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How insurance brokers create value: a functional approach

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How insurance brokers create value: a functional approach

1. Introduction

Intermediaries in the insurance industry are currently facing various challenges. While they are obliged to meet the increasing expectations of their demanding customers, they nonetheless have to deal with old school insurers possessing little knowledge about the needs of insureds. In addition, inefficiencies in insurance markets were partially defused by the global emergence of modern information and communication technology. Theoretically, this would lead to a smaller demand for intermediation. However, other industry contextual changes, 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 brokerages. Therefore intermediaries play an important role in facilitating the exchange between consumers and providers of financial services and can increase added value above and beyond direct exchange. But, what is creating this added value?

Focusing on the relationship between brokers and insureds, the objective of this paper is to investigate the value added by insurance brokers to insureds considering today's challenging circumstances. Furthermore we investigate current and possible future functions of insurance brokers in the market. Our analysis is based on a functional perspective which focuses on the services provided by institutions - in our case insurance brokers (synonymously we use also the term insurance intermediaries) - such as managing risk or transferring resources across time and space (Merton and Bodie, 1995). We analyze broker functions from a customer point of view: What functions do (should) brokers fulfill for industry companies? By choosing a "functional perspective" rather than an "institutional perspective", which focuses on the activities of existing institutions such as insurance companies or brokers, we are following the argument of Merton and Bodie (1995 and 2004). That is a financial system should be analyzed in terms of a functional perspective. The argument in favor of the functional perspective is that over long periods of time, the stability of functions has been much greater than that of institutions. Especially during the last years, institutions emerged and disappeared, evolved and changed, while functional needs abide just packaged differently and delivered in substantially different ways (see also Allen and Santomero, 1998). Oldfield and Santomero (1997) argue due to the constancy of functional needs that financial services are more stable than

either the institutions that provide services or the specific products, which are offered to satisfy customer requirements. "The financial services may be packaged differently both across competitive institutions and over time, but the functions are far more stable." (Allen and Santomero, 1998, p. 1466)

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

2. Theoretical context

2.2. Financial intermediaries

Traditionally, market imperfections, such as asymmetric information and transaction costs, have interpreted as the requirement for financial intermediaries and resulted in the emergence of financial intermediaries (Allen and Santomero, 2001; Freixas and Rochet, 1997). How central such imperfections are to the intermediation literature of the past two decades show the two major reviews of intermediation theory by Santomero (1984) and Bhattacharya and Thakor (1993). During the same time period, new developments e.g. new technologies and globalization, resulted in a significant reduction in the price of information, transaction costs and asymmetric information. However, this has not lead 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 else that is relevant for financial intermediation. 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 researcher (e.g. Allen and Santomero, 1998 and 2001; Scholtens and van Wensveen, 2000; Schmidt, Hackethal and Thyrell, 1999) propose to broaden the focus of intermediation theory in order to understand why modern intermediaries exist. Allen and Santomero (2001) argue that in order to understand the changing world of financial intermediation, theory of intermediation needs to stress risk trading, risk management and participation costs as the key reasons for the existence of modern intermediaries.

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 available with regard to insurance intermediation with the exceptions of Dionne (1991) and Cummins and Doherty (2005). Adopting a functional approach we next analyze the existing financial intermediation literature in order to identify functions of insurance intermediaries. These functions will then explain the existence and the relevance of insurance intermediaries in the market. We distinguish hereby three sets of players in insurance markets: the provider of insurance (e.g. insurance and reinsurance companies), the insurance intermediaries and the potential consumers of insurance with various degrees of risk aversion underlying their demand. We look at those customers who are professional insurance customers. These customers are companies usually with own insurance departments and a profound knowledge of the market in which they interact with intermediaries. For the purpose of this discussion our definition of an insurance intermediary is based on that of Cummins and Doherty (2005, p. 5). They define an insurance intermediary “as an individual or business firm, with some degree of independence from the insurer, which stands between the buyer and seller of insurance”. Independent insurance brokers are described as “intermediaries who bring the parties together and match particular needs of policyholders with the products of insurers”. They facilitate therefore the interaction between providers and consumers in exchange for some form of remuneration.

