Market Movement Index: Smaller insurers gain market share from re-broking

Edition Two - August 2024

A partnership between Broker Insights and Insurance Age

Market Movement Index:
Smaller insurers gain market share from re-broking

Rachel Gordon - 29 Aug. 2024 | *Indicative reading time: 10 minutes*

New research from Broker Insights shows brokers are placing more business with smaller players, resulting in a changing landscape where competition can thrive. **Rachel Gordon** reports.

Smaller insurers are increasingly giving their larger rivals a run for their money when it comes to brokers moving risks to new markets.

This is according to analysis from Broker Insights, which highlights a number of trends in the second tranche of its research. Head of data at Broker Insights, Andy Whiteley, says: “Our analysis details a competitive commercial insurance sector, providing a deep dive into what brokers are doing.”

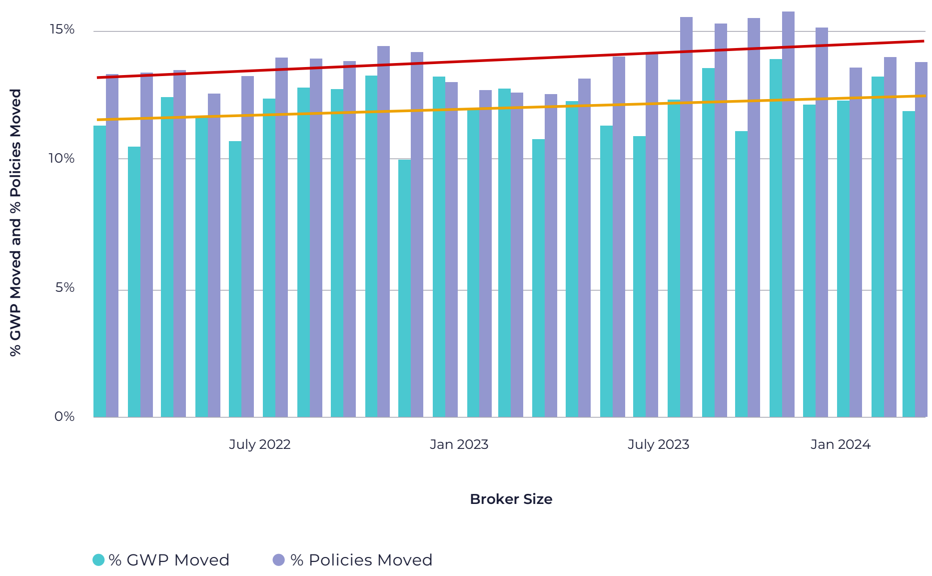
What the research covers

The research focuses on the retention or movement of commercial policies between markets year on year. It covers more than three years from 2022 until March 2024 and is based on policy data within a typical broker’s book of commercial business, comprising a full year dataset of £2.4bn.

It covers all sizes of insurer from large (with 3% of the market and over) to micro insurers holding less than 0.05%.

Brokers are categorised from very large - holding in excess of £80m GWP - to micro, with under 0.05%.

