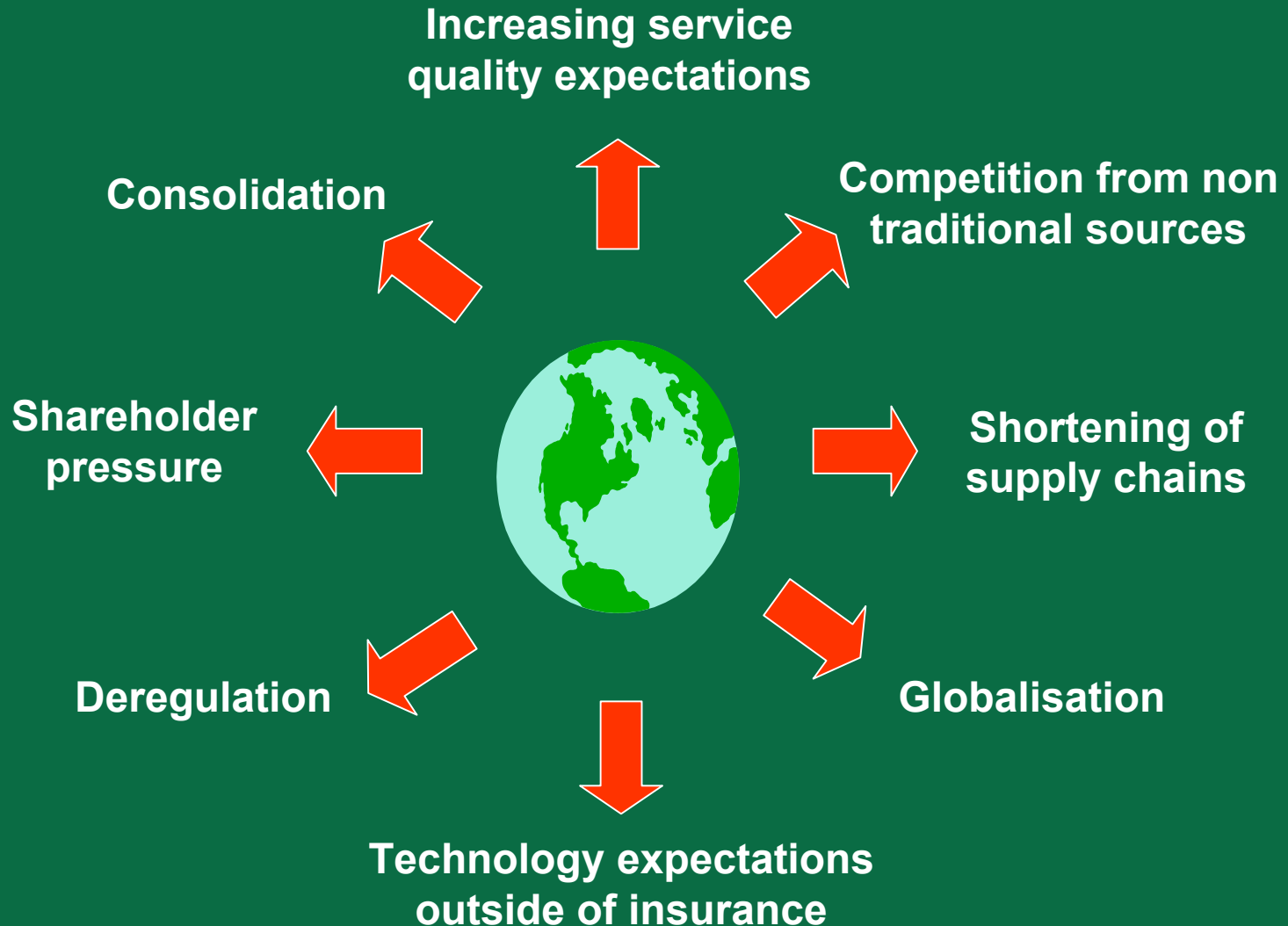


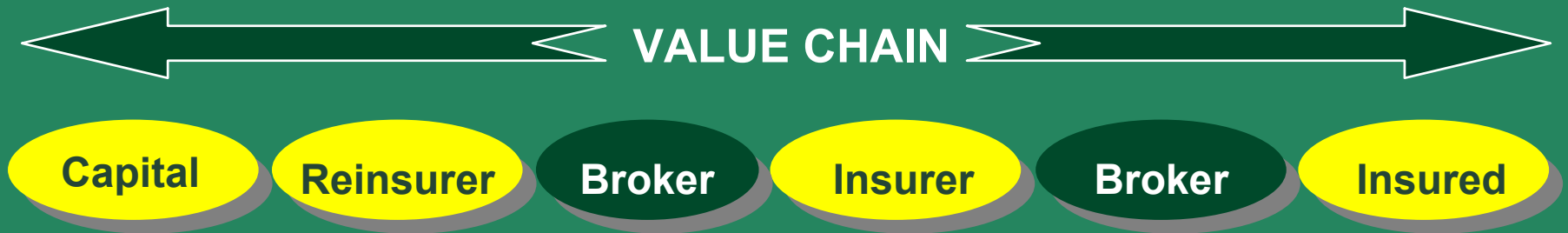
# Insurance and Broking

Whither or Wither?

