



# Jumping into the 2020 UK SME Commercial Insurance Markets

**A Future Perspective Report  
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## Foreword

Our report is roughly divided into three major sections discussed among eight chapters. First, we set the stage with a discussion of the SME market, SME commercial insurance purchase options and concerns, platforms generally, and then commercial insurance eTrade platforms. Second, we create and delve into four possible 2020 SME commercial insurance trade worlds, three of which have eTrade platforms to varying degrees, and then discuss possible movement of insurance firms between worlds. In the third section, taking all the discussions of the four possible future worlds, we discuss implications for software houses offering BMS and for each of the three major types of eTrade-platform participants. Finally, we provide a brief Summary and key points at the end of the report.

Note: Throughout the report, we use the term “SME” as a plural to mean small and mid-size enterprises.

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## Jumping into the 2020 UK SME Commercial Insurance Markets

### Executive Summary

No one has a crystal ball to determine what the future holds. However, we can project how the future might unfold and, in so doing, consider what the commercial insurance industry could do to help businesses prepare for the future.

In this report, we delve into not one, but four, possible future worlds of commercial insurance trade for small and mid-size enterprises (SME). Keeping in mind that SME are the protagonist of our future worlds, we focus on the manner of insurance trade, including eTrade platforms in three of the four worlds. One of the four worlds, Briar Patch, is not hospitable to eTrade platforms.

Throughout our discussion of the four worlds, we consider how trade is enabling brokers to meet the needs and expectations of SME throughout the client journey, from acquisition to service to claim management.

### The four future worlds of commercial insurance trade

The four future worlds of SME commercial insurance trade that we created are:

- **Tourist Attraction:** While eTrade platforms are being discussed or piloted by insurance firms, they are a tourist attraction at best. These pilots raise the hope of brokers and SME alike. But this is a traditional commercial insurance world where insurance firms are using pen and paper (i.e. forms and documents) as the primary medium to conduct trade at the usual slow people-processing pace with SME clients. The reality is that SME commercial insurance eTrade platforms don't exist, except as an anomaly, in the Tourist Attraction world.
- **Briar Patch:** eTrade platforms don't exist at all, even as anomalies, in the Briar Patch world of commercial insurance trade. Briar Patch is a traditional commercial insurance world where insurance firms use pen and paper to conduct trade with SME. SME clients, and brokers coming into firms, express their frustration with having to conduct insurance commerce with analog tools (typewriters, fax machines, paper and pen), but insurance firms in Briar Patch,

even the few that are thinking about eTrade platforms, aren't shifting to eTrade any time soon.

- **Vigilance Village:** The use of eTrade is a one-step forward and two-step backward dance by commercial insurance firms in Vigilant Village. Some commercial insurance firms conduct trade in a traditional manner, but also use eTrade to find and bind covers for SME clients. SME commercial insurance eTrade platforms are gaining acceptance from insurance firms. However, insurance firms are cautious about the funding required to support eTrade platforms while still having the funding required to maintain the traditional systems of record (SoR) and systems of engagement (SoE), also called client and prospecting systems, that keep firms in business.
- **Digital Exuberance:** The insurance industry is continually offering brokers a growing cornucopia of SME commercial insurance eTrade platforms. Insurers, broking firms, standards associations, regulators, software houses, and small-business associations are all deploying SME commercial insurance eTrade platforms. With this expanding plethora of eTrade platforms, brokers find themselves with time-wasting challenges similar to those of their counterparts in the past: spending time, albeit with digital trade options, to find the right markets and bundle all the covers and service capabilities SME clients require.

## Conclusions

As we progressed through the research and writing of the report, several conclusions crystallized for insurance brokers, (re)insurers, and other insurance industry participants involved with or planning to be involved with SME commercial insurance eTrade platforms:

- **eTrade platforms need to be more than an efficiency play:** eTrade platforms cannot be used only as an efficiency strategy by brokers (or carriers, for that matter). eTrade platforms must provide functionality beyond finding and binding cover to also support SME throughout the entire client insurance journey, from purchase to service to claim management.
- **eTrade platforms created by insurers represent only part of a trade solution:** Proprietary eTrade platforms – platforms created by insurance companies – are portals on steroids. Commercial insurers may be positioning

platforms as niche strategies offering hard-to-find covers or as experiments with this type of digital channel, but most of the benefits flow to the insurer rather than to the broker and, in turn, to the SME.

- **eTrade public platforms represent the best way forward:** Public or industry eTrade platforms – platforms created by neutral players such as Polaris or possibly regulators or associations of small businesses – offer the highest likelihood of providing the covers and concomitant functionality brokers need to support SME.
- **The more things change, the more things stay the same, Part 1:** Brokers expecting the eTrade channel to evolve to an environment of one, two or, at most, three platforms are going to be disappointed. In 2020 and the years beyond, there will be an increasing number of eTrade platforms created by an expanding number of industry participants beyond insurers, software houses, and Polaris.
- **The more things change, the more things stay the same, Part 2:** Digital Exuberance might seem like the perfect world for eTrade because SME commercial insurance trade is conducted entirely through digital connectivity paths (BMSs, eTrade platforms, and insurer SoR and SoE). Brokers continue to invest too much time finding, binding, and bundling covers and support functionality, albeit using a keyboard to “click-and-pick,” to meet each SME’s client insurance cover and service requirements.
- **Technology dysfunction still rules:** In each of three worlds, excluding the world of Digital Exuberance, there is a spectrum of technological dysfunction regarding the support of commercial insurance trade throughout the client-broker-insurer industry value chain. This is due to the use of analog artifacts (e.g., pen and paper, documents, forms, fax machines) and the slow speed naturally attendant to people who are processing paper (in-and-out boxes, interoffice posting, walking to and from broking firms and SME client locations with briefcases replete with paper, and data entry/re-entry).
- **An immersive environment:** eTrade platforms, whether in Vigilant Village or Digital Exuberance, create an immersive environment of conducting trade and providing service. Platform owners are finding ways to keep clients from being thrown out of the environment due to weather-driven events or human error, and to restore service quickly when required.

## **Chapter 1: Driving question, report intent, and structure**

### **Driving question**

There is a key question driving this report: Can SME commercial insurance eTrade platforms offer a market solution in 2020 that meets, if not exceeds, SME expectations by:

- enabling brokers to efficiently find and bind the requisite cover for each client, and simultaneously
- offering capabilities to help brokers effectively serve clients throughout the client journey, encompassing acquisition, service, and claim processes?

### **Our intent**

Our intent in writing this future-perspective report is not to provide definitive answers to the question. Rather, our intent is to provoke questions and ideas from UK commercial insurance stakeholders – SME clients, (re)insurers, brokers, software houses, standards organizations, loss assessors, loss adjustors, regulators, and other stakeholders – concerning the characteristics of commercial insurance trade in 2020.

### **Report structure**

We address the driving question by considering how SME and insurance-industry participants might conduct commercial insurance commerce in four hypothetical worlds that could exist in 2020.

Specifically, keeping the SME, which are the protagonists of our investigation at the forefront, we discuss across eight chapters of the report:

- the state of the 2016 UK SME market
- 2015/2016 SME commercial insurance-purchase options and concerns
- the components and players of platforms and commercial insurance eTrade platforms
- conducting commercial insurance SME commerce in each of the four 2020 worlds: Tourist Attraction, Briar Patch, Vigilance Village, and Digital Exuberance
- implications for insurance eTrade platform participants in the four 2020 worlds.



## **Chapter 2: The state of the 2016 UK SME market**

### **SME: a critical part of the UK economic bedrock**

Small and mid-size employers (SME) are the economic bedrock of UK commerce. However, SMEs' commercial insurance needs are not being met: SME are underinsured and/or don't have all the covers their firms require to remain in business or quickly revert to operations after loss events. Without owning proper insurance, the economic bedrock will experience problematic fissures.

SME have two major paths to purchase commercial insurance: aggregators and brokers. Neither option provides a solution to SME's insurance challenges. Micro SME (an SME with 0–9 employees) are increasingly being presented with opportunities to use aggregators to purchase commercial insurance in a manner similar to that which consumers use when purchasing motor or home insurance. Using a “pick-and-click” aggregator option to purchase commercial insurance as if it is the equivalent of consumer insurance can exacerbate SMEs' insurance difficulties.

All an SME can, and most do, work with insurance brokers to fulfill their commercial insurance needs. The brokers, in turn, have different paths, including going directly to insurers, working within federations of broking firms, or using eTrade platforms, to find markets to meet and service their SME clients' insurance requirements. However, brokers must realize that any path that is essentially an efficiency play – a path that offers time and cost savings – will not necessarily lead to a resolution of SMEs' commercial insurance challenges.

