Blue Company Project

SME commercial business case

March 2013

Content

The opportunity

- **Wholesale Managing Agent for small intermediaries offering a combined insurance package in the SME segment**
  The establishment of a platform in the form of a wholesale managing agent (Blue Company - 'BC') for small insurance intermediaries. BC combines simplified specialty insurances with mainstream insurances to be provided to the business client base of small insurance intermediaries (and possibly of small accountant firms and banks) which are predominantly Small and Medium Sized Enterprises (5 - 50 employees). The BC insurance package will bridge the gap between exposures of SME's and current insurance offering to in this market segment.

- **Aligning exposures with product offering**
  The idea behind the opportunity is to provide a more comprehensive offering to SME's compared to the present offering, current mainstream packages being incomplete leaving SME's with uninsured exposures.
  These uninsured exposures could be covered by various specialty insurances but these are perceived by SME's and small intermediaries to be too complicated and too expensive. By simplifying specialty insurances, by adopting a portfolio approach and by combining specialty insurances with mainstream insurances these obstacles will be overcome and a new market be created.

- **Product and market development**
  Although this opportunity in principle involves various specialty insurances (such as Trade credit, D&O, CAR, Cyber, ..) and is designed for international expansion into mature insurance markets, the *financial business case* is based on the provision of credit insurance combined with property-, general liability- and motor insurance) in The Netherlands. The objective is therefore to start with a SME insurance package combining simplified credit insurance with mainstream insurances in The Netherlands and gradually expand the offering towards other simplified specialty insurances and other countries.

Trends and market developments creating the opportunity

- **General market trends**
  - Customers expect greater product simplicity, accessibility and convenience
  - Supply side: adjustment of 'luxury goods' to make them accessible to the middle classes thus creating new product types situated between mass products and luxury products referred to as 'mass luxury'
  - Growing importance of the network economy where value is created by the members of informal and open networks rather than within the closed environment of one individual company

- **Insurance markets: focus on cost efficiency, economies of scale and operational excellence**
  - Product portfolio's are rationalized, products standardized, processes are streamlined
  - Bespoke approaches and specialty products are becoming less important to the larger market players
  - Market players are restructuring and reorganising

- **Insurance market player's show changing behaviour**
  - **Customers**
    Business clients show increased cost awareness and require transparent, performing and 'easy' solutions while continuing to appreciate a personalized approach.
  - **Insurance intermediary**
    Brokers experience margin pressures due to increased operational cost, increased competition in non-life markets (also from direct writers), insufficient perceived added value, economic down turn combined with soft insurance markets and new regulation impacting their business models. The larger brokers need to improve their performance, especially in the field of operational excellence and reorganizations are in progress or planned. Small brokers have based their models on customer intimacy and operational excellence which are increasingly challenged by other market players such as large brokers and direct writers.
  - **Managing Agents**
    Insurers are challenging the market positions of Managing Agents who will need to evolve from efficiency focused to innovation focused in order to survive. Independent intermediaries (top 100 of intermediaries own managing agents) are under increased regulatory pressure to separate both broker and Managing Agent activities.
  - **Insurers**
    Insurers have an increased focus on operational excellence and marketing of (commoditised) products via direct channels challenging the market positions of managing agents and small brokers

Underlying assumptions

1 - target segment: SME segment has great market potential for specialty insurance

- **In the Netherlands 90.000 SME’s are potentially interested in a SME package including credit insurance**
  - Total number of companies 5-50 staff 2012 : 88.555
  - Total number of companies 50-100 staff 2012: 5.355
- **The penetration of credit insurance in the SME market segment is relatively low compared to the penetration of credit insurance in the large corporate segment**
  - 'Estimates suggest that credit insurers have penetrated just 20% of their potential (SME) market. (In Europe) only 2% of small enterprises use credit insurance, as opposed to 30% of large enterprises.' (Source Swiss Re; Sigma 6, p.24/25)
  - In the Netherlands 5.000 small companies (<50 staff) out of 107.000 were credit insured which means a market penetration of less than 5% whereas 340 large companies (>1.000 staff) where credit insured out of 1.260 (27%).
  - Research 2008
    - 8% of companies between 10-20 staff and 12% of companies between 20-50 staff are credit insured in The Netherlands.
    - In 2013 it is estimated that the actual penetration of credit insurance in the SME segment is estimated around 4% rather than 8/12%
- **SME’s are particularly vulnerable to non payment risks (compared to large corporate firms)**
- **25% of Dutch companies with < 50 staff are exporting companies**
- **SME's being credit insured have easier access to finance compared to SME's which are not credit insured (credit insurance is often pledged to banks and factor companies)**

