

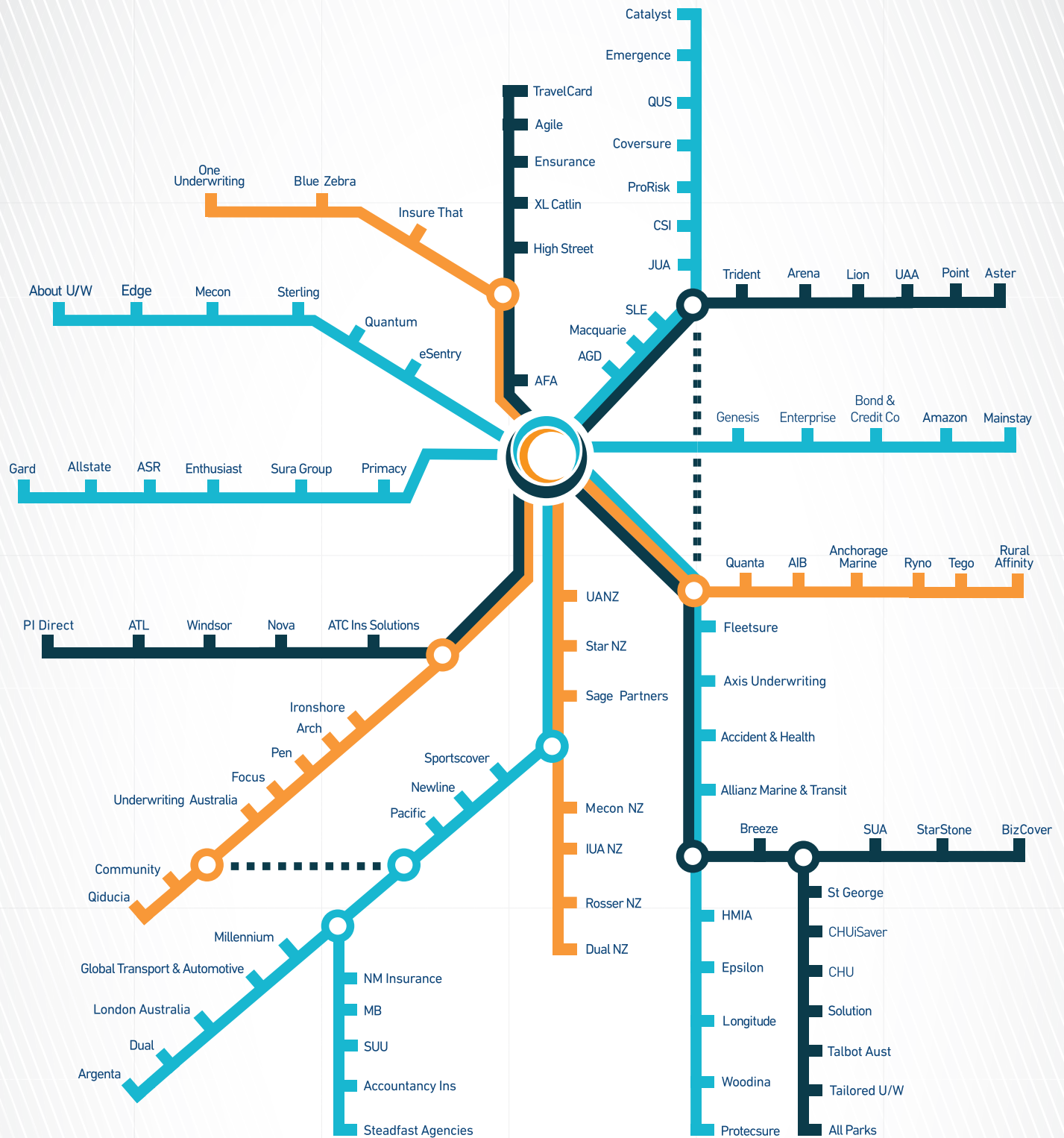


Underwriting Agencies Australia/New Zealand CEO Survey 2018

Business Priorities and Trends

Brought to you by Gratex International

THE Hub



The Underwriting Agencies Council connects diversified specialist underwriting agencies, creating a focal hub at www.uac.org.au as an essential resource for brokers. UAC is THE Resource for brokers and THE Resource for its members, providing a range of services to help agencies build their businesses.





I'm pleased to share with you the findings of the Underwriting Agencies Council 2018 CEO survey of business priorities and trends.

