



Underwriting Agencies Australia/New Zealand CEO Survey 2017

Business Priorities and Trends

Brought to you by Gratex International Pty Ltd





I am delighted to present the fourth annual edition of the Underwriting Agencies CEO Survey.

Gratex sees the ANZ insurance industry as a vibrant ecosystem constantly recalibrating to adjust to the changing climate. The 2017 survey results provide an insight into an industry that does not rest on its laurels. After three years of “back to basics”, with organisations focused on the fundamentals, respondents have started to see the fruits of their labour. Confidence is high and following years of investment in operational efficiency and process automation, agencies are looking to reap the benefits of efficiency gains, particularly taking advantage of data insights. At the same time, the industry continues to be concerned about the challenges posed by new entrants and business models.

An ecosystem relies on symbiotic relationships and likewise underwriters rely on other segments of the industry for their success. This year, we have expanded the survey and focused our Hot Topic section on the role of brokers. While underwriters were in agreement that brokers will continue to play an essential role in their success, not all agreed on how that would happen.

I would like to thank all the participants who have taken the time to complete the survey and contribute to our wider understanding. I'd also like to thank our partner, the Underwriting Agencies Council (UAC), who made it possible to conduct this anonymous survey across its membership base.

Gratex remains committed to supporting the success of this industry and we trust the survey will provide you with valuable insights for the future of your business.

Sincerely

Peter Dovhun

Managing Director, Gratex International

Key Insights

Investment in people, process and technology is bringing **REWARDS**

Operational Systems recognised as most important business **ENABLER**

Broker relationships are expected to **CHANGE**

Regulatory change **is raising IMPLEMENTATION CONCERNS**



BIGGEST SHIFTS FROM 2016 TO 2017

Biggest increase:

'Operational information systems that support business objectives' as a **KEY ENABLER**

