PERSPECTIVE

# Building from strong foundations

## 2024 insurance industry benchmarking report

MACQUARIE BANK

# Foreword

## Building from strong foundations

Business has been strong for insurance intermediaries in recent years. In an environment of hardening premiums, strong retention rates and heightened risks, they have steadily built their revenue lines, and enjoyed strengthened profit margins. Macquarie has seen this strong financial performance in previous insurance industry benchmarking studies, as well as in data on file, reflecting year-on-year revenue increases and industry-wide profit growth.

Yet this doesn't imply that sustained performance and growth is an expectation. Our 2024 research shows a high proportion of industry leaders are increasingly concerned by a weakened economic outlook, spurring many to invest profits to innovate and build their business, with the goal of sustaining performance through industry cycles.

These forward-looking businesses are already acting to strengthen day-to-day operations. At the top of the list are:

- Embedding automation and digitisation
- Enhancing client and employee experience
- Focusing on their people, through investment in training and non-financial benefits, as well as ensuring that recruitment and retention strategies are well-formed.

We're also seeing a number of businesses offshore administration, finance, and document-processing functions to build capacity, streamline operations, and provide for flexibility in periods of flux. As well as yielding tangible results today, strategies like these can help higher performing businesses prepare for a potential softening in the market, building more resilient businesses for the future.

Our research also suggests that most businesses see ongoing opportunities to increase revenue and profitability – either by growing their client base, or by increasing efficiency through investment in systems, technology, and talent. For those that can successfully capture this potential while navigating the ebbs and flows of the market, the outlook is for continued revenue growth and profitability.

I have genuinely appreciated the time I've spent with industry leaders and business owners over the period that I've led our insurance banking team. The industry is ripe with opportunity and positioned well to capitalise on plans for growth and change. As we look to the future, my team would welcome the opportunity to hear your perspective and discuss your plans.

**Andrew Knowles**
National Head of Insurance,
Macquarie Business Banking

# A note on definitions

2024 is the first year that Macquarie Business Banking has opened up our insurance industry benchmarking study to the full scope of insurance intermediaries, spanning self-licensed brokers, authorised representatives and underwriting agencies.

Throughout this report, these three unique business types will be referred to collectively as **insurance intermediaries.** Please note that direct insurers are not included in this dataset.

# Contents

# A shifting landscape

## Continuing the momentum

The insurance intermediary industry is highly profitable, and well positioned to navigate a softer economic landscape. Our research reveals the proportion of businesses concerned about the competitive impact of direct insurers has decreased significantly – falling from 69% in 2018 to 10% in 2023.

This significant drop in concern around competition may have been due to:

- Labour market factors affecting direct insurers' capacity to service a broadening workload
- Legacy software systems becoming less able to keep pace with recent rates of policy underwriting and claims handling
- Growingly complex and niche policies, with greater compliance burdens.

The hurdles faced by direct insurers have only contributed to a strengthened position amongst intermediary businesses. Over the past six years, they have maintained steady growth, driven also by premium increases and strong client retention rates. Underwriting agencies in particular have been able to capitalise on growth in the market, positioning themselves as nimble operators, who can efficiently provide support to the broking market, and have a specialist ability to assess and underwrite more complex risks.

As a whole, intermediaries are in a position of confidence and strength for the future, with approximately two-thirds of respondents reporting net profit margins of 30% or higher. Forward-looking business owners are looking to invest, rather than harvest, their profits, taking extra steps through both organic and inorganic means to consolidate their current position for future resilience and success. They are investing in the people (both teams and clients), processes, and platforms that allow them to boost productivity, optimise client service and accelerate profits, subsequently laying foundations for growth and scale.

**Key strategies include:**

### People

Investment in attraction, retention, and training and development

### Process

Focus on how work gets done

### Platform

Leveraging technology to boost productivity

As this consolidation continues, and competition subsequently heightens, attracting strong talent in people and teams may be more of a priority than acquiring other businesses. Given the challenge for attracting and retaining talented people, and the longer-term prospect of a softening market, those that have invested in ways to demonstrate value, expertise, and client relationships will be better positioned for future growth.

## Four key growth catalysts

### Investing for ongoing growth

Premiums have been hardening over a sustained period, which has lifted profitability. This has provided an opportunity for businesses to sharpen their strategic focus and reinvest in:

- Maximising resilience and business value
- Curating their ideal talent base
- Developing their people through training and career progression
- Strengthening client relationships
- Improving operational efficiency
- Sourcing and embedding new technology

**What businesses are focusing on**

82% Growing their client base

58% Improving efficiency

### Technology investment to drive scale

While the insurance intermediary industry has historically been more gradual to adopt technology, businesses are becoming increasingly adept at using it to enable remote work, manage cyber security risks and improve efficiency. Those that continue to invest in technology can create cost efficiencies, free up staff to focus on clients, and create the capacity to scale.

**What businesses find challenging**

35% Implementing new technology

**What businesses are focusing on**

45% New technology, data, and analytics

### Regulatory clarity

While regulatory change remains a difficulty for one in two respondents, its challenge has lessened in significance over the years. Clarity from the completion of the Quality of Advice Review has helped reduce some concerns.

**Businesses that find regulation and compliance challenging**


### Investing in people

The number one challenge for business owners across all professional service industries that Macquarie benchmarks continues to be attracting talented people. In an industry that has long found it challenging to attract new entrants, the recent historically tight labour market has made recruitment particularly difficult in insurance.

Finding suitable staff for your business is one challenge and remunerating them competitively is another. Growth strategies must align with people strategies, with staff retention as a focus area. Beyond remuneration, businesses can motivate existing staff through effective skill and career development, and by providing opportunities to take on additional responsibility - with reward.

**What businesses find challenging**

65% Finding and retaining talent

**What businesses are focusing on**

83% Creating a supportive business culture

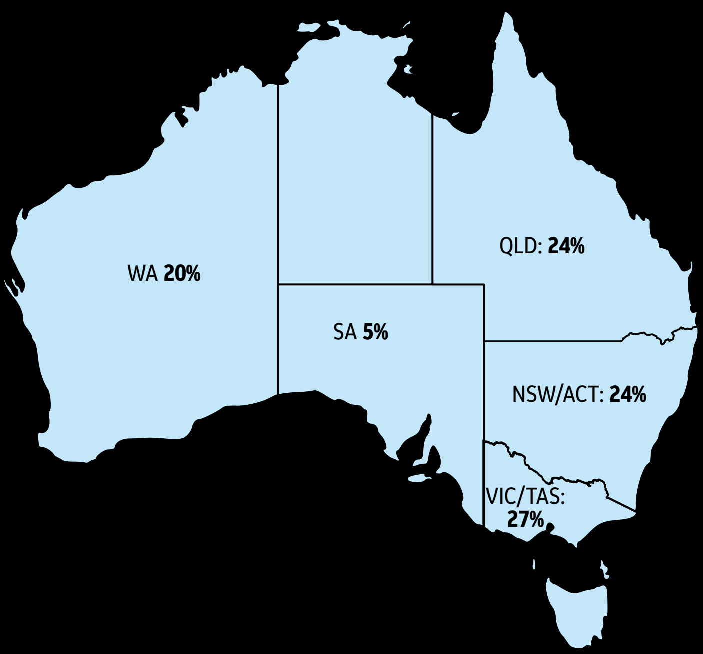
62% Development and progression opportunities

# About the research

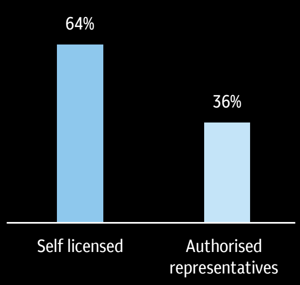
Macquarie Business Banking has benchmarked the performance of Australia's insurance industry since 2011. Our 2024 study builds on this deep industry experience by combining Macquarie's business insights and aggregated data on file with a survey of 226 insurance broking businesses and underwriting agencies. The survey was conducted for Macquarie Bank by research agency, Fiftyfive5, between October and December 2023.

For comparison purposes, profit information has been calculated before partner dividends, and single headcount businesses have been excluded due to their distinct characteristics.

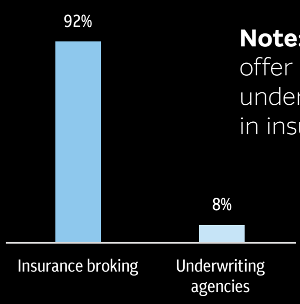
**Head office location**




**Brokerage type**

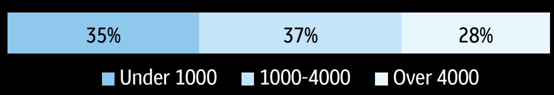



**Business type**




**Note:** 5% of businesses offer broking and underwriting (included in insurance broking).

**Number of clients**



# Focus on productivity

In a market of hardening premiums, revenue builds and profit flows steadily. This environment can divert owners' attention from the fundamentals of sustainable growth, drawing their focus to managing and growing their current business.

As the market cycles, and premiums soften, leaders who have focused on basic principles should see their business accelerate beyond their peers.

