

Underwriting Agencies Australia/New Zealand CEO Survey 2016 Business Priorities and Trends

Brought to you by Gratex International Pty Ltd



Welcome to the Underwriting Agencies CEO Survey 2016.

It is my pleasure to welcome you to the third annual edition of the Underwriting Agencies CEO Survey. As I only recently arrived in Australia to lead Gratex International's global operation based in Sydney, it is a privilege to make this valuable contribution to support the local insurance industry. Most importantly I would like to thank all participants who have taken the time and contributed to this invaluable market insight, as well as the Underwriting Agency Council (UAC), who made it possible to conduct this anonymous survey across its membership base.

It is great to see in the survey evidence for strong confidence in business growth and an optimistic outlook for the future. All indicators point to a 'back to basics' outlook, where optimisation of the potential in current markets outweighs the interest in new markets. It is also positive to see over the span of the last three years a significant shift in the successful utilisation of business systems, resulting in higher operational efficiencies through process automation.

At Gratex International, we have recognised for some time the important role this region plays and the significant opportunity the Australian and wider Asia Pacific markets represent. I am delighted to be based in Sydney and focus our organisation's investment in innovative technology, on our local markets and to work pro-actively with our clients and industry stakeholders to make a difference. The entire Gratex team is proud to have this opportunity to support and sponsor this independent perspective of our industry. We trust you will find this survey of interest and hope it will spark valuable insights for the future of your business.

Sincerely

A handwritten signature in blue ink, appearing to read 'Peter Dovhun', written over a light blue background.

Peter Dovhun

Managing Director, Gratex International



Key Insights

Confidence in the future outlook is **HIGH**

Position in the market is **STRONG**

Growing existing markets is **KEY**

Customer retention is **KING**

New product development is **SLOWING**

New business models entering the market are **CHALLENGING**

BIGGEST SHIFT FROM 2014 TO 2016

'Business Challenges'

Biggest increase:

Role of the underwriting agency: underwriting agencies, thanks to their flexibility, are a catalyst for insurance market growth and innovation.



Biggest decrease:

Is your business considering a change of business systems? "We are happy with our underwriting system and do not plan to change them."