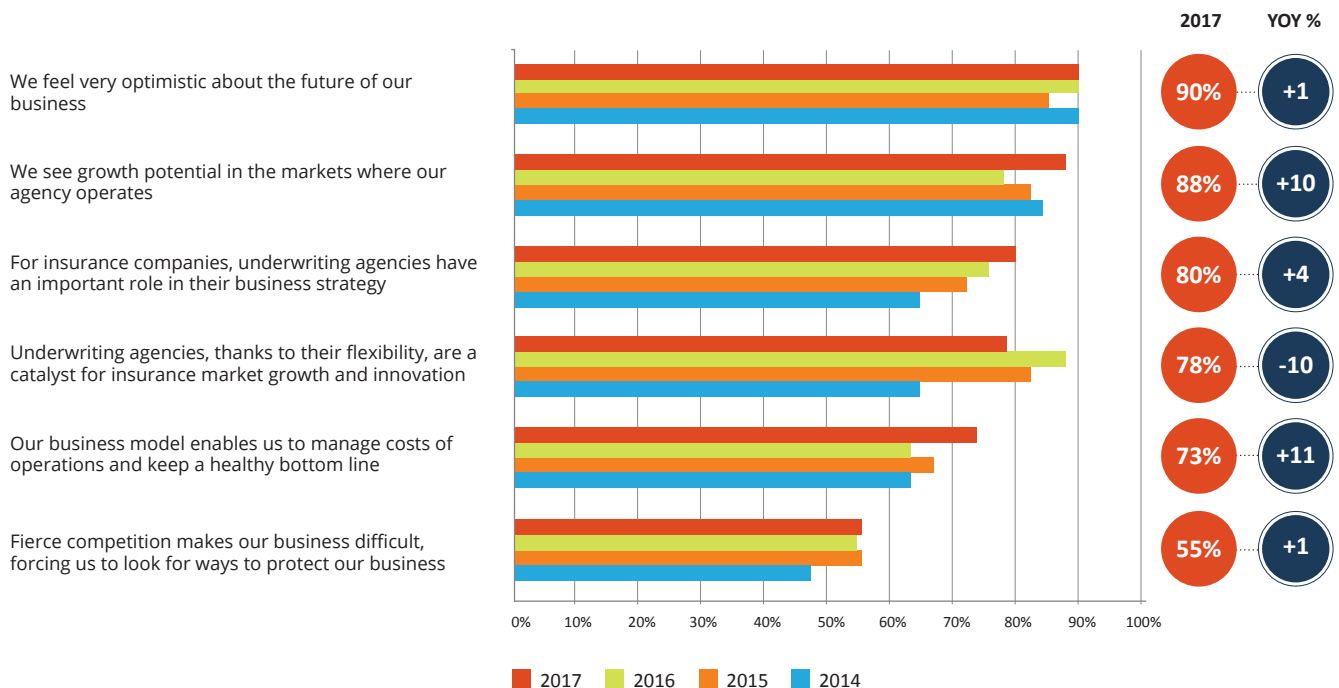
+18%

Biggest decrease:

'Uncertainty of economic outlook' as a **KEY CHALLENGE**

-11%

1 How do you perceive the role of underwriting agencies in the market?



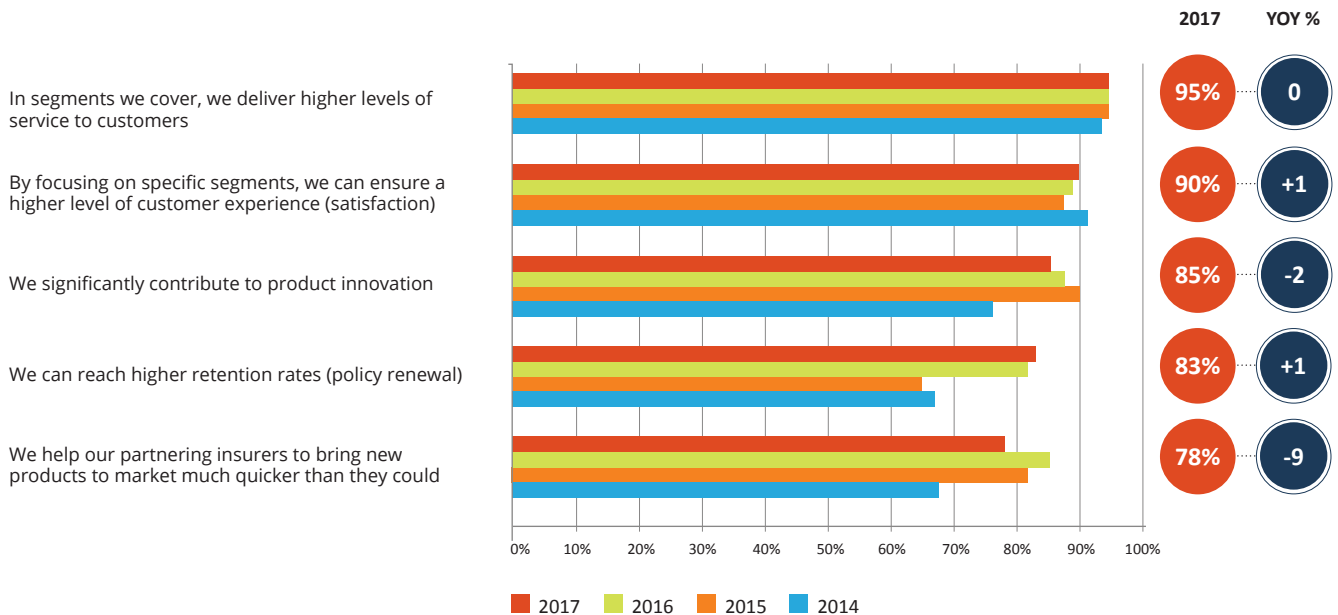
- With an 11% increase, agencies report increased confidence that “Our business model enables us to manage costs of operations and keep a healthy bottom line”
- Sentiment regarding the future is strongly optimistic
- After a three year downward trend, agencies report a 10% increase in their perception of growth potential



“Despite weak economic growth generally, the results display a bullish optimism supporting the proposition that insurance flourishes in uncertain economic times. Price is becoming less of a differentiator between specialist agencies and larger carriers.”

