The problem with big brokers

Cedants are not getting the innovation or creative thinking they deserve from the bigger players and should consider an alternative approach instead, says Mike Schnur, partner at TigerRisk.

Cedants are not getting the service they need or deserve from the big brokers these days. Creative solutions and innovation are all too often being stifled by bureaucracy and corporate politics, with the best people in the big three brokers dealing with clients less and less on a day to day basis.

That is the view of Mike Schnur, partner at TigerRisk, the reinsurance broker formed almost five years ago by industry veterans Rod Fox and Jim Stanard, the former boss of RenaissanceRe. Since then, the company has attracted an impressive pool of talent and big names away from the bigger players and is increasingly winning business too.

"We believe it is an unhealthy situation for the industry to be in," says Schnur. "Clients are not getting the levels of creativity and innovative thinking applied to their portfolios that they need. They are missing out as a result. The most senior people at our larger competitors are not dealing with clients any more – they are spending time either managing people or dealing with internal issues. That means their clients are not getting the best people working directly for them."

Mike Schnur, TigerRisk

He says there are several reasons this has occurred in the big brokers. The sheer size of the organisations means that information and ideas get lost and individual brokers become protective of their own clients – meaning they are unwilling to utlise the expertise around them.

"That results in many programmes simply being renewed in the same way year-after-year with no one looking to improve it or reinvent it in the interests of the client," Schnur says. "We believe the big brokers need to go through a process of de-leveraging. Clients are not getting enough choice and they are being force-fed the same old solutions."

He says the culture in TigerRisk could not be further from this. "We are set up in a very nimble way that encourages idea sharing and emphasises concentrating purely on the client and coming up with new ideas and concepts for them," he says. "That approach is paying dividends with more clients coming to us every day."

Regulatory changes will challenge captives

The cost and potential implications of regulatory measures emanating from the US and Europe – especially the uncertainty over the timing of the implementation of such reforms – represent one of the most seriious challenges facing the captive sector, says David Bresnahan, president of Lexington Insurance Company.

"There is ongoing change in the US regulatory environment, with confusion over the application of the Non-Admitted and Reinsurance Reform Act component in the Dodd-Frank Act being a particular example that is generating considerable uncertainty in the sector," Bresnahan says.

"Meanwhile, continued IRS rulings, reviews of the captive sector and uncertainty over their treatment under Solvency II are all raising concerns. Developments are making it all the more pressing for captives to team up with experienced service providers who can help them navigate testing regulatory waters."

David Bresnahan, Lexington Insurance Company

He adds that low investment yields are also cause for concern. The high capital base means underwriters are being obliged to drive combined ratios into the low 90s to get a modest return on equity. "That translates into a period of prolonged rate increases at a time when the economy is challenging for us all," he says.

To head off any issues around price increases, Bresnahan says brokers will need carriers and customers to have conversations early. He says it is important underwriters have the opportunity to explain why price increases are needed in today's troubled environment. "When you hear from underwriters directly on why an upward correction is needed, typically the outcome is much better," he adds.