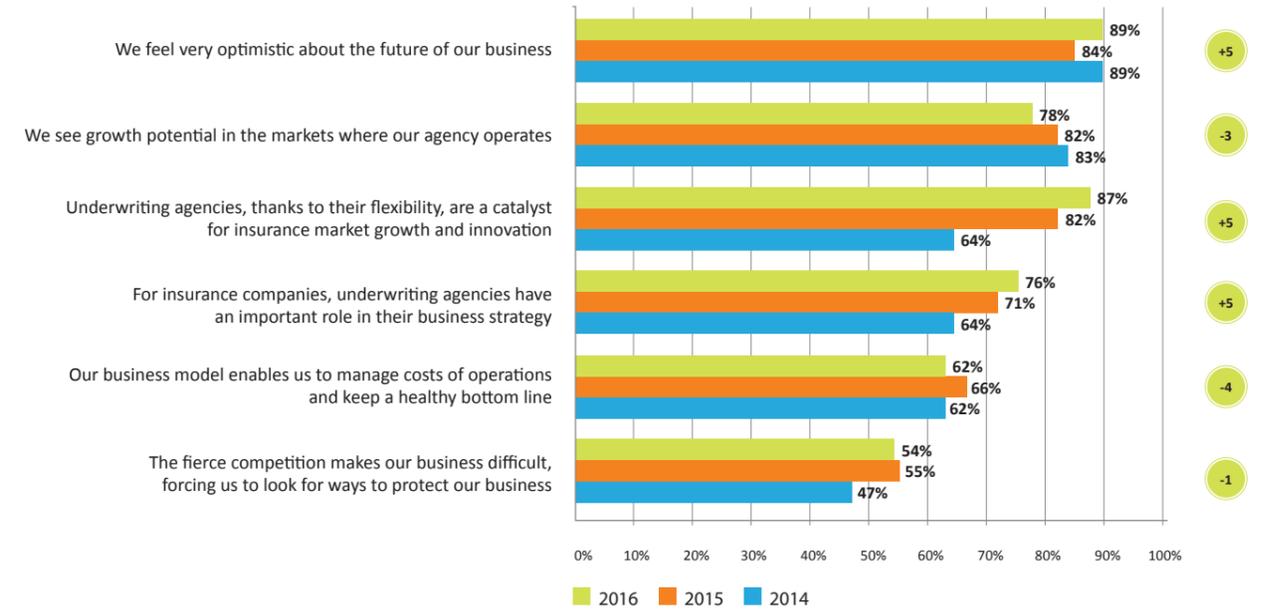
EMERGING TRENDS

OPTIMISING existing markets through retention and growth

NEW BUSINESS MODELS adding to competitive pressure

CONFIDENCE in the role of underwriting agencies in the ecosystem

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



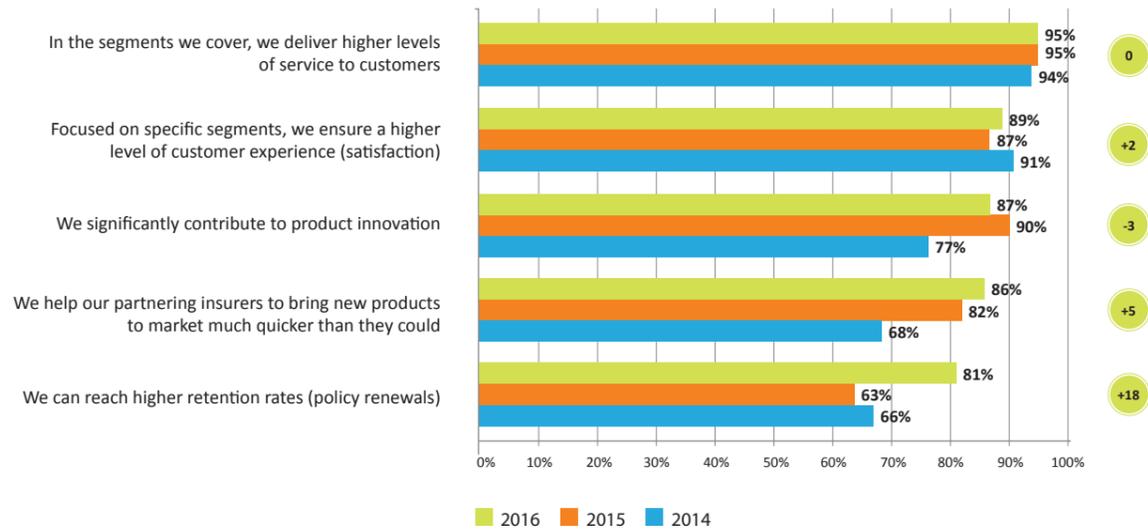
Underwriting agencies look with confidence into the future. Compared to 2014, we are seeing an increase of 23% of respondents rating their role as a catalyst for the insurance market's growth and innovation highly. Although the "need to protect business from competitive threats" received at 54% received the lowest ranking in relative terms, it still reflects that more than half of the respondents feel the pressure of competition. With an increase of 5%, the industry's role "as a catalyst for insurance market growth and innovation" is ranked in second place.



"There has undoubtedly been a positive evolution in the wider insurance industry's attitude towards underwriting agencies in Australia. This is resulting in a steady growth in the percentage of the overall insurance portfolio in Australia that is now being written by the underwriting agency market. A further positive for the all important containment of costs, is the increasing rate of business retention. This testifies to the industry's expertise in their business and the insurance brokers confidence in the appropriateness of their choice of an insurance partner."

WILLIAM LEGGE, GENERAL MANAGER, UNDERWRITING AGENCIES COUNCIL

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



Confidence in customer retention increased significantly year on year (18%). This optimistic outlook is supported by a continued focus on customer service. 95% of respondents “agree or strongly agree” that they deliver a higher customer service. The ability to take new products faster to market compared to insurers has seen an 18% increase from 2014 to 2016, suggesting a stronger commitment to partnering.