WILLIAM LEGGE, GENERAL MANAGER, UNDERWRITING AGENCIES COUNCIL

2 How do you perceive the value of underwriting agencies to the insurance market?



- As seen in Question 1, agencies are building on what works
- Quality of service remains the key value differentiator
- Agencies can move quickly and are confident they contribute to industry innovation more widely
- They are significantly less focused on partnering with insurers, reversing a trend of the past three years

One resource, many connections

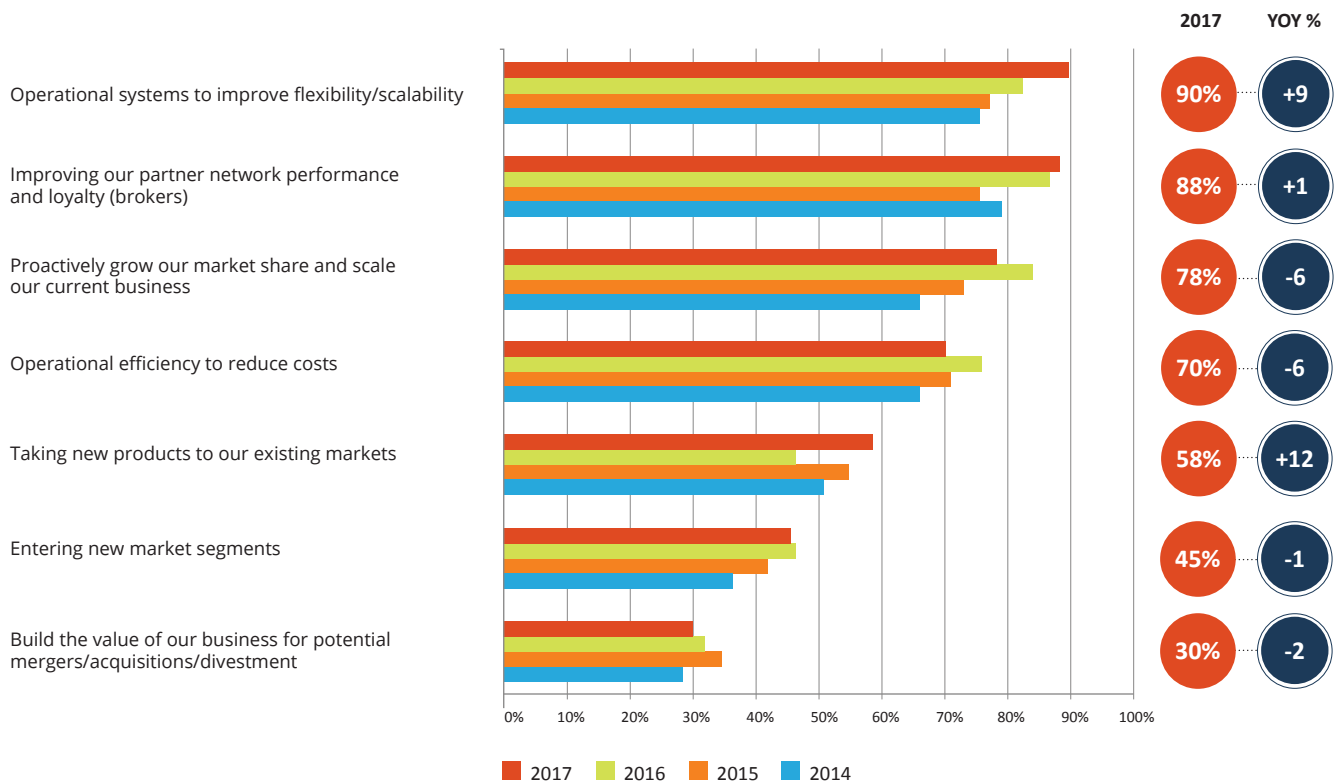
UAC is THE Resource for brokers and THE Resource for its members, providing a range of services to help agencies build their businesses.

The Underwriting Agencies Council connects diversified specialist underwriting agencies, creating a focal hub at www.uac.org.au as an essential resource for brokers.

For more information contact us at admin@uac.org.au or call +61 2 8284 8406.



