



*Association for  
Financial Professionals*

# **SURVEY ON COMMERCIAL INSURANCE PRACTICES**

## **Summary of Results**

**April 25, 2000**

## **Executive Summary**

Global Risk Exchange (GRX) is a Delaware corporation providing e-commerce services in the area of commercial insurance and risk management. In late 1999, GRX approached AFP to explore opportunities for a partnership. AFP and GRX developed a survey to assess the market potential of offering AFP members access to a service that allows bidding and purchasing commercial insurance online.

In mid-March 2000, AFP sent a broadcast fax survey to 939 AFP corporate members who identified themselves as having a job responsibility in either risk management or insurance risk management. A total of 91 responses were received, yielding a 10 percent response rate. Highlights of results are summarized below.

### Respondent Profile

About two-thirds of respondents are primary decision-makers involved in buying commercial insurance, including property/casualty liability. The largest number of respondents were employed in manufacturing (39), retail (9), and communications/media (5). Respondents from 15 other industries also responded to the survey. About one in four respondents are employed in companies with less than \$250 million in revenues; 41 percent between \$250 and \$999.9 million, and 32 percent with \$1 billion or more.

### Current Job Responsibilities

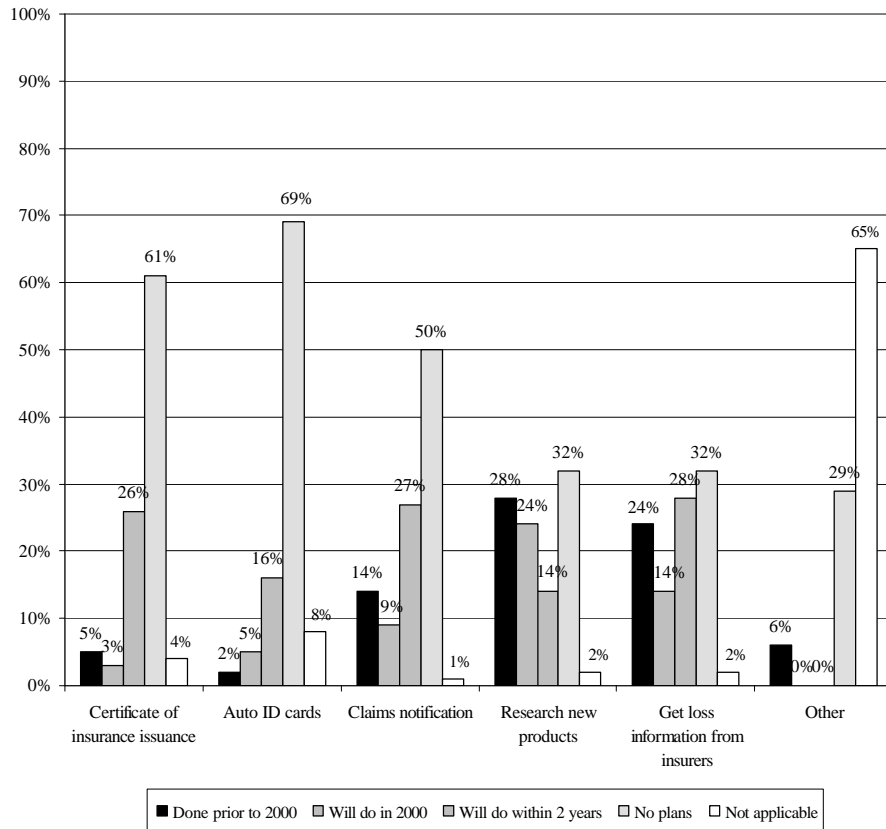
Respondents recognize the importance of a risk management strategy and expressed concern for not having one. (See Exhibit 1.) Three in four agreed that analytical software and tools can be helpful when evaluating risk programs. Sixty-two percent disagree that their risk management information systems can handle all of their analytical reporting and administrative needs. A majority (55%) disagrees that they have adequate resources internally to manage their insurance programs. About half (53%) disagree that they have control over, and immediate access to, all of their insurance data/risk information.

