HOW INSURANCE BROKERS CREATE VALUE –
A FUNCTIONAL APPROACH

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ABSTRACT

Fundamental changes in the market environment force insurance intermediaries to redefine their roles. This article focuses on the future functions of brokers, which are analyzed from a functional as well as a customer-oriented perspective. To cope with the limitations of current intermediation research, the customer-value approach is applied as an alternative framework. This approach suggests that brokers must create benefit and customer value to be successful in the future. After a review of existing literature concerning insurance intermediation, this article presents the results of 20 in-depth interviews with leading managers of multinational companies from different industries, representing important current and potential customers of insurance brokers. The findings highlight four main functions insurance brokers are expected to fulfil for their customers: supplier, transformer, partner, and problem solver. The article concludes with a discussion of the growing demand for innovative and individualized services and further essential requirements for brokers that will enable them to meet the future needs of their clients in the most optimal manner.

1. INTRODUCTION

Large-scale changes in the market point out the challenges the future will bring for brokers in the insurance industry. On the one hand, inefficiencies in insurance markets were partially defused by the global emergence of modern information and communication technology, which, at least theoretically, should have led to a smaller demand for intermediation. On the other hand, other contextual changes in the industry, such as the deregulation and liberalization of insurance markets, have resulted in greater product differentiation and correspondingly lower market transparency, which in turn increased demand for brokerage. Hence intermediaries still play a decisive role in facilitating the exchange between consumers and providers of financial services. However, debates such as the discussion about new, fee-based payment systems indicate that brokers need to reconsider their function in order to provide added value beyond direct exchange. How can insurance brokers create this added value?
Focusing on the relationship between brokers and insurants, I investigate the value insurance brokers create for insurants in today’s challenging environment, discussing for this purpose both current and possible future functions of brokers in the insurance market. Instead of an “institutional perspective,” which focuses on the internal activities of existing institutions such as insurance companies or brokers, our analysis is based on a “functional perspective,” which focuses on the services provided and needs fulfilled by these institutions, for example, managing risk or transferring resources across time and space (Merton and Bodie, 1995). According to Merton and Bodie (1995, 2004), a financial system should be analyzed in terms of a functional perspective because over long periods of time, functions have proven to be much more stable than institutions. Especially during the last years, institutions have emerged and disappeared, evolved and changed, while functional needs have remained stable (see also Allen and Santomero, 1998; Oldfield and Santomero, 1997). Allen and Santomero (1998, p. 1466) state: “The financial services may be packaged differently both across competitive institutions and over time, but the functions are far more stable.”

As we are advocates of the customer-value approach (see section “Customer Value”, pp. 5-7), we analyze these broker functions from a customer point of view by asking: “What functions do or should brokers fulfill for their customers?” The results discussed in this article are primarily derived from answers to this question given in interviews with globally operating companies, companies that are now or have the possibility of being very important customers of brokers.

The article first explains the theoretical context and presents the applied research method. Next, the key results of the qualitative study and their implications are discussed. The article closes with suggestions for future research.

2. The Functions of Financial Intermediaries: A Theoretical Overview

There are three sets of players in the insurance market: insurance providers (e.g., insurance and reinsurance companies), intermediaries (also known as brokers), and consumers, whose demands for insurance vary with their individual degrees of risk aversion. In this article, we adopt the definition of insurance broker set out by Cummins and Doherty (2005, p. 5): an insurance intermediary (or broker) is “an individual or business firm, with some degree of independence from the insurer, which stands between the buyer and seller of insurance.” Optimally, the broker acts
completely autonomously and represents the interests of its customers. Hence, independent insurance brokers are described as “intermediaries who bring the parties together and match particular needs of policyholders with the products of insurers” (Cummins and Doherty, 2005, p. 5). Brokers facilitate the interaction between providers and consumers in exchange for some form of remuneration.