# An Industry under threat?



# The traditional model



Source:

Based on Brearley & Myers (1996)  
and Porter (1987)

# The Myth of Disintermediation?

- Insurance executives believe the future role of brokers will be limited
  - Only 42% think brokers will have a significant role in the medium-size corporate market by 2005\*
  - Only 49% think they will have a significant role in the larger corporate market\*
- Large scale/sophisticated purchasers will no longer require the services of a broker

\*Economic Intelligence Unit/PwC  
survey quoted in the FT 28 April 2000

# Customers are changing the process

- Businesses question the value added at each stage
- Managers are asking “how many hands are involved” and what do they bring
- Objective - shrink the “Value Chain” to achieve intended goals in fewer stages

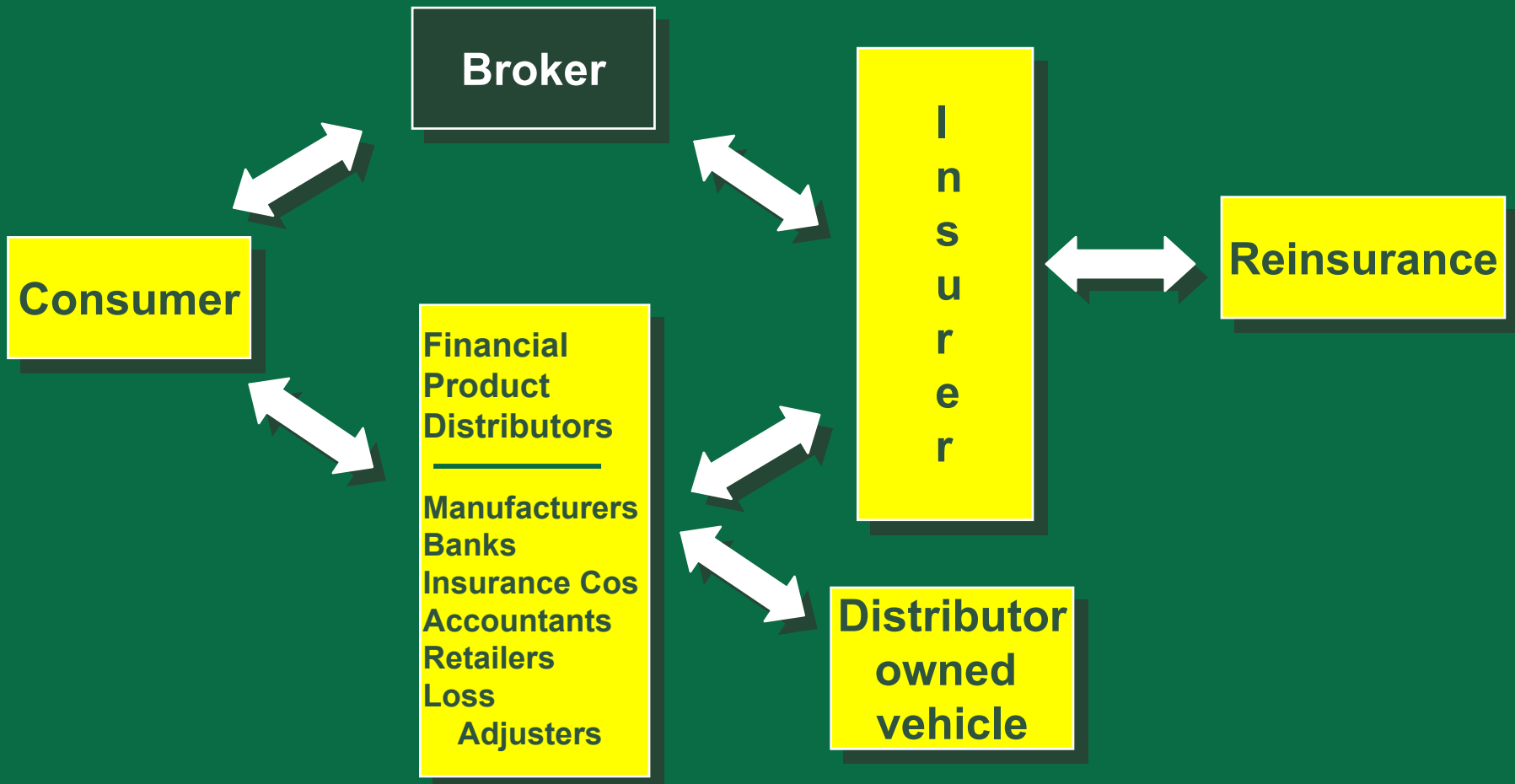
# Customers are changing the process

- Seek deeper understanding of business risks
- Traditional exposures less important or relevant
- Risk Management and Corporate Governance high on agenda
- Demanding more competitive solutions
  - Cheaper Insurance
  - Self Insurance
  - Wider coverage - cashflow/balance sheet protection
  - Cheaper capital - ART
  - Higher service levels

# Customers are changing the process

- Business models changing
- Segmentation by size/complexity
  - Commodity
  - Major Corporate
  - Complex/Specialist businesses

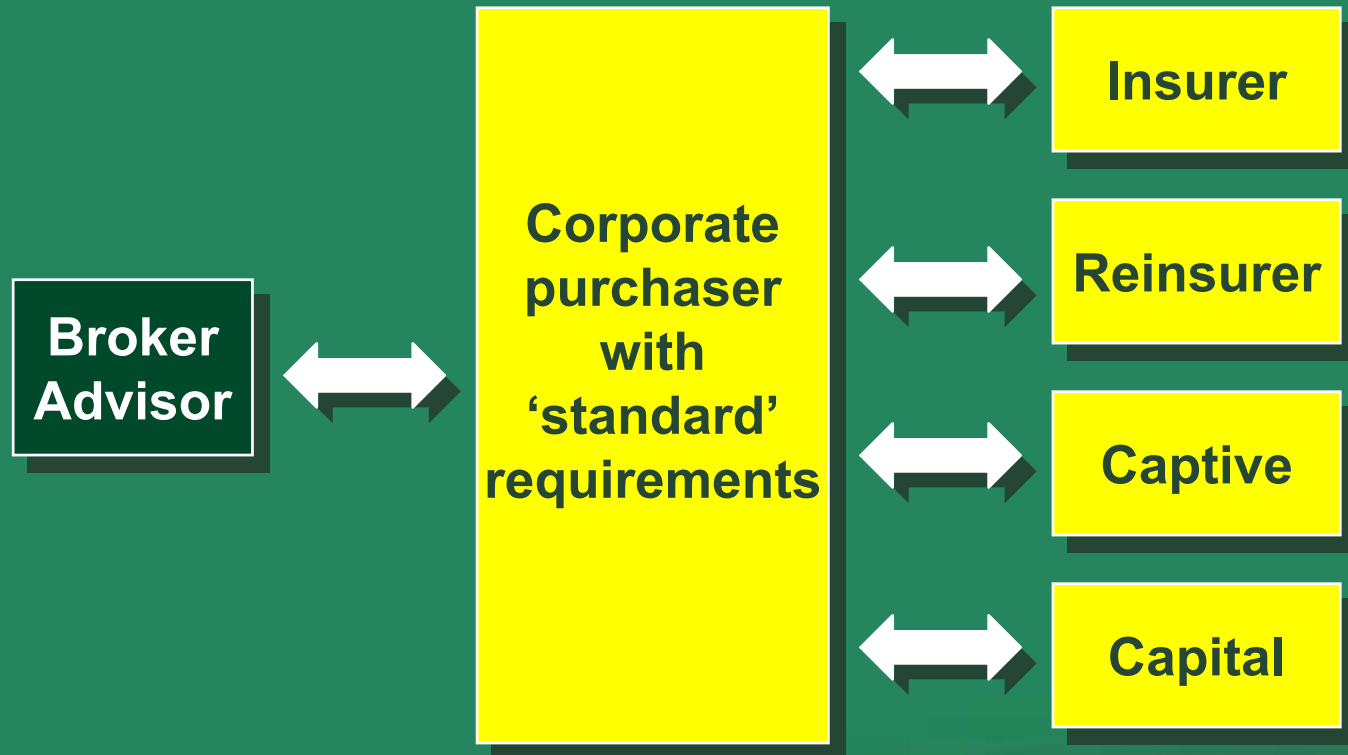
# The Reality - a range of models...



