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National Insurance Brokers Association

# & RISK

PROFESSIONAL

OCT/NOV 2014

## Bird's-eye view

How mapping technology is upending industry practices



## Under pressure

Saving your staff, and yourself, from burning out



# A BROKER DIVIDED

IS BIZCOVER'S MICHAEL GOTTLIEB A THREAT TO BROKING OR ITS FUTURE?

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## Shake, rattle and toll

What would Sydney look like after an earthquake?



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# Split personality

Many insurance brokers see aggregator websites as a threat to the industry. So what would spur an award-winning specialist insurance broker to launch his own aggregator?

BY JAMES CHALMERS

**M**ichael Gottlieb doesn't appear shy about stepping into the unknown. He started his own insurance brokerage despite never having worked in the industry. And now he is leading one of the only companies in the world selling commercial insurance through an aggregator website.

Comparison websites have been a cause of consternation for the insurance industry since their first appearance on these shores but the pitch of concern has increased markedly this year. Numerous government reviews, including the Financial Systems Inquiry, have called for such websites to play a larger role in the insurance marketplace, as governments feel public pressure to take action on rising insurance premiums. Comparison websites, it is hoped, could increase competition and drive down prices.

Of course, this focus on price is precisely what worries many in the insurance industry. Numerous insurers, as well as NIBA and the Insurance Council of Australia, have advocated strongly against too much focus on price, which often ignores breadth of cover and the quality of claims service.

Finding their clients the best policy with the best insurer and with the best value – along with helping them get the best results with claims – is the core service of an insurance broker. Gottlieb's

Mega Capital Insurance Brokers, which he co-founded in 2001 with business partner Gavin Donner, is no different. What is different is that they've taken their outsider's view of the industry and used it to imagine a new way of treating commercial insurance.

## **"I was very naïve"**

Unless they were born into it, almost every broker in this country has a tale of somehow falling into the profession. The same applies to Gottlieb and Donner, with the exception that they found themselves as Principals in a brokerage despite never having worked for an insurance company or a broker.

Previously, Donner had been an actuarial consultant, while Gottlieb worked in management consulting. Then HIH collapsed. In the aftermath, a venture capitalist approached them about the difficulties their technology firms were having securing directors and officers (D&O) cover. Spying opportunity, the pair set out to secure insurance policies for the sector.

"I was very naïve about it," he says. "I felt that insurance was just about risk; that you quantified the risk and you quoted the price but it was never a no." But that is exactly what they heard over and over again, with flat refusals from every insurance company they approached. "It was an amazingly difficult

process," Gottlieb says. Eventually, the pair managed to secure underwriting through Lloyd's but by this time AIG had started writing policies for the sector.

"It was half the price of what we had managed to get through London and the opportunity had passed us," he says. "But by this stage we were in business and that's the key thing – when you're in business you've got to have perseverance and evolve in step with the opportunities in front of you.

"We had created some relationships and what we started trying to do was sell insurance – whether it was D&O or professional indemnity – but really focusing on what we knew well, which was the financial services industry."

## **Doing things differently**

Gottlieb freely admits he didn't know how the industry worked when Mega Capital started writing business. "The first time we placed a piece of business, Kevin Stevens from Chubb called me and said 'Are you going to send me a closing?' and I said 'What's a closing?'," he says. "That is literally how naïve we were."

However, he says not knowing how things worked has had its advantages too. "You need a thick skin but when you don't know the conventions it allows you do interesting things," he says.

An example, he says, stemmed from a cold call to an accountancy firm he ■



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made in the company's very early days, who told him about concerns over a certain exclusion in their cover.

"There was a convention in insurance that you don't really challenge an insurer's wording. Their wordings are their wordings and their exclusions are their exclusions," he says.

Enlisting the help of his wife Kerry, a lawyer, Gottlieb worked with the client and insurer to draft an endorsement that satisfied everyone. He says getting that policy over the line was a turning point for Mega Capital, from both a business perspective and as a lesson in the value of challenging convention.