Traditionally, market imperfections, such as asymmetric information and transaction costs, have been given as the reason for the existence of brokers in the financial services industry, what we might call financial intermediaries (Allen and Santomero, 2001; Freixas and Rochet, 1997). How central such market imperfections are to the literature of the past two decades is illustrated by two major reviews of intermediation theory by Santomero (1984) and Bhattacharya and Thakor (1993). However, during the same two decades, new developments (e.g., new technologies and globalization) have significantly reduced the price of information, lowered transaction costs, and evened the playing field when it comes to asymmetric information. Strangely, though all this has not led to a reduced demand for intermediation services. In fact, overall demand has increased (Allen and Santomero, 1998; Scholtens and van Wensveen, 2000). This suggests that there is something other than market imperfections that is driving the demand for financial intermediation and, indeed, Allen and Santomero (2001) argue that the theory of financial intermediation focuses too much on the role of intermediaries in reducing the frictions of transaction costs and asymmetric information. Therefore, several researchers (e.g., Allen and Santomero, 1998, 2001; Scholtens and van Wensveen, 2000; Schmidt, Hackethal, and Thyrell, 1999) propose broadening the focus of intermediation theory so as to better understand the continued existence of modern financial brokers.

Well-founded research in the field of financial intermediation is mostly limited to the banking industry (e.g., Gurley and Shaw, 1960; Diamond, 1984; Gale and Hellwig, 1985; Boyd and Prescott, 1986; Bhattacharya and Thakor, 1993; Winton, 1997; Schmidt, Hackethal, and Thyrell, 1999; Gorton and Winter, 2002; Germain, 2005). There is very little information on insurance intermediation apart from Dionne (1991) and Cummins and Doherty (2005). Nevertheless, we analyzed the existing financial intermediation literature in order to identify functions of insurance intermediaries that might explain the continued existence and relevance of brokers in the contemporary market. Based on this literature review, the different functions of insurance intermediaries can be summarized as follows.
• **Information function:** A traditional function of insurance brokers is to provide their clients with information and advice regarding the clients’ insurance needs. Through economies of scale and scope, brokers can search the insurance market more efficiently than could individual buyers and can help their clients compare insurers’ skills, capacities, risk dispositions, financial strengths, and reputations (Cummins and Doherty, 2005). Brokers also fulfil an informational function for insurers. During the matching process, insurance brokers can typically acquire or process more information about their clients’ level of risk than is possible for insurers (Sirri and Tufano, 1995). This valuable information can help insurers solve problems related to asymmetric information (Strong and Walker, 1987), such as adverse selection and moral hazard. Having better and more information also allows insurers to price policies more competitively and fairly (Rothschild and Stiglitz, 1976). If the broker acts on behalf of large commercial insurance buyers, the information the broker can provide the insurer about such clients is particularly valuable since the risk involved with large policyholders is typically more complex and difficult to evaluate. This informational function of brokers enables insurers to reduce the frictional costs of insurance and increases the efficiency of the insurance market, especially for policyholders, who would otherwise bear such costs in the form of higher premiums (Cummins and Doherty, 2005). And because a broker relies on long-term relationships for a successful business, brokers also provide and solicit information on customers and insurance companies to ensure that market transactions are completed satisfactorily for all parties and that no party acts opportunistically after an agreement has been signed (Swiss Re, 2004).

• **Market-maker function:** The intermediation process through which buyers are matched with insurers is complex and multidimensional. By fulfilling the information function discussed above, insurance brokers help customers to make intelligent insurance decisions. In this way, the brokers contribute to increased industry transparency and stimulate competition in the marketplace (Cummins and Doherty, 2005). Additionally, small- and medium-sizes companies may have significantly less bargaining power in negotiations with large insurance companies. By leveraging their business volume with individual insurance carriers, brokers are able to obtain better terms and conditions for this size of client, thus smoothing the problem of asymmetric bargaining power between buyers and sellers (Spulber, 1999).

• **Transformation function:** Insurance brokers often deal with cases where the scale or complexity of risks does is not practical for coverage by a single insurer. In these cases, the broker has a pooling or aggregation function (Merton and Bodie,
identifying multiple insurers who are prepared to take on various shares of coverage. This usually leads to a complex negotiation process involving coverage design, pricing, and ultimate business placement.

- **Reduction of participation costs:** Allen and Santomero (1998) suggest that participation costs are very important in understanding modern intermediaries and their new roles. According to these authors, participation costs include much more than simply the time involved in making financial decisions, but are also understood to include acquiring and using expertise (Allen and Santomero, 2001). This is relevant cost consideration for firms—especially those operating internationally—as the level of sophistication and specialization required to execute complex risk trading and risk management operations is very high. For small- and medium-sized companies with little or no expertise in the field of risk and insurance, the broker function of “reducing participation costs” can be especially significant.

