Insurance
Broking
Faculty
Chartered Insurance Institute

CII Research Report

The future of commercial insurance broking

in association with
PKF konsileo

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Konsileo is a start-up commercial insurance broker using technology and an innovative organisational model to disrupt the traditional broking model. Konsileo removes the administrative burden of regulatory compliance, data capture and duplication with an intuitive platform that gives brokers back more time with clients and facilitates collaboration in a community without hierarchy.

Konsileo was co-founded by CEO John Warburton – former director of global marketing and digital strategy at Allianz, based in Munich – and Chief Technology Officer Peter Henderson – a web pioneer who was most recently technical director of mental health start-up Big White Wall. It is based in the City of London, and is authorised and regulated by the FCA.

Foreword

I am delighted to welcome you to this important report. There is much talk in our profession about technology, economic and societal trends that will impact insurance broking but much of the analysis focuses on impacts to the consumer and micro-SME end of the insurance market.

This report deals very directly with the future of advice in insurance broking and the forces acting upon broker/advisors and the firms that employ them.

In my view, becoming a trusted advisor is at the heart of insurance broking, and has been at the heart of the business I have had the privilege to lead for the last 16 years. This report covers, in an insightful and comprehensive way, the trends affecting clients, technology and the insurance profession but concludes that the future of insurance broking lies with individuals developing and maintaining towering expertise and trusted advisor client relationships.

This is not to say that the challenges facing brokers are not significant. Further commoditisation of insurance products could lead more clients to self-serve. Technology, particularly Artificial Intelligence, could displace employment across the market. The gap in technical and commercial skills could widen.

These challenges are real. Nevertheless the way forward for any individual or firm in the market is to relentlessly focus on clients and to continuously develop skills and technologies to support clients even further. This is the route to a successful and vibrant profession and to creating a future for the people working within broking both today and in the future.

I personally believe that Chartered status, at both firm and individual level, is one of the critical foundation stones that can help drive and support change and the Chartered Insurance Institute is committed to a vision of supporting insurance brokers to becoming a profession that is every bit as recognised as accountancy and law.

I commend this report to you and look forward to robust debates about its implications.

John Moore MBE
Immediate Past President
Chartered Insurance Institute

Executive Summary

The market environment is attractive but commoditisation is accelerating at the bottom end

In some ways, the commercial insurance broking sector is in rude health, with unprecedented levels of capital available and a positive macroeconomic environment that favours brokers' SME clients, (and not just the very smallest micro-enterprises).

Consolidation has affected the insurance broking market structure but it seems to have stabilised in recent years, with the market share of mid-size broking firms growing for the first time in decades.

Nevertheless, changes in technology and customer behaviour, particularly in the micro-SME segment, are leading to rapid commoditisation of the lower end of the market.

This commoditisation is being accelerated by capital inflows into 'Insurtech' players, the most notable of which is the £400m acquisition of Simply Business by Travelers.

Clients will continue to value expertise and advice but have less tolerance for pure 'middle-men'

This commoditisation affects the client-broker relationship in a profound way, and broking firms have a choice to make as to whether they should compete in the super-commoditised (and largely self-serve) end of the market or re-position themselves as true risk advisors.

Research suggests that there are many factors that arrest commoditisation and that client businesses do not have to become very large or complex before they need and desire advice.

The same research also found, however, that brokers often miss the opportunity to turn a relationship from a 'transaction enabler' to a 'risk advisor' one. The failure to make this transition in clients' minds will become increasingly costly.

There are examples of some broking firms and individual brokers becoming trusted advisors to clients; it did not appear, however, that the industry is yet fully embracing this and innovating to support it.

To prosper by 2028, broking firms need to choose their business model, individuals need to embrace learning and insurers need to reward good practice in client management.

Technology opportunities exist but are not being fully exploited; 'front-end' experimentation is the answer

The impact of technology on broking could be linked to what happens to technology applications in underwriting. This reports concludes that whilst there will be increased deployment of auto-rating and decision support tools in underwriting, the level of complexity and paucity of data sets in larger commercial risk will mean that supply side commoditisation will have its limits.

Broking technology has the potential to be a strong enabler of change in the industry and there are many new entrants to the sector. In many cases, however, the software vendors are a source of inertia and technology led change in broker-client interaction is relatively rare. Similarly, by outsourcing technology, many brokers find it difficult to innovate on processes themselves.

Even if core platforms are difficult to change, there are opportunities for individual people in broking to embrace digitalisation in customer interaction using consumer-based technologies such as social media (particularly LinkedIn), video conferencing and even their mobile phones for photos.

Similarly, there are many different applications for improvement, and disruption, of the current broking process that individual firms and even individual broking people can deploy. Some will rely on software vendors creating open 'APIs' to allow firms to experiment with plug-in applications to improve efficiency, effectiveness or customer intimacy.

The growth of the usage of the 'Industrial Internet of Things' by businesses provides a big opportunity for brokers to advise on risk management scenarios for clients, although building this expertise will be challenging.

The advent of widespread Artificial Intelligence in broking will provide a similar challenge and will even further erode value for those brokers with weak relationships and/or low expertise who see themselves as merely an access point to the insurance market. Brokers with expertise and who demonstrate a deep understanding of, and empathy with, their clients will survive and be successful.

Broking as a career will increasingly be built on professional risk advisory expertise

There are challenges to ensuring that sufficient insurance technical and risk advisory skills are available in the industry as some of the traditional training grounds have radically reduced numbers. This means that broking firms and individuals will have to take more ownership of their own training and development, and that individuals will increasingly specialise.

Professional qualifications are an important part of this mix and too few manage to make it through to the top levels of professional accreditation. This is likely a function of the life stage that people are at when they start studying as brokers, but employers and the industry could do more to support them.

People operating in any professional service are increasingly affected by the 'Future of Work' issues of increased automation, more varied career patterns, a longer working life, changing norms in the workplace and desire for flexibility.

Recent academic theories in organisational design and workplace culture suggest that these changes could have a profound effect on organisational forms, and it is possible that new types of firm could emerge.

How can brokers, broking firms and insurers prepare for the future of commercial insurance broking? Our manifesto (from page 70) provides a guide.

1. Commercial insurance broking in 2018

1. Commercial insurance broking in 2018

1.1 The state of play in commercial insurance broking

The shakeup of the Western establishment brought on by the UK's Brexit vote and Donald Trump's election as US president is driving a rethink of globalisation. The signs are that UK and US policymakers may now begin tipping the scales in favour of small and medium-sized enterprises (SMEs) that are domiciled in, manufacture in, and pay taxes in their respective countries. Investors are also starting to act on this trend: veteran US investor Warren Buffett was reported by Wirtschafts-Woche as having recently purchased two 'mittelstand' businesses in Germany and apparently has an appetite for €50m–€300m turnover firms. Global corporations are being viewed through a more critical lens than at any time since the globalisation trend began in the 1980s.

Even discounting the growth of limited companies and contractors with no employees, the number of small and medium sized businesses (defined as those with between 10 and 249 staff) has grown steadily this century, whilst the number of large firms has remained stagnant.

Politically, the Prime Minister has recognised the growth and importance of SMEs, describing them as the 'backbone of our country'. Ahead of a meeting with SME representatives in August 2016, Theresa May said: "I want to build an economy that works for all, and that means working with, and listening to, smaller firms. The priorities I have set – a more productive, skilled workforce, an economy balanced across the UK and open to new opportunities – can only be achieved if we listen to these businesses."

What do these significant changes mean for small and medium-sized commercial insurance brokers in the UK?

There is an opportunity for growth in a revitalised SME sector and, with it, a chance for brokers to expand and develop their books of business as clients look for help with insuring growing organisations with increasingly complex risks.

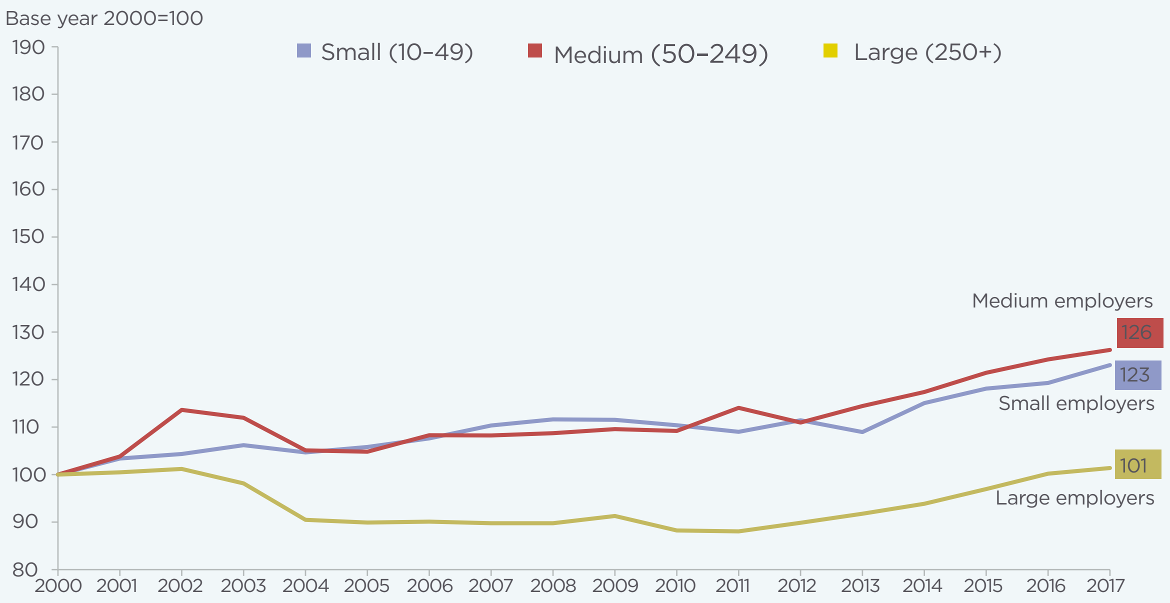
For brokers able to put in place a flexible and technology-enabled business model, there is considerable potential in the decade ahead.

This report discusses how commercial insurance brokers can develop beyond a transaction-led function into a value-added risk advisory role to enable them to capitalise on this opportunity.

While the focus has shifted in favour of the SME, the benign global economy maintains its influence on the insurance industry as cash continues to be invested in the sector.

Growth in the number of UK private sector businesses by size band, 2000 to 2017 (index: base year=2000)

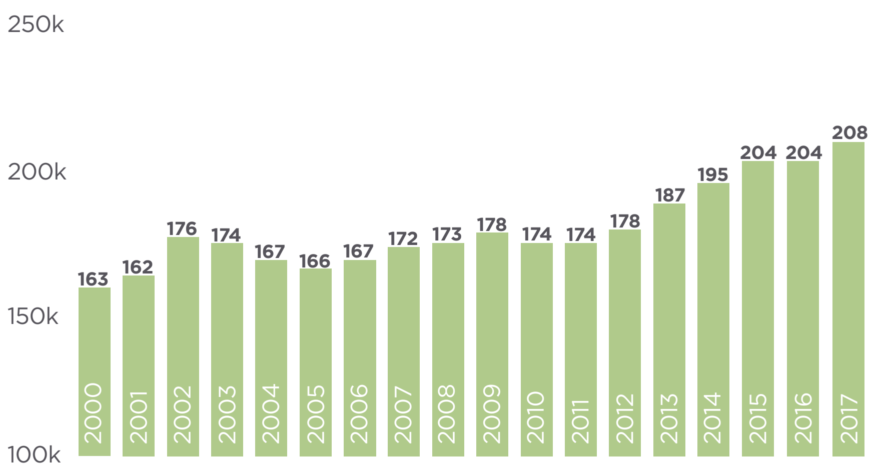
Figure 1



Source: Business Population Estimates for the UK and Regions 2017; Department for Business, Energy & Industrial Strategy; 30 November 2017

Number of small businesses (10–49 employees) by '000s

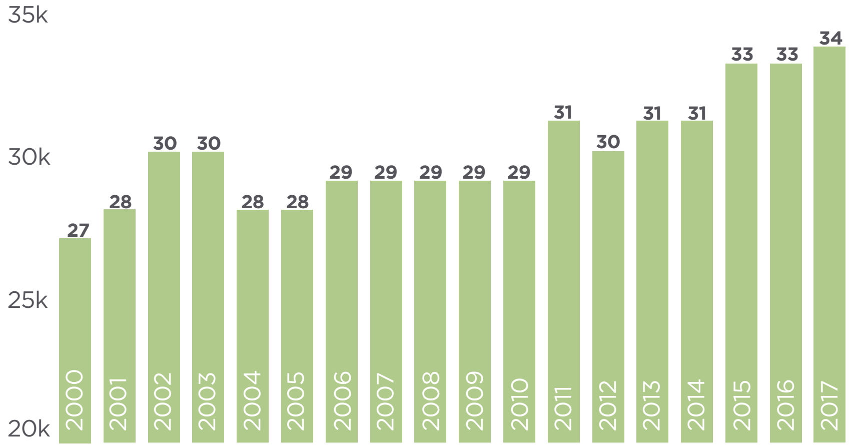
Figure 2



Source: Business Population Estimates for the UK and Regions 2017; Department for Business, Energy & Industrial Strategy; 30 November 2017

Number of medium sized businesses (50–249 people) by '000s

Figure 3



Source: Business Population Estimates for the UK and Regions 2017; Department for Business, Energy & Industrial Strategy; 30 November 2017

Snapshot

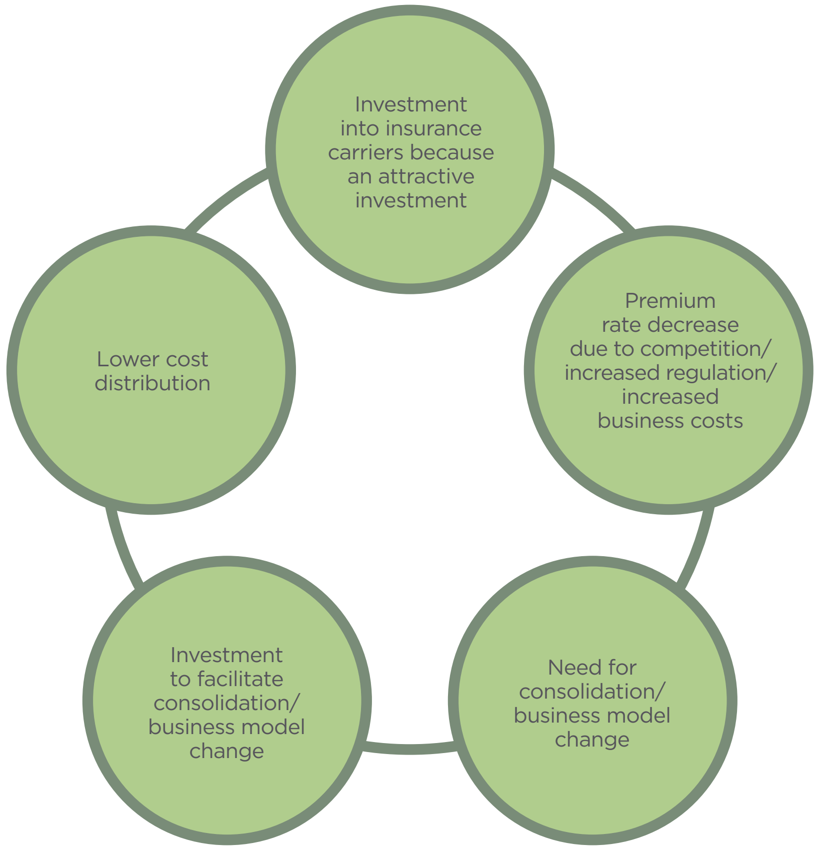
- There is a renewed focus on SMEs as the trend for globalisation in business is challenged by changing political winds in the UK and US
- There is an opportunity for brokers' roles to evolve to take advantage of the increased focus on the SME sector
- The global economy continues to shape the insurance market, so the platform from which brokers will deliver their services may change.

Consolidation and evolving business models are an ongoing feature of the UK insurance broking market. This – together with investor appetite for the stable client retention and strong margins of well-run insurance brokers – means that the number of mergers and acquisitions, and the size of those transactions, has increased over the last five years.

Interestingly, analysis of the Top 50 Brokers data produced by IMAS, and first published by Insurance Times suggests that the amount of premium handled is not concentrating, even though the market is consolidating. "Smaller brokers are being bought up, but it's the medium sized brokers that are growing faster than the bigger players," says IMAS partner Olly Laughton-Scott.

A study published in December 2016 by Acturis and Axa found that small brokers have grown their market share amongst SME clients. Since 2011, the market share of brokers with 20–50 staff has risen from 14% to 20%, while firms with over 100 staff have seen their market share reduce from 60% to 48%. Axa Insurance director of commercial intermediary e-trade, Deepak Soni, said the figures demonstrated that "smaller brokers have shown that they are able to use technology to bring a raft of new customers to their doorstep."