One resource, many connections

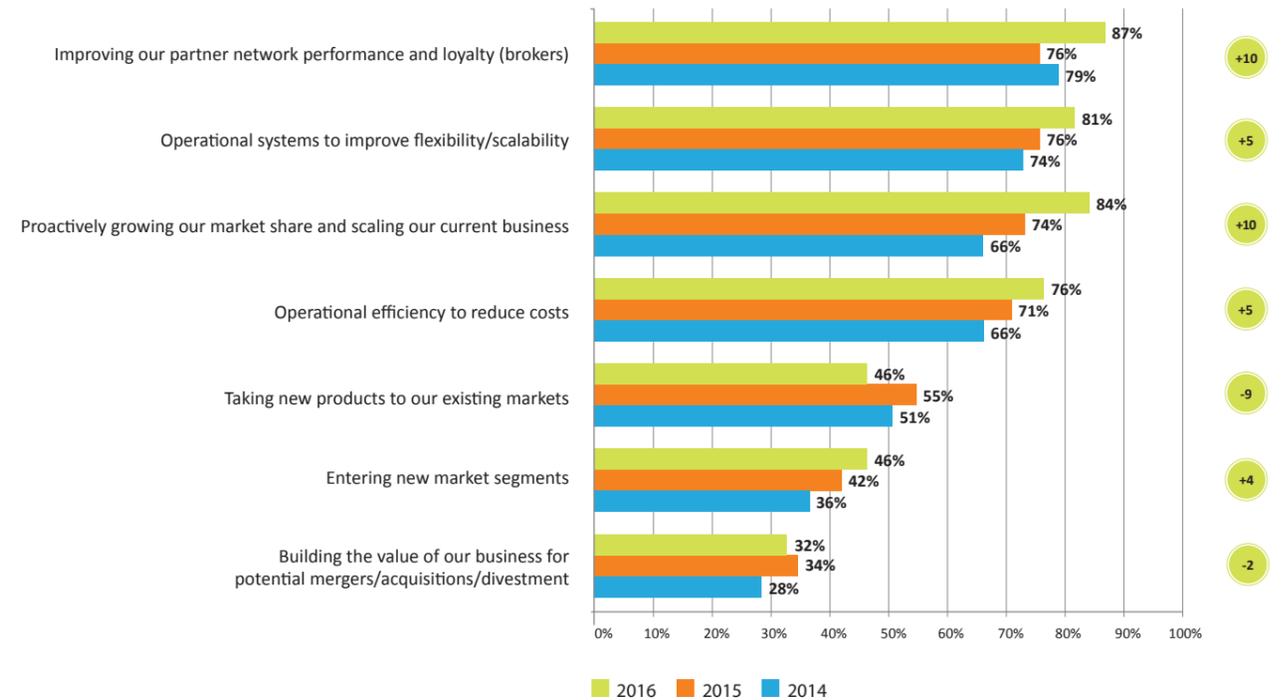
UAC
UNDERWRITING AGENCIES COUNCIL

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?



With a 10% increase compared to 2015, 87% of respondents “agree or strongly agree” that the improvement of the performance and loyalty of the broker channel is the most important business aspect. Compared to 2014, we see a significant 18% increase of respondents rating proactive market share growth of the current business as important. This indicates a “back to basics” sentiment to maintain, grow and protect current markets. This is further supported by a 9% decrease of respondents who rate the category of “taking new products to new markets” as important.