Currently, only a small percentage of companies conduct several of the listed activities online; this percentage is expected to increase within the next two years. (See Exhibit 2.) About two in three respondents currently use or will be using the Internet to get loss information from insurers and research new products. Prior to 2000, few companies processed certificates of insurance issuance, auto ID cards or claims notifications using the Internet. This number is expected to increase dramatically within the next two years. Issuing certificates of insurance may increase from five percent to 20 percent, auto ID cards from two percent to 21 percent, and claims notification from 14 percent to 36 percent.

**Exhibit 1**  
**To what extent do you agree or disagree with each of the following statements?**  
**(sorted by agree + strongly agree)**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neither Disagree nor Agree</b>	<b>Agree</b>	<b>Strongly Agree</b>
Analytical software and tools can be helpful when evaluating risk programs .....	1%	2%	25%	61%	12%
Managing an insurance program involves too many low-value administrative tasks .....	1%	27%	25%	41%	7%
We view risk broadly and have an enterprise risk management strategy .....	7%	23%	31%	35%	3%
I have control over, and immediate access to, all of my insurance data/risk information .....	2%	51%	10%	31%	6%
We use a variety of risk transfer methods (derivatives, capital markets, etc.).....	11%	42%	13%	32%	3%
I have adequate resources internally to manage our insurance program .....	9%	46%	13%	28%	4%
The entry of large banks into commercial insurance will improve pricing and allow more creative product choices .....	4%	18%	46%	26%	5%
I am satisfied with the current distribution and service models of the property/casualty insurance industry .....	3%	27%	42%	25%	2%
Our risk management information system can handle all of our analytical, reporting and administrative needs.....	16%	46%	28%	9%	2%

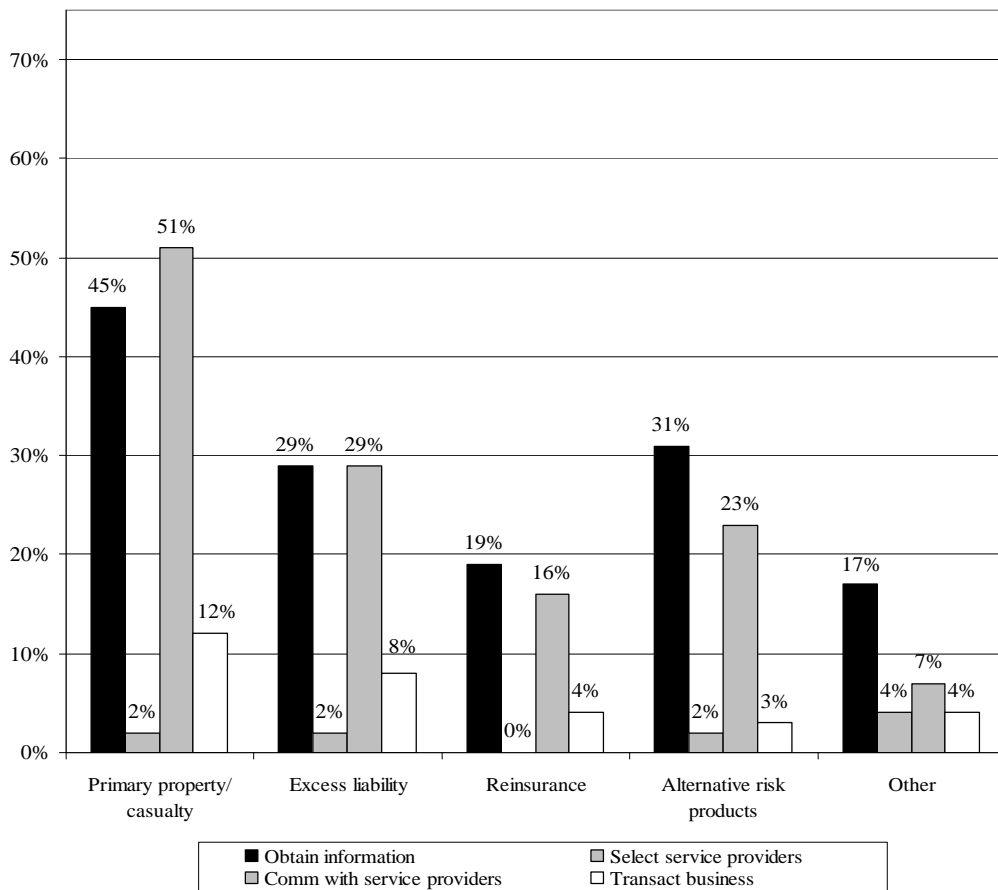
**Exhibit 2**  
**Which of the following activities is your company currently conducting or will be conducting using the Internet?**