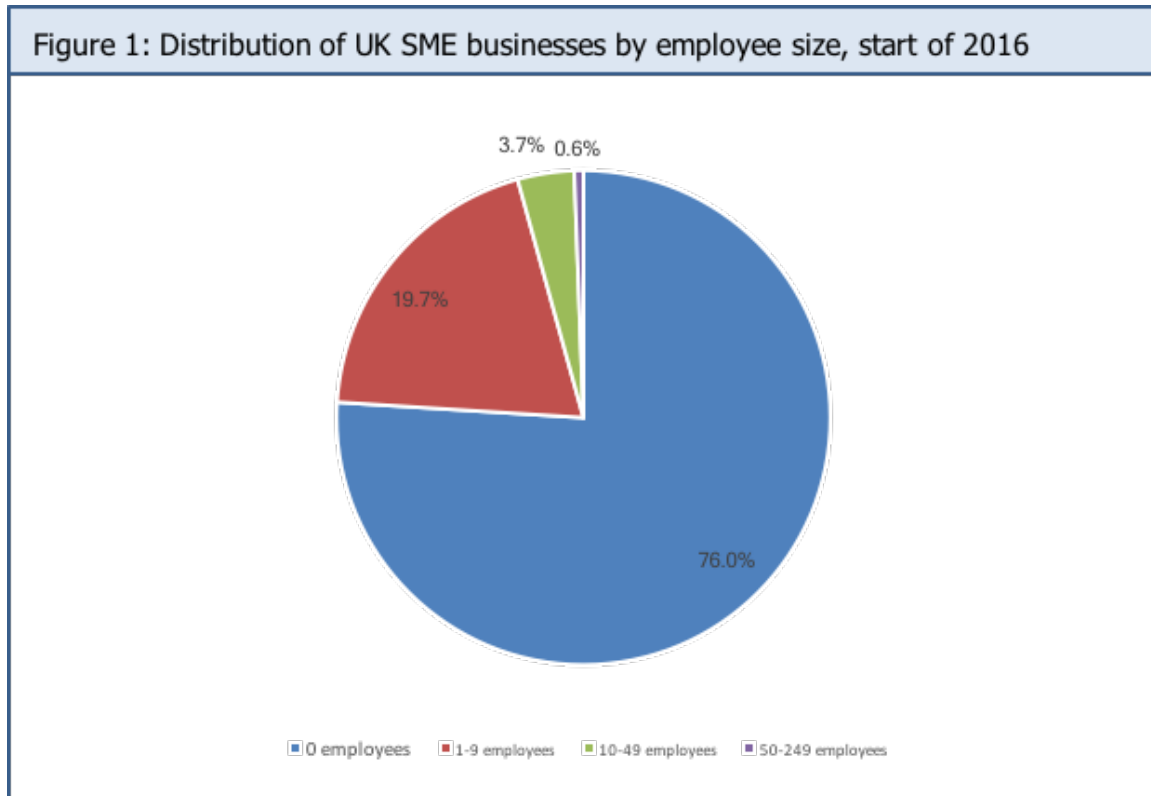
### **SME employee size distribution**

SME, defined as employers with 0–249 employees, are a critical part of the economic bedrock of UK businesses. Within that range of 0–249 employees, there are three major segments: micro SME, with 0–9 employees; small enterprises, with 10–49 employees; and mid-size enterprises, with 50–249 employees.

Per the Department for Business, Energy, and Industrial Strategy, there were an estimated 5.5 million SME in the UK private sector in 2016. SME represent 99.9% of all UK businesses, 60% of UK employment, and 47% of UK turnover. The “zero-employee” SME – businesses that only have sole proprietors, owners, or managers – represent 76% of all SME. Micro-SME – businesses with 0–9 employees – represent 95% of all SME.

(See Figure 1.)

**Figure 1: Distribution of UK SME businesses by employee size, start of 2016**



Source: Business Population Estimates for the UK and Regions 2016, Department for Business, Energy & Industrial Strategy Statistical Release, October 13, 2016

### **SME distribution by industry**

The SME conduct business in all UK industries. As mentioned above, at least half of the businesses in UK industries are SME. Looking across UK industries, at least 75% of SME have no employees other than the owner in 10 of the 15 industries. (See Table 1.)

SME owners and brokers that target SME must constantly maintain an understanding of the changing exposures and concomitant covers that are required in each industry. In addition, a broker's understanding of SME should encompass the ways SME communicate with their clients in each industry and what technologies they use to keep

their own firms in business. We believe that, at a minimum, SME commercial insurance eTrade platforms should provide and update information about changing exposures, requisite covers, and service expectation by industry.

**Table 1: Percent of businesses for each industry segment by number of employees**

(Shown in descending order by industry segments with the highest percent of companies with no employees)

<b>Number of employees</b>				
	<b>None</b>	<b>1–49</b>	<b>50–249</b>	<b>250+</b>
Education	94.0	5.7	0.2	0.0
Arts, Entertainment, and Recreation	90.1	9.5	0.3	0.1
Transportation and Storage	87.4	12.0	0.5	0.1
Construction	83.8	16.0	0.2	0.0
Human Health and Social Work Activities	81.9	16.9	1.0	0.1
Professional, Scientific, and Technical Activities	77.7	21.8	0.4	0.1
Information and Communication	77.6	21.8	0.5	0.1
Other Service Activities	77.2	22.7	0.1	0.0
Financial and Insurance Activities	76.3	22.3	1.0	0.4
Administrative and Support Service Activities	75.9	23.0	0.8	0.2
Manufacturing	66.9	30.3	2.3	0.5
Agriculture, Forestry, and Fishing	65.2	34.5	0.3	0.0
Real Estate Activities	61.1	38.3	0.5	0.1
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	55.6	43.4	0.9	0.2
Accommodation and Food Service Activities	30.4	67.7	1.6	0.3

All Industries	75.9	23.4	0.6	0.1
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Source: Business Population Estimates for the UK and Regions 2016, Table 2 of the detailed tables, Department for Business, Energy & Industrial Strategy Statistical Release, October 13, 2016

Note: Entries showing "0.0" reflect that the table shows percent with one decimal place.

## **SME commercial insurance-purchase options and concerns**

### **SME commercial insurance-purchase options**

Regardless of size or industry, all SME purchase commercial insurance to manage the firm's portfolio of risks unless the SME owner can self-insure all the risks associated with the firm's business. But are all SME working with brokers to purchase the commercial insurance their firms require?

The answer is no.

A commercial insurance industry study done about three years ago found that brokers have gone from controlling 90% of the written premiums of the micro-SME market to 60%, with pure aggregators accounting for the lost percentage.

We believe this is a reasonable expansion of aggregators if we put on a micro-SME owner's hat, so to speak. It is not a stretch to imagine an owner of a micro-SME saying: "If 'click-and-pick' works as a quick option for purchasing personal insurance, then why not use the same option to purchase commercial insurance for my business?"

One persistent question that brokers must resolve is how much of the SME commercial insurance market, micro or not, that aggregators could capture in the next five years? Is it possible that using commercial eTrade platforms will enable brokers to gain back micro-SME market share and continue to hold or build share in the other SME markets (10–49, 50–249)? We delve into those, and related, questions in the eTrade commercial insurance scenarios later in the report.

### **SME commercial insurance concerns**

The SME market is an amplification chamber of negative experiences throughout the commercial insurance value chain. From shopping to purchase to service and claim management, SME don't have the time for inefficient service or the funds to quickly bounce back from unsatisfactory claim experience and untimely claim payment. Obviously, SME are no different from larger enterprises concerning potential negative forces that could affect them, but the ability for SME to resume business quickly or

continue to exist could come into play more frequently, because SME could:

- have fewer financial assets to rebound from uninsured or underinsured assets
- primarily operate on a cash-flow basis
- be less likely to have the resources to conduct a thorough identification of the risks associated with their businesses that require cover
- mistakenly believe there will not be adverse financial consequences to their firms by purchasing commercial insurance in the same manner as purchasing consumer general insurance.

Several SME commercial insurance studies have shown that underinsurance is a persistent reality for the SME market. Per the Building Cost Information Service and Chartered Institute of Loss Adjusters, up to 80% of SME properties are underinsured, and 40% of SME lack adequate business interruption cover. Another association, the Arson Prevention Bureau, stated in 2015 that 70% of SME involved in major fires either did not reopen or failed within three years.

There may be a silver lining for some, but not every micro-SME owner. SME that employ less than 10 people and have either annual turnovers or balance sheets of less than £1.6m have access to the Financial Ombudsman Service (FOS) if the SME owner feels s/he was not treated fairly by the insurer. Further, the Insurance Act of 2015 brings a measure of relief to the entire SME market by requiring insurers not to “apply the average” to sums that are insured below the actual value of a claim.

### **Chapter 3: Platforms and commercial insurance eTrade platforms**

Will eTrade platforms enable brokers to provide that silver lining we mentioned above for SME and, in so doing, capture the lost micro-SME share and strengthen their share of the small and medium-size enterprise segments?

If brokers consider the use of eTrade platforms as primarily an efficiency strategy, we believe the answer is “no.” The eTrade platform must provide sources of value to assist brokers in not just efficiently but also effectively serving SME clients before we can turn our answer into a “yes.” First, though, we need to discuss the concept of platforms.

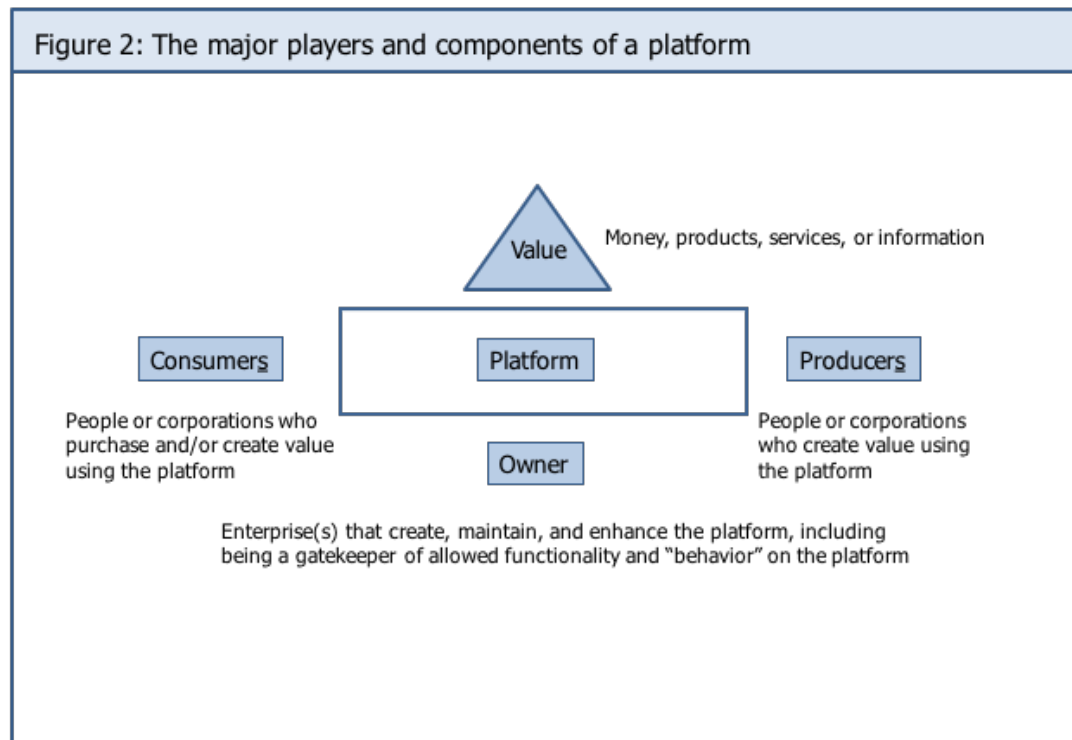
#### **What are platforms?**

A commercial insurance eTrade platform is first and foremost a platform. We are all familiar with mobile devices such as smartphones and tablets. Whether you use an Apple or Android mobile device, you are using a platform. Facebook is also a platform, albeit a software platform.