**Three core areas to consider include:**

## People

Insurance is a relationship-based industry, where trust is required to assess risk, and people are trusted to collaborate with clients to determine and insure against these risks.

People are the most substantial cost in any business. Therefore, it is important that businesses extract value from this investment, in ways that benefit clients, the people working in the business, and the business itself.

**Invest in:**

### Attraction of talented people

In a tight labour market, this has been challenging. However, focusing on what the business has to offer, and ensuring that staff understand that value, will assist.

### Retention of talented people

Businesses lose more than just their people when talented staff depart. Client relationships, employee relationships, understanding of process, and other elements are in deficit, which then diverts the time and attention of owners, to cover gaps. Ensure that training, development, and career pathways are part of a regular rhythm.

### Strategic deployment of people

Ensure that staff in revenue-generating or value-adding roles remain focused on activities that drive said revenue and value. They should be spending disproportionate time on these, freed of administrative activity as much as possible.

## Process

Where variation exists, risk and inefficiency have opportunity to thrive. Rigour and discipline are core to an efficient and smoothly run business; one that is desirable to own, work in, and be a client of. It is imperative to consider:

### Documentation

Are process, operations, roles, and strategy effectively planned and clearly documented?

### Process mapping

Are your people supported to follow process, to ensure that client facing staff can perform their roles efficiently?

### Automation, outsourcing and offshoring

How can alternative ways of operating help the business become more efficient? Which areas can most benefit?

### Risk

Where can process mitigate risk, particularly cyber and privacy risks?

### Understanding and adherence

Are processes understood and adhered to across the business? Are training and development tools in place to avoid knowledge gaps?

When all these factors are considered and implemented, the outcome is increased efficiency, improved net profit margin, and reduced risk and error.

## Platform

To spring from a position of strength and capitalise upon a favourable current position into the future, investment in technology and platforms for growth is key.

Technology is a core investment. Those businesses that leverage it can boost client experience, employee experience, and operational efficiency. Productivity and profit are the outcomes of this investment, with your key assets - your people – enabled to spend more time with new and existing clients, adding value and mitigating risk.

It is also important to consider **what** to invest in, especially for smaller and mid-sized businesses, whose scale limits the use of some platforms.

# Financial performance

## Strong premium growth drives rising profits

Increases in gross written premiums (GWP) drove year-on-year revenue and profit growth in FY2023. Remarkably, the businesses in our survey were universally profitable, achieving a 31% average profit margin, up from 24% in FY2018.

However, while healthy profits continued as the economy softened in 2022 and 2023, this does not necessarily indicate future performance. Within Macquarie, we are starting to see the impact of inflation and subsequent higher expenses trickle through in financial reporting; clients' borrowing capacity is reducing, which can have significant impacts on their outlook and growth aspirations.

With 42% of businesses concerned about the economic outlook, those with strong profits have a timely opportunity to invest in processes, systems, and cultural changes that will help to build resilience against a future where premium growth may ease. Technology, cybersecurity, and people and culture are at the forefront of respondents' investment goals.

### Key metrics

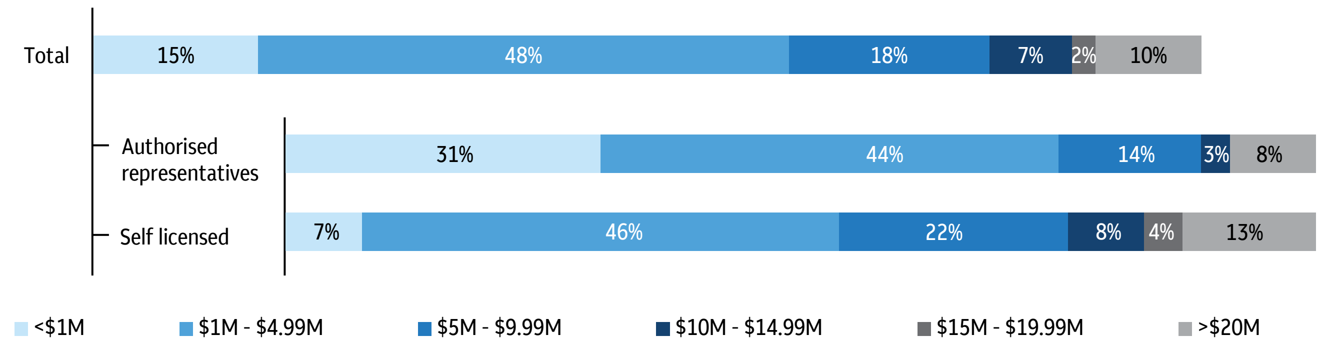
| Metric *(average)* | Total | Self-licensed | Authorised representatives |
|---|---|---|---|
| Gross written premium | $41.9M | $55.6M | $25.6M |
| Gross revenue | $7.3M | $9.7M | $4.3M |
| Profit margin (as % of revenue) | 31% | 30% | 33% |
| Profit (derived) | $2.25M | $2.9M | $1.4M |

## Revenue

Nine out of 10 insurance intermediaries grew revenues over FY2023, benefiting from recent pricing tailwinds. Strategic implementation in technology and maintenance of strong client retention rates have also contributed to growth. Unsurprisingly, larger businesses (those with more than 4,000 clients) and self-licensed businesses recorded the highest revenue levels.

The outlying 10% may be focusing profits on building efficiencies, or investing in people and technology, with revenue growth a secondary priority.

### Revenue profile - by business type



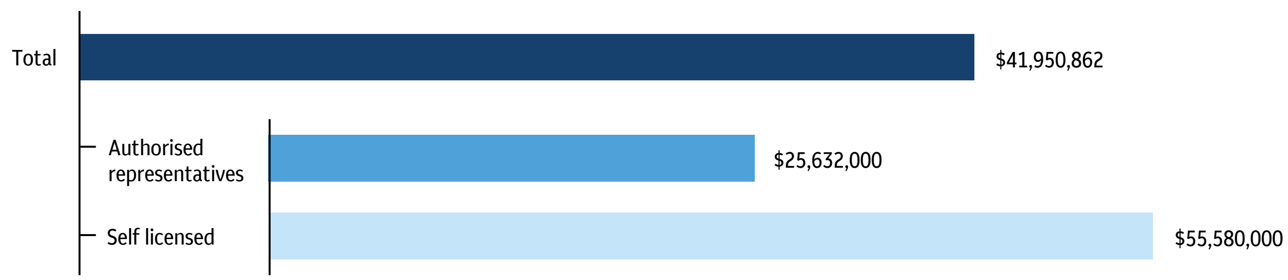

### Product lines per client – by business type

**3.6**
Self-licensed

**2.7**
Authorised representative

**2.5**
Underwriting agencies

### Average GWP – by business type



## A symbiotic relationship

One in two self-licensed brokers find that partnering with authorised representatives adds significant value to their business, and vice versa.

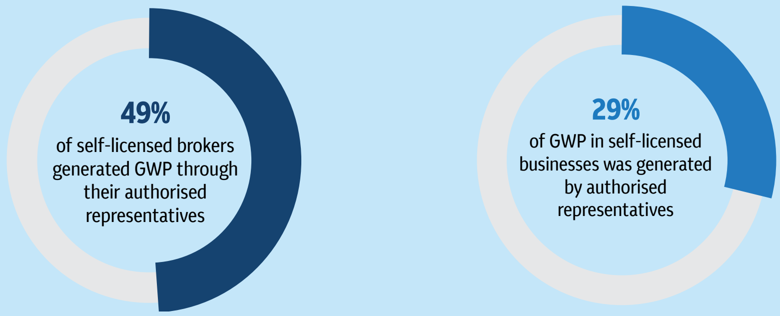
This strategy allows them to:

- Do business with entrepreneurially-minded insurance professionals who are looking for more than the employer/ employee relationship
- Generate growth and additional GWP, while keeping fixed costs lower
- Avoid the risk and expense of hiring more staff.

With continual consolidation across the market, authorised representatives have become more prominent. In addition to specialised authorised representative networks, we have also observed self-licensed businesses who are now partnering with authorised representatives or are considering doing so as a future option.

Self-licensed businesses have the systems and processes in place to help support authorised representatives service large workloads and may eventually count them as a key strategy for future M&A – and for authorised representatives, this could be part of their own succession plans.

### Authorised representatives generate GWP for self-licensees



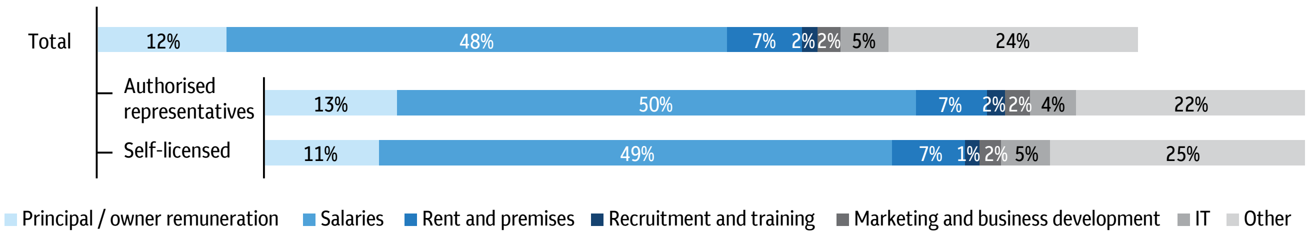
## Expenses

Salaries remain the most significant expense for businesses, underscoring the ongoing importance of extracting the most value from this cost. However, technology is also a significant spending priority for many, especially those managing more than 4,000 clients.

