

ENSURING THE FUTURE OF BROKERS





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TRACKING THE LEVERS TO THE SUSTAINABILITY OF THE INDEPENDENT BROKER



An independent COVER survey

EXECUTIVE SUMMARY

In late 2022 COVER surveyed over 300 independent brokers to determine their sentiment regarding some of the levers to their sustainability.

Although brokers were not overly positive about the future of the segment and growth of their businesses, there does seem to be positivity in taking advantage of a shift towards risk management services and the opportunities from increased use of technology.

The survey highlights that independent brokers are more likely to adopt independent systems as their premium income increases, while all types of brokers can perform well regardless of their systems.

The feedback also indicated that growth of new brokers is initially fast, but eventually slows to align with inflation and that most brokers, regardless of experience, consider small and medium-sized commercial business to be crucial over the next 5 years.



While the use of technology is seen as critical, many brokers struggle to implement it due to the time and cost involved, as well as a lack of skills.

As indication of the future direction, half of the brokers surveyed are prepared for a risk management focus, but some may be left behind. Brokers also indicated that their most important need from underwriters is personal service around claims.

Gratitude

We would like to thank all those who participated as well as Renasa Insurance Company for their financial support of the live feedback session and the drafting of this E-Book.

I would also like to thank the following independent brokers who discussed the results of the survey with me in the live event:

Matt Garrun – MD, Garrun Johannesburg
Elliot Schwartz – Independent Broker and Marketing Consultant
Debbie Holroyd – CEO, Scottfin Insurance Brokers

2024 – We will run the survey again in late 2023 and welcome your comments and suggestions to improve our learnings from the survey. Please forward your feedback directly to me at tony@cover.co.za

EDITORS' TOP 5 TAKE OUTS

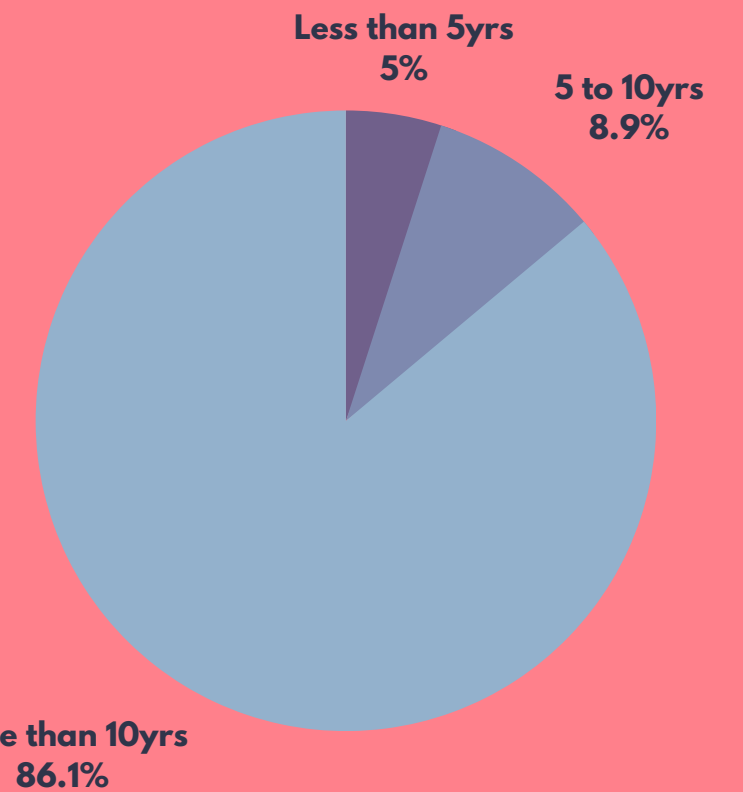
TONY VAN NIEKERK
OWNER & EDITOR OF COVER MAGAZINE

- Brokers lifted out diversification, skills development and collaboration as levers for growth
- There is an intentional focus on risk management services
- Increased use of technology seen as crucial
- Main need of brokers from underwriters is personal service with claims
- Overwhelming feeling that independent broker numbers will decrease, especially small brokers

DEMOGRAPHICS

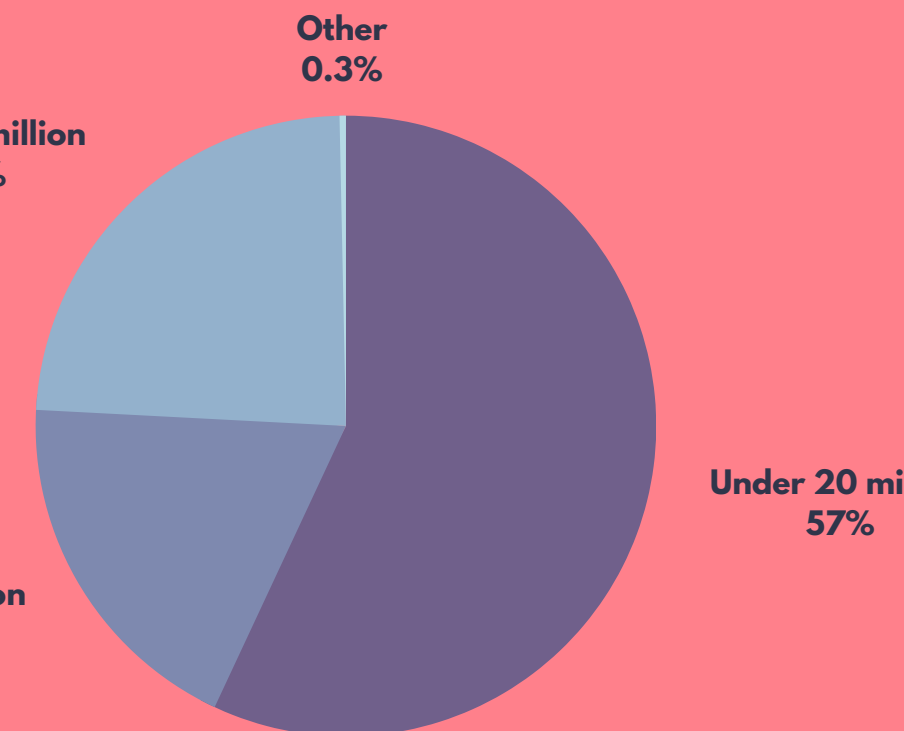
How long have you been a broker?

