

Matrix reloaded

Jason Groves speaks with Guy Carpenter's managing director of speciality practices David Priebe and discovers that knowledge is treated as a company wide asset and shared among broking teams the world over.



Articles across a range of re/insurance topics proliferate on how the industry has changed the way it does business. Most of the analysis tends to focus on transparency, making use of the latest modelling technologies, corporate governance, underwriting controls, regulation compliance and host of other such issues. Management structure is a much neglected topic.

There remain many profiles of company chiefs and other industry leaders. These are interesting insights into how companies are managed and run and give us glimpses of how the goals of leaders are pursued and implemented. But it ignores one of the fundamental shifts taking place across the industry: the radical changes displacing traditional and long-cherished business structures. And the example of one of the reinsurance industry's leading brokers is a good place to start.

Guy Carpenter has been developing and refining its speciality business for some time. With new specialties developing all the time, the brokers at Guy Carpenter have built a system which has done much to encourage, in the words of David Priebe - managing director of speciality practices, "a team-focused group".

The phrase may sound clichéd. But it is not so long ago it was not unheard of for a team of brokers to leave from pitching a company for business only to find that another branch of their own company was going in to compete against them. That might still be called 'team'-work in the strict sense of the word, but not as we know it today. Companies have been forced to become more organised.

MODELS

The most influential thinker on management theory in recent times is undoubtedly Harvard University's Michael Porter. The author of the renowned *The Competitive Advantage of Nations*, among hundreds of other articles, books and other published works, was interviewed by *CFO* magazine in May 2001 and provided some interesting insights into Japanese versus US management culture.

Japan's model is portrayed as one focused on high quality, and mass production that concentrates on building market share in as many segments as possible. Sound familiar? By contrast Professor Porter portrays the US system - which, over the longer term has been more enduringly successful - as more customer-focused and with a greater understanding of market

"Our American friends bring a national identity when they go into Europe, and there's not always a fit. When we see European companies going into the US market they have the same difficulties"

segmentation.

There is no doubt that Japan was very successful in the post-war years. Professor Porter puts this into perspective: "All those are best practices, better ways of organising production, reducing defects, improving efficiency, and so forth. Japanese companies taught the world how important these approaches were. The problem is that when you are competing on operational effectiveness, it's very hard to sustain an advantage, because everybody, of course, tries to imitate."

There is a message here for the re/insurance industry. Improving efficiency alone in order to chase market share alone is not the answer. "Market share isn't a strategy. Market share

might be a good thing to have, but not necessarily. In some industries, having the largest market share is the least profitable position, because of powerful large customers or the presence of substitutes," Professor Porter again pithily observes.

The method by which Guy Carpenter show how they perceive the future of the reinsurance industry is relevant not only to the broking community but also to underwriters and even the many other service providers that serve the industry. The company's speciality business is an example, not of the traditional vertical method of organisation where people of individual specialty remain in a tight-knit group but rather a matrix system where knowledge is treated as a company-wide asset and shared among broking teams worldwide.

The last part is an important part of the strategy. In order to be a "full global broker", says Mr Priebe, "you have to bring the highest level of advice to client and bring the full strength of the organisation." This means utilising global, rather than just local, skills. The matrix system means that a D&O expert in the US is available to a broking team in need of advice in the Netherlands.



Guy Carpenter currently has 14 specialty areas: property, retrocessional workers' compensation, professional liability, life & annuity, accident & health, surety & fidelity, environmental, agriculture, programme managers' structured risk, investment banking and marine & energy. The skills in each area are available to service the clients across the brokers making, as Professor Porter asserts marks out long-term success, customer needs the core of the management structure.

The company is adding to its specialty lines as the market changes and as it builds skills in certain areas. One obvious area is terrorism. The company has significant skills in the area and has an established "terrorism taskforce". With individuals working across a number of lines, it has been involved in all the major European terrorism programmes, such as in Germany and Austria, and also with Tria legislation in the US. "We probably will call it a speciality," says Mr Priebe.