Purchasing Insurance via the Internet

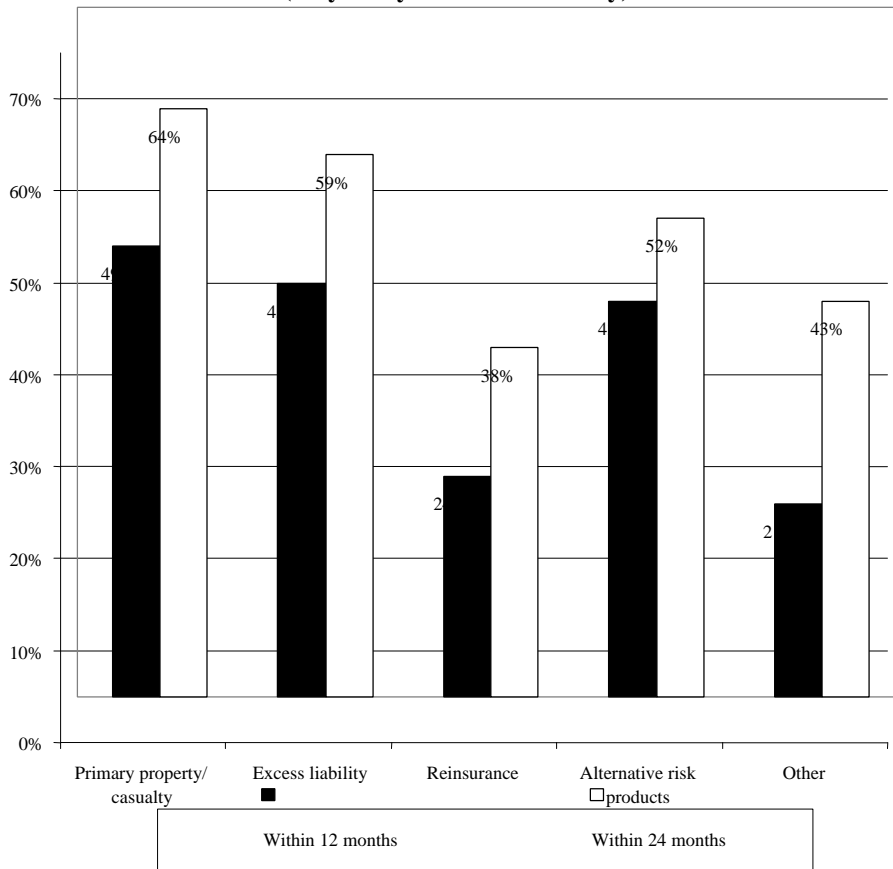
Obtaining information and communicating with service providers for primary property/casualty insurance are the most common uses of the Internet; selecting service providers and transacting business are rarely done. (See Exhibit 3.) Half of the respondents use the Internet to communicate with service providers for primary property/casualty; 45 percent use the Internet to obtain information. About three in 10 use the Internet to obtain information and communicate with service providers for alternative risk products; 23 percent use it for communicating with service providers. About three in 10 obtain information and communicate with service providers for excess liability. Only a small percentage of respondents use the Internet to select service providers or transact business for each of the four insurance products.

**Exhibit 3**  
**What role, if any, does the Internet play in your use of each of the following?**



A sizeable percentage of respondents expressed a desire (very likely or somewhat likely) to use an online insurance market for all four risk management categories within the next 12 months; a larger percentage would use all of them within the next two years. (See Exhibit 4.) Respondents expressed the greatest likelihood of using an online insurance market for primary property/casualty (49% within 12 months to 64% within 24 months), followed by excess liability (45% within 12 months to 59% within 24 months). Alternative risk products and reinsurance also show similar increases within the next two years.

