



A clear view

for clients

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Foreword

The current drive for transparency probably fully emerged with the Spitzer inquiries in the US back in 2000.

Spitzer's investigations brought transparency onto the agenda as never before. Since then we have had inquiries from the European Commission regarding general insurance market practice and, particularly, competition between markets. The UK's own Financial Services Authority (FSA) has considered the issue with its report into the possible justification or cost-benefit to market regulation.

The main message that came out of the FSA report was that the regulators expected to see a market-led solution, much as there has been for contract certainty.

For brokers, the first challenge has been to define transparency. It is, in truth, about far more than simply fee based services or commission income. Of course, the financial elements are crucial but full transparency must also encompass every part of the business.

It must include service to customers, fees, of course, but also documentation, the skills available in a business, having the right people on hand for the right task and be part of the whole business culture.

With so much to cover, it was no wonder that when members of the broking faculty sat down for a roundtable meeting in London this autumn, the debate was lively, interesting and informative.

What we attempted to uncover was the answer to the question of whether, regulation aside, there is a genuine business case for adopting a more transparent approach. It quickly became clear that businesses must involve every aspect of their operation when considering this issue.

It is not something that can be achieved successfully if a company merely pays lip service to the concept. Transparency, by its very nature, demands an openness and willingness to change and develop – and it is time for the industry to do just that.



Mark Radburn
**Chairman of the Insurance Broking Faculty of
the Chartered Insurance Institute**

Methodology

The roundtable event was held in London in September, with a number of industry practitioners in attendance. The participants included a selection of brokers from across the country.

The event was chaired by Mark Radburn, chairman of the Insurance Broking Faculty of the Chartered Insurance Institute.

All participants were asked to speak for one minute, summarising one particular aspect of transparency before the debate was opened to all attendees.

The report does not attribute comments to any particular speaker in the interest of replicating the tone of the open and free-flowing debate.

The participants were:

Mark Radburn ACII, Managing director – Willis Commercial Network

Amanda Blanc ACII, CEO Broking – Towergate Partnership

Matt Donnelly ACII, Managing director – Griffith & Armour

Liz Foster, Managing director – Ingram Hawkins & Nock

Eric Galbraith ACII, Chief executive – BIBA

Stephen Lark ACII, Managing director – Lark Group

Lynn Richards-Cole ACII, Associate director – Perkins Slade

What is transparency?

One thing became clear very quickly – transparency cannot be considered in isolation. Financial transparency must be considered alongside conflicts of interest and also status.

It was equally clear that personal and business customers view the cost of insurance in different ways. Transparency has to respond to customer requirements and build up trust.

Financial transparency

The question was raised whether the industry has focused too heavily on the purely financial elements of transparency, and whether customers were really interested in a financial breakdown of their policy costs.

“Many customers are not in the slightest bit interested – they are looking at the total cost of insurance”

It became apparent that customer expectations vary and that in many areas customers are charged on a fee basis rather than on commissions.

“Real transparency is being able to be open and confident about showing the value brokers bring to their customers”

There was concern that too much transparency might be to the detriment of perceived value. There was a risk that transparency becomes less tangible and that when customers are buying purely on price they may perceive brokers to be of less value. So far brokers have not necessarily addressed that issue but there is a realisation that now is the time that brokers need to be transparent not only on pricing but on all aspects of the business. This should ensure any perceived value is maintained.

Brokers are able to compete in today’s marketplace effectively, offering clients a transparent service that allows them to make much more informed choice. Now the job is to do that more obviously. Pricing is just one element of the overall package on offer.

“The market has not been good at answering that question. Transparency should be about a wider range of features other than price”

Brokers need to recognise that, while financial transparency may have been the catalyst for market discussion, the issue has to be approached from a much wider perspective.

Transparency in service

Service, for example, can be a much more transparent process. By informing customers of the process and also making it clear exactly what they are buying, brokers will deliver a more transparent product that gives the customer a much higher-value service.