Based on a literature review the following central functions of insurance intermediaries - especially insurance brokers - were identified:

- *Information function:*

A traditional function of insurance brokers is to provide their clients with information and advice according to their insurance needs. Through economies of scale and scope they search the insurance market more efficiently than individual buyers, and help their clients compare the insurers' skill, capacity, risk appetite, financial strength, reputation to underwrite and help their clients select from competing offers to cover their risks (Cummins and Doherty, 2005). However, brokers also provide an informational function to insurers. During the matching process, insurance brokers can typically acquire or process more information about their clients' level of risk than would be accessible to insurers (Sirri and Tufano, 1995). This valuable information can be provided to insurers, helping them to solve problems related to asymmet-

ric information (Strong and Walker, 1987), such as adverse selection and moral hazard. This 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, such information is particularly important 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). Brokers provide and solicit information on customers and insurance companies. As they rely on long-term relationships, brokers have a strong incentive to ensure that the market transactions are completed 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. Through its information function, insurance brokers help customers to search intelligently across insurers. Therefore they contribute to increased transparency and stimulate competition in the marketplace (Cummins and Doherty, 2005). On the other hand small- and medium-sizes companies - customers - may have significantly less bargaining power in negotiations with large insurance companies. By leveraging their business volume with individual insurance carriers, broker are able to obtain better terms and conditions for their clients, thus dealing with 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 not allow them to be insured by a single company. In this context, the broker has a pooling or aggregation function (Merton and Bodie, 1995), identifying multiple insurers who are prepared to take on the various shares of the coverage. This usually leads to a complex negotiation process in which coverage design, pricing, and ultimate business placement are agreed on.

- *Reduction of participation costs:*

Allen and Santomero (1998) suggest that participation costs are important to understand modern intermediaries and their new role. Hereby participation costs include much more than simply the time involved in making financial decisions. These authors understood these costs as the problems associated with acquiring and using expertise (Allen and Santomero, 2001).

This is for firms - especially for international operating firms - relevant as the level of sophistication and specialization required to execute complex risk trading and risk management operations is very high. But also for small and medium sized companies with little or no expertise in the field of risk and insurance, the broker function "reduction of participation costs" is growing in significance in a fast moving and changing environment.

- *Service function*

Brokers assume service functions helping their clients to deal efficiently with the increasingly complex variety of financial instruments and markets, which is closely linked to the reduction of participation costs. Especially the service "risk management" plays a central role in the financial intermediation process (Merton and Body, 1995; Allen and Santomero, 1998; Scholtens and van Wensveen, 2000). But also additional services such as claim settlement, captive management, risk modeling, and risk trading were defined in the literature (see e.g. Allen and Santomero, 2001) as important reasons for the existence of insurance intermediaries.

2.2. Limitations of current intermediation research

During the last few years the focus of intermediation theory has been significantly extended. However the central functions of insurance intermediaries identified all have one thing in common: the focus is only on economic functions. Other non-economic functions like social or technical functions have not yet been accounted for in the literature. Social functions play an important role, especially in the broker-customer relationship, and even the technical functions of brokers are becoming more and more relevant e.g. in case of exchange platforms or IT service tools. For example Allen and Gale (1997) point out, 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 with long term relationships. The trustworthiness and independence of intermediaries, personnel relationships and trust may take over important functions in a broker-customer relationship especially in long term relationships. However such social functions depend very much on individual customer needs and expectations. This leads to a second limitation of current intermediation research. The acknowledged research focuses on the general concept of intermediation which describes or develops products and services from a supply-oriented view. But what functions brokers with their services and products perform from a customer point of view has been ignored in research. To fill this research gap this paper extends the perspective of insurance intermediation

by including the customer perspective regarding relevant and future functions of insurance brokers. The theoretical concept of customer value is an approach which identifies and analyzes such functions from a customer perspective.

2.3. Customer Value

In recent years firm strategies and marketing research has focused on the identification, creation and delivery of value to customers. Marketing managers are pushed 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). These strategies require managers and researchers to find answers to two key questions of customer value research: “What is creating value for customers?” and “How can companies create and deliver customer value?”

Some progress has been made in understanding how and what customers value. Typically customers may value many aspects of an exchange, which may involve a service, product, store, brand or personal interaction with a salesperson (e.g. Zeithaml, 1988; Holbrook, 1994; Lai, 1995; Flint, Woodruff and Gardial, 2002). The ideas of how to conceptualize and model customer value vary widely. Thus, one will find a multitude of different models, concepts and definitions in the literature. Relevant perspectives of value can be classified regarding their level of abstraction: values, desired and perceived customer value (see Table 1).

