MONDAY 30 NOVEMBER 2009 ISSUE 2,992
Insurance Day
www.insuranceday.com The best insurance coverage - every day

Technology costs could mean small brokers miss out

Monday, 30 November 2009

Christopher Munro

THE MAJOR brokers' drive toward technological reform could see some of the smaller Lloyd's brokers left behind.

The sheer cost of implementing new technology and the time it takes for people to become accustomed to the systems is creating a split between the larger Lloyd's market brokers, which are embracing market reform, and those with fewer resources, which are being left behind.

Many of the bigger players from the London broking community have embraced the arrival of the Association for Co-operative Operations Research and Development (Acord) standards messaging system, as it facilitates the transfer of data in a far more smooth and streamlined manner.

However, these companies have the financial clout and manpower to make this switch worthwhile, a luxury many at the smaller end of the Lloyd's broking market cannot afford.

Jeff Ward, TriSystems director, said: "The small broking community that needs to be part of this aren't yet part of it."

Some of the smaller brokers do not even have dedicated IT teams, so attempting to introduce a system to access the Lloyd's Exchange and Rüshlikon Initiative may well be beyond their means. As a result, the Lloyd's and London market is at real risk of splitting into two groups: those that can access the hubs and those that cannot.

Platforms such as RI3K and The Insurance Workplace allow brokers and underwriters to trade electronically, but to access these requires investment. After accessing the platform, brokers and underwriters can conduct business but every time a risk is placed or an endorsement made the carriers will be charged a fee.

Ward feels this could be a significant problem for the smaller brokers, as underwriters could be put off doing business with them if they will be charged.

"It's all very well having a $1m programme and putting a transaction charge on it but when you look at the smaller programmes a smaller broker would work on that have a smaller premium, is it OK to pass off that cost to the underwriter?" he asked.

The problem would appear to be the cost of implementing technological reform is prohibitive for many companies; making underwriters pay a fee for taking on what could be a risk with a small premium is also a problem and could deter underwriters. It is unlikely the situation will change, either, as the economies of scale needed to reduce the price brokers must pay for technology are just not available in the insurance market.

Ward said: "The market isn't big enough to get significant economies of scale. We, as the software-providing community, have a responsibility to level the playing field if at all possible [but] the market isn't big enough to commoditise the price list because there's competition. Prices are low [and] at the moment it's as low as it could be."

Jeff Smith, group chief technology officer at Torus, said: "Those companies that don't embrace technology will fall by the wayside. It will be a case of evolve or perish if you don't jump on board."

Torus has embraced technology, but other companies in the underwriting and broking markets have not. As a result, Smith said the slow pace of change is frustrating because some companies are just not prepared to take the plunge: "It was quite clear [at the Technology Forum] just how gun-shy some people are."

Source: http://www.insuranceday.com/insday/news/epaperPreview.htm?issueNo=34236&page=100001479