

Must brokers embrace technology to survive?

Ryan Legge

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Introduction

Advancements in technology and particularly the sophistication of artificial intelligence (AI) continue to pose key questions to the broking industry. Whether these advancements are embraced and change the customer journey will shape the industry for generations to come.

I have chosen this subject to research firstly because of its current relevance, but importantly too because of my strong interest and passion as to how the industry responds to advancements in technology. Epitomising this strong interest, I recently worked on a thought-provoking, insightful and successful 6-month project with a range of other leading professionals to study and analyse the future of broking, as part of a management course provided by Axa.

Moreover, I'm on a specific panel within my employer (a chartered, independent broker) to discuss and analyse how we embrace technology and adapt as a broker. Particularly, I'm passionate about the customer journey that a broker provides, which I strongly consider to be currently out-dated, inefficient and unsatisfactory compared to other industries.

On a personal level too as a young leader within my employer and the wider industry, the extent to which I successfully contribute improvements to positively impact the future of broking will likely correlate with success in my career. I've already benefitted from exposure to this subject which has been extremely useful, therefore was keen to conduct further research to enhance my understanding and knowledge.

The purpose of this dissertation is to fully examine whether brokers need to embrace technology to fully survive in future, and if so to what extent in light of the changing customer expectations and external pressures from alternative insurance channels.

The dissertation considers the current context (e.g. how technology is currently used and the external perception of the industry), the impact that technology could potentially have and also the future challenges that brokers will face as a result. I have analysed in-depth whether

brokers do need to embrace technology in order to survive, and have provided my personal opinion in addition to recommendations based upon my research and opinion.

Quality of research

Throughout my research of this subject, I haven't encountered any restrictions with regard to up-to-date content being available. Because this subject is topical and relevant currently, I've been able to research across a wide range of specific points from a multitude of reputable sources.

Findings

The current context

How technology is currently used by brokers?

In the modern day, brokers have an abundance of popular and readily available communication methods used for instant messaging, calling and video conferencing. All modern brokers use such methods to communicate with a customer, which is seen as an absolute minimum from a service perspective. Yet brokers in particular are still yet to embrace technology to its fullest extent, still relying on traditional styles such as written/verbal communication.

Whilst the larger brokers have started to introduce digital apps for their customers to use, it really isn't at a stage where it's ready to provide a full user experience. Correspondence and obtaining information can still often be slow because human intervention is required, which is why the industry can be viewed as archaic against other sectors. There is seemingly a universal agreement shared across the industry that this must be improved in order to keep up with customer trends, therefore how technology is embraced will be pivotal to this changing.

To underline this point, the majority of broking systems aren't quite yet sophisticated enough to provide instant quotations and policy adjustments when required. Additionally, even the most basic queries require human intervention to reply to, which is out of sync when compared to other industries.

In these examples where human intervention is needed, it naturally takes time and can therefore frustrate customers. There is clearly a lack of automated processes in place currently, and digital solutions aren't the norm for brokers. This frustration is perhaps reflected within an interesting Insurance Age study, on the how well the industry currently believes it has embraced technology.

Almost 40% of brokers believe that the broking sector has not embraced technology-based innovation well. Insurance has been traditionally slow at changing, in part because of regulatory pressures, costs to innovate and the cultural change needed within businesses. In addition to customer expectations changing rapidly, these are key reasons why I believe the industry has been slow to respond to technology.

The sophistication of broking systems to provide a better customer experience is clearly too a frustration strongly felt. Software houses have long been looked to as potential tech leaders. However, only 37% of brokers believed these specialists had embraced it well, compared to 44% who said they had not¹. Given that software houses hold the expertise and facility to provide brokers with a better technology presence yet receive such mixed feedback, it no doubt correlates with the overall industry trend.

How insurance is currently perceived externally, and its adaptation to technology

A Raconteur study which has collated information from various sources vindicates that customers aren't currently entirely satisfied with the service provided by the industry.

