it openly with their broker. To resolve such conflicts, some either go to a different broker in the LIM or go outside of the London Market.

BROKER RoW – 10YEARS+ *"Our brokers represent some of our competitors, but I have no reason to believe that there is any true conflict. I will make enquiries, ask questions. Just to be sure that there is minimal conflict. I will discuss it with them."*

MGA USA – 3-10YEARS *"We have had other conflicts. This happens with a big enough broker. Typically, it is about placing a piece of business that they are already placing for another client. So we move on and typically go outside of the London Market or use another broker."*

6.3.7 Trying to circumvent the local broker

- 1 One Insurance company was very concerned about coverholders approaching the LIM directly without getting the local broker involved.

INSURANCE COS RoW – 3-10YEARS *“Conflicts of interest [occur] when the original insured sometimes approaches the broker in London directly and forgets to include the local reinsurance broker. They cannot go direct because they are not licensed to a broker in our country.”*

7 Additional services

- 1 The research findings suggest additional services are not critical in the selection or appointment of the wholesale broker. Few respondents find they have a requirement for other services beyond the transactional placement. This is most likely because the majority of the respondents are intermediaries.
- 2 Most see the ability to discuss issues, covers, insurers, emerging risks etc. with their wholesale broker as an invaluable value added service which is largely “free” advice expected as part of the overall service. Advice and sharing of information about the market is one reason why clients work with a particular wholesale broker.
- 3 A couple of the policyholders use their broker for more than just the placement of the risk. Where additional services are taken and used, expectation is that there is likely to be a separate fee. Additional services include:
 - Claims handling (where higher than expected attrition);
 - Surveying risk/loss prevention;
 - CAT modelling and data analytics; and
 - Engineering (inspections/surveys).

BROKER RoW – <3YEARS *“It is important to give your clients something other than just a transactional policy. You have to differentiate yourself, stand out. If the broker continues to deliver, provide more info, why things are structured that way provide updates so your client is the beneficiary of those added value services.”*

MGA USA – <3YEARS *“Their claims service is excellent. They have expert claims people to discuss claims issues.”*

- 4 For some, the issue of additional services is inextricably linked with a lack of innovation from their wholesale broker with some expecting to be offered more than just transactional placement. In reality, there is little evidence of proactive promoting additional services by wholesale brokers.

UK CORPORATE (£2BN+ TURNOVER; 10,000+ EMPLOYEES) – 3-10YEARS *“One thing we’ve not been able to get from broker is data analytics and also supply chain work – might consider another broker or more likely a management consultant.”*

UK CORPORATE (£2BN+ TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“...and they are not innovative, for example, we asked them to put on a training session on captives, what they do etc. for our new starters – it was a complete waste of time and they learnt absolutely nothing!”*

UK NON-FIRM (£500M-<£2BN TURNOVER; 1,000-4,999 EMPLOYEES) – 10YEARS+ *“We would be interested in risk mitigation training course for trustees but [it was] never offered. It’s interesting there is no cross selling, neither do they ask about our PI insurance or anything broader than the D&O insurance we have. We get no marketing which is a bit odd....”*

8 Conclusion

1 The purpose of the market study was to assess how effectively competition is working in the wholesale insurance broker sector, as well as how brokers influence competition in the underwriting sector. The FWD Research focused, in particular, on whether clients are sufficiently engaged and informed to make effective decisions. We have found, **that respondents say that...**

- On the whole, the LIM **works efficiently**, providing global access to LIM for primary and secondary clients including retail brokers, corporates, Surplus Lines brokers, MGAs, non-firms, others, etc.
- The LIM is used to access its **niche capacity, expertise and knowledge** that is rarely available elsewhere.
- The choice of wholesale broker is generally **well informed** and is tested from time-to-time.
- They generally have **high levels of satisfaction** with service, both pre-sale (quote, underwriting) and post-sale (claims, admin, documentation).
- They are aware of charges and feel commissions/fees are largely **transparent** (for brokers perhaps more than for some corporates).
- Almost all feel they get **very good value for money**.
- Additional services are available and often included for **added value**, although they feel that **wholesale brokers are not especially proactive or innovative**.
- There is every **opportunity to switch** wholesale broker if needed, with emotion (relationship/trust) the main barrier to doing so rather than physical barriers (admin, etc.).
- The LIM is built on individuals' expertise, knowledge and understanding of risk leading to robust and lasting personal **relationships; it remains a relationship business**.

2 The research has identified some potential issues including:

- Three respondents mentioned the use of restrictive practices between brokers and underwriters. In particular, they referred to "blocking" arrangements in which underwriters working with a broker on a specific risk refuse to quote on that risk for another broker.

- Four respondents said that broker charges are not fully transparent in some instances. Their concerns relate to reinsurance placements and levels of commission for certain classes of insurance.
- In some instances, it was claimed there is too much compliance and lack of consistency when implementing increased regulations.

APPENDIX

Glossary of terms

Appetite - The insurer's ability/desire to underwrite specific risks presented from a broker or end-client.

Blocking - The practice of brokers and underwriters choosing to only work together and refusing quoting a specific risk for another broker.

Capacity - The maximum liability that an insurer is willing to assume from its underwriting activities.

Complex risk - A risk which is non-standard and requires a bespoke insurance solution.

Contingent commissions - A commission paid by an insurer or reinsurer to an insurance intermediary that is based on the profitability of the business that the intermediary placed.

Cover - The actual cover terms of the insurance policy.

Coverholder - An underwriter which has been given delegated authority, from a managing agent or Lloyd's syndicate, to enter into contracts of insurance on their behalf.

Inbound risk - The client's risk placed by a wholesale broker with a syndicate or insurance company.

Insurance Intermediaries (including MGAs) - Somebody who places insurance business but does not take the financial risk.

London Insurance Market (LIM) - The total insurance market within London which includes both Lloyd's and the company's markets.

Non-firms – a generic term to describe the following types of organisation 1.Uk Trust fund 2. UK asset risk consultancy 3. UK utility supply provider 4. ROW commercial transport operator 5. UK property management consultancy 6. UK niche landlord

Outbound reinsurance - A reinsurance treaty/contract between an insurance carrier and a broker who is placing the reinsurance on their behalf.

Policyholder - The insured.

Proposition - The entire insurance offering including, cover, service and all aspects of the transaction.

Specialist risk - A risk which is non-standard and has unique requirements/parameters.

Surplus Lines brokers - Specifically, Surplus Lines intermediaries in the USA. These are insurance professionals looking for insurers which have the risk appetite and the expertise to accept the kind of business the intermediaries specialise in. Surplus Lines brokers will be looking for London brokers which can both place individual risks or portfolios of SME/retail business, usually via a binding an intermediary in the USA.

Syndicates - One or more Lloyd's members providing capital and accepting the insurance risk on an annual basis.

Transactional relationships - Where broker merely places the risk for the policyholder and offers no added value services to the policyholder beyond risk placement.

Wholesale (insurance) broker (WIB) - An insurance intermediary between an insurer and a retail broker, having no access to the insured.

Wholesale Insurance Broker Market (WIBM) - Purely insurance which is placed with the use of a wholesale insurance broker (as above).

Screener and discussion guides

Screener



Discussion Guides

