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Mr White Cooper

Topic 1

INTERNATIONAL INSURANCE MARKET TRENDS, ESPECIALLY IN THE FIELD OF INDUSTRIAL RISKS. HOW DO YOU FORESEE THE FUTURE OF THESE MARKETS?

One of the problems I - and all the platform speakers - face today is that the topics we are going to discuss during this session are intimately related. We cannot discuss, for example, the future of the insurance market without considering trends in servicing. Hopefully, I have avoided too much repetition, but I will be addressing a common theme throughout this session.

The key supposition is that organisations, whether in the manufacturing or services sectors, will continue to need to protect their assets and those elements of their businesses which generate profit from events which could significantly impair their ability to generate acceptable returns for their shareholders.

Given that such needs continue, I believe that the insurance market will be the preferred vehicle for transfer of risk, even by the largest industrial concerns.

However, particularly in the EEC, where the ratio of insurers to population is unusually high, it seems inevitable that the number of insurers able to muster the resources necessary to meet the requirements of major industrial concerns will contract significantly.

Many insurers currently operating within Europe are likely to have no effective future role within the insurance programmes of such major client organisations because of merger or acquisition or by refocusing within narrow specialities. Already within Europe we have five major and increasingly dominant insurance groups.

Just as throughout the world there will be dominant economies and within those economies dominant multi-national industrial groups, so we can expect dominant companies to emerge within the insurance sector.

Thus it is possible to foresee that there will be an effective reduction in choice for the transfer of those risks which major industrial organisations will continue to need to place 'off balance sheet' to protect bottom line earnings. Reduction in choice equals a contraction of the competitive element that a free market exists to supply; a situation which is averse to the best interests of industrial clients.

In this event it is wholly predictable that such clients will need, more than ever before, professional and independent advice to explore, design and implement alternatives to the increasingly limited options available off the shelves of the 'dominant' insurers. This becomes more imperative with the likely hardening of some market sectors.

So, in the field of industrial risks, particularly for the medium to large buyers of insurance, it can be expected that the Pan European and/or global professional intermediary firms will gain in strength. Their success will depend on their ability to provide true 'added value' services. The smaller buyers may be attracted to these intermediaries, but will also continue to support the smaller brokers, whose role will diminish unless they are able to provide cost effective and sought after 'specialist' services within their local markets.

Let me end, if I may, with a few additional general prophecies:

- A great deal of hype surrounds 1992. Freedom of services is not going to be a reality on the symbolic date of 1st January 1993, but happen it will and certainly by the year 2000. Increasingly, large and medium risks will be written on the basis of Freedom of Services whilst regulatory reforms Europe-wide are likely to accelerate.

- Small to medium sized buyers will benefit from greater choice of market and product alongside better prices, and suppliers from reduced costs and (hopefully) greater profits, both because of a reduction in national protectionist measures and an enlarged market place offering economies of scale. Larger buyers will not see such scales of benefits, because they are already looking to the market as a whole for their protection - and because of the mergers and acquisitions I have already referred to.

- Where insurers are physically located will be less important and the current trend involving the transfer of risks out of the traditional commercial lines market will continue, with the Alternative Market - self insurance, captives, mutuals, etc. - consuming at least 50% of total premiums.

- The financial security of insurers will have greater prominence generally with governments working together in agreeing common regulatory procedures and safeguards.

- Lloyd's of London will undergo fundamental change with an increasing number of large composite syndicates and possible limited liability or collective mutuality for its names.

- We can expect to see very considerable investments being made in training and management development with the view to improving productivity. Whilst IT will play an important part as well, training will be the key to ensuring that the potential benefits of technology are realised and the delivery of quality service is achieved.

- The trend towards clients paying fees to their intermediaries instead of brokerage will become the norm for major buyers, with proper pricing of services being fundamental for the European/global intermediary.

- The overall ownership scene will be more complex within the whole financial services industry. In particular, more foreign ownership of UK companies will occur, whilst the large global insurance companies will prosper. The large Japanese insurers will also be more active. A fragmented Europe was of little interest to them - but a single market place is. The brokers or independent intermediaries will not escape unscathed - a maximum of three global firms are likely to survive.

- Similarly, the growing deregulation of the banking sector in Europe will leave its mark. Whilst the banks will not be a direct challenge to the major independent advisers/intermediaries, they will either increasingly compete with the insurance companies (as insurers) or will co-operate with them in providing enlarged distribution channels.

- Finally, the world will continue to shrink and the business pace to quicken. A freer competitive climate will emerge and companies wishing to compete will require higher professional standards. The amateur will lose out, but clients of the true 'professional' intermediary will benefit.