But what exactly is a platform?

Per platform expert Sangeet Paul Choudary, “a platform is a plug-and-play business model that allows multiple participants – producers and consumers – to connect to it, interact with each other, and create and exchange value.” Mr. Choudary is using the terms “producers” and “consumers” generically, rather than the way we use them in the commercial insurance industry. Keep in mind that “consumers” and “producers” could be the same people or companies creating platform value, but it is the “consumers” who purchase value from the platform. (See Figure 2.)

**Figure 2: Major players and components of a platform**



Source: Platform Scale: How an emerging business model helps startups build large empires with minimum investment

More elegantly, Mr. Choudary stated that “platforms are interaction engines that scale when they optimize the interaction flow.” The platform itself:

- could be a proprietary platform (as a commercial insurance eTrade platform owned by one insurance company would be) or an industry-wide platform (as a commercial insurance eTrade platform owned by Polaris or software houses and open to a panel of insurers would be)
- could be deployed in a public or private cloud
- should be accessible using mobile devices, whether smartphones or tablets
- can be connected to other businesses that build products and services on top of it, and by so doing, co-create value for all the stakeholders using the platform.

There is some pushback from people who believe the term “platform” is just another word for “market” because they think using the term “platform” for the same concept as

“market” introduces unnecessary confusion. In a strictly limited, “markets-are-tied-to-on-the-ground-geographic-locations” sense (such as walking within a one or two-kilometer area carrying briefcases full of paper documents in London between broking firms, insurers, and SME clients), Market Insight Group agrees with them.

But Mr. Choudary’s work, along with his colleagues (see the Further Reading section), logically shifts the concept of markets, as well as the myriad concomitant interactions between and among platform stakeholders, into the realities of the digital era. Because of this reasonable shift to conduct commerce in the mobile, digital marketplace, we use the following description of an eTrade platform in the rest of the report:

A platform (whether a general societal commerce platform or an insurance eTrade platform) in the digital era enables a multitude of people and/or companies to seamlessly interconnect, collaborate, improve, and exchange various types of value in real time.

### **SME commercial insurance eTrade platforms**

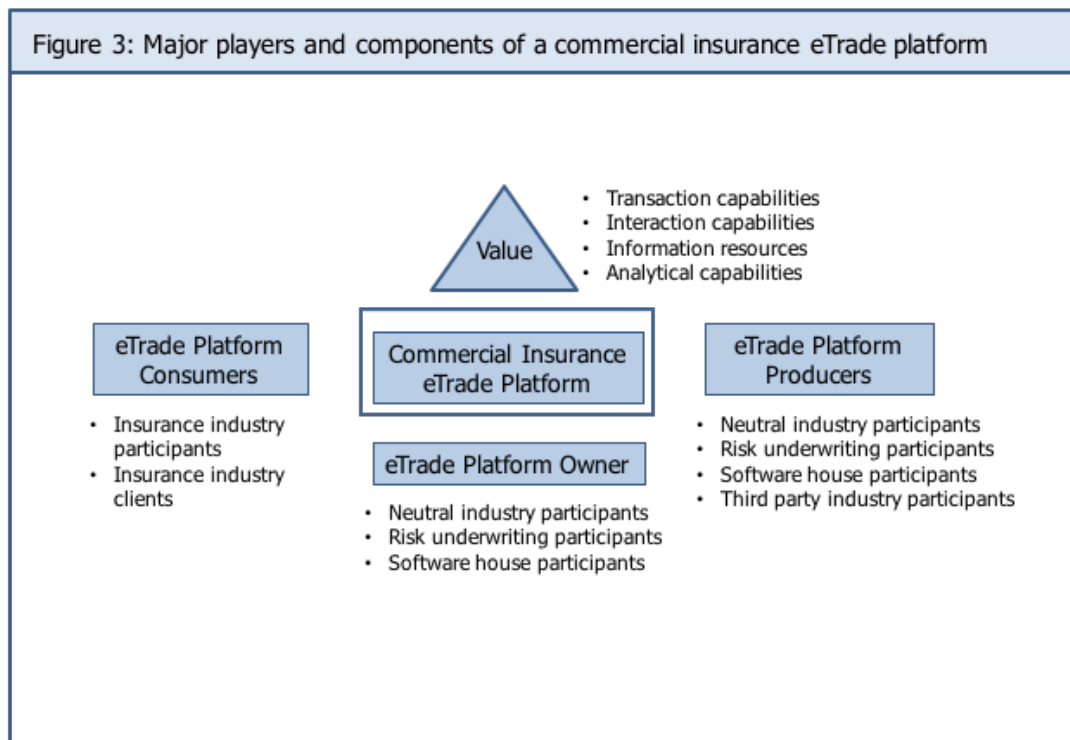
With the description of platforms in hand, SME commercial insurance eTrade platforms include the following (see Figure 3):

- eTrade platform consumers encompass commercial insurance industry participants, including brokers/account executives/producers (discussed throughout the report and shown on the figures as “brokers”), CSRs, underwriting agencies and, we believe eventually, SME clients.
- eTrade platform producers encompass neutral industry participants such as Polaris and industry regulators; risk underwriting participants such as insurance companies and underwriting agencies; software house participants such as the technology firms providing systems of record (SoR), systems of engagement (SoE), or Broker Management Systems (BMS), and systems of insight (SoI); and third-party industry participants such as loss adjustors and loss assessors. BMS contain elements of both Systems of Record (SoR) and Systems of Engagement (SoE).
- eTrade platform owners encompass neutral industry participants, risk underwriting participants, and software-house participants.



- Value components include transaction capabilities encompassing business-process lifecycle functionality; interaction capabilities comprising integration functionality, communication and collaboration functionality; information resources, such as SME exposures and concomitant covers by industry; and analytical capabilities covering predictive analytics, reporting, dashboards and other types of visualization functionality.
- Commercial insurance eTrade platform value components are deployed in private or public clouds and accessible using mobile devices (whether smartphones or tablets) or laptops.

### Figure 3: Major players and components of a commercial insurance eTrade platform



Source: Market Insight Group, Ltd.

## Chapter 4: Four possible 2020 UK SME commercial insurance trade worlds

### Creating the four future SME commercial insurance worlds

Our previous discussion of SME, platforms, and eTrade platforms serves as a foundation to consider how SME commercial insurance trade might evolve in 2020. To assist our evaluation, we create four possible future worlds (see Figure 4) of commercial insurance trade, keeping in mind where eTrade might or might not be used.

But where do the four future worlds come from?

They emerge from the intersection of two major attributes of insurance trade:

- **the nature of commercial insurance trade:** we created a gradient of commercial insurance trade, from “pen and paper” to “portals and platforms”
- **speed of insurance firm adoption of digital trade:** we created a gradient of insurance firm trade adoption rate, from “slower” to “faster.”

We use the speed of insurance firm adoption of digital trade as the “X” axis, and the nature of commercial insurance trade as the “Y” axis. Keep in mind that although a two-by-two, by necessity, illustrates solid lines, each world is actually formed by gradients and represents a conceptual environment rather than a hard-and-fast world.

### Names and brief snapshot descriptions of the four worlds

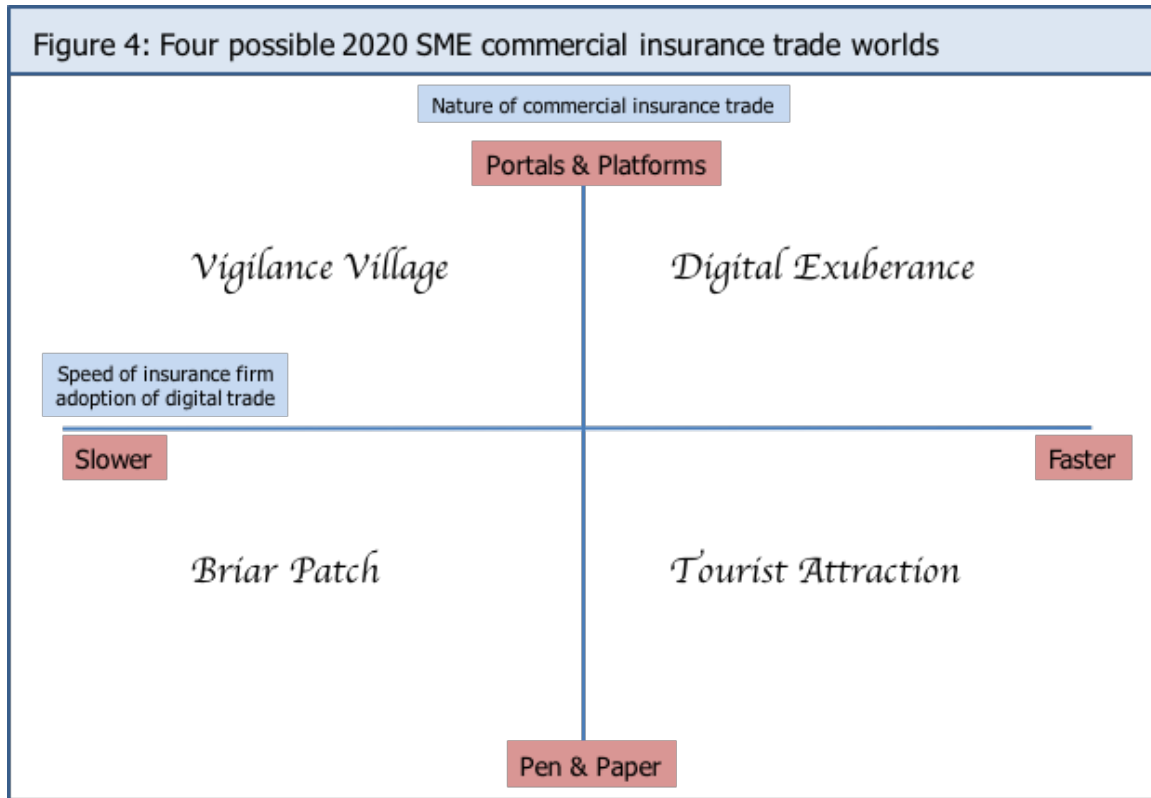
We name each of the four worlds of SME commercial insurance trade by thinking of the use, or non-existence, of eTrade. The names and a brief description of each of the four worlds are:

