New Solutions Help Mutual Insurers Face Market Challenges

Mutual insurance companies of all sizes currently face challenging market conditions where success requires not only focused distribution and operational excellence, but also access to increasingly sophisticated analytics services and products. How these firms use their resources and advanced technology to respond to these issues will separate market outperformers from underperformers.

The global movement toward more robust enterprise risk management (ERM) practices has prompted new requirements from regulators and rating agencies alike. Increasing external demands continue to drive companies to recognize the value of metric-based ERM frameworks and capital models in evaluating risk. In the United States, rating agency A.M. Best is developing a Stochastic-based BCAR model. Next year U.S. companies are also expecting regulators to require certain larger insurers to begin filing annual ORSA (Own Risk and Solvency Assessment) reports, which will ask more comprehensive questions and, in turn, demand more detailed analytics-based answers.

Furthermore, the use of catastrophe modeling and property exposure aggregate consulting has gone from early fire maps to return-period probable maximum loss (PML) discussions, as well as the examination of tail value at risk (TVaR) and other cutting-edge risk analyses.

Companies that buy reinsurance also need to understand the growing influence of capital providers who are offering a broad spectrum of reinsurance-type products. Many companies no longer just consider an annual contract with fully concurrent terms and conditions. Rather, many now consider an array of structures, markets, and coverages to protect their surplus and earnings from property "events."

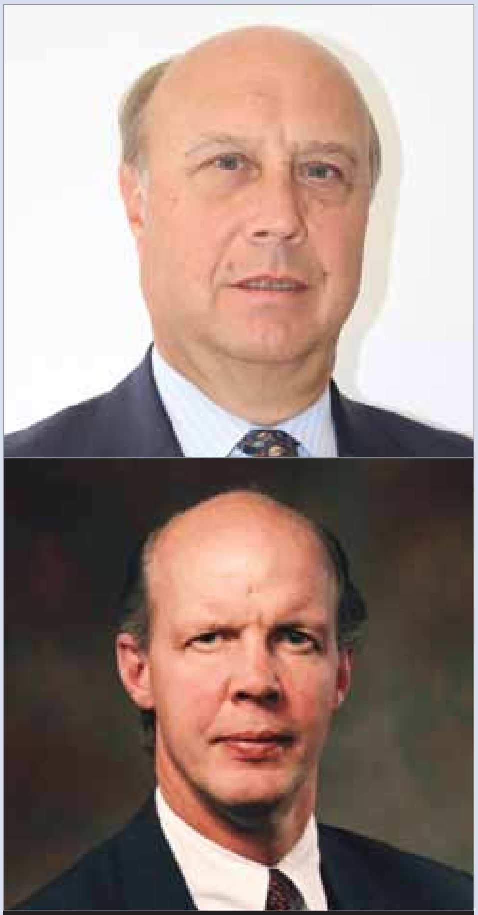
Recognizing these pressures and the evolving nature of this marketplace, Guy Carpenter formally launched its Mutual Company Specialty Practice last year, building on our 90 years of expertise in this area. We now represent 300 mutual companies, helping our clients achieve profitable growth through a suite of economic capital modeling solutions ranging from our Financial Planning Tool, to BenchmaRQ℠, to MetaRisk®, and MetaRisk® Reserve™. We also continue to provide our enhanced catastrophe modeling and portfolio management suite of services, including GC ProfitPoint+℠. This is one of the solutions that allow mutual insurers the ability to better select and price for risk, to create and monitor profitable growth plans, and to understand the key drivers of profitability by business segment.

As more choices become available to quantify catastrophe risk, mutual companies are increasingly challenged to evaluate, decide and discuss their management view of risk. Our Model Suitability Analysis (MSA℠) assists customers in making decisions that are right for them by offering a rigorous exploration of multiple facets of catastrophe models.

Our practice also offers mutual insurers ready access to sources of stable capacity, such as our Property Catastrophe Consortium in London and Bermuda, our Umbrella and Property Facultative facilities, and our Regional Accounts Program (RAP). The RAP program allows small- to medium-sized ceding insurers to purchase reinsurance at competitive terms, conditions and prices. When combined with our client-focused and broad broking expertise, the mutual companies we serve can obtain the most competitive terms and broadest conditions available in the market that suit their needs.

Our increased investment in Rating Agency Advisory experts and services goes beyond just preparing for a company's annual agency review. Our expanded team provides the platform for detailed discussions on capital modeling and adequacy, operational benchmarking analysis to similarly rated peers, enterprise risk management, risk tolerances, how variability around operating results may impact a rating agency's view of the company and addresses the many strategic issues confronting a mutual insurer as it is being queried by rating agencies.

As mutual companies navigate a marketplace shaped by advances in technology-enabled analytics, greater disclosure demands from regulators and rating agencies and new and emerging perils, they are seeking every competitive advantage they can find as they strive for stronger and sustained profitable growth. Clearly "one size does not fit all" and we make it our priority to provide the best internal capabilities and knowledge of external services to help our clients outperform in these increasingly challenging and complex times.



Jay Woods (top) and John S. Haldeman II, Co-chairmen of Guy Carpenter's Mutual Company Specialty Practice