

# The world according to Guy Carp

Anyone who thinks Guy Carpenter is happy to be left in the shade following Aon buying Benfield had better think again. Since taking over as CEO last year, Peter Zaffino has knocked the firm into shape, bought US broker Collins and is now targeting aggressive growth in Europe.

When chief executives are announced with immediate effect, it is normally a sign that all is not well at the firm. And so it was with the appointment of Peter Zaffino as chief executive officer of reinsurance broker Guy Carpenter on February 27 last year.

Guy Carpenter's parent, Marsh & McLennan Companies (MMC), had appointed industry veteran Brian Duperreault as its CEO a month earlier to turn around the broking powerhouse. MMC was struggling to produce good returns. The biggest problems were at its insurance broking arm Marsh, which had not recovered from former New York attorney general Eliot Spitzer revealing bid rigging at the firm in 2004 and removing contingent commissions as a lucrative source of income.

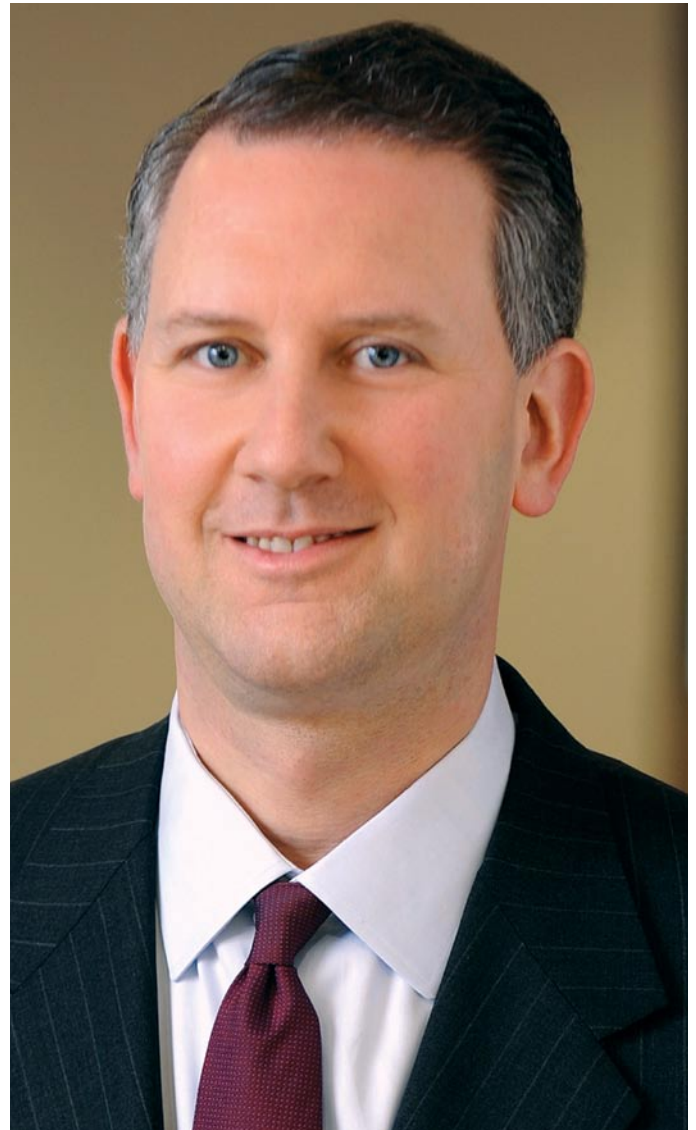
The reinsurance broking division had not been free from problems, however.

Duperreault clearly thought change was needed. Zaffino's appointment was one of his first actions as CEO. Zaffino replaced David Spiller, the former CEO of Benfield's international operations. Spiller had only been in charge for a year-and-a-half.

Zaffino, who was previously executive vice-president and head of US treaty operations, represented a link to the firm's past. He is the son of Sal Zaffino, who led the firm between 1999 and 2006. On taking over, the younger Zaffino quickly surmised there was work to do.

"We took our eye off the ball a little bit on the sales process," Zaffino told **Reactions** in an interview in his Manhattan office. "There were a lot of changes within our organisation, as well as in MMC. So I think there were a fair amount of distractions.

"Then Brian Duperreault came on board and clearly his leadership and stability for the organisation gave us the platform on which we could focus more on the external client and



think about how we could drive the organisation forward."

Zaffino wanted to get to the bottom of why Guy Carpenter was underperforming and what could be done about it. He set about a strategic review.

"We took a fresh look at the organisation and dug into many facets," says Zaffino. "One is that we looked at the structure of how we want to service our clients. Secondly, because we were underperforming the industry relative to growth, we wanted to dig deep and understand that a little better. Once we looked at that, we could come up with a strategic plan for 2009 and in the future."

## Knocked into shape

The first task was to restructure the company, to get more efficiency in areas such as broking, client support services and analytics. This included reducing duplication of work and eliminating investments that were producing poor returns.