3 How important are the following business aspects to your agency?



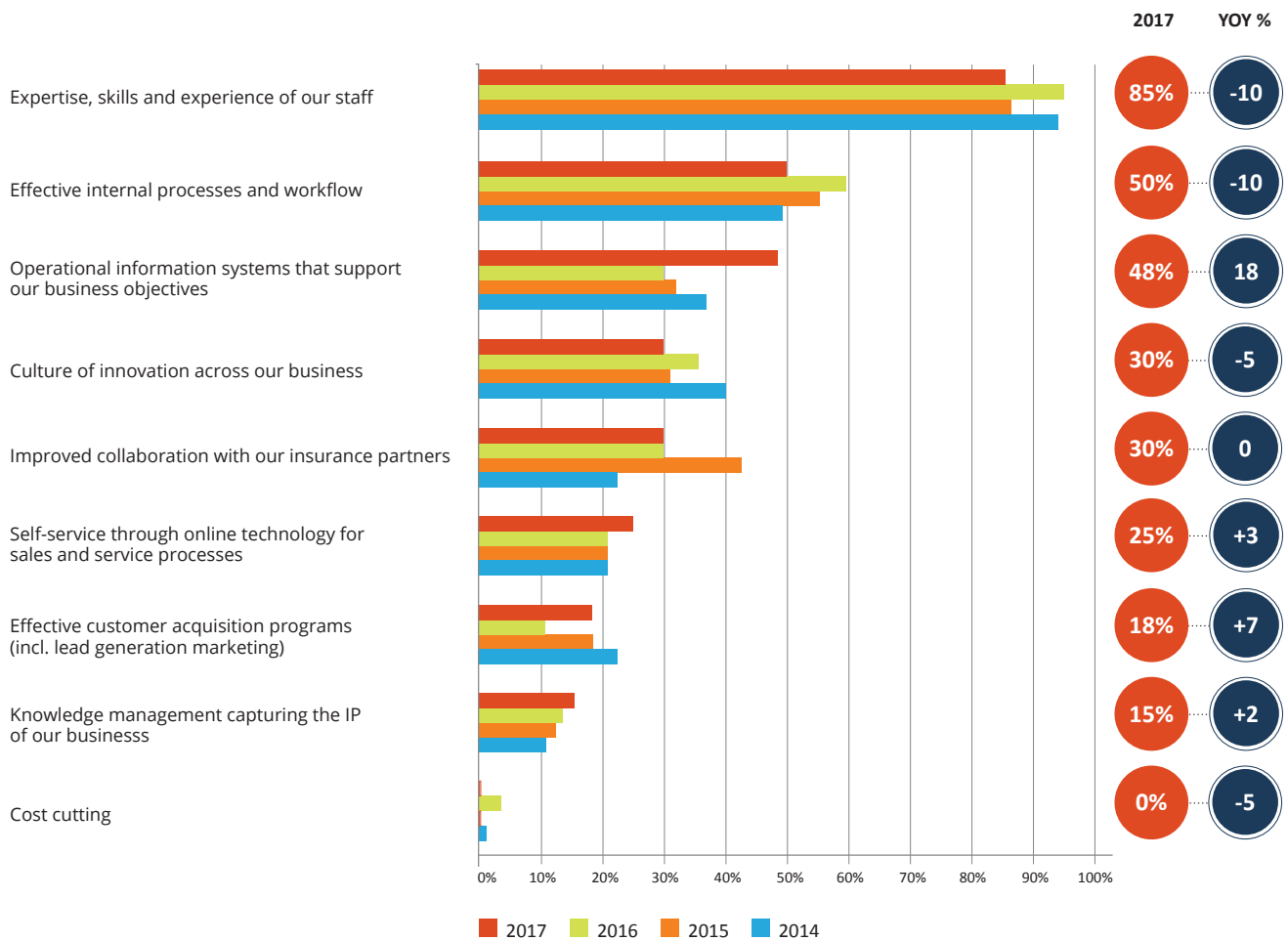
- For the first time, operational systems have ranked higher than improving broker relationships although both are considered critical
- Agencies show increased interest in taking new products to existing markets, but are more reluctant to enter new market segments. This was the most significant change, with a 12% increase from last year



"There is a noticeable interest in taking advantage of past system investments to build business, particularly through data insights. This is supported by a focus on growth in existing markets where analytics can identify opportunities for cross selling and upselling and support the development of more complex products at a lower cost."

