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# The broker of the future:

Winning in a disruptive environment

By John Mulhall, Anudeep Chauhan,  
Claudia Lindsey and Michael Lyman

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**Brokers have long enjoyed an indispensable role at the heart of the insurance industry. They help customers navigate complex decisions and provide services in times of need. Today, however, that foundational function is increasingly at risk.**

As in so many other sectors, digital disruption is overturning long-held orthodoxies about the role of the insurance industry's middlemen. Data and analytics will soon be able to determine risk and insurance program structures and identify the best carriers for specific risks more accurately and more quickly than the most highly experienced broker. Indeed, disruptors—both new entrants and incumbent players—are already leveraging such digital tools to lure customers with convenient, customized offers that promise to reduce risk. Consider, for example, Simply Business, an online-only broker that uses data-driven analytics to develop tailor-made products for small and mid-sized enterprises (SMEs).<sup>1</sup>

Brokers won't disappear. Their skills and experience will still be critical for many customers seeking independent advice. But remaining truly relevant in the new, digitized insurance ecosystem requires traditional brokers to become brokers of the future: digitally sophisticated, and, by focusing more on strategic risk advice, able to deliver the transparency and control that today's customers need.

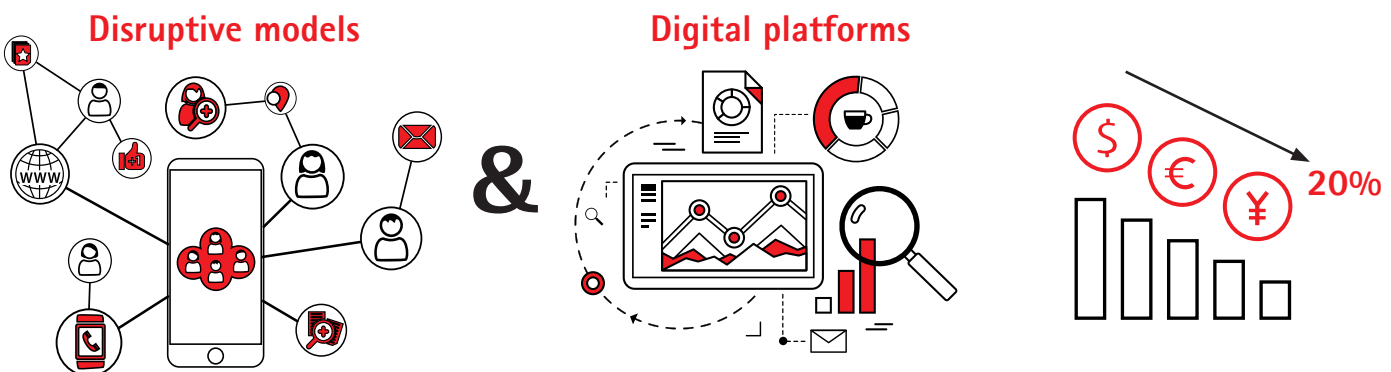
Evidence from other sectors suggests that rewards for early movers can be substantial. First, however, brokers need to understand the full scale and nature of the disruption they face.

# It's worse than you think

Growth in the insurance industry has flattened as global GDP growth has slowed and emerging markets have lost their luster. Since 2012, average global property and casualty (P&C) rates have dropped by as much as 5 percent. After 10 consecutive quarters of underlying P&C commercial insurance price declines, profitable growth in the brokerage business is stagnating.<sup>2</sup> And predictable patterns of digital disruption are compounding the problem.

Dynamic new entrants—fintech players prominent among them—are dis-intermediating brokers by using the SME market as a launchpad from which to target those sections of the market where customization is more prevalent. At the same time, carriers, reinsurers and even a few farsighted brokers are poaching larger accounts with direct-to-customer value-added services such as analytics-driven aggregation.

The squeeze on brokers' top lines is already intense and set to tighten significantly. By 2020, Accenture Strategy estimates that disruptive models and digital platforms could account for as much as 15 to 20 percent of the P&C SME market. In addition, revenues from broking for midsized and large customers could erode by up to 20 percent, as savings from digital improvements and automation are transferred to customers in the form of lower commissions and fees.<sup>3</sup>



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# Disrupt early to gain first-mover advantage

84 percent of executives at insurers agree that traditional organizations must evolve their business before they are disrupted.<sup>4</sup> That means brokers also need to change. And if they move fast, they could reap significant rewards by setting new product and service offering standards.