"Some of the main areas we focused on were where we could gain efficiencies through processing of claims and accounting," says Zaffino. "We were also able to have a better look at much more efficient ways of investing in our technology platform. In the past we have made investments in technology, not necessarily understanding what the yield of that investment would be. We have been much more disciplined in how we approach that in 2008 and 2009. We have cut back on some of the investments we had going, where we were just throwing more good money after bad."

This helped the firm cut costs. In addition, there were layoffs. In 2008, 368 people were made redundant at Guy Carpenter.

But the firm's strategy involved more than just cost-cutting. Zaffino wanted to change the way Guy Carpenter did business, so that it would not lose sight of the customer.

"We changed our organisational structure to respond more quickly and more thoroughly to the sales process," he says. "We were able to take a lot more of our executives and create a sales organisation within Guy Carpenter and have them pushing out sales 100% of the time. That has yielded tremendous results in the short run, and we believe it will yield even better results in the long run by pushing out more RFPs [requests for proposal] and finding ways to cover areas where we may be more underweight. The execution piece of the sales process has changed dramatically in my view in the past 12 months."

The changes appear to be working. Brokers do not reveal measures of profitability for their reinsurance arms, but Guy Carpenter has been growing in the past year. Guy Carpenter's revenue in 2008 fell 6% to \$803m from \$854m in 2007. The firm said this was the result of declining reinsurance premiums. In the first half of this year, however, its revenues increased 11% to \$508m, compared with \$460m in the first half of 2008.

"For the first six months we have had strong organic growth of around 10%, which we are very proud of," says Zaffino. "All of the strategic initiatives we undertook in 2008 are paying dividends in 2009, and we like how that looks for our future and for the rest of 2009 and 2010 for organic growth."

Growth has not been the only thing on Zaffino's mind, however. The reinsurance broking industry underwent a market changing event while Guy Carpenter was assessing its business. Aon firmly put to rest any doubts about which reinsurance broker was the largest by pulling off the audacious acquisition of Benfield. Suddenly Guy Carpenter's 25% market share looked relatively small.

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Peter Zaffino, CEO of Guy Carpenter

"That changed the landscape of the reinsurance broking industry forever," says Zaffino. "[Aon Benfield] are enormous. They have about a 45% market share. We needed to make sure that we were in a position ourselves for growth, and make sure that we are in a position to be able to compete with them."

It could have been a very different story. MMC chief Duperrault revealed to **Reactions** in an interview in November last year that he had considered making a move for Benfield.

Guy Carpenter's now much larger rival has altered the competitive environment. On top of this, conditions for reinsurance brokers remain challenging. Reinsurance pricing is stagnant and shows little sign of improving, meaning the commissions received by brokers are also likely to remain flat or even fall.

But Zaffino is confident Guy Carpenter is now in a position to grow, regardless of the condition of the wider reinsurance market.

"We needed to be pushing the sales organisation much more, making growth a huge focus and not necessarily relying on market conditions to increase brokerage and increase margins," he says. "If everything remains constant, it is going to mean modest growth in the [reinsurance broking] industry, but we believe that there are opportunities for growth if you are strategically aligned with your clients."

### Acquiring firms and people

The firm is now targeting growth through expanding into areas in which it feels it is underrepresented and through acquisition. If the actions Guy Carpenter took in 2008 seemed defensive, the actions it has taken this year have put the firm strongly back on the offensive.

First, it did an acquisition of its own. In March, the firm announced it was to buy John B Collins, the world's seventh-largest reinsurance broker, for an undisclosed fee. The deal closed the following month.

Collins's business is predominantly US-based, an area in which Guy Carpenter was already very strong. But Zaffino says Collins has boosted Guy Carpenter greatly in specialty areas.

"Collins was industry-leading in medical malpractice and healthcare, which for a small broker is unique," he says. "Guy Carpenter has a strong professional liability platform but we are underweight relative to Collins in medical malpractice and healthcare, so that was a nice bolt on right away."

He adds: "We had a strong agricultural and crop presence, as did they, so we have just strengthened the team. In addition, they had a strong regional presence, and were very good at MGA [managing general agency] and programmes business. Also, they were able to penetrate Florida and have a meaningful participation there."

Guy Carpenter also made a number of high-profile appointments.

In June, Richard Booth was appointed vice-chairman to help set the overall strategic direction of the firm. He was most recently vice-chairman of transition planning and chief administrative officer at American International Group and chairman of Hartford Steam Boiler, of which he was president and CEO between 2000 and 2007.

Shortly afterwards, Henry Keeling was appointed president and chief executive officer of international operations. Keeling was chief operating officer at XL before leaving the firm in 2008. He ran the Bermudian firm's global reinsurance operations between 1998 and 2005.

In addition, Chris McKeown was appointed CEO of Guy Carpenter's global analytical and specialty practices. He was previously president and CEO of CIG Re and New Castle Re, and a former CEO of Ace Tempest Re's Bermuda company.

Aidan Pope was appointed CEO of Latin America and the Caribbean for Guy Carpenter, having previously served that role for Aon Benfield. In addition, Britt Newhouse, who was appointed chairman at the same time Zaffino took over, is moving to London from Guy Carpenter's New York office to concentrate on improving the UK business.