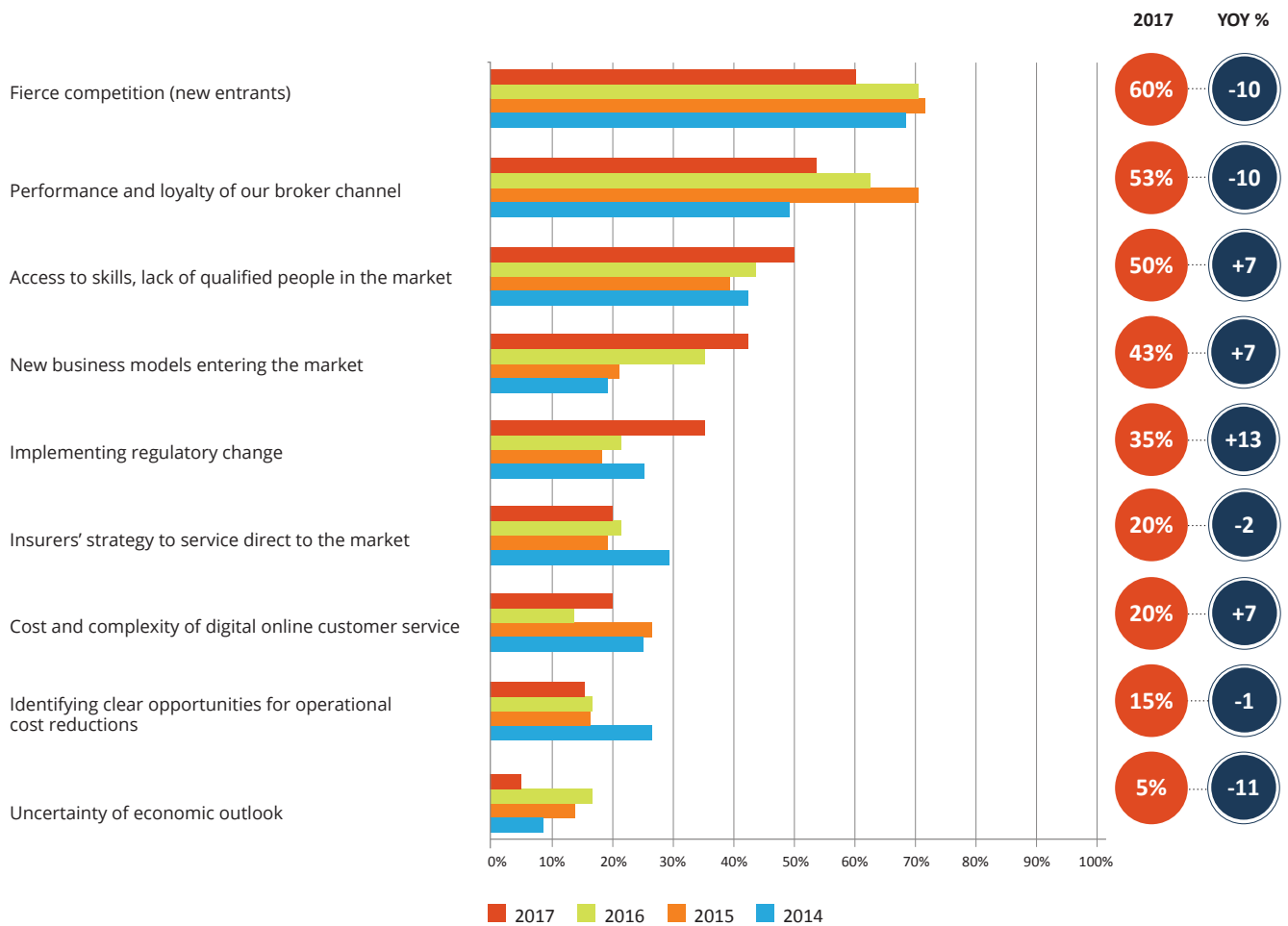
WILLIAM LEGGE, GENERAL MANAGER, UNDERWRITING AGENCIES COUNCIL

4 What business enablers have the most significant impact on your business?



- Operational information systems as an enabler leapt by 18%. This supports responses to earlier questions, demonstrating agencies are making the most of their investments in systems
- Staff expertise remains the most important enabler by far but dropped 10% on 2016
- No agencies rated cost cutting as having any impact