- **Service function:** Closely connected with the reduction of participation costs are other service functions brokers provide their clients in helping them deal efficiently with the increasingly complex variety of financial instruments and markets. For example, “risk management” services can be especially valuable in the financial intermediation process (Merton and Body, 1995; Allen and Santomero, 1998; Scholtens and van Wensveen, 2000). Other services, such as claim settlement, captive management, risk modeling, and risk trading, have also been found to make the existence of insurance intermediaries salient in today’s challenging climate (see, e.g., Allen and Santomero, 2001).

### 3. SOME LIMITATIONS OF CURRENT INTERMEDIATION RESEARCH

Intermediation theory has been significantly expanded during the last several years. However, the central identified functions of insurance intermediaries in the literature all have one thing in common: they incorporate only economic aspects. Other, noneconomic functions, particularly social functions, have not been dealt with, even though social functions play an important role, especially in the broker-customer relationship. Allen and Gale (1997) point out, for example, that the complex problems involved in delegating decisions to an intermediary, when the client does not fully understand the nature of the problem being solved, can be overcome by long-term relationships. The trustworthiness and independence of intermediaries, and personal relationships built on trust, may become very important in a broker-customer relationship, especially in the long run. However such social functions de-
pend very much on individual customer needs and expectations. This leads to a second limitation of current intermediation research. The research to date generally focuses on the general concept of intermediation, describing or developing products and services from a supply-oriented perspective. The customer’s view of the broker’s performance, and all the implications thereof, has been ignored. To fill this gap, we examine insurance intermediation by including the customer’s perspective regarding relevant and future functions of insurance brokers. The theoretical concept of customer value is an approach that can help identify and analyze such functions from a customer point of view.

4. THE CUSTOMER-VALUE APPROACH—AN OVERVIEW

According to the customer-value approach, brokers, as well as companies in general, need to create benefit and value for their customers in order to be successful. Correspondingly, firm strategies and marketing research have recently become very sharply focused on the identification, creation, and delivery of value to customers. Marketing managers are encouraged to adopt customer-value strategies in order to promote profit growth and ensure long-term success (Gale, 1994; Hamel and Prahalad, 1994; Woodruff, 1997; Flint, Woodruff, and Gardial, 2002). To pursue these strategies, however, managers and researchers must find answers to two key questions: “What is creating value for customers?” and “How can companies create and deliver customer value?”

Considerable progress has been made in understanding how and what customers really value. Typically, customers value many aspects of an exchange, including a service, product, store, or brand, or personal interaction with a salesperson (e.g., Zeithaml, 1988; Holbrook, 1994; Lai, 1995; Flint, Woodruff, and Gardial, 2002). The literature contains a multitude of different models, concepts, and definitions for conceptualizing and modeling customer value. In this article we adopt a concept developed by Flint, Woodruff, and Gardial (1997), according to which relevant perspectives of value can be classified regarding their level of abstraction: value, desired value, and perceived value (see Table 1).
**Table 1:** Three forms of value according to Flint, Woodruff and Gardial (1997, p. 168)

<table>
<thead>
<tr>
<th>Definition</th>
<th>Value</th>
<th>Desired Value</th>
<th>Perceived Value</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Implicit beliefs that guide behavior</td>
<td>What customer wants to happen in the future (benefits sought)</td>
<td>Assessment of what has happened (benefits and sacrifices)</td>
</tr>
<tr>
<td>Level of abstraction</td>
<td>Abstract, centrally held, desired endstates, higher-order goals</td>
<td>Less abstract, less centrally held, lower-order goals, benefits sought to facilitate higher-order goal achievement</td>
<td>Overall view of trade-offs between benefits and sacrifices actually received</td>
</tr>
<tr>
<td>Locus or source of value</td>
<td>Specific to customer (person or organization)</td>
<td>Conceptualized interaction of customer, product/service, and anticipated use situation</td>
<td>Interaction of customer, product/service, and a specific use situation</td>
</tr>
<tr>
<td>Relationship to use</td>
<td>Independent of use situations</td>
<td>Independent of use-specific experience</td>
<td>Dependent on specific use experience</td>
</tr>
<tr>
<td>Permanence</td>
<td>Enduring</td>
<td>Moderately enduring</td>
<td>Transient over occasions</td>
</tr>
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**Perceived Customer Value**

Based on concrete product and service characteristics—correspondingly the attribute level in the means-end hierarchy of value (Flint, Woodruff, and Gardial, 2002)—customer value is defined and conceptualized as the result of a subjective comparison between the benefits of a product or service and the associated sacrifices, taking into consideration available alternatives in a specific use situation (Zeithaml, 1988; Monroe, 1990; Butz and Goodstein, 1996; Hogan, 2001; Eggert and Ulaga, 2002).