Zaffino is now confident he has the management team to achieve his goals. "We believe our executive management team is set," he says.

### Next stop: Europe

Zaffino has targeted several areas where he feels Guy Carpenter is underweight. The firm is now aggressively pursuing them.

Europe will be the main growth area for Guy Carpenter. Achieving this is Keeling's task. Keeling started his newly-created role as CEO of international operations on August 1, taking responsibility for Guy Carpenter's operations outside the Americas, including Bermuda, as well as the firm's marine and

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◀ energy, aviation and retrocession businesses.

"We want to grow our international operations," Keeling told **Reactions** at the Monte Carlo *Rendez-Vous* in September. "Guy Carpenter has not achieved the profile in the international markets that it deserves. My ambition is to build that profile and build that market share by bringing better people into the organisation and better products to our customers."

The continental European market is a particularly attractive growth area because of Guy Carpenter's relatively small market share in the region, Keeling says. Guy Carpenter is about a third of the size of Aon Benfield in this market.

"We are a large placing broker [in Europe] but we are a relatively small ceding broker. I think we can build our business across the board there," he says.

He adds that there is demand for a wider choice of brokers in Europe because of Aon Benfield's large market share. "Clients are concerned about concentration. They want to have alternatives," he says.

The firm recently hired a team covering Belgium, the Netherlands and Luxembourg, which Keeling says is an area in which Guy Carpenter plans to grow. It has also hired a new



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Henry Keeling, president and chief executive officer of international operations at Guy Carpenter

team for central and eastern Europe.

"Within the other markets, France and Germany represent good opportunities for us because our market share is really quite small," says Keeling. "We have very strong teams in Iberia and Italy, where we do good business already, and I think again we can grow there."

Guy Carpenter's ambitions do not stop at continental Europe, however. Although this area will be the priority in the next three years, there are other areas in which Zaffino wants his firm to grow.

"Continental Europe is the primary focus," says Zaffino. "Second would be our specialty areas. Marine and energy is an area where we would like to make more investments and find ways to grow, for example. And third would be in the mid-west of the US. In addition, we believe we can grow in Latin America, where we would like to grow our treaty book so we have much more of an even split between treaty and facultative."

Keeling adds that new teams are likely to be brought in to take advantage of opportunities in other countries and regions.

However, unlike Aon Benfield, which expanded its market share through acquisition, Guy Carpenter will grow mostly organically. "There is nothing left to buy," says Keeling. "In my mind that makes the answer easier. It makes our job much more focused."

Zaffino agrees with Keeling. "We won't rule acquisitions out, but there is not a lot out there," he says. "Most of the

consolidation has already happened. But there are a couple of other niche brokers that might be interesting over time, so we would never rule out looking at additional acquisitions."

This was proved as **Reactions** went to press, when Guy Carpenter announced it was to buy London-based reinsurance broker Rattner Mackenzie from specialty insurer HCC Insurance Holdings. Rattner Mackenzie places Houston-based HCC's reinsurance programmes in the London market, as well as servicing a number of third-party clients.

Guy Carpenter said the transaction is consistent with its strategy to supplement organic growth with targeted acquisitions. The firm is now the main provider of reinsurance intermediary services to HCC as a result of the deal.

### Brave new world

After being knocked back into shape, Guy Carpenter seems ready to tackle any challenges the reinsurance broking world throws up. Some of its smaller competitors may not be so ready, however. Zaffino believes more consolidation is likely among his smaller competitors.

"I would expect to see some more consolidation with some of the smaller brokers who are going to look to see where they can strategically align themselves with a larger intermediary," he says. "A lot of the intermediaries have built nice portfolios and they have good people, but they are very niche and are in a small sector of the industry."

He adds: "Clearly scale has its advantages. It is going to be hard for smaller intermediaries to compete in the core business worldwide. Large insurers want to have the analytical capability and to have the people around those capabilities to be able to provide professional advice. We believe we are well positioned to do that working within a large organisation."

Some buyers have expressed concern about the dwindling choice of reinsurance brokers. But Zaffino says the business these days requires large brokers. The modern reinsurance broker does much more than just place business. It must provide the latest cutting-edge modelling and analysis, and work in more of a consulting role.

"What I hear more often is that clients want a partner," he says. "They want someone who can help with their strategic direction and they want someone who understands their business as a consultant and helps them think through the areas and businesses they should be in, and how they can improve their portfolio optimisation."

"They are looking for more value from their partners and therefore that would lead one to conclude that the larger brokers are going to be able to deliver more value."

Zaffino says this was a point rammed home by the financial crisis.

"Look at the financial crisis and what type of advice a reinsurance broker has to provide to clients when capital is at a premium and one may not be able to access more capital in the event of a loss or the event of a reduction in their asset base. It was more than just reinsurance. It was talking to them about what the outlook was with their capital, how we are talking about enterprise risk management, and how we are taking that capital discussion and thus making reinsurance offerings and solutions that help them think through their capital base."

"The industry was forced to think that through very thoroughly last year and I believe the reinsurance intermediaries that were prepared to do that fared better than the ones who were not." ●

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