Monthly movement rates



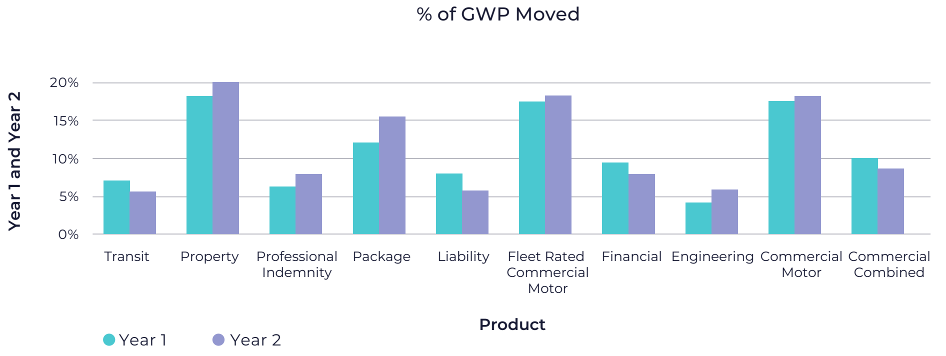
More policies move

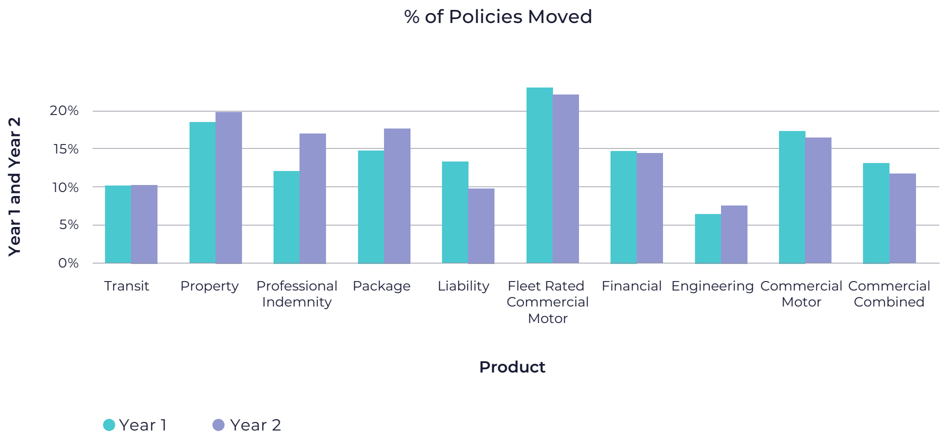
Monthly rates over time compare GWP moved to polices moved, with a gap growing between the two. This is particularly noticeable in 2023 with more stable growth in 2024. Higher interest rates may have prompted brokers to move policies as well as new entrants to markets resulting in more choice.

High levels of property and commercial motor activity

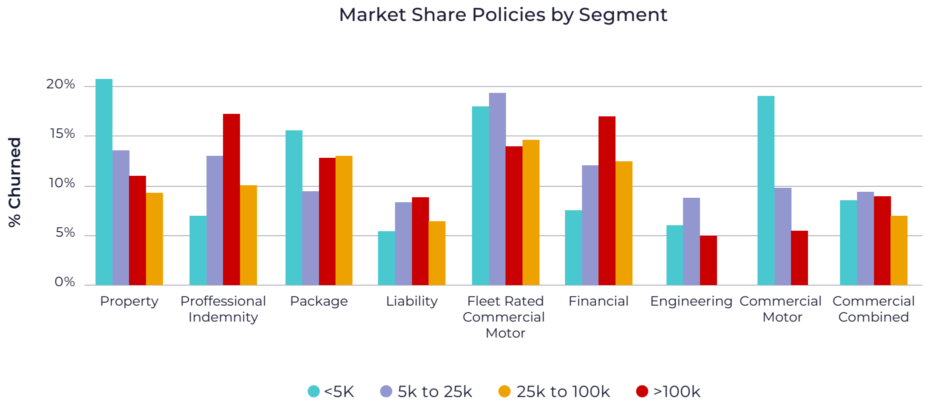
Brokers are moving more business in sectors such as property and commercial motor. "Lower value business is moving frequently between markets - indicative of a highly competitive marketplace and a hardworking broker sector," says Whiteley. Meanwhile the fleet sector is now recovered following inactivity caused by the pandemic.

