Insurance Brokers embrace Business Intelligence to gain competitive advantage.

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Executive Summary

‘Insurance brokers that harness technology are more likely to survive as the business environment becomes more competitive’

The challenges of the insurance broking community are well documented, not least by the broking community itself. The most common challenge cited in the general insurance broking market is to meet or beat product offerings of direct providers, particularly in the personal lines market.

The author, with over twenty years’ experience in the Irish broking market appreciates the ongoing challenge to meet the direct providers head on, but is concerned at the short sightedness of the broking community in expending too much energy in the ‘Broker vs. Direct’ debate. or, in the groundhog route of arguing against the differential rates offered by some insurers to their direct arm vs. the broker channel.

By maintaining an apparently combative attitude to the inevitable development of choice of channels for customers or in the planned technological advances of insurers targeting new channels, brokers are failing not only to recognise other market challenges but are also ignoring potential opportunities for competitive advantage over other providers, direct insurers and brokers alike.

A significant challenge to brokers is the increased regulatory scrutiny from the Central Bank. Retail intermediaries are rated as ‘low impact’ on the PRISM classifications but must adhere to prescribed regulations and on-line reporting rules. Operationally, brokers must follow the rules of the Consumer Protection Code 2012. The Central Bank in 2013 advised of increased administrative sanctions for prescribed contraventions which could, for a serious contravention see a fine up to €10,000,000 imposed on a corporate body or up to €1,000,000 for a natural person. For most brokers, a significant fine would effectively mean closure of their business.

1 http://www.riskheads.org/3-technologies-lead-higher-profits-insurance-brokers/
Regulatory compliance within the retail intermediary industry will necessitate a further leap if the proposals under Insurance Mediation Directive (IMD2) come to fruition. The most controversial change which is expected to take effect in 2015 is the requirement for mandatory disclosure to the policyholder of the nature and structure of commission arrangements (subject to a five year transitional period for non-life products where such disclosure shall be ‘on request’). Trade bodies, representing insurance brokers have argued that they will be placed at a disadvantage when compared with direct-selling insurers. However the EU stresses that this is an important step forward for customers to enable them make informed choices. It seems therefore that the IMD2 proposed amendments will go ahead.

The only constant is change and a paradigm shift is required. Rather than seek answers or apportion blame externally or embark on costly advertising campaigns aimed too widely at an entire customer base, brokers must re-evaluate their core business. Brokers have at their fingertips databases of information enabling them, in an individual capacity, make decisions on their customer base in terms of customer profile, product range, claims, loyalty, attrition rates, up-selling, cross-selling to mention just a few.

Running a firm on a ‘trial and error’ basis, hoping that things improve, that premium rates increase, that commission rates will rise or that different results may ensue from repeated, flawed actions based on ‘guesstimates’ of figures quickly leads to business paralysis. Embracing a bespoke business intelligence solution, beyond the static reporting available in the pre-packaged IT broker models, enables a structured strategy of development to take place, leaving the old fashioned models to follow ‘sheep-like’ down the almost inevitable route to extinction.

1. **Introduction:**

Picture the scene at month end in a broker’s office. Emails are issued to all staff advising them, ‘not to enter anything new on the system or to alter any figures as month end is about to run’. When the month end ends, figures are pored over and filed. Imagine if the figures ‘spoke’ more clearly, provided a holistic and comprehensive view of where the firm was placed to meet its own targets or to plan for the next quarter? Too often, brokers are happy when the month end runs without issue and start a new month edging towards yet another month end and another year end. Is there an alternative? Well yes, there is.
2. Who are your Customers?

‘As the changes in customer expectations reshape the key competitive battlegrounds and business opportunities within the industry, nearly 90% of insurance CEOs are planning to change their strategies for managing customer growth, loyalty and retention (nearly 40% are anticipating major changes). Building the customer base and improving customer service are the top two priorities for investment.’

Target ‘your’ customers, not the world.

Proactive brokers and those possibly just fearful of being left behind have joined the social media revolution in terms of presence on sites such as Facebook or twitter. Blogs encourage traffic to brokers’ websites, with the aim of attracting potential new customers. Professional bodies such as the IBA help in the promotion of a broker’s business online. The IBA regional meetings for February 2014 have this topic highlighted.

The question is to what level this additional channel is adding revenue and at what cost?

Brokers can easily identify how many followers or ‘likes’ they have on social media sites but do you know who your customers are?

The answer lies not in the spreadsheet of names and addresses but in mining data to determine income per policyholder, types of policies purchased, how often they are purchased and the potential opportunity for cross selling?

The information allows a focus on product offerings and also offers some protection for brokers to ensure that ‘best advice’ is offered to meet ever tightening regulatory demands.