Underlying assumptions

2- product attractiveness: simplifying credit insurance and other specialty insurances will increase its market potential

- **Obstacles that prevent SME's from buying 'traditional' credit insurance**
  - top 5 of obstacles to buy credit insurance
    - too expensive
    - inappropriate cover (perception mainly due to lengthy and difficult claims process)
    - involves too much admin/reporting (complicated procedures)
    - Poor insurance image
    - use of other credit services (substitution)
- **Also**
  - SME's often lack the necessary resources for the preparation, conclusion and follow-up of contracts as complex as those for credit insurance
  - Education and marketing of the credit insurance product are important barriers that credit insurers face in expanding the use of credit insurance
  - Administration costs are higher than in most other classes of insurance. Traditional credit insurance underwriting implies labor intensive procedures for the issue of policies and the collection, maintenance and analysis of the buyer, sector and country information (and, especially the high IT costs associated with this) and the costs involved in loss minimization and recovery work

- **Changing the traditional approach towards credit insurance creates new opportunities**

  Based on research, a condition for success in the SME segment is an adjustment of the classic credit insurance product to the needs of the SME's.

  Obstacles that prevent SME's from buying credit insurance can be removed through
  - Simplification of the product
  - A swift and easy claims process
  - A portfolio approach

Underlying assumptions

3 – distribution: small intermediairies and banks (and alternatively small accountancy firms) are the most important distribution channel for non life insurances to the SME segment

- **Number of small intermediaries in The Netherlands (2012)**
  - 5-20 staff: 965
  - 50-100 staff: 125

- **The majority of SME's buy their non life insurance products through intermediary channels and not directly from insurers/managing agents; SME's require a personalized approach**
  - 80% of non life premium is distributed through intermediaries
  - Survey Intomart/Gfk in 2010 (focus SME's)
    - Q: in which manner you would contract in general your business insurances?
      A:
      - 33% via independent intermediary
      - 17% via agent of the insurer
      - 18% via their bank
      - 8% via their accountant
    - Q: how would you contract your business insurances?
      A:
      - 63% through a personalized meeting

- **Regarding business clients, small intermediaries are particularly focused on SME's.**
  Small intermediaries (5-20 staff) and banks have a dominant position in the SME market segment (5-50 staff) with regard to non life insurance products. Reasons: proximity, customer intimacy, local networks

- **Small intermediaries are not an important distribution channel for credit insurance (therefore large market potential)**

- **Margins of small intermediaries are under pressure: competition of direct writers, transparency of remuneration, economic downturn, increased regulation. Expanding and improving their product range will help them to retain their existing clients.**

Underlying assumptions

4 –competitor analysis: mainstream and specialist insurers; Managing Agents

- **The combined Blue Company insurance package cannot be offered by insurers as mainstream insurers do not offer credit insurance and credit insurers do not offer mainstream insurances and applied combined knowledge is rare.**
  - Limited number of licenses credit insurance in The Netherlands
  - The Dutch (and global) credit insurance market is dominated by Atradius, Coface and Euler Hermes with a market share in excess of 80%

- **Insurers are in general not active in both specialist and mainstream markets**

- **Credit insurers have a distribution problem and are looking for ways to expand in the SME segment**
  - Credit insurers label the SME segment as an important strategic objective to achieve growth and are actively exploring the opportunities

- **Managing agents do not offer credit insurance**
  - 334 managing agents operate in The Netherlands (2011). They account for 26% of non Life premium
  - Main classes of business MA: Motor (‘Motorrijtuigen’: 34% of premium); Property (‘Brand’: 17% of premium), Transport (6% of premium)