Product movement





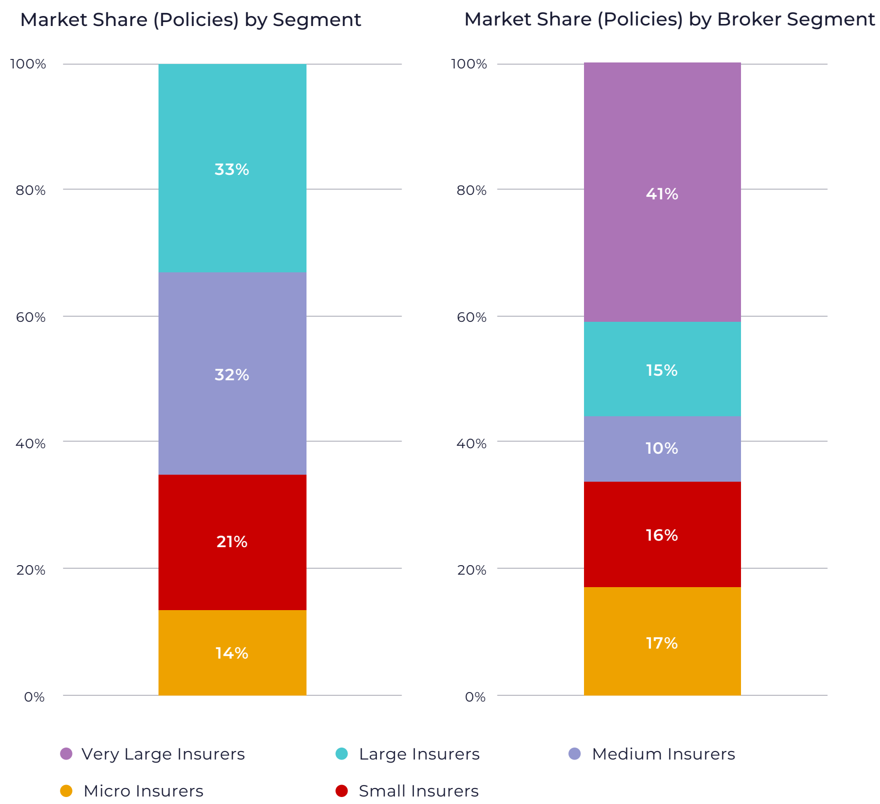
Product and premium



Product and premium - impact of e-trading

Whitely comments: "With lower premium policies, the ease of online trading is likely behind the increased movement in property, motor and packages. However, with more complex classes such as professional indemnity, higher premium policies are moving more, perhaps because of the work entailed and fewer markets."

Market share



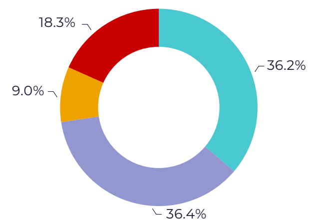
Market share - all to play for

There is a relatively even split between large and medium insurers, while small and micro insurers are well represented, holding about a third of the market.

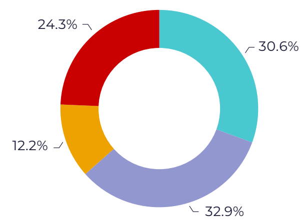
Large brokers have a significant presence at 41%, but the market is also diverse with 33% fitting into the small and micro categories. As Whitely says: "Although there has been a great deal of consolidation, smaller brokers continue to be well represented." This reinforces perceptions about the entrepreneurial nature of the sector as well as the advantages now offered by technology in setting up a business.

Market segment movement

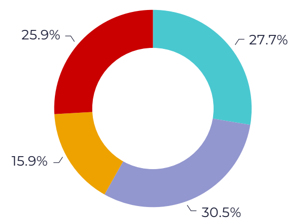
Destination of Policies Moved Away From Large Insurers



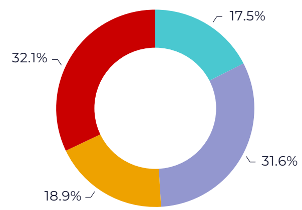
Destination of Policies Moved Away From Medium Insurers



