Insurance portfolios

HELPING CLIENTS ADAPT TO THE CHANGING ENVIRONMENT

Long-standing relationships and a suite of specialised programmes help Guy Carpenter's clients to reach their enterprise goals, as US CEO Andrew Marcell explained to Intelligent Insurer.

You have been in your new role just over a year now. What are the biggest challenges you have faced? Any surprises?

Changing market conditions are creating new challenges and opportunities for our clients. Insurers are challenged to grow in an environment of increasing competitive pressures, regulatory and technology changes. Sustained excess capital, the growing influence of convergence participants, low investment returns and diminishing reserve releases add another layer of strategic complexity.

Insurers are also faced with uncertainties surrounding finalisation of the US Farm Bill and the reauthorisation of the Terrorism Risk Insurance Act (TRIA). Additionally, they must now consider emerging perils including climate change, cyber risk and supply chain interruptions—all of which have little historical data available for modellers and underwriters to utilise.

At the same time, they are seeking to achieve long-term growth by pursuing new markets, products and distribution channels. For those

companies that take a strategic approach, a dynamic market presents many opportunities.

To meet our clients' needs, we have created a powerful combination of reinsurance broking expertise, strategic advisory services and industry-leading analytics. Beyond expertise across traditional and alternative risk transfer solutions, our strategic advisory team has a proven track record of providing a full suite of capabilities ranging from insight and analysis to innovation, implementation and transaction execution.

The industry is clearly going through a period of great change, mainly driven by the recent influx of alternative capital. Does this change vary by cedant or is there an overall shift toward more complex programmes that integrate alternative capital solutions?

The influx of new capital entering the sector has been one of the biggest drivers of change in the industry. Around $10 billion of new capital has entered the market in the form of catastrophe bonds, structured industry loss warranty (ILW) products and collateralised reinsurance over the last 18 months, as a growing number of investors have been attracted to reinsurance by higher yields and low correlations. This segment comprises approximately 14 percent of global property catastrophe limit purchased, which is an estimated $45 billion of reinsurance market capacity.

We believe this is an opportunity for our clients to maximise use of the traditional reinsurance market and the diversified capital market products now available. While new capital offers insurers the opportunity to build a more diversified balance sheet, it also requires a more financially sophisticated approach. This allows insurers to broaden coverage. We have created new solutions and customised programmes based on our understanding of new capital sources and each client's strategic, financial, regulatory and operational imperatives.

For example, we took an innovative approach to managing risk in an environment of market capacity reductions. In July, our GC Securities team completed a first-of-its-kind catastrophe bond for the Metropolitan Transportation Authority. This transaction represented an innovative use of the catastrophe bond market for a direct insurance risk that would have been very difficult to cover with traditional insurance products.

To what extent are cedants seeking and listening to the advice of their brokers when making these strategic choices?

We are aligned with our clients today more than ever before. We are helping them maintain their rating agency standing and manage shareholder demands and federal legislation that require a greater level of transparency.

We achieve this through our long-standing relationships with our clients. We partner very closely with them to help them reach a broad range of enterprise goals. For example, one client's process for risk identification, measurement, management, monitoring and reporting was highly effective in supporting risk awareness and risk measurement, but was performed categorically.

The management team was challenged to establish a transparent and measurable risk tolerance/appetite statement supported by an internal capital model. We worked with them to design and implement a reinsurance structure aligned with risk tolerance guidelines that would result in capital efficiencies. Our MetaRisk solution helped the client understand and interact with risk drivers in the business's decision-making process. The client benefited from improved enterprise risk management assessments from rating agencies, more cost-efficient transactions and an elevated governance and risk oversight discipline.

Andrew Marcell

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What changes have you made, and will you make, to ensure your executives are fully equipped to advise on this wider range of options?

We have assembled a team of market-leading experts from across the industry through strategic acquisitions and hiring. By bringing diverse experience and skills, we are able to assemble the necessary resources for our clients as dictated by ever-changing market conditions. Our broad expertise ensures that we can deploy the right teams to respond to clients' needs.

For example, we have launched our Mutual Company and Excess & Surplus Lines specialty practices. Mutual companies are challenged now more than ever as they are confronted with limitations on raising capital, changes in rating agency capital models and new regulatory and compliance guidelines. The Mutual Company specialty practice delivers integrated point-of-sale underwriting capabilities and growth analysis to these clients.

Excess and surplus lines insurance companies face their own distinct challenges. In recognition of this, we launched our new Excess & Surplus Lines specialty practice to deliver advice on peer reviews, actuarial analysis, catastrophe modelling and enterprise risk management.

We continue to invest in our Life and Health specialty practice. In July, we announced the acquisition of the Smith Group, the recognised industry-leading disability reinsurance risk manager and consultant.

Do you think bigger brokers have an advantage in their ability to offer this wider range of options to cedants?

In order to better serve our clients we continue to broaden our offerings beyond the traditional reinsurance broking transaction to include innovative products and solutions and strategic advice. We have been making investments in our business and on behalf of our clients. We have the financial capability to make long-term investments and along with our parent company, Marsh & McLennan Companies, we have the resources to attract the diverse talent that can create pioneering products and solutions.

For example, last year we introduced ProfitPoint+, an integrated portfolio management solution designed to help insurance companies improve profitability, enhance underwriting performance and drive growth. In June the US Patent Office awarded Guy Carpenter a patent for MetaRisk Reserve, our predictive model for the analysis of reserve risk. MetaRisk Reserve's methodology provides insurance companies with a clearer picture of their reserve risk.

We will continue to apply resources to innovating new products and solutions and to delivering the market-leading insights and analysis to help clients achieve profitable growth.

What are your predictions for the way the US market will pan out over the next five years?

We recognise that our regional clients in the US are facing several distinct challenges, including the cost of technology, capital management and profitable growth. Absent major catastrophe loss activity, balance sheets will continue to strengthen and capital will continue to be abundant.

In the US, insurers are using big data and predictive analytics to improve risk selection and pricing and to drive capital and operational efficiencies. That will only increase in the coming years. As US insurers are challenged by low interest rates and mature markets at home, we are assisting them in dealing with the multi-layered challenges of new market entry, from initial assessment to implementation.

By drawing on expertise from across Guy Carpenter, the Marsh and McLennan Companies and best-in-class solution providers, we will continue to turn market innovations into opportunities for our clients.

Moves are afoot to move a number of government-insurance schemes into the private sector (TRIA, floods, aviation, war risk). It would enable private sector growth but is there an appetite for all these risks?

There are many opportunities for our industry to provide private market solutions to public programmes. For instance, Marsh & McLennan Companies recently testified before Congress on the issue of reauthorising the TRIA. Our company supports the reauthorisation and modernisation of TRIA and called the legislation "a model public-private partnership".

We can help carriers explore and contemplate the variety of facultative and treaty reinsurance solutions that are currently available for terrorism events—all of which provide them with the most preparedness and flexibility.

There are other perils as well. Climate change and the resulting coastal flooding is a growing area of concern among governments, the general public, the private sector and the (re)insurance industry at large. □

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