● Less than 5 years	15
● 5 to 10 years	27
● More than 10 years	260



Please indicate your brokerage annual premium income

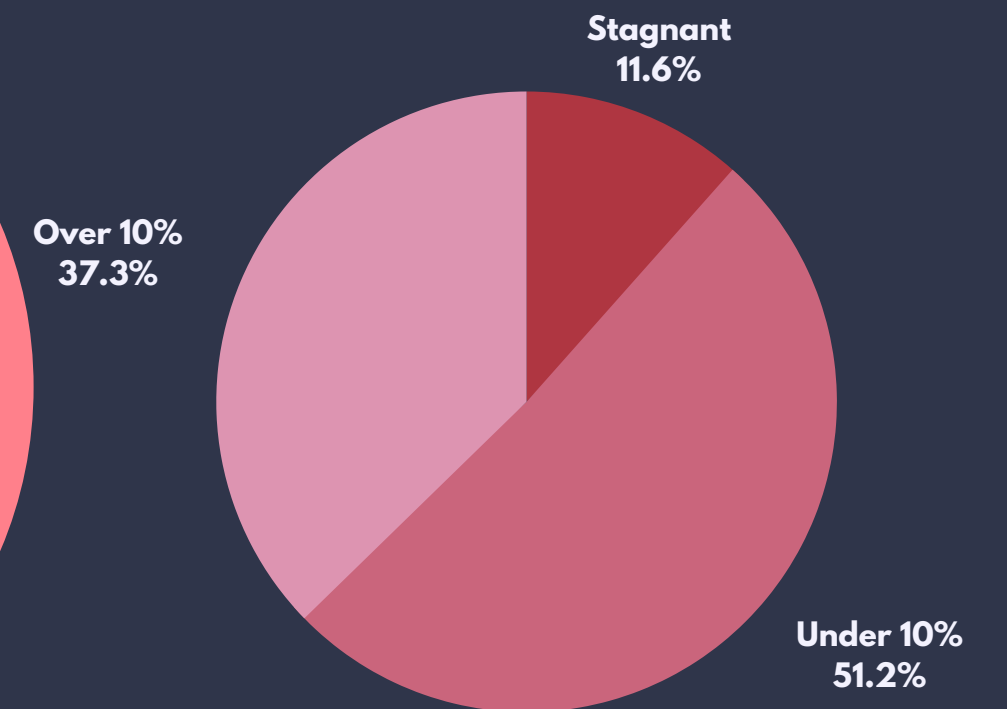
● Under R20million	172
● Between R20million and R50million	57
● Above R50million	72
● Other	1



What growth do you expect in the income of your brokerage over the next year?

GROWTH OUTLOOK

- Clients are less inclined to accept premium increases
- Tough market with clients looking to save whenever possible, so renewal growth is inflationary and new business is limited
- Market conditions and inflation impacting success
- Intentional focus on risk advice and new business by brokers
- Regulations, skills, costs, etc. will impact & brokers may choose to run their business via admin houses
- Many are wary of the current economic climate and the burden of increased costs on current and prospective clients
- Frequent comment: Concentrate on natural growth with existing clients and do not on writing new clients, but will always accept referral business.



Stagnant	35
Under 10%	155
Over 10%	113

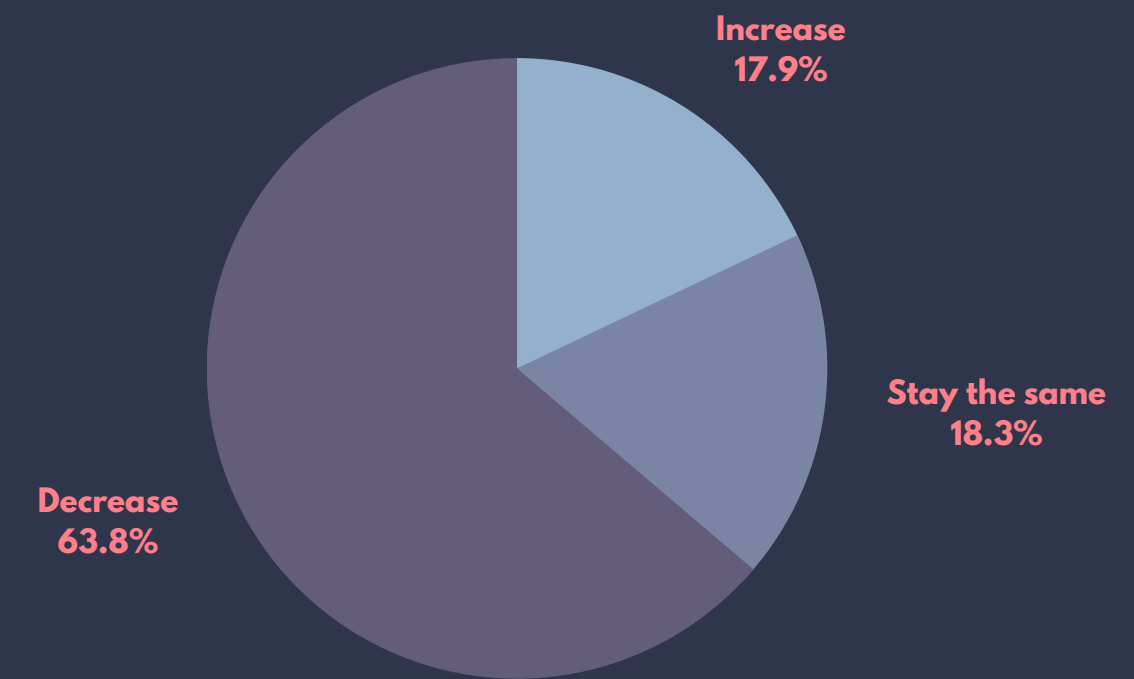





BROKER NUMBERS

- Retirement, immigration, tough economic conditions – these are all factors impacting broker numbers.
- Younger candidates are wary of an industry with so many current challenges, especially the massive and increasing compliance burden
- Industry needs to take steps to attract new talent and develop skills