# Commodity products

- Price driven
- Homogenous risk profile
- Low severity exposure

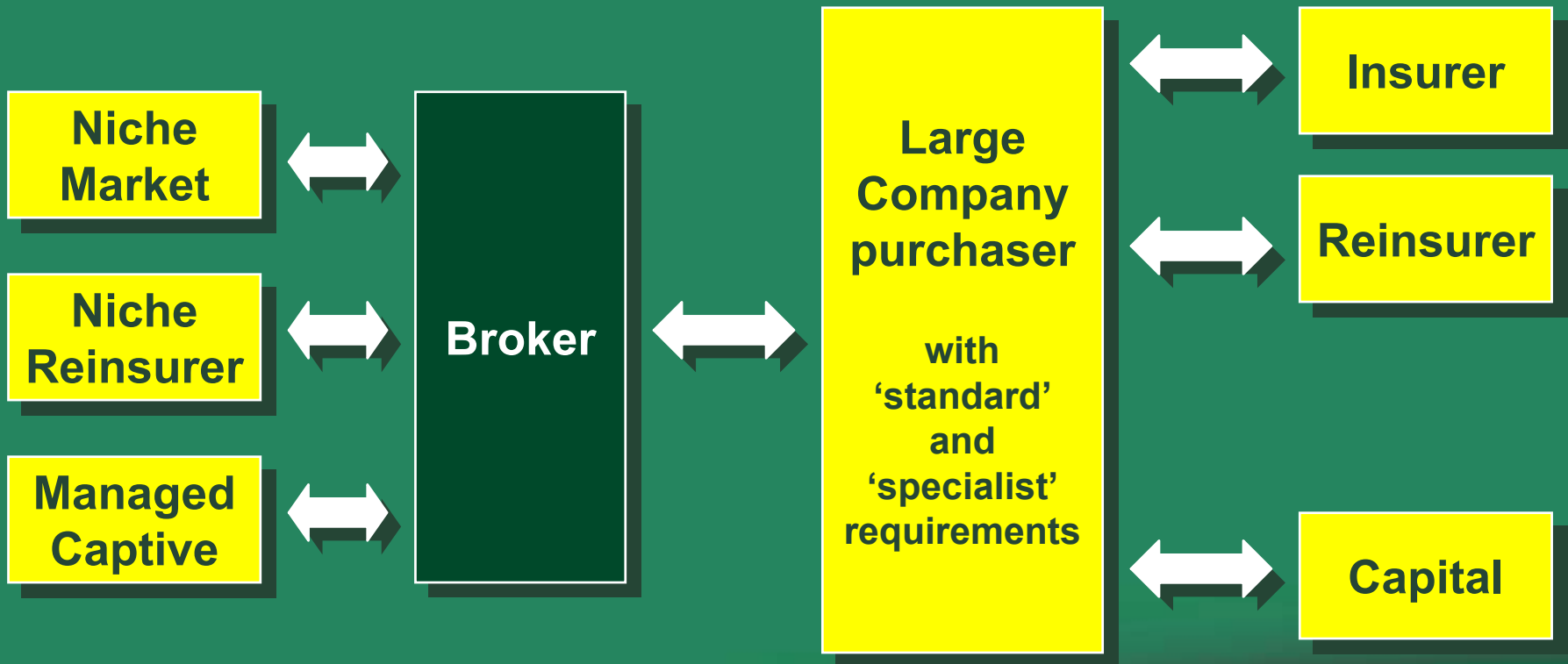
# The Reality - a range of models...



# Corporate Risks - A new relationship

- Broker as advisor - not transaction driven
- Client gains access to:
  - specialist knowledge gained through dealing with a range of markets and clients
  - additional services - Risk Management, Health and Safety - on a “menu” basis
  - external perspective providing independent checks and balances