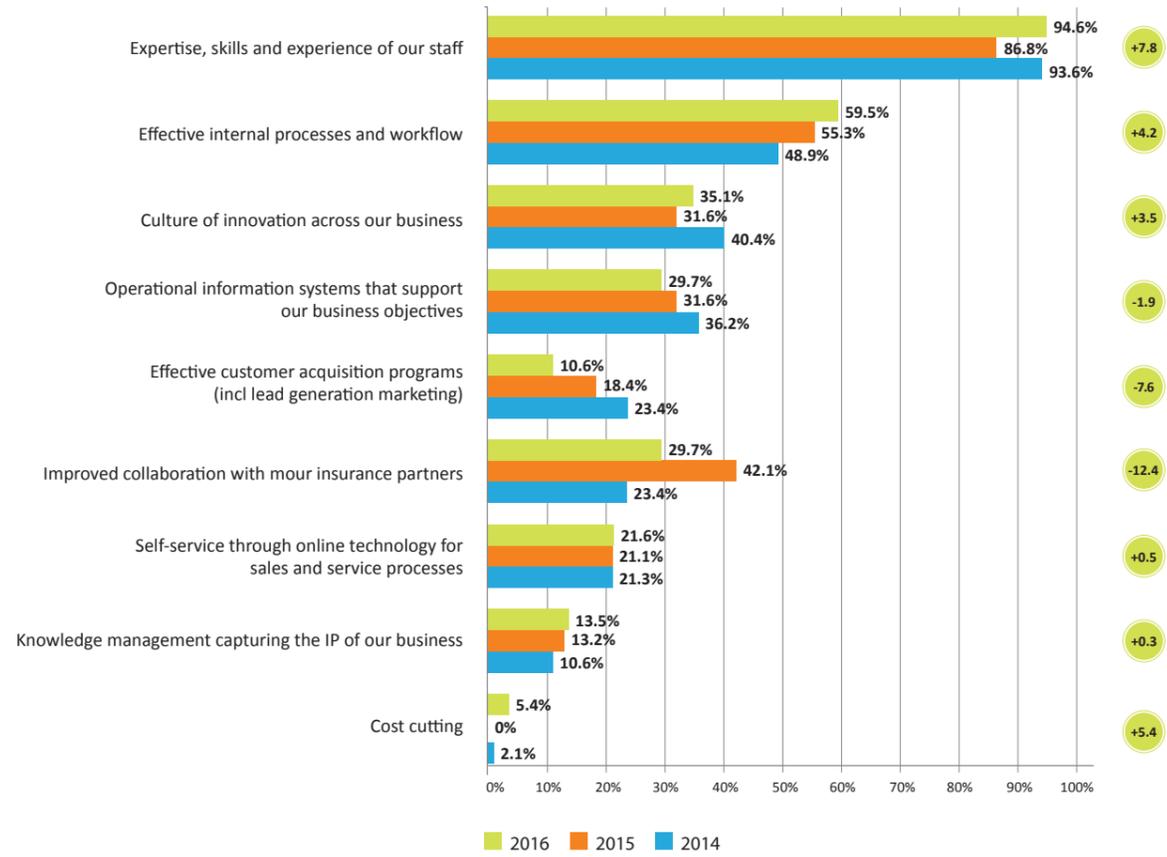


“Underwriting agencies come under more and more pressure as our business with international brokers has been declining. At the same time, we have also seen more Insurers moving into our traditional markets. As a result, we need to focus more on the development of suburban and rural brokers. Developing these relationships is key to expanding our current products into broader markets. In these tougher times, this is the most viable strategy.”