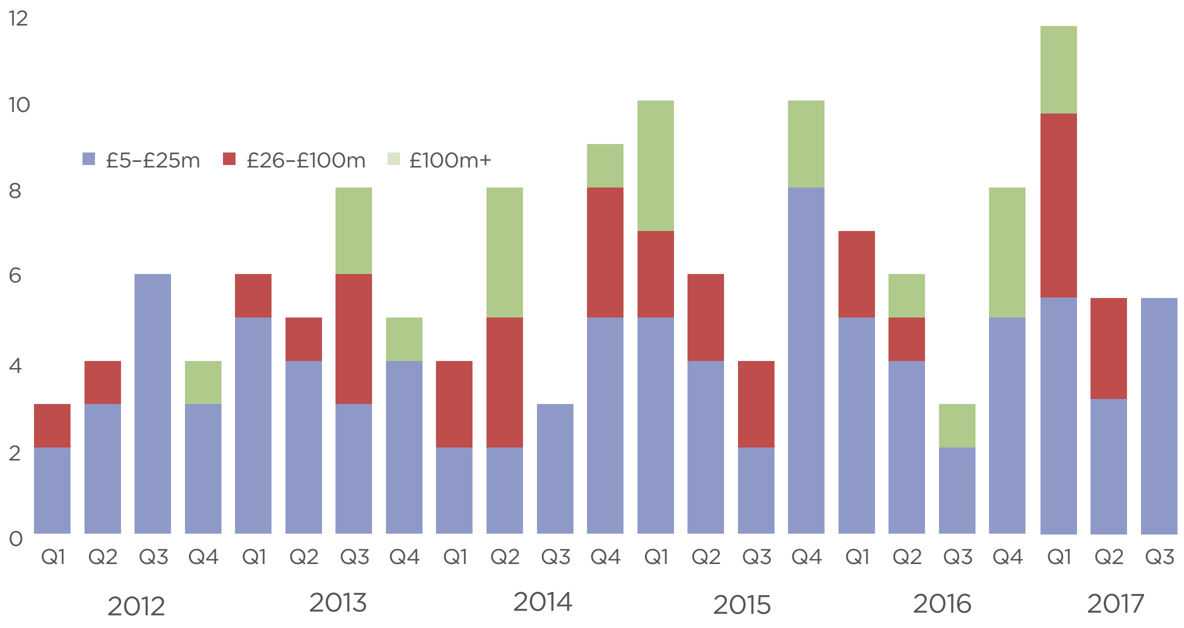
Broker industry investment cycle



Source: Konsileo, PKF Littlejohn

Number of General Insurance distribution deals by quarter

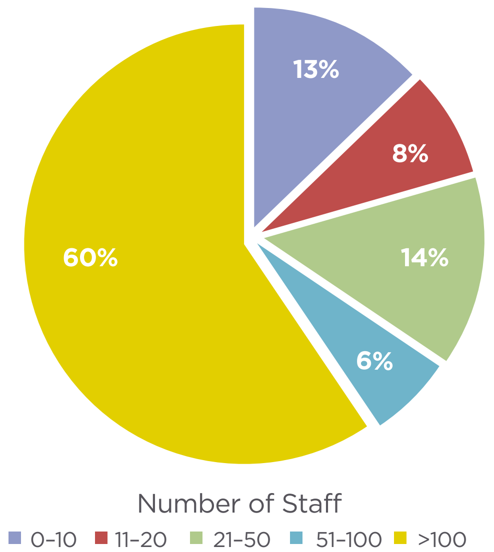
Figure 4



Source: IMAS Corporate Finance

Market share by broker size 2011

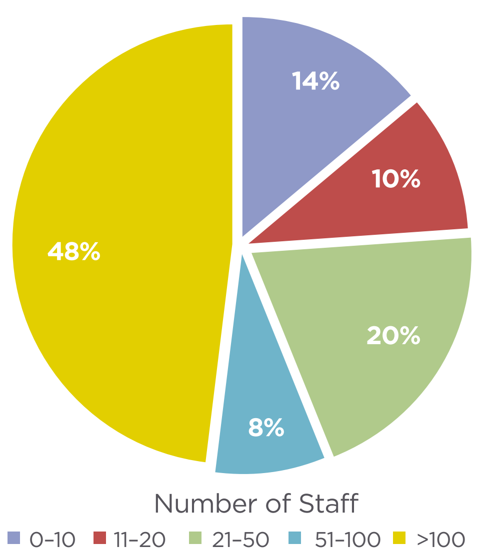
Figure 5



Source: Acturis/Axa

Market share by broker size 2016

Figure 6



Source: Acturis/Axa

This data suggests that, whilst there are economies of scale in insurance broking, there can also be diseconomies of scale when corporate structures and overhead are added to the traditional broker model. Theo Duchen, CEO of Acturis was quoted in the Insurance Times saying: "Smaller brokers are obviously competing aggressively against larger brokers and consolidators, and using their entrepreneurial skills to increase share". Laughton-Scott from IMAS explained that "for larger brokers to grow and retain their SME market share, they need to set up specialist divisions that can offer the same personalised service that small-to-medium-sized brokers can".

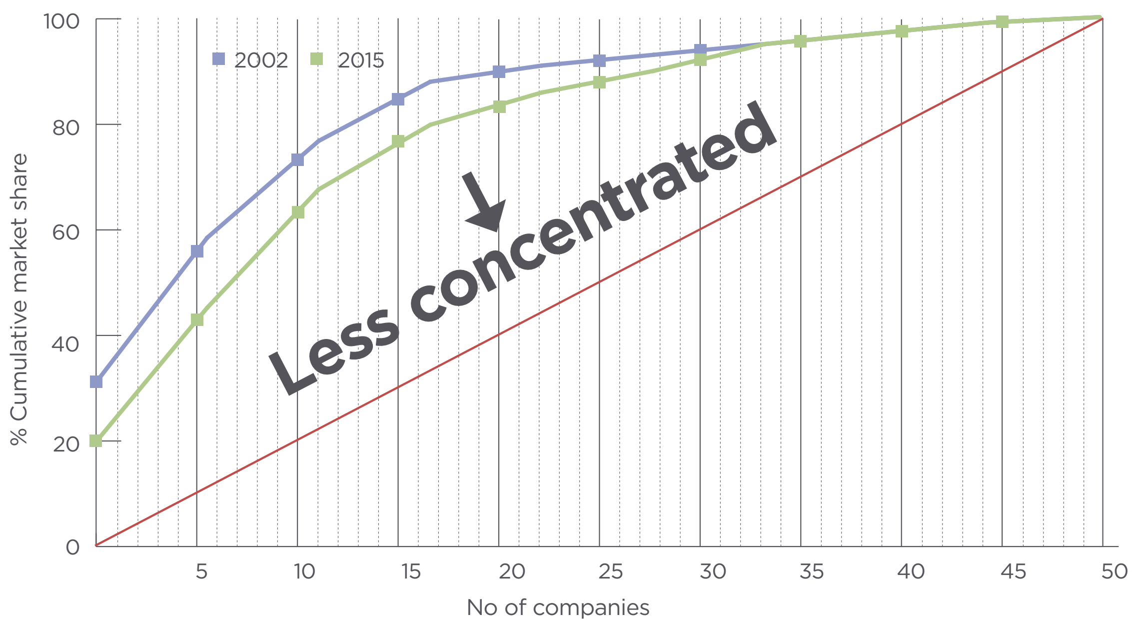
Private equity investors and private equity backed companies have been the most frequent investors so far this decade, particularly in the last year, with privately held companies selling far more than they have been buying.

With debt remaining cheap and the devaluation of sterling driving interest from overseas, mergers and acquisitions activity is likely to continue apace in 2018 and remain a feature.

Consolidation is entering a new cycle. The largest national commercial brokers have almost entirely been bought, whilst a new wave of ambitious medium sized firms, backed by private equity investors, are now buying smaller firms.

Change in market concentration

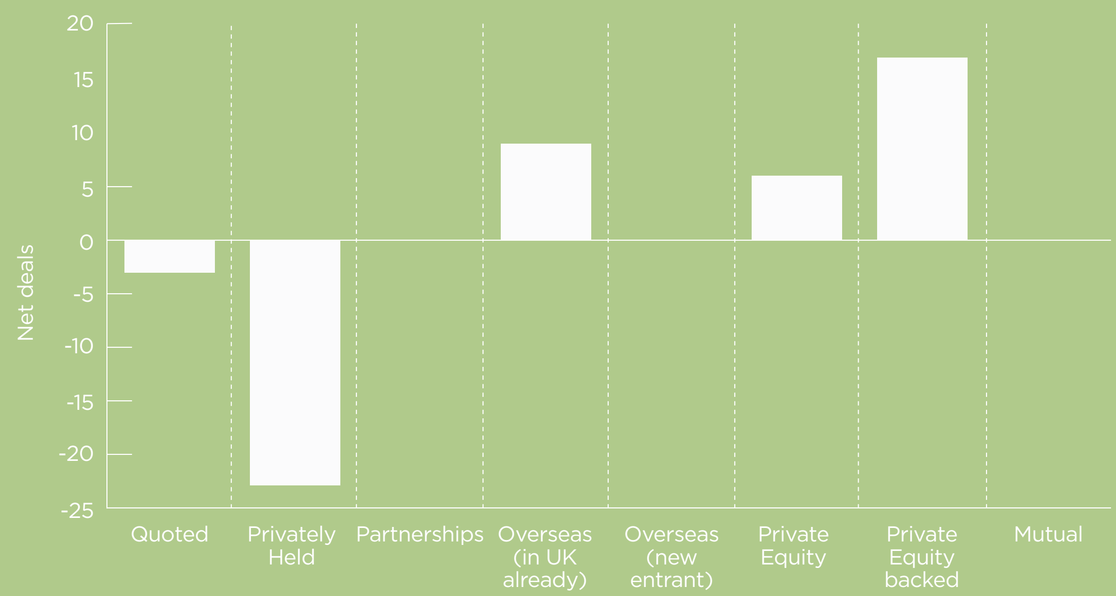
Figure 7



Source: IMAS Corporate Finance

Net deal flow of Commercial Lines Brokers 2011–Q3 2017 (number of deals)

Figure 8

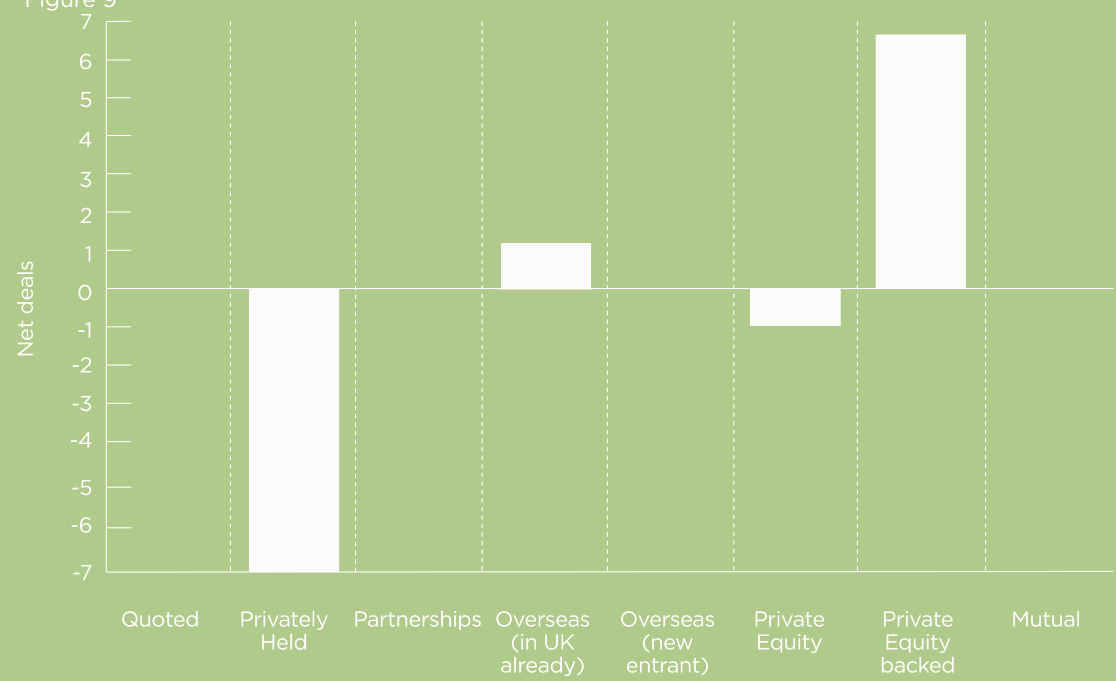


Source: IMAS Corporate Finance

Type of buyer/seller

Net deal flow of Commercial Lines Brokers Q1–Q3 2017 (number of deals)

Figure 9



Source: IMAS Corporate Finance

Type of buyer/seller

1.2 **Technology driving change for commercial brokers**

Whilst the insurance market has remained relatively stable since the 1980s, the opportunity for disruption and investment in the sector has been gaining currency in the past few years. The pressure to innovate and to adapt is growing.

Whilst commercial insurance has been relatively untouched by technology innovation compared to personal lines, it is increasingly garnering interest from entrepreneurs, investment firms, accelerator programmes, and the innovation units of the larger insurers.

Travelers buys Simply Business

Simply Business uses online distribution to arrange insurance for sole traders and small businesses. It has grown since 2005 to arrange cover for more than 400,000 SMEs and landlords, and reported brokerage of £38.1m in 2015. Revenues grew by 75% in the latest three years, with renewal rates close to 80%.

In March 2017, it was bought by US insurer Travelers for £403m, around 50 times EBITDA and more than three times the £120m reportedly paid by Aquiline in April 2016.

Travelers chief executive Alan Schnitzer made clear that Simply Business commanded this sale price not for its products or customer book, but for the potential of its digital distribution model in the US and other territories.

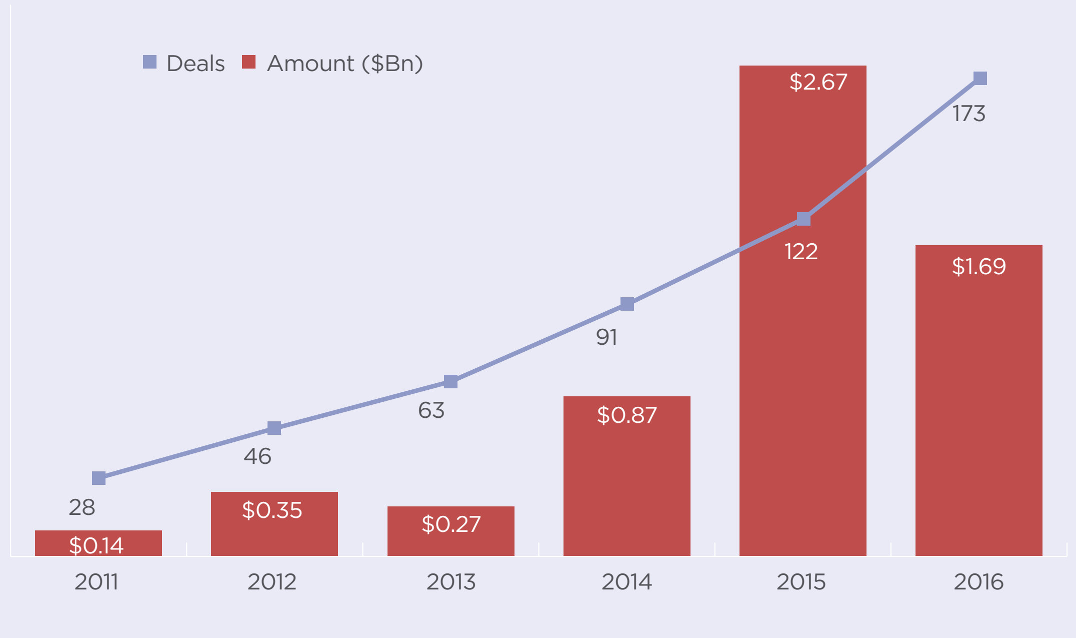
He said: "With technology and innovation driving customer preferences and expectations, advancing our digital agenda to best serve our customers and the marketplace is a key strategic priority.

"We look forward to working with our agent and broker partners as we seek to deploy Simply Business's capabilities to make the small commercial insurance transaction easier, faster and more efficient."

Globally, insurance technology companies received $2.67bn of investment in 2015 and $1.69bn in 2016, with 122 and 173 firms respectively receiving funding, according to figures compiled by CB Insights.

Insurance tech annual financing trend 2011–2016

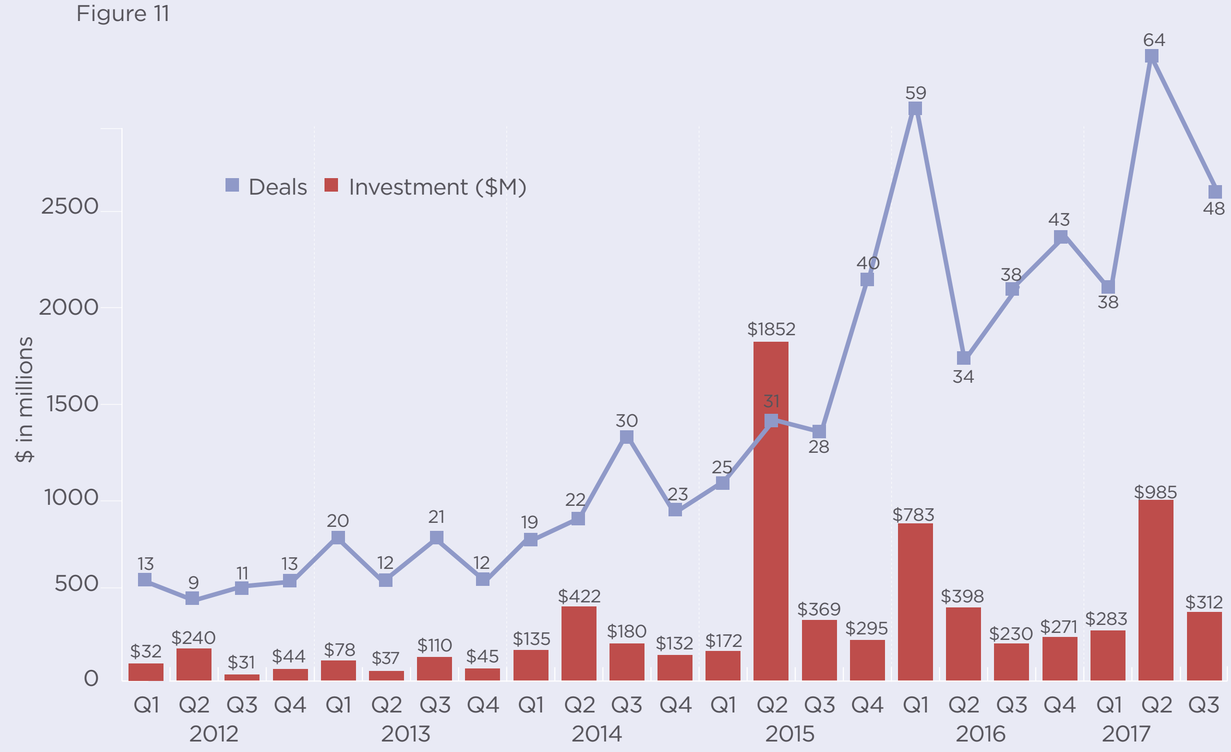
Figure 10



Source: CB Insights

Insurance tech funding volume 2012–2017

Figure 11



Source: CB Insights

Most of this funding has been focused on personal lines and peer-to-peer insurance models, although there have been a string of investments in commercial insurance start ups. The most notable are outlined in figure 12, below.