5 What are the key challenges that impact your business today, or might do in the future?



- The increasing number of new entrants remains respondents' most important challenge
- Challenges around 'Implementing regulatory change' is the survey's most significant increase growing 13% in 2017
- 'Uncertainty of economic outlook' is a challenge for far fewer agencies, with an 11% drop



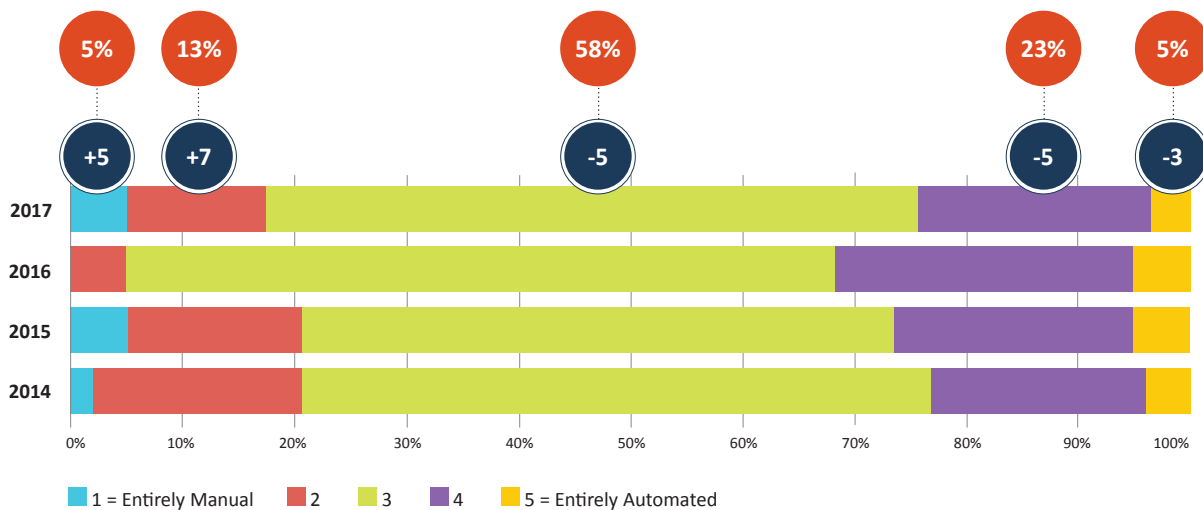
"With the interest of politicians and regulators turning to the financial sector generally, the data supports a concern that changes to regulatory requirements will impact on costs."

WILLIAM LEGGE, GENERAL MANAGER, UNDERWRITING AGENCIES COUNCIL

6 To what degree are operational processes performed in a manual versus automated way?



- The majority of respondents consider themselves exactly in the middle, neither completely manual nor fully automated
- However, for the remainder, there has been a swing back towards manual activities



"Anecdotally, there is a renewed focus on value-added activities with clients, for example phone or face-to-face contact. This is supported by the data showing respondents are making the most of productivity dividends earned through automation."

WILLIAM LEGGE, GENERAL MANAGER, UNDERWRITING AGENCIES COUNCIL



"To compete effectively, our focus must be on our customers. Through technology we get efficiencies and deliver great service in an automated way. This means we free up our brokers, so they can visit our corporate customers face to face and develop trusted relationships."

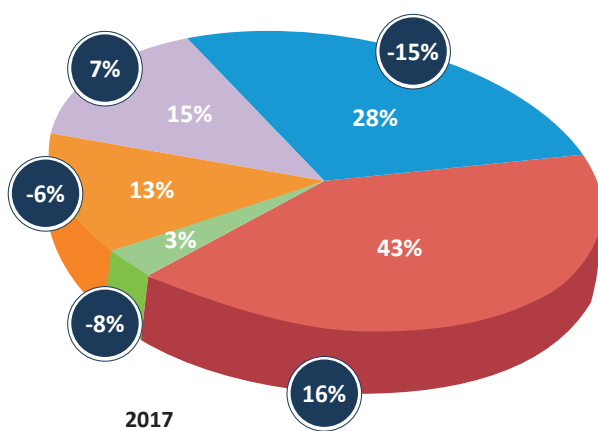
PHIL KEARNS, MANAGING DIRECTOR, INTERRISK



