



# General Insurance

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## Negotiating Network Relationships

PETER BELSEY, a sector head at Huthwaite International, discusses the emergence of new broker networks in the general insurance sector, and how important it is for providers and brokers alike to use the right negotiating approach to establish satisfactory relationships with networks.

**A recent survey by Mazars threw into sharp relief the problems faced by the broking sector, battered by an unprecedented combination of FSA regulation and compliance, the high cost of IT and fierce competition, in particular from direct insurers.**

The consequence of this "hard market", says the *Mazar Insurance Brokers Industry Survey (March 2003)*, developed in conjunction with BIBA, is that, "the industry is in a period of consolidation", with the future of independent brokerages under significant threat.

Indeed, the number of brokers is expected to decline by up to 30% over the next 18 months - equating to the loss of some 1,800 brokerage firms - and this is likely to have a markedly detrimental effect on service standards and insurer quality.

### Development

It is perhaps no surprise therefore that, in the face of such tough trading conditions, the most significant development has been the recent rapid emergence of broking networks, such as Total Broker Solutions (TBS), Hamilton Fraser and Layton Blackham.

Barely a month goes by, or so it seems, without a new network emerging, offering a means by which small and medium sized

brokers can maintain their independence but within an umbrella which provides them with cost effective compliance and greater buying power to negotiate preferential terms with insurance providers.

With the network dealing with the FSA on behalf of its members and providing full IT and HR support, individual brokers can then concentrate on developing their business from a position of improved competitiveness.

**So what are the implications for brokers and providers?** For many brokers the establishment of networks will be seen as the answer to a maiden's prayer - a creative solution, removing the threat of compliance and offering the prospect of preferential terms, better products and comprehensive service support.

### Outweighed

Similarly for providers, the cost of providing improved terms will often be outweighed by the reduced cost of sales and the ability to tie in a large number of brokers into a single deal.

For brokers and providers alike therefore, the opportunities for mutual benefit in establishing effective, long term relationships with the new networks are both immediate and obvious.

Yet brokers used to operating fully independently may well come into conflict with networks seeking to

establish common quality standards and IT platforms.

Providers too may fail to agree terms on the level of discount and product support.

Thus the detailed process of negotiating a partnership agreement can easily founder, leaving the broker to face an ever-tougher market alone and the provider without a sizeable chunk of his previous distribution base.

The devil, as ever, is likely to be in the detail of implementation.

In the past, negotiating skills have been required to ensure existing provider/ broker relationships work better in the light of changing market conditions.

Here, by contrast, the imperative is for each to negotiate the creation of successful new relationships with a new element in the supply chain, namely the broker network.

There has been extensive research into isolating the strategies, tactics and behaviours which distinguish top class negotiators from the merely average, and what has emerged is that many of the skills and behaviours are common to both the buyer and seller.

So in the context of today's insurance environment - in which providers and brokers may well recognise that networks offer the best way forward in meeting the demands of regulation, infrastructure investment and competition - similar



high level negotiating skills will be needed on the part of all parties.

And for many, there is a lot at stake as time is running out.

Providers, brokers and the networks themselves have already recognised the urgency of getting strong trading structures in place if they are to thrive, and indeed survive, in this brave new world.

**So what are the skills and behaviours required if these pressing commercial imperatives are to be realised?**

Before looking at some examples of what good negotiators do, a brief examination of some high profile industrial relations problems is, I think, especially instructive in determining how *not* to conduct negotiations, from the twin perspectives of planning and preparation and the face to face negotiations themselves.

In the firemen's dispute earlier this year, for example, the failure of the subsequent negotiations can, I believe, be attributed in large measure to poor planning and preparation by both main parties.

The firemen arguably started with unrealistic aspirations, which could not be realised.

At the same time, the local authority employers similarly failed to secure a mandate for the negotiated deal, which central government then refused to sanction.

The result was an imposed settlement which, at best, was perceived by the main parties as win/lose.

**Redress**

Such a result is subsequently likely to turn into a lose/lose outcome as the disappointed party

seeks to redress the balance, either during the term of the agreement or, more likely, at the time the deal comes round for renegotiation.

Like many readers I suspect, as a callow youth in the 1980s I also remember watching on television the acrimonious confrontations during the minor's strike between Coal Board chairman Sir Ian McGregor and miners' leader Arthur Scargill, with regular interventions from the prime minister, Margaret Thatcher.

Far from presenting a model face to face negotiating style - as it appeared to me at the time - the adoption of such extreme positions showed poor behavioural skills which, as it proved, were unlikely to help bridge the gap between the main parties to the dispute.