**Desired Customer Value**

An increasing number of authors support means-end models, assuming (1) a hierarchical relationship of product or service attributes, (2) effects of these attributes, which are produced through consumption, and (3) customers’ personal values (e.g., Zeithaml, 1988; Holbrook, 1994; Lai, 1995; Flint, Woodruff, and Gardial, 1997; Woodruff, 1997; Huber, Herrmann, and Morgan, 2001; Van der Haar, Kemp, and Omta, 2001; Flint, Woodruff, and Gardial, 2002; Beverland and Lockshin, 2003). Means-end theory seeks to explain how an individual’s choice of a product or service enables him/her to achieve his/her desired end states (Gutman, 1982; Holbrook, 1999; Payne and Holt, 2001; Flint, Woodruff, and Gardial, 2002). The theory’s main assumption is that customers choose actions that produce desired effects and minimize undesired effects (Peter and Olson, 1990). Woodruff (1997, p. 142) con-
cisely defines customer value as understood by this theory: “Customer value is a customer’s perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer’s goals and purposes in use situations.”

For the purpose of my research, “desired customer value” is the most important construct in identifying and analyzing possible future functions of insurance brokers. Desired values can be viewed as the functions brokers should fulfill from a customer’s point of view. I suggest that continued existence of insurance brokers is greatly dependent on their ability to create desired customer value in comparison with direct product retailing by insurance companies. The possible future functions of insurance brokers presented in this article should therefore be evaluated in terms of their ability to create the highest possible value for a broker’s customers.

5. RESEARCH METHODOLOGY

The purpose of this study is to identify and analyze how insurance brokers create value for industrial companies and identify and evaluate in this context the broker’s functions. A qualitative approach was deemed optimal for conducting this investigation because such an approach is an excellent way of gaining deep insight into the nature of constructs and their role in theoretical models (Yin, 1994; Easterby-Smith, Thorpe, and Lowe, 1991).

6. SAMPLING

To cover a broad range of possible broker functions and added values from a customer perspective, we interviewed insurance customers in various industries and evaluated their responses. We focused on internationally operating industrial companies that employ external insurance brokers. The level of analysis chosen was the individual manager, rather than distribution centers or departments, due to the likelihood that individuals’ desired and perceived values differ within and across organizations. The selection of appropriate companies and representatives was an important part of the research process, and was based on the following criteria:

- The company has a turnover of more than €1.5 billion.
- The company has an international orientation and owns overseas branches.
- The company buys risk-related services from an insurance broker.
- The company’s representative is an influential decisionmaker involved in purchasing “risk” services or products from insurance brokers.

The interviewees consisted of 20 managers from 20 globally operating and stock-listed (DAX100 or SMI) companies (see Appendix) in the following industries: automotive, chemical, building materials, IT-technology, construction technology, high technology (hardware and equipment), software, energy, logistic, metal processing, mechanical engineering, sports equipment, and textiles. The interviewees had job titles such as Head of Corporate Insurance Services, Risk Manager, Chief Financial Officer, Head of Corporate Financial Services, Head of Global Risk Management, and Head of Taxes.

In addition to representatives on the customer side, four managers from insurance and reinsurance companies were also interviewed. From a broker’s perspective, insurance and reinsurance companies are suppliers of insurance products and services; however, they are also competitors. The purpose of interviewing insurance and reinsurance top managers (two each, having job titles of either Managing Director or CEO) of leading international companies was to broaden the focus of the study by making it possible to verify the results of customer interviews and compare the customer perspective with that of suppliers and/or competitors.

7. **DATA COLLECTION**

The data were gathered in German-speaking countries (i.e., Germany, Switzerland, and Austria) through individual in-depth interviews. A list of research questions based on the research objectives was drawn up and used as an interview guide. The interviews were conducted at the representative’s workplace to preserve the context. Each interview lasted approximately 1–1 ½ hours and was audiotaped and transcribed verbatim.

The customer questionnaire was designed to probe four main areas of interest. First, participants were requested to describe what functions insurance brokers should undertake in the near future. They were next asked, generally, what values insurance brokers provided from their perspective. The third section of the interview asked questions designed to discover concrete risk management and risk finance services companies expected from brokers. Finally, the current strengths and weaknesses of insurance broker services were inquired into and compared to previously identified customer expectations.
The interviews with the insurance and reinsurance representatives included the following questions: What is your opinion regarding:

- the future development of supply and demand within risk and insurance markets?
- the most important competences, services, and products needed to succeed in this market?
- the roles and functions of insurance brokers?