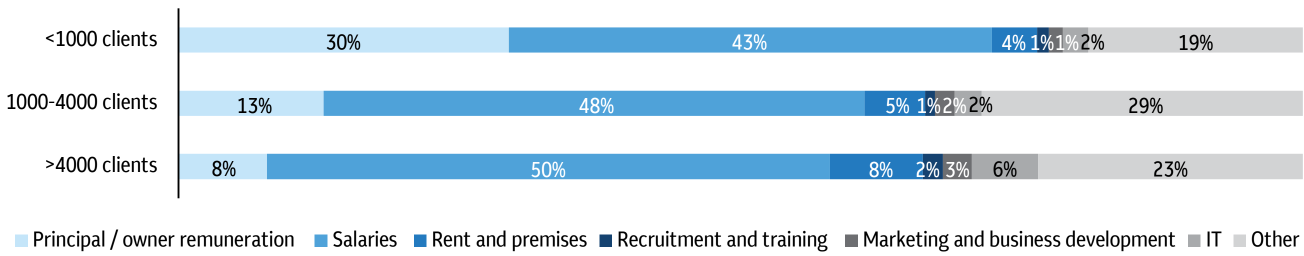
Businesses managing fewer than 1,000 clients spent less on technology than larger peers, and proportionately more on owner and staff salaries, as their cost base is spread over fewer people.

## Expense profile

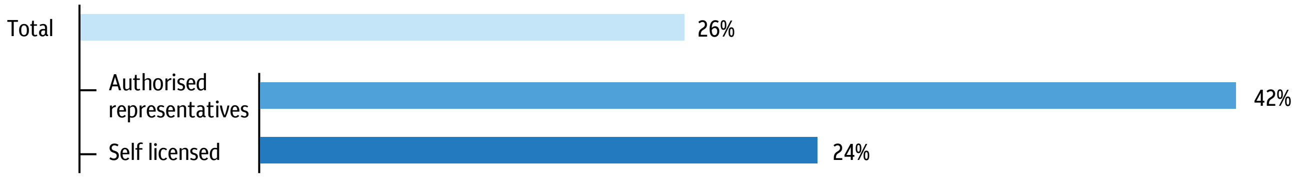
### FY2023 expense profile – by business type



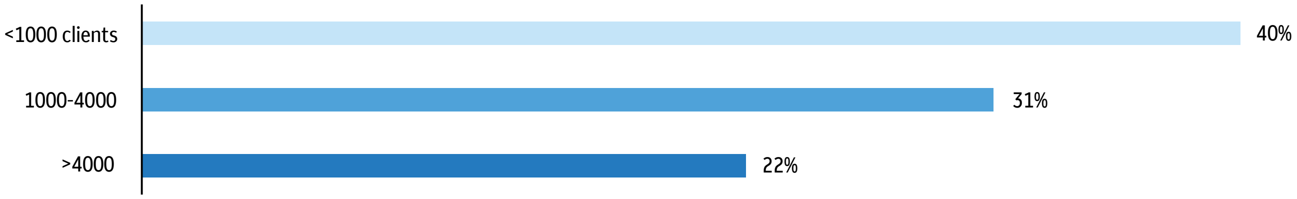

### FY2023 expense profile – by business size



### Salaries as portion of revenue – by business type




### Salaries as a portion of revenue – by business size

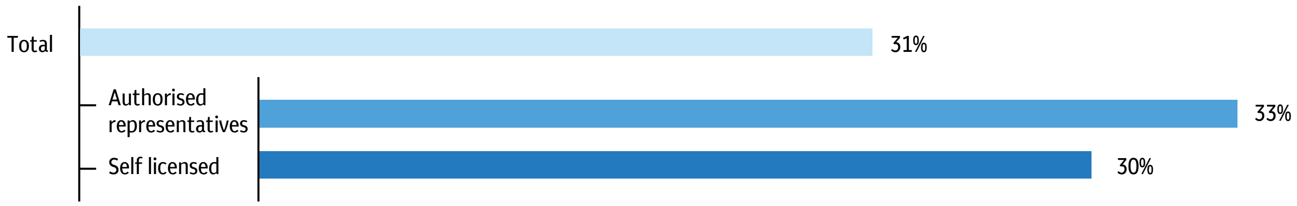


# Profit

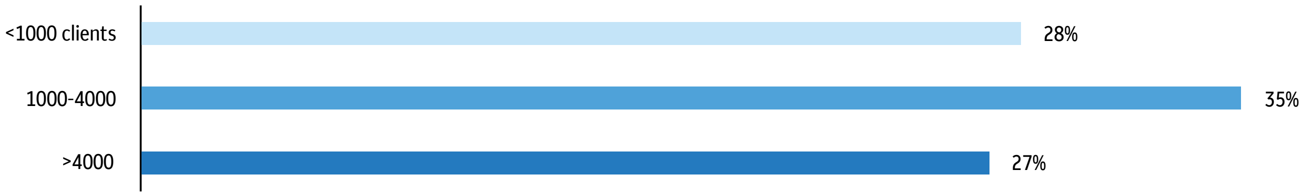
Hardening premiums and improved operational efficiencies – mainly due to scale - have lifted profit margins across the industry, with average margins rising from 24% in our last study (FY2018) to 31% in FY2023. Whether we examine the data by license model or by the number of clients a business serves, each industry cohort is performing strongly.

## Net profit

### Net profit – by business type



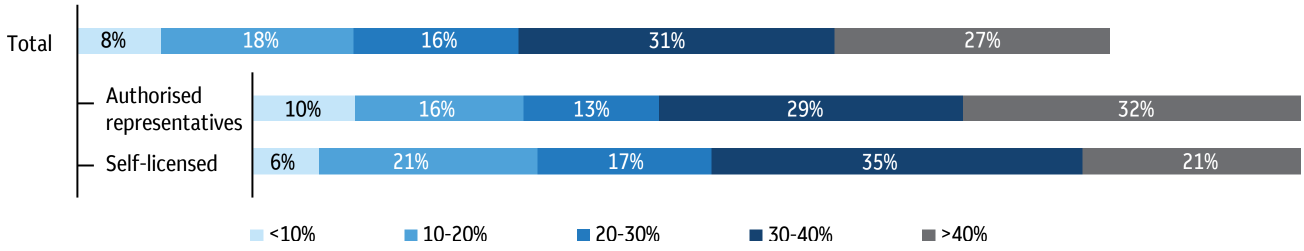

### Net profit – by business size



## Profit profile

Nearly a third of the industry - nationally, and within each license model – sits in a healthy 30% or higher profit margin band. Profit data continues to reveal a strengthened industry, with the portion of businesses making under 10% profit decreasing from 11% nationally in FY2018 to 8% in FY2023.

### Profit profile – by business type




While a hardening market has increased profit, it has also increased workload. Staffing shortages amidst a historically tight labour market force staff and directors to absorb most new clients into their existing responsibilities. Directors of smaller businesses may be finding a new challenge in striking a healthy balance between work and other aspects of their life. Additionally, the costs and effort of attracting, training, and developing new people diverts leaders from value-generating work.

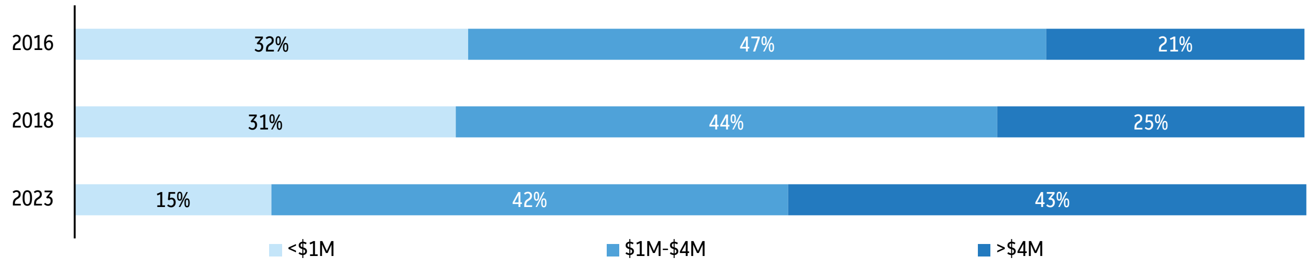
**Ways to pivot**

Some businesses are responding to staff shortages by leaning on technology and outsourcing as ways to mitigate resourcing gaps. Investing in platforms that streamline repetitive tasks, minimise risk, and improve the productivity of existing staff can be as effective a strategy as recruiting, training, and developing new people, with equal or less cost and effort required to implement.