Destination of Policies Moved Away From Small Insurers



Destination of Policies Moved Away From Micro Insurers

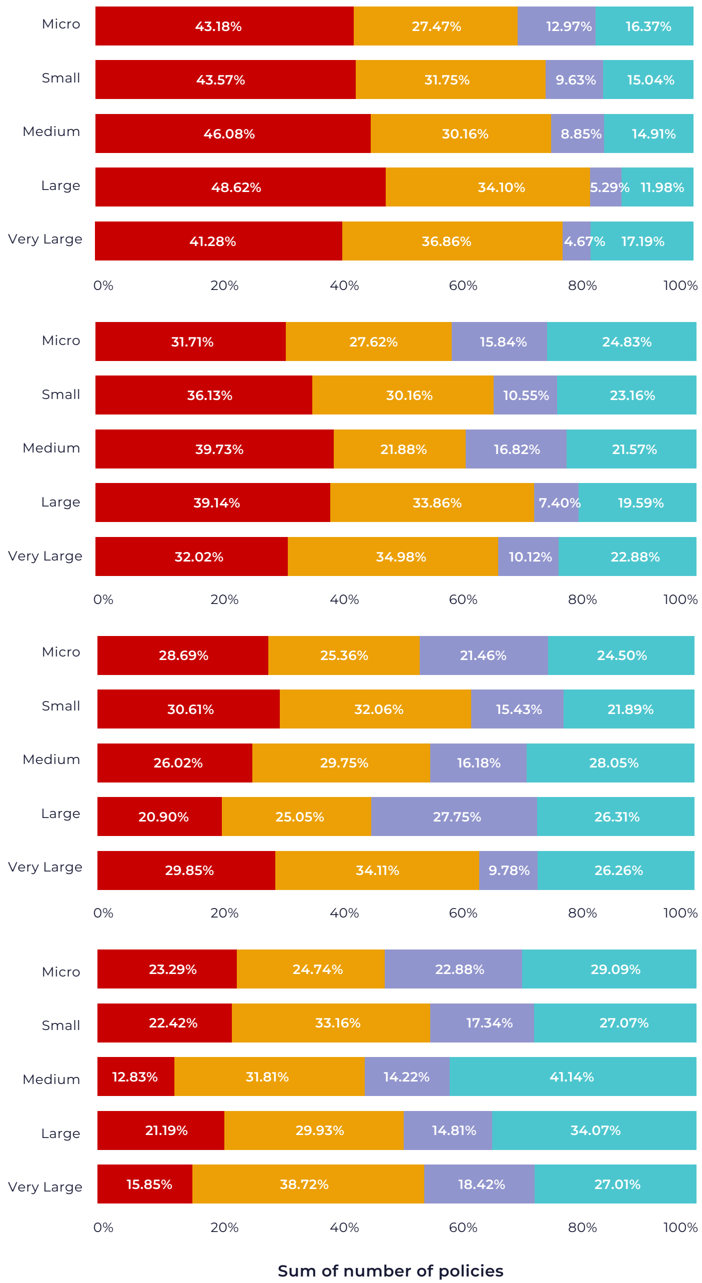


Market segment movement - less business going to large insurers

Whiteley comments: "There's been a reduction in reliance on large insurers, the first chart showing 36.3% of policies moved at renewal, down from 44% in our previous survey. Small and micro insurers are picking up more policies previously held by large insurers - taking 27% of business, compared to 20% for the previous year."

Phil Barton, group CEO for Partners&, says: "All brokers will have seen the market change over the past 10 years. Previously, brokers would place the vast majority business with the large composite insurers, but today, it's only around 60%. The composites' risk appetite is more constrained now and there has been a move towards MGAs, in particular."

Market segment movement by broker segment



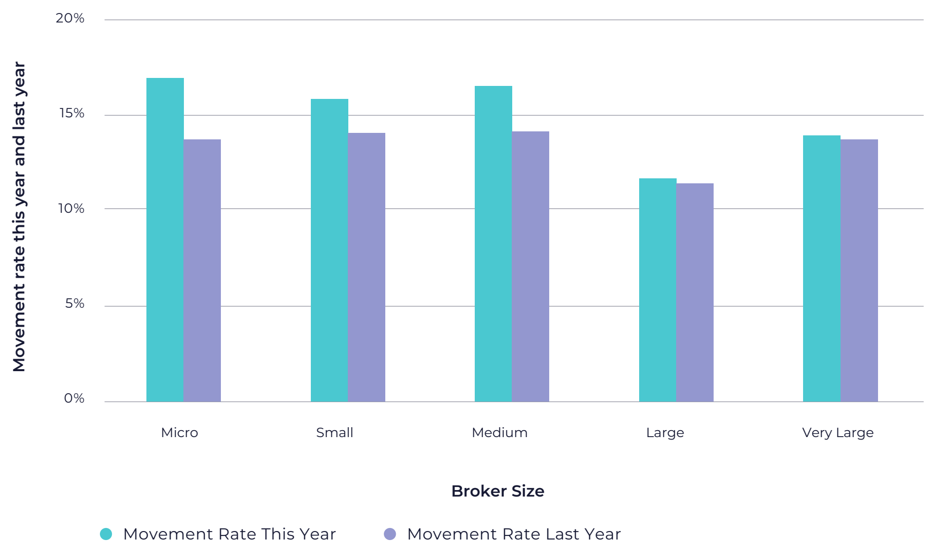
According to Michael Keating, CEO of the Managing General Agents' Association: "MGAs are specialists in niche markets and therefore have an increasing risk appetite, meeting the varied needs of brokers and their customers. Some MGAs are also meeting needs in mainstream risks, often driven by their distribution strategy aligned with excellent service they provide."