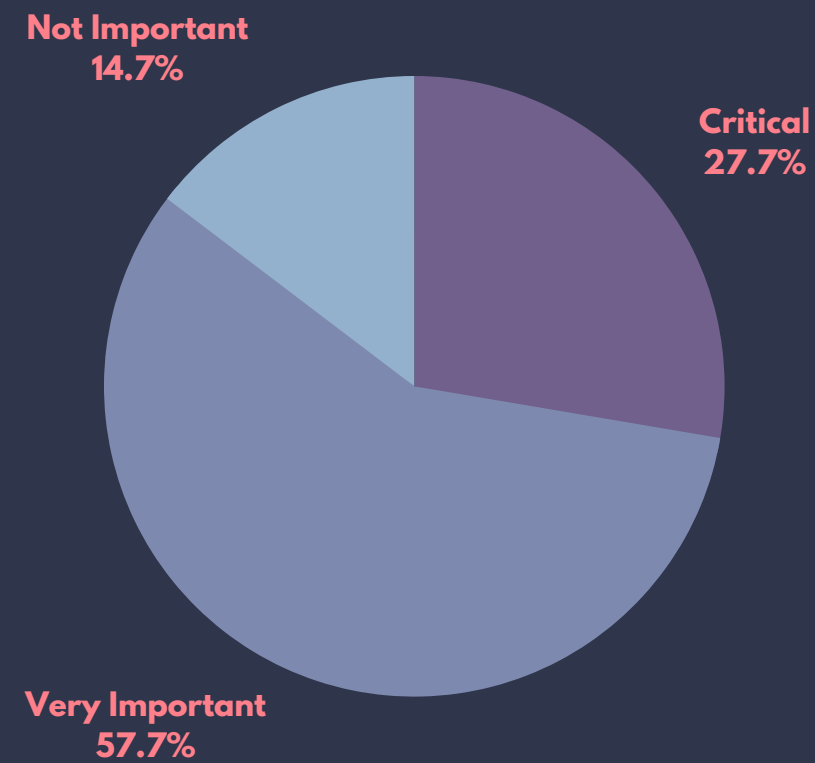
Over the next five years the number of independent brokers will:






 Increase	54
 Stay the same	55
 Decrease	192

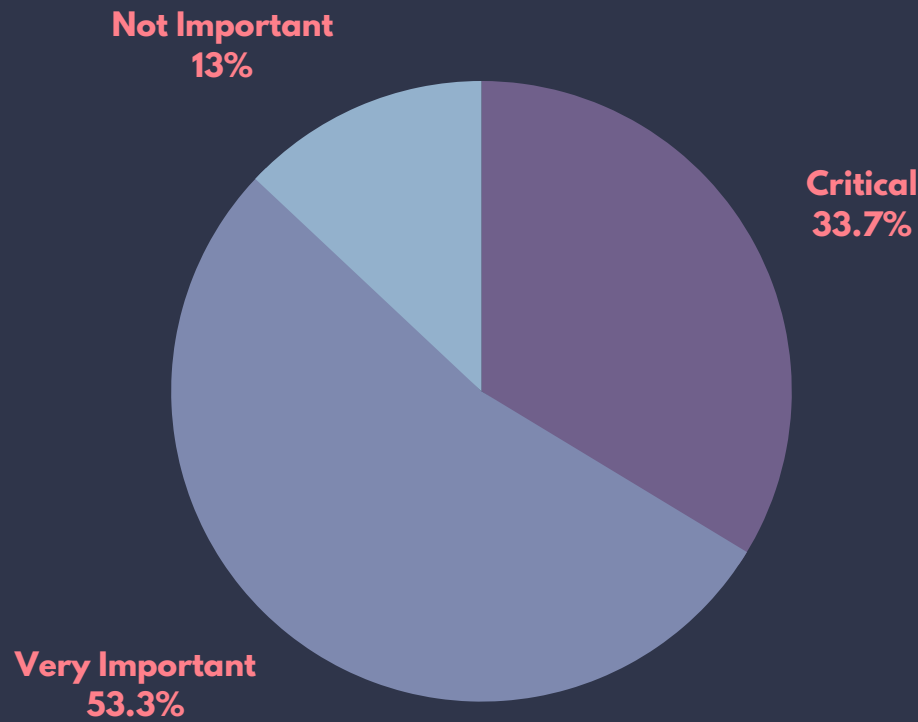
INSURANCE LINES




How important is SMME Commercial business for your brokerage today?