**Emotion**

A third unhelpful element often in evidence during industrial disputes, and which similarly impacts on many broker/ network negotiations, is that of emotion.

In a volatile market, with a high proportion of established, mature broke-rages, it is not surprising perhaps that the Mazars survey found that more than one third of respondents wished to sell their businesses.

In addition, fully 46% of respondents' growth strategies centred on acquiring a broking business, generally within the next 12 months.

As a result, finding buyers has become an increasingly active area for networks.

Research and indeed, experience have shown that the emotion typically generated by selling one's own company - or relinquishing control, to whatever

degree, within a broader network - is likely to impair rational judgment with the result that the seller can lose sight of the commercial realities.

As Fisher & Ury have so succinctly pointed out in their book, *Getting to Yes*, key to successful planning and preparation is the need to look at the negotiation from the other party's point of view.

By getting behind the *positions* being taken by the other side and determining the underlying *interests*, this enables creative strategies to be developed to find potentially common ground for negotiation.

At the same time, it is critical to make an assessment of each party's strengths and weaknesses and so have an objective view of the power balance going into the negotiation, enabling each party to set realistic targets and objectives.

How powerful you feel has a direct impact on the way you behave.

Feel powerless and you will act powerless, which may not reflect the actual balance in reality.

Similarly, an over-assessment of one's relative power may result in some nasty surprises at the negotiating table.

One of the key outcomes of assessing the real power balance is that it prevents too narrow a focus on what may be negotiable.

Skilled negotiators take a four stage approach:

- **Listing all those issues which you may wish to negotiate, irrespective of their importance or your willingness to make concessions.**



- **Putting yourself in the position of the other party, determining any other issues they may wish to raise which otherwise you are unlikely to have considered.**
- **Assign a priority to each issue, ranking first the issue of greatest importance to you and last the issue of least value (and so most tradable).**
- **Estimate a similar priority rating for the other party.**

Such analysis should help determine where there may be scope to negotiate.

Average negotiators generally do not do this and tend to assume that issues are of equal value to both parties.

By contrast, skilled negotiators use this analysis to achieve maximum leverage in negotiations - everything is a potential trade, nothing is conceded without something in return and always subject to the successful conclusion of the deal as a whole.

Fundamental to any successful outcome is an understanding of which behaviours help or hinder face to face negotiation.

### Insult

Most negotiators will of course avoid insults or overtly unfavourable comments, yet research has found that average negotiators are five times more likely to use irritators - gratuitously favourable comments about one's own negotiating stance, such as "I'm making you a fair and reasonable offer".

Such value-loaded expressions in fact have little or no persuasive power and are more likely to antagonise the other party, by implying that their stance is unfair and unreasonable.

Heightened emotion can further push this into a downward defence/attack spiral including phrases such as "trust you to avoid the issue" and "don't blame me" - which can become increasingly personalised, vitriolic and totally self-defeating.

This is, of course, exactly what happened between Messrs Scargill and McGregor!

Constantly making counter-proposals - or "table tennis" negotiation - also has several disadvantages.

They tend to cloud the clarity of the negotiation and are often seen by the other side to be a blocking tactic, evidencing disagreement, rudeness or an unwillingness to consider the original proposal put forward.

Skilled negotiators use one strong argument to support their case and, only if absolutely necessary, will they introduce a second supporting reason.

Using a string of arguments to bolster one's position - or argument dilution - runs the risk that one will be weaker than the rest and it is this that the other side will attack.

### Credibility

In a legal trial, if the credibility of one witness is undermined then the whole case often collapses, and so it is with supporting arguments.

In the desire to seek information, skilled negotiators spend 20% of their time asking questions, compared to only 10% by average negotiators.

This gives control over the discussion, reduces the other side's thinking time and allows you to find out what the other party is looking for - establishing the rationale underlying the stated position.

Such exploration may indeed expose flaws in that stance, making it untenable and, as a result, securing concessions.

Successful negotiators seek to ensure clarity by constantly testing understanding and summarising, especially where complex and potentially emotional issues are involved.

### Typically

Again, they typically take twice as much time over this, to test both their understanding of the other's position and equally that the other party has fully "taken in" their own position.

In addition, accurate, concise restatement slows the pace of negotiation and evidences a real interest in what the other party is saying.

The emergence of networks has dramatically changed the negotiating landscape for insurance providers and brokers alike.

As they seek to bolster an often precarious position in the face of ever-increasing commercial pressures, they will need to change their approach, both in terms of planning more effectively and changing their negotiating behaviour.

For such companies, the need to "get it right first time" in establishing win/win partnerships is imperative. As the Mazar survey starkly indicates, for many there will be no second chance.