GARY MARSHALL, CHIEF EXECUTIVE, PEN UNDERWRITING

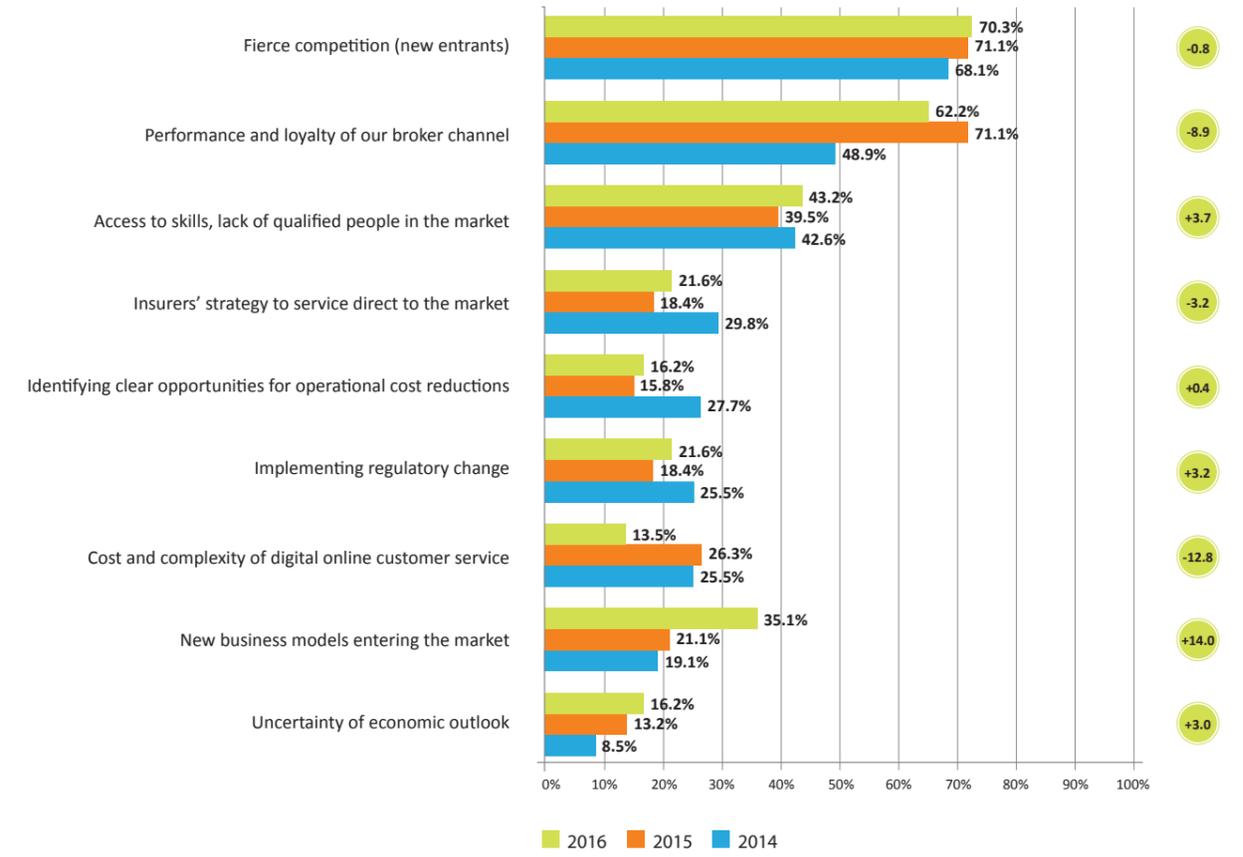


4 What business enablers have the most significant impact on your business?



With 94.6% the “Expertise, skills and experience of our staff” continues to be seen as the most important business enabler. Although there is a significant gap of more than 30% to the second place with need for “effective internal processes and workflow”, we are seeing here a 10% increase from 2014 to 2016. This may point to an increased focus to reduce staff dependencies and cost through processes automation. The highest year-on-year decrease (12.4%) is reported in “collaboration with our insurance partners”, which indicates an overall higher confidence in the stability and predictability of partnering with carriers.

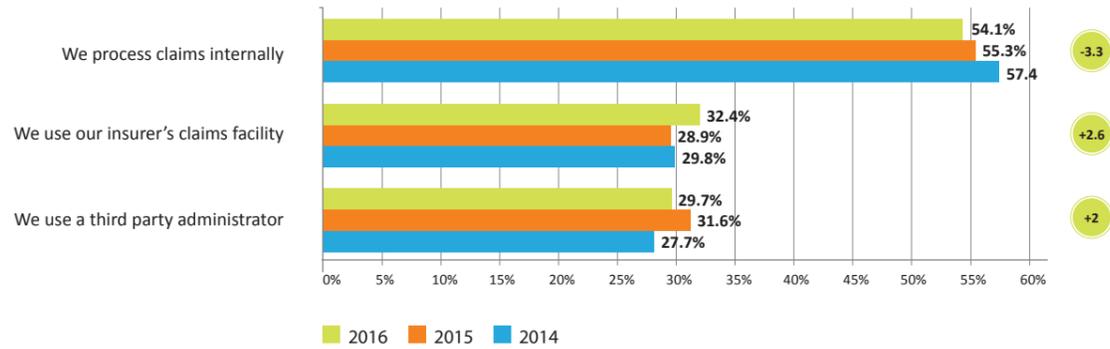
5 What are the key challenges that impact your business today, or might do in the future?



