What the world needs now

ROD FOX, CEO of TigerRisk Partners, a reinsurance intermediary and capital solutions provider, makes the case for more distribution.

While the world has become smaller and more connected, it has also become riskier. Meeting these risk challenges requires new solutions, greater creativity and more choices. Yet paradoxically, today's reinsurance buyers have fewer solutions, creativity and choices, not more.

Today, thanks to a very aggressive campaign of consolidation, nearly 80% of the world's reinsurance is placed through just three very large reinsurance intermediaries. Oligopoly? Yes.

Who really benefits from this kind of market domination? Does a reinsurance buyer get the best ideas and service when options are so limited?

Insurance companies buy reinsurance to protect their earnings and ultimately their capital. Each company is unique and has a complex set of issues. This inherent complexity demands solutions that are custom made for that client, not cookie-cutter, one-size-fits-all products which, at best, can only be average.

As the reinsurance buyer contends with questions like how do I protect my company from natural disasters, how can I be sure that rating agencies will recognise the quality of our financials (on a pre- and post-loss basis), and how do I most effectively manage our capital, he or she will naturally turn to their reinsurance intermediary for the best advice to help think through these and other issues. These are complex questions. Smart buyers want ideas from multiple organisations. They want to know for themselves (and for their management) that they have drawn on the best talent to confirm they are making the most informed and cogent decisions.

As our business has become more sophisticated, so have reinsurance buyers. Clients understand that the inevitable result of consolidation is commoditisation. They understand that the consolidated megabrokers made acquisitions not to improve the services they offer, but to reduce expenses. But while economy of scale may work for flat screen TV sets, it is completely antithetical to a sophisticated risk product.

Nevertheless, the big reinsurance intermediaries continue to standardise the products they offer. Indeed, they have even begun using the Model T rule: "Yes, you can have it in any colour you like…as long as it's black." In the big broker's view of the world, clients should conform to their brokers' needs rather than expect a broker to address a client's needs.

Consolidation also encourages the big brokers to trim staffs. As their remaining senior people are asked to cover more clients, the real work is being done by more junior, less qualified brokers.

And rather than relying on industry knowledge and experience, the big brokers have defaulted to the over-utilisation of models and the inevitable misinterpretation of modelled results. Running more and more models doesn't necessarily provide the best answer – it just makes it appear that the reinsurance intermediary is working harder.

By definition, expanding distribution in today's market means bringing in additional reinsurance intermediaries. Clients ask for and want choices; their insureds want the same thing. Clients understand that some smaller brokers are typically more experienced, entrepreneurial and more focused on the key issues that they face. Smart clients realise that just spinning models is not the answer and that working with seasoned brokers and genuine analysts that understand the models is far more valuable.

There are several other reasons why today's smart clients want multiple distribution sources.

Regardless of market conditions, clients want to know they are spending their reinsurance dollars in the most effective way. They fully appreciate that "working the market" and exploring responses from multiple reinsurers is essential. It is not possible for one reinsurance broker to have superlative relationships with every reinsurer. Therefore, the answer is hiring multiple brokers who bring different relationships to every negotiation. Similarly, today's smart clients know that a single broker has only one set of experiences; working with more than one broker multiplies those experiences resulting in a much broader array of solutions.

Regardless of the industry, more competition is always better. This is especially true of the reinsurance business in which clients make buying decisions

worth millions of dollars. As General George S Patton once said, "Battle is the most magnificent competition in which a human being can indulge. It brings out all that is best; it removes all that is base."

As the reinsurance intermediary market has consolidated, many clients find themselves being represented to reinsurers by not only the same firm that handles their competitors' reinsurance program, but often by the very same individual! While the bigger brokers may argue or "justify" this bizarre state of affairs as being of value to their clients, the reality is that handling various competing clients is a tricky proposition at best. How do you differentiate your clients? Can each client really be the best? How does a reinsurer offer one client a more preferred program without being asked to do the same for all clients? The answer is that the reluctant reinsurer is wary of offering better terms for one client over another, thus ensuring all customers receive the average.

Today's smart clients want more choice; they want to know that their broker will fight for them, to make sure reinsurers can touch and feel what makes them different. Only by having more brokers can this result be achieved.

Reinsurers, too, believe that more competition is better. The reinsurance broker market is committed to accepting and writing business through reinsurance intermediaries. They don't like relying on just a few brokers to produce the majority of their business. The risk is great should a relationship deteriorate with one of their major brokers – a risk that is very real.

Reinsurers are entitled to make a fair margin in exchange for lending their capital to their reinsurance clients. When a reinsurer makes a difficult decision – for instance deciding to no longer support an unprofitable line of business or to increase rates when they have experienced repeated losses – they should be able to make those decisions without fear of being cut off from future dealings with that broker.

Nor should they be asked to do something outside their own guidelines. When a reinsurer is pressured into making decisions they wouldn't otherwise make, nobody gains in the long term. It's no wonder then

"It is not possible for one reinsurance broker to have superlative relationships with every reinsurer."

Rod Fox, CEO, TigerRisk Partners

that reinsurers openly encourage smaller brokers to bring them business.

Rather than challenging the norm, "renew as is" has become the rallying cry of the big brokers. Fortunately for the smart clients smaller, value-added brokers tend to be the innovators. By and large it is they who have supplied the industry with the advances that ultimately benefited everyone.

It's hard to create breakthrough innovations at a large intermediary. First, there is the bureaucracy to contend with. And then there are all those people who work in silos protecting their own interests and the status quo. Let's face it, at a big broker original thinking and/or acting in the best interests of a client can be bad for a career. That's why the more entrepreneurial individuals often leave and start their own companies. Unencumbered by organisational charts and internal politics, smaller brokers can be far more agile and responsive than their larger competitors.

Less choice for buyers encourages complacency. As choices diminish, it becomes easier to rationalise: "what worked well before will work well again". Producing different versions of the same answer is simply not doing your job. Value brokers understand this fact instinctively. To succeed they know they must work that much harder; they know they must be nimble (and to stay nimble); they know that they will be judged, rewarded, and recognised for every deal they do. For clients, this powerful incentive results in getting the most from everyone.

The large brokers frequently tout the vast array of services they offer. But the truth is that today's smart buyers recognise that they have a very limited need for all those services. Many of them wonder why they should pay for all those services they never use? Often the services provided by the big intermediaries are already being performed internally by the client's own team who have a better understanding of their exposures and risk tolerances. And for those services they truly do need, clients end up waiting in line regardless of the urgency or the size of their account. Value brokers, on the other hand, create unique and individualised services. They're able to ta lor make and respond specifically to each client's unique situation. They use their focus and determination to better understand the issues at hand.

So, does the world need more distribution? Absolutely! When it comes to reinsurance broking, clients are learning that bigger is not better. Smart insurers know that to succeed they need every advantage they can get. That's why smart clients increasingly choose and rely upon client-focused, value-added brokers to provide choices: choices that matter the most.