W.R. White-Cooper

Topic 2

MARKETS ARE MOVING INTO THE FIELD OF SERVICING, THUS CREATING NEW CHALLENGES BETWEEN THESE PROFESSIONALS. REINSURERS NOW DEAL DIRECTLY WITH INSUREDS VIA CAPTIVES. INSURERS ENTER THE LOSS CONTROL BUSINESS WHICH WAS PREVIOUSLY RESERVED TO BROKERS. WHO IS DOING WHAT TODAY AND WHO WILL DO WHAT TOMORROW?

It is suggested that the roles played by insurers, reinsurers and brokers are becoming increasingly blurred. But are insurers now capable of performing risk control functions and providing direct service to industrial clients? Although reinsurers do deal directly with clients via captive organisations, can they really eliminate the direct writing insurers and brokers?

Looking first at reinsurance, whilst most reinsurance comes from the non-life sector, this is diminishing as more and more insurers are either retaining more risk for their own account or shifting from a proportional sharing of risk to cover losses in excess of prudent underwriting. So a number of reinsurers are repositioning with shareholdings in direct insurers and involvement in risk and claims management services. At the same time reinsurance brokers are adjusting by offering consulting services to their clients, which are geared towards providing complete protection rather than mere capacity.

In the May 1991 International Insurance Report and, I quote, "reinsurers seem only too willing to play the accommodating mistress, entering into all sorts of ruses to justify the relationship - setting up their own direct dealing insurance subsidiaries, encouraging the formation of captives and providing both the captive management and the captive reinsurance programme, developing risk management services organisations to draw the buyer into the net, ...".

Reference is made to insurers entering the loss control business previously reserved for brokers. Independence and objectivity are essential in areas like claims and risk control. It hardly needs spelling out but obviously a risk control surveyor employed by an insurer owes his primary duty to his employers and, irrespective of how many chinese walls may in theory be erected, is unlikely to recommend a course of action diametrically opposed to the interests of his masters. At the risk of being controversial the use of insurers' 'in-house' risk control resources is not always in the clients best interests.

Protection is the key to the survival of the insurance market, but a major component of protection is advice - impartial advice on the need for purchased protection and the best source to purchase from. For those of you responsible for your own organisations' risk management affairs, I question whether this is a healthy development, and one that can lead towards truly independent and objective advice.

So, where can you go to seek that impartial advice?

Traditionally, in many countries, insurance brokers were relatively unknown with the larger industrial organisations being provided with insurance services directly by the major insurers or via agency networks. Only in a few countries are brokers dominant and these tend to be markets which were generally less regulated and where the countries have a trading history.

At this stage let me say that we brokers generally deplore the term 'insurance broker' as it does not really illustrate our function today. Rather we should be known and seen as independent risk advisers and insurance intermediaries; the broking function presently being a part of our resources which may or may not be relevant when advising clients.

For the most part, it is in the provision of high value, fee-based risk management consulting services which will drive the strategies of the larger intermediaries in Europe. Because these consultancy services can be provided piecemeal (or unbundled), I see no conflict with any client's in-house function, as the services can be purchased to complement a client's own resources and requirements. And, irrespective of whether the appointment includes the traditional broking role, intermediaries are already increasingly being remunerated on a fee basis calculated on actual 'time expended'. This removes the implication that brokers/intermediaries cannot provide truly impartial risk management advice in areas like self insurance and captives.

In the future, it is the provider of products and services which give best value for money who will come to the forefront and the origin of the product or service will be of decreasing importance. However, objective and impartial advice can only come from the truly independent adviser or intermediary. Quality service (and by this I mean client responsiveness and satisfaction) is acknowledged by international insurers and intermediaries alike as one of the most important benefits they can provide to their clients and a key factor in sustaining competitive advantage.

For example in my own company, Sedgwick, we are in the process of implementing what we call our Professional Account Management system (PAM for short) which is aimed at ensuring uniformly high standards of service world wide. As many of you will recognise, this is not always easy given differing trade practices, languages and so forth.

It is also worth making the point that brokers/intermediaries generally welcome working with other professionals in other disciplines. Increasingly this is the case, for example in areas such as environmental risk, where a multi-disciplinary approach is normally both desirable and in the client's best interest.

The so-called 'alternative markets', involving self insurance and captives, will continue to prosper at the expense of the direct writers. Concepts like 'cost of risk' (in other words, reducing the aggregated cost of risk be it insurance premiums, self insurance, loss control and/or administration) will appeal to more and more of the larger buyers. Notwithstanding the welcome involvement of the banks in risk financing, I believe that the traditional insurance market will be the preferred vehicle for the 'transfer' of insurable risks even by the largest industrial concerns.