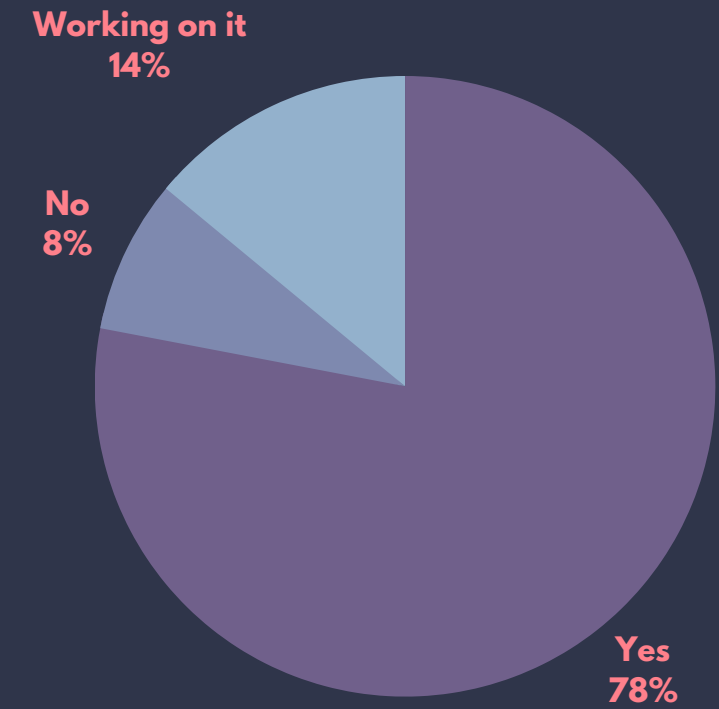
 Critical	83
 Very Important	173
 Not Important	44

Over the next five years the importance of SMME commercial lines insurance for the future of your business is:



 Critical	101
 Very Important	160
 Not Important	39

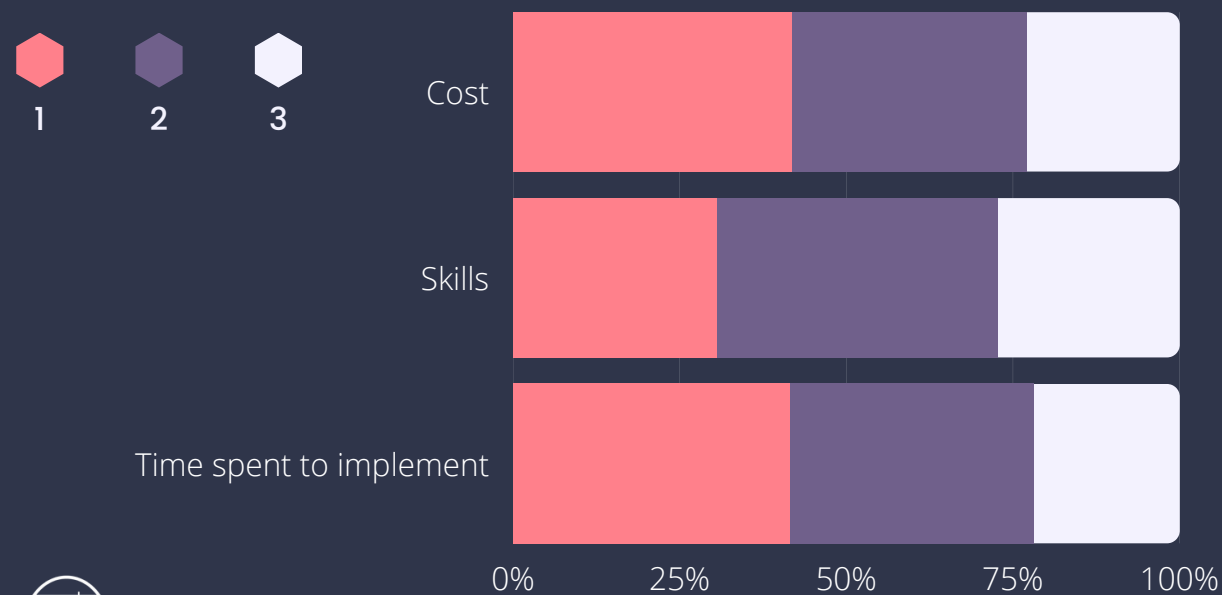
Do you have the skills in your brokerage to take advantage of SMME Commercial insurance opportunities?