8. **RESULTS**

The customer interviews led to a number of results that were verified through a complementary analysis of the insurance companies’ views on intermediaries. This section presents a condensed summary of the insights gained. Four key issues concerning a broker’s desired future functions are discussed: customers expect brokers to offer professional consulting services, risk management support, international relationship networks, and innovative solutions. To better illustrate these concepts, quotes from the interviewees are used in the discussion that follows.¹

9. **CONSULTING**

“The future of the broker lies in consulting!”

Terrorism, new technologies, globalization, deregulation, liberalization, and frequent lawsuits have increased the complexity and importance of risk management for multinationals and the interviews highlight a rising demand for consulting with regard to risk exposure in specific areas. According to several firms, consultation will probably be the most important component of a broker’s future services. The interviews with leading insurance companies resulted in similar findings, thus affirmiting the increasing importance of consulting services offered by brokers.

Concerning the consulting relationship, the interviewed companies emphasized the importance of a close relationship between a broker and his or her customers. Several interviewed persons (IPs) described the need for high customer orientation and customer-specific services—“tailor-made solutions.” Additionally, many IPs highlighted the importance of an empathic and competent personality as well as a per-

¹ All statements were translated into English.
sonal relationship when selecting a broker because “risk-management issues are always very person-oriented matters.”

"It is always about personal things!"

However, IPs generally expressed disappointment that brokers demonstrate only superficial customer information and insufficient branch knowledge. A broker’s strategy is often sales-driven and focused on insurance solutions instead of customer orientation. Therefore, brokers are unable to offer services originating from companies’ needs. One IP stated: “What I miss most—in contrast to the broker’s capability to sell products—is the broker’s ability to understand a problem and to say that there is either a way to solve it or not. A valuable result can also be achieved by saying that there is no solution to a specific problem. But all broker activities are still very distribution-oriented.” Additionally, the IPs regard brokers’ knowledge of risk management as insufficient with respect to their consulting function.

IPs indicated that they generally accept or even demand fee-based services in order to accurately charge for a broker’s service, thus reducing the prevalence of sales-driven business models and increasing transparency. Insurance companies indicated that they also prefer fee-based services since it allows a clear division of tasks between insurers and brokers.

Despite the growing importance of consulting services, the traditional intermediation of insurances remains crucial. For example, one IP still perceives “the efficient settlement of insurance transactions” as a broker’s future core activity. Certain companies use a broker solely for insurance transactions and formally refuse consulting services. Therefore, a broker’s market power in negotiating cheaper insurance rates continues to be of value to customers. In this regard, the IPs praised brokers’ insurance know-how, their knowledge of insurance markets, and their skill in executing transactions.

10. SUPPORT

“The broker is an auxiliary person of my will.”

Even if the specific competencies of brokers become more important, companies do not favor the delegation of decision making to them since risk management is a sen-
sitive strategic issue and a core competence of every business. According to one IP, “risk-management decisions constitute a fundamental task of every company” and that is why companies always want to remain “in the driver’s seat.” Hence, the broker is primarily an execution, not an decision-making, agent.

Nevertheless, companies are highly dependent on brokers’ support in the decision-making process and expect brokers to enhance their problem-solving capability. Intermediaries can be of use on two fronts in this regard: they can fulfill a relieving function and they can be valuable source of a second opinion. As one IP put it, “four eyes do see more than two.” Generally, customers value the broker as an independent and neutral business partner. On the supply side, insurance providers also consider the intermediary’s neutrality to be very valuable.

“Brokers have a number of competitive advantages …; compared to us [insurance companies] they benefit from their neutrality.”

Most companies, however, are not willing to fully integrate the intermediary into their risk management process due to concerns over preserving their independency and keeping know-how and business secrets in-house. Therefore, they do not favor system suppliers but prefer the selective use of broker services in areas where they lack competence, which areas, of course, will vary from one customer to another. One IP summed it up neatly: “We do whatever we can by ourselves and only source services from the outside where it makes sense.” Another IP stated: “I have a problem which consists of various puzzle pieces. Every single piece is provided by the most capable partner.” In line with these business philosophies, customers increasingly expect brokers to conceptualize and design their services according to the customer’s needs and problems. A number of possible supporting services are outlined below in greater detail (see section “Selective Services”, pp. 11-12).