**Exhibit 4**  
**If an online insurance market were available today, how likely are you to use it for the following categories? (very likely + somewhat likely)**



Respondents were asked to rate seven benefits of buying and managing commercial property and casualty insurance online. Results show many benefits were rated as either important or moderately important. (See Exhibit 5.) A majority of respondents identified having a simple renewal and remarketing process, followed by having secure data access as most important (56% and 47%, respectively). Other benefits such as reduced commissions, immediate access to new products for your industry sector, real-time/industry-specific benchmarking and more direct communication with insurers were identified as important by 75 percent or more of respondents. Sixty-two percent identified direct access to insurance markets as important.

**Exhibit 5**  
**How important to your organization is each of the following benefits**  
**of buying and managing commercial property & casualty insurance on-line?**  
**(sorted by high importance)**

<b>Benefits</b>	<b>Not at all Important</b>	<b>Low Importance</b>	<b>Moderate Importance</b>	<b>High Importance</b>	<b>Not Applicable</b>
Simple renewal and remarketing process.....	8%	12%	22%	56%	2%
Centralized, secure data access.....	4%	13%	35%	47%	1%
Real-time, industry-specific benchmarking	5%	19%	39%	36%	1%
More direct communication with insurers .....	5%	18%	41%	34%	1%
Reduced commissions.....	8%	7%	47%	32%	7%
Immediate access to new products for your industry sector.....	5%	16%	53%	25%	1%
Direct access to insurance markets .....	10%	27%	45%	17%	1%

Respondents were asked to rate seven barriers to buying and managing commercial property and casualty insurance online. Results show a majority of respondents have several concerns. (See Exhibit 6.) Over half of respondents believe that the broker relationship is the most important barrier (83%), followed closely by security of information (81%) and administration concerns (80%). Product complexity and complexity of application were also rated as important (70% and 68%, respectively).

**Exhibit 6**  
**How important to your organization is each of the following barriers**  
**to buying or managing commercial property & casualty insurance online?**  
**(sorted by high importance)**

<b>Barriers</b>	<b>Not at all Important</b>	<b>Low Importance</b>	<b>Moderate Importance</b>	<b>High Importance</b>	<b>Not Applicable</b>
Broker relationship.....	2%	9%	29%	54%	7%
Security of information.....	3%	10%	29%	52%	7%
Administration concerns.....	2%	12%	46%	34%	5%
Product complexity.....	3%	17%	38%	34%	8%
Complexity of application .....	5%	18%	41%	27%	9%
Too many insurers in the online market .....	20%	34%	27%	5%	13%

The role of an insurance broker is very important to respondents and they would like to keep this relationship, even if an online product was used. (See Exhibit 7.) Three in four respondents agreed that their insurance broker provides excellent risk management advice and program design. Over half use their insurance broker primarily for market access. Almost nine in 10 would want to use their agent or broker even if a direct access insurance market was used. About seven in 10 wanted to pay their broker on a fee basis rather than commission. When asked to provide comments about an online direct access insurance market, the majority of the 14 respondents reinforced the critical role of the broker, including the information provided, range of product offerings and complexity of products.

**Exhibit 7**  
**To what extent do you agree or disagree with the following statements?**  
**(sorted by agree + strongly agree)**

	<b><u>Strongly Disagree</u></b>	<b><u>Disagree</u></b>	<b><u>Neither Disagree nor Agree</u></b>	<b><u>Agree</u></b>	<b><u>Strongly Agree</u></b>
My insurance broker provides excellent risk management advice and program design	0%	8%	12%	45%	36%
If I used a direct access insurance market, I would still use my agent or broker for advice or additional services	1%	5%	15%	61%	17%
I would like to pay my broker on a fee basis rather than commission	1%	2%	29%	41%	28%
I could benefit from the advice of a professional risk management consultant	0%	12%	33%	42%	13%
I use my insurance broker primarily for market access	2%	25%	19%	37%	17%

**Conclusion**

Overall, respondents provided positive views about buying commercial insurance online. While a small percentage of respondents currently use the Internet for several commercial insurance activities, many more expect to do so in the next 24 months. The vast majority of respondents do not use the Internet to select service providers or transact business. However, over half said that they are very likely or somewhat likely to use an online insurance market for primary property/casualty, excess liability, and alternative risk products within the next 24 months. Respondents identified several benefits of buying or managing commercial property and casualty insurance on-line, including having a simple renewal and remarketing process, as well as centralized, secure data access. Maintaining a broker relationship and security of information are the most important barriers to buying insurance online.