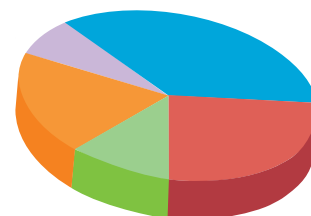
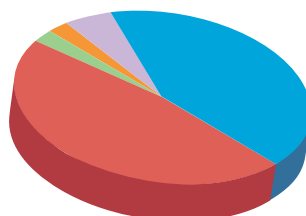
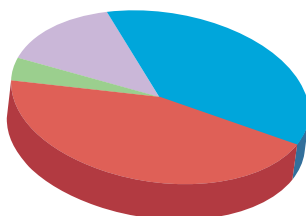
7 Is your business considering a change of its core underwriting system?



- Almost half the agencies are happy with their underwriting systems – an increase of 16% from 2016



- We are happy with our underwriting systems and do not plan to change them
- We are considering a change or upgrade of our underwriting systems (within the next 2 years)
- We are NOT happy with current underwriting systems but change is not a priority today
- We recently (within the last 2 years) changed/upgraded our core system
- I'd prefer not to answer this question





BROKERS AND UNDERWRITERS – AN EVOLVING ECOSYSTEM

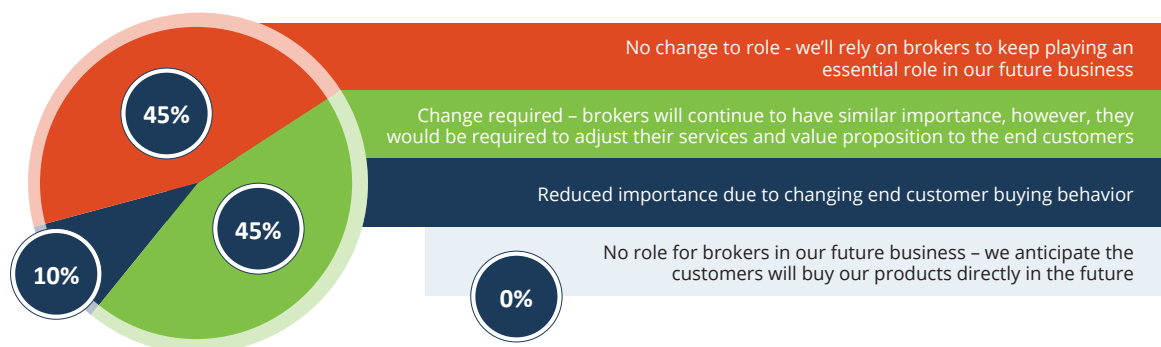
Each year, the Hot Topic question illuminates a potential game changer with the objective to provoke discussion and debate.

In 2017, we have chosen to put the relationship between brokers and underwriters under the spotlight.

8 How do you imagine the role of brokers changing in your business over the next 5 years?



- Respondents' views are polarised with a clear split between those who see no change required and those who want brokers to adjust their services and value proposition
- 10% of agencies believe brokers' importance will diminish as customer buying behaviour changes



In 2016, the Survey Hot Topic examined Digital Transformation. The results showed that while 67.5% believed broker loyalty was key to business growth, there was a reluctance to invest in technology projects.

This year we explored whether underwriting agencies wanted to build on this trend, building deeper relationships with brokers and accelerating efficiencies through online connectivity.