 Yes.	234
 No	24
 I am working on it	42

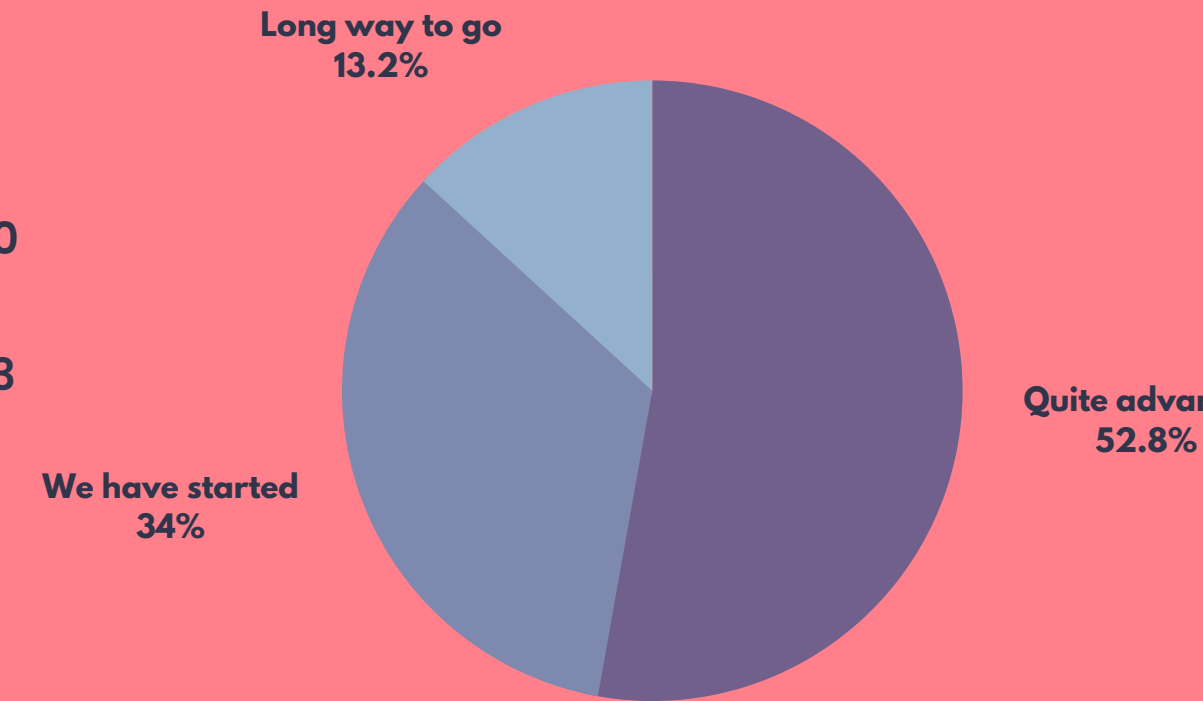
TECHNOLOGY ADOPTION

If you have only just started or have a long way to go, what are your main obstacles (Rate from 1 to 3 in order of most challenging obstacle, 1 being most challenging)



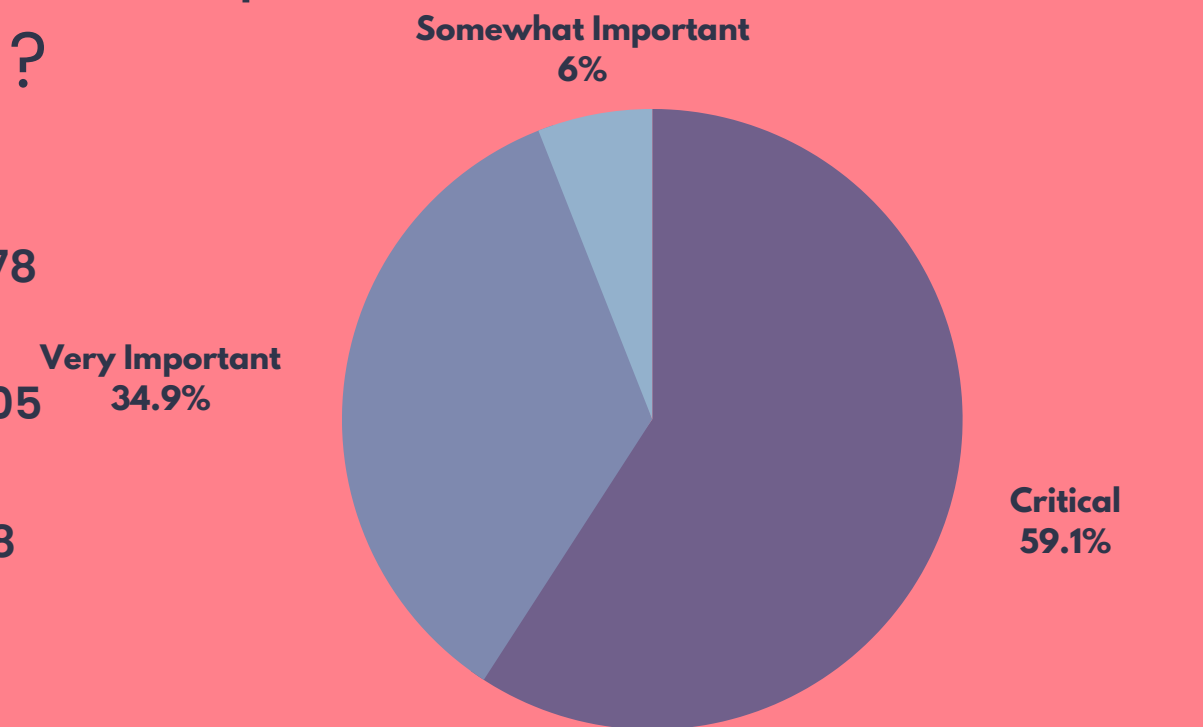
How would you rate the technology adoption of your own brokerage?

● Quite advanced	160
● We have started	103
● Long way to go	40



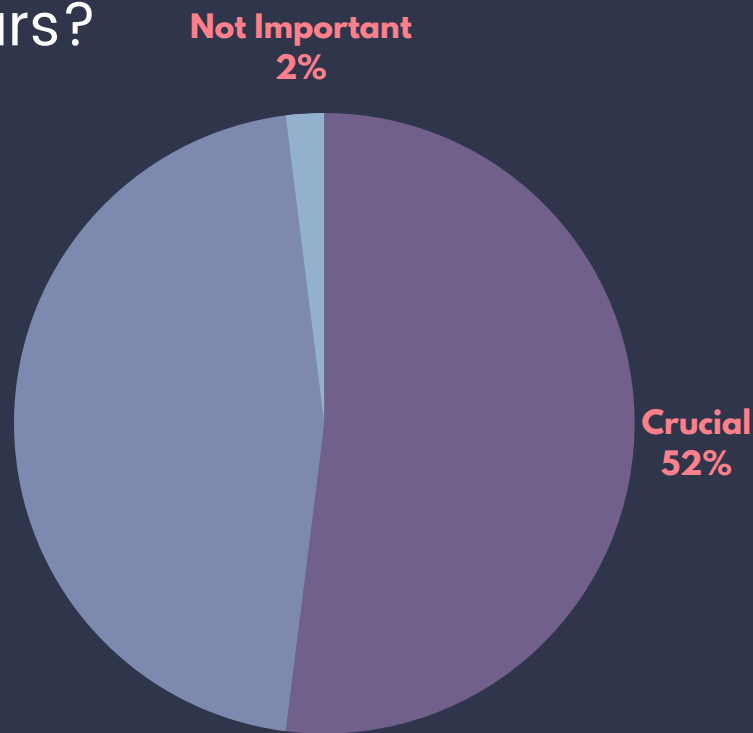
How important will technology adoption be for the sustainability of independent brokers over the next five years?