Terrorism blossomed as an issue for reinsurers in the wake of September 11 2001. But it is not the only area where Guy Carpenter, whose head office had been located in the World Trade Center, through their specialty practices, responded to the events of that awful day.

In the wake of September 11, workers' compensation was one of a handful of lines where capacity all but dried up in the immediate aftermath. Through its workers' compensation specialty practice, Guy Carpenter was able to work to reintroduce capacity into the catastrophe end of the business. Along with reinsurers such as Chubb Re, Renaissance Re and Ace, it effectively reinvented the market.

There are other areas where the company plans to launch new specialties such as in market security analysis of credit and credit exposures. Through its already established multi-disciplined taskforce – and using its matrix system – the company believes that it can bring an approach which is broader but at the same time more focused on individual client needs. And many of these needs are being driven by the enhanced corporate governance procedures.

The Sarbanes-Oxley requirement for companies to understand more fully their risk profile has driven some of the interest but many companies are, for the first time, addressing the whole gamut of credit risks attached to their balance sheet, which includes elements of underwriting exposure as well as equity exposure and other areas.

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This, obviously, requires a multiple approach. According to Mr Priebe, Guy Carpenter's sister company MMC's Mercer Oliver Wyman, with its credit risk specialists, has brought a number of additional skill sets to his team allowing it to more comprehensively assess operational risk for clients.

One of the areas where the company is already well established is in the area of investment banking. Are Guy Carpenter in the business of competing with investment banks? "Yes and No" is Mr Priebe's response. The company not only advises on capital market solutions but through MMC Securities, it is able to offer the services of a company that is totally focused on the insurance sector. "Investment banks only have one product to sell," says Mr Priebe. "We have them all."

That said, Guy Carpenter works with investment banks in areas such as cat bonds. "We concentrate on what is most efficient. What puts us in a different space is that we can be a neutral adviser on cat bonds. We often partner with a bank on a bond to broaden its distribution."

With the changing nature of the market, it is not hard to foresee that other areas will develop to justify the need for further specialties. Mr Priebe suggests that through the matrix system, much of this is done organically and naturally with the structure gradually growing up around a set of skills already developing, thus giving it the flexibility to respond to market need quickly and more easily than in the past.

MATRIX BLUEPRINT

It was asserted earlier that the Guy Carpenter matrix system provides a blueprint, not just for the broking community, but for all re/insurance industry service providers. How so? Reinsurers have had to change with the market over the last few years. For a very public and dramatic example of this, one need go no farther than to compare the Lloyd's of today with the Lloyd's of 15 years ago.

Reinsurers are changing the way they approach risk and underwriting. Analysis and risk selection has changed the way business gets done. The successful companies are the ones that have changed their structure so that the full weight of the firm can be applied to understanding the risk it is taking on. Service providers, including brokers, who do not understand this and themselves change to meet this demand, will as a consequence be surpassed by those who do.

Most of the change in recent years has been driven by shareholder pressure to make sustainable, acceptable profits. Again, Professor Porter's piquant advice for Japan is also applicable to the reinsurance industry. "(In Japan) there is little corporate-governance pressure – the board has no outsiders, and shareholders have little power – so Japanese companies never had to earn high returns. As long as they made an acceptable profit and weren't on the verge of bankruptcy, that was OK..."

"A strength of the Japanese system is that it leads to a very long time horizon. Companies don't worry about shareholders, takeovers, or being acquired. But a long time horizon is problematic unless companies also must worry about profitability. Without profit pressures, companies pursue 20-year investment strategies to enter businesses in which they have no chance of succeeding." Again, the resonance of the words is all too familiar.

By adopting a matrix system that is transparently and innately responsive to the needs of the market, the ongoing development of the Guy Carpenter Specialty Practices can show a new horizon to the many companies in the market that rely on a 'good year' and market share to deliver more consistent profit to shareholders.