For the future, I expect Risk Managers of the large industrial organisations to be looking for:

- professional counsel secured by:
  - financial adequacy
  - integrity secured by state regulation
  - minimum professional skills standards (by examination and through experience)
  - compulsory errors and omissions insurance

- advice based on an integral knowledge of his business

- familiarity with the need and means to fit a risk strategy to ever changing business requirements

- knowledge of a wide variety of 'business problems' and how they can be solved by risk financing (eg problem solving ability)

- a thorough understanding of the changing legal environment including potential liability exposures in various jurisdictions

- the ability to deal with world wide insurance markets (not just those within Europe)

- a knowledge-bank and security system to ensure that only insurance markets of the highest integrity are accessed

- marketing muscle

- systems support to managing risk programmes

- total professional independence

Where can this profile be found? I would argue that it is not with the insurer or indeed the reinsurer. It is only through the professional intermediary.

This is not just my view. Within the EEC for some years the Commission has been saying that it is looking to the professional adviser/intermediary to make the single market work for insurance within Europe and yet regulation of the intermediary has largely been overlooked.

Somewhat belatedly a new recommendation is being put forward by the Commission; which basically lists four steps to be taken by EEC members:

1. create rules, regulating both access to the field and the practice;

2. establish compulsory registers for qualified intermediaries;

3. stipulate that insurance intermediaries may not operate without registering; and

4. that a clear distinction be established between dependent (or tied) and independent intermediaries.

To my mind only when this has been achieved can the Community really boast that it has established an independent intermediary or adviser service capability throughout Europe.

W.R. White-Cooper

Topic 3

WHAT CAN THE PROFESSIONAL ADVISER OFFER BIG BUSINESS IN EUROPE?

As you might expect I have some definite views on the future of professional advisers in Europe (some might call it self-interest!) but I do believe we can offer big business a great deal. But let me add a word of caution. Advisers need to work within the framework of an agreed risk strategy and only be used where they can add real value.

So for the purpose of my answer, let's use the term adviser as a company able to provide high value consultancy and advisory services in addition to fulfilling the accepted broking or placement role. Of course there are other consulting firms who can provide some of these services but my question is directed towards the intermediaries - the so-called 'broking' fraternity.

Now, I have no intention of lecturing you on the benefits of a broker. What I want to do is propose a few questions. Twelve of them, in fact. Your own answers to these questions are the only real test of whether there is a role for the professional adviser - because you are the people who will be employing him! I use the word adviser because, as we have already discussed, your advice could be coming from a number of sources.

So, please think carefully on these questions:

1. Does your adviser have experience and real understanding of your business and does his team engender ongoing interest and inquisitiveness?

2. Are you an important client for your adviser?

3. Is your adviser creative and has he identified innovative solutions for your particular problems?

4. Can your adviser provide the services you require in the European cities where you operate and provide sound local knowledge and advice in the appropriate local language? Can they also guarantee uniformly high standards of service everywhere you operate?

5. Is the team professionally qualified and do they regularly attend training sessions?

6. Can your adviser provide practical Risk Management skills in areas like risk analysis, loss control, risk financing, actuarial and self insurance studies, claims and captive management facilities and catastrophe planning?

7. Does your adviser have any specific capabilities in environmental consulting?

8. Does your adviser have both sufficient clout in the insurance market and the ability and knowledge to tap into other markets?

9. Does your adviser provide efficient administrative services and do you get your policies and summaries etc promptly?

10. Is your adviser prepared to 'unbundle' his skills and is his remuneration commensurate with the amount of time spent working with you and the level of resource made available to handle your account?

11. Does your adviser act like a businessman first and foremost and as an insurance man second? What are his relationships like with your factory personnel and field staff?

12. And, finally, is it fun doing business with your adviser - is the chemistry right?

Those are the questions. Why are they relevant? Many of you in the auditorium are Europeans like me so let's see if, from a European company perspective, advisers can indeed help big business in Europe.

A not untypical scenario for a European company might be:

- The current recession puts pressure on profits with the Chairman looking for improved earnings per share.

- The CEO is a recent appointment and has a personal crusade: a leaner organisation with more responsibility being pushed out to the operating units/field.

- The CFO wishes to reduce expenses (don't they all!).

- Legal counsel are concerned about contract conditions for a potentially lucrative contract in, let's say, Poland.

- The public relations department are worried about the company stance on environmental issues and whether there is adequate insurance.

- And the risk manager understandably wishes to run his own show, justify his actions and show value for money to his senior management.

And if you think that is a little far-fetched let me assure you otherwise as this scenario is 'bread and butter' for the professional European adviser, but perhaps more of a challenge for the local/niche broker.

So how does the risk manager manage to keep his colleagues happy, his pride intact and yet fulfil the exacting task as his Job Description dictates? What can he do?

Succinctly put he can appoint a professional firm of advisers who are experienced within Europe, have the necessary capability and yet understand your specific problems and are prepared to work within a stipulated Service Brief for a fee geared to their contribution/involvement. An adviser who can answer all the twelve questions.

Of course, when you go back to your company and consider your current adviser, there will be other, additional questions which can and should be asked. But within a European context if you can answer the majority of the questions affirmatively then clearly you have the right adviser working for you. If not, there are firms out there who can do a great deal for big business in Europe!

W.R. White-Cooper