The survey is conducted annually and open to senior management in member underwriting agencies across Australia and New Zealand. The survey is a useful tool for UAC and its members to assist in evaluating key trends in the industry.

On behalf of the UAC board, I thank all those member principals across Australia and New Zealand who completed the 2018 survey. We know your time is valuable, so we really appreciate your participation.

We also thank Gratex International (www.gratex.com.au) for its generous sponsorship of the survey and assistance in compiling the results.

The survey helps UAC with its ongoing commitment to providing and implementing worthwhile improvements for members. Analysis of the information enables us to ensure future programs and activities continue to meet members' needs.

Information gained from the survey provides valuable insight into your perspectives on the industry.

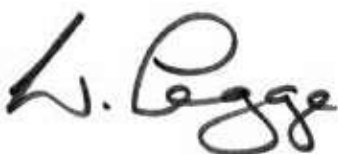
It enables members to see how they compare with their peers and understand what challenges and concerns are at the forefront.

UAC will continue to affirm and sustain its position as a major industry body. We are proud to be THE Resource for our members and THE Resource for brokers.

UAC will continue to conduct an annual survey to assist your council to keep abreast of current trends and provide the wider industry, regulators, government bodies, and other stakeholders with accurate, up-to-date information.

Again, thank you for contributing your valuable time and feedback and I hope you will be part of the survey again next year.

Yours sincerely



William Legge

General Manager, Underwriting Agencies Council

Key Insights

EXISTING MARKETS ARE DELIVERING GROWTH

APPETITE FOR NEW MARKETS IS AT AN ALL TIME LOW

FOCUS ON INNOVATION IS DROPPING

PRESSURE ON OPERATIONS TO SCALE IS MOUNTING

BIGGEST SHIFTS FROM 2017 TO 2018

Biggest increase:

Operational processes are
FULLY AUTOMATED

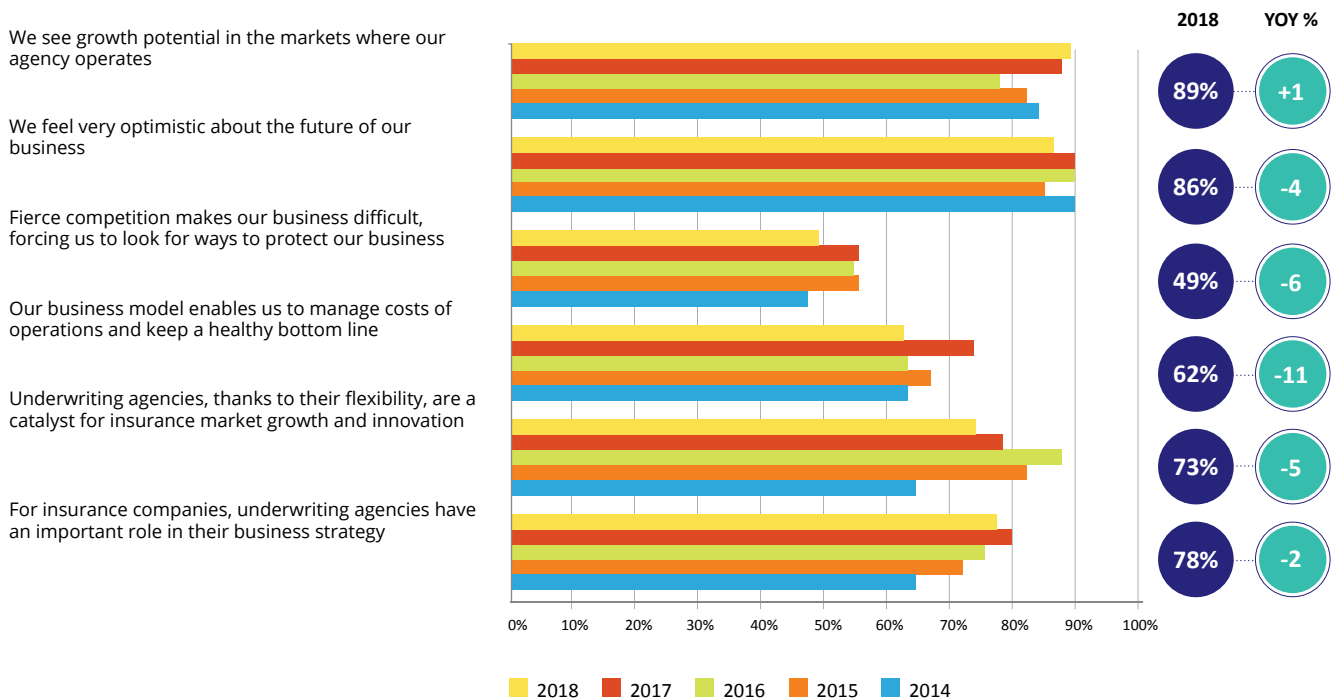
+13%

Biggest decrease:

Fierce competition from new entrants as a
KEY CHALLENGE

-27%

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



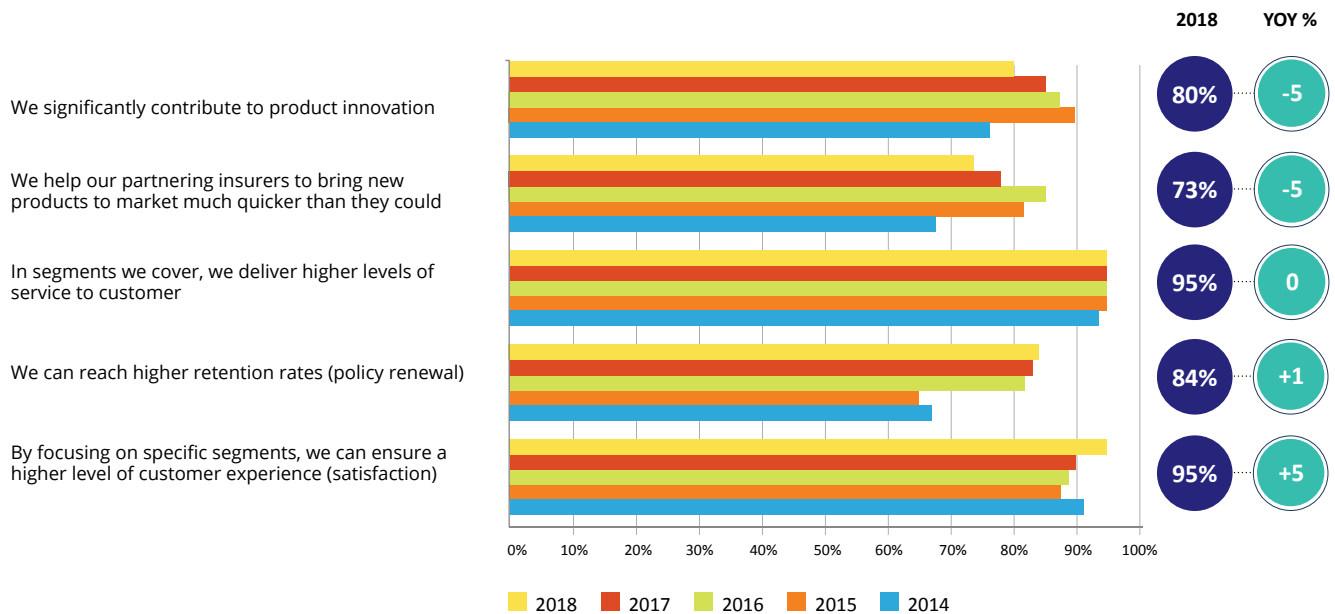
- Underwriters remain highly optimistic and see potential in harvesting demand in their current markets. This represents the only increase in 2018 relative to the other dimensions
- The perceived threat from new entrants is receding and rated as the least concern
- Confidence in the business model to manage cost of operations has seen the most significant drop with 11%
- With a further 5% drop, underwriting agencies perceiving themselves as catalysts for insurance market growth sees the only consistent downward trend



“Underwriting agencies are becoming increasingly optimistic, and those with bespoke offerings are gaining market traction. Any perceived threat from competition is receding, likely due to the expertise and dedication to client excellence that agencies are bringing to the market.”

ERIC LOWENSTEIN, CEO, TEGO UNDERWRITING

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



- Underwriting agencies' value to the market is seen overwhelmingly as their ability to specialise, which received top ratings for the first time
- Delivery of a superior customer experience (95%) continues to be the highest value-adding capability
- Product innovation and speed to market have seen the biggest decrease and display a three-year downward trend