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5 http://www.pwc.com/gx/en/ceo-survey/2013/industry/insurance.jhtml

6 IBA@IBAbroker #brokersgodigital conta.cc/KLdoF4
Without knowing your best customers, you can’t effectively retain them, keep them loyal, or turn them into advocates and referrals for your company.

3. The Effectiveness of Existing Business Intelligence Systems:

Systems which are built using the traditional platforms, upgraded as required, provide static reporting. A common challenge experienced by Brokers is the continued duplication of entries on existing IT frameworks. This wastes support personnel’s time and can also cause unnecessary delay in servicing customers, leading to frustration. The presence of duplicate and/or different data for the same customer reduces the validity of the data extracted on reports. The lack of coordination between systems can lead to customers being lost in the mire or alternatively being overloaded by duplicate mailshot attempts at a range of products, possibly not suited to them.

Brokers traditionally purchase one of the main insurance IT platforms to meet their IT requirements. The delivery of information from pre-built packages, despite significant investment is often at variance to the expectations of the end user. The emphasis on the BI systems was ‘technology’ driven rather than concentrating on the asset of information available. As a result, the technology in use enables low quality data to be gathered and displayed in a segmented manner. Data overload in static spreadsheets provides little insight for development of workable strategies.

If you don’t know how good your business intelligence is then ask yourself the following...

- Are you able to quickly get answers to your questions, i.e. is real time data available?
- Can staff access key information needed to serve customers as efficiently and effectively as possible?
- Are you getting relevant information delivered to you without you having to search for it?
- Do you suffer from data overload and inconsistent waves of data with no logical results?

In these challenging times, business intelligence is what you need to gain (and sustain) a competitive advantage so don’t be afraid to review your current BI capabilities. If you are not able to maximise the data available to you to exploit every opportunity to increase sales then maybe it’s time you looked at improving your current system in a bid to create a fully integrated system that offers a complete and accurate view of your business in real time.
Sales - What information should your BI provide?

- Quotations provided per product line
- Conversions achieved per product line
- Conversions per account handler
- Policy count per account handler
- Premium Income per account handler
- Commission and fee income per account handler
- Claims statistics per insurer
- Sales vs. KPI’s
- Sales vs. targets per product producer
- Sales via online platforms (where applicable) vs. traditional face to face sales
- Lapse rates per product line
- Lapse rates per product producer
- Lapse rates per account handler
- Income per transaction
- Income per class of business
- Cross selling opportunities
- Upselling success
- Gross written premium per product producer
- Income per product producer
- Analysis of customer profiles
- Analysis of figures for potential portfolio transfer
- Claims analysis vs. GWP on book of business

Positioning BI in the organisational structure

By placing BI at heart of the organisation, it can feed all sections in a cohesive manner, encouraging cross team co-operation and a comprehensive, organisation wide analysis of performance.
4. Regulation

Broker firms are often small businesses with personnel doubling up to fill a variety of roles depending on business needs and resources. The challenge of proactively meeting regulatory requirements places onerous responsibility on brokers. Their ‘low impact’ status does not exclude them from regulatory scrutiny. Time constraints can push regulatory needs to the end of the queue when preference can be given instead to generate much needed revenue.

The production of reports as shown in the sample below, helps a firm adhere to regulatory rules, but also acts as a valuable managerial tool for proprietors/directors in terms of corporate management. Whether the ownership is on a sole proprietor, partnership or limited company basis, control of the regulatory framework and ethical standards within a regulated firm lies at the top of the organisation.

- Exception reports tracking adherence to CPC 2012 \(^7\) rules for rebates
- Exceptions reporting for broker fees falling outside Terms of Business agreements
- Complaints and errors reporting/management
- Dashboard financials, key providers, KPI management
- AML reporting

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5. Conclusion:

The world of insurance broking is evolving and is faced with similar challenges to the retail sector in terms of competition from online providers. It is also faced with increased regulation from home regulators and at a European level and its ability to target customers is affected with advertising rules introduced by the Central Bank to more fully protect customers. When squeezed from all sides, it is perhaps easier to maintain an outward focus towards the external reasons for difficulties rather than turn inwards and concentrate on core business data. Yet by focusing its energies on its own strengths including the analysis of accurate and consistent data, the broking industry can build new strategies for survival and growth, meeting new challenges head on.

About the Author:

Máire Ryan McSherry works as Head of Compliance for an Underwriting Agency and as Compliance Manager for a group of retail intermediaries in the South East of Ireland. Máire has 20 years’ experience in general insurance with roles including multi branch management of a retail intermediary, sales management and training and compliance roles. She also works in a consultancy capacity for the Insurance Institute of Ireland as author of updated compliance textbooks and regulatory updates for its web based learning platform.