"We looked around the market at all the policies and they all had this exclusion," Gottlieb says. "So we phoned the *BRW* Top 100 accounting firms and we said: 'Do you know you've got this exclusion? This is what it means and this is how we can get rid of it'. Fast forward a few years and we are probably the largest broker in the country for accountants."

### Room to move

Having little capital when they founded Mega Capital, Donner and Gottlieb made a conscious effort to focus on high-value clients, who delivered high margins. While that approach brought success, it also came with limitations.

"We created a business with some margin in it but if we lost a client, it would be very material," Gottlieb says. "It's also difficult to expand. In Australia there are only two million businesses, 90% of which are SMEs. If you're focusing on a sector which is above the SMEs, you're losing 90% of the industry."

By 2007, the pair were keen to expand into SMEs and identified three distinct ways that brokers approached the market.

The first was the Mega Capital approach, which was to ignore SMEs entirely, in favour of large, high-margin clients.

The second was the manner some large brokers approached SMEs, which in Gottlieb's view too often involves a placement facility with a single insurer. "In that situation, clients are not really getting a broker," he says. "They're getting an agent."

The third approach was the traditional one, favoured by the majority of brokers, in which SMEs are treated as any other client would be. "The problem with that is it is very inefficient, very low-margin or even loss-making," Gottlieb says.

Convinced that none of these models would work for them, Gottlieb then began looking for a way to transact SME policies more efficiently, while still making SMEs feel like they had received value from their broker. The key to that, he says, was offering choice, transparency and ease of use.

### Burning questions

Of course, automating a broker's quote-seeking role required the co-operation of insurers and Gottlieb says this was the highest hurdle.

"I spent six months of my life trying to convince insurers that this is where we needed to go. It was an incredibly difficult process," he says. "The insurance landscape is dominated by a few insurers and the current supply chain works for them. They have no reason to want to change."

Soon, however, AIG, DUAL and Vero were on board. Then came the formidable task of devising questions sets and rating methodologies common to all three insurers. "Our whole concept was that it needed to be simple for the end user, as simple as possible without compromising the underwriting process."

With persistence and insistence on doing away with any question that did not impact price, coverage or appetite, Gottlieb soon had the ability to offer quotes for PI cover from his three suppliers just a few seconds after they had answered five questions. BizCover was launched in September 2008, bringing the age of the aggregator to commercial insurance.

"You get instant quotes. Once you make your payment, you get instant policy documents and certificates of currency. You're covered," Gottlieb says.

### Shifting expectations

It is a rare broker who would not rate the provision of advice as one of their most crucial roles and, when sitting behind the Mega Capital desk, Gottlieb is no different, with a heavy focus on working closely with clients to understand their risks and give high-quality advice.

So how does Gottlieb reconcile that with removing advice entirely from the BizCover model? The key is his pragmatic view of the reality of SME broking today, which Gottlieb believes often falls short of the idealised view of how a broker should operate.

"It is impossible to have any kind of margin on SME business when you are earning somewhere between \$100 and \$300 a client and still providing a high

## MICHAEL GOTTLIEB ON...

### BROKING IN A DIGITAL WORLD

You need to understand where you sit in the supply chain. As long as you are adding value to that supply chain you won't be cut out of it.

### TECHNOLOGY'S IMPORTANCE

Anyone not embracing technology is in a dangerous position. Whether you are online business or not, you should be utilising technology in a very significant way internally.

### LARGE INTERNATIONAL BROKERS

Those are great companies but you only learn one process, one way of doing things – the way it has always been done.

### THE CLAIMS PROCESS

Part of a broker's role in a claim is holding the client's hand and having empathy. Most people have never been through this process before.

### SME PROCUREMENT

If you are an SME it could take you weeks and when you finally get it you only get one quote. So then you have to fill in a different proposal form to get another quote – it's a nightmare.



