

# Fac to the future

Guy Carpenter's global facultative unit, GC Fac, looks to an exciting and positive future for the sector. Sal Zaffino, Chairman and CEO, Geoff Bromley, Chairman of the Guy Carpenter's operations in Europe and Asia and Julian Samengo-Turner and Ron Whyte, leaders of GC Fac, discuss the state of facultative reinsurance and the unique opportunities that lie ahead

While facultative reinsurance is sometimes regarded as the quiet little sister of the treaty business, the management of Guy Carpenter's facultative unit, GC Fac, are extremely positive about their future.

Geoff Bromley said, "Guy Carpenter has recognised a growing demand within our client base for a more co-ordinated and effective response to their facultative reinsurance buying needs. In response, we consolidated existing facultative resources and invested in additional talent, all marshalled under a single, global leadership. This has now culminated in the launch of GC Fac, a very exciting initiative for us."

## The New-Look – GC Fac

GC Fac is the new name for Guy Carpenter's global facultative unit. While facultative reinsurance has long been part of the overall product offering provided by Guy Carpenter, there has been a markedly increased focus of leadership and resources in recent years. The U.S. facultative business is Guy Carpenter's oldest, and remains the largest part of the global facultative unit. Guy Carpenter's facultative operation in London was set up five years ago. Soon after, offices were opened in Australia and Singapore. These operations were joined with Guy Carpenter's extensive facultative operation in the United States last year to create a single, global enterprise. The unit draws significant strength from the resources and reputation of Guy

Carpenter and the new-look GC Fac believes substantial growth and world-wide expansion is possible over the next three years. The operation intends to build on its substantial base comprising 26 offices worldwide and a premium volume to the market of over US\$1 billion.

"For us it is all positives," said Julian Samengo-Turner. "GC Fac is a very exciting place to work at the moment – it is fast paced and it is growing world-wide." He sees opportunities for further expansion across Europe, Asia, the United States and Latin America. He also expects to move into new product lines.

As part of the increasing emphasis on the business, Samengo-Turner invited industry veteran Ron Whyte to jointly run the operations with him. Both believe that the climate is right for expansion given the radical changes in the brokerage world in the past five years. After the terrorist attacks of September 11, 2001, the litigation resulting from contract uncertainty with the World Trade Center has changed the way brokers work.

Then came the investigations by New York State Attorney General Eliot Spitzer, which have brought dramatic reforms to the industry. These events, plus the advent of a softening market, have turned the industry on its head and challenged conventional business models, particularly as regards the supply of capacity in the retail, wholesale and reinsurance markets.



**Julian Samengo-Turner**



**Ron Whyte**

At GC Fac these very changes are seen as the catalyst for growth and are welcomed with open arms. Rather than being seen as negatives Whyte said recent events had opened many doors of opportunity for a focused facultative business model.

## A Global Commitment to Transparency

In December of 2004, Guy Carpenter announced its commitment to transparency regarding its compensation by introducing the industry's first Global Disclosure Doctrine for treaty placements. In May of 2005, Guy Carpenter expanded its disclosure policy to include facultative placements worldwide. By extending the policy, the company has now implemented a single "Global Disclosure Doctrine" that addresses all reinsurance placed by the company throughout the world. Guy Carpenter remains the only reinsurance intermediary to implement such a policy on a global scale.

"We made the commitment to lead the industry through our actions by implementing a policy that supports full disclosure on a worldwide basis. In addition to fostering better decision-making, transparency can only strengthen the bonds of trust between client and advisor," said Sal Zaffino. "Trust is an issue of fairness, not geography," Zaffino added.

Guy Carpenter's Global Disclosure Doctrine outlines

procedures and rates of brokerage for treaty reinsurance placements and introduces protocols for facultative reinsurance placements. Facultative reinsurance business varies in complexity, structure and variety of solutions, and is complicated by line of business and geographic region. Still, Guy Carpenter has committed to a global policy.

Accordingly, GC Fac presents all new clients with a copy of the Global Disclosure Doctrine when they begin to work on new facultative business. "We disclose to clients a range of brokerage rates applicable to facultative reinsurance transactions in the regions of the world in which we operate. Any upward deviation in brokerage rates will be disclosed to the client," Whyte said.