- **Tourist Attraction:** While eTrade platforms have been piloted since 2010 and are continuing to be discussed by insurance firms, they are a tourist attraction at best. This is a traditional commercial insurance world where insurance firms are using pen and paper (i.e., forms and documents) as the primary medium to conduct trade at the usual slow, people-processing pace with SME clients. The reality is that SME commercial insurance eTrade platforms don’t exist, except as an anomaly, in the Tourist Attraction world.
- **Briar Patch:** Insurance firms in Briar Patch, whether due to cultural inertia,

financial hurdles, or other factors, have little interest in quickly moving to adopt eTrade platforms. Briar Patch is a traditional commercial insurance world where insurance firms use pen and paper to conduct trade with SME clients. SME clients, and brokers coming into firms, express their frustration with having to conduct insurance commerce with analog tools (typewriters, fax machines, paper and pen), but insurance firms in Briar Patch aren't shifting to eTrade any time soon.

- **Vigilance Village:** The use of eTrade is a one-step forward and two-step backward dance by commercial insurance firms in Vigilant Village. Some commercial insurance firms conduct trade in a traditional manner, but also use eTrade to find and bind covers for SME clients. SME commercial insurance eTrade platforms are gaining acceptance from insurance firms. However, insurance firms are balancing the funding required to support eTrade platforms with that to maintain the traditional SoR and SoE that keep firms in business.
- **Digital Exuberance:** The insurance industry is continually offering brokers a growing cornucopia of SME commercial insurance eTrade platforms. Insurers, broking firms, standards associations, regulators, software houses, and small-business associations are all deploying SME commercial insurance eTrade platforms. With this expanding plethora of eTrade platforms, brokers find themselves with time-wasting challenges similar to those of their counterparts in the past: spending time, albeit with digital trade options, to find the right markets and bundle all the covers and service capabilities SME clients require.

**Figure 4: Four possible 2020 SME commercial insurance trade worlds**



Source: Market Insight Group, Ltd.

## **Chapter 5: Diving deeper into the 2020 commercial insurance trade worlds**

In this chapter, we dive deeper into the “portals and platforms” worlds than the two worlds dominated by “pen and paper”. In chapter 6, we discuss the possible movement of insurance firms from the “pen-and-paper”-dominated commercial insurance trade worlds to the “portals and platforms”-dominated commercial insurance trade worlds.

Note: From this point forward in the report, we use the term “eTrade platform” to mean SME commercial insurance eTrade platform for the sake of readability.

### **Tourist Attraction World of Commercial Insurance Trade**

eTrade platforms are an anomaly in the Tourist Attraction world of commercial insurance trade. A few eTrade platforms exist, mainly due to a small number of insurance industry firms attempting experiments in digital trade rather than committing to fully functional deployments that must be maintained and/or upgraded on any reasonably frequent basis. Brokers find and service SME markets using analog artifacts (i.e., paper forms and documents, office phones, fax machines) and familiar technology artifacts (i.e., email and laptop computers), mixed in with newer mobile technology (i.e., smartphones and tablets). But the bulk of the brokers’ activity is the historic hustle-and-bustle walk-about, carrying briefcases resplendent with paper forms and documents, between the broking firm and SME clients’ locations (replete with lunch-hour visits to local pubs for a pint and a sandwich).

In the world of Tourist Attraction, broker management systems (BMS), specifically with robust download and upload capabilities, play a key role in supporting SME commercial insurance trade. The broker systems, however, are used side by side with telephone calls and faxes to insurers to identify where markets might exist for the covers SME clients require. While a BMS has a major role supporting a host of functions, including marketing, sales, new business applications, and, to a growing degree, CRM, paper remains king. Paper files are continually created, expanded, and gathered, together with other prospective and current SME client files, in cabinets that seem to have a life of their own taking over broker firms’ offices.

The SME journey from prospect to client moves at a hybrid pace of processing paper and

digits. Paper moves at a people-processing pace (put into and taken out of in- and out-boxes) throughout the broking firm as necessary through the cycle of review, correction, and data entry, and sometimes review again. At times, paper forms are sent in the post to an underwriter at the insurer (where it, again, moves at a people-processing pace within the underwriting and actuarial departments). Obviously, digits flow in near-real time between the systems that the broker and insurers use to quote, rate, and underwrite. Unfortunately, the slowest pace of movement represents a burden to achieve either process efficiency or effectiveness for SME clients. SME learn that the people-processing pace is exacerbated during times of claim notification, adjudication, remediation, rehabilitation, and ultimate resolution.

However, almost in accordance with Newton's Third Law of Motion, to every action there is an equal and opposite reaction, the reliance that insurance firms have on pen and paper to conduct trade in the Tourist Attraction world is simultaneously causing insurance firms to move more quickly to expect and adopt more aspects of digital functionality using BMS (brokers) and SoR and SoE (insurers). In the Tourist Attraction world, commercial insurance firms have split personalities. The major market issue is whether SME clients will wait until insurance firms resolve their bifurcated behavior and achieve the digital connectivity required throughout the entire client value chain.

### **Briar Patch World of Commercial Insurance Trade**

eTrade platforms don't exist in the Briar Patch world of commercial insurance trade. An investigative detective might find a few insurance firms thinking about creating platforms with very basic eTrade functionality. But the reality is that in Briar Patch, the insurance industry doesn't represent a welcoming home for eTrade platforms. Insurance firms fully recognize that SME clients expect more efficient and effective solutions than using pen and paper could ever deliver. However, concerns regarding budget, security, E&O exposures, and commercial insurance potentially becoming commoditized in the SME market are inhibiting insurance firms from creating and using eTrade platforms.

Like in Tourist Attraction, insurance firms' primary reliance on physical artifacts to conduct insurance trade pushes BMS to play a greater role in supporting brokers' marketing, sales, and document flow with insurers (once the broker or CSR enters – and re-enters – data from paper forms into the BMS). But this is insufficient use of technology to attract and keep younger people thinking about becoming brokers.

As important as not attracting and keeping younger talent, insurance firms' reliance on pen and paper also generates a vicious cycle of losing SME clients. The UK SME commercial insurance market has been witnessing micro-SME (firms with 0–9 employees) switching to aggregators to purchase commercial cover. However, in Briar Patch, small SME (firms with 10–49 lives) are increasingly using aggregators to “click and pick” commercial insurance covers. Some unfortunate results are that SME do not have any cover, the right cover, or the right amount of cover for all their firms' exposures.

With more micro-SME and small enterprises shifting to aggregators to purchase commercial insurance cover, brokers have turned to focusing on the mid-size segment (50–249 employees) of the SME market. Older brokers enjoy working in this “larger” enterprise segment because there are more longer-tail complex exposures that require them to leverage their years of commercial insurance experience. One challenge broking firms will eventually face is replacing the older brokers when they retire.

Brokers also believe they will have this mid-size segment to themselves for many years because aggregators will find the complexity too difficult to support. However, this is a myopic view of what aggregators could do if they used artificial intelligence or even cognitive computing to create rates, quotes, product development, and customer service.

Although insurance firms realize that technology enhancements move at an extremely quick pace, they lose sight of the fact that SME are using newer technology for their internal operations and trade with their clients, and expect to use that technology when conducting commerce with insurance firms. As we have mentioned, using pen and paper (and other physical artifacts) continues to push micro SME enterprises into the waiting open arms of aggregators. Insurance firms focused on SME might feel like they are in a safe house in Briar Patch, but they are actually treading water, unwilling to see that they are part of a shrinking industry.

### **Vigilance Village World of Commercial Insurance Trade**

eTrade platforms are making a cautious but obvious appearance in Vigilance Village. The market reality, though, is that commercial insurance trade is accomplished through a mixture of tools, including the traditional analog tools (of pen, paper, telephone, and fax machines); the somewhat modern tool of portals, which are becoming as antiquated as paper and pen; and the newest tool of eTrade platforms for the SME market. However,

more brokers are using eTrade platforms, as commercial insurers and software houses are increasingly creating pilots or implementing full-fledge deployments of eTrade platforms.