# The Reality - a range of models...



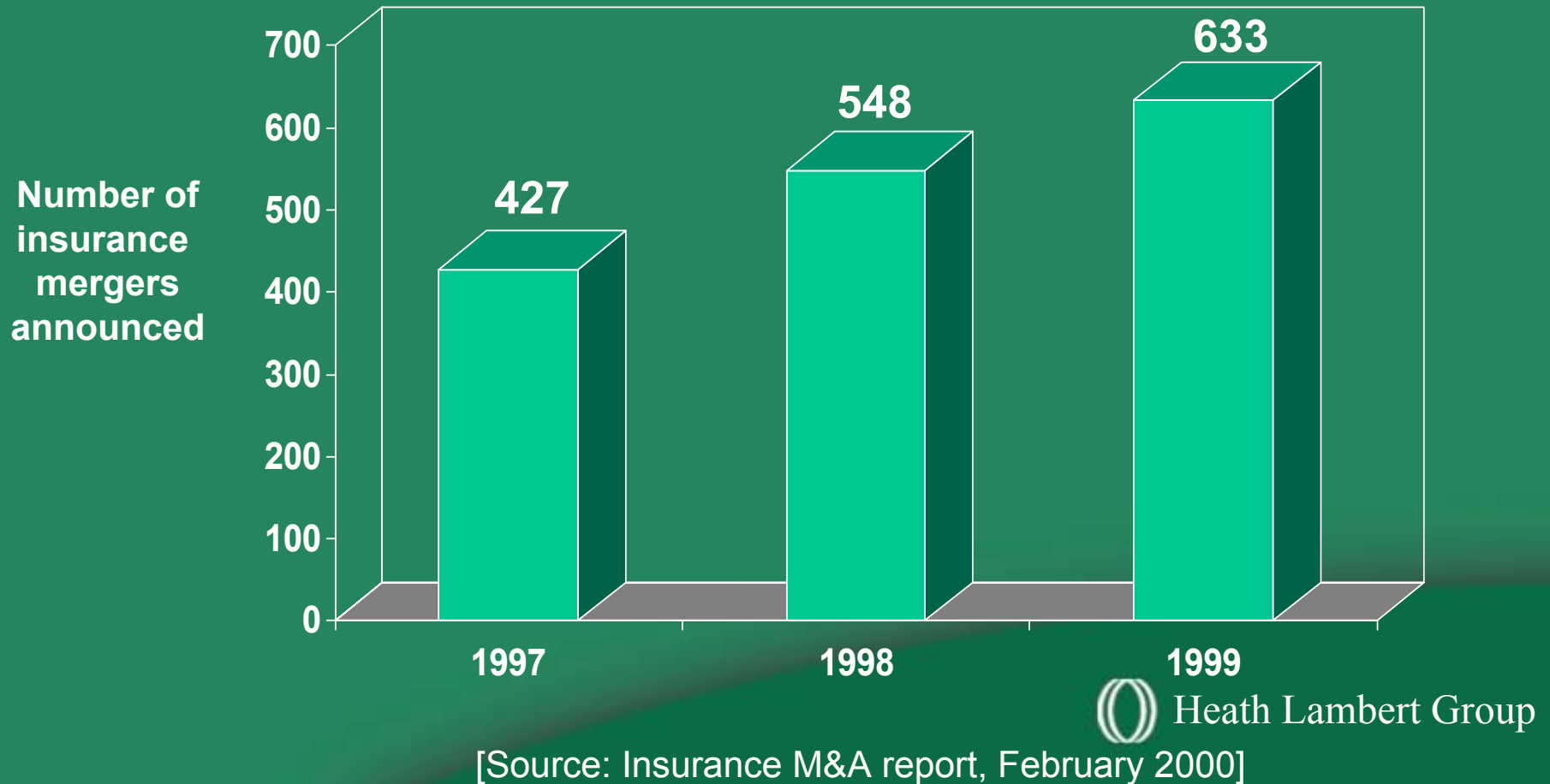
# Complex/specialist businesses

- Transactional broker - not dead
  - Role in niche products
  - Can add real value to the process
  - Value for client:
    - Advice, specialist services and external assessment
    - Knowledge of specialist markets and services
    - Leverage in negotiation and purchase of cover

# Carriers are changing too

- Polarisation continues
  - Big get bigger
  - Niche markets become more focused
  - Consolidation pace growing

# Carriers are changing - consolidation



# Consolidation in London market

<u>Number</u>	<u>1990</u>	<u>2000</u>
ILU member companies*	188	} } 94
LIRMA companies*	136 (1991)	}
P&I Clubs	41 (1992) (1999)	39
Lloyd's syndicates	401	139
Lloyd's brokers	245	133

\* significant common membership, so not true comparison

**Sources:** Association of British Insurers  
International Underwriting Association of London  
Lloyd's Insurance Brokers' Committee / Lloyd's

# Carriers are changing too

- Blurring of lines between Insurer/Reinsurer and Capital Markets
- Competition for markets and market share intensifying
- Use and supply of Financial/ART products expanding

# Whither not wither!

- Competitive pressures to contain and reduce costs mean that the role of brokers and carriers is changing dramatically
- Brokers will increasingly:
  - strike a balance between transactional and consultancy work
  - take a pro-active stance offering solutions and additional services

# Whither not wither!

- Carriers will seek to re-define distribution strategy
- Re-insurers and Capital Markets will leverage Risk Management and risk bearing capacity

# Insurance and Broking Whither or Wither?