



# Peter Zaffino

The new chief executive officer of Guy Carpenter & Company, who took over at the end of February, gives his view on the role of the reinsurance broker, and the challenges facing the reinsurance broking market.

**The broker's role in the reinsurance industry is both evolutionary and revolutionary. As the nature of the risk management business has evolved, so too has the role of the broker.**

More importantly, brokers have been catalysts of change in the identification and quantification of new risks and the creation of innovative solutions. From a unique vantage point as intermediary, the broker continues to be an integral part of a dynamic marketplace.

Societal, natural and governmental trends certainly shape the risk environment. By nature, risk is not static, and the relevance of the broker in the insurance and reinsurance marketplace is defined in part by the ability to help clients find the solutions they need in a changing world. By necessity, brokers adapt to the impacts of risk trends in order to respond to client needs effectively.

Societal changes can lead to new types of risk and a need for innovative ways to transfer it. An increasing tendency toward litigation in some countries, for example, led to the creation of employment practices liability and directors' and officers' liability products. As primary carriers began to address shifts in society, reinsurance brokers were by their side, developing risk transfer methods to manage exposures effectively.

Brokers have also been revolutionary in addressing societal trends. Take the field of cyber liability. As issues of copyright violation and "cyber hurricane" emerged, reinsurance brokers developed frameworks for analysis and reinsurance products for early adopters on the primary insurance side. Guy Carpenter, for example, developed innovative thinking around the issue of

nanotechnology. We anticipate that this will assist our clients in addressing the threats that may emerge alongside technology innovation. As impact projections on the cost of a potential pandemic reach stratospheric levels, brokers are once again bringing reinsurance solutions to the market to help spread the risk.

Mother Nature presents new challenges for the industry each time severe conditions cause catastrophic losses. For instance, as insured losses from windstorms have increased in severity around the world, demand for reinsurance protection has grown. Insurers and reinsurers alike must understand the threats posed by weather patterns on a deeper, more scientific basis – hence the need for in-depth modelling. Perhaps nowhere is the revolutionary role of brokers more evident. Instead of simply adopting new models, brokers invest time and money in developing and improving them. Further, brokers championed the search for new capital to address the growing threat of mega-catastrophes. They developed risk transfer mechanisms like catastrophe bonds to expand available capacity beyond the reinsurance industry. As a result, the depth and breadth of capital markets became available to insurers and reinsurers.

While modelling is undeniably important, brokers need to stay at the forefront of cutting-edge technology in all forms. For example, Guy Carpenter introduced the i-aXs platform and its suite of web-enabled tools to allow insurers to better manage exposure and loss data in real time. Harnessing technology like this, and putting it into the hands of clients, allows insurers to identify areas for growth, monitor potential loss scenarios within portfolios and analyse

catastrophe data – revolutionising risk management yet again.

Governments also play an increasing role in insurance markets. A critical factor, of course, is that they tend to be reinsurers of last resort. As wealth increases around the world, potential losses from mega-catastrophes have reached levels that strain the ability of even the global insurance industry to provide ample protection. Over the past decade or so, governments in places as diverse as France, Turkey, Taiwan, Australia and California have set up catastrophe programmes that address the potentially devastating impact of natural and manmade perils, including earthquakes, storms and terrorism. Brokers have worked with governments and aid organisations, such as the World Bank, to evaluate and create mechanisms for adequately managing the risk of extreme events.

What hasn't changed is the broker's fundamental commitment to the needs of our clients. It starts with the very basics of customer service: we listen and create solutions that deliver value for our clients. Not very revolutionary, but it is still effective. We work directly with clients to gain a deep understanding of their needs, both in addressing current challenges and in responding to developments outside the industry. Equipped with that thorough understanding, brokers engage an ever-growing group of sophisticated collaborators with wide-ranging capabilities to develop and execute solutions for each individual client.

In my estimation, it is the very strong relationship between client and broker that forms the foundation for evolution and revolution. Given that we've seen mostly positive change as a result, I believe we can call it progress. ●