Research from Accenture shows that nearly a third (30 per cent) of insurance customers have not had a positive experience. The study further goes on to debate the importance of embracing technology for a greater customer experience, which brokers will need to adapt to in order to survive.

Consumers, evermore demanding of ever-higher standards of service, are looking for the same kind of experience they can now find elsewhere in their life. They want an unprecedented level of choice; they want price transparency; they want immediate answers to questions².

¹ Insurance Age

² Raconteur

The ICS UK Customer Satisfaction Index (UKCSI) which ranks customer satisfaction across key sectors shows that the insurance industry as a whole is far behind a lot of other sectors. Banks, leisure, retail and tourism notably scored higher³.

Clearly and as epitomised by the UKCSI, the industry as a whole must improve how it's perceived externally, and how technology is embraced will significantly impact this.

The potential impact of technology within the wider insurance industry

AI and machine learning in its simplest form is a computer being programmed to think and act like a human would, as an automated process. There are a range of developments largely powered by AI and machine learning that have the potential to impact the broking and wider insurance industry for years to come, outlined as follows.

Claims & Fraud

AI could assist with the settlement of claims, in a far more efficient way than with human intervention by automating various stages of the process. Moreover, even today certain applications are able to lever on AI to determine settlement costs and the validity of a claim, simply by assessing data such as photographs submitted. An example of this is an app called Tractable⁴, which does exactly this and is already utilised by some of the largest insurers.

Claims are often viewed as the shop window of insurance; therefore improving this element of the industry is pivotal and would greatly improve the overall customer experience. Whilst insurers will be naturally well-placed to take advantage of this technology, it could also be utilised by brokers in order to provide added value and prosper in future.

³ Institute of Customer Service

⁴ Top Business Tech

Internet of things (IOT) & telematics

IOT relates to a network of connected devices that can transfer information and data without human intervention. This technology could significantly impact insurance, from the prevention of claims with data being shared across devices, to customers being able to potentially speak to their insurer/broker freely.

Another element of emerging technology that allows insurers and brokers to get closer to customers is the use of telematics, which brokers should consider embracing to add value and remain important to customers. Telematics is the use of a device within vehicles that is provided by insurers currently, which measures driving habits etc. This has been incredibly popular because it's provided the opportunity for insurers to reward customers for positive behaviour.

Big data & underwriting improvement

Big data refers to vast amounts of data that is continuously growing and expanding. It allows insurers and brokers to collate significant amounts of data, which can assist with understanding customer preferences. The greater the data, the greater the opportunity there is for both brokers and insurers to tailor their approach to customers and improve their overall experience. Moreover, naturally understanding a customer better will assist insurers with underwriting, and better guidance on complex and evolving insurances covers such as Cyber Liability.

Tech Native, a tech website also considers how AI, IOT and big data could significantly impact how insurers underwrite in future, and further improve the experience directly with its customers.

IoT and tracking devices yield an explosion of valuable data which can be utilized to make the process of determining insurance premium upright and regulated. Using Artificial Intelligence

and Machine Learning, insurers can save a lot of time and resources involved in the underwriting process and tedious questions and surveys, and automate the process⁵.

Digitisation

The same source considers how brokers and particularly insurers can digitize the way that they interact with customers. Insurance companies are adopting digital strategies. Not just for savings and efficiency, but for increased customer satisfaction with a whopping 61% of customers confirming they prefer to check their applications online⁶.

Clearly, there is an opportunity for insurers and brokers to satisfy customers with an all-encompassing digital solution, akin to what other sectors provide (e.g. banks and retail, both scoring higher in the UKCSI). Digitalisation could therefore significantly impact broking and the wider insurance industry in future, and improve the customer experience. For brokers, this could ensure that their offering is modern and attractive to future customers.

Chatbots

Finally, both insurers and brokers could implement chatbots, an AI-driven instant messaging service which answers questions a customer may have based upon picking up key words and consequently providing sophisticated and clear replies.