But GC Fac's approach pre-dates recent industry investigations. "If you look at the industry prior to the Spitzer investigations last October, most large brokers had integrated models, with facultative as part of that model," he said.

Guy Carpenter was ahead of the game when it created a dedicated facultative entity, thus creating the separation from any retail operation, which is now the standard. "And now that Guy Carpenter is again an independent operating company reporting directly to the CEO of MMC, we are ideally positioned to offer our clients what they need," says Whyte.

#### **Uniquely Positioned for Growth**

"Before us there was no dedicated, global facultative broker," said Samengo-Turner. "We can deal with cedants from all parts of the world on all lines of business, but at the same time build upon the best reinsurance brand in the business. Our reach is already global and we already have outstanding relationships with our clients giving us an enviable head start on the competition.

"Other brokers have fully integrated models comprising retail, wholesale and facultative. We believe this approach leads to a lack of focus and potential conflicts of interest. Others are focused, but lack our size and scope. It will be a challenge for them, but we believe the major brokers will eventually recognise that they have to move to an unbundled business model," he said. "Meanwhile, we're happy to

have the space to ourselves."

He also stated that if GC Fac stays focused on its strengths and retains the purity of its model, it could provide a good and unthreatening service to captive managers, captive brokers, retail brokers and cedants on a global basis. "Quite simply, if we provide quality resources and quality services, our prospective client base is manifold," he said. Whyte added, "Virtually anyone in our industry is a potential client."

Whyte believes that the role of the "in-house" wholesale broker will now be challenged and their value questioned by clients with a consequent pressure on earnings.

"Likewise," he said, "there is pressure on retail placement earnings. This will inevitably lead towards a reduction in both talent and resource on the direct and wholesale broking front.

Considering the need for brokers and insurers to avoid any hint of inappropriate behaviour, and the increasing desire of insurers to control their own retention, we expect an increase in gross line underwriting and the demand for facultative services."

This will be driven further by the desire of original insureds to focus their relationships on fewer, larger carriers.

GC Fac management aspires to enhance the image of the facultative reinsurance product and help clients to utilise the product more strategically. While there will always be opportunistic purchases in the market, experience shows that some transactions have been quite unstructured and even inefficient for clients. "This is no longer acceptable," said Samengo-Turner. "Most of our larger clients now want to better understand what, why and where they are purchasing fac. Not only that, but in a fast moving environment where insurance carriers need to respond more and more to unusual demands, our clients increasingly need swift, one-off solutions not always accommodated by their treaties."

Guy Carpenter has been actively recruiting new colleagues and is confident GC Fac can attract the very best in the business. Whyte said, "Facultative reinsurance is seen as an interesting and dynamic area at the moment. We are growing, we have the best brand and infrastructure in the business,

and we are ready for this. So the right talent will come to us, we have no doubt about it."

"GC Fac is a very exciting place to work," said Samengo-Turner. "As for market issues, they are all positives for us at the moment."

Product line development includes further expansion into marine and energy including the hull and rig areas. GC Fac also expects to expand offerings in financial products, construction and accident and health.

Geographically, Asia is seen as having huge potential. Guy Carpenter already has a growing presence there through its operations in Singapore, Tokyo and Seoul. China and India are also seen as presenting exceptional long-term prospects as well.

Australia is another area of significant opportunity. Michael Lazarus recently joined GC Fac in Sydney to lead that growth initiative. "Michael brings significant reinsurance experience to our team," said Bromley. "His appointment reinforces our ongoing commitment to develop our facultative business in this important region."

And Europe certainly cannot be overlooked. "Although the role of the facultative broker in Europe has been somewhat limited historically, we believe that changes in the way the market operates will open up increasing opportunities for us," Whyte said.

"For us getting the right people in the right places is key to our success," he added. "We need to develop our business in terms of both geographic spread and product line capability – and that is what we are doing."

In 2005, Guy Carpenter has already made significant new investment in the facultative business with 20 new colleagues having been added to the already substantial global team and with more new hires to come. Development plans include several new offices around the globe.

The launch of GC Fac is evidence of the increasing focus Guy Carpenter is placing on facultative business globally. "Working closely with our treaty colleagues, we know that a well resourced and truly focused global facultative capability will help us to provide even more effective solutions to our clients around the world," Samengo-Turner said.