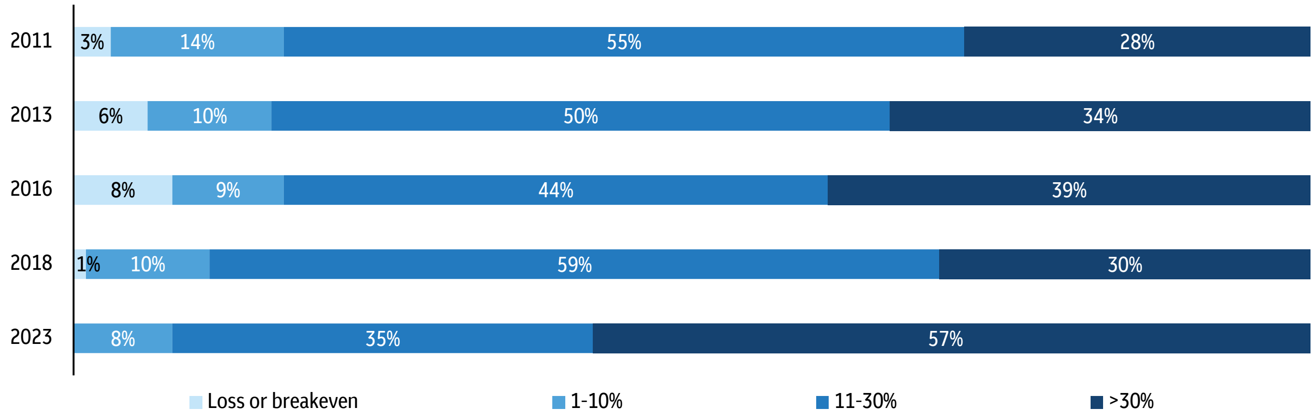
## Revenues and margins have risen over time

Such a rise in both revenues and profits confirms a long-term trend towards improved financial performance across the industry, one we have observed in our benchmarking studies since 2011. In FY2023, a remarkable 57% of businesses reported margins of 30% or more. This is a high water mark for our research and a significant uplift from 30% in FY2018. It's compelling evidence of the insurance industry's enduring strength.

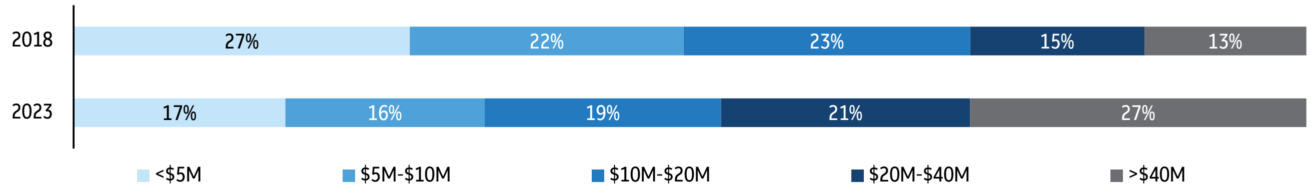
### Revenue over time




### Profit margins over time




### GWP



# The higher performers

## What sets higher performers apart?

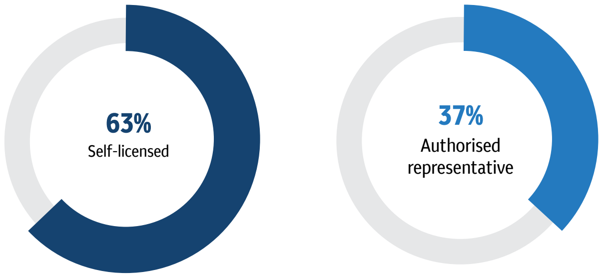
We've identified characteristics that separate the more financially lucrative businesses from their peers. In this year's report, we've defined higher performers as those with **profit margins of 30% or more.** Remarkably, six in 10 businesses qualified.

At a time when the majority of insurance broking and underwriting businesses are performing well, it is evident that higher performers are striving for scalability and efficiency. They not only generated higher GWP, but did so with lower headcounts, resulting in significantly higher revenues per client-facing full-time equivalent staff member (FTE). They're also equipped to operate more efficiently than their peers, with lower expenses as a proportion of revenue, including significantly lower salary spend.

### Profile of a higher performer

| Key performance measure | Metric *(average)* | High performers vs others *(>30% profit) vs (<30% profit)* | |
|---|---|---|---|
| Revenue | GWP | Higher performers | $42,481,433 |
| | | Others | $40,670,599 |
| | Revenue per client-facing FTE | Higher performers | $519,791 |
| | | Others | $349,560 |
| Headcount | Total headcount | Higher performers | 23.9 |
| | | Others | 36.5 |
| | Client-facing staff as % of total headcount | Higher performers | 57% |
| | | Others | 43% |
| Salaries | Salaries as a % of revenue | Higher performers | 30% |
| | | Others | 37% |
| Business size | Number of clients | Higher performers | 3,783 |
| | | Others | 9,673 |

### Higher performers by business type




## Drivers of higher performance

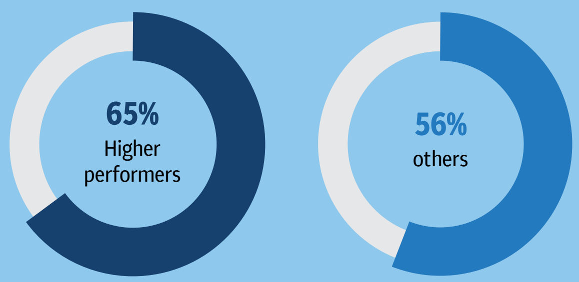
Based on our industry research and our experience supporting insurance intermediaries, we suggest that ongoing investment in people and technology is a key element in success. We are seeing instances of businesses positioning themselves as risk advisers, which shifts client perception of their relationship from transactional, to valued. This shift is made possible by an uplift in both capability and technology, which equips skilled people with tools to improve efficiency, and allows businesses to focus on core activities and outsource lower value tasks.

This combination enables businesses to build deeper client relationships and generate more revenue from fewer clients.

They have also continued to add scale, increasing headcount by investing in strategic recruitment of key people, then supporting them with training and development.

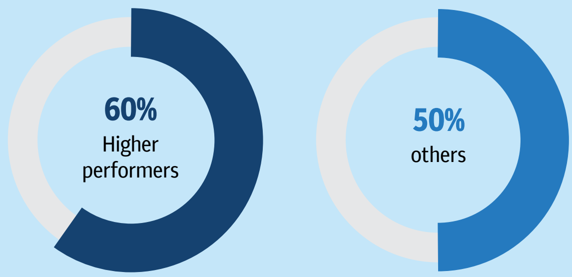
### Performance drivers

#### Strategically growing headcount




*increased their headcount in FY2023*

#### Investing in capable, engaged people




*increased in training and development in FY2023*

#### Outsourcing non-core activities


*currently outsourcing or offshoring*

## A focus on scale and succession

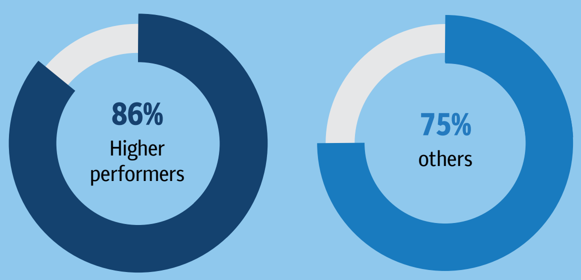
Our study found that higher performing businesses have plans to hire additional staff to support their strategic objectives: growing their client base, revenue, and profit. They are also significantly more likely than their peers to focus on succession planning, having built significant business value through their investment in staff and systems, with a view to realising value at sale, merge, or exit.

In an industry where talent is at a premium, our experience suggests that higher performers are turning to skilled staff in adjacent industries who have transferable skills. This includes recruiting offshore, or pursuing employees from large corporates, who have ambitions of building a business asset in parallel with their development as brokers. The return of immigration post-pandemic, particularly of skilled workers, has contributed to this trend. Elevating expertise in this way creates employees who could be future business successors or render the business more attractive to buyers.

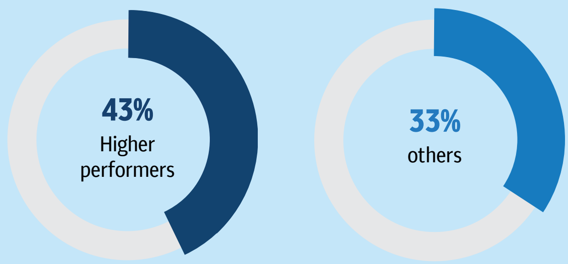
It is imperative to align client-facing staff with income-producing and value-generating activities. Cost-effective solutions, including moving work offshore where possible, should be considered for tasks that do not generate income. There needs to be ongoing focus on what key staff are doing, especially in a tight labour market, where staffing shortages are a genuine challenge.

### Focus areas for the next two years

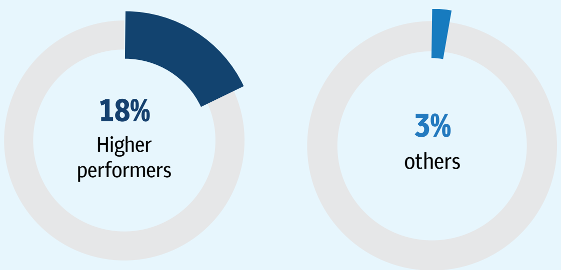
#### Growing client base




#### Hiring additional staff




#### Succession, sale or exit planning



## The rise of underwriting agencies

Underwriting agencies have played a significant role in the insurance industry's sustained performance, cementing themselves as essential players amongst insurance distribution, and seeing strong revenue growth in the process.