● Critical	178
● Very Important	105
● Somewhat Important	18



RISK MANAGEMENT




How important will a focus on risk management be for your brokerage over the next five years?



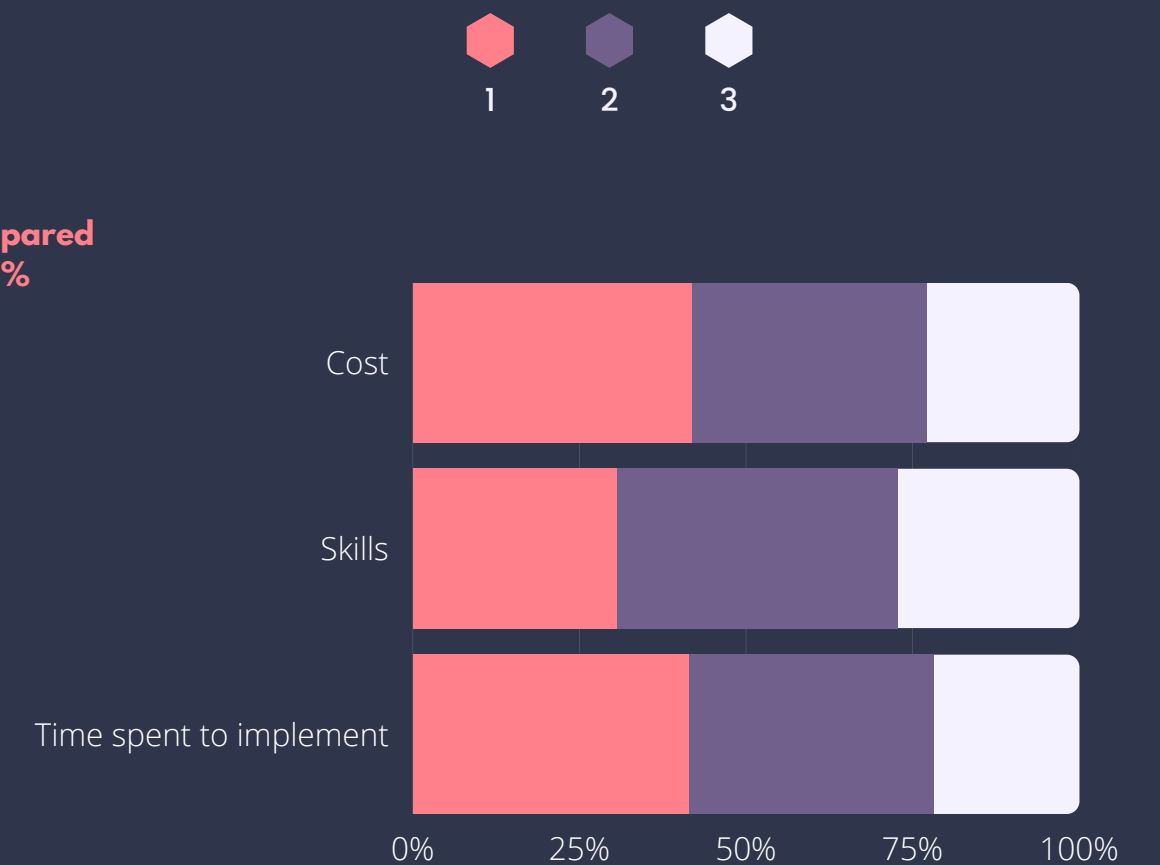
	Crucial	157
	Important	139
	Not Important	6

How prepared is your brokerage to make the shift to a risk management focus?



	Fully Prepared	143
	Not Prepared	38
	Busy Upskilling	120

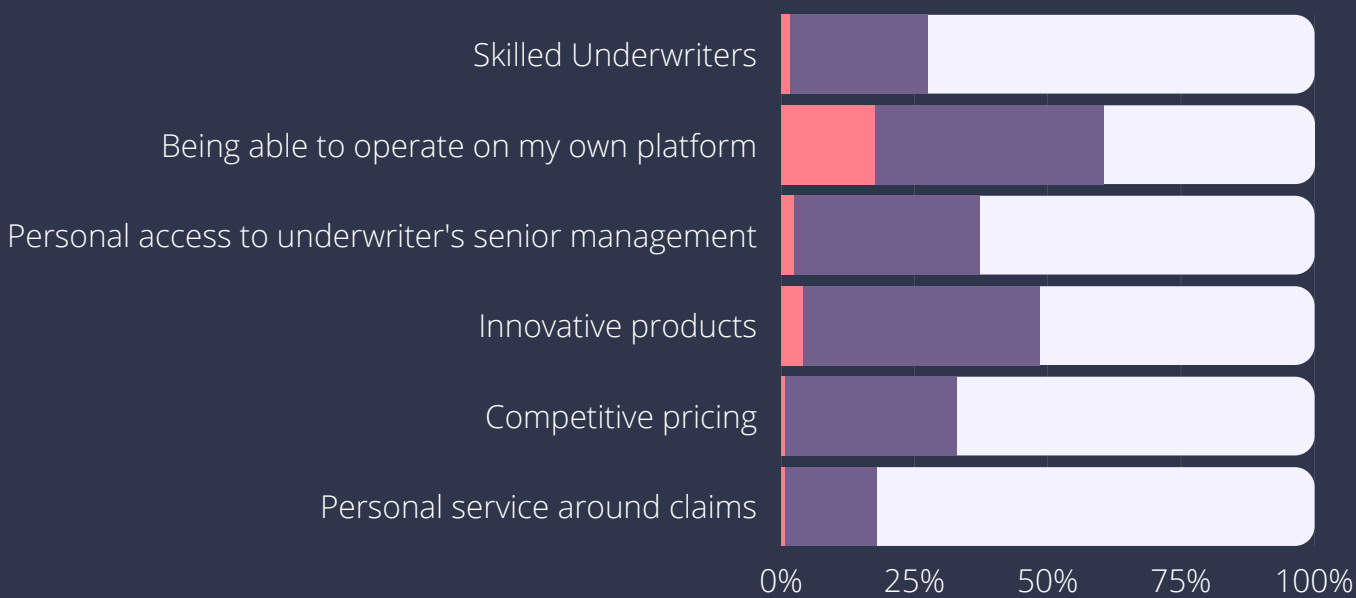
How important is the following assistance from underwriters to enable you to play a stronger role as risk manager?





