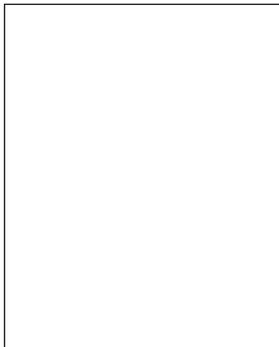


Stipendiatresa till England

Insurance Brokers role at the London Market

by **Fredrik Furugren**, Max Matthiessen



As most of us know the Insurance Brokers play a significant role at the London insurance/reinsurance market. The fact that they have been an important actor on the market since the 18th century might not be as well-known.

Fredrik Furugren

Traditional role of the Insurance Broker

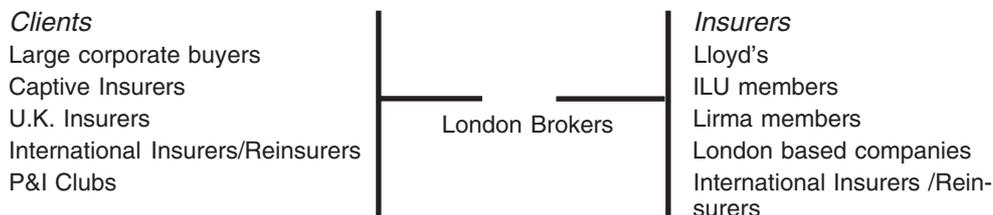
The traditional role of the Insurance Broker has been to act as an intermediary in placing and handling of insurance business between the clients and the insurance companies. In this role it is common that the Insurance Broker develops new products and modifies existing products to meet their clients demand.

A traditional way of placing a risk on the market may look as follows:

1. The Broker chooses a lead Underwriter that is well respected among the other underwriting companies and at Lloyd's for the type of business he want to place.
2. The lead Underwriter will then decide the premium rate as well as the terms and

conditions of the insurance. It is common that the lead Underwriter also assumes the largest portion of the risk.

3. The Broker then goes back to the client for an agreement of the conditions negotiated between the lead Underwriter and the Broker.
4. With the clients agreement the Broker takes the slip to other insurers until 100 % of the cover is placed. The risk may be shared between the company market and Lloyd's on the London Market and may even be shared at other overseas markets (See chart). This usually happens if the risk is too large for a single market or there are difficulties in finding capacity for the agreed terms and conditions in London.



5. When the placing is completed the Broker produces the policies, invoices and accounting documentation. In addition to this the Broker also handles premium collection endorsements/changes in the cover, claims handling and collection of claim payments and so forth.

The traditional Broker receives a commission based on the insurance premium as compensation for his work.

The changing role of the Insurance Broker

The Broker, as many other business men/women, has to adapt to the changing business environment. The Brokers respond to the changing environment by extending the services to their clients. Today Brokers are often able to provide their clients with risk management advice, claims consulting, captive management and risk financing.

Along with changes in the services provided by the Broker, the ways of compensation also changes. Today there seems to be a move towards replacing the traditional commission for direct insurance by fees.

Demands to act as an Insurance Broker

To use the title "Insurance Broker" or "Reinsurance Broker" in the United Kingdom individuals and companies have to be registered by the Insurance Brokers Registration Council (IBRC). The Lloyd's Brokers are regulated by Lloyd's. Lloyd's has probably set the toughest demands required of Insurance Brokers in the world.

Competition

Brokers comprise a highly competitive force on the market. The Broker must meet their clients demands in finding the best solutions to the best rates on the market. The Broker must also compete with effective administration and good service and have a wide spread of services to fill the clients most needs.

This will undoubtedly lead to even more mergers among the broking companies than we are already seeing today. The large broking groups are buying smaller companies to attain their business and make it more cost effective. This is possible by having well functioning administrative systems and will thereby be able to reduce staff and also use other synergy effects.