	Values	Desired Value	Perceived Value
Definition	Implicit beliefs that guide behavior	What customer wants to have happen (benefits sought)	Assessment of what has happened (benefits and sacrifices)
Level of abstraction	Abstract, centrally held, desired end-states, higher order goals	Less abstract, less centrally held, lower order goals, benefits sought to facilitate higher order goal achievement	Overall view of trade-offs between benefits and sacrifices actually received
Locus or source of	Specific to customer (person or organiza-	Conceptualized interaction of customer, prod-	Interaction of customer, prod-

value	tion)	uct/service and anticipated use situation	uct/service, and a specific use situation
Relationship to use	Independent of use situations	Independent of use specific experience	Dependent on specific use experience
Permanence	Enduring	Moderately enduring	Transient over occasions

Table 1: Three forms of value (Flint, Woodruff and Gardial, 1997, p. 168)

- *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/service and the associated sacrifices, taking into consideration the available alternative suppliers' offerings in a specific use situation (Zeithaml, 1988; Monroe, 1990; Butz and Goodstein, 1996; Hogan, 2001; Eggert and Ulaga, 2002).

- *Desired customer value*

A growing number of authors support means-end models assuming a hierarchical relationship of product or service attributes, effects of these attributes, which are produced through consumption, and 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 main assumption of this theory is that customers choose actions that produce desired effects and minimize undesired effects (Peter and Olson, 1990). In order to consolidate diverse definitions of desired customer value Woodruff (1997, p. 142) defines: "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 our article “desired value” is most important for identification and analysis of possible future functions of insurance brokers. Desired values can be seen as expected functions that brokers should fulfill from a customer's point of view. Furthermore, the authors suggest that the legitimacy of existence of insurance brokers highly depends on their ability to create customer value in comparison with the direct product retailing of insurance companies. The possible future functions of insurance brokers presented in this paper should therefore be evaluated in terms of their ability to create the highest possible value for their customers.

3. Research methodology

The purpose of this study is to identify and analyze how insurance brokers create value for industrial companies and what in this context the broker's function is. As both questions are dealing with issues of a relatively new field of research - customer value research - a qualitative approach was chosen to explore this phenomenon. Qualitative research is an excellent tool to gain deep insight into the nature of constructs and their role in theoretical models rather than to test theory (Yin, 1994; Easterby-Smith, Thrope and Lowe, 1991), making qualitative research an excellent tool for this investigation.

3.1 Sampling

In order to cover a broad range of possible broker functions and added values from a customer perspective, we interviewed business customers in different industries and evaluated responses. We focused on internationally operating industrial companies employing external insurance broker services. 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. Selecting appropriate companies and participants within these companies was therefore an important part of the research process. Companies and its participants were selected based on the following criteria:

- The company has a turnover above € 1.5 billion.
- The company has an international orientation and owns overseas branches.
- The company buys in risk related services from an insurance broker.

- The companies' participant is an influential decision maker involved in purchasing "risk"-services or products from insurance broker.

The sample of business customers consisted of 20 managers from 20 globally operating and stock listed (DAX100 or SMI) companies (see Appendix 1). The selected participants were from companies the following industries: automotive, chemical, building materials, IT-technology, construction technology, technology (hardware and equipment), software, energy, logistic, metal-processing, mechanical engineering, sports equipment, and textiles. The participants had titles such as Head of Corporate Insurance Services, Risk Manager, Chief Financial Officer, Head of Corporate Financial Services, Head of Global Risk Management or Head of Taxes.

In addition to this sample, a second small sample of managers from insurance and re-insurance companies was selected. From a broker perspective, insurance and re-insurance companies can be considered on the one hand as suppliers of insurance products and services. On the other hand, they are competitors of insurance brokers, e.g. in the area of risk management or as specific information providers. In order to verify the results of customer interviews and also to compare the customer perspective with supplier and/or broker competitor perspective, a group of four - two insurance and two re-insurance - top-managers (with titles Managing Director or CEO) of leading international companies were selected.