Their business model enables them to foster reciprocal relationships with the wider industry; working with agencies, and their unique ability to focus on speed and efficiency, allows brokers to strengthen their own existing client relationships. Agencies can turn around underwriting policies at a faster rate than incumbent insurers, and place more complex risk, due to their experience in assessing and underwriting relevant risk, and often specialising in chosen insurance lines. Their use of nimble, tech-enabled systems only amplifies this.

### Trends amongst underwriting agencies

Higher proportion of staff performing support and administrative roles, compared to the typical insurance broking business

Majority proportion using offshored or outsourced solutions, most commonly for IT support, accounting and finance, and administration

Higher overall rates of adoption of tech solutions, compared to insurance businesses.

- More likely to use online client portals and digital claims platforms
- Less likely to adopt artificial intelligence

### Challenges and future focuses

#### Finding talent is a less of a challenge, compared to

- Implementation of new systems
- Technology or processes
- Price sensitivity

#### Main focus areas

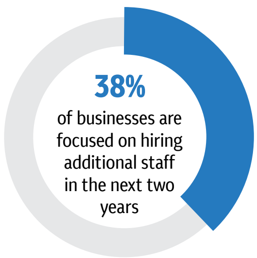
- Growing client base
- Implementing new technology
- Developing new product lines

# People

## The enduring challenge of attracting and retaining staff

Attracting and retaining talented people remains the industry's top challenge, cited by two thirds of survey participants. With a majority of businesses seeking to grow their client base over the next two years, this friction is difficult to smooth. More than one in three respondents say they will focus on hiring new staff in FY2024 and FY2025, with smaller businesses (those with revenue below $1 million) the most likely to recruit. In an industry environment of sustained (and projected) growth, ensuring that there is capacity in the business to capture opportunities is critical.

### People challenges

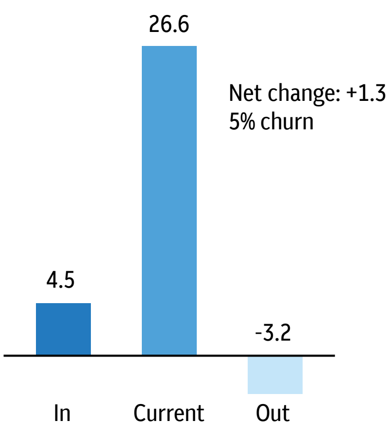




## Managing staff turnover

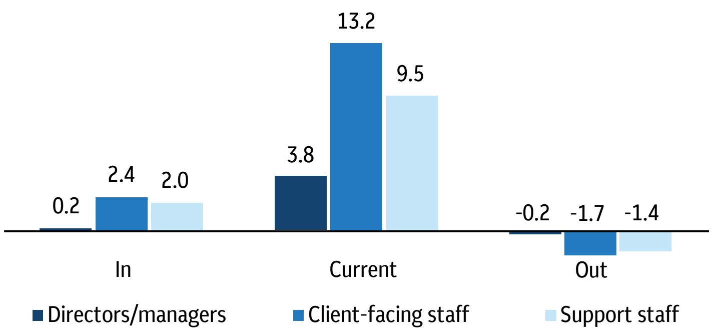
Overall, there has been a slight increase in headcount across the industry, as businesses secure more people to build capability and address attrition. At an average of 12% of headcount, staff turnover was higher than the (decade-high) national average of 9.5% reported by the ABS for the year to February 2023, but significantly lower than the 24% of professionals who changed roles over the same period[1].

Despite this slight increase in headcount, many businesses are still under-resourced. To cover resourcing gaps, directors are playing a more hands-on role. In future, as capacity within teams grows, these directors may be looking to spread their portfolios back into their talent pool, or utilise technology to take on larger workloads.

### Headcount and turnover – total




### Headcount and turnover – by role



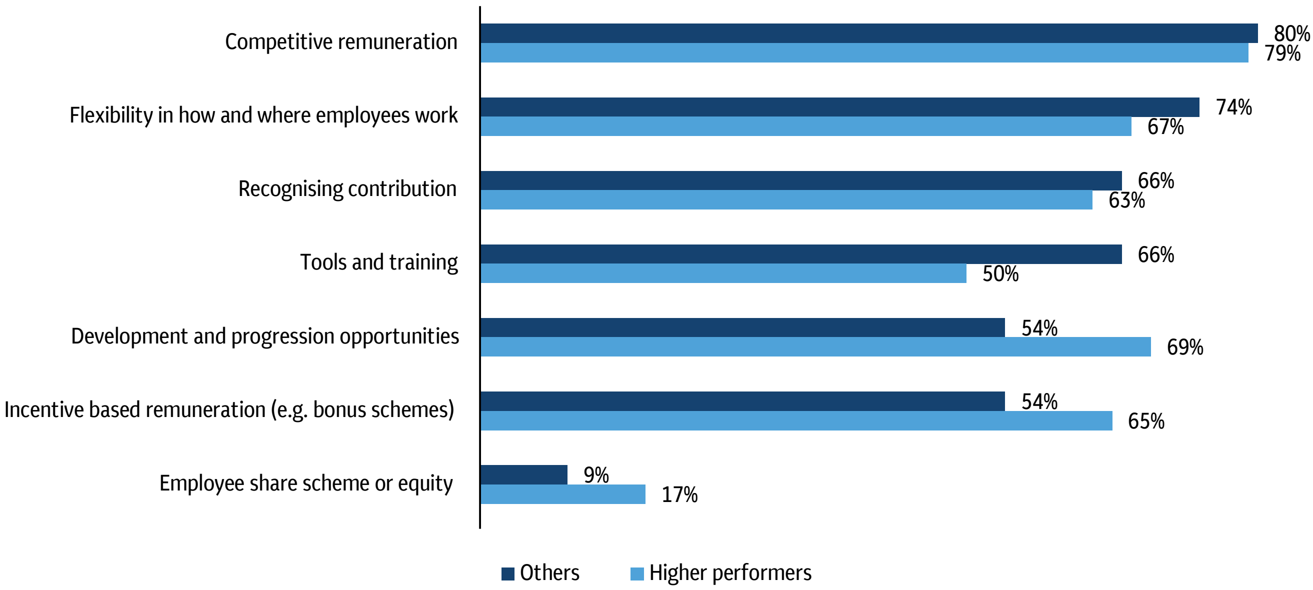

1. Australian Bureau of Statistics (February 2023), *Job mobility.*

## Financial and non-financial strategies to retain staff

Given the disruption that turnover can cause within any company, and the importance of stability for client relationships, businesses are investing their resources in staff retention. They are deploying both financial and non-financial strategies, including competitive remuneration, improvements to workplace culture, flexible working, and opportunities for development and progression.

Higher performing and larger businesses were most likely to use incentive-based remuneration, such as bonus schemes, to motivate performance and ensure that people align their behaviour to strategy. Higher performers were also more likely to offer an employee share scheme or equity, to motivate and retain talented staff who could become successors, directors, and principals in future.

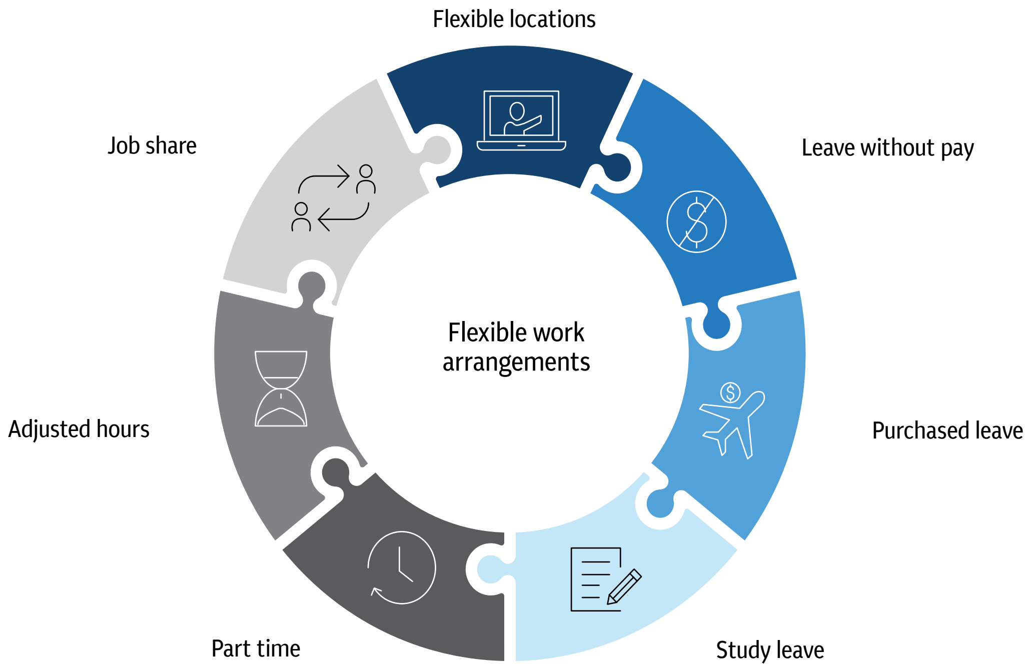
### Retention strategies




The average business surveyed uses 4.9 of these strategies – increasing to 5.4 for businesses that earn more than $4 million in revenue.