With an increase of 14% year-on-year, the dimension “New business models entering the market” has seen the most significant increase, while the online customer experience has dropped to the last place with only 13.5%. With 70.3%, “Fierce competition with new entrants” continues to be rated as the top business challenge and is closely followed by the need to maintain “Performance and loyalty of our broker channel” (62.2%). Overall the ratings continue to indicate strong confidence in the future outlook. While it is recognised that the competitive environment is changing, it has not impacted retention and growth levels to date.

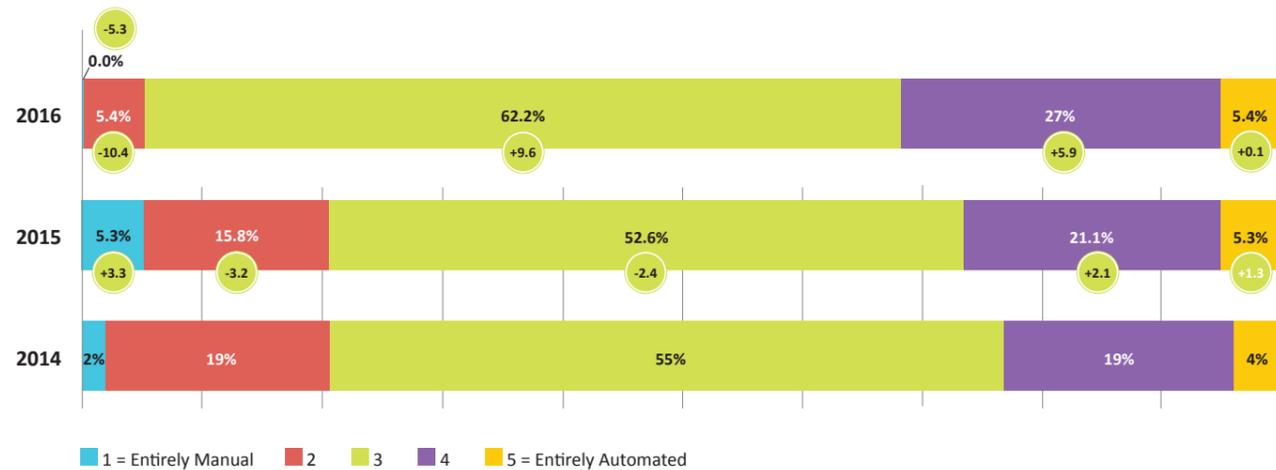


6 Business model trend – How does your organisation manage claims?



When it comes to claims management we are not seeing any trends that suggest changes to the business model. With 54.1%, internal claims processing remains the largest segment.