If you have only just started or have a long way to go, what are your main obstacles (Rate from 1 to 3 in order of most challenging obstacle, 1 being most challenging)

■ Not Important
 ■ Important
 ■ Crucial

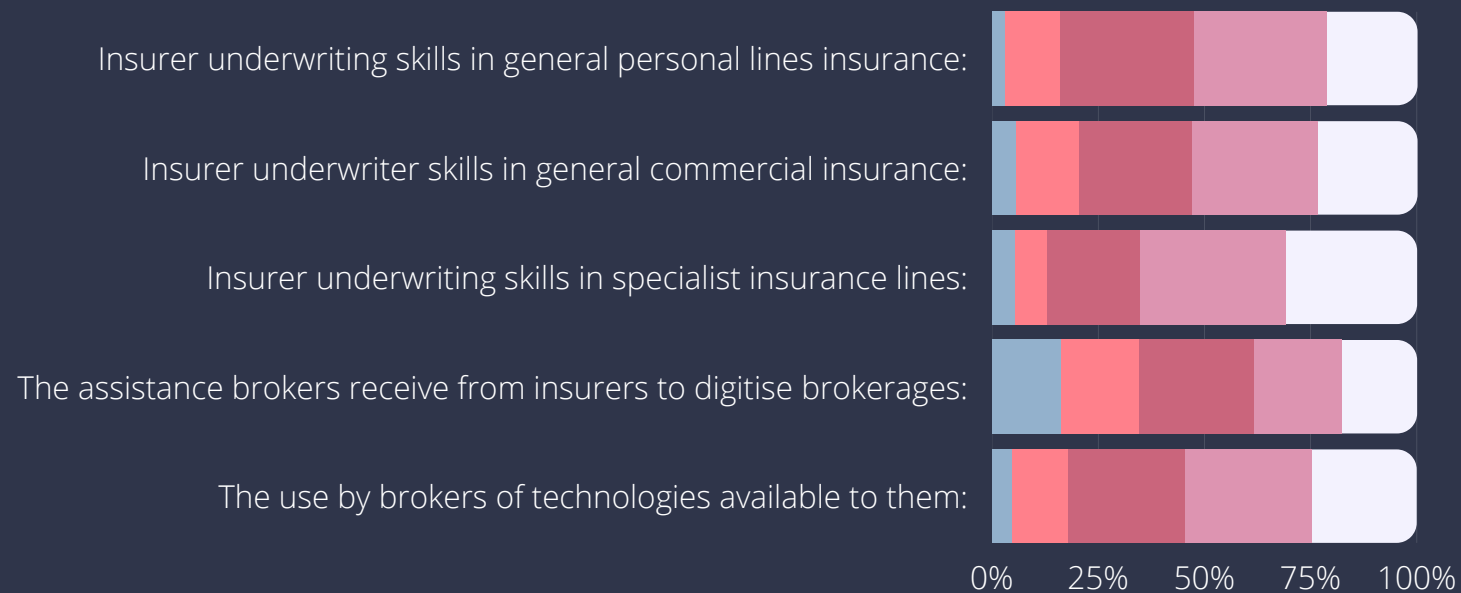


How important is the following assistance from underwriters to enable you to play a stronger role as risk manager?

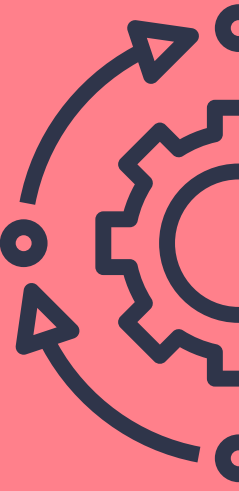
■ Critical
 ■ Important
 ■ Not Important



On a scale of 1 to 5
(1 being lowest & 5 being highest),
how would you rate the following:



INTERESTING TAKE OUTS →




- Independent brokers are more likely to use an independent system as their premium income rises
- All types of broker can do well... irrespective of their systems
- Growth is fast for the new brokers - growing their book - and then it slows to be closer to inflation for those who have been in the industry
- Irrespective of experience level, most brokers think SMME commercial business going to be crucial (or very important) over next 5 years



INTERESTING TAKE OUTS



- Everyone saw technology as being critical going forward
 - Despite knowing that technology is critical, many do not know how to achieve the goal
 - Biggest problem with tech implementation was the time taken to implement, then the cost, and lastly the skills
 - Half are ready for a risk management focus, many are working on it. A few will be left behind
 - Personal service around claims is most important need from underwriters
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IDENTIFYING THE LEVERS TO THE SUSTAINABILITY OF THE BROKER MARKET

Matt Garrun – MD, Garrun Johannesburg

Elliot Schwartz – Independent Broker and Marketing Consultant

Debbie Holroyd – CEO, Scottfin Insurance Brokers

Tony Van Niekerk – CEO – COVER

[VIEW THE LIVE SESSION](#)

that unpacked key insights here

BROKER ENVIRONMENT NEEDS TALENT AND RESILIENCE

**Matt Garrun, MD of
Garrun, Johannesburg**



Matt Garrun, MD of Garrun, Johannesburg, shared his thoughts on the current state of the insurance industry in South Africa. He stated that over the past three years, many claims were paid in the South African market, including those related to SASRIA, floods in KZN, and COVID business interruption.