“ Customers need to know what they will get, when they will get it and how it will be delivered ”

Another major benefit of offering a truly transparent service is that it helps the industry in the FSA's treating customers fairly initiative. From a business perspective, the benefit is that the business can monitor results against a defined set of standards. This makes it easier to ensure standards are being met and can provide a business with the opportunity to use those achieved standards of service as a future marketing tool. It also benefits insurers because it becomes easy to identify the professional broker.

One question mark surrounds whether brokers deliver this level of service to every client from the largest to the very smallest. There was a feeling that there is no one answer to this. Every brokerage takes its own approach. It also became clear that at different stages of a relationship with a client, the approach may vary within one brokerage.

There are also questions of value – is it worth spending a lot of time explaining the product when the return may be very low? When customers are buying purely on price, the true cost of that may be in receiving a lesser service compared to those who are prepared to pay a little more.

“ The question is whether a customer tends to get more or less service than they paid for – I think most customers are over-serviced ”

Brokers must ensure clients fully understand what they are paying for and what the service options are.

Transparent documentation

Brokers provide a greater level of service than customers realise. Telephone calls are answered and customers are taken care of – but often brokers do not document all the separate service elements.

Although brokers do not perhaps make as much of this type of service as they should, the rewards do come in the form of returning customers who have appreciated the levels of service.

“Brokers are good value for money”

“Brokers are good relationship managers”

However, brokers do need to improve communication with clients. Brokers could, for example, encourage staff to log all the telephone calls from customers, along with questions answered and information delivered.

Compare broker services to accountancy or legal services, where all contact with clients is logged and charged out. Brokers will not want to charge on that basis, necessarily, but there is more to be done in recognition of the quantity and quality of services already provided.

“We as a sector need to be much more vocal – we tend to be quite reserved and I don’t know why”

“Level of service should be a competitive differential”

By documenting the interaction between client and broker, there is also a better chance for the broker to find the right product at the right price to meet client demands. There is a sense that customers rely heavily on brokers to have found the right deal, and that as long as the insurance meets a few basic requirements, few people or even companies check the details. This makes it crucial that the broker fully understands what the client wants.

Having received a policy document, recent figures suggest that around 23% of customers actually read the documents provided. While there was surprise that the figure was as high as that, there was also acknowledgement that across the insurance spectrum there is a wide range of insureds - from those who will scrutinise every word to those who do not even bother to file the documents but leave them lying unopened.

“People get to page 74 and lose the will to live...”

There is an awareness that the industry is trying to tackle the issue but also acknowledgement that wordings are too complex and should be simplified still further. The fact that some policies now have policy summaries was regarded as a good thing. However, some are concerned that summaries can oversimplify and reassure clients falsely.

On the commercial side, brokers are likely to produce their own documents to give to clients who may well read those broker summaries but then simply file the insurance document unread when it arrives a month later. Again there is awareness that the depth of investigation will often depend on the size of the client business and the availability of the right person to do that job.

“There is a huge duty on us as brokers to work harder with carriers to produce documents in plain English”

Another question was whether insureds actually want to read the documents or whether, in fact, they consider that to be part of the role of the broker. As long as documents are transparent to the broker they trust their adviser and are not worried about fully understanding the documents themselves.

However, there is a feeling of responsibility – that is the job of the broker to ensure the client fully understands the document even if they trust and rely on the broker to use their own judgement. There was also a belief that although brokers may often advise their clients to read documents, the reality is that even a 15-page document is likely to prove too long to absorb.

There is also some sympathy for the position of the underwriters who have faced legacy issues and do not want to repeat the experience, making it hard to distil all the terms, conditions and wordings into short documents.

“ Bring back property all risk wordings ”

It is time for brokers to start proving transparency. It is no longer enough to have transparent methods, it is now necessary to be able to demonstrate them to a wider audience.

Skills and people

Another area of transparency is skills. Too often, brokers are uncommunicative about the many different skill sets within their organisations.

There was a level of incredulity that brokers do not make more of this opportunity. From the first response through to administration, there are opportunities to improve skill sets and then communicate that level of knowledge to potential clients, existing customers and insurers.

“ Why would we not want to demonstrate our skills to our customers? ”

By demonstrating skill sets, brokers can actively show clients that they will be able to offer the highest service levels – they will also be able to show insurers. Improving skills, and demonstrating those skills, will help a brokerage against its rivals. It will also improve client confidence.