According to insurance companies, the coordination between broker, insurer, and customer is inefficient due to competition and a lack of trilateral communication. “In the future, we should always clearly arrange: Do we do it, does the broker do it or does the customer do it.” Where there are no clear task allocations with regard to core competencies, the responsibility for supporting services is often uncoordinated, which leads to redundancies and inefficiencies.
11. INTERNATIONAL RELATIONSHIP NETWORK

“\textit{The broker is our extended international workbench!}”

A broker’s global network of relationships is one of his or her greatest strengths, according to the interviewees. Companies with in-house brokers consider the implementation of risk management measures abroad as one of the most important tasks of an intermediary. Accordingly, several IPs said that they expect a “\textit{successfully operating network}” as well as “\textit{access to international network units or network partners}.” This particular attribute of a broker is considered so valuable because companies are not able to do everything on their own at the international level. They lack staff and the necessary know-how. Additionally, in contrast to in-house brokers, global broker companies possess the licenses required for doing business abroad. However, it is crucial to keep in mind that the broker only facilitates international business; it is the \textit{customer} who decides whether such is desired.

On the subject of brokers and global networks, one of the insurance company representatives had this to say: “only a few players in the market can afford to establish those international networks, because they, for example, require enormous investments in IT.”

With regard to brokers’ weaknesses, companies mentioned the cultural differences between the brokers’ regional business units as a major difficulty that often leads to misunderstandings and coordination problems.

12. INNOVATION

“\textit{The weakness of the broker is a God-given weakness: You talk to 30 different countries and accordingly to 30 different cultures. How can this possibly work out?}”

In addition to their roles as transaction executers and risk-management consultants, customers expect brokers to develop innovative products and services. For example, one of the IPs expects brokers “\textit{to be proactive, to think ahead and to provide innovative solutions besides traditional insurance products}.” As potential innovations they would like to see, customers mentioned new software tools or ART solutions. Even the insurers believe that innovations should be initiated by insurance brokers, and with good reason. Since the products and services are sold through the brokers’ distribution channels, brokers possess the relevant customer data necessary for customer needs analysis and thus for the creation of innovative ideas.
Brokers could do a better job of meeting this desire for innovation, according to both the customers and the insurers interviewed. One IP mentioned that he would wish for more suppliers that have the capability to provide “innovative software support” in the area of risk management.

13. **Selective Services**

Broker functions are most apparent in the provision of specific products and services. For this reason, the customers were asked to identify the most important services they expect from an insurance broker. The following were mentioned:

- identification, quantification, and evaluation of risks
- procurement, analysis, and forwarding of risk information
- evaluation of self-financing and insurance solutions, as well as execution of corresponding transactions
- provision of region-specific information
- administration of captives
- claims settlement
- training of employees in the area of risk management
- development of software tools
- provision of ART solutions

The companies also expect new and innovative services. It is thus crucial that all these services are tailored to the specific needs of customers.
14. IMPLICATIONS
14.1. Possible Functions of an Insurance Broker

The research reveals a demand for broker functions that vary according to the specific needs of each customer. The functions of an insurance broker are illustrated in Figure 1. The framework identifies four main broker functions that can be differentiated according to the degree of innovation on the vertical axis and the degree of individualization on the horizontal axis. The vertical axis represents the level of content; the horizontal axis constitutes the intensity of the broker-customer relationship.

The broker’s four future functions can be described as follows:

A broker acting as a supplier offers conventional services with a low degree of individualization. On the content level, the offered services show little complexity and the relationship between broker and customer is superficial and interchangeable. The offered services are capable of only minor adaptation to customer-specific circumstances but they nevertheless address market-relevant customer needs. A broker who does not offer tailor-made solutions therefore serves the market from a supply-
oriented perspective. The supplier function focuses mainly on executing transaction services and handling claims at very low cost.

The services offered by a broker fulfilling the function of a transformer are characterized by a low degree of individualization but—in contrast to the supplier—a high degree of innovation. A transformer focuses on being an innovative service provider, serving the market from a supply-oriented perspective. As a result of highly standardized but nevertheless innovative services, such as software solutions, the broker can address market-relevant needs at low cost. From a content perspective, a transformer provides innovative and complex services; from a relationship perspective, the broker possesses very little information on the specific needs of his or her customers.

