

Corporate Risk Management: Amid Changing Expectations, Insurance Industry Falls Short

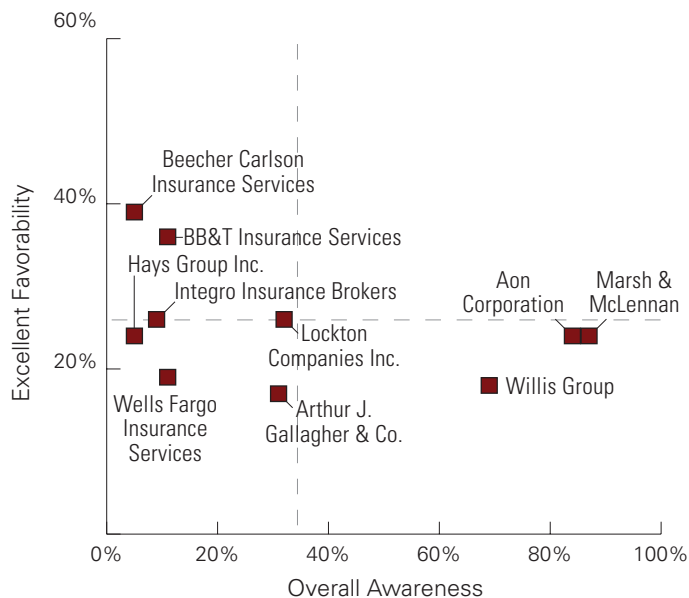
June 2010

Corporate risk managers report a serious and growing disconnect between themselves and their insurance brokers and carriers: At a time when U.S. companies are enhancing internal risk management capabilities and elevating risk management to a strategic priority, many brokers and carriers are responding to their own business pressures by becoming more bottom-line focused and transactional in the corporate insurance business.

The consequences of this disconnect are clear: The 683 corporate risk managers participating in Greenwich Associates' 2010 Large Corporate Insurance Study express low satisfaction with the service they are receiving from virtually all U.S. insurance providers. Among the 10 largest corporate insurance brokers in the United States, only two firms, Beecher Carlson Insurance Services and BB&T Insurance Services, receive "excellent" favorability ratings of more than 30% — and both of these firms have client bases much smaller than those of lower-rated national brokerage firms. All other brokers are concentrated in a 10% point range, with excellent favorability ratings only ranging from 17% to 26%.

Broker Brand: U.S. Property and Casualty Market — Favorability Compared to Awareness

Companies Across the U.S. with Annual Revenues Greater Than \$500 Million

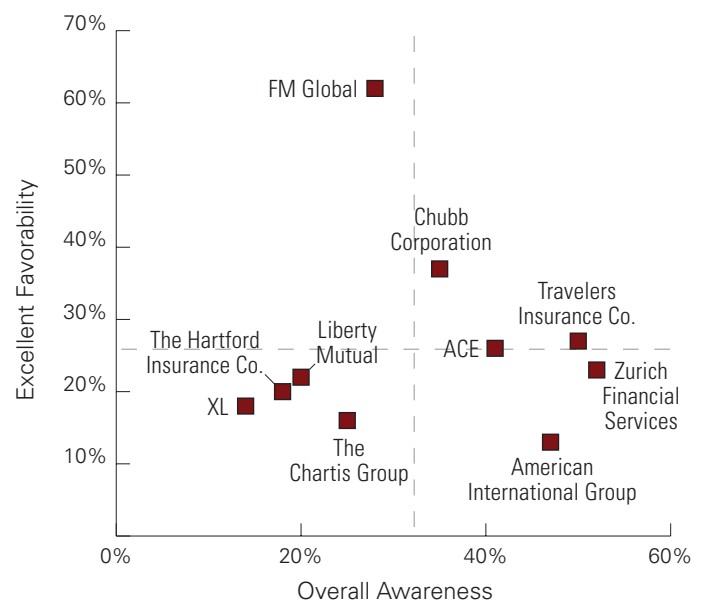


Note: Based on 683 customer and non-customer respondents in the U.S. Interviews conducted in the fourth quarter of 2009. Evaluations are based on a 5-point scale, where 1 = Poor and 5 = Excellent. Favorability percentages shown represent 5s. Source: 2010 Large Corporate Insurance Study

The situation is similar among carriers. Only two firms, FM Global and Chubb Corp., receive "excellent" favorability ratings of more than 27%. "FM Global gets excellent favorability scores from more than 60% of its U.S. corporate clients and Chubb receives these top favorability ratings from almost 40%," says Greenwich Associates consultant David Fox. "All the other carriers are tightly grouped with excellent favorability ratings from only 13%–27% of their risk managers."

Carrier Brand: U.S. Property and Casualty Market — Favorability Compared to Awareness

Companies Across the U.S. with Annual Revenues Greater Than \$500 Million



Note: Based on 683 customer and non-customer respondents in the U.S. Interviews conducted in the fourth quarter of 2009. Evaluations are based on a 5-point scale, where 1 = Poor and 5 = Excellent. Favorability percentages shown represent 5s. The Chartis Group was part of AIG in 2008 but not in 2009. Source: 2010 Large Corporate Insurance Study

Coming Next: Advice for Companies Seeking Strategic Help from Carriers

This white paper is one of the first in a series of reports from Greenwich Associates on the evolving corporate risk management function and companies' relationships with insurance brokers and carriers. In the next installment, Greenwich Associates will provide risk managers and other corporate executives with a list of questions they should be asking their carriers and brokers to ensure that these companies are able and willing to go beyond the pure underwriting function and service and provide expertise and strategic value.