Snapshot

- The insurance market is seen as ripe for technology disruption and, as a result, InsurTech is considered a hot sector by global investors
- Technology-driven change in commercial insurance has so far been largely confined to micro-SME businesses
- There is growing focus on a client-centric or user experience-based approach
- New sources of risk data are emerging that can provide better information about clients.

Funded small commercial insurance tech startups in the US

Figure 12

Start up	Embroker	Next Insurance	CoverWallet	Insureon	Indio	Slice Labs	Bunker	CoverHound	Risk Match	QBIS Insurance Solution
What	Insurer that enables clients to buy their own insurance on one platform	Insurer that enables small companies to buy insurance where it is simple and transparent	Insurer that uses intelligent assessment tools to assess SME insurance needs	Broker that enables clients to compare coverage and cost, either autonomously or with a certified agent	Digital platform enabling brokers and clients to streamline policies	Insurer selling daily cover for SMEs such as Uber drivers	Insurer selling cover to freelancers, independent contractors, and other small businesses	Comparison site with option to link through to broker	Comparison site for brokers	Digital platform for brokers, simplifying workflow, sourcing quotes, managing policies
Where	San Francisco, USA	Palo Alto, USA	New York, USA	Chicago, USA	San Francisco, USA	New York, USA	San Francisco, USA	San Francisco, USA	Oakland, USA	Greenwich, USA
Status	Private	Private	Private	Private	Private	Private	Private	Private	Private	Private
First fundraising	2015	2016	2015	2015	2016	2016	2016	2011	2016	2016
Venture capital backed?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Total fundraising	$14.3 million	$13 million	$9.8 million	$31 million	$2 million	$3.9 million	$2 million	$56 million	$3 million	$3 million

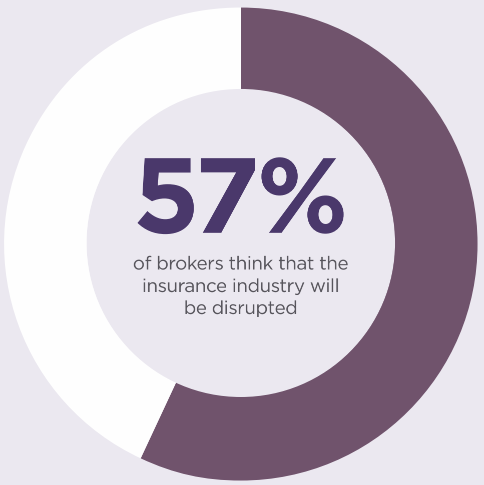
Source: CB Insights

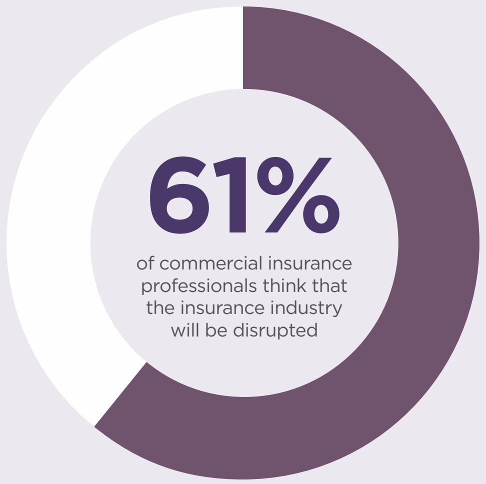
There has been more prominent investment activity in the US but momentum is now building in the UK and the disruption conversation is moving beyond commoditisation in personal lines to focus on commercial insurance. Simply Business's growth and high sale price demonstrates the potential of a technology-led disruptor model to the micro-SME market. Indeed, the micro-SME market and the potential for it to move towards self-serve by making use of sophistication in web marketing, customer servicing and simplified products, has been a hallmark of innovation activity in the market for a number of years. In the last ten years, many insurers have promoted e-trade offerings and several, including Axa, Hiscox and Allianz, have actively engaged in 'direct' models for micro-SME clients.

The model does, however, achieve relatively low average premiums, reflecting the read across from the personal lines experience. Acturis figures show the average premium being traded through direct channels is around 40% lower than the average premium traded through the broker channel. "This heavily indicates that it is only the simple business that customers are happy to place themselves, before requiring a broker's advice or assistance," says Acturis CEO Theo Duchen.

At the same time, larger insurers are placing big bets on start ups, either by partnering or forming accelerator programmes, in a bid to future-proof themselves, indicating a willingness in the industry to embrace change.

However, investment into disruptive companies has not yet extended in the US or UK to meaningfully tackle the advised segment. Opportunities in this segment might be focused less on self-serve and more towards the better provision of advice, use of additional data from Internet of Things (IoT) technology, and machine learning to enable pro-active risk management.





Source: Insurance Survey 2017: CII, Konsileo, PKF Littlejohn

Conclusion

The trend for increased investment into commercial insurance start ups in the US will likely extend into the UK in the next few years. There is a huge opportunity for disruption in the UK market, which has remained relatively untouched so far.

As data from the Internet of Things becomes more widely used in personal lines, businesses will begin testing and using this technology to help prevent risk. A role will emerge for insurance brokers in supporting their clients by using data for risk management.

> "The most imminent effects of disruption will be felt in the banking sector; however, the greatest impact of disruption is likely to be felt in the insurance sector"

World Economic Forum, The Future of Financial Services, June 2015

2. The client-broker relationship

2. The client-broker relationship

2.1 How far will the self-service model go?

Gauging the purchasing behaviour of commercial insurance clients is very challenging, with intention (as expressed in surveys) and observed behaviour often at odds with each other.

SMEs represented 40% of the commercial insurance broking market in 2014, according to the Verdict Financial report, *UK Commercial Insurance Distribution 2016.*

According to Verdict's survey data, there is a strong desire across micro-SME, small and medium-sized firms for a 'direct' method for buying insurance. This is not necessarily supported by data from separately conducted interviews with SMEs and industry experience. It is unclear at this stage whether the discrepancy between different sources is indicative of a latent need that the industry is not fulfilling or possible issues with the survey sample sizes.

For the purposes of this report, it is therefore assumed that there is, indeed, increased commoditisation at the lower end of the market, with micro businesses increasingly preferring self-service online platforms to telephone or face-to-face purchasing. More complex SME businesses, by contrast, prefer continuity of relationship, perhaps face-to-face, particularly as the complexity of their business grows.

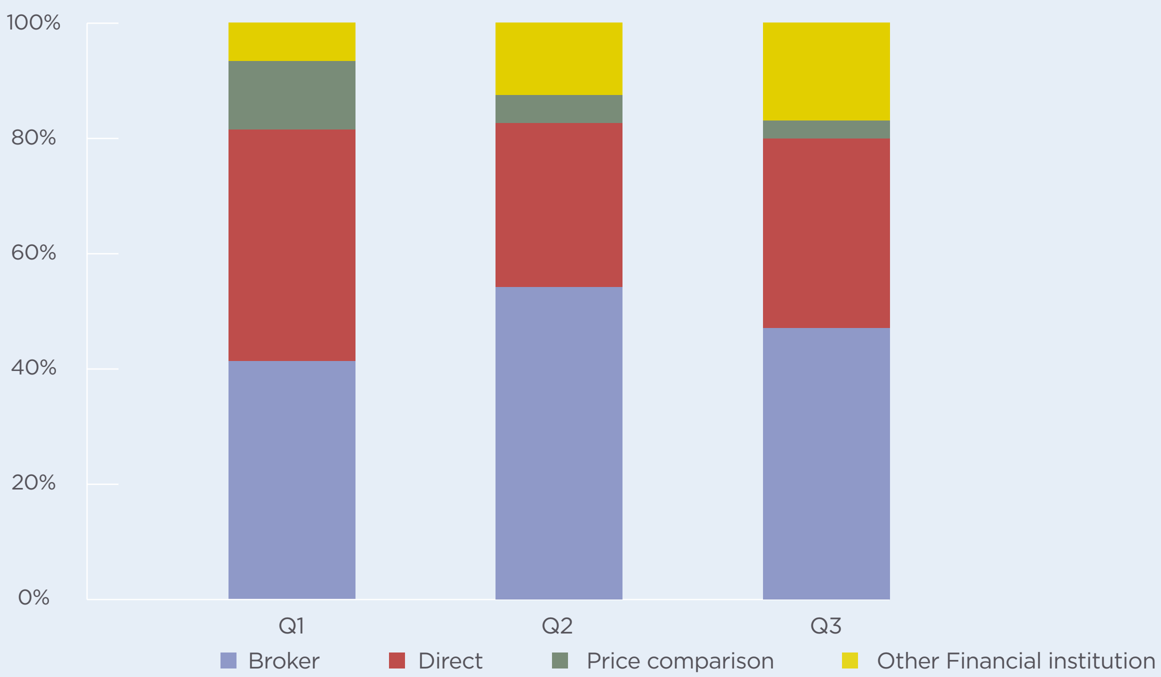
Larger companies tend to be concerned about a broader range of business risks than their smaller counterparts, and therefore more receptive to insuring against a range of risks, and are more likely than smaller companies to see brokers as adding value. The degree of broker involvement in the insurance purchasing process depends on the complexity of business risk and insurance products.

Snapshot

- Sales of commoditised products and direct sales continue to grow among smaller businesses
- Commoditised products offer limited value and flexibility for larger companies with more complex risks
- As technology continues to develop, commoditised products will continue push into more complex risk areas
- There are some 'human nature' barriers to commoditisation such as trust, technical understanding and the need for comfort and help
- Broker support for sales of commoditised products may be worth the effort, resulting in future opportunities as businesses grow and require more cover.

Reported preferred purchasing methods of SMEs in 2015

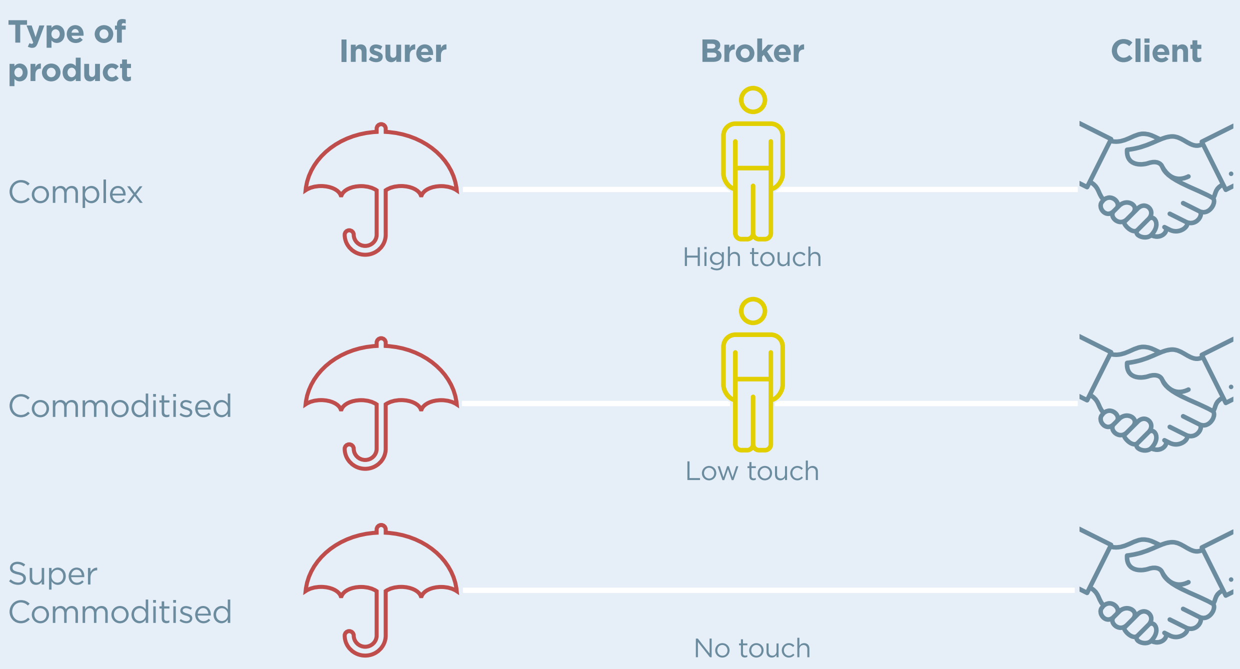
Figure 13



Source: Verdict Financial 2015 SME Insurance Survey

Broker involvement in commercial policy transactions

Figure 14



Source: Konsileo, PKF Littlejohn

Direct purchasing has enabled smaller businesses to shop around and avoid what they see as unnecessary broking costs. At the micro end of the market, a keen focus on price limits the role of brokers in adding value by giving advice. Smaller companies tend to be owner-managed or sole traders and might evaluate insurance purchasing in the same way as a personal lines purchase.

Corporate buyers are accountable to others for buying decisions, and are therefore less likely to choose a no-touch or low-touch transaction. This builds an inherent ceiling into commoditisation.

The inflexibility of the first generation of commoditised products (relatively simple insurance covers that are packaged into a product and sold direct online), means that they apply only to a limited level of risk, and they are therefore unlikely to penetrate the larger end of the SME market. However, new technology is enabling businesses to tailor product packages online by entering more detailed risk data. These new websites offer real-time quotes that reflect add-ons, levels of cover, and other product tweaks, and provide detailed information about further covers for the client to consider. Such transactions require little day-to-day broking input, but brokers that support smaller business will gain opportunities for marketing, contact-building, and data gathering, which have the potential to pay off significantly in the future as client companies grow and their risks become more complex.

Nevertheless, these more sophisticated self-serve products are not yet able to provide a full substitute for advice as the risk of selecting the wrong option still sits with the client. Insurance buyers reach a point where the time spent understanding their cover requirements would be better spent on their own business, and seeking expert advice becomes both a better use of their time, as well as a safer option.

There is evidence in the academic literature that the difficulty in obtaining quality risk advice is a retarding factor on an SME's growth. Marcelino-Sádaba et al (2014) concluded that "many SMEs do not – or not adequately – apply risk management practices .... [and] cannot afford to rededicate resources". This can lead to them missing out on economic opportunities. In *"Risk management in* SMEs: a systematic review of available evidence" Gilmore et al (2004) concluded that "SMEs focus on business strategies that have lower risks rather than on growth-oriented business strategies". These insights, together with the impact of the regulatory environment where businesses with a turnover of over £1 million do not benefit from Financial Services Compensation Scheme (FSCS) protection, suggests that there are a series of factors pushing SMEs towards seeking less advice, and other factors pushing them towards seeking more, as illustrated in figure 15. In particular, the Insurance Act 2015 provides a basis for brokers to highlight the value of risk advice as being supportive of good corporate governance, in addition to ensuring the efficacy of insurance covers.

The challenge for the industry is to serve this latent need at an effective cost.

> "Given the opportunity for greater advice and involvement with clients, might there be an evolving role for brokers to provide 'in-house' risk management for larger clients?"

Director of Broking firm

Conclusion

Commoditisation of insurance products, if done badly, can lead to clients making poor buying decisions, potentially leaving them under-insured, or open to reputational risk or other adverse outcomes.

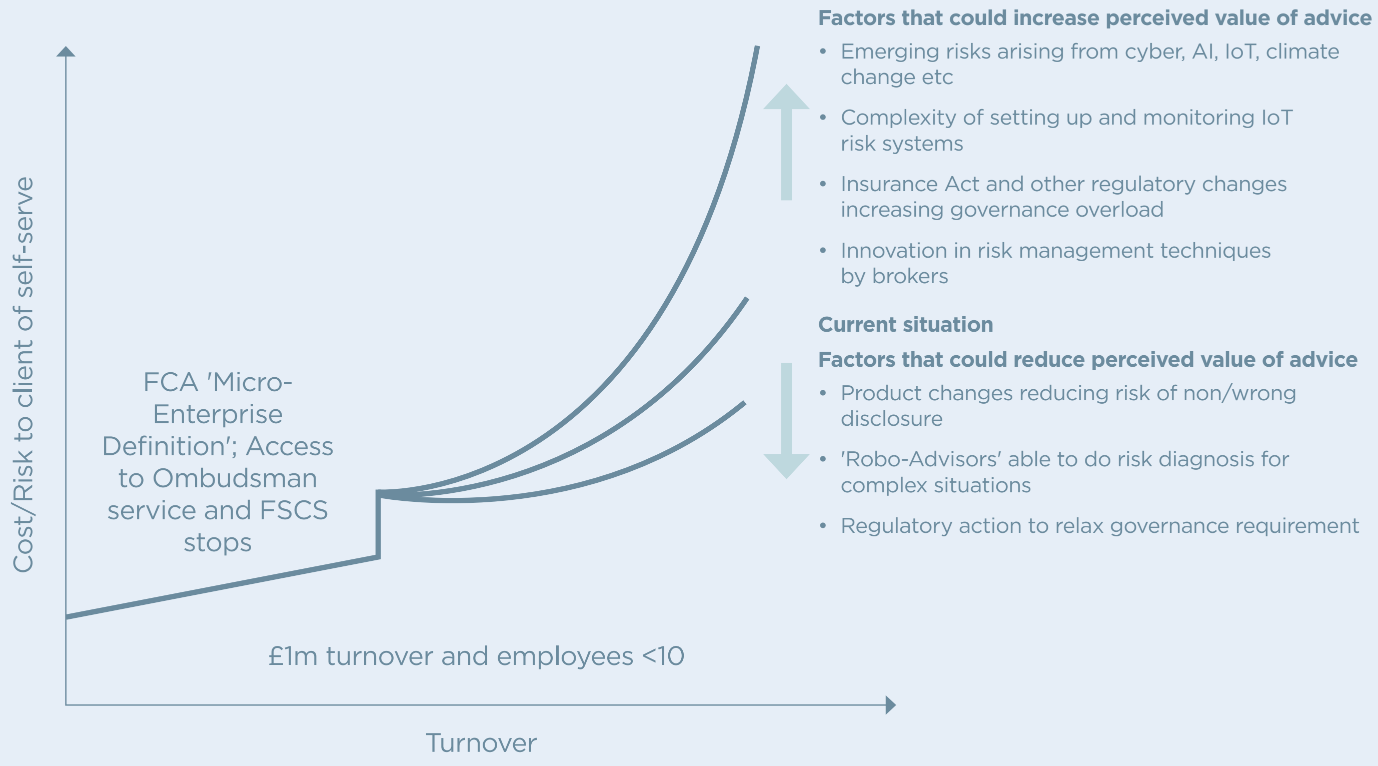
It is likely that the Financial Conduct Authority (FCA) would take a keen interest if these outcomes were inherent in the commoditised model. The insurance industry has a duty to help avoid such outcomes.