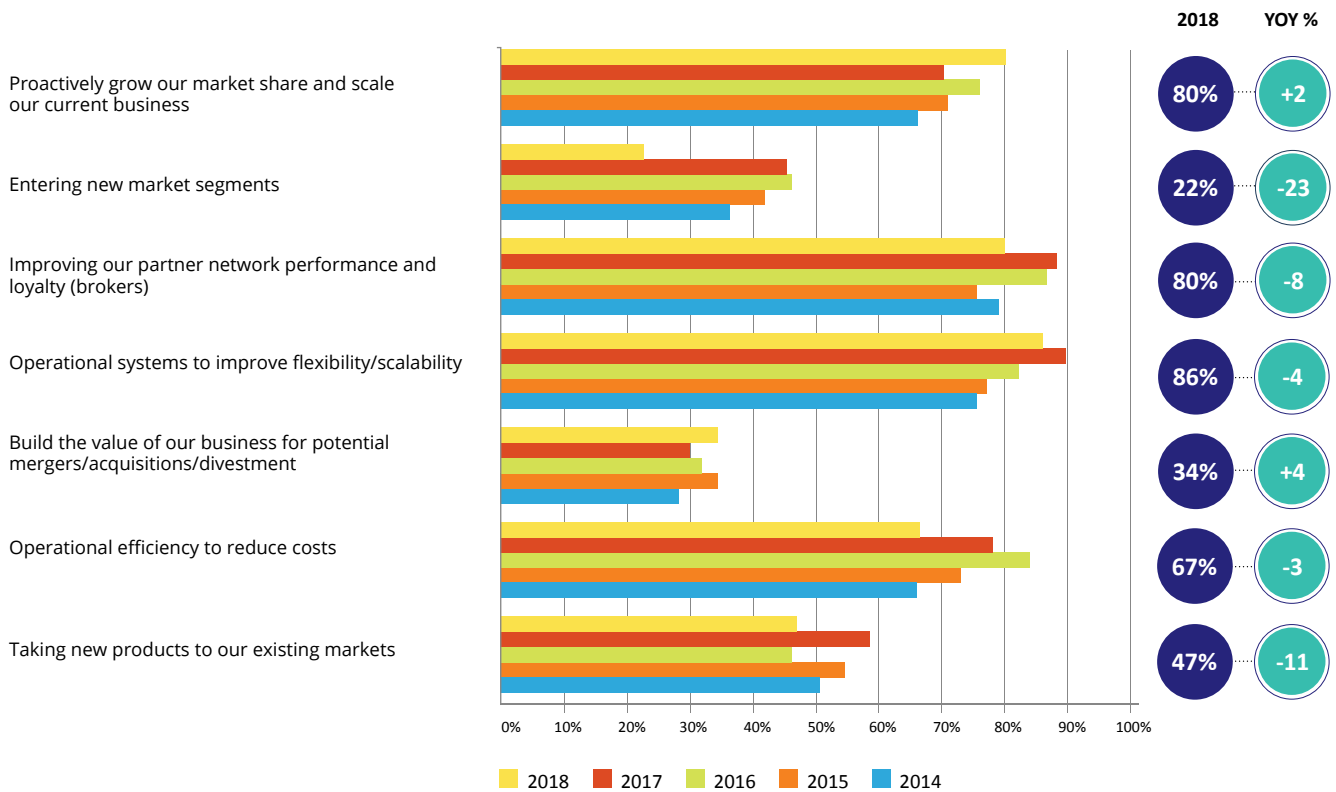
One resource, many connections

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

3 How important are the following aspects to your agency?



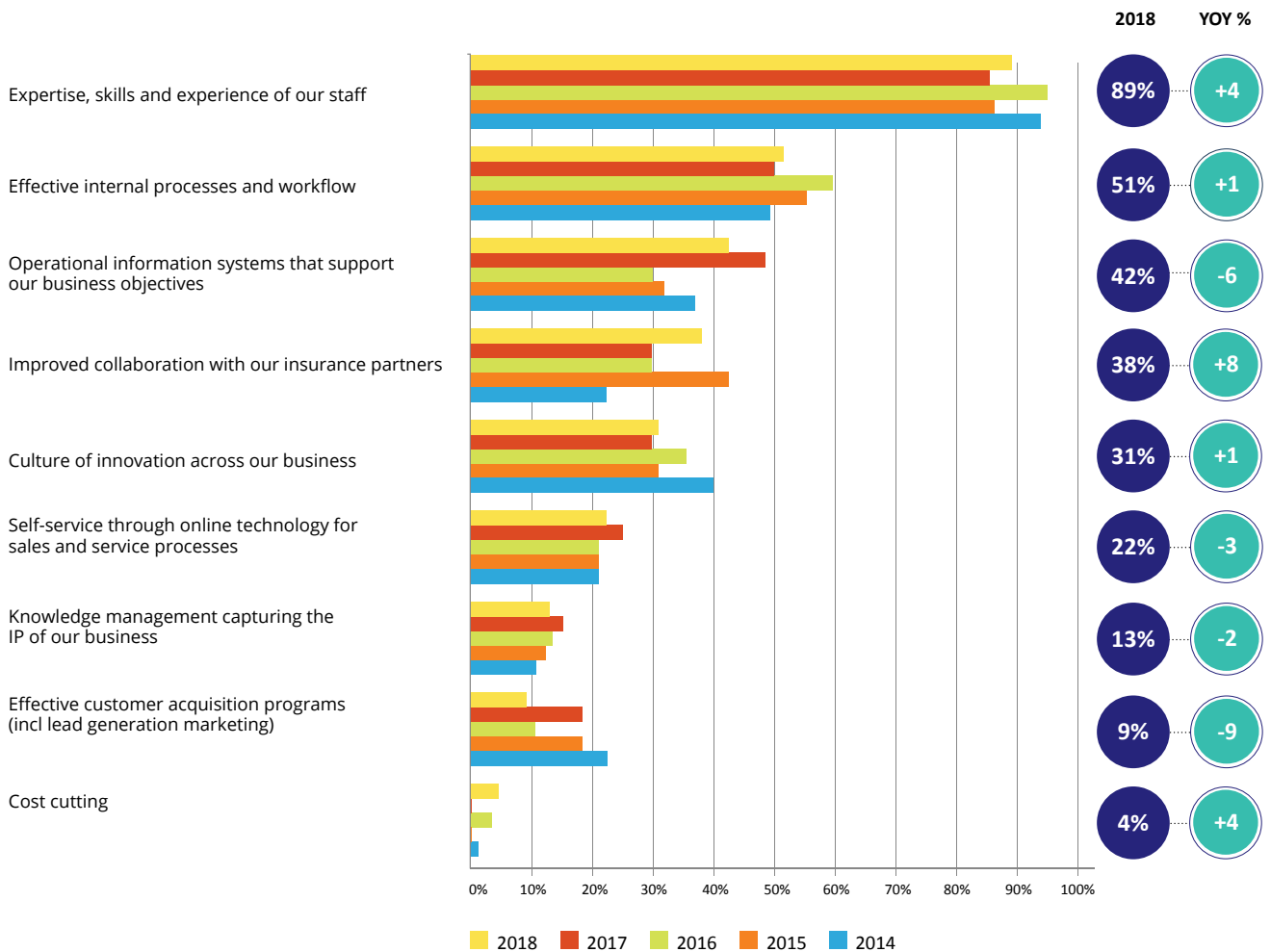
- Entering new market segments shows the most significant decrease of 23%. Only 22% of respondents perceive this as 'critical' or 'very important'
- Similarly, with a 11% decline, less than half the respondents place importance on 'taking new products to existing markets'
- For the first time in three years we see a drop attributed to improving the partner network performance and loyalty, however 80% still rate it as 'critical' or 'very important'
- 'Operational systems to improve flexibility/scalability' receives the highest score with 86%



"The results indicate a focus on core existing business (this being, product, partner relationships and current transactional systems in place). This focus is a product of pressure from Insurers to increase rates and to demonstrate profitability with guaranteed income rather than looking at income that is potential. Despite these pressures, members are positive about proactive growth and scalability of their current business."