Dan Berry, chief underwriting officer, Brown & Brown, adds: "The MGA market has never been in a better position, it's made up of dynamic and innovative businesses, many of whom have excellent long term relationships with their carrier partners. This allows them to attract the best talent in the market which may not have been the case historically.

"I think some of the composite insurers are looking at MGAs and thinking we are better off providing capacity to them rather than competing with them in niche classes. The best MGAs now operate as virtual insurers, which is our model at Brown & Brown, so they look to do everything other than carry the risk."

He says this can include claims handling and actuarial. "The gap between the capability of an insurer and of an MGA has narrowed and that makes them a compelling proposition across the distribution landscape."

Broker segment policy movement rate



Broker segment policy movement - smaller brokers are more active

“Medium, small and micro brokers are rebroking policies more than large and very large brokers. It’s one of the most interesting trends in the research, given that large brokers have access to more markets,” says Whiteley.

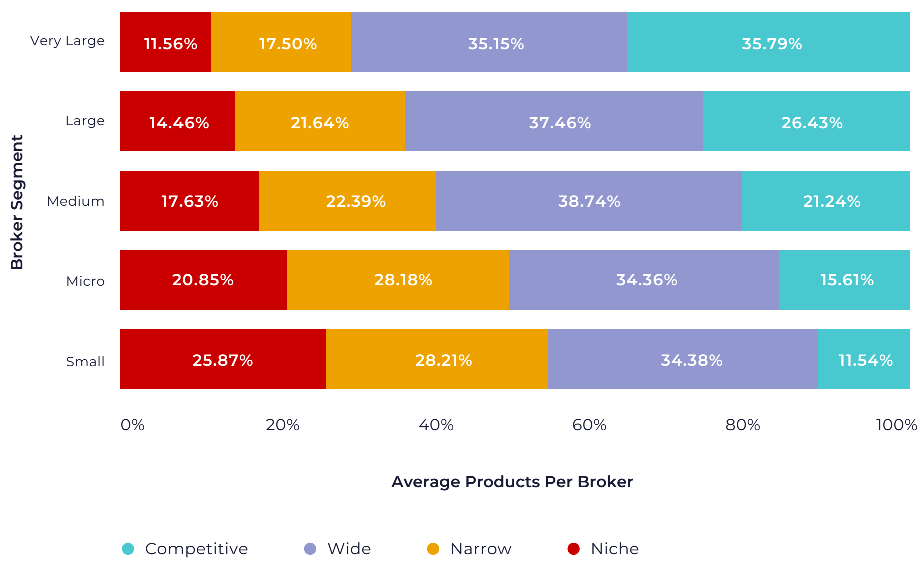
It suggests smaller brokers are highly engaged with clients and that they are finding support from agile insurers rather than traditional markets.

Keating says: “MGAs are not hamstrung by legacy system architecture, and therefore are able to create, build and capture key data to inform on risk selection and pricing. This agility, coupled with access to decision makers underpins the continued success of the MGA market.

“My sense is MGAs are less demanding than traditional insurers on first-or second-year premium targets, being more comfortable in working with new brokers in assisting them wining clients as they evolve. This investment at the beginning of the relationship will pay dividends in the long term.”

Meanwhile, Barton adds: “It’s good to see MGAs as part of the placement firmament - often the service and coverage is good, and for a small broker, they can be more flexible in terms of offering an agency compared to a large insurer. The fact some of the composites have gone down the road of backing these companies with capacity shows, subject to performance, this is a model that works.”

