Insurance need not be boring

By Robert Marshall, Director, Advanced Insurance Centres

We are all sick of junk mail, flysheets, TV and internet advertising offering great savings on our insurance. We all know that no one ever gets a discount without there being a catch somewhere.

The sole object of trying to get the customer to change their insurance company for better rates has failed abysmally. In fact, it has resulted in the reverse effect occurring – for example, most customers stay with their provider, because they are too confused and think a change is too much hassle.

In truth, both the personal lines and corporate markets are grossly over-saturated, with too many brokers offering all the primary areas of insurance – from household and motor cars and commercial vehicles to commercial premises and so on. Brokers work to the not unrealistic philosophy that once a client has paid for their basic cover, they will seek to cross-sell them all sorts of related, and sometimes unrelated, products, hoping these sales will make more than sufficient income to compensate for the loss-making lead product areas. Certainly supermarkets and banks now selling insurance are more than keen to offer more credit or credit cards to their customers.

With insurers suffering losses in most areas, they only technically “net out” capital sums invested from the insurance premium income. And even then, they need the margins of overseas earnings and low-cost overheads to make an overall difference.

It’s all a game of mirrors, with insurers assessing losses over a three-year period before declaring any. If the prospective losses are substantial or the presented claims contentious, that time scale will be extended with only a part provision declared. By definition, what you see is not what you get when it comes to losses established, which explains the poor returns insurance companies have given to investors over the years.

They are really between a rock and a hard place, working to the belief that over time, competition will fall by the wayside and those left will only be big and beautiful and able to fully maximise all the economies of scale there are in the book, thereby being justified raising rates with impunity to make the base products profitable.

Unfortunately, egos play a part in all this and are hard, if not impossible, to evaluate, let alone reconcile. Many small brokers and sole traders use the title managing director and delude themselves with their own self-importance, thus handicapping any enlightened negotiation. So whereas in other industries natural rationalisation will occur, where insurance is concerned, nothing of the sort has happened and what we are now seeing are some large groups of culturally divided people that have merged together, but, unfortunately, are not singing from the same hymn sheet. This has resulted in upsetting clients and eventually leading to break-ups or new start-ups

Logic should prevail, but when you start with approximately 22,000 brokers and intermediaries, it’s easy to see why it hasn’t gone according to plan. Insurance is still a very personal business, because each client is anything but bog standard and each risk is almost bespoke.

Regardless of this being a deemed "paperless electronic society", where insurance is concerned, it is not. In fact, failure to provide the right forms on request can handicap the client altogether.

Whereas the stock market has had its Big Bangs, insurance has not, which is why we are in a mess now. This has been compounded because there still isn't a single industry representative being heard, although there are three or four conflicting messages. The UK regulator, the Financial Services Authority, took too long to understand that unless the end customer is at risk, applying banking regulations to the insurance industry will not help anyone. With substantial consultation papers and end policy documents, the question needs to be asked as to what benefit the intermediary or end customer has achieved from all this.

To make life more acceptable, the FSA has now reverted to a principle-based regulatory approach. However, it has left the rules in situ, so that no one truly understands them. The FSA is a necessary part of the equation, it's just that it has somewhat lost the plot because the pool of insurance permutations is so deep, it can't cover every area effectively – if at all.

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The FSA therefore decided that it was best to go overboard and established blanket regulations, now seen to be singularly inappropriate by all sides, in the vain hope that somewhere they will always be a link to some regulation that will cover anyone in the industry, however obscure.

It is odd as a director employed in this industry that some of our European contemporaries are working to a total of 40 pages of regulation based on the same European Insurance Mediation Directive for intermediaries as we are in the UK, yet we work with over 1,500. So what should you, the consumer, do?

Perhaps you are confused, stuck in a rut and would rather stick with the same broker you have always used. Fair enough, but not every broker can possibly know or have working facilities with every insurer or, by definition, know every deal that is available. Further, given that most clients need a bespoke quote, all you can conclude is that getting the best coverage will give you some solace. We see a solution, given that speed is an issue, in recommending that clients use more than one broker to check rates.

However, where the usual ploy has been to check rates then force the incumbent insurer and their respective broker to compete with the lower rate and leave alone for another year, you should move the account to the cheaper cover offered: if insurers are taking their customers for granted, they do not deserve that business.

Moving insurance is very easy – just supply a copy of the proposal form and policy, and the broker will do the rest for you. Certainly accidents will happen, but clients old and new are realising more than ever that only tight internal disciplines benefit their end insurance overhead costs dramatically and, where applicable, their respective bottom lines.

Many clients view insurance as an indirect tax and it's not too difficult to empathise with them when many have an unblemished claims history, but this should be reflected in their premiums. Usually the loudest complainers are those who are in denial about their claims histories and fail to see that without the cover, they could possibly have suffered substantial losses.

Where a prospective client has a dire track record on claims registered, it could handicap their ability to get cover. And while there will always be a price for cover, the cost of paying it may breach the viability, if the client is a company, of the business to continue trading profitably.

We pick and vet our clients, as is our right, because we know those that are prepared to get their house in order will enjoy serious savings in their insurance overheads using our services.

We are just practical brokers, who in this era of unstoppable spin, are intent on keeping to the basics: looking after our clients' (both personal lines and corporate) best interests through treating them fairly and making sure they are fully informed at all times. ■