“ We have to be transparent about what we offer – and that includes our expertise ”

There is a feeling that insurance is considered a “bit of a dark art” and that there is a lot of “smoke and mirrors” involved. By becoming more transparent about available expertise, brokers have a much higher chance of convincing clients of their ability to do the job, to explain charges and costs and ultimately to deliver a better service.

“Clients want telephones answered and to be kept abreast of developments – so simple but areas where many seem to fail”

Training staff properly and then ensuring the right person for the right job is available to the client is an essential part of offering a transparent service.

Organisation and transparency

So often criticism levelled at brokers by their clients comes down to a failure by someone in the organisation. If the team is properly trained and has the right skills, it will deliver the right information and so will improve the transparency of the transaction, building trust in the broker-client relationship.

By demonstrating expertise and skills, individuals can take ownership of the broker-client relationship.

There was also a belief that continuity in terms of personnel helps the process, as clients are able to build trust in an individual who has previously delivered the right level of service. Demonstrating skills is not limited to selling any particular policy but also to risk management services, where brokers can add value to the client transaction by reducing overall insurance costs.

“Trusted advisers, client relationships, continuity of personnel and transparency at the time of delivery to the customer are all critical and entwined”

“ I believe business people buy from people ”

There was a realisation that, in a service-oriented industry, not all clients actually care who owns the firm administering the advice. Clients make their judgement based on lots of different criteria, often depending on the size of their own operation. For example, in the middle market sector clients’ selection criteria may well include: technical competence of the individual advisor and sector experience; an ability to understand and interpret the business issues and deliver pragmatic risk solutions; and an understanding of the type of solution that the client is seeking.

The client programme may be complex, or conventional and easy to understand, but clients of all sizes will be looking for a broker to trust; one who will be reliable and has integrity, but who is also available to advise when needed. This may often be out of hours or at short notice, for example if dealing with the acquisition or disposal of a business.

Though the requisite skill set is essential, technology, too, has played a role in this by helping insurance down the commodity path. Nonetheless, mechanisation and automation of some elements of the process are no excuse for poor skills sets across any organisation. There is still a feeling that if employers take the lead, any cultural change will filter down through the organisation.

Another issue for brokers to consider is client management. Often one team will provide the sales pitch to a client but will not then manage the account afterwards. This can cause upset among some clients who want the security of the familiar face – again transparency at the outset can ensure the client fully understands the process and is not shocked at a later stage.

There is a feeling that standards do vary from firm to firm and a more transparent process would make any relationship easier, as well as provide a clear business benefit. However there was also recognition that sometimes clients really have no interest in fine detail and that it can simply lead to confusion.

“Sometimes what you see is not what you get. In certain situations things can become murky”

Clients will have varying degrees of interest in, say, the ownership of a brokerage. For some it may matter a huge amount, yet it will be of no interest at all to others. The key to success is understanding the client’s need and delivering. It is not an issue of not being transparent – the information should be readily available if required – but at times there will be a balance between providing the necessary information and overloading customers.

“I believe the customer has the choice of with whom they wish to deal and it is for them to decide what criteria are important”

““ If we are selling a product provided by an underwriter with links to the brokerage, the customer needs to know otherwise our credibility is shot to pieces ””

“If you try to pull the wool over someone’s eyes it will only come back to haunt you”

However there is a real feeling that this issue should not get in the way of a broker being able to do a completely professional and thorough job for the client. It is not an issue that is likely to concern a client unduly unless there is a lack of transparency and subsequent confusion. Again transparency provides an obvious business benefit.

On the commercial side, there is a general feeling that there can be a lot of confusion, particularly for new business. The process of insurance is often not fully explained to customers – they may not necessarily ask for the information but it is certainly not provided routinely.

“The process can be thoroughly confusing”

Transparency is all about organisational culture. It must be embraced from the boardroom down, without reservation.

Transparency and claims

When claims arise, brokers often have little input into the process, even though it will be the claims experience that will determine the insured’s view of the broker. If they become involved, brokers often find there is a lot of work at this point – particularly in complex cases such as liability claims.