The function of the partner involves a close relationship between a broker and the customer. The broker’s activities are driven by the needs of customers and their specific problems and not by the necessity to complete insurance deals. The intermediary offers conventional but highly individualized services, for example, tailor-made solutions of fairly low complexity (looking at the matter from a content perspective). This requires customer- and branch-specific know-how, as well as good personal relationships between brokers and customers worldwide. The research findings suggest a list of services that could be provided by brokers serving acting as partners:

- consulting services in the area of risk management
- implementation of customer-internal requirements abroad
- identification and quantification of risks
- evaluation of self-financing and insurance solutions
- provision of region- and branch-specific information
- procurement, analysis, and forwarding of risk information.

A broker could expand the partner function by becoming a global partner, especially if he or she has international network connections and meets certain requirements (e.g., licenses). Being a global partner requires excellent customer knowledge and a close interaction between the broker and customers. Even though these services are highly individualized, they possess a low degree of innovation.

The problem-solver function is an adaptation of the partner function. The services offered are highly individualized and, at the same time, innovative and complex.
Problemsolvers serve the market in a customer-oriented manner with tailor-made solutions that can be developed only through excellent customer knowledge and close relationships. This function offers brokers the opportunity of achieving competitive advantages in the market through new products, services, and business models. For example, in the area of alternative risk transfer (ART), a problemsolver should be able to manage the risk transfer of a company by coming up with alternative risk-coverage solutions based on a well-founded analysis and evaluation of the particular customer’s risks.

It is important to note, however, that particular broker services cannot always be neatly assigned to one of the four functions described above. The classification strongly depends on the individual circumstances of each analyzed constellation. Because consulting services possess various degrees of individualization and innovativeness, the framework represents a continuum with a broad spectrum of different feasible configurations on the levels of both content as well as relationship. When analyzing the function a broker performs for a specific company, the provided services must be examined as a whole, without focusing too much on isolated bits and pieces. The more a broker is integrated into the risk-management department of a company, the closer is the relationship between the intermediary and the customer and the more individualized the provided services will be.

14.2. Designation Criteria for Broker Functions

This section deals with customer-specific criteria with regard to the function that companies expect the broker to perform. First, the desired broker function depends on the sophistication of the internal risk-management division and on whether there is an in-house broker. The more sophisticated the internal risk-management division, the less support a customer needs. Companies with in-house brokers need intermediaries primarily for executing certain tasks abroad (e.g., transactions, consulting, risk-management services, etc.) and rely on brokers for support in areas where the company itself lacks competence. Companies without in-house brokers rely more extensively on broker services at home and abroad. In addition, insurance companies with captives often require individual captive-management services from brokers. Second, the nature of a company’s business has a great influence on the desired broker functions. Whereas some, such as the pharmaceutical or chemical industries, have very high risk exposures and accordingly need professional risk-management advice, other industries solve their risk-management issues without
external help. Last, the desired broker function always depends on individual circumstances and preferences, such as the risk disposition of a company.

14.3. Importance of the Different Functions in the Future

The continuously changing nature of the insurance industry has led to changing levels of importance for the four broker functions discussed in this article. In the past, the supplier function was of greatest importance to customers. Due to the increasing risk complexity and incessant emergence of new risks, the importance of consulting services has increased significantly. Companies expect tailor-made solutions with a high degree of individualization. As described in the research results, many companies highlight the increasing importance of personal relationships and innovative services. Therefore, a shift from the supplier function toward the partner or transformer function can be expected. Certain situations will call for a broker to become an innovative and highly customer-oriented problemsolver. The supplier function remains important, but it is no longer the most important function a broker can fulfill.

14.4. Consequences and Requirements

The findings reported in this article, and the discussion of them, point out that a broker’s adaptation to changing customer requirements is crucial for success. To offer outstanding consulting services, a shift from a product-oriented service to one that is customer oriented is necessary. The broker’s activity and the services he or she supplies need to be driven by the needs of consumers and their specific, individual problems, not by the necessity to complete insurance deals. According to the interviews, this requires, at the content level, insurance and risk-management-specific knowledge. At the relationship level, it requires customer and branch-specific know-how, as well as a good personal relationship between brokers and customers. With regard to the increasing importance of consulting services, it might be worth considering redesigning the reward system in the broker industry. The broker’s remuneration would ideally shift from a provision system toward a fee-based system. In this way, fees can be based on expense-, success- or project-oriented measures.