On the other side, technology can enable customers to identify for themselves any additional exposures they may have, and to adjust cover accordingly. It can, along with big data, also enable brokers to identify opportunities among no-touch customers, moving them gradually through low-touch and then to high-touch accounts as their businesses grow. Big data will enable brokers to nurture those small clients that will eventually grow into key corporate clients.

Many broking firms may therefore choose to run multi-client strategies, designed to service both commoditised, low-touch, and high-touch clients.

SME perceived risk as turnover & complexity increase

Figure 15



Source: Konsileo, PKF Littlejohn

2.2 What SME clients want

A series of one-on-one interviews with SME businesses conducted by PKF Littlejohn in November 2016 revealed an impression of insurance broking as a transactional, rather than advisory, service. Whilst this is a qualitative finding, it presents some challenges to the industry.

The interviews found that businesses are generally satisfied with this transactional relationship, showing loyalty to their current broker, and are happy to recommend them to other businesses. Only those with more complex business risk profiles appreciated the risk advisory role of their brokers.

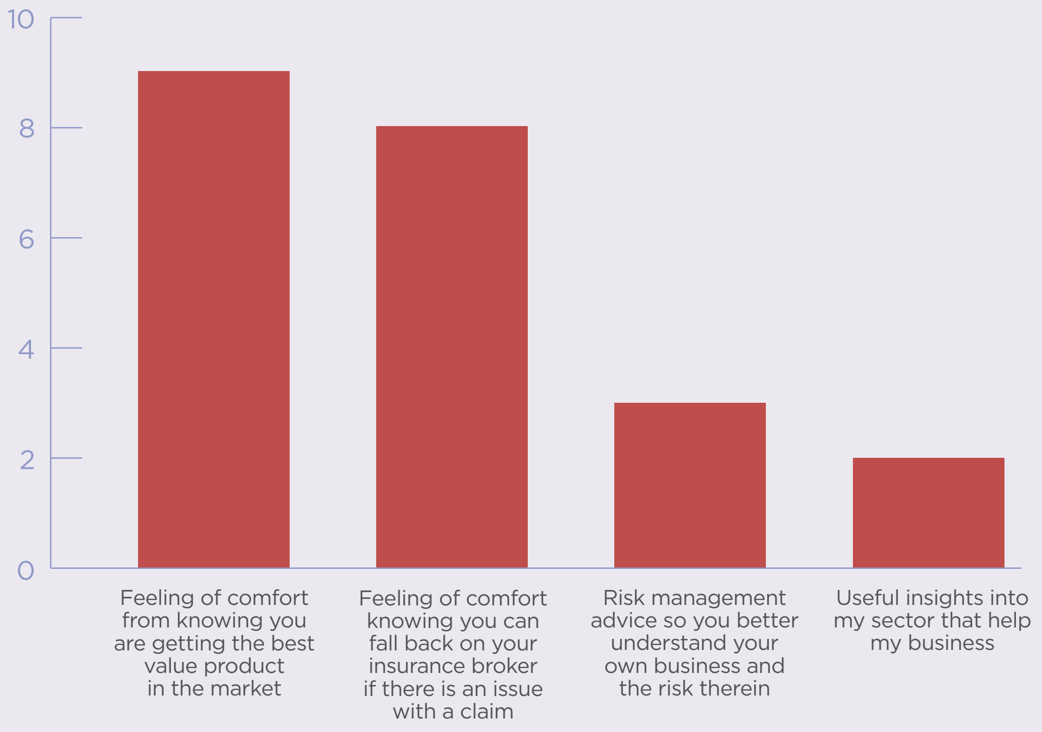
However, over half of those surveyed said they would be willing to spend more time with their broker to discuss elements of their business and the risks it faces. This suggests that those who don't receive risk management advice would be open to changing their minds, but perhaps have not been approached with a compelling enough offering in the past.

More worrying, while all the SMEs currently bought insurance through a broker, nearly half of them said they would, in principle, be comfortable buying all or some of their insurance products online or in a commoditised way in the future.

The interviews revealed that SME businesses largely continue to see brokers' roles as transactional and not advisory, and that they value advice about pricing of insurance, as well as claims handling assistance. SME clients have little interest in risk management or sector-specific insights, with most seeing the brokers' role as to source quotes, and not to give business advice.

Which of the following do you get from your insurance broker?

Figure 16



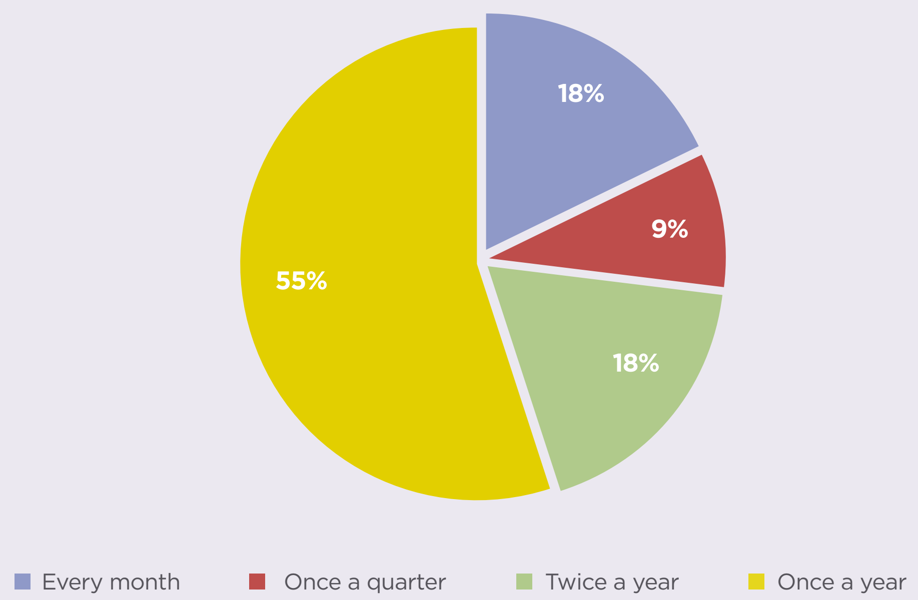
Source: PKF Littlejohn

The SMEs we polled were satisfied with the service provided by brokers and purchased all of their insurance through them; however, they do not appreciate brokers' potential to take a risk management role. SMEs with more complex risks tend to value the advisory role of brokers more than those with less complex risks, and have more face-to-face interaction with their broker. The greatest concerns raised were the jargon used by the insurance industry, the complexity of products and documentation, a lack of transparency about data and claims handling.

Most SMEs deal with a specific broker individual or a small team, and they tend to be loyal but have limited contact, usually only on annual renewal unless there is a specific risk involvement by the broker. Most clients stay with their current broker out of convenience, loyalty and satisfaction with the service provided. However, there is a wide variation in loyalty to individual broking staff compared to the broking firm: half of clients would be happy to switch providers if their account handler left.

How often do you speak to your broker?

Figure 17



Source: PKF Littlejohn

Clients are unaware of specific broker professional qualifications, and assume that any such required qualifications are held if their broker is in practice. Reliance is placed on the broker firm's reputation, and clients assume that individual brokers are suitably experienced for their role.

Conclusion

The impression gained from discussions with a sample of clients is that the role of brokers has not radically changed, nor has it been affected by attempts to professionalise the image of brokers. When coupled with high retention rates in the industry this need not, in itself, be a major source of concern to brokers. Nevertheless it would be possible to speculate that the logic of using a broker is still somewhat related to facilitating insurance transactions, and therefore relationships could be vulnerable to self-serve initiatives that make insurance market access less complicated.

Clients seem to value their brokers' role in navigating and interpreting the complexity of the insurance market but have little awareness of specific qualifications to do so. On the whole, clients do not appear to see their broker as an advisor. There appears to be an opportunity for brokers to shift from simply selling insurance products to understanding the risks of their clients, and to providing risk information and business advice.

It is therefore possible to hypothesise that the nature of the broker/client relationship is at something of a cross-roads, with the 2027 picture somewhat in the hands of brokers today.

2008
"Broker helps me access the insurance market"

2018
"I'll probably stay with my broker...unless something better comes along"

2028
"My broker's advice is critical to my business"
or
"Insurance? I'll sort it out myself"

What clients said:

"As little time and money as possible, that's what I want from an insurance broker."

Director, Financial Services client spending £10,000 per year on insurance

"What else do I look for? Help with proposal forms. What the hell do they mean?"

Owner/ Director, Manufacturing Sector client spending £20,000 per year on insurance

"I'm aware that insurance is something you need a qualification for. If someone didn't have qualifications, I'd question if they knew what they're talking about."

Director, 56-person £2 million revenue business spending £25,000 per year on insurance.

2.3 **Current client service models**

A greater number of client servicing models exist today than did so 20 – or even 10 – years ago. The arrival of appointed representative (AR) networks and consolidation in the broking market has influenced how firms operate. Whilst new models have successfully found a place in the market, they, along with more traditional approaches, are continually challenged to innovate in order to deliver against customers' changing needs.

Global brokers

Global brokers are typically known for going beyond arranging insurance, and focusing on additional risk management and advisory services. They provide holistic risk advice to support large enterprises, especially where there's an international dimension.

In the mid-market, global brokers have adopted different client service strategies. Aon and JLT have in-house staff. Willis has used Willis Network to reach smaller clients. Marsh has grown in this area by acquisitions. Its purchase of Bluefin and Jelf in 2016 gave it a platform of 80 regional offices across the UK, serving over 250,000 clients.

Global brokers often adapt the way they function by breaking out their client service individuals into specialist teams. This approach may decrease the breadth of knowledge of individual brokers but means that they can address client needs to a high level because every broker becomes an expert in a particular risk area. Some large broking houses have gone through a process of consolidating their books of business with a bias toward higher-premium accounts. Others have created servicing hubs to support clients at the lower end of the premium range, and have increased the level of automation for simple risks.

Consolidators

Consolidation is an ongoing feature of the insurance broking market (see Chapter 1). The early waves of consolidation often focused on re-allocating insurer portfolios to optimise margin. More recently there has been an emphasis on operational change and organic growth. In the case of many of the large broking firms, this change requires a significant effort to 're-platform' away from legacy technology and/or overly customised versions of standard industry platforms. To some extent, managers in these firms report that technology may have acted as a barrier to innovation in their processes. Innovation at larger firms therefore tends to focus on acquiring other brokers, simplifying existing systems, and expanding business processes, rather than buildingnew technology to support brokers and clients.

Networks

Networks' intentions are to offer scale advantages whilst retaining entrepreneurial freedom for brokers. They offer brokers a certain level of support, without imposing the more rigid organisational structures and processes that are often associated with being fully integrated into major corporations.

A sub-set of networks, AR networks go further by providing fully regulated status to brokers. Typically they remove hierarchical management structures, and are relatively non-prescriptive in broker-client relationships, enabling individual brokers to take the lead. This can be attractive to clients and network members as it can result in bespoke servicing arrangements, but can also introduce risks that flow from lack of standardisation.

Snapshot

- Innovation by brokers is largely limited to process improvement and account maintenance, and less frequently focuses on changes to client service models
- Many smaller broking houses have been absorbed into larger firms through consolidation
- Acquisition has prevailed in place of innovation in some instances
- Technology may allow value added services, historically the preserve of large clients, to filter down to smaller clients.

The 2016 FCA thematic review into ARs has dampened some enthusiasm for the AR network model. If regulatory controls can be strongly demonstrated, there is a good chance that this model could become more prevalent and we may see a new, stronger model, emerging.

All networks will need to be able to provide the same kind of IT solutions and services as the global firms or regional brokers so that their members can compete on a level playing field. The average size of firm, being a member of a network, may increase over time as technology or platform investment becomes a larger cost to brokers. Networks have an opportunity to become increasingly sophisticated to the extent that it might be nonsensical for a new start up broker to go it alone or for a smaller broker not to want to draw on the services that a network can provide.

Regional brokers

Regional brokers have made fewer changes to their approach to client service and tend to be built on strong regional or segment/scheme franchises. Account executives continue to service clients with a high level of face-to-face engagement, possibly supported by an account handler, and few additional people are involved in servicing the accounts.

There has been an increased level of technology deployment, with some migration between technology providers, and many firms have consolidated their SME risks to a sole insurer. Apart from this, the speed of operational change in regional brokers has been relatively slow.

Where firms are successful in deploying strong account executives, a high level of client intimacy and an ability to win and retain business from all other types of broker is reported.

Variable service parameters

Brokers typically compete on a small number of factors.

These reflect the deployment of a mix of scale effects and the needs of their target customers.

- New business executives and existing business servicing vs having the same people do everything
- Whole market vs partial market advice in terms of insurers
- Extent of self service at purchase
- Extent of self service once a client
- Access to risk management service and advice
- Ability to place international risks
- Claims support service
- Multi service lines (e.g. employee benefits)
- Cover variations, specific to the broker.

Conclusion

Each of the different broking models has innovated. The micro SME market has commoditised to an extent, but the desire for professional advice has remained constant and, according to clients, will continue to do so in the future. This could evolve further, given half the companies surveyed were willing to discuss risk management with their brokers.

Whilst business models have evolved, few broking firms have fully embraced the digital revolution. Technology innovation presents significant challenges, and add-ons and simplification are not an adequate answer. There is a considerable opportunity for firms that can identify how to support their staff and to service their clients in ways that are relevant to the marketplace; and for those able to re-engineer their business around these insights. The broking firms of the future will be those that embrace the larger, technology-driven changes now occurring in business.

3. Brokers, clients, insurers, technology – to 2028

3.Brokers, clients, insurers, technology – to 2028

3.1 Automated underwriting: how far can it go?

A key factor that will affect how insurance brokers operate in future is the extent to which insurers will continue to employ trading underwriters to manually underwrite commercial insurance risks. Some insurers see manual underwriting as an inefficiency that can be resolved by applying technology; others recognise that trading underwriters have a great deal of tacit knowledge and are able to blend risk and market factors.

The heterogeneous nature of risk data for more complex risks is one reason why insurers have not yet stopped manual underwriting altogether; effectively, the available pool of data for any single risk type is too small for complete automation to produce valid underwriting decisions.

Nevertheless, the trend for applying new decision support tools to underwriting continues, as do attempts to reduce the inefficiencies of manipulating data within the underwriting process. A number of factors within insurers and brokers are influencing this process, whether to accelerate it or to retard it.

The balance of underwriting may well nudge away from manual toward automated in the next 10 years. However, the retarding forces are significant, and the role of a trading underwriter will likely continue to exist in some form, albeit more technology-supported than today. Therefore, the process of commoditisation of different products will move at varying speeds, depending on the attributes of the product.

Snapshot

- Commoditisation of insurance products will increase but there are significant retarding forces
- The heterogeneous nature of commercial risk data puts a limit on automation and different classes of business will commoditise to different levels.

Factors influencing the move to automated underwriting

Figure 18

Demand side: brokers and clients		Supply side: insurers	
Accelerating factors	Retarding factors	Accelerating factors	Retarding factors
• Increased requirements for automated data exchange with insurer, from brokers • Client self-service takes off, therefore insurers are in control of the entire process • Trading between individual underwriters and brokers is discouraged, through solus and panel arrangements • Increased familiarity with technology	• Broker software houses unable to provide correct data and rich data • Clients with more complex risks value advice and expect wide insurer choice • Open market trading relationships preferred by individual brokers and underwriters • Brokers trust individual underwriters more than the firms they work for, and will follow them if they move insurer	• Insurers seek cost savings • Deployment of Artificial Intelligence to deal with complexity of rating models and expert judgement • Appetite for investment in new technology in commercial rises	• Insurer economics are more sensitive to poor underwriting decisions than higher operating expenses • Data is heterogeneous and there is high complexity of the underlying data set • Investments might focus on automation of the administration processes and leave underwriters in place

Source: Konsileo, PKF Littlejohn

Factors influencing the commodisation of commercial insurance products

Figure 19

Level of commoditisation	Product	Key commoditisation drivers	Key commoditisation blockers
Substantially commoditised	• Single vehicle motor • Small package – shop, office, simple contractors • Small property owners	• Simple rating question sets • Automated algorithm • Direct to client self-service • Low premiums	• Some clients seek advice • Referrals often necessary • Frequent telephone fulfilment
Commodity potential	• Small commercial combined (up to £10,000) • Small professional indemnity • D&O • Motor fleet • Excess of loss • Terrorism	• Rating can be automated • Some relaxation of underwriting precision to fit more risks into standard products • Third party data sets may simplify question set	• Brokers and clients see risks as complex and seek advice • Comparative quotations can be valued • Risks of self-service may seem high to clients or brokers
Unlikely to commoditise	• Complex commercial combined • Specialist covers • Large property owners and motor trade • Complex professional indemnity	• Desire from insurers for costs savings	• Client and broker resistance to self-service • Risk of poor decisions high, relative to operation cost savings • Paucity of data sets makes algorithms difficult to apply

Source: Konsileo, PKF Littlejohn

3.2 **Broker technology evolution: The view from the industry**

Insurance broking software is dominated by four independent players (Open GI, SSP, Acturis and Applied Systems) alongside broking firms with their own proprietary technology. In many cases, technology has developed within broker organisations, growing as they have through market consolidation, to handle a large volume of transactions each year. Brokers now face a challenge to update to more efficient and advanced technology that is better able to use available data to support them and their insurer partners. As the volume of available client data increases, particularly from the Internet of Things (IoT), broker systems could innovate to provide additional, value-added services, analysing and sharing client data.