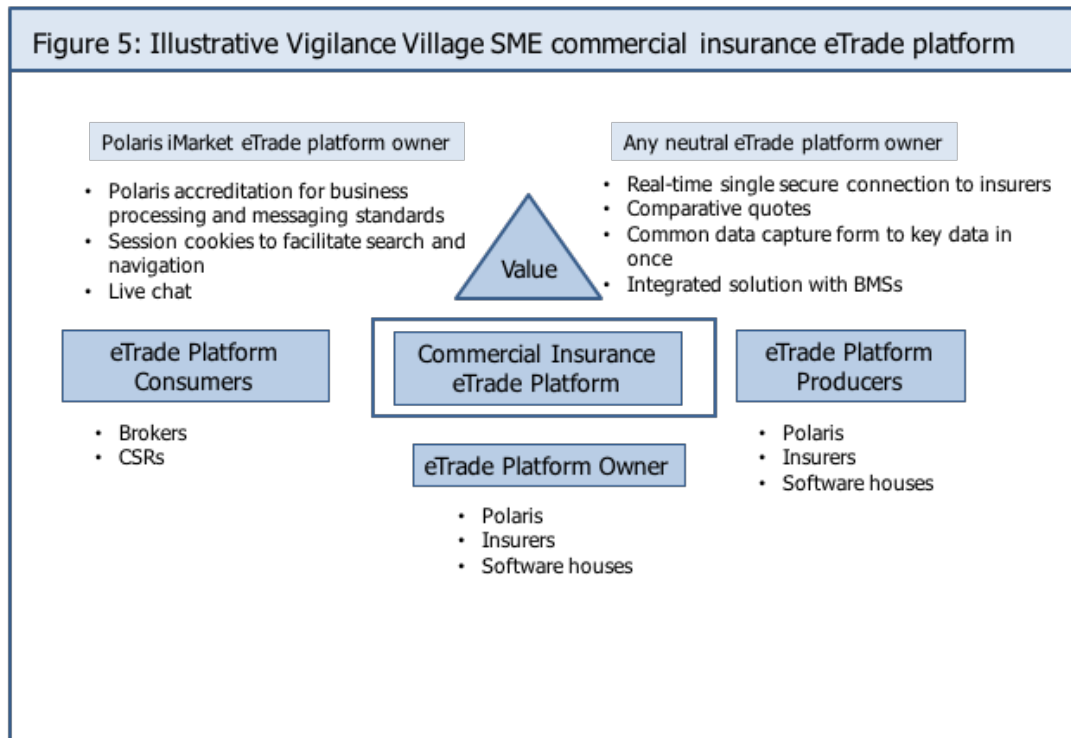
Two types of eTrade platforms have emerged in Vigilance Village: industry platforms created by Polaris or software houses, and proprietary platforms created by insurers. (See Figure 5.)

The Vigilant Village eTrade platform’s major components and attributes are:

- eTrade platform consumers: The platform “consumers” (firms consuming value from the platform) are primarily brokers searching for markets to find and bind cover, and CSRs entering data into the platform.
- eTrade platform producers: The platform “producers” (firms producing value for the platform) are insurance companies, software houses, and Polaris.
- Value: The value components for the Polaris industry platform include accreditation for business processing and messaging standards, session cookies to facilitate search and navigation, and live chat. Most emerging platforms, regardless of owner, also include (in addition to what the Polaris-specific platform offers) real-time, single, secure connection to insurers, comparative quotes, common data-capture forms to key data in once, and integrated solutions with BMS.



**Figure 5: Illustrative Vigilance Village SME commercial insurance eTrade platform**



Source: Market Insight Group, Ltd.

### **Integration is critical**

An eTrade platform exists to enable brokers to efficiently and effectively meet the needs of SME clients throughout the client journey. Finding and binding cover is the primary reason an eTrade platform exists. But an eTrade system can't continue to exist long if it doesn't provide integration functionality with the SoR and SoE of all the insurance firms, including with the BMS used by broking firms, and with authorized third parties involved with the SME client (particularly at the time of loss throughout claim remediation and rehabilitation).

Fortunately, insurance firms in Vigilant Village understand this mandate. Owners of

eTrade platforms in Vigilant Village are slowly but steadily providing integration beyond the existential requirement to integrate with insurers' new business application systems (i.e., quoting, rating, underwriting) by taking paths of:

- First: providing integration with broking firms' BMS
- Second: providing integration with insurance companies' core administration systems (i.e., policy administration, billing, claims administration)
- Third: providing integration with authorized loss adjustors, loss assessors, and other authorized third-party SoR.

### **eTrade platforms can't only be an efficiency option**

An industry eTrade platform has the best opportunity to eventually fulfill a broker's requirements to support most, if not all, of an SME client's cover – and communication – requirements. This assumes the eTrade platform owner can attract and keep a sufficient number of insurers that offer up-to-date spectrum of covers for SME exposures and a set of value components that include not only transactional but also interactional capabilities, information sources, and analytical capabilities.

In Vigilant Village eTrade platforms, both proprietary and industry, are tuned to help brokers save time, even though real problems have emerged, including brokers not:

- able to find all the covers they need for their SME clients from any one of the several eTrade platforms
- having a menu of choices (of terms, conditions, and restrictions) for the same cover for SME clients from all insurers
- being able to respond to the same question sets for each cover from each insurer participating as platform producers on each eTrade platform.

However, brokers using, or considering using, eTrade platforms from the myopic consideration of time and cost savings will trigger eTrade platforms to collapse under their own weight. Regardless of how many covers are available, whether on industry or proprietary platforms, or how many insurers are participating on an industry platform, an eTrade platform has to offer functionality as part of the value components that support the SME client journey, including real-time information, communication and collaboration, and analytical capabilities. We discuss more examples of platform value when we get to the world of Digital Exuberance.

## **Caution drives eTrade progress in Vigilant Village**

The hallmark of eTrade in Vigilant Village is that insurers are not proceeding quickly to add increasingly more value components on their proprietary eTrade platforms or industry eTrade platforms. Insurers fully recognize that they must invest in eTrade platforms, specifically creation of value throughout the four categories (transactional capabilities, interaction capabilities, information resources, and analytical capabilities) to help platforms find broker acceptance, and in turn, slow down or stop the continuing micro and small SME market slippage to aggregators. However, insurers remain cautious about making investments at a quicker pace. The result is slow and steady eTrade progress in Vigilant Village.

## **Digital Exuberance World of Commercial Insurance Trade**

eTrade platforms are a vibrant and expanding channel for brokers to find and bind cover and support SME client needs throughout the customer value chain in the world of Digital Exuberance. (See Figure 6.) Very few, if any, broking firms use pen and paper to conduct trade. Instead, in this world, insurance firms and SME operate in a world of “more” to enable eTrade: more components of each of the four value categories (see Table 2), more platforms from more owners, and more access by more platform consumers. Brokers coming into the industry reading or hearing that trade is almost entirely done with digital tools are quickly disappointed to learn that there are several eTrade platforms to use to find all the covers and services that SME clients require.

Specifically, in Digital Exuberance, there are:

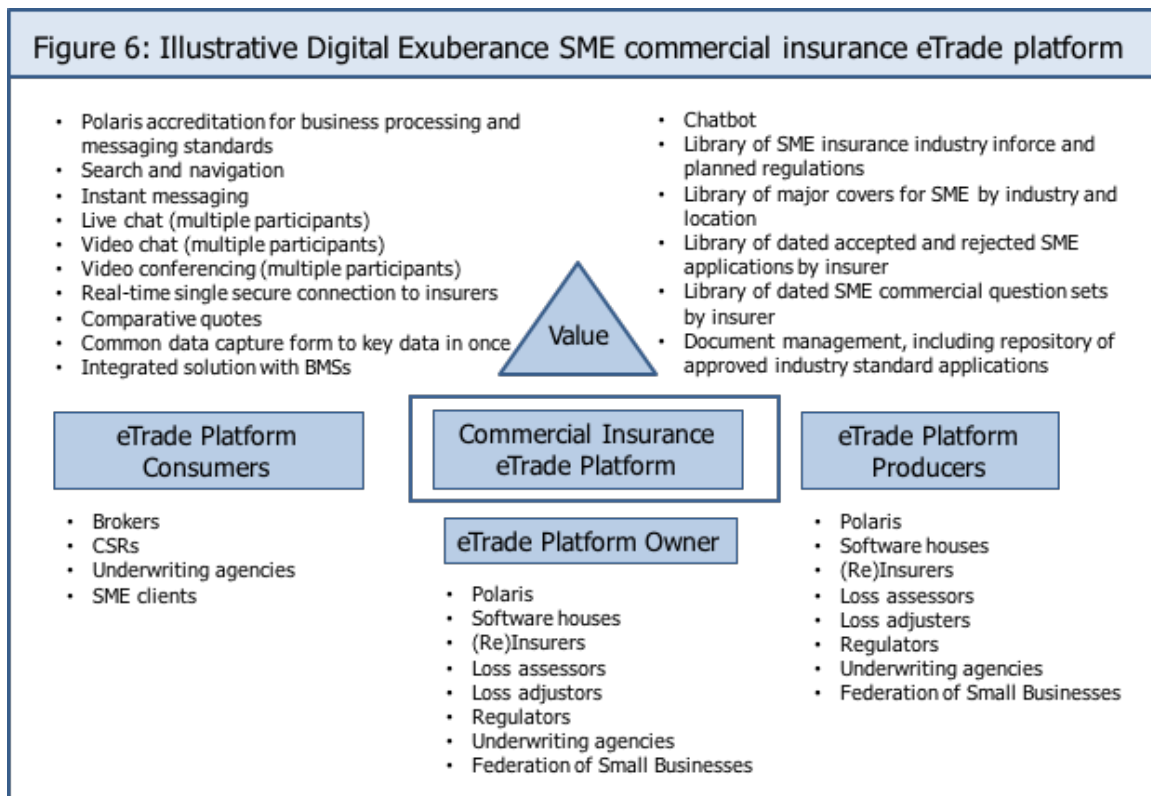
- more eTrade platforms created, deployed, and maintained by more owners, including Polaris, software houses, (re)insurers, regulators, underwriting agencies, and even the Federation of Small Businesses
- more value for the SME commercial insurance eTrade platform stakeholders throughout the four value categories of transactional capabilities, interactional capabilities, information resources, and analytical capabilities (see Table 2)
- more avenues for SME clients to access eTrade platforms (i.e., by using apps on mobile devices, live chat, or interactive video) for policy review, renewal and, potentially, purchase of new covers
- more SME-focused libraries that are continually updated with insurance in-force and planned regulations, major covers required by industry and location, and

commercial insurance question sets tailored to each SME industry.