Financials

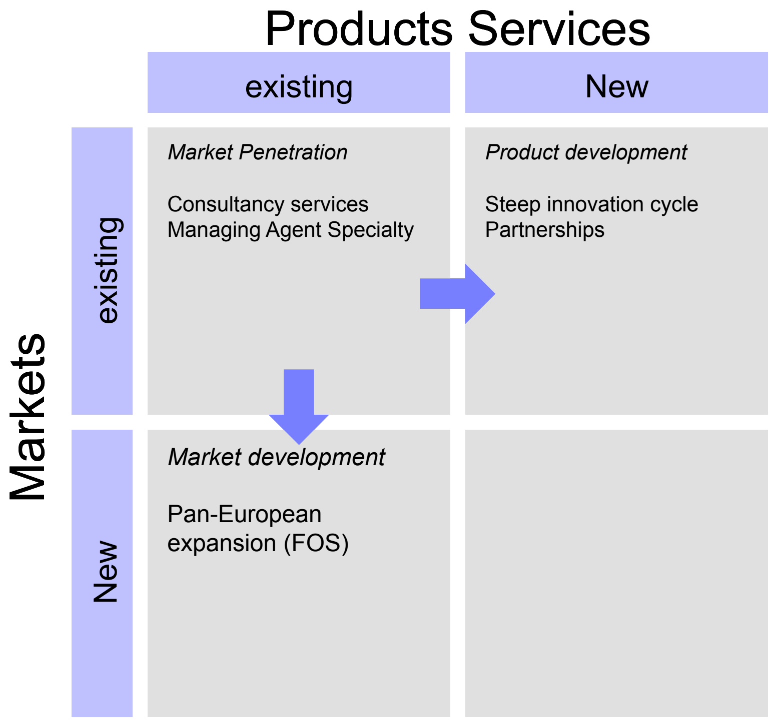
Available upon request

Value proposition

- **Opportunity for low investment Market expansion or entry in the Netherlands with distinctive value proposition and no legacy**
- **Time to market / innovation**
- **Designed for rapid pan-European expansion (mature insurance markets)**

In order to be successful within a short period we need:

- **A solid partner with ambition to expand in Europe**
- **Start up funding with a window of 3-5 years**
- **An existing and tested Managing Agent practice**



Market attractiveness

- Specific (scarce) expertise required
- Combination of organisational capabilities
- Relationships with brokers
- (local) niche markets

threat of new entrants

- Limited credit (or specialty) expertise available
- Traditional distribution
- Bank-assurance
- Market share credit insurers
- High level of competition on mainstream products
- Distinctive positioning required

competitive rivalry

- Limited number of credit insurers
- Distribution management
- Success rates and exclusivity
- Internal product development
- Operational efficiency
- Loss Ratios

bargaining power of suppliers

bargaining power of Buyers

- Limited/no availability of customised solutions
- Break up of existing relationships
- Transparency and cost-efficiency
- Availability of attractive substitutes
- Bank requirements
- Potential affinity solutions

threat of substitute solutions

- Risk management tools and software
- Contract management
- Factoring

Competitive advantage (over insurers, specialised and large brokers, managing agents)

- Complements value proposition of small brokers with specific expertise and customised solutions for specialty insurance
- Offers speciality solutions in retail environment to SME, currently not offered by the industry
- Unique position in the value chain as both supplier and consultant
- Inimitability due to combination of expertise and independent market positioning, steep innovation cycle and time to market
- Minimal risk of capability substitution due to high entry level and market developments

Positive force supporting strategic goal
Potential negative force, requires specific attention
Negative force, risk for strategic goal

SWOT analysis

STRENGTHS
- Combination of underwriting and consultancy
- Complements value chain
- Low development costs
- Fits into traditional distribution channel
- Distinctive value proposition
- Product profitability
- Time to market

THREATS
- Economic downturn
- substitute products (factoring)
- Sales capabilities small brokers
- Commoditisation D&O
- Image credit insurance product

WEAKNESSES
- Binding authority credit insurers
- Current incapability to raise awareness with SME

OPPORTUNITIES
- Market potential of SME
- Exportable to other countries
- Platform for further innovation
- strong added value for distribution channel
- Complements value chain
- Addresses benefit sought currently not offered

Key success factors

- Sufficient degree of simplification of specialty products (credit insurers have shown already interest to this proposition)
- Attractive pricing
- Marketing power small intermediaries
- Opex and performing IT environment
- Avoid friction with intermediaries with binding authorities