> "The broker tech marketplace needs to be more proactive, and to keep up with changing times and technology."
>
> Account Executive, Regional Broker
> Source: The Insurance Survey 2017: CII, Konsileo, PKF Littlejohn

Snapshot of the insurance broker software market

Figure 20

Company	Number of users (firms)	Number of users (individuals)	Description	Innovation trajectory
Open GI (core system)	2,000 (UK and Ireland)	19,000	Streamline full cycle process, real-time quote management, increased exposure, exploitation of aggregators	Acquired Power Place in 2013 for distribution of commercial insurance products electronically through its base of 1,200 broking firms. Various partnerships to enable e-trade.
SSP	More than 160 (UK)	More than 1,000	OfferInsure, S4i, and Sirius 21, combine as SSP Pure Broking and SSP Select Broker, which emphasise automation, efficiency, and multi-channel distribution	SSP Pure Broking and SSP Select Broker working toward a complete, straightforward, effective infrastructure system for brokers
Acturis	–	14,000	All-in-one software with end-to-end client management, e-trade, integrated management information and dashboards, integrated communications, and a full audit trail	Considered an industry leader. Invests substantially in system maintenance and improvement. Strong focus on insurer functionality and transaction rigour.
Applied Systems	12,000 (UK, Ireland, US, Canada)	140,000 (Global)	Applied Epic is Applied Systems' most used software, and the fastest-growing cloud-based broker management system. TAM and Mobile are two further options. The system follows the end-to-end process and helps with prospect management via the cloud platform and via the mobile app for brokers and clients, with additional risk management tools available.	Now launched and operating in the US, UK, Canada and Ireland. Applied Mobile recently launched for UK market, with a version for employees to log everything as per the online platform, as well as a client version that can be branded as per the individual broking firms requirements.
Transactor	120 (worldwide)	N/A	Regular updates, total configurability, wide range of third party integrations, full service API, scaleable and reference-able for more than 120 users, full back office functionality, automates policy lifecycle, responsive web design as standard, advanced management systems and reporting	The latest version is available in Enterprise for large insurance brokers, and in a multi-tenanted version for SME brokers, MGAs, and insurers
Insly	70 (worldwide)	N/A	Calendar management, commission management, document management, insurance rating, policy management, quote management, self-service portal	Offers a degree of automation to support smaller broking houses
Aon (Inpoint)	1,738 (worldwide)	22,000	Serves the whole insurance value chain. Provides data, analytics, engagement, consulting. Implemented alongside third-party applications	Aon has strategic partnerships with providers including TranSearch, EFFISOFT, and WebXL, to augment specific areas of the Inpoint system
Willis Towers Watson (vGrid2.0)	N/A	N/A	Infrastructure-as-a-service software system that enables life insurers to run models through an on-demand, cloud-based technology. Fully integrated with Willis Towers Watson's RiskAgilityFM	Version 2.0 yielded runtime improvements of 20% to 30%, according to independent tests. It also enhanced security features
Marsh (ClearSight)	N/A	N/A	Enables clients to consolidate risk information, and to optimise risk decisions	Marsh Analytics Platform (MAP) enables clients to quantify and manage risks; also offers mobile delivery platform, iMap
Jardine Lloyd Thompson (Specialty)	–	–	Adapts multiple third-party technology, including Toshiba hard drives, and NetEvidence Highlight. NetEvidence works with Citrix, a desktop virtualisation tool that enables remote access to virtual desktops	Citrix is applied to JLT Specialty in cloud services to access and transmit data remotely. Operates respected pensions software, Profound, although this does not serve brokers

Source: Software provider websites and press articles

Commercial insurance brokers report that they spend almost as much time on administration as they do with clients. Particularly in client-facing roles, this highlights an opportunity for software providers to streamline administrative processes, giving brokers more time with clients, and ultimately to bring in more revenue. Indeed, frustration at the challenges of innovating on processes is often cited by industry practitioners.

Brokers spend a large proportion of their day on administrative tasks

Figure 21

Job role	Average time spent on administration	Average time spent on client service
Account executive/ director (manages clients, may include insurer placing)	47%	53%
Account handler	63%	37%
Largely placing, insurer-focused role	57%	43%
Average of averages	56%	44%

Source: The Insurance Survey 2017: CII, Konsileo, PKF Littlejohn

"One of the barriers to innovation is the protectionist views of software houses. Software houses run closed systems and frustrate business models with a technology capability unable to integrate with them in customers' best interests. As brokers create proprietary systems that barrier will surely be swept away in years to come."

Senior broker

Conclusion

The innovation trajectory for broker software places a low emphasis on changes to the client-broker interaction and instead emphasises broker-insurer interchange. While this is rational given the opportunity for efficiency gains and the willingness of insurers to drive these changes, it means that broker system user and client experience lags that of other industries. Client demands and expectations will increase over the next 10 years, and a more fluid flow of data from client to broker to insurer will likely become the norm.

With so much broker technology heavily customised within the systems of larger broking firms, there is a danger that it will fail to keep step with the times. There is an opportunity for brokers to take advantage of new technologies that are becoming available now, and in the future, if they can re-engineer their software set-up and become more agile in implementation. This is a significant challenge given the investment and resource available and the natural desire of broker firm management to focus efforts away from technology issues.

Software houses, too, have an opportunity to move beyond maintenance and incremental improvements, and instead re-visit the primary function of insurance brokers, identifying how best to serve their needs and the needs of their clients.

At present, there is no suggestion from the traditional broker technology companies that they plan to re-design their core applications. As their technology matures, they will feel pressure to invest in resilience and security.

On average, broker account handlers spend more than half of their work time on administration. This creates a huge opportunity for technology to disrupt the industry.

"How many brokers really know what to do with their data, or indeed have access to it?"

Senior broker

Snapshot

- Use of packaged solutions is widespread, and some of the packages are based on relatively old IT architecture
- For a variety of reasons related to limited project resource, high customisation of systems and vendor challenges, brokers find it difficult to innovate on processes
- Data management will become a greater and more strategic focus for brokers
- Software with a greater focus on the broker-client relationship will provide significant value-add to brokers
- There is an opportunity for existing software offers to be disrupted.

3.3 **Lead generation supported by digital channels**

Insurance broking has typically relied on telesales as a source of generating new business; however, the increase in technology and the changing needs of customers has led to a decline in engagement through this method. While telesales can still be effective at generating leads, insurance brokers have a greater opportunity if they embrace new digital channels. Digital will have a significant impact on the way insurance brokers engage with prospective clients in the future.

How can individual brokers maximise digital sales opportunities?

Project a professional brand

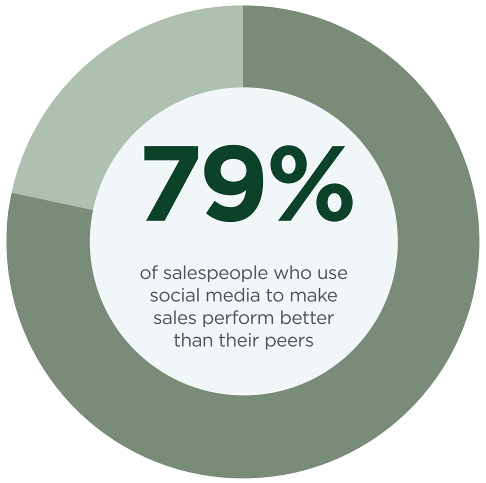
Clients look up company and personal profiles online before engaging in a conversation about insurance. Insurance brokers that project a professional brand in the digital space, as well as in person, will stand out – this means brokers need to be easily found online, and have a strong personal brand on public social media profiles. Insurance brokers failing to engage with social channels will increasingly be disadvantaged.

Communicate knowledge

Insurance brokers spend significant amounts of time talking to clients, giving them valuable customer insights and enabling them to develop high levels of expertise. Traditionally, this information is under-utilised, and the opportunity to share problems and solutions with colleagues and clients online will grow through use of platforms such as LinkedIn. Brokers able to share insights will build social influence, supporting new business and retentions.

Build relationships

Sales techniques should respond to context. Whereas telesales is very direct, customers engage differently on social channels, which are more personal – even business-to-business platforms such as LinkedIn. There will need to be a greater emphasis on insurance brokers building relationships with prospective clients over time via content and engagement.



Source: Social Media and Sales Quota report, A Sales Guy Consulting, 2013

Snapshot

- Clients will expect brokers to understand their business
- Finding leads will become a more dynamic process; offline, non-dynamic data sets will become less relevant
- Value-added services will be expected and insurance brokers will become expert ‘thought leaders’
- Clients will expect to see a professional brand online
- Client-broker relationships will be built and nurtured online
- Clients have a latent need for additional content, even if they don’t consciously expect it
- There will be a tension between the individual broker and the broking brand(s) that they represent.

How can broker firms maximise digital sales opportunities?

Share knowledge

Digital platforms offer an opportunity for broking firms to promote their brand and to build trust with customers. In a competitive market, there is an opportunity for those who embrace digital promotion as a key differentiator. Thought leadership from individuals within the firm is potentially a powerful part of this. Brokers often have detailed specialist knowledge that can be used to support clients in developing a longer-term risk strategy; in this future, knowledge-sharing online becomes a part of the lead generation process. Firms may choose to enable brokers to develop their own authentic voice, rather than controlling content through an official channel.

Understand data

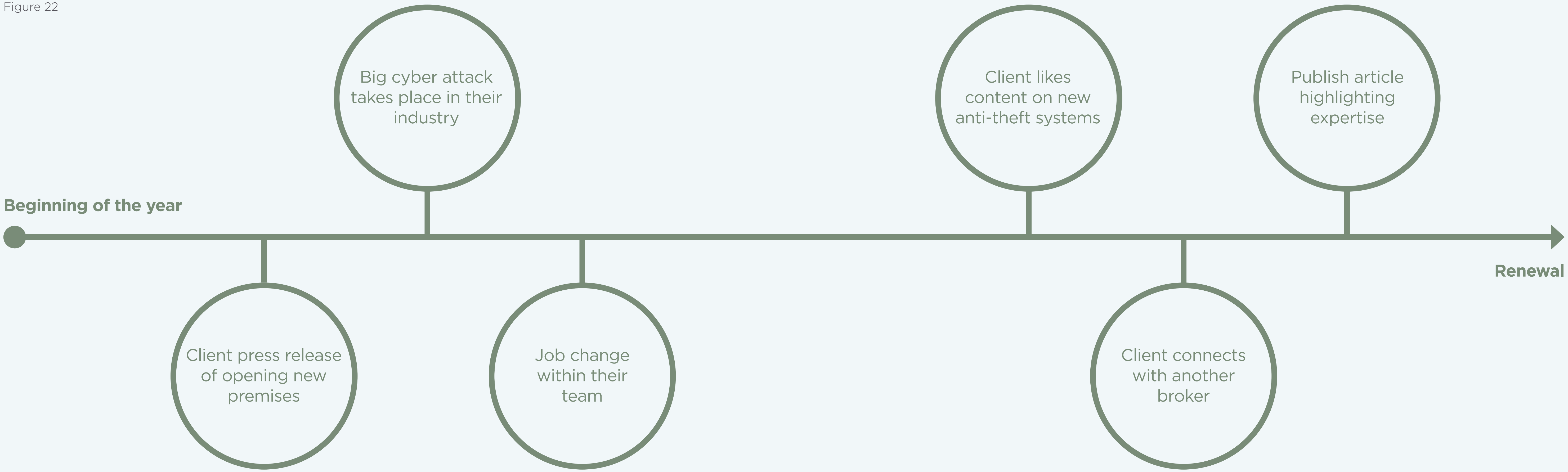
There is a wealth of data available online to sales people, giving insight into customers' businesses. This will only increase. Broking firms will benefit from a database that goes beyond phone numbers and email addresses, potentially to include personal traits and interests, and that is dynamically updated. By building a holistic view of their prospects, the people, companies, and business motivations, and by supporting this information with relevant and high quality content, brokers can cut through in a crowded marketplace.

Conclusion

Online prospecting is a huge opportunity for individual brokers and broking firms, particularly given the increase in freely available data online. Individuals and firms able to adapt lead generation efforts and to maximise what the internet has to offer will reap the benefits.

Increased opportunity for touch points

Figure 22



Source: Konsileo, PKF Littlejohn

3.4 **Disruption and emerging technology in commercial broking**

Emerging technology brings the potential to speed up steps within the insurance broking value chain, from prospecting, to fact finding, placing, invoicing, mid-term adjustments, claims, and renewals. E-trading has already advanced significantly. However, elements of the broking journey may be further disrupted by new technologies, particularly because existing process inefficiencies present a significant opportunity for improvement.

Some of the emerging opportunities for a transformation of the broking software landscape are scenarios (or 'use cases') that could be feasibly developed within existing platforms; others will require a more radically different architecture.

1. The first enabler to significant innovation in broking technology will be for the systems to have open interfaces to other state-of-the art platforms. Modern IT development readily makes use of best of breed components via open 'Application Programming Interfaces' (APIs) that make connecting systems relatively straightforward. These are often lacking in broker and insurer systems but would be fundamental if future IoT applications are to be deployed.
2. The second enabler will be a more fundamental review and understanding of user journeys in insurance broking, both by clients and brokers. Many existing systems were modelled on the process used to fill in proposal forms and highly influenced by insurance product structures. While useful for ensuring that insurers receive the data they need, these do not necessarily facilitate the most rapid and accurate experience by users.
3. The third enabler will be the easier and more comprehensive aggregation and manipulation of data. This data will need to be captured in a simple but complete way and then be able to be extracted and manipulated simply. This simpler, cleaner data, will make it easier to use Machine Learning, unlocking further uses.

Conclusion

There is an opportunity for emerging technologies to disrupt the commercial insurance broking value chain. The incumbent software houses are well placed to take up the challenge, and there is also a substantial opportunity for start ups to disrupt traditional players if they address the inefficiencies within commercial broking processes.

Snapshot

- Technology is evolving to address many of the challenges in commercial insurance broking
- New technologies are emerging, but are not yet widely deployed
- There is a gap between the current plans of broking software suppliers and the opportunity afforded by new technologies.

Potential technological disruption in the commercial insurance broking value chain

Figure 23

Step of the value chain	The situation now	The opportunity	Example available and emerging technologies
Client prospecting	• Heavily reliant on telesales • Little use of digital channels • Lack of reliable information on prospects	• Digital channels as a new source of leads • Those with a strong brand presence and unique point of view likely to succeed	• Customer relationship management (CRM) systems update dynamically • Content marketing • APIs to social media
Client fact find	• Conducted with pen and paper • Manually added to a database • Potential for human error	• Information collected digitally • Reduced need for compliance owing to better data capture • Multi-media approach to support risk documentation	• Access to third party databases via open APIs • Machine learning to spot patterns in data • Modern prototyping and design approaches to discover best User Experience (UX)
Placing	• Manual creation of documentation • Compliance not a part of the process • Time consuming • Potential black hole for clients if information is misplaced • Lack of transparency in client data held	• Automatic documentation created from fact find • Integrated self-service • Clients can see their data • Compliance by design	• Data exchange with insurers of richer, fuzzy logic data sets • WYSIWYG (What you see is what you get) & user definable documentation production (not new but not common in insurance!) • Automated and semi-automated compliance monitoring algorithms
Invoicing	• Manual and time consuming • Human error • Complex reconciliation	• Immediate and transparent • Fees and commissions agreed and shown before contract • Insurers and clients can see the account • Issues flagged automatically	• Migration to standard accounting packages for general ledger and reconciliation • Real time integration of accounts with insurers
Mid-term adjustments	• Complex paperwork • Updates take a long time • Lost correspondence	• Automatic amendments for small requests • Client self-service • Insurers notified automatically	• Real time data exchange with insurers • Use of strong UX design for adoption of customer portals • Task engines to automate certain tasks
Claims	• Slow • Involves multiple people • Low customer satisfaction	• Claims progress tracked online • Central point of contact • Decreased service level agreements (SLAs) due to data in the system	• Optional self-serve portals with strong UX • Automated notification of loss through IoT integration

Source: Konsileo, PKF Littlejohn

3.5 **The Internet of Things (IoT) and commercial insurance broking**

The IoT represents a huge opportunity for the insurance industry as a whole, and particularly for insurance brokers. The large amount of client data available provides an opening for brokers to develop their role into one of educating clients, and providing an up-to-date picture of the risk to underwriters.

Marketforce estimates that 20 billion to 50 billion connected devices will be in use by 2020, which highlights the scope of the IoT opportunity. Marketforce's *Future of General Insurance 2016* report survey, held in conjunction with the CII, found that 89% of insurance professionals believe that real-time risk data will see some risks automatically re-broked at frequent intervals by a new style of insurance aggregator. This continuous data flow will allow for dynamic pricing. However, market and personal concerns about privacy circle the IoT. With so many connected devices, those able to exploit this data have an unprecedented view of customers' behaviour.

The next step: The Industrial Internet of Things

The IoT comprises data flowing to and from sensors that are wearable by individuals, attached to buildings, machines, or in the environment. Clients, brokers and insurers may use such data to build a holistic and dynamic view of business risk.

So far, the insurance industry's conversation about the IoT has focused mainly on motor telematics and the smart home, which affects the personal lines market. The next step, the Industrial Internet of Things (IIoT), has implications for commercial insurance. The challenge for commercial brokers and insurers is to embrace the new opportunity and its advantages, and not to be left behind.

Conclusion

The IoT and the IIoT will play a key role in technological development in the future. Notwithstanding questions about privacy, there is clear potential for smart technology to improve our day-to-day lives, particularly by collecting and monitoring data to ensure safety and security.

The volume of data available to companies is growing ever larger. These advancements will undoubtedly alter corporate behaviour. This wealth of new data, which includes diagnostics, presents a huge opportunity to commercial brokers and insurers that are able to respond to it. The most dynamic players - those able to adjust their structures, business models, and processes - will make great strides in their client relationships, and in building and growing their business.

Snapshot

- IoT data will significantly influence pricing of risks as risk data becomes more transparent
- There will be increased pressure on commercial brokers to understand the applications of IIoT, and its impact on risk
- Risk prevention will become central to brokers' and insurers' offer.