Moreover, insurance firms are finding a blurring of BMS and eTrade platforms to the point that two paths are becoming increasingly apparent, with no resolution yet in sight:

- Software houses will take over complete ownership of eTrade platforms by subsuming all the platform value into their BMS
- Independent parties (Polaris, regulators, other industry-neutral parties) will assume all the BMS functionality on their eTrade platforms.

### Figure 6: Illustrative Digital Exuberance SME commercial insurance eTrade platform



Source: Market Insight Group, Ltd.

## Four forces generating more robust value in Digital Exuberance eTrade platforms

There are four forces in Digital Exuberance that are continually pushing SME commercial insurance eTrade platform owners and producers to create significantly more value, like the platform in Figure 6:

1. **SME client expectations:** SME expect brokers to understand all the risks concomitant with their businesses, including the risks specific to the industries in which they operate, and recommend purchase of all the requisite covers in an efficient manner. SME further expect effective interactive communication and collaboration throughout the lifecycle of purchase, service, and claim notice to resolution. Effectiveness is as important as transaction efficiency if brokers are to recapture micro, and potential loss of small-enterprise client share.
2. **Platform fulfillment:** Brokers expect SME commercial insurance eTrade platforms to become environments with most, if not all, of the capabilities needed to shop, purchase, and serve clients. From a high-level technical perspective, conducting insurance commerce on a platform consists of a plethora of forms and documents, data standards, data flows, and data interoperability between a BMS, an eTrade platform, and insurers' SoR and SoE. However, from the client and broker perspectives, conducting insurance commerce on a platform must be an easy-to-use and quick-to-access system, regardless of the broker's location or the mobile device the broker uses, to enable quality customer experience throughout the entire SME client value chain.
3. **Technology-expectant brokers and clients:** Mobile devices, mobile apps, social media, instant messaging, and interactive video continue to reshape customer expectations in the world of Digital Exuberance, whether the customers are consumers of retail or enterprise goods and services. Back in 2016/2017, there was discussion of how enterprises might use chatbots, drones, virtual reality, and augmented reality: all those technology applications are a reality in Digital Exuberance.

Young people coming into, or planning to come into, the insurance industry working for insurers or broking firms, have been just as exposed as anyone else in the rest of society, including owners and employees of SME, to digital mobile

technology applications and advances.

A 2016 research study done by the Insurance Post of young brokers who were shocked to find colleagues who didn't have email accounts or who used typewriters, paper cheques, paper forms, or fax machines. The current and emerging technologies are creating a digitally fluid and interdependent community of commerce and communication. The analog devices and associated historical artifacts collectively act as a crowbar thrown into the wheel of fluidity.

4. **Insurance regulators:** Insurance brokers operate under financial and time pressures from the UK insurance regulator. With a hard Brexit taken in 2017/2018, brokers and insurers are facing an 18% insurance-premium tax in 2020. BIBA's research in 2020 found that almost 20 per cent of employees in small brokerages effectively worked exclusively on regulation matters. The myriad number of eTrade platforms constantly strive to add value components to make the compliance process easier and more time efficient.

Adding to these operating pressures in Digital Exuberance, brokers conduct eTrade under the spotlight of the FCA's thematic reviews about concerns that SME clients have about the claim process (i.e., who is responsible for what activities), communications during the claim process, not having the right sums of insurance, or not having cover for exposures that should have been covered.

### **An expanding spectrum of value in Digital Exuberance**

eTrade platform value and, more specifically, the capabilities of value, are the essential reason a platform exists at all, and can continue to exist. The platform will be abandoned if the value capabilities aren't continually aligned with the expectations of the "platform consumers" as commerce – and risk – evolve through the years. Fortunately, the insurance firms and other insurance-industry participants in Digital Exuberance continue to add new and enhance existing value capabilities.

Insurance firms producing value for the eTrade platforms in this world of commercial insurance are working towards one over-arching objective: enabling insurers and brokers and, in turn, SME, to conduct trade and service entirely within an interconnected set of digital platforms without using pen and paper and the associated analog artifacts (i.e., paper documents or forms, fax machines, interoffice post, government post), in real time or near-real time using a mobile device. Easy and quick

integration of capabilities throughout the chain of “SME – brokers – insurers – reinsurers” persist as a constant challenge for platform producers to resolve.

Throughout this report, we have described eTrade platform value as having four major categories: transactional, interactional, information resource, and analytical. In Table 2 we illustrate value capabilities in each of the four categories. The value categories are interdependent rather than separate entities. Each value capability enhances the entire portfolio of value from the eTrade platform, while simultaneously requiring one or more of the other value capabilities to operate in the best interest of the platform consumer, whether that is a broker/account executive, CSR, SME, underwriting agency, or third party involved with claim remediation, rehabilitation, and final resolution.

**Table 2: Robust Spectrum of eTrade Platform-Value Capabilities in Digital Exuberance**

<b>eTrade Platform Value Capabilities by Category</b>			
<b>Transactional</b>	<b>Interactional</b>	<b>Information Resource</b>	<b>Analytical</b>
Real-time rating of submitted cover applications	Instant messaging	Polaris accreditation for business processing and messaging standards	SQL reporting and management information
Comparative quotes	Live chat	Search and navigation	Calculation of commission by line of business
Integration with BMS	Video chat	Library of SME insurance industry regulations	Real-time risk appetite of insurers by line of business and date
Integration with insurers’ SoR	Video conferencing	Common data-capture form to key data in once	Interactive map of SME client’s location
Integration with insurers’ SoE	Chatbots: Rule-based and artificial intelligence-based	Compare and contrast insurers’ product terms and conditions	SME client lifetime value
Real-time, single, secure connection to	E-mail bound covers to broker and SME	Library of major covers for SME by industry and	SME client estimated maximum probable loss

insurers	client	location	
Electronic cover notes	Video marketing (for brokers and SME clients)	Library of accepted and rejected SME applications by date and insurer	Predicted next-best offer for each SME client
Accounts settlement	Social media marketing programs	Library of SME commercial question sets by line of business, insurer, and date	
Accounts reconciliation	Voice-driven interfaces to platform functionality	Library of approved industry-standard applications by line of business	
Claim tracking		Pre-filled SME client information by line of business	
Bound DEC page downloaded to platform		Document template production	
Broker remuneration payments		On-demand video training for brokers (by insurer's line of business)	

Source: Market Insight Group, Ltd.

In this world of abundant eTrade platforms and an expanding portfolio of capabilities in the four components of platform value, brokers often find that they spend too much time clicking over to several eTrade platforms to effectively bundle together all the covers and service capabilities their clients need. Although eTrade platform cornucopia exists in Digital Exuberance, the reality is that no one platform, proprietary or industry, has everything a broker needs to meet the requirements of SME throughout the client lifecycle.

The operating metabolism of Digital Exuberance is fast and furious, but challenges remain in this world of digital plenty for insurance firms and platform owners to resolve to improve marketing, sales, and service support to brokers and SME.

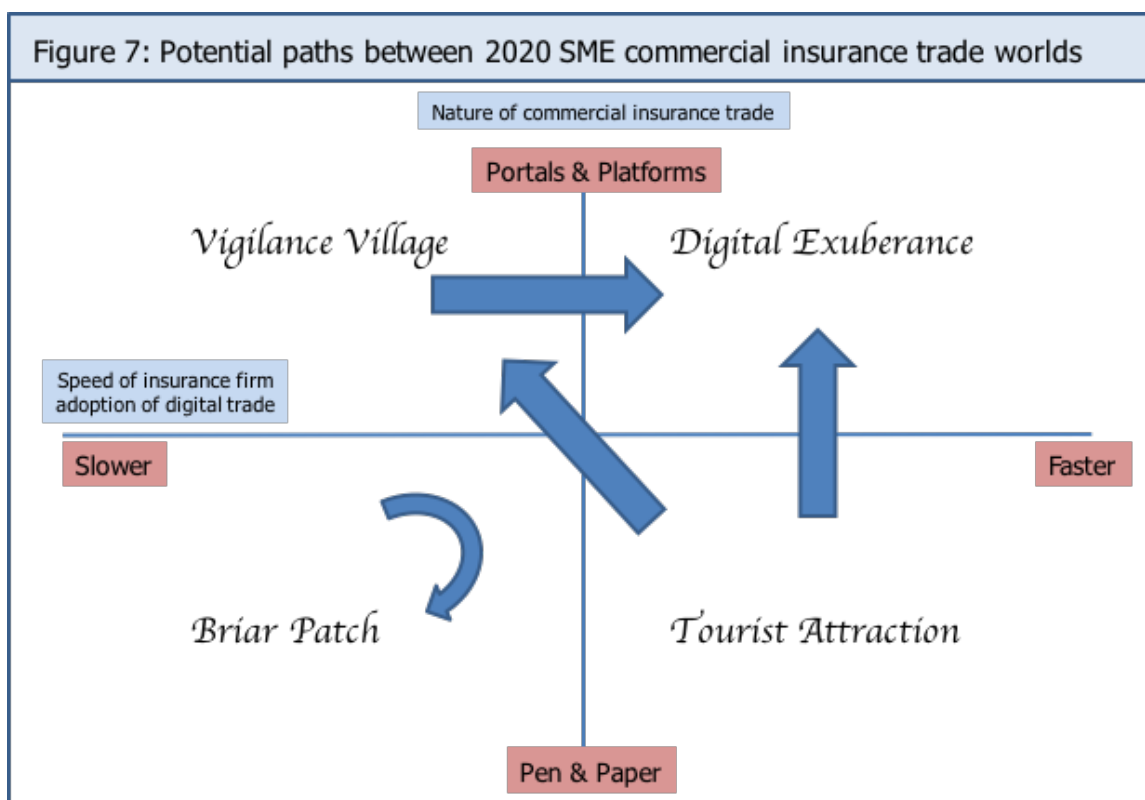


## Chapter 6: Movement between the four commercial insurance worlds

Could insurance firms conducting commercial insurance trade in any of three worlds of SME commercial insurance, excluding Digital Exuberance, move to one or more of the other worlds if they wanted? (See Figure 7.) Yes.