This will benefit the customer journey because it'll be a lot more efficient without the need for human intervention (aside from when a specialist response is required with human intervention), and can be used across-the-board, most notably policy queries and claims. This area of technology could again significantly impact broking and the wider industry in future, particularly further modernising the broking offering to remain attractive to future customers.

⁵ Tech Native

⁶ Board of Innovation

The future challenges facing brokers

Insurers providing a direct facility

With emerging technologies, insurers clearly have the ability to potentially improve the customer experience considerably, particularly with sophistication of a digitalised solution, chatbot service and AI-empowered claims facility providing an all-encompassing and modern service. This has the potential to marginalise the importance of a broker, if customers feel they'll receive a better experience from insurers, and don't see an added benefit of using a broker.

Customers crave a service that you'd expect from the likes of banks and retail sectors (instantaneous and digital) in future. It's therefore imperative for brokers embrace suitable methods of technology in order to prosper against insurers who provide a direct solution.

Insurtechs

It's not just the threat of the direct insurer that brokers must contend with; but also the emergence of insurtech firms entering the market. A report by McKinsey & Company considers insurtechs and its potential impact on the industry.

“Insurtechs” are technology-led companies that enter the insurance sector, taking advantage of new technologies to provide coverage to a more digitally savvy customer base.

Customer expectations of instant digital transactions sustained seamlessly across digital channels are increasingly the norm. While insurtechs have not yet made deep inroads into the sector, they are growing fast and stand to capture a meaningful share of value pools within a few years.

Insurtechs have attracted consumers with selective discounting based on the intersection of smart devices and risk-minimizing behaviours, offering, for example, meters for car mileage

or calories burned, or in-home flood and fire detectors that autonomously signal emergency service⁷.

Clearly, insurtech firms are able to provide a modern approach that may be of interest to customers. These technology advancements allow insurtech can attract customers to the alternative nature of their products, which brokers must be wary of, and adapt themselves in order to survive against this challenge.

Tech giants

Another potential entrant that brokers must be aware as they plan for the future is large tech businesses (such as Amazon, Apple & Google). Such businesses have flirted with the idea of entering the market before and there is an emerging trend of customers (particularly millennials and generation Z) that would crave the instantaneous service these businesses provide elsewhere with their products.

An article within the Financial Times Advisor including an interview with Seth Rachlin (insurance lead at Capgemini) considers the increasing willingness to buy from such providers like Amazon, and their potential route to market.

According to the recent Capgemini World Insurance Report 2018, 29.5 per cent of consumers would be open to purchasing insurance from Big Tech firms, such as Apple or Amazon. While this figure may seem small, this is already a 69 per cent increase on those who were prepared to buy insurance from Big Tech when polled in 2015; the figure is rising, not shrinking.

Amazon is well-positioned to enter the insurance market. Amazon's existing captive market, they have relationships with millions and millions of customers, who interact daily with the platform⁸.

⁷ Mckinsey

⁸ Financial Times Advisor

Having a large technology expertise, these firms will be able to rely on sophisticated AI, chatbots and digitized solutions to provide a modern and familiar service to customers. Moreover it'll be able to use big data to its fullest extent, to tailor their marketing preferences etc.

Each of these external pressures requires the broking industry to consider how it plans to remain an attractive option for customers to survive in future. Embracing technology to its fullest in order to provide the best customer experience absolutely forms part of that.

Analysis

Personal opinion

I strongly believe that the broking industry needs to rapidly change in years to come, if it's going to survive against strong competition such as those previously identified. Millennials and generation Z in particular as customers are likely to demand a service akin to what they experience from other sectors, e.g. banks and retail. With insurers are well-placed to keep up with customer trends owing to their marketing reach and ability to work closely with customers, and insurtechs already doing so, brokers need to consider how best it can remain relevant.

Simply doing nothing and believing that the current offering is not enough for brokers to survive, because customer trends in future are going to require more than what the traditional broker can provide, which the competition can. If brokers don't react and embrace technology, they will increasingly become marginalised over time as customers turn towards more attractive and all-encompassing channels.