The Industrial Internet of Things in action

Figure 24

IoT applications	What it does	Impact on commercial insurance	Implications for risk mitigation	Current applications
Product tracking and logistics	• Proliferated by radio frequency identification (RFID) technology • Real-time tracking of products • Automated data collection	High	• Movements of large volumes of product can be tracked in real time • Serves dual purpose of security and employee monitoring	• RFID tags small and inexpensive
Smart buildings and environment	• Sensors embedded into buildings or the environment • Monitor data such as temperature, pressure, flow	High	• Records data specific to a location or product • Can be used to adjust environmental conditions, for example for food storage	• San Francisco Public Utilities Commission headquarters uses sensors to reduce energy consumption
Social integration	• Smart phones, watches, fitness trackers	Medium	• Location tracking • Physiological data such as heart rate	• Transport for London applied sensors to monitor emergency response workers' physiological data including posture and muscle strain, to identify injury risk
Smart and driverless vehicles	• Smart cars, packed with sensors and software to monitor, predict, and adjust risk	High	• Monitors environment, predicts risk, reacts to risk • Big implications for transport and machinery risks	• Tesla and Google Car driverless cars • Volvo is developing features such as automatic braking
Identification, access control, biometrics	• Improves efficiency and security • Automated access control • Connectivity	Medium	• RFID technology • Secure access control • Controls access to places, or to operating machines	• Applications include automated access to toll roads
Electronic payments	• Contactless payments • Smart phone payments, including using biometrics	Low	• Benefits are transaction efficiency and security	• Smart phone payment apps • US-based, pay-at-the-pump application for buying petrol
Production line and machine monitoring	• Smart machinery, driven by automated technology, sensors, and diagnostics • Enhanced security and safety	High	• Sensors ensure safety by monitoring data such as proximity to a blade or other mechanism • Assess risk and predict necessary repairs	• Siemens Electronic Works facility, in Germany, is a fully integrated smart environment

Source: Konsileo, PKF Littlejohn

3.6 **Artificial Intelligence**

Artificial Intelligence (AI) is a catalyst for change. Futurists talk about the world becoming devoid of employment by the mid-21st century, as robots take over many of the tasks that constitute work today. However, another possibility is that job roles will evolve, and that new jobs will emerge as the old ones fall away. Job roles such as Social Media Editor, Royal Air Force Cyberspace Communication Specialist, and Mobile User Experience Designer did not exist 10 years ago.

AI is in the early stages. There is a big difference between machines able to use available information to take decisions, and consciousness.

AI is at the limited memory stage (see figure 25), and it is hard to envisage that the technology will develop to replicate human abilities fully. However, there are certain aspects of the end-to-end process in the insurance industry that can be improved by the efficiency and intelligence of today's AI technology. AI has penetrated insurance, mainly with applications in the reactive machines phase, including underwriting automation in personal lines and micro SME insurance.

Marketforce's report *The Future of General Insurance 2016*, shows that nearly 70% of respondents expect to use AI extensively for underwriting within five years.

An early indication of what the future may hold came from Japanese life insurer Fukoku Mutual Life Insurance, which laid off 34 employees, replacing them with an AI system based on IBM's Watson Explorer, in January 2017. Whilst AI can complete certain tasks currently done by humans, and will undoubtedly lead to further job losses, one argument is that AI's introduction to the workplace could result in more high-skilled manager positions being created.

Lemonade Insurance, which offers property cover to New York renters and home owners, uses AI for quoting and claims handling, with cases referred to a human overseer if complexities arise. In commercial insurance, where the data set is large and grouping multiple risks accurately is challenging, AI is not currently applicable.

Categories of Artificial Intelligence

Figure 25

Category	Intelligent capacity	Example	Does it exist?
Reactive machines	• No concept of the past or use of memory	• Chess	Yes
Limited memory	• Looks into the past but only transiently	• Driverless cars	Yes
Theory of mind	• Form representations about the world • Understand that human beings have thoughts and emotions that impact behaviour	• Understanding that a human being is angry	No
Self-awareness	• Consciousness	• Learning about what human beings want • Experiencing consciousness • Experiencing emotion (The conscious machine can empathise with what it is to be angry, because it has an experiential knowledge of that state.)	No

Source: Arend Hintze, Professor for Integrative Biology, and Computer Science & Engineering, Michigan State University

Data complexity in commercial insurance

The complexity of data in commercial insurance, particularly for medium to large enterprises, is the key factor limiting the adoption of AI in this sector. Commercial risk data is complex and heterogenous, and underwriters and brokers therefore require significant knowledge and professional training to assess it adequately.

Whether the code can be written, or written cost-effectively enough, to replicate human decision-making at this level, remains to be seen. The question is, can AI develop far enough to replicate the sophisticated advice that brokers give to clients, and not just give clients the tools they need to serve themselves?

Arguably, this would require AI to reach the theory of mind stage (see figure 25), where it is able to exhibit empathy. This could be feasible for repeatable tasks with large datasets and predictable responses, such as voice-based quotes for private motor insurance. If commercial insurance brokers' relationships with clients are on these lines, certainly there is a risk that AI could replace brokers. However, in situations where skill and empathy are needed to turn a complex business risk profile into a coherent presentation for an underwriter to review, commercial brokers still play a vital role.

Snapshot

- Job roles will be affected by AI; however, this change brings with it an opportunity
- AI has already automated many simple, repetitive tasks and led to job losses
- Complex and heterogeneous risks will still require a broker's attention
- AI that approximates human consciousness is still a long way off.

> "Artificial Intelligence: The theory and development of computer systems able to perform tasks normally requiring human intelligence, such as visual perception, speech recognition, decision-making, and translation between languages."

Source: Oxford Dictionaries

Another factor inhibiting total automation of the insurance buying process is the extent to which the risk of product choice and full disclosure sits with the client, the broker, or the underwriter. This, hand-in-hand with the client relationship, underpins the advice-led proposition of most insurance brokers. The Insurance Act 2015 has placed additional duties on clients in this regard; however, clients are much better protected against the risk of having non-functioning insurance cover if they use a broker to identify and present risk information to insurers, than if they handle it themselves. The open questioning and complex reasoning that brokers perform as part of this process is hard for AI to replicate.

The benefit of AI is that it can improve business efficiency by automating simple tasks, freeing up brokers to focus on the jobs that require more sophisticated thinking ability. For insurance brokers, AI has the potential to reduce paperwork and compliance administration, and to streamline workflows, creating time to focus on clients and professional development. AI does not remove the need for an insurance broker; rather it will be applied to certain tasks where job roles exceed those tasks.

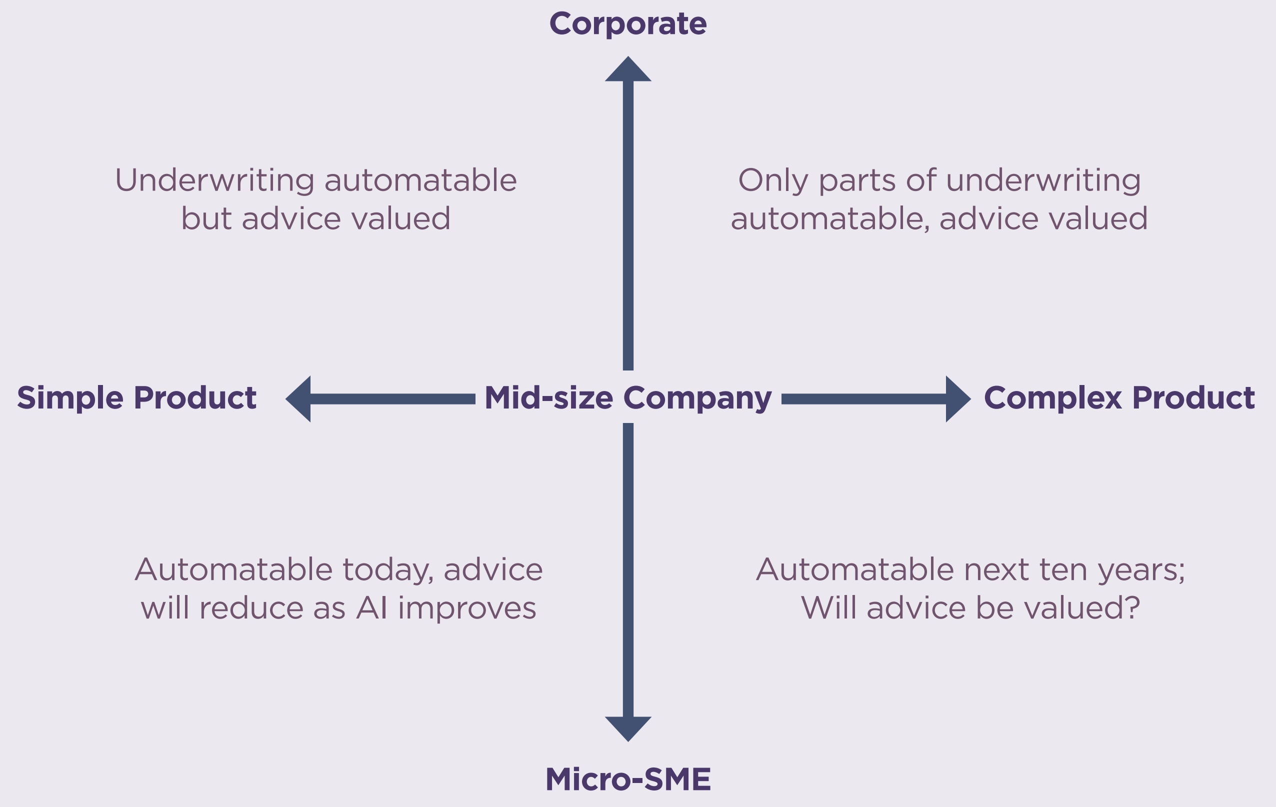
Conclusion

Insurance brokers who want to reduce the chances of their job being automated and to prosper long-term, can focus on growing the human interaction-intensive tasks that they fulfil:

- Nurture relationships over a number of years, evolving into shorthand between the parties, and saving the client lots of time. ("You remember that thing we looked at last year, can we add it on now.")
- Really understand the dynamics of a client's business by asking open questions that elicit material information quickly and comprehensively
- Get equipped with a broad range of relevant risk management knowledge to help clients configure and manage emerging risk management techniques and technologies
- Explain the 'why', and not just the 'what' of insurance. ("The underwriter is likely worried about the liability for people falling off the horses that your saddles are on, that's why they are asking so many questions about those, and not about the handbags you make.")

The place of automation in commercial insurance

Figure 26



Source: Konsileo, PKF Littlejohn

- Give peace of mind to clients that their claim is being taken care of, and their interests properly represented. Manage their expectations if problems are likely to arise.

In other words, insurance broking with AI will be similar to best-practice insurance broking today. Brokers who rely primarily on form filling skills or who act as a postbox between the client and underwriter will be challenged by AI solutions that automate these processes. Instead, the value-added elements of a broker's role, where they genuinely offer advice, will come to the fore.

AI will demand of brokers that they become equipped with continually evolving risk management, insurance technical, and interpersonal skills, in order to provide an economically valuable service in the long-term.

The Economist article 'Lifelong learning will become an economic imperative', published in January 2017 argues that "technological change will demand strong and more continuous connections between education and employment". If insurance brokers can see AI as a way to free themselves from mundane, time-consuming tasks, focus on work where human input makes a real difference, and embrace lifelong learning, they have a positive future.

Applications of Artificial Intelligence in commercial insurance broking

Figure 27

Department	Opportunity	Impacts
Claims	• Accelerate claims process	• Improved servicing of clients
Underwriting	• Analyse more risks more quickly	• More accurate pricing
Compliance	• Identify common issues across an organisation	• Reduced liability on the broker, due to accuracy of the process
Fraud	• Reduce instances of fraud by identifying issues more quickly and accurately	• Lower premiums for clients, because instances of fraud decrease

Source: Konsileo, PKF Littlejohn

4. The future for broking careers and organisational structure

4. The future for broking careers and organisational structures

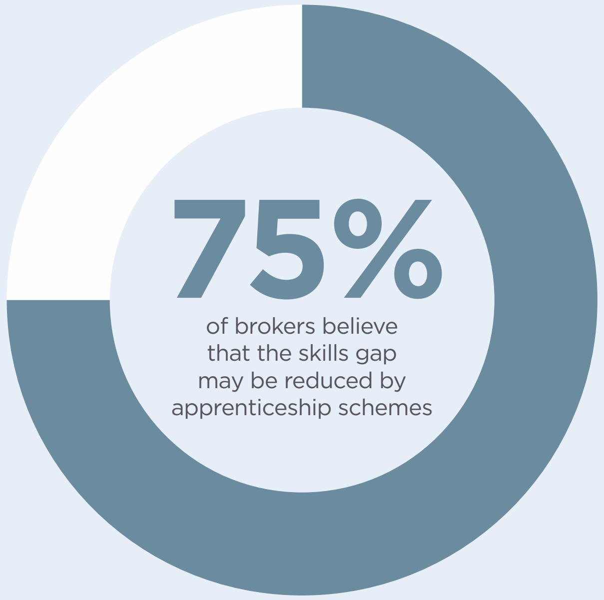
4.1 Traditional insurance broking careers

Insurance broking, at its best, is an advisory relationship that is highly valued by clients; in this sense it is a true profession. At its worst, broking is merely an enabler to the insurance purchase transaction. The brokers who demonstrate technical skills, including knowledge of risk assessment and risk management, will be the ones to fulfil the full potential of brokers as professionals.

Historically, technical skills were developed through regular injections of talent from underwriting organisations into broking, and by brokers having long, informal apprenticeships.

This traditional picture is potentially challenged, however, by a reported rise in a skills gap. The CII's Skills Survey (2015) found that some 81% of employers reported a shortage of technical skills in their business – a 22 point rise in two years. Initiatives such as the CII's Chartered Insurance Broker designation, and individual broking firms' efforts on training, are steps in the right direction, but will they be enough to fill the gap in technical skills left by insurers?

For individual brokers, the traditional career path is to progress from account handler to account executive to director, accumulating larger clients and management responsibility along the way. This career path looks to be changing, owing to the trend for independent broking firms to be absorbed into large corporations. Instead, a new career path is developing whose core motivating energy is client service.



Source: The Insurance Survey 2017: CII, Konsileo, PKF Littlejohn

Career entry points for brokers

Insurer-trained
Traditionally, would-be brokers were trained in underwriting at a composite insurance company before moving into broking. A sales role that had exposure to broking, such as an Inspector or Business Development Manager role, was often the stepping stone. In the 1990s and before, some insurer employees would even have built up a small portfolio of personal clients that they were able to bring with them to seed their book as a broker. Changes in the nature of job roles at insurers and a reduction in local insurance market-facing roles have reduced this flow of talent considerably.

Entry level, or 'worked my way up'
Another cohort of brokers started as entry-level trainees, perhaps with a very explicit administration focus. When brokers had a broader mix of personal and commercial lines business, junior staff would often start by servicing personal lines customers in order to gain sales and client service skills. Technical insurance skills were often gained by working closely with individual experienced brokers in an informal apprenticeship. Much of this development was very unstructured and relied on tacit knowledge.

Graduate training schemes
A handful of brokers have long-standing graduate and professional training schemes. These are particularly prevalent among global and London Market brokers, where academic credentials are valued.

Snapshot

- Left unaddressed, a skills gap will affect the insurance broking model of the future. Most newly created jobs will be highly skilled, as administrative tasks become automated
- The increasing shortage of technically skilled individuals will mean there are greater opportunities and rewards for those with expertise and training
- As risk advisory services become more complex, qualifications will grow in importance with brokers seeking to communicate professionalism to clients and in the workplace
- Entry to, and development within, broking as a profession will move toward brokers specialising as a way to differentiate themselves and their services.

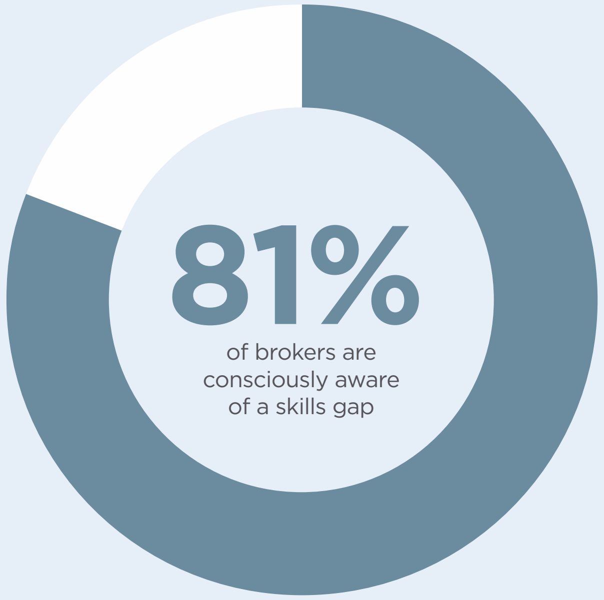
Training for insurance brokers
As a result of the relatively small size and unstructured nature of many broking firms, much of the training given historically has been informal and focused on learning-by-watching, and being mentored by more experienced brokers. Often this is undertaken by acting as the account handler to an account executive or account director, perhaps with a few clients of one's own in addition. Given the broad range of client needs, what is effectively a case study-led approach such as this can be very effective. The challenge is in exposing junior brokers to enough different types of clients' needs and risk complexities, while also equipping trainees with enough of an overarching technical insurance framework to provide the correct advice.

Qualifications from professional bodies such as the CII are often taken alongside more informal training, although many brokers see the Certificate in Insurance (Cert CII) as a landing point qualification, perhaps reflecting the fact that they may start studying later than many insurance company-trained staff.

Continuing professional development is generally taken seriously by individual brokers. A survey of 119 broking practitioners conducted by Konsileo found that 81% thought a skills gap was coming. Of those, 75% think apprentices can reduce the skills gap. There is a good range of opportunities to deepen skills available to brokers: insurers, local institutes, the CII's Insurance Broking Faculty, the trade press and commercial conference organisers all provide face-to-face and online opportunities from courses and conferences through to lectures and seminars. There are also tools such as the CII's Broker Assess which provides online material for hundreds of general insurance courses and reporting tools for tracking professional development online, as well as a wealth of training packages for all sizes of organisations.

Progression and building a book
Success in broking generally comes from generating, or being given clients and building long-term advisory relationships with them. Historically, client relationships have been a source of economic and political power for brokers within their organisations. Often, the individual who owns the client relationship will also handle insurer relationships.

Certain developments in the way that larger broking firms operate have challenged this 'Account-Executive-is-king' model. One initiative is to have specialised client service and placement roles within broking firms; these can serve to improve efficiency, but they also reduce the negotiating power of the client service individual. Another initiative is to split client handling into new business and existing business, so that the individual who wins a client is not necessarily involved in the ongoing relationship. Finally, some organisations are consolidating smaller clients into service centres to drive efficiency. All of these initiatives challenge brokers' understanding of their own roles and, in some cases, can lead to frustration.



