



Binding Authority Management

London, UK – 23rd September 2005

Underwriters and coverholders have long been used to the concept of binding authority management and comfortable with it as a means of conducting business. It is after all a simple idea, which involves the coverholder agreeing to accept risks on behalf of the underwriting members.

However a closer look at binding authority management shows that it is a lot more complex than an agreement between two parties. The underwriter will have reinsurers to take into account while the coverholder will have brokers and possibly a chain of sub-brokers. In addition there will be third parties handling claims and the claims handlers will have other relationships with solicitors and claims assessors. Each party will naturally have commissions and fees to earn. From this perspective, the binding authority agreement then looks far from straightforward with a lot more information to grapple with.

Businesses involved can range from car dealers selling one or two warranties a month, or at the other end of the spectrum, many thousands of covers per month. The products involved cover the whole gamut of insurance products but would, for instance, include Payment Protection Insurance, travel insurance, buy-to-let insurance and warranties. It is hard to believe that even today you will find coverholders operating labour intensive largely paper-based processing. There has been, however, a gradual adoption of the Internet to facilitate trading by making use of the software benefits that can be easily adapted for this business.

To add to the complexity there are competitive pressures within the insurance industry as well as internal and external regulatory pressures.

The competitive pressures come from reinsurers who want greater clarity from insurers. The reinsurers themselves will possibly also have other reinsurers to deal with. All parties in the binding authority relationship inevitably want to keep costs down.

There is an increasing interest globally in the regulation of business being written under binding authorities. In the UK, for example, the regulatory pressures come from both The Financial Services Authority and the regulatory centre of Lloyd's. The relatively high rate of failures across the London market has meant that the FSA has made substantial increases in the minimum capital requirement.

This has had the effect of concentrating minds at insurance firms about the risks and rewards of doing business under binding authorities. Insurers have the choice of pulling out of lines of business entirely or reassessing their capital requirements.

Control of risks written by coverholders is essential, and to achieve satisfactory control insurers need to know all the business written in all classes of business across all channels. Essentially every party involved in binding authority management agreements needs more information about what is going on in the chain in order to better manage the relationship. Two years ago Lloyd's introduced new regulations regarding the conduct of business under Binding Authorities. These regulations were an attempt to reduce the risk to its members of transacting business in this way. The new rules are compulsory and there are severe penalties for a breach of conduct. Lloyd's intends to police these rules rigidly. These new rules have introduced the need for a new approach to Binding Authority Management, not least because of the additional operating costs that they create for the business and the potential for profits to be impaired. It is essential for business to be processed and data to be captured and reported in the most cost effective way. On top of all this the FSA will need to be satisfied that appropriate Service Standards are being maintained and supported by an automated Complaints procedure. This creates a need for a proper workflow management routine to be in place to facilitate the necessary reporting.

There are many other benefits to having more information available. For example, under the current system insurers could be paying too much for reinsurance, as they do not have the information to judge otherwise. Brokers, if appropriately armed with information, might be able to get better prices. The same applies to sub-brokers. Ultimately this benefit could even feed through to consumers.

Coverholders will be able to offer a better service to their customers and be in a stronger position to negotiate improved fees from insurers if they have more information on which to base their decisions. It would not be unreasonable to estimate that a coverholder could increase its management fee considerably if it managed the information flow better. Claims handlers can reduce frictional costs if they are equipped with more information. And their service levels will be improved if they have more information on what is happening.

Improved information allows all parties in the binding authority management relationship to analyse their business. For instance, a coverholder can assess how a certain broker is performing and change relationships with that broker on that basis. Insurers and Managing Agents alike will want to identify underwriting profitability by product type and by global and regional areas. Used in the correct way, automated data analysis can identify both profitable and unprofitable trends and also identify potential areas of sales difficulties with all that it can entail. Analysis will allow the coverholder to change the terms of its business agreement and/or procedures and practices.

Better information can help tackle wider industry issues such as fraud and the threat of fraud as there will now be proof within the system that insurance policies actually exist, including when they were taken out.

Compliance and the need to improve competitiveness are driving the binding authority management business. As collecting and consolidating detailed data from every binding authority agreement poses a significant task, Eurobase has developed a solution that

handles insurance data structures and the automation of key processes while still giving insurers the flexibility to integrate with their existing transaction systems. Our Synergy solution, which is already being delivered to several clients, aims to achieve a return on investment within a short time by reducing the cost of processing and delivering competitive edge through accurate, timely management information.

Data analysis is no longer an item for the Underwriters Wish List - it is an essential prerequisite to the successful conduct of business. Underwriters must be able to analyse and compare profitability by class of business, broker or territory at any time. The tools are available which enable them to integrate with existing systems, meet regulatory requirements and achieve competitive edge. There will be a flight to quality as the teeth of the Regulators bite.

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Note to editors:

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