GIDA IRVING, DIRECTOR, AMAZON UNDERWRITING

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

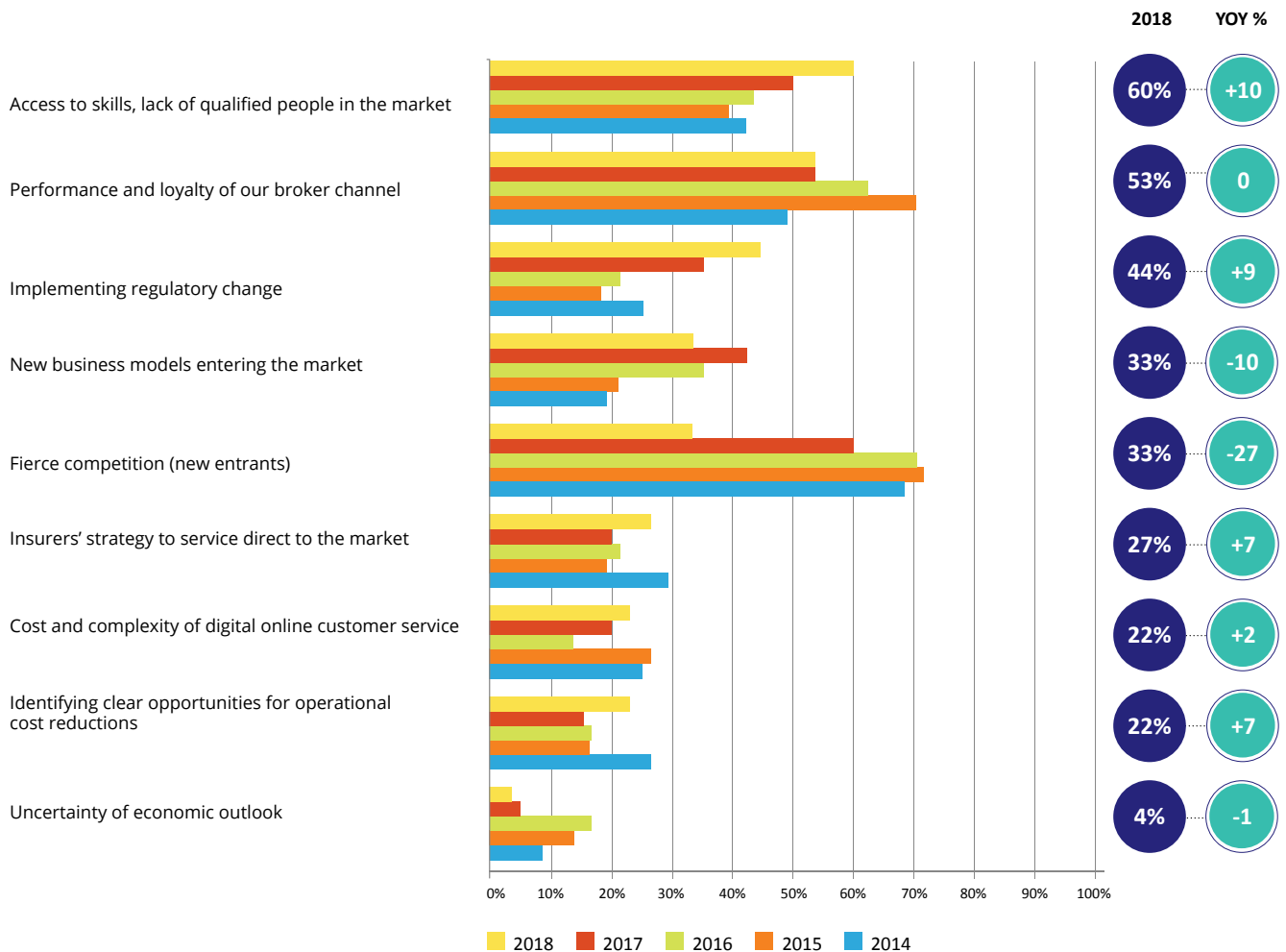


- Consistently, for underwriting agencies, market success is bound to the skills and experience of staff
- Improved collaboration with insurance partners sees a jump of 8%, however reaches only 38% overall
- With a drop of 9%, 'customer acquisition' continues to be among the lowest ranked enablers



"Clearly, there is a continued focus towards our members' concerns around staffing and the impending regulatory change. This is common across the industry, not just for UAC Members. Cost reductions and distribution strategies have grown as a concern, this will be interesting ..."

