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The Growing Role of the Reinsurance Broker



**From Transaction Centered to
Strategic Advisor**

**2013 Seminar on Reinsurance
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GuideOne Mutual Primer: For Context

Faith-focused Specialist

- Target faith-based insureds
- \$508M of DWP in 2012
- ~75% Commercial Lines
- ~25% Personal Lines

Financially Secure

- A.M. Best Rating of A
- Surplus of \$515M
- P/Surplus Ratio of 0.9:1
- Wards Top 50 Company

4 Core Segments

- A Top Writer of Churches
- Senior Living Communities
- Colleges/Universities
- Personal Lines

Covers Full Spectrum

- Nationwide Writer
- All Key Comm'l. Coverages
- Admitted and E&S Channels
- Direct and Brokered Channels



Agenda

- Historical context
- Current state – broad overview
- Current state – detailed example
- Future expectations?

(Note: For this presentation the use of the term ‘broker’ means not only the individual broker but the entire team behind him/her.)

Historical Context

Pre -
1992

Most buyers not actuaries or technical/analytical buyers.

Property CAT modeling not widely utilized.

1992 -
2000

Most buyers still not actuaries or technical/analytical buyers but starting to be involved.

Property CAT modeling utilized more widely.

End of decade buyers expected assistance from brokers on CAT modeling and started to give edge over direct markets.

Historical Context

Pre -
1992

Actuarial support/analysis quite limited.

Transaction based:

- Program design and placement
- Drafting and negotiating contract wording
- Processing premium, claims, LOC
- Market security guidance/assistance

1992 -
2000

Actuarial support/analysis emerging but still limited.

Transaction based as before but added:

- CAT modeling services
- Ratings advisory and support

■ Current State – Broad Overview

Current State – Broad Overview

2000 -
Present

Technical buyers now the norm (actuaries, CFO's, etc.) or heavily involved if not the buyer.

Property CAT modeling core, required service.

2000 -
Present

As time progressed, CAT modeling services grew

- Assist in managing property portfolios and concentrations
- Dynamic Portfolio Optimization (DPO) and the like to more smartly reduce exposures in peak zones
- Pricing support such as allocation of reinsurance costs to geographical areas, market segments, etc.

Evolution of Actuarial Services

Actuarial analysis/support much more extensive.

2000 -
Present

Experience analysis

Exposure analysis

Reinsurance
experience studies

Stochastic modeling of
structures/reinsurance
alternatives

Highly
technical/modeling
ratings
advisory/support

Risk transfer analysis
routinely conducted

Economic capital
modeling training and
support

■ New Markets for Risk Transfer

- More alternatives for risk transfer to consider.
 - Catastrophe bonds
 - ILW's
- Adds options and complexity to structure.
- Considerations include:
 - Fit into existing program
 - Added value versus transaction costs
 - Risk considerations: basis risk, collateralization, single shot, reaction of traditional reinsurance partners, etc.
 - Gaining acceptance of senior management

2000 -
Present

Value Added Services

By the end of this timeframe, brokers differentiating themselves based on providing other technical services not directly related to reinsurance.

2000 -
Present

**M & A
Assistance**

**Capital
Management
Advisory
Services**

**Price
Optimization
Tools**

**Predictive
Modeling**

**Economic
Capital
Modeling and
Optimization**

**ERM
Consulting**

Services provided either directly or with strategic partners.

■ Drivers of Change

- Brokers trying to differentiate themselves.
- More technical buyers and technical professionals heavily involved.
- The world is becoming more complex and stakeholders demanding more (regulators, rating agencies, shareholders, etc.).
- The tools to analyze and manage risk are becoming more sophisticated enabled by advances in technology.
- Risk is being thought of more holistically and reinsurance is becoming integrated in a broader toolkit of risk management solutions.

■ Current State – Detailed Example

- Been a bit academic to this point but let's shift the emphasis and make it more personal from a cedent's perspective.
- Examine detailed example of something that has changed/is changing regarding expectations of brokers.
- Give you more insight in how a cedent thinks and what we expect.
- Given we are in Bermuda, let's pick on the evolving expectations regarding CAT modeling services.