An online study analyses the changing trends that generation Z will challenge the industry with. "The insurance industry is underestimating Gen Z [and] how they can change the market," says Steve Armstrong, vice president of product operations for the Allstate Corporation and president-elect of the Casualty Actuarial Society. "Gen Z [has the] firm belief insurance can be done better with more efficiency."

Insurtech companies are betting that Gen Z will prefer customer experience with regular contact, from initial sale through the claims process and renewal, via multi-channel, digitally based transactions. There is also the presumption that this generation of consumers will be willing to share personal data to customize products.

Taking a cue from insurtech concepts, some traditional insurers are also jazzing up their game. Some are developing innovative new products and services using insurtech partnerships and cloud-based, digital technologies to meet customer needs, expectations and experience.

Others are forging partnerships with or acquiring insurtech companies and technologies to be more competitive⁹.

For brokers, they must consider how best to embrace technology and ensure that it's central to their future strategy in order to combat these external challenges and adapt to future customer trends. Added value is also crucial, and the industry must plan to decide how best it can add value to a customer that has attractive customers elsewhere.

The counter-argument to brokers needing to embrace technology

There is of course an alternative argument to consider, that brokers provide expertise that technology or other influences can't replace. It's absolutely true that brokers provide crucial expertise currently and often in complex areas, with the industry being incredibly driven towards training and technical understanding through the CII's qualification programme. Direct insurers and insurtechs can't rival this impartial level of expertise currently.

An interview with the personal lines Managing General Agent, Home & Legacy, reinforces this viewpoint. "It's true, in recent years, digitalisation has transformed the insurance sector. This has brought both benefits and challenges, as certain operations have reduced or even disappeared altogether. Brokers will always have an important role to play.

As long as there are complex insurance needs, a broker will always be able to use his or her expertise to add value. A good example of this is high net worth insurance, where customer needs are likely to be more bespoke or have varying degrees of complexity.

The same is true for areas such as commercial insurance and motor trade. In fact, a broker's expertise will benefit anything that doesn't fit the standard mould. While it may appear that the growth of the online distribution channel is a threat to brokers, this simply isn't the case"¹⁰.

⁹ Actuarial Review

¹⁰ Home and Legacy

I understand this viewpoint to a degree, and in fact agree that currently brokers provide an unrivalled service. Moreover, there will always be a place for referrals amongst friends and family, so future generations may indeed remain with a broker.

I believe that this viewpoint overall though doesn't take into account the future business leaders, in particular the Generation Z group. The Generation Z mindset will be considerably different to the business leaders of today; they will expect an instant, digital and smart solution akin to what they receive in other sectors.

Important to consider too, technology will be much further advanced when Generation Z leaders come to the fore, so insurers and insurtech firms (as well as any other entrants) will be well-placed to marginalise brokers. AI will be far more sophisticated, being able to provide a seamless experience. Moreover, big data and additional connectivity features such as IOT will be increasingly pivotal, allowing insurers and insurtechs to have a close relationship with customers.

I would consider personal products and SME businesses to be most at risk for brokers, who don't require the complex level of advice that a broker will truly be able to add value on. Digital and modern solutions that the competition is able to provide will surely suffice in these instances.

To re-emphasise my opinion, I do therefore believe that brokers are indeed under threat in the coming years, and simply must adapt and embrace technology if they wish to survive. By not doing so, alternative insurance channels will themselves embrace technological developments and use them to provide a far more customer friendly solution that will attract a significant market-share.

Further analysis & recommendations as to how brokers can embrace technology

I believe it's clear that brokers must embrace technology in order to survive, and therefore need to consider how best to do so in order to maximise the future value of a customer using a broker in line with their evolving expectations.

Digitalisation

Firstly, it's clear that brokers must provide a digital solution, similar to what customers expect to receive from other industries. Moreover, the solution should be all-encompassing, taking into account all aspects of what a customer requires. There is no doubt that the competition will adapt to the purchasing trends of customer, so it's imperative that brokers do too.