## Flexibility: not just working from home

Flexible work practices are becoming increasingly prevalent across all business types, including the insurance industry. It can come in a variety of forms beyond remote work.




Much of flexible working strategy is dependent on team or role requirements, but it can be a key lever for solving recruitment, cost, and employee satisfaction problems. Businesses need to be strategic about the flexible work policy they are willing to offer, and clear about how it is communicated, while also understanding the impacts that policy may have on potential talent pools.

For example, allowing fully remote work for roles that may not require a lot of face-to-face time, and can be done just as well away from the office, could broaden your available talent pool from your local area, to regional, interstate or even offshore locations. In comparison, a strict policy on office attendance may narrow your talent pool significantly, as more and more businesses offer the option to work from home to many, if not all, of their staff.

As a new generation enters the workforce, and the impacts of the pandemic continue to have effects on the nature of work as a whole, consider what employees in 2024 and beyond will value most. Flexible work is one of those key values.

When considering insurance business processes that are less value-generating or non-client facing, how can adopting flexible work strategies benefit your business and the people who work for you?

## What should you focus on to attract and retain staff?

The expertise and service your people provide to your clients is fundamental to the value of your business. So, in a competitive labour market, effective recruitment and retention strategies must be in place to ensure your business' immediate and enduring success. Better employee experiences lead to higher employee engagement, which can bring multiple benefits for insurance intermediaries, including:

**Higher work performance and productivity**

**Greater discretionary (voluntary) effort**

**Higher employee retention (lower turnover)**

**Improved client experience, loyalty and likelihood of advocacy and referral.**

# 8 ways to drive higher engagement among employees

**Remuneration is not the sole, or even the most important, reason employees join and remain with a business. Research[2] suggests that there are eight core drivers of engagement that are consistently more important to employees than remuneration, including:**

1. **Belief in leadership:** Ensure leaders align their behaviour to the business' values and show genuine interest in employee wellbeing. Leaders who earn trust and confidence from their employees will have an out-sized impact on the engagement of people who work for them, because employees will observe and echo their leaders' sentiments and behaviours. What leaders say, how they act and what they prioritise must create a supportive and safe workplace.

2. **Alignment to strategy**: Make clear to staff how their individual performance contributes to the business' goals and strategy.

3. **Balance between professional and personal objectives:** Consider ways your business can offer staff flexibility and autonomy, as this is increasingly a competitive advantage for attracting and keeping talent. Provide sufficient resources, including people, systems, and tools to enable efficiency and productivity when staff are working flexibly.

4. **Image:** Cultivate a positive external brand that allows employees to have pride in the business and believe that it is highly regarded by the community.

5. **Employment value proposition**: Understand your business' points of difference as a workplace and use them as selling points to engage and retain talented people.

6. **Deliberate and genuine interactions:** Involve staff in the decisions that affect them. Empower staff to speak up, and seriously consider the issues they raise. Being heard and responded to makes people feel valued.

7. **Development pathways:** Nurture the talent you have – systematically assess skills, identify gaps, and invest in professional development to foster career growth.

8. **Health and wellbeing:** Offer resources to support the physical and mental wellbeing of your staff, and tools to maintain a healthy work-life balance.

2. Willis Towers Watson, Global trends in employee attraction, retention, and engagement, 2014

# The importance of an employee value proposition

Across all respondents, salaries represent 48% of total expenses, so there is inherent value in retaining, rewarding, and remunerating talented people: businesses need to make the most out of their investment.

### The virtuous cycle of employee and client experience


A well-organised employee value proposition in particular can attract talented people and encourage them to stay. What sets your business apart from the rest? Why is it a great place to work? It is critical to understand and effectively communicate what value a potential employee will get out of working for your business – not just what they will offer you.

High performing businesses also implement intentional and measurable aspects of people strategy that maximise value from salary spend, such as position descriptions, appraisals, and performance objectives.

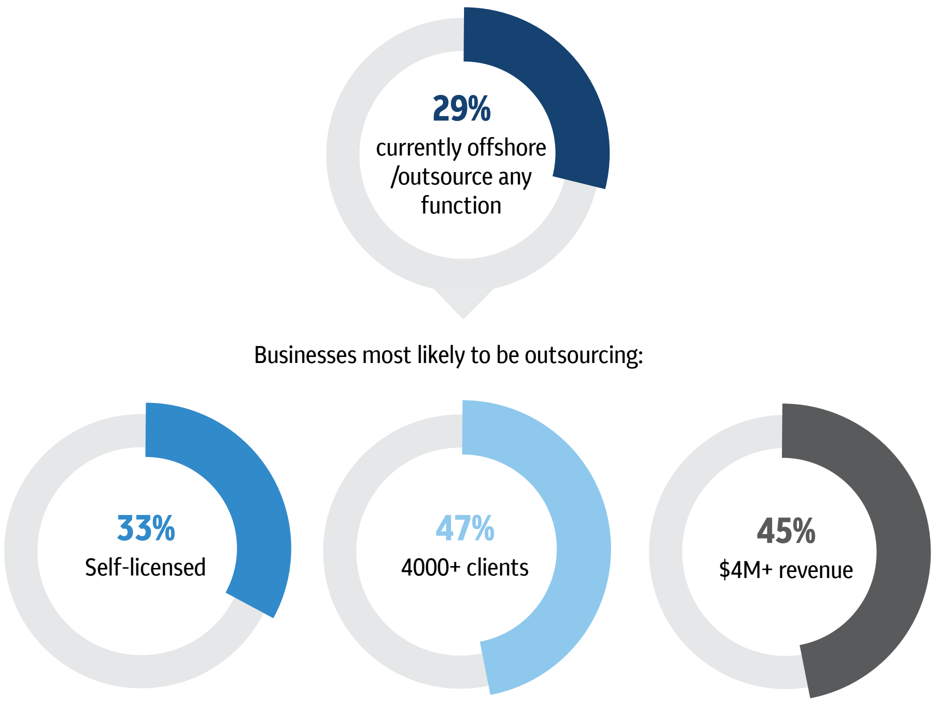
Additionally, staff who feel empowered and rewarded offer greater discretionary effort, which translates into better client experiences, and frequently, better business outcomes. Studies show that employees who are highly engaged deliver more valued services and experiences to clients, and those clients become highly engaged and more loyal.

## Businesses offshore to boost capacity

One way to address process challenges with people is to more tightly scrutinise offshoring capacity, and areas of the business that can be outsourced.

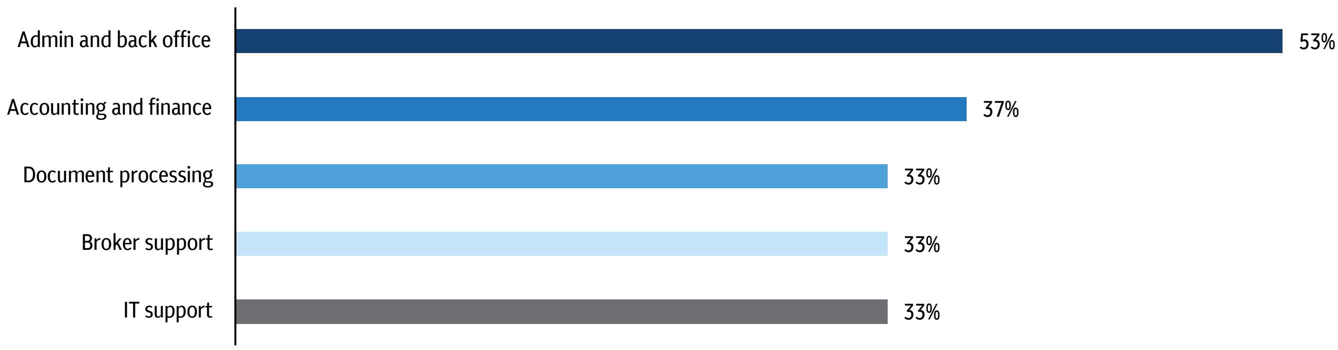
Businesses are increasingly offshoring back-office functions to grow capacity, reduce staff costs, and drive efficiency. With lower value or administrative tasks deployed elsewhere, staff can be realigned to client-facing roles that generate revenue, which also helps to solve resourcing gaps.

### Proportion of businesses offshoring or outsourcing




This increasing trend of outsourcing operational functions is generally in response to difficulties with recruitment, as well as a strong historical focus in the industry on automation of repetitive manual tasks (56%) and streamlining of operations and administration (78%)[3]. When leveraged effectively, offshoring should be a significant support to talent retention and workload management.