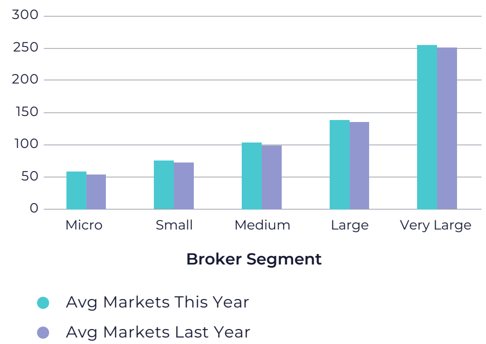
Broker segment proportion in product areas

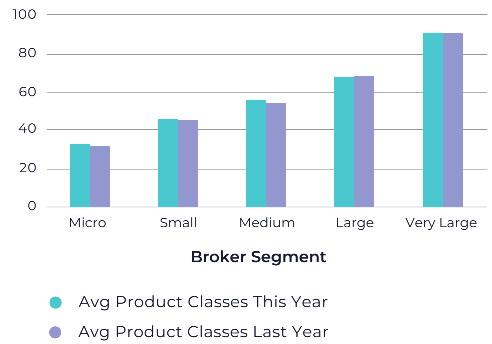


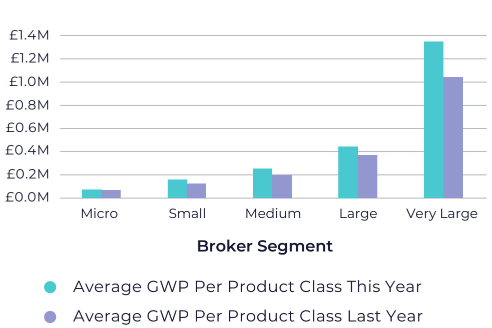
Large brokers dominate niche

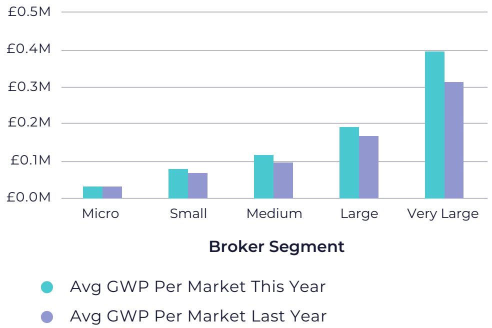
Large brokers are placing a higher proportion of niche products compared to smaller brokers. Whiteley says: “There have been ongoing acquisitions by large consolidators of niche specialists - while smaller independents may be more focused on mainstream business.”

Broker segment market engagement





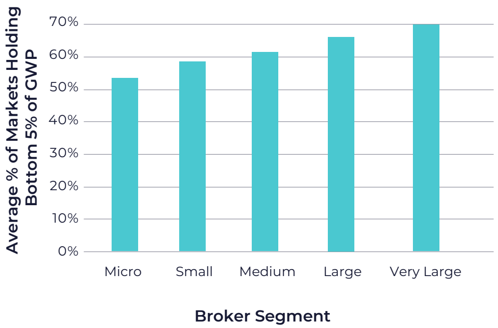


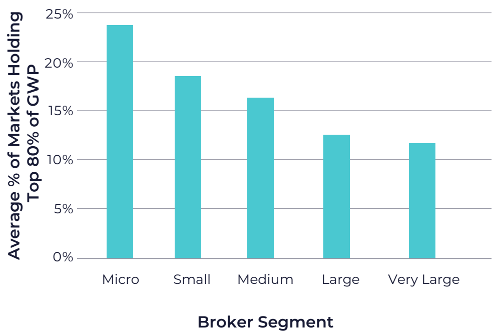


Market engagement rises

Market engagement among brokers is rising across the board. However, small brokers tend to interact with fewer insurers, which suits a leaner business model.

Broker segment market engagement





Too many markets?

The largest brokers have their lowest 5% of their GWP with around 70% of their markets - so, many markets but few transactions.

In contract, smaller brokers are placing more business with a smaller number of markets.

Whiteley comments: “Working with more limited insurer partners boosts efficiency - but where there are diverse client needs it can be a difficult balancing act.”