3.2. Qualitative data collection

Data was gathered in German speaking countries through individual in-depth interviews. A list of research questions based on the research objectives was drawn up and used as an interview guide in a series of semi-structured in-depth interviews. The interviews were conducted at the participant's workplace to preserve the context. Each interview lasted approximately 1-1 1/2 hours and was audiotaped and verbatim transcribed.

The customer questionnaire was designed to analyze four main areas of interest: First of all, participants were requested to describe what functions insurance brokers should fulfill in the near future. In a second step, they were asked, generally, what values do insurance brokers provide for them. Thirdly, the interview tried to evaluate what concrete risk management and

risk finance services the companies expected from brokers. Finally, the research analyzed the current strengths and weaknesses of insurance broker services and compared them with the previously identified customer expectations. For the interviews with the insurance and re-insurance participants were asked the following: What is your opinion regarding

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

4. Results

The questioning of current and potential broker customers led to a number of results, which were verified through a complementary analysis of the insurance companies' views on intermediaries. This section presents the insights won through the interviews in a structured and condensed way. In summary, four consistent key issues concerning the desired broker's future functions are mentioned and discussed. The customers of intermediaries expect brokers to offer professional consulting services, risk management support, international relationship networks and innovative solutions, all of which are outlined below.

4.1. Consulting

Terrorism, new technologies, globalization, deregulation, liberalization and frequent law suits have increased the complexity and importance of risk management, especially for multinationals. Accordingly, the interviews illustrate 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 the broker's future services. An IP mentioned in this context, that "the future of the broker lies in consulting"¹. Likewise, the interviews with leading insurance companies produced similar results, reassuring the increasing importance of consulting services offered by brokers.

As a first consequence, the interviewed companies emphasize the importance of close relationships between brokers and their customers and therefore demand a high customer orientation and customer-specific services, respectively "tailor made solutions", as described by several IP's. Additionally, several IP's highlighted the importance of empathic and competent personalities as well as the corresponding personal relationships to them when selecting a

¹ All of the following statements were translated into English.

broker out of a number of potential business partners, because “risk-management issues are always very person-oriented matters”.

„It is always about personal things“.

In this context, the analysis of the present situation shows that brokers only possess superficial customer information and insufficient branch knowledge. Their strategy is often sales-driven and is focused on insurance solutions instead of customer orientation. Therefore brokers currently are unable to offer services originating from companies’ needs. An IP commented on this situation as follows: “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. All the broker’s activities are still very distribution-oriented.” Additionally, the IPs regard broker’s knowledge of risk management as insufficient with respect to their consulting function.

Due to the increasing importance of consulting, customers generally accept or even demand fee-based services in order to accurately charge a broker’s performance reducing the prevalence of sales-driven business models and to increase transparency. Even insurance companies prefer fee based services since it allows a clear division of tasks between insurers and brokers.

Nevertheless, the traditional intermediation of insurances remains crucial. One IP, for example, perceives “the efficient settlement of insurance transactions” still as the broker’s future core activity. Certain companies even solely rely on broker’s competencies in insurance transactions and formally refuse consulting services. Also the market power of brokers still remains an important feature to negotiate cheaper prices for customers. Here important broker strengths can be found. Thereafter, the IPs praise brokers’ skills in executing transactions, their good insurance know-how and market knowledge.

4.2. Support

Even if the specific competencies of brokers become more important, companies do not favor the delegation of decision-making since risk-management constitutes a sensitive strategic issue and a core competence of every business. According to an 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”. The consequence of this construal is that the broker is an execution agent.

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

Nevertheless, companies highly depend on brokers' support in the decision-making process and expect brokers to enhance their problem solution capability. On the one hand the broker fulfills a relieving function and on the other hand they are often contacted for a second opinion on certain issues to validate the appropriateness of customers' decisions. After all, one IP mentioned that „four eyes do see more than two“. Generally, customers value the broker highly as an independent and neutral business partner. Looking at this issue from the supply side, insurances highlight the intermediaries' neutrality as a very valuable feature:

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

Furthermore, most companies are not willing to fully integrate the intermediary into their whole risk management process in order to preserve their independency and to keep know-how as well as business secrets in-house. Therefore, they do not favor system suppliers but prefer the selective use of broker services in areas of lacking competencies which obviously vary from one customer to another. An IP described this matter as follows. “We do whatever we can by ourselves and only source services from the outside where it makes sense.” In addition, another statement of an IP can be used to exemplify the matter: *“I have a problem which consists of various puzzle pieces. Every single piece is provided by the most capable partner.”* In analogy to what has been explained above, companies expect brokers to increasingly conceptualize these services according to the needs and problems of customers. A number of such possible supporting services are outlined below in greater detail (section 4.5).