The above approach is epitomised by an online study, analysing the approach that future generations (notably Generation Z) are likely to take when purchasing insurance. Gen Z collects and cross-references information and integrates virtual and offline experiences. It perceives digital as a way of life – as members leverage digital channels to connect with people, and share views about anything and everything – including insurance coverage.

Additionally, the study reinforces my view that a digital solution is of paramount importance to brokers meeting customer expectations and remaining relevant. As a natural progression, Generation Z will likely prefer a complete digital experience with access to all products and services via a digital platform of choice. Interconnectivity, personalization, and seamless omnichannel access will transition from good-to-have to must-have value-added services.

Brokers must listen to what their customers require from a digital solution and ensure that it's tailored to suit those requirements, as trends continue to evolve. For example, the study also considers alternative and perhaps more interactive forms of engagement, which again may suit the future customer. As insurance transactions go fully-digital, traditional demand-generation methods must also change. Gamification and interactive videos are tools that merit exploration as well as new avenues (including social channels) that educate customers about risks, coverage updates, and policy details¹¹.

It's clear that a complete digital solution is crucial to how a broker embraces technology and ensures it doesn't become marginalised. It is difficult to provide a counter-argument for the

¹¹ Capgemini

importance of a digital solution, because without it future customers will simply be attracted to offerings that embrace their preferred purchasing trends.

Maximising the use of AI to create added value

With a digital solution providing a foundation for brokers to maximise their use of AI, this is an opportunity that I believe brokers must take. The development of AI allows brokers to provide added value, in areas that they currently can't. This would add to the importance of a broker and strengthen their future relevance.

An example of how AI could particularly see brokers add value is the claims environment. This viewpoint is shared by Jeremy Trott, head of Allianz claims, in a Telegraph article. Mr Trott says the industry should focus on trends, working with insurer partners so they can offer the latest solutions. He adds AI is already bringing in improvements. "We're now seeing [some] claims settled in around 20 minutes because the customer or their broker can provide us with the evidence digitally, whereas previously it could have taken someone three days to visit them".

If brokers are able to support their insurance partners and have a digital solution that is able to quicken the claims process whilst acting impartial, this has to be a huge positive. Within the same article, Jeremy Prinn (head of broking at Ed), considers how AI could even help reduce claims in severely hit areas. "It could be used to predict, and even mitigate, natural disasters and ensure that money is flowing to areas to prevent drought and famine before they have struck hard," says Mr Prinn¹².

This is a clear example of brokers using AI and technology to supplement their offering and add value. Whilst insurers will also be able to embrace these values to the same extent, brokers can crucially do so impartially, relying on AI but stepping in and providing unparalleled advice when needed, for example advising on complex areas of insurance cover such as Cyber Liability which is constantly evolving and requires specialist advice to risk manage. Again, I

¹² Telegraph

consider this type of approach to be a no-brainer for any broker looking to embrace technology.

Other forms of connectivity

There are additional means of technology that brokers can use in future, to provide their customers with the best possible experience and maintain a close relationship. An example of this is IOT. There is no doubt that insurers and emerging threats such as insuretechs will utilise this technology, so it's imperative that brokers do, to keep up with trends. Whilst this will be relevant in the personal insurance space, it could also be used for commercial insurances too.

An online study in the Insurance Business Mag studies the future importance of IoT, and quite how brokers can take advantage of this software to remain an attractive option and improve the overall customer experience.

Providing easy and ready access to information, IoT is empowering consumers to interact with companies at an unprecedented level. While IoT devices are often the makings of large corporations, brokers can join in by being a part of the distribution channel of this technology.

Laird Rixford, CEO of Insurance Technologies Corporation, explains how brokers can become involved in IoT. "Work with insurance carriers to distribute those IoT and talk to your clients about how IoT can help them save money at home, such as with internet-connected thermostats," Rixford explains. "These are things brokers can talk about and include in their service offerings that'll enable them to be part of the IoT. "What that does is it continues to create and build the relationships between brokers and clients"¹³.