7 On a scale of 1-5, to what degree are operational processes performed in a manual versus automated way?



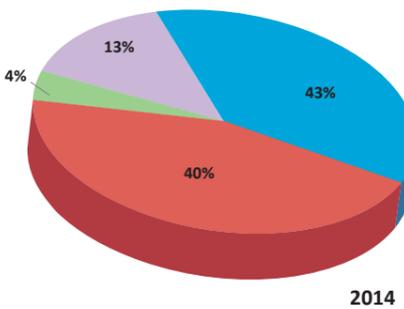
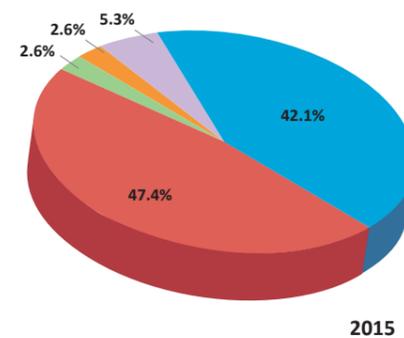
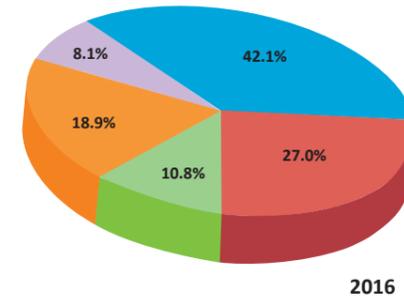
Looking at the trend over 3 years, it becomes evident that there is significant movement towards process automation. The percentage of organisations who have reached full automation is low. However, as a people centric industry relying on staff to deliver differentiated services, it is not surprising that the “human element” cannot be replaced. For the first time, none of the respondents report entirely manual processing.



“Those that invest wisely in technology enablers and our key resource, professional staff, will be agile players that gain a competitive advantage.”

CRAIG PATTERSON, CHAIRMAN, SURA

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



- Considering changing or upgrading our underwriting systems -7.0
- Are happy with our underwriting systems and do not plan to change them -20.4
- Are NOT happy with current underwriting systems but change is not a priority today +8.2
- We changed/upgraded our core system within the last two years +16.3
- I'd prefer not to answer this question +2.8

A very significant drop of 20% of respondents who “agree or strongly agree” with “We are happy with our underwriting systems and do not plan to change them” points to increasing dissatisfaction and mounting pressure to consider changes.

42.1% of underwriting agencies are still considering changing or upgrading their systems, while 18.9% report that they have changed or upgraded their system within the last two years.

This trend continues to confirm that underwriting agencies take more and more advantage of technology and achieve higher operational efficiencies as a result.



This year's CEO Survey introduced for the first time a **HOT TOPIC** question illuminating top trends in the overall market and how it affects underwriting agencies.

According to Accenture Consulting Research (Digital Transformation in the Age of the Digital Insurance Customer) 63% of insurers surveyed now look to digital to help them improve customer satisfaction, while 53% of insurers assess the impact of digital in relation to the customer experience. Interestingly, EY identified in the report "Insurance in a digital world: the time is now" as one of their key findings "Insurers cite intermediary and agent channel strength or resistance as one of the top three inhibitors in implementing a digital strategy. Sharing the benefits of investment in digital and communicating a clear mutual value proposition to deliver a better customer experience will help to minimise channel conflict."

DIGITAL TRANSFORMATION – WHAT DOES IT MEAN TO UNDERWRITING AGENCIES?

The following table illustrates on a scale from 1-10 between opposing positions, what our industry's current thinking is. Comparing the sum of the top 3 rankings of positions 1, 2 and 3 with positions 8, 9 and 10, the following insights transpire:

MARKETING STRATEGY: Only 13.5% of respondents develop their digital marketing capability, while 48.6% continue with traditional marketing and rely on their broker channel performance.

BUSINESS FOCUS: Compared with 0% who believe a superior customer experience through digital channels is more important than innovative products, 67.5% believe that product innovation and broker loyalty is key to business growth.

INVESTMENT: 56.7% continue to invest in personalised service and quality of staff to retain customers. Only 8.1% invest more in digital channels.

FOCUS ON DIGITAL CHANNEL TO MARKET: 54% invest in product innovation and personalised serviced, compared to only 10.8% investing in digital channels.

