Controversy surrounding broker facilities in London just won't go away. The fall-out from facilitisation has been a recurring feature of the full year and first quarter 2017’s earnings calls this year, with several insurer CEOs slamming them as costly and even damaging to London’s future as a distribution centre.

Evan Greenberg, Chubb’s chairman and CEO, criticised broker facilities in his annual letter to shareholders and again at the group’s Q1 earnings call with analysts, saying that brokers collect a portfolio of one off risks into one placement and use the volume to attract underwriters, “who for the sake of volume will do things to pricing and terms and conditions that aren’t that prudent, that aren’t sustainable, and that they otherwise wouldn’t do when its one-off risk placed”.

At the same time, brokers’ compensation is increasing, Greenberg went on: “What industry or business do we know about where prices are going down but intermediary percentage of the dollar of what’s being placed goes up. “And that’s what’s occurring in the facilitisation of the business,” he said. “I don’t think it’s advisable. I don’t think it’s in the long-term interest or even the medium-term interest of our business, of our industry. I don’t think it’s sustainable.”

In his first quarter call with analysts, Navigators CEO Stan Galanski said: “There’s been a real tendency in our London wholesale market to commoditise business, to facilitate business, to
create panels, and with that comes increased demands for commission in order to participate on those panels and facilities.”

Meanwhile in an interview with Reactions’ sister magazine The Insurance Insider, Axis founder John Charman, now CEO of Sompo International, said: “These excessive and completely inappropriate practices are out of control within the big three brokers... Irreparable damage is being done to the very substance of our businesses.”

He added that this would force insurers to look at alternative distribution channels – “which would be game-changing in the long run.”

There is nothing especially new about broker facilities. Facilities started to appear around 2010 but they have grown steadily in number since then.

Dominated by the big three brokers, Aon, Marsh and Willis Towers Watson, the facilities do not have identical underwriting structures but share essential characteristics. Broadly, the facility arrangements see participants contribute a defined amount of capacity on every placement through the broker in a market.

In return for the guaranteed “follow form” business they pay an enhanced commission payment.

Marsh for example has put several facilities in place since 2010 when it formed the Project Blue energy facility. It now has several, spanning diverse property-casualty classes from energy to terrorism. Last year it introduced Fl. Echo, an excess facility for all classes of management liability insurance at Lloyd’s and in the wider London insurance market.


Aon Client Treaty was launched in 2015 as the mother of all facilities with over half a billion dollar annual premium throughput. A pre-placement of a 20% share of Aon’s London market wholesale business, over half a dozen Lloyd’s carriers led by XL Catlin subscribe to the facility.

Few brokers have spoken out in defence of facilities but Aon CEO Greg Case recently told Reactions that facilities have a beneficial role to play for insurers and underlying clients. “I cannot speak for the market at-large, but at Aon we have a very holistic placement strategy that is based on client need. Typically, our clients come to us facilities that were originally introduced as a justifiable way of streamlining placement and reducing operating costs for the brokers,” he tells Reactions.

“To go to the other extreme and say that underwriting is not value-added, capacity is undifferentiated and that insurance is a commodity for which one size fits all seems to be foolhardy.”

Galanski adds: “Not all underwriters operate with the same level of technical underwriting expertise, the same commitment to settling claims efficiently and also managing their capital in a prudent manner.

“Capital ultimately flows to the most efficient market. If a market becomes uncompetitive in terms of its operating costs, capital will flow to a more economic market.”

Stan Galanski, Navigators

“Commissions are a cost of doing business. It’s in the brokers’ best interest to maximise commissions and if insurers are willing to increase commissions to attract business in a soft market, that’s competition. But excess costs can only be tolerated for so long,” he says.

Taking aim at London, Galanski says excessive costs are never sustainable over the long term. “Capital ultimately flows to the most efficient market. If a market becomes uncompetitive in terms of its operating costs, capital will flow to a more economic market,” he said.

“A good example of that is the growth of the Miami insurance market which has
Broker facilities

become a significant hub for Latin American insurance. Business that used to be placed in London now can be placed in Miami. Capital has flown to a more efficient market.” Facilities will continue to be a feature of the London market because they have the ability to reduce costs relating to more commoditised risks for the end client, according to Paul Clark, partner at the Boston Consulting Group. But he says that broker facilities only generate sustainable value in the insurance market when they mutually benefit end clients, brokers and carriers. “This can happen when a broker with unique access to and understanding of an end client niche connects it with capacity the carrier would otherwise be unable to deploy as efficiently,” Clark says. “Similarly it can bring benefit to the insureds and the carriers when the bundling of similar small risks can efficiently draw on capacity that it would otherwise not be able to access.” Any increasing commissions should both reflect genuine additional work by the broker, and be transparent to the end client.

“Typically, our clients come to us with three top priorities: They want to reduce their volatility, strengthen their balance sheet, and find a superior counterparty.”

Greg Case, Aon

Simply loading additional commission onto the carrier may appear in the insured’s interests in the first place, but is not helpful if it means the carriers’ involvement in that facility is not sustainable in the long-term, Clark believes.

Even before the economics break down, respect and trust risks being damaged. “This appears to be the case in some instances today and brokers will need to consider the trade-off between the extra commissions they are currently generating in the immediate term with the longer-term with the longer term impact on the sustainability of the current facilities model,” he warns.

The continued role of facilities - and the market’s acceptance of them – will depend a lot on market conditions. In a soft market, when brokers and underwriters are struggling to make money and costs are stubbornly high it’s not surprising that facilities are generating so much heat. Their differences could be put to one side when everyone is making money, says Ben Bolton, managing director of London-based Gracechurch Consulting. But a schism has been created by facilities that could signal a sea change in the way the insurance industry works.

“What’s changing perhaps is that big insurers like Chubb are increasingly projecting their brand beyond the broker to the customer,” Bolton says. “In view of that closer identification with clients, insurers feel they should have a different arrangement with those brokers. “I think there needs to be a new kind of relationship between intermediaries and insurers that’s not based simply on commissions. They need to work more closely together to develop products more effectively. Brokers also need to lose their deep rooted fear of letting an insurer near the client.”

In the meantime, Bolton thinks the industry could agree some guiding principles on best practice to apply to facilities or panels. “The conversation between brokers and carriers hasn’t even got started and the dialogue suggests something has gone wrong. A framework needs to be put in place to establish an agreed commercial alignment between brokers and carriers,” Bolton says.

In the near term, Galaski at Navigators thinks that a back to basics approach is needed for the sake of buyers. “It would be nice to think that the situation will be self-correcting and that commoditisation will be temporary because, at the end of the day, not all insurance companies are the same,” he tells Reactions.

“As an industry, we need to look beyond the P&Ls and back to the fundamentals of the business – taking care of policyholders and paying claims.”

**Arguments for:**

- Clients benefit from superior terms, pricing and coverage;
- Insurers see new business they can’t otherwise access;
- Brokers obtain lots of data that can be analysed to optimise pricing and coverage.

**Arguments against:**

- Broker commission levels are unsustainably high;
- Hidden risks might come back to haunt underwriters;
- Underwriters lose experience and understanding over time.

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