Due to the global business environment of most companies, brokers are expected to act as an international partner who can execute certain risk-management tasks abroad. However, this role is possible only if brokers develop specific regional knowledge. The great importance of a large international network may partially ex-
plain the current market consolidation of insurance intermediation. Considering that most customers will not use system suppliers, it is crucial to offer unbundled services to ensure individualized solutions. This can be achieved by offering a broad range of modularized high-quality services. In the future, a broker’s greatest challenge will be to offer unbundled and innovative services to reach the goal of individualization through modularization and standardization.

15. CONCLUSION

The results of 20 interviews with risk-management decisionmakers of multinational companies about their use of intermediaries highlight the importance of four main broker functions. Insurance brokers act as suppliers, transformers, partners, and problemsolvers. In summary, these findings illustrate that successful and customer-value creating brokers will need to move away from product-driven business models toward ones that are consulting-oriented. This will require an understanding of the client’s specific needs and issues instead of knowledge about generic market characteristics. Nevertheless, the supplying function is an important part of a broker's tasks, although consulting aspects are gaining ground rapidly.

Expanding the existing literature about financial intermediation, this study indicates that successful brokers also need to provide “social” or networking functions for their clients. Especially multinational companies value these functions by taking advantage of them for certain tasks.

Up to date, the customers' need for innovative tailor-made solutions is not met satisfactorily. As the interviews have shown, customers would appreciate a broker suggesting sophisticated, appropriate, proactive and innovative risk solutions, since he is in possession of all the relevant customer data. Customers expect from an insurance broker certain key services, such as provision of region-specific information or evaluation of insurance solutions, which should be new, innovative and tailored to the specific needs and circumstances.

This research focused on large, multinational organizations with highly sophisticated internal risk-management staffs. Additional research should be directed toward analyzing the broker’s role in other settings. Further investigations are also needed to understand the specific details highlighted in this article, especially the types of skills and talents appropriate for meeting the specific, individual needs of insurance customers.
# Appendix 1: Overview of Interviewed Person Characteristics

<table>
<thead>
<tr>
<th>Industry to which interviewed company belongs</th>
<th>Country where interview was conducted</th>
<th>Position of Interviewed Person (IP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>Germany</td>
<td>IP 1: Head of Corporate Insurance Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IP 2: Head of Corporate Insurance Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IP 3: Risk Manager</td>
</tr>
<tr>
<td>Building Materials</td>
<td>Germany</td>
<td>IP 4: Risk Manager</td>
</tr>
<tr>
<td>Chemical</td>
<td>Switzerland</td>
<td>IP 5: Head of Corporate Finance &amp; Insurance Services</td>
</tr>
<tr>
<td>PC, IT, Software</td>
<td>Germany</td>
<td>IP 6: Head of Corporate Insurance Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IP 7: Head of Global Risk Management</td>
</tr>
<tr>
<td>Energy</td>
<td>Germany</td>
<td>IP 8: Head of Corporate Insurance Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IP 9: Head of Corporate Insurance Services</td>
</tr>
<tr>
<td>Industrial, Diversified</td>
<td>Switzerland</td>
<td>IP 10: Head of Insurance Department</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IP 11: Head of Taxes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IP 12: Head of Corporate Insurance &amp; Risk Management Services</td>
</tr>
<tr>
<td>Logistics</td>
<td>Switzerland</td>
<td>IP 13: Head of Risk &amp; Insurance Management</td>
</tr>
<tr>
<td>Technology, Hardware, &amp; Equipment</td>
<td>Liechtenstein Germany</td>
<td>IP 14: Corporate Risk &amp; Insurance Manager</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>IP 15: Head of Corporate Finance, Subsidiaries &amp; Insurance Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IP 16: Head of Corporate Insurance Services</td>
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<tr>
<td></td>
<td></td>
<td>IP 17: Head of Corporate Insurance Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IP 18: Head of Corporate Financial Services</td>
</tr>
<tr>
<td>Sports Equipment</td>
<td>Germany</td>
<td>IP 19: Corporate Risk Manager</td>
</tr>
<tr>
<td>Textiles</td>
<td>Germany</td>
<td>IP 20: Chief Financial Officer</td>
</tr>
<tr>
<td>Insurance</td>
<td>Switzerland</td>
<td>IP 21: CEO Europe</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>IP 22: Head of Alternative Risk Solutions</td>
</tr>
<tr>
<td>Reinsurance</td>
<td>Switzerland</td>
<td>IP 23: Managing Director</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IP 24: Group Broker Coordinator</td>
</tr>
</tbody>
</table>
REFERENCES