“An enterprise of our size has very distinct requirements. We do not want brokers to match existing solutions to our problems. Instead, we expect them to analyze the situation and the problems involved and to come up with appropriate and sophisticated services and solutions”.

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.

4.3. International relationship network

Multinationals highly value the brokers' global network of relationships which constitutes one of the major strengths of insurance brokers. Especially companies with in-house brokers consider the implementation of risk management measures abroad as one of the most important tasks of brokers. An IP defined the broker as an „extended international workbench“. Accordingly, several IPs expect a “successfully operating network” as well as “access to international network units or network partners”. The reason for this particular perception of the broker's function is that companies are not able to do everything on their own on an international level. They lack staff and the necessary know-how. Additionally, in contrast to in-house brokers, the global broker companies possess the broker licenses that are required for doing business abroad. Nevertheless, it is crucial to mention that brokers only execute international concepts whereas the conceptualization and decision making remains a core task of the customer. According to insurance companies there is one important thing to say about international networks.

“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 mention the cultural differences between the brokers' regional business units as a major difficulty which often leads to misunderstandings and coordination problems. An IP described the problem in the following way:

“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?”

4.4. Innovation

In addition to their role as transaction executors and risk-management consultants, customers expect brokers to develop innovative products and services. An IP, for example, expects brokers “to be proactive, to think ahead and to provide innovative solutions besides traditional insurance products”. As potential innovations customers mentioned new software tools or ART solutions. Even the insurers share the notion that innovations should be initiated by insurance brokers. Since the products and services are sold through the brokers' distribution channels, they possess the relevant customer data necessary for customer needs analysis and

thus for the creation of innovative ideas. One insurance executive described it in the following way:

“I would expect brokers to be more innovative, also with respect to products. They are the ones that possess the best access to customer data.”

According to the statements of customers as well as insurers, brokers still lack of innovation . One IP mentioned that he would wish for more suppliers who have the capability to provide „innovative software support“ in the area of risk-management.

4.5 Selected services

During the interviews the customers were asked to identify the most important services they expect from an insurance broker. In terms of specific needs, the following possible services 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 the 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

In addition, the interviewed companies also wish for new and innovative services. Thereby it is crucial that these services are tailored to the specific needs of customers.

5. Implications

5.1. Broker functions

The research results reveal a demand for different broker functions that vary according to the specific needs of each customer. The possible functions of an insurance broker can be illustrated and structured as follows. The developed framework identifies four main broker func-

tions that can be differentiated according to the degree of innovation on the vertical axis and the degree of individualization on the horizontal axis (see Figure 1). Whereas 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 characterized by minor adaptations to customer-specific circumstances but they nevertheless address market-relevant customer needs. A broker that 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 costs with the pertinent market power.