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

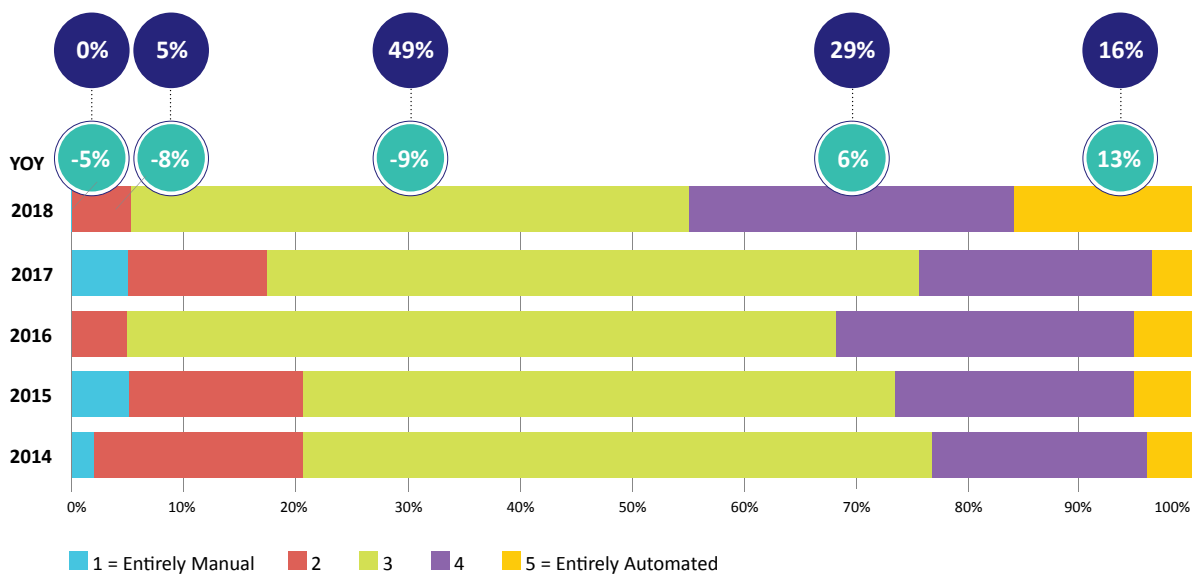


- The perception that new entrants represent a business challenge more than halved compared to previous years
- Likewise, underwriting agencies feel less concerned by 'new business models entering the market'
- The skill gap is worsening, showing an all-time high with a 10% YOY increase reaching 60% and taking, for the first time, the highest-ranking spot
- The concern about regulatory requirements has seen an increase of 9%

... as we move through FY19 and reductions in portfolio results and capacity through a hardening market flows through to members seeing less concern around new entrants and competition."

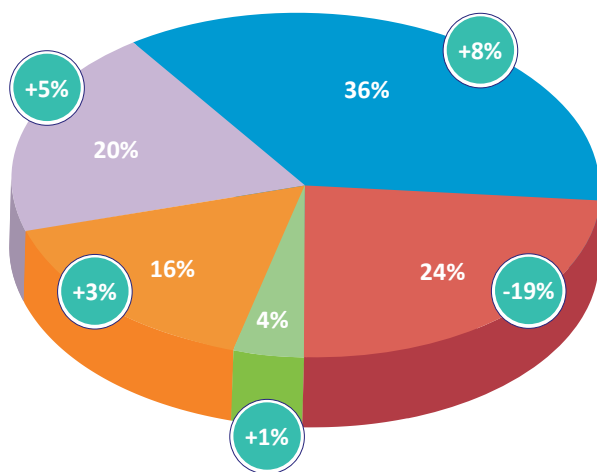
LYNDON TURNER, CEO, NM INSURANCE GROUP

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



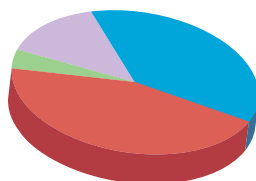
- Respondents reporting 'fully automated' have tripled
- The majority rank themselves on middle ground with '3' remaining in a state of part automation, part manual processing

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

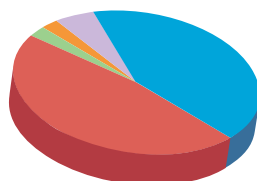


2018

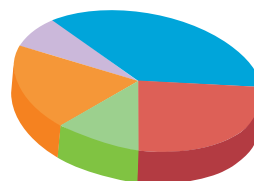
- We are happy with our underwriting systems and do not plan to change them
- We are considering a change or upgrade of our underwriting systems (within the next 2 years)
- We are NOT happy with current underwriting systems but change is not a priority today
- We recently (within the last 2 years) changed/upgraded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