### Functions outsourced or offshored



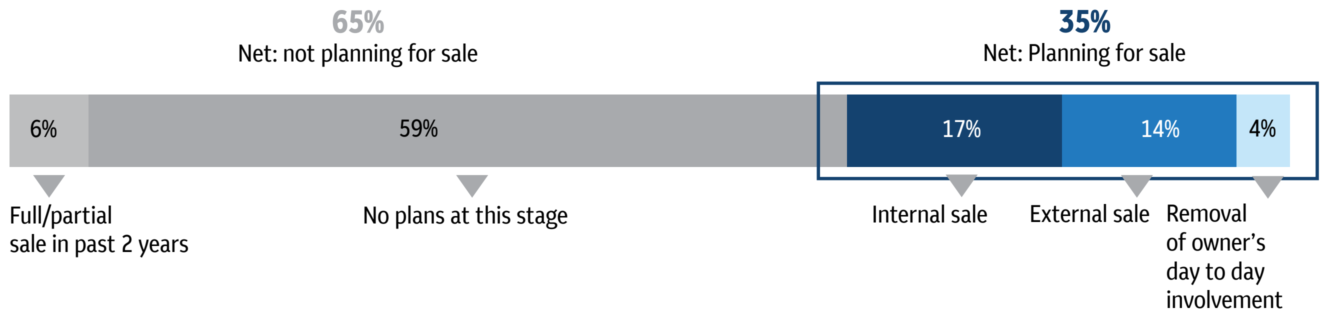

3. 2019 Macquarie Business Banking Insurance industry pulse check

## Plans for sale

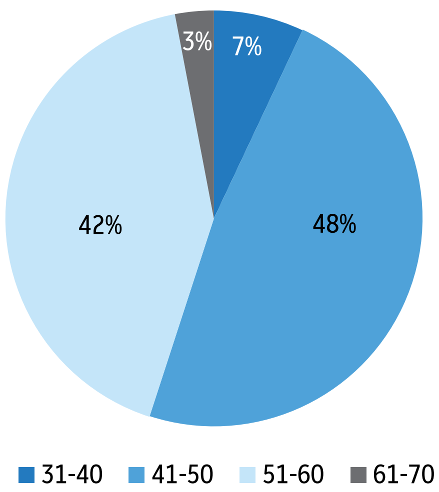
Around one in three insurance intermediaries report having active plans for sale over the next two to five years. There has been ongoing acquisitive activity in the industry, with owners over the age of 50 showing interest in understanding their business' value and ascertaining market interest in a sale. In a buoyant market environment, which the industry has benefited from, documenting the future direction and ownership of a business is critical, should a sale opportunity arise.

Owners who are planning for a sale or succession event in the next two to three years are split relatively evenly between plans for an internal versus an external sale.

### Businesses with sale ambitions

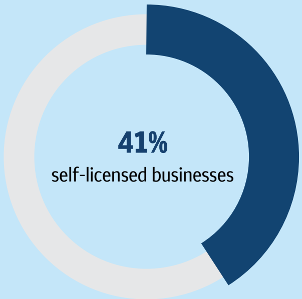


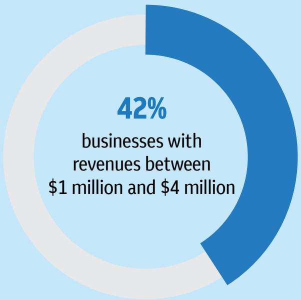

### Average age of business owners



## Higher performers are more likely to be planning a sale

Sale and succession are on the agenda for two types of businesses within the next two to three years:

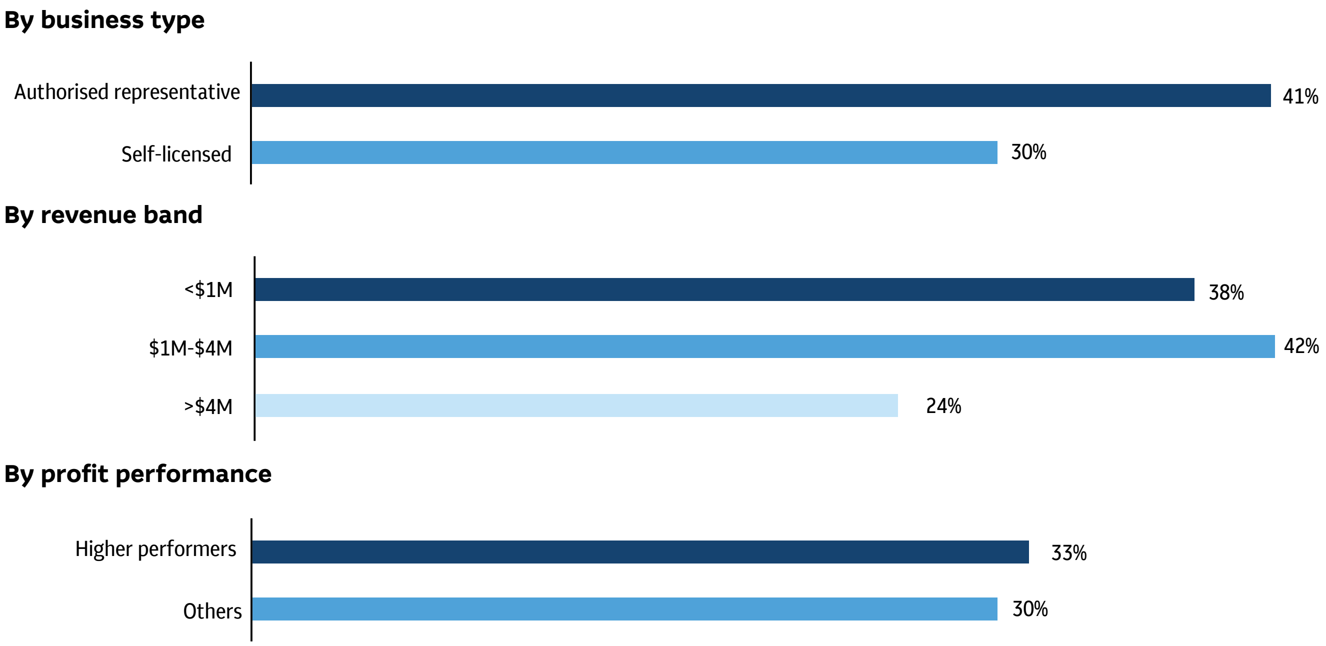



Higher performing businesses are more likely to have documented succession plans in place, and more likely to favour an internal sale. This is consistent with their use of equity as a motivation and retention strategy for talented staff and suggests that they see succession as a key way to nurture their people.

Of higher performers, around 60% are not actively considering succession within the next two to three years, potentially due to age-related factors or current favourable market conditions. While they may not have active intent right now, documented succession plans may be in place, which is a driver of strategy within a high performing business. Higher performers are also more likely to invest in the training and development of their staff and provide career paths to prepare them for ownership

## Traits of businesses that are planning a sale



# Technology

The landscape for business has changed over the past decade, with technology now core to operational efficiency and scale ambition. The challenges that owners faced in the past centred around ascertaining which technology to invest in, how to embed, and how to change behaviours of people to ensure use. These barriers have largely been overcome, as the industry now generally understands the need for technology.

Having well implemented and adopted technology platforms in place streamlines process, which smooths client experience, improves employee experience, increases efficiency, and has an outsized impact on business outcomes. It also helps reduce risk.

## Investing to drive efficiency and scale

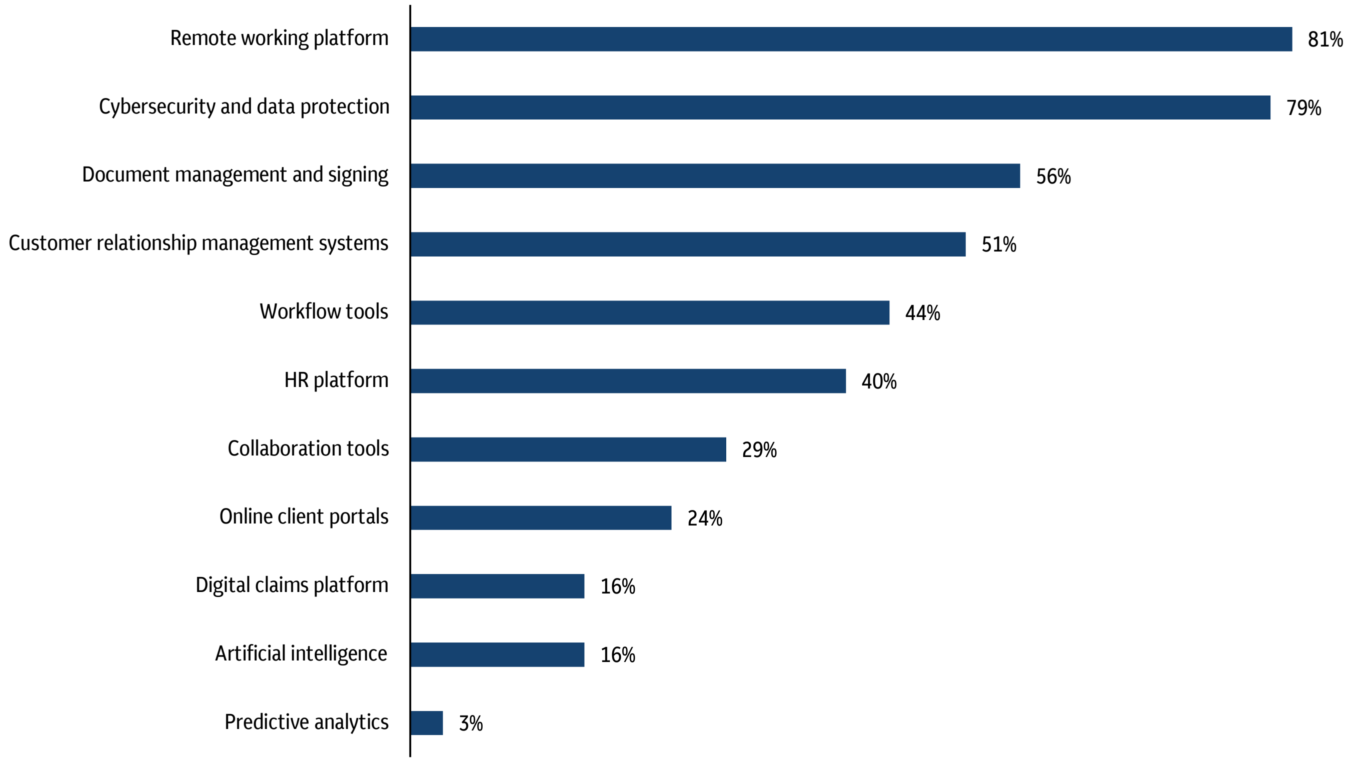
For many insurance businesses, technology presents an under-realised opportunity. While technology adoption has accelerated, usage remains low compared to other professional services industries. Reasons for this comparative caution could include:

- A fragmented technology landscape
- A lack of understanding of the technology available and the business benefits
- The cost of implementing new technology
- Lack of urgency to adopt, given that the business is operating profitably

There are signs that this is beginning to change. Tools that enable remote working, data privacy and cyber security are now widely adopted in the industry. Meanwhile, the greater uptake of technology by higher performing and larger businesses has helped to drive stronger profitability. These businesses have used technology to streamline operations, improve the claims experience, service more clients, contain costs and cement the role of the broker as a trusted adviser.

**4.4** Average number of technology tools used.

## Tech tools used by the industry

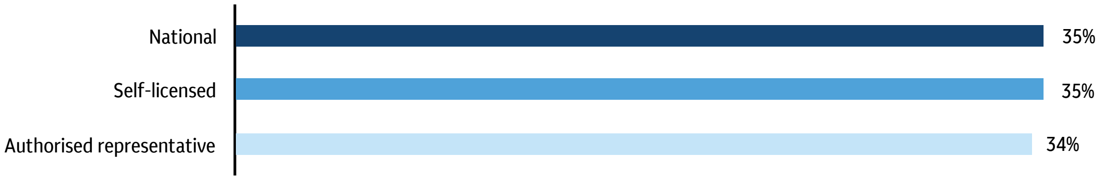


## Technology challenges

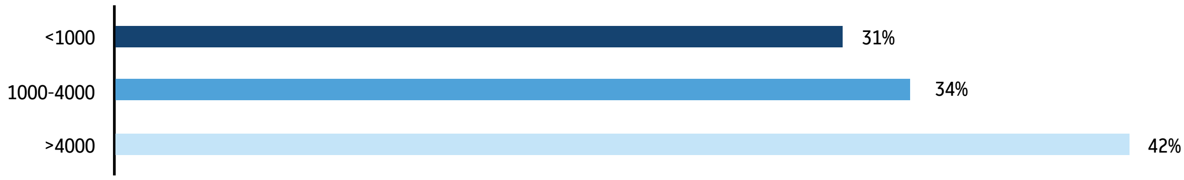
In previous studies, knowing what technology to invest in and how much to invest were key challenges for insurance intermediaries. Our 2023 study shows that the technology challenge has since transformed. While around one in three respondents (35%) still see technology as a key challenge, the focus has now shifted to implementation, with larger businesses most concerned about embedding new technologies effectively.

### Effective implementation is a growing issue

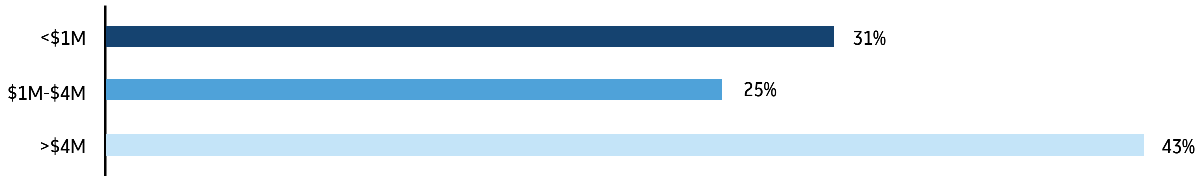
**Firms challenged by implementation of technology - by business type**




**Firms challenged by implementation of technology - by business size**




**Firms challenged by implementation of technology - by revenue band**

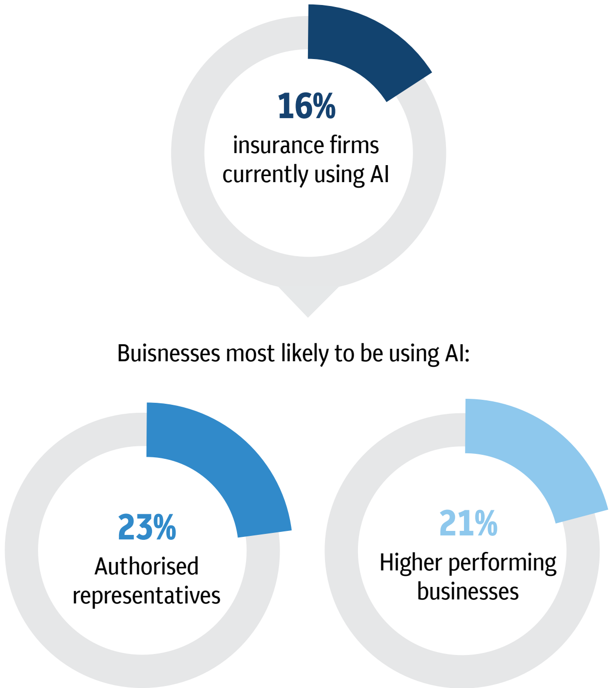



**Firms challenged by implementation of technology - by profit performance**


When it comes to individual technologies, cybersecurity and data protection are now key areas of investment – in use by 79% of businesses. There is also growing interest in artificial intelligence (AI), despite limited use to date.

While fewer than one in five (16%) businesses are using AI currently, many commented on its potential to streamline quoting and renewals, accelerate marketing and communications, and drive operational efficiency. Higher performers were among those most likely to have already adopted some AI solutions.

## Adoption of artificial intelligence




## AI and the insurance sector

Across all industries, artificial intelligence has helped enable rapid advancements in operations and business efficiency. Through our own client conversations, and our experience working with businesses across the insurance industry, we've found that incorporating AI into insurance business process can help increase productivity, reduce costs, and enhance overall customer experience in areas such as:

**Customer service and support**

**Claims processing and fraud detection**

**Personalised policies and pricing**

**Risk mitigation and loss prevention**

**Data analysis and predictive modelling**

While AI is an important consideration for growth ambitions and options for investment, it's important to take its limitations into account too, particularly those relating to privacy, data security, and regulatory compliance.

# Taking the next step

It is important to optimise your business' value now, with a clear plan for its future. Focus on making it attractive; a strongly performing and well-resourced business is admired and saleable. Streamlining strategy and operations across people, process and platforms will help keep your business ahead of its peers.

### People

- Ensure that your most valuable resource – people – are doing the most valuable work
- Increased people costs require high productivity; it's essential to create an inclusive, high-performing culture, where people want to contribute
- Align growth strategies with people strategies, to ensure adequate resourcing
- Identify key person risks, and mitigate these appropriately
  - Identify those who have potential to lead the business, and begin conversations with these people early, to determine their goals and motivations.

### Process

**Strategic process: map your plan**

- Set your strategy, considering your own personal and professional goals, as well as how key people will contribute (and benefit)
- Invest in your business' structure, and define the business model needed to attain your goals
- Surround yourself with experts, including your accountant, financial adviser, banker, lawyer, and mentors within your industry.

**Operational process: control costs**

- In an environment of high growth and margins, keep cost management as a priority to ensure an efficient, sustainably profitable business
  - Off-shore or outsource tasks that may be performed elsewhere
  - Optimise systems, workflows and processes that streamline repetitive tasks
  - Ensure that revenue-generating staff are supported by administrative staff or processes, to maintain their focus on generating revenue.

### Platform

**Strategic investment in technology**

- Build a technology suite that complements and optimises your processes
- Consider the client and employee experience
- Ensure that technology is embedded and used consistently across the business.

In an environment where many ambitious businesses are looking to grow, owners who effectively utilise all three productivity levers will be best placed to realise opportunities for scale. As markets soften, these disciplines will have an outsized impact on future performance.

# Discover how we can keep your business in front

**For a closer look at how your business is performing against key industry benchmarks, please contact your Macquarie Relationship Manager or visit macquarie.com/insurance-broking**



The information in this report was finalised on 3 April 2024.