9 When it comes to online connectivity between your underwriting system and brokers, how essential for your business is:

	Essential	Very Important	Important	Somewhat Important	Not Important	Not applicable as we distribute directly to end customer
Full policy life cycle online portal for brokers	15%	20%	18%	25%	20%	3%
Direct connectivity between your system and the broker system	8%	18%	15%	33%	23%	5%

10 What is the current status of your online service capabilities for brokers?



- Agencies have invested in essential online services for brokers, particularly quote and bind and claims lodgement/management
- More than 50% of agencies intend to implement most options
- Interestingly, for 40% of respondents, direct broker connectivity is either not planned or not applicable

	Fully implemented	We plan to evaluate	We plan to implement in the next 12 months	We plan to implement in the next 24 months	This is not part of our strategy	Not applicable as we distribute directly to end customer
Online full policy life cycle management for brokers	13%	18%	23%	13%	25%	10%
Online quote and bind process for brokers	30%	10%	20%	10%	23%	8%
Online endorsement and cancellation for brokers	10%	15%	25%	18%	25%	8%
Online renewal for brokers	15%	18%	20%	15%	25%	8%
Online claims lodgement and management for brokers	20%	13%	15%	18%	28%	8%
Easy online access to broker's policy portfolio and reports	5%	15%	18%	28%	28%	8%
Integration of your underwriting system with broker systems – to minimise double keying of data	5%	15%	15%	25%	33%	8%

THE BROKER VIEW

**DALLAS BOOTH, CEO
NATIONAL INSURANCE BROKERS
ASSOCIATION**

“The role of brokers will continue to be important in the market as business risks become more and more complex.

As intermediaries, brokers act for their clients not only in assessing risks, but liaising with underwriters to ensure placement of the risk is competitive. In addition, the relationship that brokers have with their clients means underwriters have accurate and clear information about the risk they are taking on.

Brokers do believe that the market is changing and that they need to change with it. A recent survey of our members show that they see competition from the direct market, technology, the hardening insurance market and keeping premiums competitive as the main challenges going forward.

Many are already tackling these issues head-on, introducing better IT systems and developing innovative products with underwriters to keep pace with client requirements.

At the heart of this, brokers always act in the client's best interest, which means keeping abreast of changes in the market and ensuring strong relationships with underwriters.”



THE AGENCY VIEW

**WILLIAM LEGGE, GENERAL MANAGER
UNDERWRITING AGENCIES
COUNCIL**

“There is a clearly polarised view of the future of broker relationships. While the overwhelming majority of respondents fore see a role for brokers, the nature of that role is a key differentiator.

It can be hypothesised that the split in opinion may be along value and expertise lines.

Brokers who place complex or specialist products will retain their place as experts while those focused on low-value, commoditised products may need to adjust their services to remain competitive. In addition, claims may be an area in which brokers can excel.

Regardless, underwriters are clearly investing in providing connectivity to bring value to brokers.

Portals for quote and bind are established and agencies are moving along the process chain by developing endorsement, cancellation, renewal and claims functionality.

However, it should also be noted there is a reluctance to provide full integration with 33% of respondents choosing ‘this is not part of our strategy’ for this option.”



Survey approach and methodology

SURVEY AUDIENCE:

Survey respondents are senior executives of underwriting agencies in Australia and New Zealand.

The anonymous survey was conducted by the Underwriting Agencies Council, a trusted industry body, and all data is confidential. This report represents aggregate data from all respondents.

65% of all agencies have fewer than 20 employees, 21% have between 20 and 100 employees and 15% have more than 100 employees (up from 5% in 2016). 30% reported gross written premium (GWP) of less than \$10m with 63% achieving GWP of \$10m – \$200m, and 8% reporting GWP of more than \$200m.

METHODOLOGY:

The survey was anonymous and conducted via an online survey tool. The data was held in a secure hosted environment (Google Docs form). After analysis of the data, all information has been removed.

The anonymous data sets are retained by UAC for future reference.

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Founded in Europe in 1991, Gratex International is a business systems solutions house with offices in Australia, Europe and Korea. With more than 350 specialists globally, the company develops and supports specialised business management software solutions for some of the world's largest finance and insurance organisations.

Since 1999, Gratex Australia has been a leading business systems solution provider for the local insurance industry, providing application development, cloud strategies and end-to-end managed IT services.



Specifically designed for underwriting agencies in ANZ, UPM2 is a fully integrated business management system that enables operational flexibility, reduces time to market and improves staff efficiency through the automation of workflows as well as online services. With unmatched configurability, industry leading technical support and low cost of ownership, the solution allows firms to seize market opportunities through fast, robust and transparent operations. UPM2's modular framework can complement existing systems or provide an entire end-to-end business management system.

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