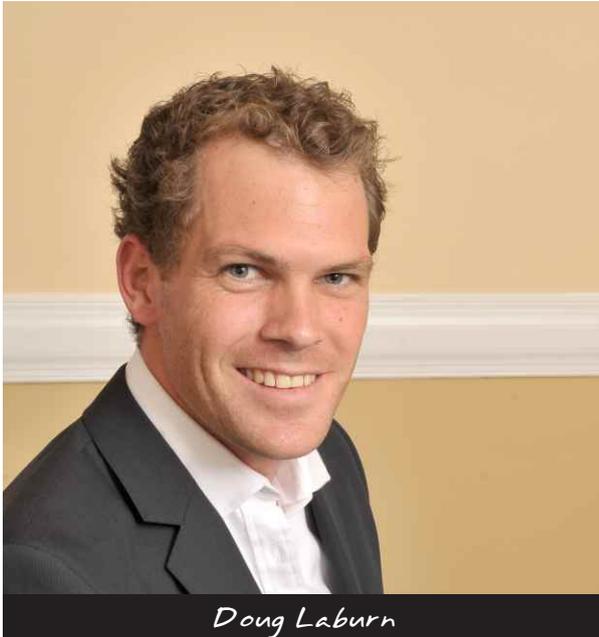




New opportunities for short term insurance brokers

By Doug Laburn, managing executive at Lombard Partnerships



Doug Laburn

South Africa's large insurers are turning to commercial and other specialist lines to improve their underwriting margins. The question becomes how the country's short term insurance brokers should leverage this trend to maximise their business returns over the next few years. Should they follow the insurers' lead and concentrate on niches within the broader insurance market or should they focus on becoming generalists, offering excellent advice on as wide a range of insurance covers as possible?

From an insurer perspective there is no doubt that specialist lines offer more attractive returns at the underwriting level. A recent Financial Services Board report confirms that specialist classes of insurance – including engineering, liability, transportation, accident and health, guarantee and miscellaneous – achieved a claims ratio some 20% lower than the motor and property classes between 2012 and 2015.

Make allowance for volatility

What is missing from this simple comparison – a fact that has largely gone unnoticed by market commentators – is that underwriting results are incredibly volatile... In addition the expense 'base requirements' are usually much higher for specialist lines insurers. These two factors exist due to the higher underlying risk, product and claims complexity, and the need for specialist skills in writing business in the specialist lines classes. Delivering consistently strong underwriting results in the specialist classes is not easy and a skilled and experienced operating team is a necessity.

If brokers want to position themselves to service the specialist classes effectively then consideration should be given to the kind of insurers you engage with and which particular classes are most attractive to deliver more value to your client base. While price is always an important factor other issues such as quality of product, underwriting expertise, claims service and skill play a key role in deciding on which insurance partners to choose.

Underlying all of this is the need for a strong working relationship between broker and insurer. Strong relationships are crucial due to the inherent complexity in the specialist lines classes. It is also true that the tailoring of insurance products requires that brokers and insurers work closely together to deliver meaningful solutions to their mutual clients.

Going the UMA route

In our view this is best achieved through dealing with a specialist insurer or UMA whose focus and expertise are built around a deep knowledge of a particular risk class. And because these entities operate outside of the corporate environment that many large insurers occupy, service and quality of working relationships tend to be stronger.

Another benefit of partnering in this area is that brokers deal with the decision makers at their chosen specialist insurer or UMA partner with resultant process improvements at each stage of the insurance chain.

Delivering consistently strong underwriting results in the specialist classes is not easy



The specialist classes on which a broker may choose to focus will depend largely on the broker's particular skill set and experience, the make-up of their client base and the strategic direction the brokerage would like to pursue. From a commercial lines perspective, brokers should look to position themselves strongly in the engineering, marine and specialist liability lines.

The engineering class is well established in SA, with a number of high quality specialists operating in the market. This class of insurance will benefit significantly should government's long awaited (and much needed) infrastructure expenditure programme get properly underway. An additional consideration is that in many cases the plant or electronic equipment gets lumped in with the assets policy. However, these are exactly the types of risks where a specialist skill and approach is valuable to both the client and broker, particularly at claims stage.

Insuring goods-in-transit

SA is and will remain a trade orientated country and the movement of goods across the world is inherently complex. With the support of the right insurance partner there is significant opportunity to create a differentiated marine and goods-in-transit (GIT) offering to your clients.

Specialist liability has seen and will continue to see an evolving and growing diversity of risks. Driven by new technology and product development, along with consistent regulatory change, the scope for innovation and product structuring in the liability risk transfer area is vast. A popular current example of this risk evolution is cyber liability and the huge responsibility businesses have for the client data they retain.

In the personal lines environment there will be significant opportunity in the broader accident and health class, in particular around health insurance products. The regulatory environment around short term health insurance has stabilised significantly while the ever-escalating cost of healthcare means that the time is right for product innovation in this segment. There is significant client need that is not being adequately provided for by the insurance sector at this point in time.

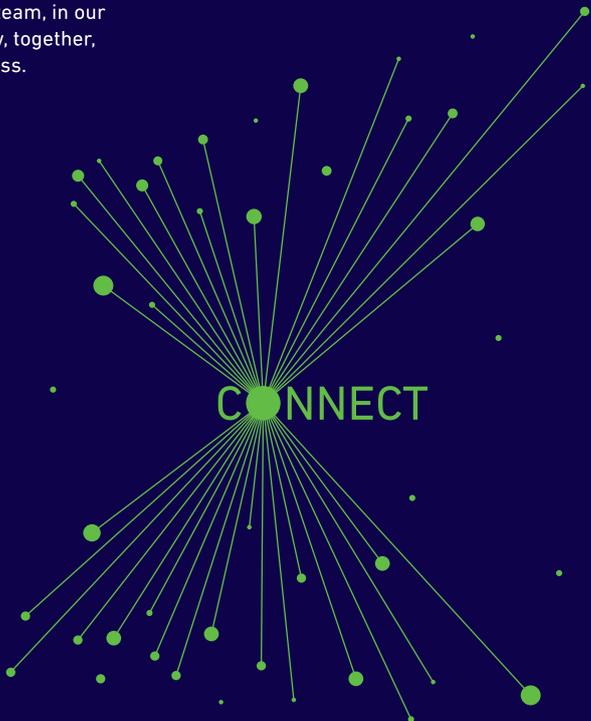
Valued 'specialist' approach

These are just a few examples how a specialist approach can be valuable to clients and enhance what brokers are able to provide, whether in growing or stable markets. Insurance brokers must make sure that they find the right specialist partners who have the appropriate experience and focus – and never forget the importance of good relationships.

Partnering with the right specialists is how we create strong connections – through our team, in our markets and with our brokers. That's how, together, we deliver real client solutions and success.

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