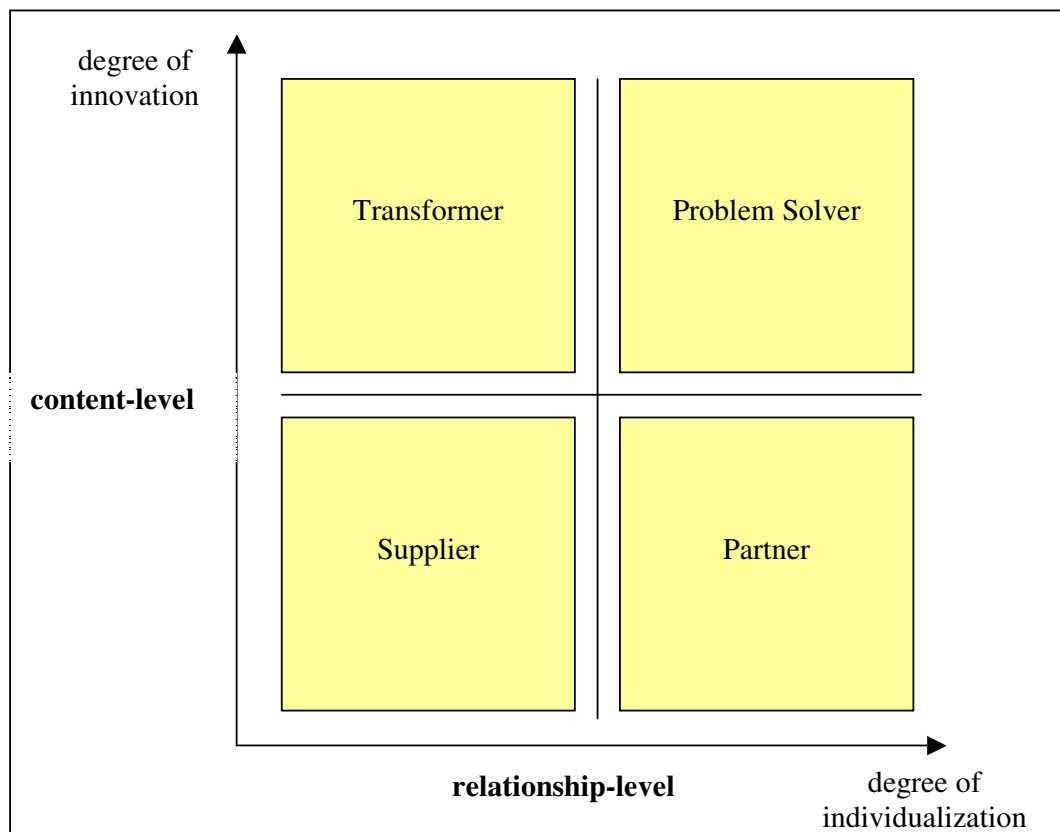


Figure 1: Possible functions of an insurance broker

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 positioning itself as 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 costs. From a content perspective, a transformer provides innovative and complex services, whereas from a relationship perspective, the broker possesses very little information on the specific needs of its customers.

The function of the *partner* highlights the close relationship between a broker and its 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, i. e. 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 results suggest a list of possible services that are provided by brokers serving the market as partners:

- consulting services in the area of risk-management
- implementation of a 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.

In general, various consulting services and coordination tasks in an international network can be regarded as broker's most important services when fulfilling the function of a partner. All the provided services require excellent customer knowledge and a close interaction between brokers and customers. Even though these services are highly individualized, they possess a low degree of innovation.

The *problem solver* function constitutes an adapted model of the partner function because the provided services are highly individualized and at the same time very innovative and complex in nature. Problem solvers serve the market in a customer-oriented manner with tailor-made

solutions which can only be developed through excellent customer knowledge and close relationships. This function offers brokers the opportunity of achieving competitive advantages in the market through new business models. For example, in the area of Alternative-Risk-Transfer (ART), a broker should be able to manage the risk transfer of a company by elaborating alternative risk coverage solutions based on a well-founded analysis and evaluation of risks.

On an overall level it is important to remark, however, that particular services cannot always clearly be assigned to one of the four described broker functions. The classification strongly depends on the individual circumstances of each analyzed constellation. Since consulting services possess various degrees of individualization and innovativeness, the framework represents a continuum with a broad spectrum of different 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 have to be examined as a whole without focusing too much on isolated parts of it. The more a broker is integrated into the risk-management department of a company, the closer the relationship between the intermediary and its customer is and the more individualized- the provided services are.

5.2. Designation criteria for broker function

This section deals with customer-specific criteria with regard to the function that companies expect the broker to perform. Firstly, the desired broker function depends on the sophistication of the internal risk-management division and on the existence of an in-house broker. The more sophisticated the internal risk-management division of a company is, the less support a customer needs. Companies with in-house brokers need brokers primarily for the execution of certain tasks abroad (e. g. transactions, consulting, risk-management services, etc.) and rely on their support in areas of lacking competencies. Companies without in-house brokers rely on broker services at home and abroad. In addition, insurance companies with captives require individual captive-management services from brokers. Secondly, the nature of a company's business has a great influence on the desired broker functions. Whereas industries, such as the pharmaceutical or chemical industry, have very high risk exposures and accordingly need professional risk-management advice, other industries solve their risk-management issues without external help. Lastly, the desired broker function always depends on individual circumstances and preferences such as the risk aversion of a company.