Source: The Insurance Survey 2017: CII, Konsileo, PKF Littlejohn

One way that brokers have developed economically valuable franchises has been to specialise either by client segment or by type of insurance cover (or both), as examples such as real estate specialists or professional indemnity specialists demonstrate. This can be a useful way to enhance efficiencies in acquiring clients through word-of-mouth, and to retain and cross-sell to them.

Qualifications
In many professions, including accounting and finance, a qualification is necessary in order to practice at a certain level. Whilst CII exams are highly regarded, it is not a legal or regulatory requirement for any insurance broker to have any professional qualifications or designations to practice in insurance and provide insurance advice.

With the concern over technical skills becoming very real for the insurance industry, we will likely see increased pressure on insurance brokers, from clients and from broking firms, to develop a high level of professionalism and intelligence on a multitude of insurance topics.

Apprenticeships
More companies are focusing time and resources on apprenticeships providing technical skills, knowledge, and support, in a bid to reduce the knowledge gap that the insurance industry is facing. Some of the investment is being driven from the government's new Apprenticeship Levy, but employers are now looking at how apprenticeships complement existing training schemes and can be used not just for junior entrants but for more senior and existing staff.

Conclusion
The traditional model for a career in insurance broking is changing in many ways, particularly as broking organisations get bigger. It is clear that progression into management will be an option for an increasingly small number of individuals. A successful broker in the future will be a trusted advisor to a portfolio of clients, equipped with up-to-date technical and business skills, with more time to spend with clients and insurers as technology and automation frees up time from administrative tasks. Specialisation by client and/or technical insurance topic is a strong opportunity for brokers to strengthen their position, satisfaction and reward. Organisation around specialisms and skills could change the structure of broking organisations in the future.

This continuing development will come at a cost and firms will need to ensure that their back office and technology is aligned, such that the administrative burden and associated cost is reduced. This will allow the firm to invest in its people and enable employees to have enough time to develop.

4.2 The evolution of insurance career development

CII membership data shows that 33% of individual members who either identify themselves as brokers or work for broking firms have no formal qualifications or are studying towards them, and 9% are Chartered Insurance Brokers (see figure 28). It is also interesting that many (28%) of brokers 'land' at the Certificate in Insurance (Cert CII). It is unclear from the data whether they subsequently progress. This may reflect the fact that many brokers come to qualifications relatively late in their career, that employers have only recently become supportive of study and that many brokers have a lower affinity with formal study. Anecdotally, many very experienced, able and technically knowledgeable brokers interviewed in the course of compiling this report held Cert CII status.

The qualifications of commercial insurance professionals

Figure 28

Qualification	Number	% of Total
Cert CII	7469	28%
Dip CII	2018	8%
FCII/ACII	5791	22%
Chartered Broker	2494	9%
Unqualified/studying	8629	33%

Source: CII Insurance Broking Faculty data

Note: Data relates only to CII members who cite broking as their main area of work or belong to the Insurance Broking Faculty

Respondents with less than five years' industry experience were the least fulfilled. Respondents indicated that this could be improved by...

"Recognition of the profession from the public."

Account executive, four years' experience

"Stronger leadership and feeling as if we are working towards something."

Placing/ insurer-focused role, three years' experience

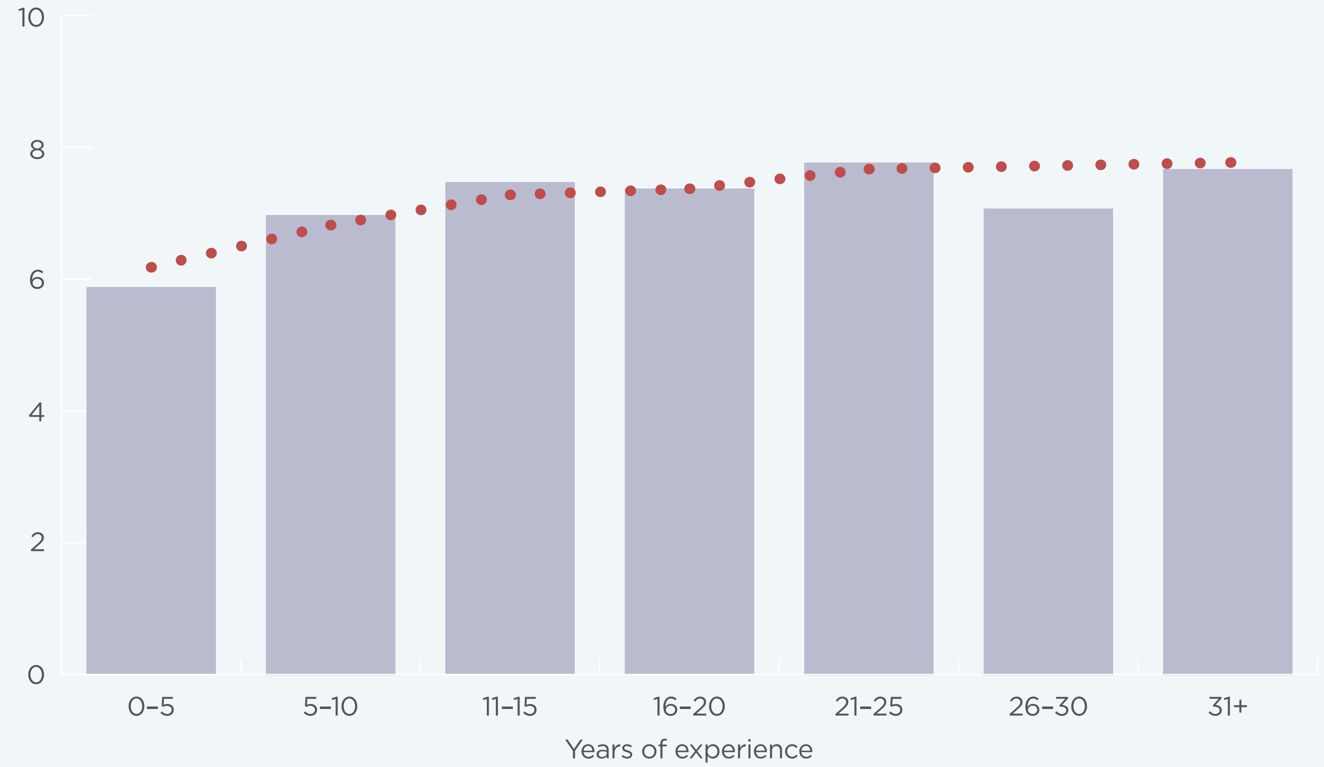
Source: Insurance Survey 2017: CII, Konsileo, PKF Littlejohn

Snapshot

- In future, brokers will have a greater focus on clients' long-term goals and support them with intelligent risk mitigation strategies
- Brokers will develop their discussion with clients beyond price and products into a more holistic risk advisory conversation
- There will be a change in brokers' mindset from only having client contact at renewal to playing a greater, more advisory role in clients' ongoing business strategies.

How fulfilled do you feel in your career as an insurance broker?

Figure 29



Source: Insurance Survey 2017: CII, Konsileo, PKF Littlejohn

The Insurance Survey 2017 undertaken by CII, Konsileo and PKF Littlejohn found that respondents with less than five years' experience in the industry were the least fulfilled (at 61%), and rated the quality of management practice lowest (at 58%), giving the same score for quality of collaboration at firm level.

Brokers starting out in their careers were least happy with the way that the industry functions, across measures of collaboration, management practice and professional development.

If this is combined with the industry's arguable lack of technical training, an imminent skills gap, and barriers to innovation, then the industry can be characterised as at a crossroads in terms of inspiring and attracting new talent.

The survey showed a trend for self-development and seeking professional recognition, suggesting that there is an opportunity for the industry to focus on career development, particularly if it wants to encourage new talent. One area for development is technical skills training – as the more mundane tasks are increasingly fulfilled by machines, brokers' knowledge will become more valuable. Additionally, the tendency for insurance brokers to perpetuate traditional working practices emerged as a potential barrier to attracting talent, particularly in the light of changing expectations among young people about working patterns and structures.

The survey showed that 40% of respondents believe that their jobs are at risk from AI (see Section 3.6).

Insurance brokers whose career goals align with supporting clients' risk mitigation over the long-term are likely to build stronger books of business. This will involve understanding the risks run by the client who is growing its business, and helping it to plan for the future and to anticipate risks. This new model for broking involves a higher-touch approach, particularly for those client businesses that have aggressive growth plans, to ensure that risk is mitigated at every step along the way.

The demand for brokers to demonstrate value will increase, particularly if firms seek to differentiate themselves on service over price. Improved marketing will be needed to help educate clients and to engage them in discussions about risk, going beyond basic conversations about product, and attempts to cross-sell or up-sell.

Fees Transparency

The Retail Distribution Review has altered the landscape of how retail investments are distributed. If mirrored in the insurance market, the resulting fee transparency would cause a similar change. Firms that are focusing on value over price are naturally building a defence against such a shift. Many firms are already moving to a fee model and seeing a natural change in behaviour forcing a discussion with clients about the value that is being offered.

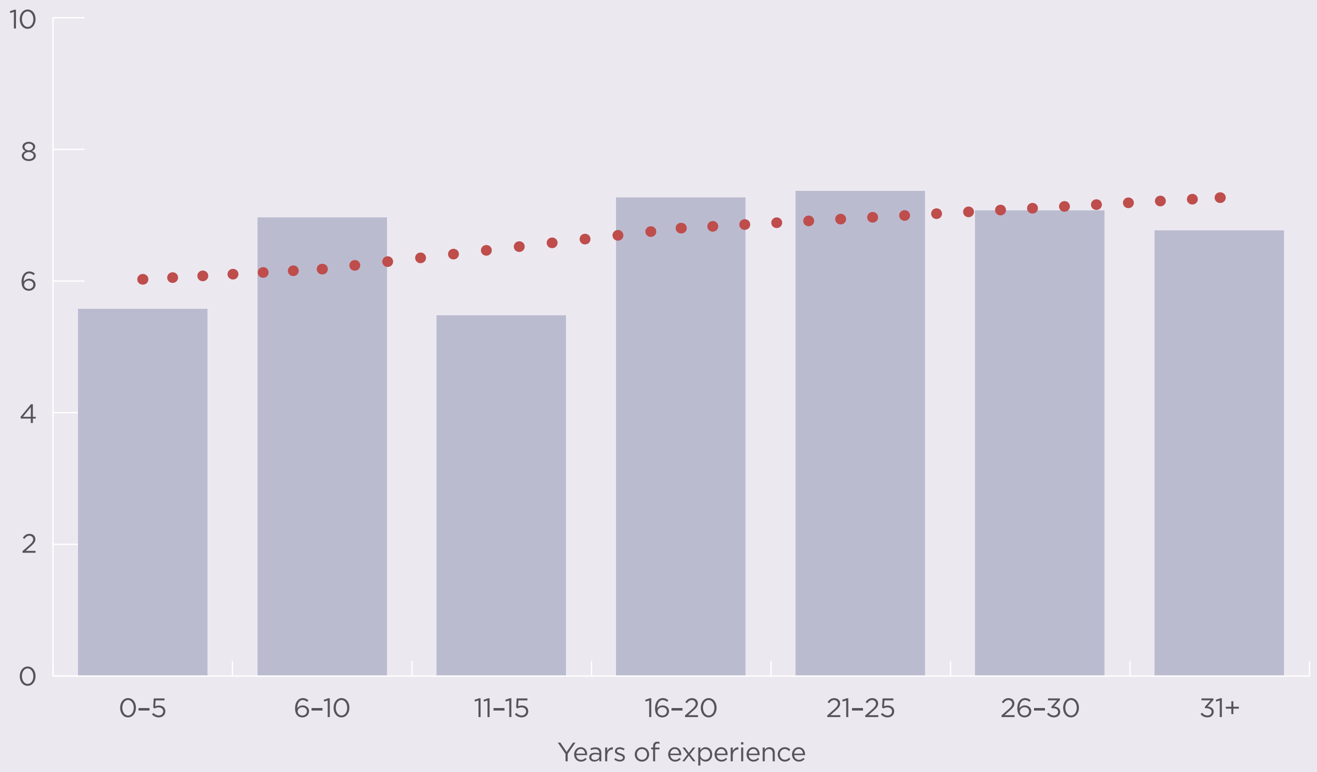
If a firm has a clear delineation and understanding of how it deals with small clients and larger clients, this will also help it prepare for any change because its business model will already be appropriate.

As technology develops, clients will expect brokers to understand their business before conversations begin, to be in a position to support a seamless view of the client's business and associated data, and to use that insight to provide intelligent advice.

The current mindset of some brokers to focus on new sales and signing renewals will become less relevant, and instead an approach of building ongoing relationships with customers will come to the fore.

How do you rate the quality of management practice in your firm?

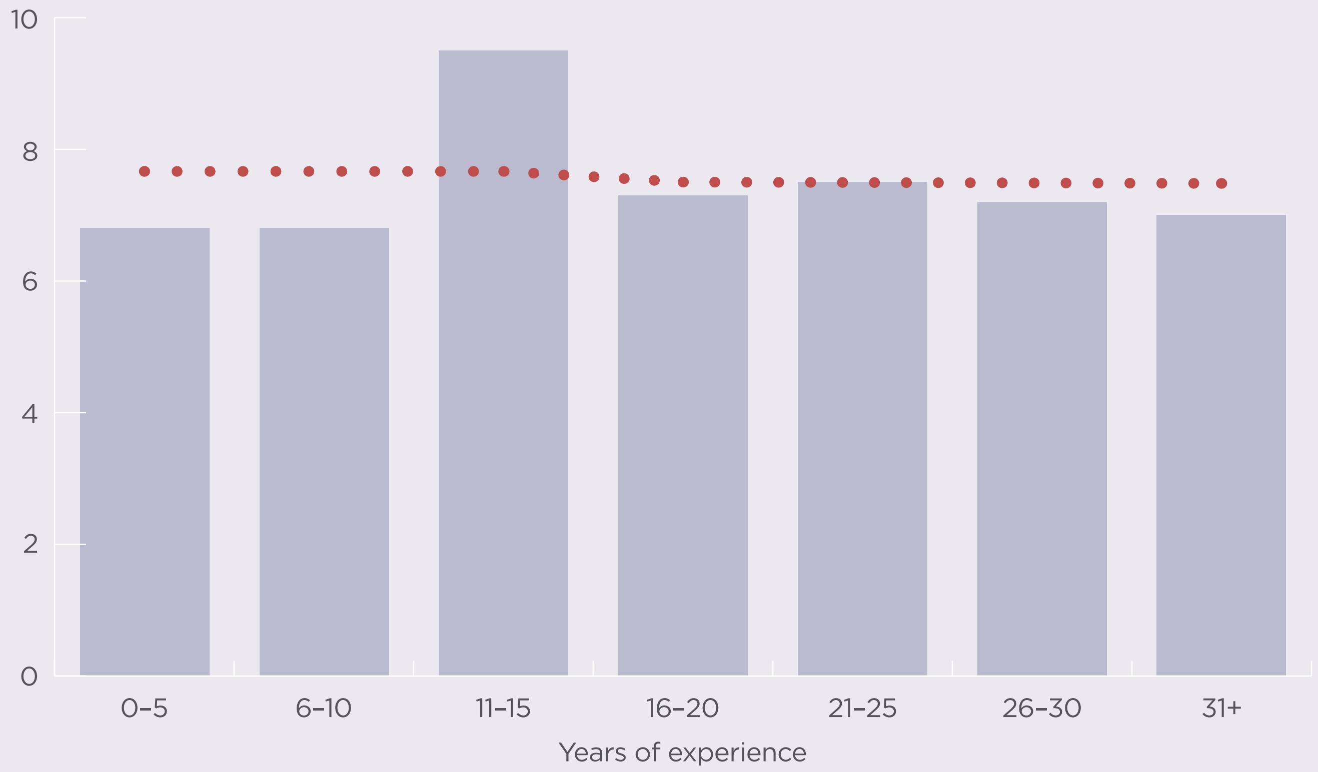
Figure 30



Source: Insurance Survey 2017: CII, Konsileo, PKF Littlejohn

How do you rate the quality of professional development you have received? (both from your employer and CII)

Figure 31



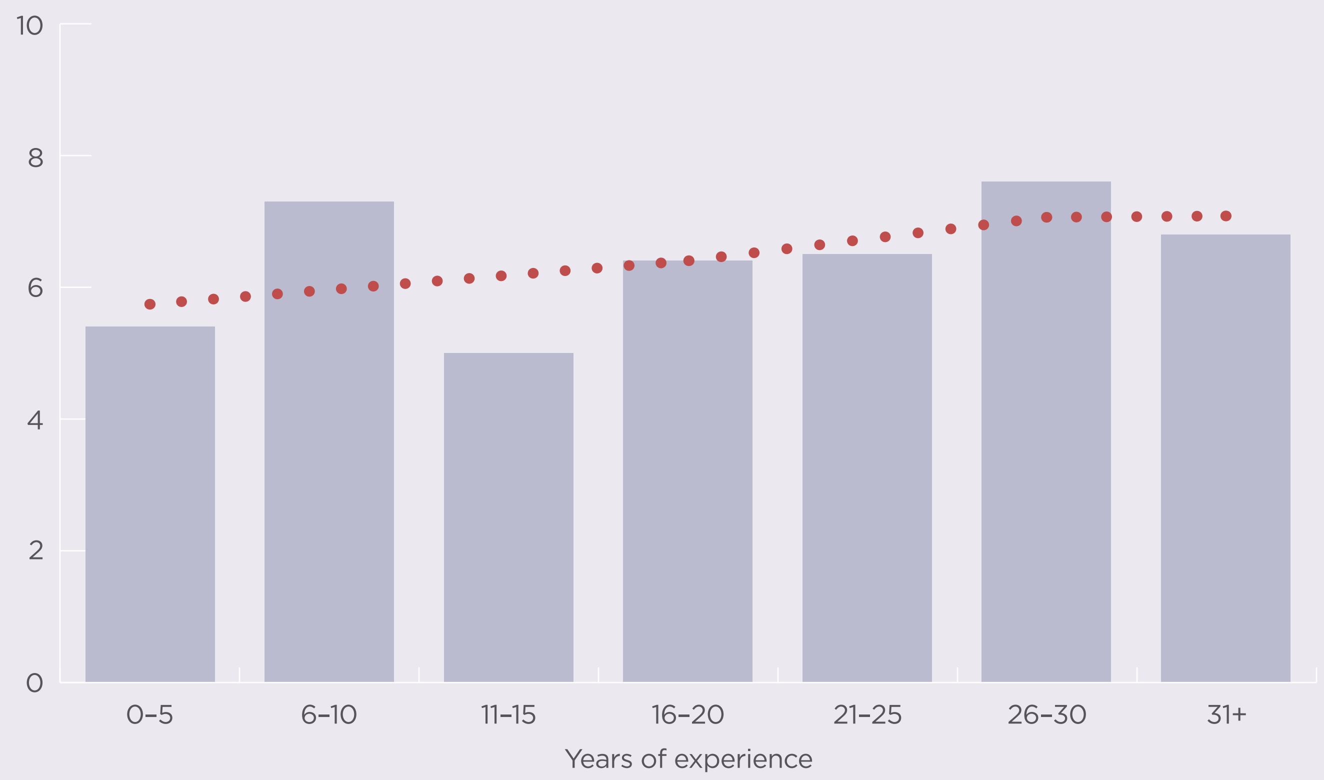
Source: Insurance Survey 2017: CII, Konsileo, PKF Littlejohn

Conclusion

There is an opportunity for broking firms that respond to the expectations of younger people by offering training and qualifications, and a flexible and open-minded approach to working practices. Technical skills training in particular is likely to be highly valued, and valuable. For individual professionals, the future is bright for those who are adaptable and pro-active in learning new skills and practices, rather than relying passively on traditional, company-organised career development pathways. Similarly, commercial and relationship skills will become even more critical to career success.