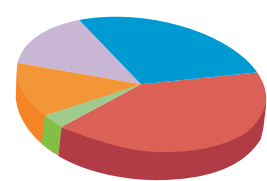
2014



2015



2016



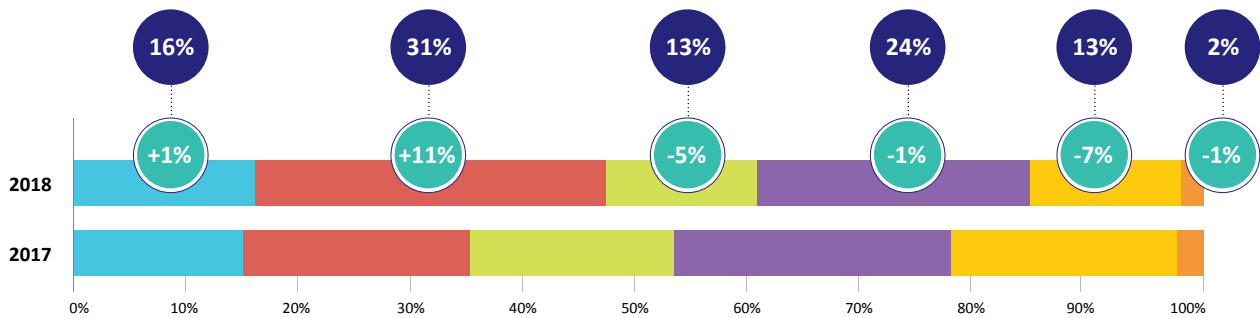
2017



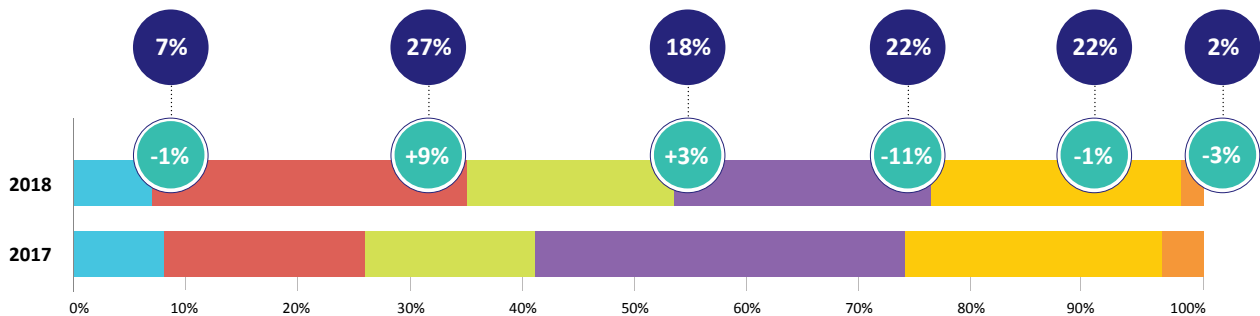
- Only 24% of respondents report to be 'happy and do not plan to change systems', which is a significant 19% decrease compared to the previous year
- 16% of respondents have changed or upgraded their core systems recently, while organisations 'considering change' has increased by 8%

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

Full policy life cycle online portal for brokers



Direct connectivity between your system and the broker system



■ Essential
 ■ Very important
 ■ Important
 ■ Somewhat important
 ■ Not important
 ■ Not applicable as we distribute directly to end customer



- Online connectivity is gaining momentum, with 43% now rating a full policy life cycle online portal for brokers as being 'essential' or 'very important'
- Only 34% of respondents consider direct connectivity to the broker systems as 'essential' or 'very important'

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



- 44% of respondents have 'online quote and bind' fully implemented
- Plans to implement are higher in the 24 month horizon compared to 12 months
- One third of respondents 'plan to evaluate' integrating underwriting and broking systems



Considering the present comparative change in acceptance of risks by insurance companies, do you believe the present high level of brokers seeking an alternate market with the underwriting agency market will become a permanent state of business?



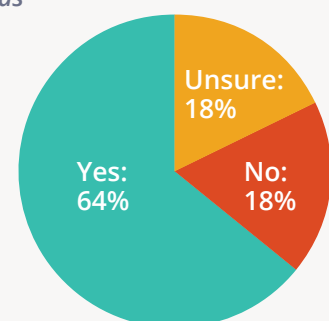
" It is interesting and affirming of the increasing strength of the underwriting agency market, that 64% of the respondents answered in the affirmative, this being, that use of an alternative market could become a permanent state of business.

I think the answer over the next few years will be somewhere in between:

A. That insurers' acceptance criteria will change as their desire for increased market share rises and

B. The delegated underwriting authority holders market will provide brokers with a stable but competitive market for the specialty SME insurance needs which will allow the broking market to develop specific programmes for specific markets."

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



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.

56% of all agencies have fewer than 20 employees, 33% have between 20 and 100 employees and 11% have more than 100 employees. 27% reported gross written premium (GWP) of less than \$10m with 66% achieving GWP of \$10m – \$200m, and 7% 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.



**PO Box Q272
Queen Victoria Building
Sydney NSW 1230**

**Level 4, 68 York St
Sydney NSW 2000**

Ph: 02 8284 8406

**E: williamlegge@uac.org.au
www.uac.org.au**