In banking and wealth management, for example, several leading players have turned the threat of digital disruption into an opportunity to raise competitive barriers. Case in point: Vanguard Group's "robo-human" money management service combines algorithm-driven asset allocation and rebalancing with access to human advisors, and targets the investment manager's core Baby Boomer market. The service attracted more than \$7 billion in new assets after its launch in 2015.<sup>5</sup>

OnDeck Capital, meanwhile, has exploited its first-mover advantage—the company's digitized systems made over \$3 billion in small-business loans in 2015. Its success led JP Morgan Chase to use OnDeck to lend to its roughly four million small-business customers because the disruptor's proprietary technology can do so more swiftly and cost-effectively than the bank's own systems.<sup>6</sup>



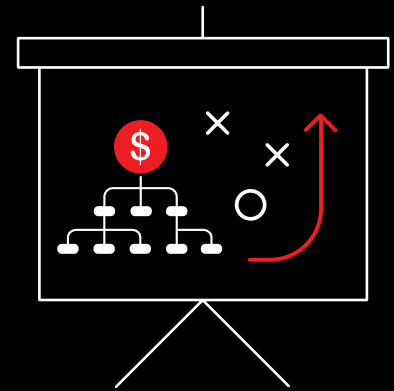
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# Platforms beat products

Today's insurance customers seek greater risk prevention, ease of doing business, customization and value-added services. Thanks to digital technologies and analytics, platform business models are creating value<sup>4</sup> by enabling highly efficient transactions that are customized yet scalable.

Some 83 percent of insurance executives expect platform-based business models to become part of their growth strategy over the next three years, and 81 percent say platforms will bring organizations together in the digital economy. Once again, banking is showing insurance a way forward.

Goldman Sachs, for instance, has launched Marquee, an open architecture platform that allows the bank's institutional customers to share its intellectual capital, market analysis and trade execution.<sup>7</sup> South Africa's Nedbank offers merchants a deeper understanding of their customers via its big-data analytics platform.<sup>8</sup>



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# Protect, preserve—and reinvent

As digital disruption intensifies, brokers will need to protect and defend their core business while also launching new, value-creating strategies. Platform business models can help them do both. They may well need to buy or partner to create them, but they can begin the process of ensuring future relevance now—by considering the following five potential new business models:

- **Next-generation risk placement.** By making brokers better able to recommend the right carrier, products and insurance program structure for a given risk, automation and analytics have the potential to substantially enhance risk structuring and placement. The need for human brokering is significantly reduced.



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- **Outcome-driven loss prevention.** The application of analytics to a robust and growing universe of both structured and unstructured data sources presents opportunities for brokers to boost their risk advisory and loss prevention offerings. Data-driven insights can be customized, packaged and delivered at scale (including in real time) to drive behavioral changes that eventually result in lower losses.
- **Risk marketplace with valued services.** As trusted intermediaries with technology and analytics capabilities, brokers can be uniquely positioned to aggregate multiple value-added services that holistically serve both customers' risk needs and, potentially, their balance sheet management needs as well. By developing strategic partnerships with providers and enabling access through a common platform, brokers can expand their value-add and boost customer loyalty.
- **Innovative carrier solutions.** Brokers can capitalize on their access to data via customer proximity and diverse carrier relationships. This will allow them to develop high-impact offerings that synthesize information across transactions for insurers, reinsurers and alternative capital providers, all of which value competitive and market insights for share growth, market development and access to funding alternatives.
- **New risk services.** Most new entrants lack core capabilities around risk assessment, transfer and prevention. Brokers can pre-empt disintermediation by partnering with new competitors and offering them a suite of services that enhance their ability to offer risk-based services directly to customers.

These models are not mutually exclusive. Depending on the broker, they can (and should) be combined in different ways to formulate a transformational business strategy. All brokers today have an opportunity to gain a first-mover advantage by setting new standards for offerings and customer engagement. The broker of the future will be very different from the broker of today. The future, however, starts now.

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## Contact the Authors

### John Mulhall

[john.v.mulhall@accenture.com](mailto:john.v.mulhall@accenture.com)

### Anudeep Chauhan

[anudeep.s.chauhan@accenture.com](mailto:anudeep.s.chauhan@accenture.com)

### Claudia Lindsey

[claudia.lindsey@accenture.com](mailto:claudia.lindsey@accenture.com)

### Michael Lyman

[michael.d.lyman@accenture.com](mailto:michael.d.lyman@accenture.com)

## Other Contributors

### Stuart Abraham

[stuart.abraham@accenture.com](mailto:stuart.abraham@accenture.com)

### Rohit Reddy

[rohit.a.reddy@accenture.com](mailto:rohit.a.reddy@accenture.com)

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