

Guy Carp pushing public/private partnerships

Reinsurance broker Guy Carpenter's Public Sector Specialty Practice has had a busy first 10 months helping clients better manage the financial risks they face in the aftermath of natural disasters.

It is now almost a year since Guy Carpenter launched its dedicated Public Sector Specialty Practice, and the reinsurance broker has been working with more than 100 clients in helping them better understand the financial exposure they face from a multitude of catastrophes.

These clients are based around the world, and range from public entities at the municipal, state and governmental level. Guy Carpenter has been assisting these public sector bodies in identifying their potential exposure to natural hazard risk and then highlighting how they have little, or indeed no, funding to pay for any losses that may arise from such events. The discussion then moves onto how these public entities can address that risk before an event actually occurs.

"We're showing how public/private partnerships can help deal with catastrophe," Britt Newhouse, Guy Carpenter's chairman, told *Reactions*.

"Whether the risk is flood, earthquake, terrorism, or any number of other catastrophic perils that, for the most part, currently rest on the shoulders of government, these exposures are ultimately passed on to consumers and tax payers."

As Newhouse explained, businesses and economies tend to recover much more quickly post-natural disaster if some of the financial exposure associated with such risks is at least partly funded pre-loss through agreements with the private sector.

Often, when these post-event losses are funded purely by governments, emergency payments can take a long time to process and, in some cases, do not always go straight to the businesses that are going to help an economy recover quickly.

"We're working at the municipal, state and sovereign government level," said Newhouse. "We want to identify the risk and show how it can

be distributed across consumers and taxpayers, governments, insurance, reinsurance and the capital markets.

"We're having a lot of interaction with government entities like the New York City MTA, on whose behalf GC Securities placed a catastrophe bond to protect the subway system from losses sustained from flood damage, but we could also do similar things with airports, power grids, utilities – all kinds of government managed and owned infrastructure."

On top of the MTA catastrophe bond, GC Securities also helped US passenger rail service Amtrak access

This closer interaction with public entities also has the potential to be a substantial new source of income for the insurance and reinsurance industry. At a time when economic growth is stymied, and re/insurers are hunting for new growth opportunities around the world, the possibility of providing coverage and an increased level of financial protection to public entities would be an additional revenue stream.

"In general, when the economies of the world don't grow, then the insurable risk doesn't grow," said Newhouse.

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Britt Newhouse, chairman, Guy Carpenter



the capital markets and secure its own bond last year. And Guy Carpenter has been proactively assisting other government entities in assessing their exposure to natural perils.

Since opening the special public sector unit, Newhouse said Guy Carpenter has received plenty of enquiries from interested parties.

"We're being proactive and want to go into some countries and highlight what their potential exposure is to inland flash flooding, or wildfire, or whatever it may be. We then show them the options – either declare an emergency and hand out money to citizens, or we can help you put together some sort of programme that has pre-event financing.

"Ideally, that's where we want to be – to be able to go to governments at all levels and show them the risk they have and then give them options to proactively manage the risk."

"This is an opportunity for the industry, and particularly the reinsurance industry, to grow... First of all you design an insurance product that encourages the consumer not to rely 100% on government assistance. The reinsurance market, and then possibly the capital markets, can stand behind that.

"Guy Carpenter is trying to help governments understand how much risk they really have. We have over 100 public clients around the world that are looking at perils such as terrorism, flood, wind, hurricane, workers' compensation and other risks.

"For some of these large perils, the objective is to spread that risk appropriately across all stakeholders – consumers, private insurer/reinsurers, capital markets and government. This is what resilience and sustainability from an insurance perspective is all about."