How collaborative is the culture at your firm?

Figure 32



Insurance Survey 2017: CII, Konsileo, PKF Littlejohn

4.3 Emerging trends in employment: The future of work

Significant changes in employment are taking place across professional service industries, with entry-level trainees envisaging a very different career trajectory ahead of them than that of their parents. Millennials' experience and expectations of the job market show a marked departure from previous generations' 'jobs for life', as globalisation and the rising retirement age change the demands made of modern workers.

All sectors are experiencing pressures brought on by the so-called Fourth Industrial Revolution, as technology threatens to replace many job functions. In this changing landscape, the opportunities for professional services firms are to develop their relationship management and advisory services in order to add value and to develop their digital and data skills to be part of the revolution.

Professional services recruitment is changing. Recruitment by law firms has fallen in the past 10 years as more administrative tasks are performed by legal software, or outsourced to cheaper areas of the country or abroad. The Silver Circle group of elite corporate law firms is reducing the number of graduates that they recruit, down from 305 in 2008 to a predicted 240 in 2019.

The *Financial Times* has reported that the big four accounting firms have reduced their graduate intake after new software has cut down on paper work.

Ever-improving software packages and technology solutions make simple bookkeeping and accounts preparation easier, and erode the value of employing an accountant for these services. This creates a greater reliance on advisory services for accounting firms, to compensate for the lost fee income.

Millennials are making up a greater part of the workforce. It is argued that they value work-life balance, and are driven by values other than financial success or finding a job for life. Many millennials entered the job market after the 2008 financial crisis, grew up with the internet, and are thought to be less attracted by hierarchical corporate structures.

The firms that will attract the top millennial talent will be those that can adapt to changing workforce priorities. Traditional, apparently stuffy industries such as insurance, law and accountancy are likely to lose out if they fail to adopt more flexible working practices. The widely reported lack of loyalty felt by millennials to their employer – with this generation happy to move on if they don't feel that their needs are being met – means that inflexible employers are particularly vulnerable to losing talent.

The insurance industry maintains a reputation as one populated by men in grey suits, an image that is failing to excite many business graduates; only 0.5% of UK graduates cite insurance as among their top five choices of industry to work in, according to employer branding specialist Universum. The industry is therefore highly vulnerable to technology-led disruption, particularly if it fails to attract the very talent that could otherwise end up competing with it. The insurance firms that can win over technology-savvy, innovative graduates are likely to outpace those who hire traditional, more conservative characters as they have done in the past.

Snapshot

- All professions are vulnerable to technology or outsourcing replacing personnel for routine administration tasks
- There will be a greater focus on adding value through advisory skills
- Good client relationships and marketing will become even more important, as competition widens both locally and globally
- Employment practices will need to change to attract and retain talented millennials.

Conclusion

The job market is changing for everyone. The professions are more reliant on developing an advisory role in order to add value for clients, particularly as routine tasks no longer require manual paperwork or processing. Firms want their front-line brokers to be more well-rounded business and risk advisors in order to spot opportunities, and will adjust training and development to reflect this. Attracting a younger workforce requires more flexibility, and perhaps a rebranding of insurance as a career option.

4.4 New organisations: Broking with soul

Societal and behavioural change enabled by technology is altering how people work, and the shape of organisations. To some extent there has been a shift of power back to individuals, while firms are differently structured and motivated. The next generation of workers is attracted by fast-moving technology brands such as Google and Facebook, and is less engaged by the comparatively rigid structures and cultures of the insurance sector. The insurance industry has always struggled to be seen as exciting by top talent, and this situation is arguably worsening as graduates look to Silicon Roundabout to begin their careers.

Broking firms will prosper if they can attract millennials with data analytics and digital skills, and integrate their abilities into the company's core capabilities. These skills are not just the preserve of InsurTech challengers and many data literate individuals at the start of their careers would be willing to join insurance firms in new and exciting areas such as digitial marketing. Firms and individuals need to look at the skills that the entire market needs and understand where they can enhance their capabilities to compete for clients and talent.

Generations X, Y and Z are gradually coming to dominate the workforce, resulting in organisational change. As part of this generational shift, insurance broking is challenged by the fundamental issue that the old guard, with deep technical knowledge and experience, is retiring. A key challenge for broking firms is how to maintain a deep level of expertise within their organisations, and even how to increase it, since firms anticipate that they will need more knowledge in 2028, and not less.

Snapshot

- Firms are at risk of losing deep technical knowledge through generational change
- The rise of millennials in the workforce requires firms to adapt
- The competition for top talent is fierce, especially as innovative startups in insurance or other sectors may be seen as a more exciting option
- Insurance firms wanting to enhance their offer to younger workers can adopt aspects of emerging business models
- Even more importantly, firms can adopt the emerging business culture and structure trends of the world's best companies and strike a different balance of priorities with staff.

It is, however, a mistake to assume that the only attractive places to work will be the explicitly technology oriented firms that take the headlines. Alongside the changes in business models in recent years, there has been a great deal of development in theory and practice of organisational design, leadership behaviour and management culture and structure. This research embraces two main themes:

- Firstly it tries to grapple with the 'Future of Work' issues that arise from technology, breakdown in traditional career models, the paradox of both increased individualism and increased desire for community etc
- Secondly it addresses the search for meaning and job satisfaction that so many people in corporates are challenged by.

There are many different researchers in these topics, but a particularly interesting model that attempts a synthesis is that put forward by Frederic Laloux, an ex-McKinsey management consultant who has studied dozens of high performing organisations across traditional and newer industries that achieve strong outcomes for shareholders, staff and customers. He identifies a number of traits of these successful, but happy, organisations. In particular he picks out self-management, an emphasis of wholeness (a mix of work-life balance, job satisfaction and mutual respect) and an evolutionary purpose as hallmarks of great firms. (See Figure 33). These concepts are often found in the best broking firms, especially successful regional brokers, and are particularly applicable in broking where self-organisation, respect and strong values can be implemented relatively easily.

Example pitch from CEO of a firm that attracts top talent

Understanding the why

Firms that have developed a clear rationale for why they exist to attract talent because the individual believes in the 'why'.

"We want to be the most technically expert broker in the UK"

Team input

Firms that empower junior members of staff and operate a less hierarchical structure attract talent because individuals can be themselves and work in a fast-moving, dynamic environment.

"Our firm allows brokers to do the broking job they love and to earn better because of it."

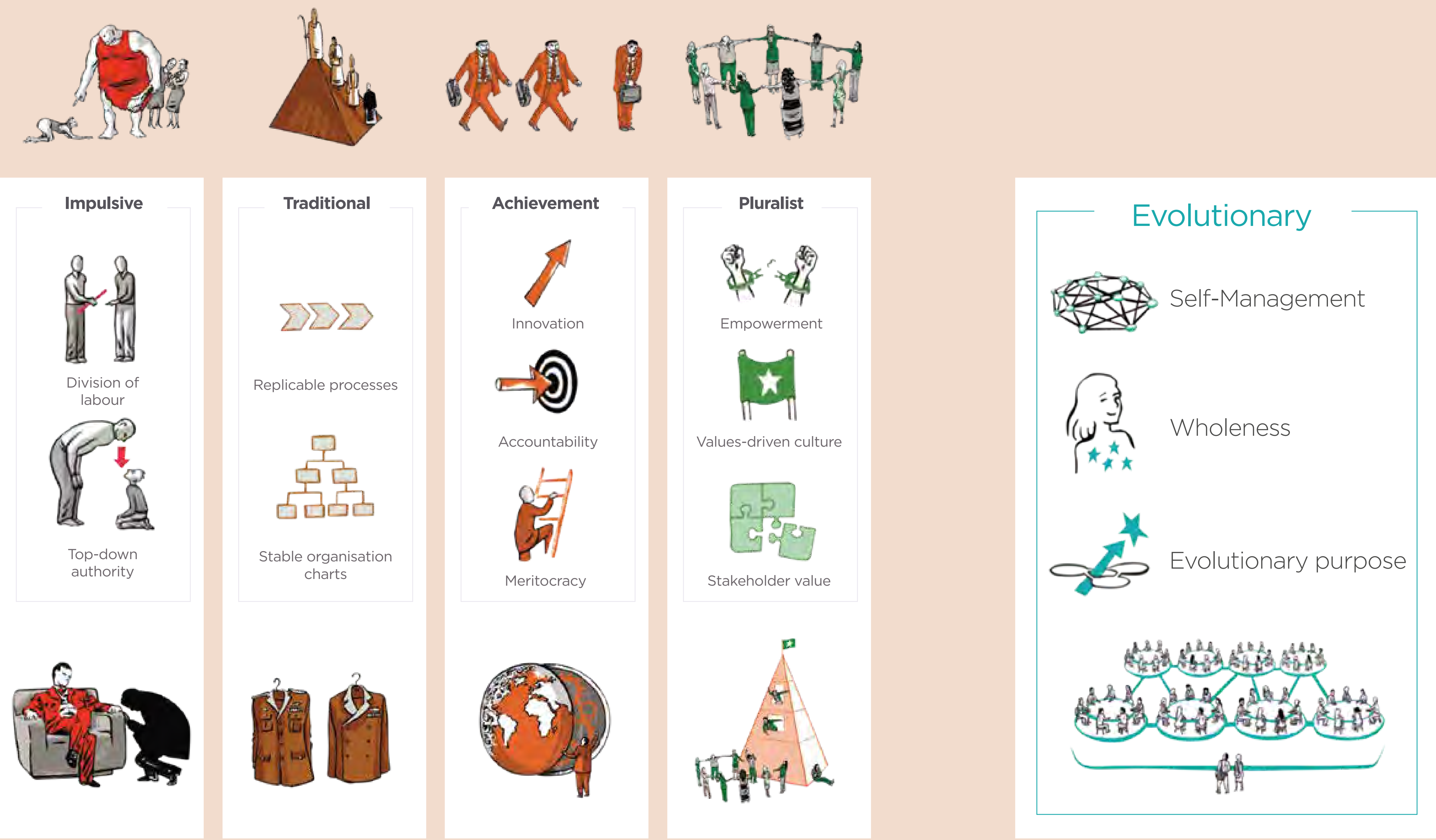
Social purpose

Firms that have an inherent purpose, usually being a social purpose, attract talent because the individual believes in the purpose.

"We bring insurance products to vulnerable and less financially capable customers."

Phases of organisation Culture and Structure Development

Figure 33



Source: Frederic Laloux, Reinventing Organizations

Conclusion

Top individuals in insurance are leaving large firms to join InsurTech startups; as the InsurTech firms get bigger, they are likely to attract young talent too. Brokers able to utilise emerging technology to their advantage will be well-placed to prosper in the new, technology-driven business context, and to attract the brightest and best of the next generation of insurance professionals into their organisations. Their opportunity for success goes a lot further than their deployment of technology, however. If broking leaders have the vision to adopt new cultural norms and working styles, it is very possible for resilient and sustainable firms to develop.

5. Broking in 2028

5. Broking in 2028

The insurance broking market of 2028 will have undergone significant technological and societal shocks and will, from some perspectives, look very different from the market of 2018. In many ways, insurance broking will evolve alongside other professional services to be more competitive, with clients demanding a much more explicit and transparent demonstration of the value that advice brings than happens today. There will be less room in the marketplace for brokers who go through the motions or box tick their way through client relationships or compliance processes.

Additionally, the expectations of staff who work in broking will have changed: There will be greater desire for flexibility and virtualisation in working style, a more pluralistic view of career options and paths, new management styles based on collaboration and coaching, and a clearer understanding of contribution and the remuneration linked to it. Staff will be increasingly aware of the need to maintain their market value through lifelong learning and are likely to become more engaged in professional development with a 'must-do' rather than a 'nice-to-do' mindset.

At the same time, insurers will have seen increased pressure on costs, driving a desire to innovate their business models and, given the amount of premium invested in distribution, will continue to ask how they can optimise distribution costs. It is unlikely, however, that insurers will successfully disintermediate brokers from commercial insurance, apart from in some parts of the micro-SME market. The benefits to clients, both perceived and real, of a comparative market and professional advice to access that market are too compelling and the risks to clients of going it alone without advice are too great.

Manifesto for a successful insurance broking career in 2028

Figure 34

Trend	Focus on	Less of
There will be greater emphasis on client relationships	• Developing skills that allow you to have discussions with clients about a range of business topics • Understanding client motivations and discussing business plans • Spending more time with clients on their overall risk management agenda	• Offering insurance only • Seeing yourself as a conduit to "the market"
Interpersonal skills will become a key differentiator	• Developing a personal rapport with business managers • Seeking feedback and attend training to hone your skills	• Ticking boxes and filling forms • Justifying low energy with complaints about the nature of the industry
There will be fewer administrative tasks as a result of technology development including Artificial Intelligence	• Embracing and learning about technology change • Being aware that the technology will continually change • Using time saved to develop risk advice proposition • Developing deep content expertise that can lead to advice	• Emailing, filing, form filling • Hiding from client contact
Clients will value overall risk advice and not simply help with buying insurance	• Creating risk profiles of client businesses • Notifying clients of industry risk indicators or emerging risks	• Insurance product as the sole or even the primary focus
Clients will highly value specialist skills and insights	• Embracing training and education, as well as on-the-job learning • Understanding emerging products/services and becoming expert in one of these areas or building relationships in your organisation	• Reliance on learning by doing, and/ or institutional knowledge • Stopping at a low level qualification; expertise will need to be evidenced and demonstrated

Manifesto for a successful insurance broking firm in 2028

Figure 35

Trend	Focus on	Less of
The broking market is continuing to evolve	• Understanding the different business models and choosing the one that aligns to your own values • Understanding the impact of commoditisation	• Sticking with the status quo • Dealing with small clients in the same way as larger ones
Micro-SME will be highly commoditised	• Understanding the cost of handling micro SME client • Investing in technology or partner with a firm that can handle it • Utilising data to identify future business opportunities as client grows	• Spending too much time on smaller clients • Ignoring smaller clients
Staff will have new expectations of respect and meaning in their jobs	• Learning new management techniques, particularly coaching • Understanding what your business stands for and what culture you want • Rewarding entrepreneurial spirit • Developing a culture of excellence	• Command and control • Change through mandate
Client relationships will either be commoditised with the opportunity to become true firm assets, or be highly relationship-oriented	• Developing processes to manage commoditised client relationships, and/ or; • Celebrating the uniqueness of individual brokers and their talents at connecting with clients • Understanding the client's business and enjoying risk led discussions	• Lack of strategy for how to manage client relationships • Relying on price as only differentiator in advised broking
There will be a knowledge gap in the industry driven by the loss of deep technical insurance knowledge	• Investing in staff training programme at all levels • Supporting new areas of knowledge, such as data literacy, AI etc	• Ad hoc passing of information from one generation to the next

The reasons to be optimistic about the future of insurance broking are based on the hypothesis that risk advice by professionals known as insurance brokers will continue to be valued by businesses. This was the view of respondents to the survey and of the people interviewed for this report. It was reinforced particularly by Steve White, chief executive of the British Insurance Brokers' Association (BIBA) who said in an interview for this report;

"Brokers' survival is dependent on their ever increasing professionalism"

It will become increasingly less tenable for brokers to rely on the transaction-enabler role in the insurance buying chain to provide them with a decent income. Advice will become the product even more than it is today.

In order to secure the future of advice-giving and professionalism in the industry, individuals, broking firms and insurers can make certain adjustments. These can be viewed as a manifesto for healthy careers for individuals, successful businesses for broking firms, and sustainable commercial insurance business models for insurers (see figures 34, 35 and 36).

Manifesto for a successful commercial insurer in 2028

Figure 36

Trend	Focus on	Less of
Brokers will evolve into risk advisors	• Supporting intermediary market as trusted advisors • Innovation of products • Embracing greater transparency in the value chain	• Price as the leading strategy
The rise of data exchange as a way to improve risk management, and to avoid rekeying	• Partnering with brokers to get better, more insightful risk data • Competing through excellence in pricing and risk selection	• Proprietary data exchange methods • Opaque value chain • Regarding access method as a competitive differentiator
The Industrial Internet of Things will become embedded across clients' businesses	• Developing analytic capabilities • Helping brokers to act as advisors in setting up IoT systems	• Integration and innovation in underwriting and real-time data in the "too difficult" category
The gap in efficiencies of scale between broking firms of different sizes reduces	• Considering different remuneration models with brokers focused on individual broking staff member's behaviours and skills	• Rewarding volume alone with additional commissions • Focusing all the attention on the owner of a brokerage

"Brokers may have to become more than insurance placement implementers and give more risk advice. In that case, is there a fundamental issue in the title 'broker' which effectively portrays us as a 'middle man' when in fact the future is around risk management and advice. We get hung up on descriptions and titles within the industry but how best can we improve our perception for clients in terms of what we do?"

Senior broker

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