This, according to Matt, has resulted in reinsurers repricing, which could pose both a threat and an opportunity for brokers.

Matt believes that brokers will face a big challenge in the coming year

as they navigate the cost of reinsurance treaties and rate increases. They will need to innovate and adapt to clients' changing needs and demands, particularly in the wake of the COVID-19 pandemic. Clients now require not only accessibility and availability, but also innovation and an understanding of what risks are not covered under the policy.

As the industry shifts into a hard market, brokers will need to guide clients on the coverage that is being taken away and advise them on their options. For example, most insurers have taken away the public

utilities extended cover extension under business interruption due to the fear of grid failure and the power surge claims that have followed.

Another major concern for Matt is succession planning in the industry. With the average age of brokers in South Africa being way over 50, the industry must find a way to create and train the next generation of brokers. Matt believes that brokers need to do a better job in attracting young, talented people and advertising the industry as a fantastic career opportunity.

Furthermore, Matt highlights the opportunity for brokers in the intangible asset space. As businesses are becoming more tech-focused and providing services and software, they still have significant risks that need to be insured.

Matt believes that brokers can tap into this growth area by offering cyber and specialist liability insurance products.

In conclusion, the insurance industry in South Africa is facing several challenges and opportunities in the wake of recent events. Brokers must adapt to the changing landscape and find innovative solutions to meet clients' needs.

By attracting young talent and focusing on the intangible asset space, brokers can create a sustainable business and ensure their long-term vision and success.

THE FUTURE FIT BROKER

Debbie Holroyd, CEO of Scottfin Insurance Brokers



Debbie also participated in the COVER broker survey feedback seminar, where she shared her thoughts on the current state of the broking industry and the importance of being future fit. Holroyd defined future fit as starting with the end in mind, and seeing trends in the market as problems that need to be addressed for the industry to achieve sustainability.

She pointed out four trends that are currently causing issues for the broking industry.

The first one being compliance and the cost of compliance. Holroyd stated that the continuous change in regulations is affecting the efficient running of brokerages and making

it difficult to remain competitive. She believes that the lengthened processes due to compliance have resulted in exposing policyholders instead of protecting them.

The second trend identified was the critical skill shortage in the industry. Holroyd mentioned that immigration and retirement have led to the loss of senior staff, saying that the industry is facing a crisis in the skill level of senior management. She also mentioned that technology in some instances is stumping the skill levels of new brokers and that the industry needs to go back to basics and train their staff on fundamental insurance principles before jumping into compliance training.

The third trend she highlighted was the shrinking market, specifically in the SME sector. Holroyd stated that the recent events such as COVID-19 and natural disasters have resulted in an unprecedented number of SMEs closing their doors due to economic constraints.

As a result, brokers are simply moving clients between each other instead of finding new markets. For these reasons, brokers should diversify at least to some extent. Any broker worth his/her salt should at least have looked at Cyber and D & O for example. We often discuss these risks with clients, and they clearly do not understand their risks.

This creates an opportunity for diversification.

Finally, Holroyd advised the broker community to take a step back, reflect on what made them successful, and then act accordingly. She believes that the industry has faced many emergencies over the past few years, and it is time to take a break, stop, breathe, and think before taking any further actions.

In conclusion, Holroyd emphasized the importance of being future fit in the broking industry and highlighted the challenges that need to be addressed for the industry to achieve sustainability. She believes that by starting with the end in mind and seeing the trends in the market as problems to be solved, the industry can make better decisions and move forward.

The industry needs to address the critical skill shortage, the shrinking market, and the cost of compliance, to be successful in the future.



BROKERS MUST FIND THEIR OWN COMPETITIVE ADVANTAGE

The third speaker at the seminar was Elliot Schwartz. Elliot has been involved in the insurance industry as an independent broker and as a marketing consultant to Renasa, advising the company on its strategy and marketing efforts.

He attributed Renasa's success to the fact that they chose a niche, the independent broker market, and exclusively targeted that market, tailoring products and services to optimise their competitive advantage and that of their supporting brokers. This strategy could be emulated by brokers, he added

On the survey feedback, Schwartz had a more pessimistic view of the current state of the broker segment.

Based on the survey indicating that nearly 72% of respondents did not expect their premium income to grow by as much as inflation, coupled with the fact that 82% of respondents expect the number of brokerages to decline, he is of the opinion that this signals the industry is in a state of decline.

He stated that the way we tend to view the traditional intermediary is as a department store, that offers a little bit of everything to attract everybody, but it does not really work that way.

Elliot explained that the essence of competitive advantage in business is to be better than everybody else at something the client is prepared to pay for and that nobody can be the best at everything.

All brokers must begin to examine where they will find their own competitive advantage as it is not a one size fits all.

If you pretend that your product is vastly different and it is not, you are not going to sustain the advantage, or someone will offer exactly what you have and do it more efficiently or less expensively, he stressed.

Schwartz acknowledged the efforts being made by some brokers to tap into the small and medium-sized enterprise (SME) market but noted that the nature of commerce in South Africa is changing.

Businesses today are more dependent on technology and have different risks, such as working from home or relying on technology to keep their operations running. This shift in the way business is conducted means that traditional methods of surveying may no longer be relevant.

Despite the challenges facing the brokerage industry, Schwartz said he remains optimistic about the future. He believed that there is still a future for intermediaries, especially independent intermediaries, but acknowledged that the industry needs to adapt and evolve to stay relevant.

Schwartz concluded by expressing his support for Renasa's efforts to sponsor research in the industry and his hope for its future success.

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