Note that we exclude movement of insurance firms from Digital Exuberance because we believe insurance firms competing in that world have a higher likelihood of getting and keeping SME clients and brokers than if they operated in the worlds of either Vigilant Village or Tourist Attraction.

**Figure 7: Potential paths between 2020 SME commercial insurance trade worlds**



Source: Market Insight Group, Ltd.

**Insurance Firms conducting trade in Tourist Attraction:** Insurance firms conducting SME commercial insurance trade in Tourist Attraction could move to Vigilant Village or Digital Exuberance, depending on their experience piloting eTrade platforms.

As we mentioned previously, eTrade platforms are an anomaly in Tourist Attraction, but there are some insurance firms experimenting with them. The experimenters that:

- believe they have learned a sufficient set of lessons experimenting with eTrade platforms to move more quickly using platforms, and are comfortable moving quickly to digital connectivity between and among BMS, eTrade platforms, and insurance company SoR and SoE could leap to Digital Exuberance.
- want to slowly but steadily continue to progress through digital connectivity to conduct SME trade could move to Vigilant Village
- have no experience with eTrade platforms or have developed but not yet deployed plans for eTrade platforms could move to Vigilant Village.

**Insurance firms conducting trade in Briar Patch:** Insurance firms conducting SME commercial insurance trade in Briar Patch are trapped in their world of using traditional analog tools of pen and paper, wireline telephones, and fax machines, and carrying briefcases full of paper documents and forms. Breaking out of Briar Patch will take a combination of new thinking, inability to attract and/or keep young brokers and, as important a factor, loss of current SME clients and/or inability to attract and keep new SME clients.

**Insurance firms conducting trade in Vigilant Village:** Insurance firms conducting SME commercial insurance trade in Vigilant Village have to decide when to jump to Digital Exuberance. Insurance firms can remain in Vigilant Village for many years, but timing the jump depends on:

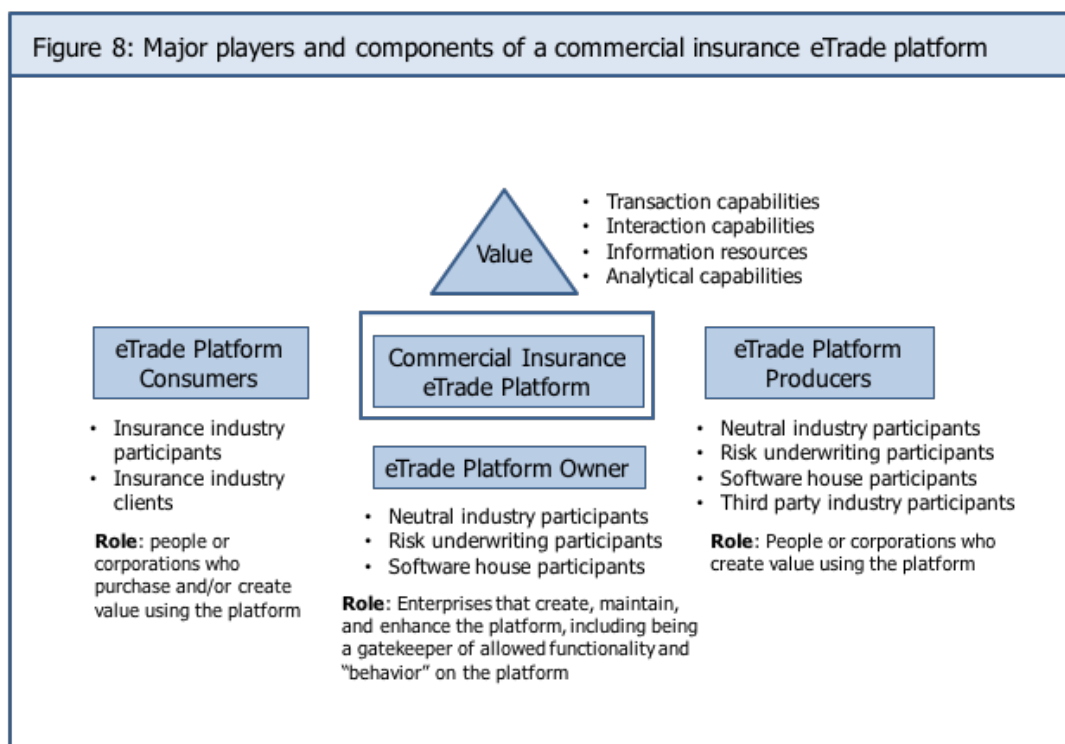
- SMEs' increasing expectations of conducting commercial insurance trade entirely through digital-connectivity paths (i.e., digitally integrated broking-firm BMS, platforms, and insurers' SoR and SoE)
- Attracting and keeping brokers who similarly expect to conduct commercial insurance trade using digital tools and platforms
- Regulators potentially, although implicitly, driving commercial insurance trade from paper for security, privacy, and audit reasons.

In Vigilant Village, technological dysfunction from conducting trade using a combination of analog tools, BMS, eTrade platforms, and insurers' SoR and SoE is considered "how it is done." Insurance firms need to decide whether, and how long, to continue to conduct trade in this traditional manner, or move to the commercial insurance trade world of digital plenty.

## Chapter 7: Implications for eTrade platform stakeholders

Taking one or more of the four worlds into account, we discuss key implications for eTrade platform stakeholders – platform owners, platform producers, and platform consumers – in the year 2020 in this chapter. See Figure 8 for a reminder of the commercial insurance eTrade platform players and roles.

### Figure 8: Major players and components of a commercial insurance eTrade platform



Source: Market Insight Group, Ltd.

First, however, we discuss implications for software houses offering BMS. BMS, although a solution and not a stakeholder per se, play an important role in each of the worlds, whether as partners to eTrade platforms or as the major broking system in worlds without eTrade platforms.

## **Implications for software houses offering BMS**

Software houses could be platform owners or platform producers, or have both roles for eTrade platforms. In this section, we discuss the implications for software houses that offer BMS in the worlds where they own the spotlight, and in the worlds where they share the spotlight with eTrade platforms.

### **Owning the spotlight in Tourist Attraction and Briar Patch**

Broker management systems (BMS) own the spotlight in Tourist Attraction and Briar Patch. Software firms offering BMS solutions in each of these two pen-and-paper worlds have the luxury of focusing on enhancing the digital-connectivity functionality between broking firms and insurance companies. However, software houses could argue that offering solutions that connect digital tools (i.e., BMS) with analog tools (i.e., paper forms and documents) is not a luxury, but rather a never-ending pressured situation bridging cultural inertia, legacy processes, and legacy capabilities from two significantly different time periods in the history of commercial insurance SME commerce.

### **Making a multifaceted decision in Vigilant Village and Digital Exuberance**

Whether it is luxury or pressured tight-rope walking without a net, in Vigilant Village and Digital Exuberance, software houses face a different situation. In both of these commercial insurance trade worlds, BMS share the digital connectivity spotlight with eTrade platforms. In these worlds, providing continual development of integration and other functionality between a broking firm and insurers becomes table stakes, regardless of whether the software firm's BMS client is a broking-firm user or an insurer that participates in an eTrade platform. Software houses will have to select which eTrade platforms, industry or proprietary, that the firm's BMS should support. This is a multifaceted decision with potential adverse financial and competitive consequences to a software firm that makes the wrong decision.

### **A blurring of BMS and eTrade platform functionality**

As we discussed earlier in the report, software houses in Digital Exuberance, and to a lesser degree in Vigilant Village, are finding the functionality of BMS solutions and eTrade platforms blurring. Software houses offering BMS solutions must decide whether to:

- offer functionality that continually enhances the BMS as a stand-alone broking-firm solution
- offer functionality that overlaps the functionality of the eTrade platforms (i.e. value components)
- subsume all of an eTrade's platform functionality in the BMS solution
- prepare for the time when eTrade platforms subsume all BMS-solution functionality.

### **Implications for platform owners**

*The role of platform owners is to create, maintain, and enhance the platform, including being gatekeepers of allowed functionality (i.e., value) and behavior on the platform (including authorization of users, whether platform producers or platform consumers).*

There are common issues for eTrade platform owners, whether they are proprietary or industry platform owners. The common issues include making decisions about:

- deploying the eTrade platform as a public cloud, private cloud, or hybrid cloud with the attendant single or multi-tenant considerations
- ensuring there are procedures in place to restore service, whether from weather events or human errors, as quickly as possible
- ensuring that data flowing through the platform or from the platform is kept secure and private, and can be restored quickly if platform service is lost, regardless of the reason
- creating a set of standards for data to ensure interoperability between BMS and insurance-company SoR
- creating a set of standards for platform-consumer behavior (i.e., authorization, security, and privacy protocols)
- creating an audit trail for regulators to access and review
- offering access paths, including deciding which mobile devices and concomitant mobile operating systems to support, for platform consumers
- deciding whether to use API that other companies, whether in the insurance industry or other industries, can use to create or enhance existing functionality capabilities (i.e., in any of the four value categories) for platform consumers.

## **Proprietary eTrade platform owners**

The emergence of proprietary eTrade platforms in Vigilant Village and Digital Exuberance represents a mixture of “good and bad” for brokers. Brokers know full well that a proprietary eTrade platform is an insurance portal on steroids. Unless a broker can use a proprietary platform to find and bind all the covers and value functionality to meet an SME’s insurance, service and claims-process requirements, a proprietary SME eTrade platform is not a robust market of requisite covers and capabilities by any stretch of imagination. Rather, it represents an insurer’s desire for lock-in.

From a commercial insurer’s viewpoint, there are at least three reasons to use a proprietary eTrade platform, as a means to:

- implement a niche strategy to offer hard-to-find covers
- experiment to determine whether it is logical to eventually join an industry platform, or to offer more covers if already participating on an industry platform
- identify the allocation of covers and concomitant underwriting guidelines to offer on the firm’s own proprietary platform, on industry platforms, and through traditional non-platform distribution channels.