“The fact that companies see little distinction between most major brokers and carriers will come as unwelcome news to insurance providers, many of which make large investments of time, effort and money in trying to develop strong brands,” says Greenwich Associates Client Associate Brett McNeice. “But our research results suggest that — in the current market environment at least — advertisements and marketing efforts aimed at corporate clients are being overshadowed by risk managers’ evolving needs and their perception that brokers and carriers are not living up to the standards of this new environment.”

Missed Opportunities

These performance gaps represent a missed opportunity for brokers, carriers and companies alike. As corporate boards, management teams and dedicated risk managers are becoming more proactive and sophisticated in their risk management efforts, the evolution of the function is creating an invitation for brokers and carriers to develop closer relationships with corporate clients. “As a new brand of risk managers evaluate the market, they see a myriad of mid-range choices with very few providers doing what is necessary to stand out,” says David Fox. “Both brokers and carriers have an opportunity to distinguish themselves with a focus on important service factors.”

Brokers and Carriers Focus on Bottom Line

Business pressures are influencing brokers’ approach to their corporate clients. Because broker fees are, in part, tied to the price of contracts they secure with carriers, in many cases brokers’ revenues have declined over the past two years. This is being driven by what many risk managers describe as vanilla offerings by brokers that are more similar to one another than they are different. These declines have forced brokers to cut costs at precisely the time that corporate risk managers are looking for more intensive coverage and strategic advice. As the following table illustrates, client ratings of broker satisfaction are influenced more by service quality than by price. “Brokers have become too focused on generating quick “wins” and the associated revenues when they should be focusing on building out their client service functions in order to capitalize on the new needs of

Drivers of Satisfaction — Brokers

Ranked in Order of Importance

Key Attributes	Rank of importance to risk managers*	2008	2009
Overall customer service	1	56%	49%
Ease of working relationship	2	68%	62%
Flexibility	3	57%	52%
Understanding business needs	4	65%	59%
Securing best pricing	5	64%	53%

Note: Based on 669 respondents in 2008 and 683 in 2009. *Rank based on correlation to Overall Satisfaction. Source: 2010 Large Corporate Insurance Study

corporate risk managers,” says David Fox. “As a result, service levels are deteriorating, dragging down client favorability ratings. It’s a vicious cycle.”

Historically, companies’ primary focus for insurance needs started with broker intermediaries. Many carriers saw brokers as the true “marketing department” and as a result, developed into underwriting organizations, with limited emphasis on building direct client relationships. But the elevation of risk management to a strategic priority among U.S. companies has created a new demand for expertise and advice by risk managers.

As the following table illustrates, carriers’ overall underwriting expertise remains the most powerful driver of client satisfaction. But increasingly, companies are looking to leverage that expertise for advice on how best to manage a wide variety of risks throughout their organizations. In other words, they are looking for insurance carriers to move beyond their traditional reactive roles as providers of coverage and to step up as partners and strategic advisors.

Drivers of Satisfaction — Carriers

Ranked in Order of Importance

Key Attributes	Rank of importance to risk managers*	2008	2009
Overall customer service	1	44%	41%
Ease of working relationship	2	43%	35%
Overall underwriting expertise	3	47%	46%
Claims coordination with brokers	4	36%	34%
Claims processing responsiveness	5	41%	39%

Note: Based on 669 respondents in 2008 and 683 in 2009. *Rank based on correlation to Overall Satisfaction. Source: 2010 Large Corporate Insurance Study

“Unfortunately, with few exceptions, the industry is not taking advantage of this demand and risk managers are not getting what they want from carriers,” says Greenwich Associates Corporate Relationship Manager Robert Mata. “In fact, difficult market conditions and the pressure to restore quarterly earnings have driven many carriers to move in the opposite direction. Rather than deploying resources to build long-term strategic or advisory relationships with companies, they are adopting a tighter focus on transactions and pricing.”

David Fox, Brett McNeice and Robert Mata cover the U.S. insurance market.

Methodology

From October to December 2009, Greenwich Associates conducted interviews with risk managers at 683 companies with annual revenues of \$500 million and above in the United States. Interview participants were asked about their companies’ property and casualty risk management practices and strategies, including

the brokers and carriers with whom they purchase coverage and insurance-related services. Respondents evaluated their primary brokers and carriers on more than 30 distinct service performance factors.

The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and review for presentation purposes in order to produce the final results.

© 2010 Greenwich Associates, LLC. All rights reserved. No portion of these materials may be copied, reproduced, distributed or transmitted, electronically or otherwise, to external parties or publicly without the permission of Greenwich Associates, LLC. Greenwich Associates®, Competitive Challenges®, Greenwich Quality Index®, and Greenwich Reports® are registered marks of Greenwich Associates, LLC. Greenwich Associates may also have rights in certain other marks used in these materials.

Greenwich Exchange Membership Benefits

The *Greenwich Exchange*, an extensive sharing of market trends and analysis, is available only to individuals and organizations participating in Greenwich Associates research studies.

- **Greenwich Reports** — Comprehensive summary of study results combined with analysis of issues and trends that influence your business.
- **Greenwich Market Pulses** — Key insights on emerging and topical market trends affecting your industry.
- **Greenwich Benchmarks and Rankings** — “Best of Breed” evaluations and comparative analysis of industry practices across the global and regional markets.
- **Greenwich Custom Analytics** — Segmentation of research for the peer group or market segment most important to you.
- **Greenwich Compensation and Staffing** — Peer reported industry compensation data to ensure congruence between performance and pay at the organizational and individual level.

For more information, please email us at ContactUs@Greenwich.com or call +1.203.625.5038.

GREENWICH REPORT — CONFIDENTIAL



6 High Ridge Park Stamford CT 06905 USA

Tel: +1 203.625.5038/+1 800.704.1027

Fax: +1 203.625.5126

email: ContactUs@greenwich.com

www.greenwich.com