“When clients are disappointed with their broker it tends to revolve around the claims side”

“Ultimately it is at the claims end that the service will be tested”

However, even on the claims side there are opportunities for brokers to add value through improved transparency. The message is clear that brokers need to inform clients at an early stage of their claims services. They need to explain the claims process fully from the outset so that clients understand the level of service they have paid for. Simply explaining the process can help enormously.

“Clients can be confused by claims”

Non-disclosure often lies at the heart of disputed claims. If brokers encourage transparency from the very beginning of the insurance process, the likelihood is that there will be far fewer issues of non-disclosure and the claims process will be much smoother.

This is also an important message to send to insurers. By working with brokers who are more transparent and who pass information on to their clients, there is less risk of “problem” claims and more likelihood of raising retention levels.

In the documentation section above, the importance of encouraging clients to actually read policies was apparent. This is critical when it comes to claims. Often the moment a client needs to file a claim will also be the first time the client actually picks up the policy document and checks the small print. Occasionally, of course, it is too late and the client discovers that the cover they have is not enough. If brokers manage to deliver a more transparent policy document at the outset, subsequent claims issues will not arise.

The business benefit for brokers of ensuring clients fully understand the documents is not only that they have sold the right product at the right price, but that at the claims stage the client is more likely to be satisfied. Ultimately, they are then more likely to bring their renewal business back to the same insurance team.

Clients demand not only a reasonable fee and the ability to negotiate a good deal on price (which does not necessarily always mean the cheapest), but also, crucially, an excellent claims service. If clients are disappointed in the claims service, they are most unlikely to bring their business back at renewal. Transparency ensures that clients understand what is available and should help reduce the chance of disappointment. Again the business benefit is obvious.

It is part of the broker’s job to ensure the claims service will meet client expectations. Experience of working with insurers will give brokers insight as to whether those expectations will be met. It is equally important that insurers are transparent about their services so that brokers can promote them confidently to their clients.

The business case is obvious - the right level of transparency throughout will enable a smooth claims process and reap reward in terms of retention.

Conclusion

Transparency is a very broad issue, covering many elements of management. It is clear that brokers need to take ownership of this issue now and deliver a more transparent culture in every aspect of their activities.

It is obvious that not all brokerages operate in the same way but there was a consensus that things are much better now than in the past. There is a patchwork quilt in terms of achieving transparency fully across the sector but there is a clear understanding that greater transparency does bring business benefits and also creates competitive differentials.

“ We have a little way to go in terms of having confidence in what we are doing. It is all about building trust and confidence – now we have to demonstrate what we are doing ”

A wide range of intermediaries operate across the UK, serving an even wider range of clients. There is no one solution to providing greater transparency; the key lies in working closely with clients and insurers to build a greater understanding of their individual needs and then delivering those needs.

There will always be those who pay lip service to the notion of transparency without truly delivering, and for some smaller brokers it may seem a difficult concept. However, there was also a feeling that, whatever the brokerage size, there are some simple rules on transparency that work in every case. There are many smaller brokers who have always provided an extremely transparent service to their customers. It is not a question of size but more of business culture.

By being open and honest with clients, brokers of any size build trust and develop long-term relationships that are good for both sides of the partnerships. Transparency on service provision, claims handling and, critically, on product information all provide clear business benefits. Financial transparency is another part of the jigsaw, but not the whole picture. Without also including other elements of transparency, the sector will not be able to call itself transparent.

The key is to build trust with clients and that can be achieved only through complete transparency in every aspect. Ever improving professionalism is part of the process. Continual training and qualifications for staff is a way of demonstrating ongoing improvement.

With the rise in direct sales and consolidators, brokers have to be able to sell themselves. Brokers can do this by providing valuable advice and, through transparency, can build a trusted relationship that clients become unwilling to walk away from. Brokers already offer good value for money in terms of time spent with clients set against cost, but there remains more opportunity to demonstrate this benefit. Greater transparency can be the differential that wins the broker business.

Overall, greater transparency converts directly into business benefits. However, the industry still has some way to go in adopting the concept and delivering those benefits.