You can always get what you want

David Spiller believes it is time the increasingly important facultative arena is finally given the recognition it deserves.

David Spiller is president and chief executive of Guy Carpenter.

The role of the capital markets in providing solutions in the reinsurance marketplace has been much lauded but what about the increasingly important interplay of treaty and facultative markets in delivering optimal reinsurance solutions? Is it not about time we gave the facultative arena its due?

Facultative reinsurance has long been accessible for insurers seeking to address risks that fall outside their treaties and to 'plug holes' in reinsurance treaties. Treaty reinsurers typically place limits on the size of risks that they cover. Fac underwriters can take on the excess limit needed by insureds. In the changing world in which we live, new risks, such as terror, pandemics, or increased wind exposure, are continually emerging. Fac writers are there to address voids in cover created as treaty reinsurers pull back.

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Such facultative solutions are being deployed with greater frequency and with far greater ease and effectiveness than ever before. Why?

Bow to the almighty triad of claim recoveries, underwriting and pricing. Advances in each of these critical areas has enabled the facultative market to essentially reinvent itself... precisely when insurers, who are lugging increasingly diverse portfolios, are ready to embrace it.

Claim Recoveries

Gains have come in the area of facultative recoveries. Until recently, within some companies the systems needed to identify Fac recoveries were weak. Information tended to be siloed in separate areas, such as underwriting, claims and ceded reinsurance departments. With better systems in place, insurers are able to collect on facultative recoveries that might otherwise have gone unclaimed. Brokers like Guy Carpenter also have become proactive in establishing systems such as "FacExchange," where we analyse company claims data and unearth unclaimed reinsurance recoverables.

Underwriting

The underwriting of facultative risks has catapulted ahead, with standards raised and new guidelines established. After years of volatility and historic high loss levels, a healthy underwriting discipline has settled in and become the norm, encouraging a financially stable marketplace to take root and spread around the globe.

The facultative underwriting process is also becoming easier, even as the end products get broader and better. In the past, the industry often reinvented wheel after wheel, negotiating terms and conditions for each individual risk in a lengthy, complicated process. Now, taking a cue from their brethren on the treaty side of the business, some facultative 'facilities' are standardising terms and conditions. The resulting broad forms are enabling everything from Fortune 500 companies to mom–and-pop stores to be covered with consistency.

Improved data collection is fueling the effort, helping to make underwriters more comfortable writing particular types of risks in turnkey fashion. The great strides our industry has made in modelling and analysing overall risk portfolios are also stepping up the facultative market's ability to understand and underwrite individual risks.

In certain climates, e-trading and technology is infusing new efficiency. Guy Carpenter's GCFac unit recently introduced STEALTH (Sabotage and Terrorism Electronic Application Linked to Hiscox), a new facility that is allowing brokers in Latin America to deal directly online with Hiscox to secure facultative coverage for political risks in several local markets. More such facilities are sure to come.

Pricing

In this environment, facultative markets — and cedents — rightfully have new confidence in facultative reinsurance pricing. A better understanding of the risk, combined with the elimination of extra expenses from the process of underwriting it, are also keeping facultative pricing competitive.

Greater certainty in recoveries, coupled with sound coverage, markets and pricing. What more could a ceding company want?

It should also be remembered that Fac plays a critical role in assisting companies to manage their capital through the cycle. By providing capacity in areas that are hard to insure, including catastrophe-prone exposures, the Fac market allows companies to manage their capital relative to their exposure, while at the same time addressing their clients' needs for cover.

Once viewed by some as competing forces (much the way capital market and reinsurance market capacity were long ago), facultative and treaty reinsurance seem now to be living in harmony. Insurers, it seems, now can not only get what they need in the facultative arena, they can get what they want. re

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