	1	2	3	4	5	6	7	8	9	10	
We develop our digital marketing capability to acquire new direct business.	2.7	5.4	5.4	2.7	10.8	5.4	18.9	18.9	5.4	24.3	We continue with traditional marketing and rely on our broker channel to grow our volume
We believe a superior customer experience through digital channels is more important than innovative products.					21.6	2.7	8.1	29.7	24.3	13.5	We believe product innovation and the loyalty of our broker channel is key to growing our business.
We need to invest more in digital communication to retain customer due to increased online competition.			8.1	8.1	13.5	8.1	5.4	16.2	18.9	21.6	We continue to invest in personalised service and quality staff to retain our customers and prevent churn to lower cost providers
To grow in the digital world we focus on digital channels and low cost online service delivery.	2.7		8.1	5.4	13.5	2.7	13.5	18.9	21.6	13.5	We don't focus on low cost products and services and invest in product innovation and personalised service.

The **HOT TOPIC** question "What stops us from investing in digital transformation" reveals that a lack of clarity in developing a business case, coupled with the concern that technology projects always go over time and budget are the key inhibiting factors.



It is noticeable that 45.9% of respondents "neither agree or disagree" that their customers don't buy over digital channels, while 10.8% "strongly agree" compared to 32.4% who "disagree or strongly disagree".

While underwriting agencies identify that customers engage with digital channels, we don't see focus on developing digital capabilities.

%	Strongly agree	Agree	Neither agree or disagree	Disagree	Strongly disagree
Lack of technology knowledge	0.0	10.8	35.1	27.0	27.0
Business case is unclear	5.4	27.0	27.0	27.0	13.5
We know we have to make changes but don't know where to start and how to make changes	0.0	5.4	27.0	37.8	29.7
Change management and transitioning is risky	0.0	16.2	27.0	32.4	24.3
Technology projects always go over time and budget	10.8	35.1	29.7	13.5	10.8
We can't envisage how processes will work – there are too many unknowns	0.0	8.1	32.4	37.8	21.6
Not sure how our staff will cope with new processes and systems	0.0	0.0	35.1	45.9	18.9
Our customers don't buy over digital channels. Only the younger generation shop and buy online	0.0	10.8	45.9	32.4	10.8



"The continuing soft market and requests for higher broker commissions will put pressure on underwriting agencies to look for ways to cut costs. Rather than cutting services or taking a harder approach to claims which only alienates the customer and or broker, cost effective process automation through business systems is one way of achieving reduced costs and yet at the same time improving the broker/client user experience at both the underwriting and claims stages. This investment in the future of the underwriting agency will have long standing benefits and done right will provide a genuine competitive advantage."

PROF. ALLAN MANNING, THE LMI GROUP

Survey approach and methodology

Survey Audience:

The respondents in this survey are senior executives of underwriting agencies in Australia and New Zealand. The anonymous survey was conducted by a trusted industry body and all data is confidential.

This report represents aggregate data from all respondents.

64.9% of all respondents report less than 20 employees, 29.7% between 20 and 100 employees and 5.4% more than 100 employees.

32.4% reported GWP (Gross Written Premium) of less than AUD \$10m with 64.8% achieving AUD \$10m - \$200m, and 5.4% more than \$200m.

Methodology:

The survey was anonymous and conducted through 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.



Proudly sponsored by:

GRATEX INTERNATIONAL Pty Ltd

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 on-line 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.

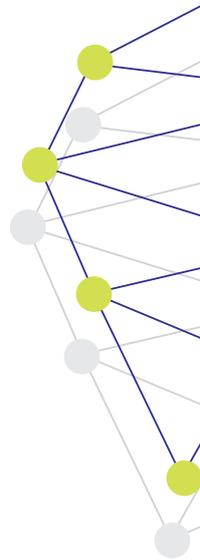
For more information visit: gratex.com.au

WWW.GRATEX.COM.AU

TEL: 1800 111 110

Lakes Business Park
Level 1, 2A Lord Street
Botany NSW 2019, Australia





“The pace of change that will occur in our industry over the next decade will be unprecedented. How we reach our customer and with what differentiated proposition will challenge our current thought paradigm. The current cost structures that end customers ultimately pay are not sustainable in their current form unless additional value can be provided.”

“The use of superior analytical tools and proven technology enablers to support an improved service proposition is vital.”

CRAIG PATTERSON, CHAIRMAN, SURA