## THESE POLICIES ARE PRINTED OUT IN BLACK AND WHITE BUT IN REALITY THEY ARE VERY GREY AND THERE IS LOTS OF ROOM FOR INTERPRETATION. ”

level of service to them,” he says.

“You either then need to streamline it with one insurer – and then you’re not providing a broking service – or you need to a proper job broking and then you’re not making any money.”

Gottlieb also points to the reality, borne out in research such as the Vero SME Index, that business owners – the youngest of them in particular – are increasingly comfortable with doing their own research on risk and transacting their own policies.

While to many a move towards transacting insurance online heralds a shift away from brokers, Gottlieb is adamant there is still plenty of opportunity for brokers. “You just need to understand where you sit in the supply chain. As long as you are adding value to that supply chain you won’t be cut out of it.”

Although BizCover does not supply advice, it does supply something else crucial to good broking – claims advocacy.

“The whole purpose of BizCover was to provide SMEs with choice, transparency around what is available in the market place and ease of use but

still provide them with advocacy around claims,” Gottlieb says.

“We haven’t created any automation around the claims service because I think once someone has a claim, they want to speak to someone. They want advocacy and hand-holding; they want the comfort and understanding that someone is out there battling for them.

“Indemnity is a very complex area and the claims are often very personal. When someone receives a PI suit, it is like an attack on them. Their client is saying to them: ‘You’ve been negligent. You’ve stuffed up’. It’s very different to someone stealing their car.”

Gottlieb says the insurance industry suffers from an image problem driven overwhelmingly by a view that insurers don’t pay claims. In response, claims has been a key area to add value for a client for both Mega Capital and BizCover.

“We don’t separate claims from broking,” he says. “The broker is the person who has negotiated the policy with the underwriter and it is very important that when there is dispute the broker needs to know what they negotiated with their insurer and what they communicated to their clients. These policies are printed out in black and white but in reality they are very grey and there is lots of room for interpretation.”

### Working together

Gottlieb says BizCover is not a threat to brokers but is instead a tool they can use. As well as a direct channel, the website has a wholesale platform for brokers to employ. “I think it is a very important thing to understand for the brokers is that we are not trying to cut them out,” he says. “We are trying to work with them to streamline their businesses.”

He says he once had a broker send him a screenshot of his desktop, upon which he noticed the broker had log-in

shortcuts to 11 different insurers. To Gottlieb, the time it would take to seek quotes from each individually highlights why BizCover can help brokers.

“We’ve had a number of brokers embrace BizCover. We work with them. Their clients are separate to ours and we would never target them,” he says.

“It’s about them being able to complete their job in a much quicker timeframe because they are able to enter data once and get multiple quotes.”

### The road ahead

When Gottlieb got his start in insurance, some insurers were not yet accepting proposal forms via email, instead insisting on fax. He says commercial insurance has traditionally been the least technologically innovative part of the financial services universe, far outstripped by banking and even domestic and life insurance.

“Commercial insurance is one of the more complex products so there is good reason why it hasn’t moved online at the same rate other industries have,” he says.

In Gottlieb’s view, the potential of modern technology means every business, whether they are online-focused or not, should be exploring how it can help them service their clients. But he says a segment of the market will always want advice and advocacy.

“That’s why we have two distinct businesses, which are a complete contrast to one another. One has a high level of thought leadership and advice and the other is transactional,” he says. “There is an increasing number of clients who are looking for a transactional service and that be done equally well online. It’s only if we lose the advocacy that we have a problem.

“A large segment of commercial insurance broking is complex and it does require advice and advocacy and therefore it will be a slow transition online. There is a great future for brokers.” **NIBA**

### MEGA CAPITAL

- Established in 2001.
- Offers PI, D&O, management liability, warranty and indemnity, prospectus liability, IT liability and cyber liability.
- Wrote \$40 million in premiums last year.

### BIZCOVER

- Established in 2008.
- Offers PI, management liability, public liability, cyber liability, business packs and tax audit cover.
- Has more than 25,000 SME clients on its books.