Two questions that insurers offering proprietary eTrade platforms must answer:

- Are they making it easier – including more efficient and effective solutions – for brokers to meet all the needs of SME clients?
- If they are not making a broker’s work easier, what are the downside issues for their companies and the broking firms they support.

## **Industry eTrade platform owners**

We have not hidden our belief that an industry eTrade platform represents the best opportunity for commercial insurance firms to regain or strengthen SME market share. Our belief is based on the concepts of openness and sharing have driven, and continue to drive, wide adoption of technology applications in consumer (i.e., Facebook) and enterprise settings (i.e., Slack). SME owners and employees, as well as young brokers who have adopted these and similar technology applications for mobile devices, will continue to expect to use similar mobile technology applications in the firms that employ them.

Aggregators make the purchasing process quick and seemingly easy for SME owners

(until the time of claim resolution and subsequent realization of underinsurance or lack of insurance). An eTrade platform, suitably structured with a robust spectrum of functionality throughout the value categories, will enable brokers to efficiently and effectively serve SME clients throughout the entire client lifecycle, from purchase to service to claim notice and resolution. By “effectively,” we mean collaborating with and advising SME clients about the full portfolios of cover they need (and why). Aggregators represent a transactional business relationship. eTrade platforms represent an interactional business relationship.

A public eTrade platform is a neutral environment that should be able to attract and keep an expanding number of insurers and covers for brokers to support SME clients. This is easier said than done.

To accomplish the objective of enabling brokers to regain or strengthen SME market share, public eTrade platform owners, to attract and keep insurers, must at a minimum:

- become skilled at marketing and messaging
- develop incentives for both brokers and insurers
- create infrastructure that enables rapid development and deployment of functionality in any of the four value categories
- provide functionality to easily move new business application data from any proprietary eTrade platform to the public eTrade platform
- create a forum for brokers and insurers to meet periodically (using web conferencing or other digital collaboration channels) and discuss the strengths and weaknesses of the platform itself and the existing and planned functionality.

### **An eTrade platform quickly becomes an immersive environment**

An eTrade platform becomes an immersive environment for each of the platform “consumers” – brokers, CSRs, SME, and others – the more frequently it is used. From a practical perspective, an eTrade platform provides the objectives of income generator for brokers and insurers, and “peace-of-mind” generator for SME clients.

The platform accomplishes these objectives by providing a shared insurance digital community between industry and SME participants that are engaged in transactional and interactional commerce, communication, and collaboration activities.

When the eTrade platform is unavailable, whether due to weather or a human error, it is



a jarring event that will cause varying degrees of angst and irritation. It can possibly cause the platform consumer to revert to older, traditional ways of conducting trade, or worse, drive the platform user to another eTrade platform.

### **Implications for platform producers**

*The role of platform producers is to create value for the platform.*

Platform producers are the companies that create value for the platform consumers. The producers could be platform owners, and as the collaboration dynamic continues, could also be platform consumers. Value, as we have discussed, is represented by functionality in one of four categories: transactional capabilities, interactional capabilities, information resources, and analytic capabilities.

Examples of value that producers could create are limited only by a firm's imagination. Here are three examples of value that a producer could create:

- Improved operational effectiveness of the platform by reducing search costs for platform consumers. One method of accomplishing this is by the producer working in collaboration with the platform owner and consumers to create a taxonomy of terms that, in turn, drives the construction and deployment of a faster navigation-and-search capability of the structured and unstructured information on or flowing through the platform.
- Functionality that enables multiple participants to communicate or collaborate using video conferencing, live chat, or a secure and private carved-out area of the platform for group discussions involving structured or unstructured data. The communication and collaboration activities might be used for:
  - business acquisition (involving the SME owner, one or more of the key employees if required, the broker, and an underwriter)
  - claim communications (with the SME owner, broker, claim manager, loss adjustor, and when required, a third-party property remediation specialist)
  - product development with different professionals from the broking firm and applicable professionals from the insurance company.
- Illustrations of market appetite through dashboards or interactive visualizations capturing market risk by insurer by date for each SME requiring cover, by SME industry and the firm's geographic location.

## **Implications for platform consumers**

*The role of platform consumers is to purchase or use value from the platform, or create value for other platform consumers*

The obvious value that brokers and, in turn, CSRs working with brokers, consume from an eTrade platform is transactional functionality to quickly find and bind cover for SME clients. However, as we have discussed previously, efficiency is necessary, but not sufficient, for an eTrade platform to thrive, or even to exist for long.

An eTrade platform must also provide value that enables brokers to support SME clients through the entire (client) value chain of acquisition, service, and claim notice and resolution (including ensuring the SME has sufficient business interruption cover). This means brokers need to consume information resources (regarding covers, question sets, regulations, description, and needs of SME clients by industry), as well as interactional and analytical capabilities from the platform.

### **Missing functionality on the eTrade platform?**

Throughout the process of consuming value, brokers and others could determine that there are aspects of functionality missing. At this point, brokers should either become value creators or reach out to the platform owner or producers to request that they put the missing functionality on the list for future development.

To facilitate requests or discussions of missing or desired functionality, platform consumers should consider forming e-trade platform user groups (eT-pug). Platform owners and producers should be included in the group. Platform consumers have little time to invest in attending more meetings (brokers need to be with clients): the eT-pug should be deployed entirely on the platform and accessible using mobile devices. Meetings, when held, should occur on the eTrade platform and be capable of capturing and storing discussions and videos. The eT-pug would be functionally deployed in the value category of interactivity.

## Chapter 8: Summary

We illustrate the Key Points from the report in the boxed area below.

However, to summarize this report, we believe the optimal configuration of an eTrade platform involves one owner (a neutral industry participant such as Polaris), an ever-expanding set of functionality among the four value categories, a growing list of platform producers from within and external to the insurance industry, and a growing list of platform consumers.

An eTrade platform environment that contains an expanding number of platforms, whether industry or proprietary, is a recipe for chaos and disenchantment. Brokers will become increasingly irritated about the time they have to invest to click on a combination of platforms to find and bind covers, as well as to access the functionality necessary to serve all the needs of SME through the client value chain. Broker angst will cause the eTrade platform environment to collapse under its own weight.

Moreover, the eTrade platform must be available to both insurance-industry participants and SME clients. Obviously, this must be done in a secure manner that maintains the privacy of brokers, insurers, and, of course, other SME clients. But SME owners will expect “digital availability”: the ability to access and review their cover when they want and wherever they are, using whatever device they want. As the commercial insurance industry experiments and deploys eTrade platforms, aggregators will not be standing still. Neither will SME expectations of being able to use mobile technology to quickly and easily fulfill their cover – and claim resolution – requirements.

Jack Welch, the ex-chairman and CEO of General Electric, once stated: “If the rate of change on the outside exceeds the rate of change on the inside, the end is near.” eTrade platforms represent an opportunity for the commercial insurance industry to quicken its pace of change to best meet the needs, requirements, and expectations of the SME market. Will the UK commercial insurance industry be up to the task?

## Key Points

- Small and mid-size enterprises (SME) are the economic bedrock of UK commerce.
- Micro-SME, firms with 0–9 employees, are increasingly using aggregators to purchase commercial insurance.
- SME are underinsured and/or do not have any insurance for some of their firms' exposures.
- Underinsurance has led to SME being paid “an average” of the claim amount, but the Insurance Act of 2015 resolves this issue in favor of the SME.
- SME feel that there is a lack of communication from brokers and/or insurers throughout the claim notification, adjustment, remediation, and payment processes.
- eTrade platforms offer brokers reduced time and cost to find commercial insurance covers for SME clients. From a broker perspective, an eTrade platform could represent an efficiency strategy.
- However, the existence of multiple SME commercial insurance eTrade platforms minimizes or negates efficiencies of using this path to find markets and bind cover.
- Having an insufficient number of insurers to provide comparative choices of all requisite SME commercial insurance covers also minimizes or negates efficiencies of using eTrade platforms.
- Efficiency by itself (even if an eTrade platform existed that provided a robust panel of insurers offering the requisite spectrum of covers) is insufficient on its face for an eTrade platform to be successful.
- An efficient and effective eTrade platform must provide brokers with the capabilities of finding and binding requisite cover and a capability to provide the expected level of communication and collaboration to support quality customer service throughout the client value chain, encompassing acquisition, billing, service, and claim processes.

## **APPENDIX**

### **Methodology**

- Desktop research of UK insurance regulations, UK SME statistical bulletins, and the SME commercial insurance market
- Survey of UK commercial insurance brokers conducting trade in the SME market
- Desktop research of digital trade platforms, including multi-sided markets
- Continuing research of customer experience, CRM, and communication and collaboration

### **Definitions/Descriptions**

- Account executives: also called brokers or producers
- BMS: broker management system
- Brokers: also called account executives or producers
- Condition of average: This clause is applied when a claim occurs and the sum insured under the policy is below the actual value of the item. Insurers then apply an “average” to the settlement of the claim, effectively reducing the payment made by the percentage of underinsurance
- FCA: Financial Conduct Authority
- Producers: also called account executives or brokers
- SoE: system of engagement
- SoR: system of record
- Sum insured: This is the maximum amount the insurance company will pay out, if everything owned is destroyed

### **Further Reading**

- BIBA Research Reveals 70% Increase in Regulation Costs for Small Insurance Brokers, BIBA press release, January 17, 2017
- Business Population Estimates for the UK and Regions 2016, Department for Business, Energy & Industrial Strategy Statistical Release, Reference BEIS/16/34, October 13, 2016

- Platform Revolution: How Networked Markets Are Transforming the Economy – and How to Make Them Work for You, by Sangeet Paul Choudary, Marshall W. Van Alstyne, Geoffrey G. Parker, March 28, 2016, W.W. Norton & Company
- Platform Scale: How an emerging business model helps startups build large empires with minimum investment, by Sangeet Paul Choudary, September 15, 2015, Platform Thinking Labs

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