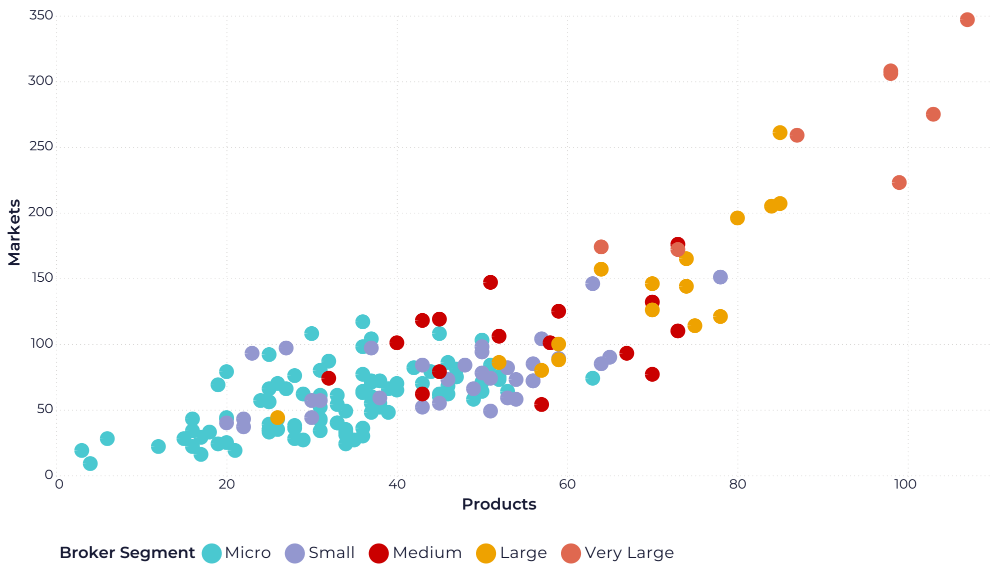
Barton says Partners& has an “established insurer panel which is an efficient way of placing business and can mean achieving favourable terms for our clients.”

But, as he points out, “if you’re a large broker and you want to work with a broad range of clients, you still need access to specialist markets.

Typically, a broker might have around 120 agencies, whereas we have around 270 - but that means we can place pretty much any risk in addition to our own schemes.

“We don’t tell our placing brokers what to do. They’re the experts, being close to clients and markets, and they want to be able to find the right insurer to deliver. So, while it may seem having a smaller number of insurers is a smart business strategy, it won’t work when you’re a larger broker meeting the needs of all sorts of clients, including complex risks.”

Broker segment market and product engagement



As shown, large brokers' placement strategies are far less concentrated and there are challenges when dealing with so many agencies.

Barton continues: "There's always going to be cost in dealing with agencies in ensuring they are suitable markets - there's no such thing as a free lunch. And there's always going to be due diligence regarding appetite and time spent getting to know an insurer even if you're not placing a great deal of business with them - if you're a broker, understanding your market is expected."

Careful management is essential and as Paul Anscombe, CEO of Seventeen Group, explains: "Seventeen Group has made many acquisitions in recent years and a significant challenge for us has been the numerous additional agencies we 'inherit' when we buy a broker.

"There's not only the growing cost of managing numerous agency relationships and keeping track of the carriers that MGAs are using, but also the mammoth task of product governance to contend with."

Reviewing is essential

He adds: "As a result of numerous acquisitions, we now find we have umpteen agencies with the same carrier which need constant review and culling. This has a 'knock on' impact on our finance team who are reconciling several accounts rather than one. Commission levels vary with the accounts with the same insurer and so we have to unpick these differences to reconcile accounts and ensure fair value for our clients."

This is necessary to ensure successful integration and as Anscombe comments: "From an efficiency perspective, we know having an unnecessarily large agency base costs us money, plus we have to ask our staff to be fully familiar with a greater number of products." Anscombe says when acquiring a broker, there is a review of their agency base to "consider how this mirrors our own. We share our placement strategy with acquisitions so both parties go into the transaction with clarity and the opportunity to help our clients. For example, we're able to make more markets available to brokers we acquire and also offer more specialist products and capability."

He concludes: "Our placement strategy is to support our strategic insurers and supplement this with specialist insurers for product lines such as cyber, marine and professional indemnity. We will use a limited number of additional distribution channels where we need very bespoke coverage to protect our clients and where such coverage is not readily available in the wider market. There are some fantastic MGAs and niche insurers providing great solutions and this is vital for the future."

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