Expansion of CAT Model Knowledge

While a core service for some time, expected expertise in CAT modeling has risen due to RMS v.11 and the increased weather losses in recent years.

What model or models can I or should I rely on?

Help me understand their strengths/weaknesses.

Describe the different approaches of the models and how that impacts the primary classes of business and geographical areas I write.

What are key assumptions I should know about such as any default mapping of codes from our data into the models?

How well do they work for severe thunderstorms and tornados?

Expectations Around CAT Models

Be Experts

- Have relationships with the major modeling vendors, and expertise in their models, for every available peril.

Know Us

- Understand our exposures well enough to know how each model deals with our mix of occupancies, construction, locations.

Educate Us

- Transfer to us as much of your model knowledge as we have appetite to learn.

Be Proactive

- Find out what we don't know about CAT modeling and tell us where we have gaps that need closing

This doesn't get any easier in the future as the models start to allow for company customization.

Needs Beyond the CAT Models Themselves

- Give us alternative ideas/techniques to the models to help manage CAT risk.
- Create mapping tools to help us see and manage where our risks are and how to underwrite them.
- Give us timely updates on storm paths that overlay our risks to get a quick assessment of how bad a storm might be and to help in deploying the right number of adjusters.
- Improve our catastrophe concentration management.
- Have the bandwidth to handle peak periods of modeling demand.
- Convey to us what is important to reinsurers and how they think about models and our book of business.

■ Future Expectations?

■ Enterprise Risk Management (ERM)

The growth of the ERM discipline has put the reinsurance purchase in a whole new context.

ERM demands a holistic look at managing an enterprise's risks.

Gaining momentum

- Company's starting to realize value
- Solvency II, ORSA
- Rating agency emphasis

ERM Driven Questions

What is our corporate risk appetite and how does my reinsurance program fit into that?

How do we measure and monitor against our risk appetite?

What is our required capital and how do I calculate that?

How do I take our corporate risk appetite and connect that in a meaningful way to risk categories such as catastrophe risk, reserve risk, market risk, strategic risk, etc.

What growth can we comfortably sustain but do so within our risk appetite?

How do I go beyond just managing my property concentrations to optimizing them?

Risk Appetite Assistance

Structuring a reinsurance program gives the broker a natural platform to help a company define its risk appetite.

- Develop tools to help a senior management team and Board of Directors understand their risk appetite at a corporate level across a number of dimensions (earnings volatility, solvency protection, liquidity, brand equity, etc.)
- Help us articulate that appetite and communicate it in a meaningful way with key constituents.
- Provide advice/calculations on measuring and reporting current (and trending) position of the company against that risk appetite.

■ Risk Appetite → Risk Limits

While having corporate risk appetite statements is a great start, it is not sufficient. Expectations for ERM are also changing.

- A solvency standard typically means nothing to a front line underwriter pricing a piece of coastal business. Need to drive it down into the organization.
- Cascade corporate appetite to major risk categories and make explicit connection.
- Again, use catastrophe risk as an example.

■ Developing CAT Risk Limits

How do I know when I have built up enough CAT risk in an area that it starts to violate a corporate risk tolerance?

How do I better manage my concentrations and make an explicit link to our corporate risk appetite standards so I don't just violate them but I have warnings well before I violate them?

Better yet, how do I optimize my portfolio to get the most growth I can but minimize the pressure on my risk tolerances?

Out of scope to address these in this session but ...

■ Connection To Brokers

- The point is that a natural place for help in making these connections is the brokerage firm who has the CAT modeling capability and the actuarial firepower necessary to parameterize appetite statements and create optimization functions.
- Once done here, have the methods to extend to other major risks such as reserve risk, market risk, etc.

Conclusions

- The world has become more complex.
- Expectations for the broker has changed, are changing and will continue to change.
- Broker has moved from transaction based to strategic advisor.
- The move has been a boon for actuaries and more opportunities await in the future.

Thank You!



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