5.3. Developments in insurance markets

A continuously changing environment in the insurance industry leads to the incongruent importance of the four illustrated broker functions. In the past, the supplier function was of greatest importance to customers. Due to the increasing risk-complexity and incessantly emerging 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 towards the partner or transformer function can be expected. In certain constellations, a broker can even establish himself as an innovative and highly customer-oriented problem solver. The supplier function remains important but it does not take up a dominant position.

5.4. Consequences and Requirements

With respect to the interview results and the discussed developments, the brokers' adaptation to the changing customer requirements is crucial. To offer outstanding consulting services, a shift from a product-oriented transaction intermediary to a customer-oriented service provider is necessary. The broker's actions and behavior and especially the supply of services are preferably driven by the needs of customers and their specific individual problems and not by the necessity to complete insurance deals. According to the interviews, this requires insurance and risk management specific knowledge on the content level. On 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 is worthwhile to consider redesigning the reward systems in the broker industry. The remuneration of a broker's services ideally shifts from a provision system towards a fee-based system. The 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, which executes certain risk management tasks abroad. This can only be ensured if brokers develop specific regional knowledge. The great importance of a large international network may partially explain the current market consolidation for insurance intermediation. Considering that most customers refuse system suppliers, it is crucial to offer unbundled services to ensure individualized solutions. This can be achieved through a broad range of modularized high quality services. In the future, the greatest challenge will be to offer unbundled and innovative services to reach the goal of individualization through modu-

offer unbundled and innovative services to reach the goal of individualization through modularization and standardization.

6. Conclusion

Depending on the sophistication of the internal risk-management division and the existence on in-house brokers, brokers fulfill four main functions for their customers. They can act as suppliers, transformers, partners or even problem solvers. Hereby, the innovative and tailor-made solutions become more and more important. Brokers can only remain competitive if they pursue customer-oriented strategies that create customer value by redesigning their current business models. In general, the broker's shift from a supplier to a partner, transformer and sometimes problem solver can be observed with an ongoing importance of the supplier function. The results show that also non-economical functions especially social functions have a significant relevance for brokers' function in the marketplace.

This study focuses on a relatively small number of globally operating companies therefore the significance of the results is limited. If the outlined challenges are just as relevant for other types of companies, still need to be investigated. Whereas this article explained the importance of the customer value concept and social functions for the intermediation in the insurance industry, future research is needed in order to fully utilize the outlined potential. Since this paper only gives an overview on the future functions of brokers, there is a need to add depth to the empirical knowledge about how insurance intermediaries are able to create customer value.

Appendix 1: Overview of interviewed persons

Industry to which interviewed company belongs	Country where interview was conducted	Position of Interviewed Person (IP)
Automotive	Germany	IP1: Head of Corporate Insurance Services IP 2: Head of Corporate Insurance Services IP 3: Risk Manager
Building Materials	Germany	IP 4: Risk Manager
Chemical	Switzerland	IP 5: Head of Corporate Finance & Insurance Services
PC, IT, Software	Germany	IP 6: Head of Corporate Insurance Services IP 7: Head of Global Risk Management
Energy	Germany	IP 8: Head of Corporate Insurance Services IP 9: Head of Corporate Insurance Services
Industrial, diversified	Switzerland	IP 10: Head of Insurance Department IP 11: Head of Taxes IP 12: Head of Corporate Insurance & Risk Management Services
Logistic	Switzerland	IP 13: Head of Risk & Insurance Management
Technology, hardware & equipment	Lichtenstein Germany	IP 14: Corporate Risk & Insurance Manager IP 15: Head of Corporate Finance, Subsidiaries & Insurance Services IP 16: Head of Corporate Insurance Services IP 17: Head of Corporate Insurance Services IP 18: Head of Corporate Financial Services
Sports equipment	Germany	IP 19: Corporate Risk Manager
Textiles	Germany	IP 20: Chief Financial Officer
Insurance	Switzerland Germany	IP 21: CEO Europe IP 22: Head of Alternative Risk Solutions
Re-Insurance	Switzerland	IP 23: Managing Director IP 24: Group Broker Coordinator

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