Brokers must also work hard to embrace chatbots, so that customers can rely on sophisticated and instant responses to queries of a high-level nature. Naturally, there will be a time where human intervention is required, but the more sophisticated that the experience for customers

¹³ Insurance Business Mag

is, the better. Whilst it could be argued that insurers, insurtechs and tech giants are better placed to take advantage of these technologies, there is no reason why brokers can't provide a similar service, and importantly remaining impartial, which is a clear USP.

Big data

Big data can certainly be seen as both a threat and opportunity for brokers. The threat is significant, in that it better equips insurers to provide a better direct facility to customers and tailor their entire approach around the vast amounts of data available. Moreover, insurers will be able to provide quotations, mid-term adjustments etc often automated thanks to the sophistication of their underwriting processes and data available, powered by AI. This does have the potential to marginalise brokers.

However, this can also be viewed as an opportunity for brokers, as Ola Jacob (senior broker at Arthur J Gallagher) explains in an online article. The role a broker plays isn't just about intelligence and knowledge but equally about flexibility, agility and communication. "AI powered by Big Data could create more efficiencies similar to the personal line space with simple SME business – that really isn't worth a broker's time. The role AI will play is facilitating the broker to understand the risk and communicate that to the client and insurers"¹⁴.

I fully agree, in that big data should not only allow brokers to focus their time on tasks that really add value to a customer, but it also gives them a far greater insight into risks and potential claims. By analysing and communicating this data to insurers and customers, it can only improve the customer experience and ensure that brokers remain relevant.

The fact that big data can improve the underwriting processes for insurers in particular (and therefore aiding their direct facilities), I believe it only reinforces the view that brokers must embrace technology and continue to add value in order to survive against emerging competition.

¹⁴ Post Online

Conclusion

To conclude, I strongly believe that brokers must embrace technology in order to survive. Technology is rapidly changing the insurance landscape, and the emergence of alternative threats (i.e. insurtechs, tech giants entering the market) means brokers absolutely must adapt

and embrace technology. Failure to do so will result in these threats overtaking brokers as a far more attractive option, when considering the future customer trends.

The emerging trends of Generation Z in particular proves the requirement for this need to embrace technology, and whilst it'll be challenging for brokers, I strongly believe there is a great deal of opportunity for them to do so. Moreover, developments in AI in particular even increase the added value and overall proposition that a broker can provide.

To balance the argument, I do believe the market share that the broking industry currently has will inevitably reduce. With direct insurers and emerging competition able to provide a solution that will appeal to personal products and SMEs who don't require complex advice, these solutions will begin to suffice for such customers, particularly where a broker struggles to add further value. Brokers will therefore be able to concentrate on the more complex risks with the use of technological advancements.

I have analysed and recommended how best I believe brokers should embrace key technologies and ensure that they remain a relevant and attractive insurance channel against emerging competition. It's clear from this that providing a digital solution for customers to access efficiently, instantly and with ease is of paramount importance, and also the foundation for other technologies to be utilised.

Any digital solution must remain evolving, and brokers must continue to listen to customers to understand what they require to ensure that the solution continues to provide the best customer experience. As stated, AI-powered technologies such as IoT, chatbots and big data could really allow brokers to maintain a close relationship with customers.

Whilst there's nothing to stop insurers and emerging threats from replicating this, I believe key differential is that brokers provide an impartial and expert-led service, which particularly for the more complex risks and covers (such as Cyber Liability) will continue to be appreciated.

Furthermore, these emerging technologies will take care of the more admin-driven tasks, and provide brokers with a far greater insight into their customer, risks and emerging trends.

Brokers with sufficient expertise will therefore be able to concentrate on providing true added value, through their high level of understanding and impartial advice around cover placement, claims, risk management and much more. Customers that have complex requirements will therefore continue to benefit from a broker, as long as they're provided with a digital solution that offers significant added value from a broker.

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