Embracing uncertainty

Kelly Smith, president of Aon Benfield US, outlines the needs of the broker's US clients and tells PCI Today *why 'unpredictable' risks should be a focus for 2015.*

What are the key needs of US clients in the current environment?

In common with many of our clients worldwide, a key issue facing our US clients is how to grow their businesses profitably. Given the record levels of industry capital and relatively low loss experience—as well as the subdued investment returns—it's a challenging environment for insurers and reinsurers to achieve growth, so they are turning to our teams for ideas.

With the high level of alternative capital that has entered the marketplace, clients are asking how they can utilise that capital in a thoughtful and strategic way.

On the subject of growth, are your clients open to new ideas, or are they focusing on the tried-and-tested products?

We are finding that clients are open to new ideas when the proposed strategies are supported by robust analytical work. As we often highlight, we invest $130 million annually in our global Analytics function, and in the current environment Analytics' capabilities are even more highly sought after, as they can help clients to pursue growth opportunities with confidence.

For instance, through catastrophe modelling, we provide our clients with high levels of risk insight across a huge range of perils and territories. Through our financial modelling and actuarial services we help them to optimise their capital structure and allocate more capital to growth.

Then, we have our consulting services through Inpoint, which can highlight regional and sector opportunities based on comprehensive data analysis and benchmarking.

Which risk areas are likely to grow in 2015?

Over the years, reinsurers have gradually excluded some of the tougher risks from their coverages, and have tended to write business that is more predictable—in other words, business that is less risky. However, if we want to grow the reinsurance sector we need to get back to writing business that is less predictable.

Kelly Smith

"Our clients are telling us that they want to buy protection against the 'unpredictable', so the opportunities are there."

Aon Benfield leads the industry by helping our clients identify the appropriate price points and risk transfer structures. This will allow our clients to move into new areas and expand coverage in existing areas.

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How important are relationships when working with 'unpredictable' risks?

Whether the risk is 'predictable' or 'unpredictable' we always take the same approach to client service: we ensure that our recommendations and solutions are always in the client's best interest, and that we offer them the full scope of the Aon Benfield global network and capabilities.

Maintaining strong client relationships is paramount to the success of our firm. By listening to, and interacting with our clients, we aim to fully understand their needs, which is the first step to providing them with suitable solutions.

One of the many wonderful things about Aon Benfield is the depth and strength of our global teams. While the industry has changed dramatically over the years, the talent that we bring through our firm has remained at an exceptional level.

You have spoken in the past about the importance of innovation. Have you completed any notable innovative transactions in the US market in the year to date?

On the property side, we have developed some very innovative and unique aggregate covers to help our clients with frequency losses. These transactions are monumental in that they assist future growth through the provision of capital stability, which leads to consistent earnings.

In June our investment banking division launched CATstream, a new client facility that offers regional insurers faster and more efficient access to capital markets capacity for catastrophe risk. This new platform offers small to mid-sized clients the ability to establish cat bonds in less than half the time of the typical non-standardised products.

We are also developing solutions in the emerging risk areas such as cyber, as we feel that our clients' exposures will become increasingly large and will need the support of high levels of insurance and reinsurance cover.

US housing default risk is another sector where we are driving innovation, including recent transactions for Freddie Mac and others. It requires significant capacity but provides an opportunity for robust reinsurance premium that is not correlated to the reinsurance market's concentrations in other lines of business.

All our work is motivated by client needs. We continue to be grateful to our clients—we partner with them to help them analyse and solve their most complex business problems. ■

Kelly Smith is president, Aon Benfield US. She can be contacted at: kelly.smith@aonbenfield.com

Obsession with new capital means firms miss other risks

(Continued from top of page 1) to help them successfully compete in the current environment."

Tooker added that the company will continue to focus heavily on its underwriting capabilities, relying on the "human" element over models alone.

"We continue to invest in underwriting, risk management and claims solutions for our customers. One of the areas we are most excited about is our work around the human element in underwriting.

"We believe that the qualitative judgement we apply to the sophisticated quantitative models we use is an area that deserves significantly more attention.

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"We are working with our customers to help them understand the pitfalls of not focusing on both the quantitative and the human element," he said. ■

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Telephone: +44 203 301 8201
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DIRECTOR
Nicholas Lipinski

YOUR CONTACT IN SCOTTSDALE
John Walsh PUBLISHER
Telephone: +44 7803 04 79 86
Email: john.walsh@newtonmedia.co.uk

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Cedants retaining more doesn't need to be bad news

(Continued from bottom of page 1) DaVinci Re and Top Layer Re are examples of pioneering vehicles that we set up many years ago to fill clients' needs.

"We understand that clients are experts of their risk. Our job is to figure out how best to match that risk with the most efficient capital."

Marra also spoke of the need for reinsurers to look beyond the short term and not lose sight of important factors such as underwriting excellence. He also said that cedants should not be naive to the other qualities capital providers bring to any deal.

"Underwriting excellence is not dead. In the short term this can be somewhat obscured by competition and over-capacity, but it will play a big part over the long term in what separates those who are successful in adding value to that chain, and those who are not," he said.

"Capital providers will need to be chosen as carefully as assumed risk partners. Will that capital understand the risk, and have the willingness and ability to pay when needed?"

Cycle support

Despite being originally formed with a strong focus on property-catastrophe business, RenaissanceRe has always written some casualty and speciality business and its appetite has been growing in recent years.

Five years ago, the reinsurer made a deliberate move from previously only having a narrow risk appetite on this business to a focus on building a bigger casualty and specialty lines portfolio that it would support throughout the cycle.

Marra said the biggest challenge for casualty and specialty reinsurers now is being able to deliver value among such an abundance of capital.


David Marra

"A challenge should always be to deliver value beyond the capacity in a given transaction. That challenge is more acute in this market than it has ever been as there is an abundance of capacity," said Marra.

"We believe the better markets will deliver expertise and creativity leading to more valuable capacity. We also believe that this will take the form of creating solutions jointly with brokers on behalf of their clients.

"Brokers who are creative but also recognise the value in sustainability of reinsurance programmes will also be winners in this process."

Marra described identifying adequate reserving as another big challenge facing reinsurers.

"Evaluating whether various lines of business are adequately reserved is important at present. There have been significant reserve releases in recent years and this can be a challenge in pricing the business profitably today.

"When we actually hit our 1:100 point in the distribution in casualty, it's usually not because of a couple of specific events, it's because trends have emerged which cause reserves of multiple accident years to be adjusted at the same time.

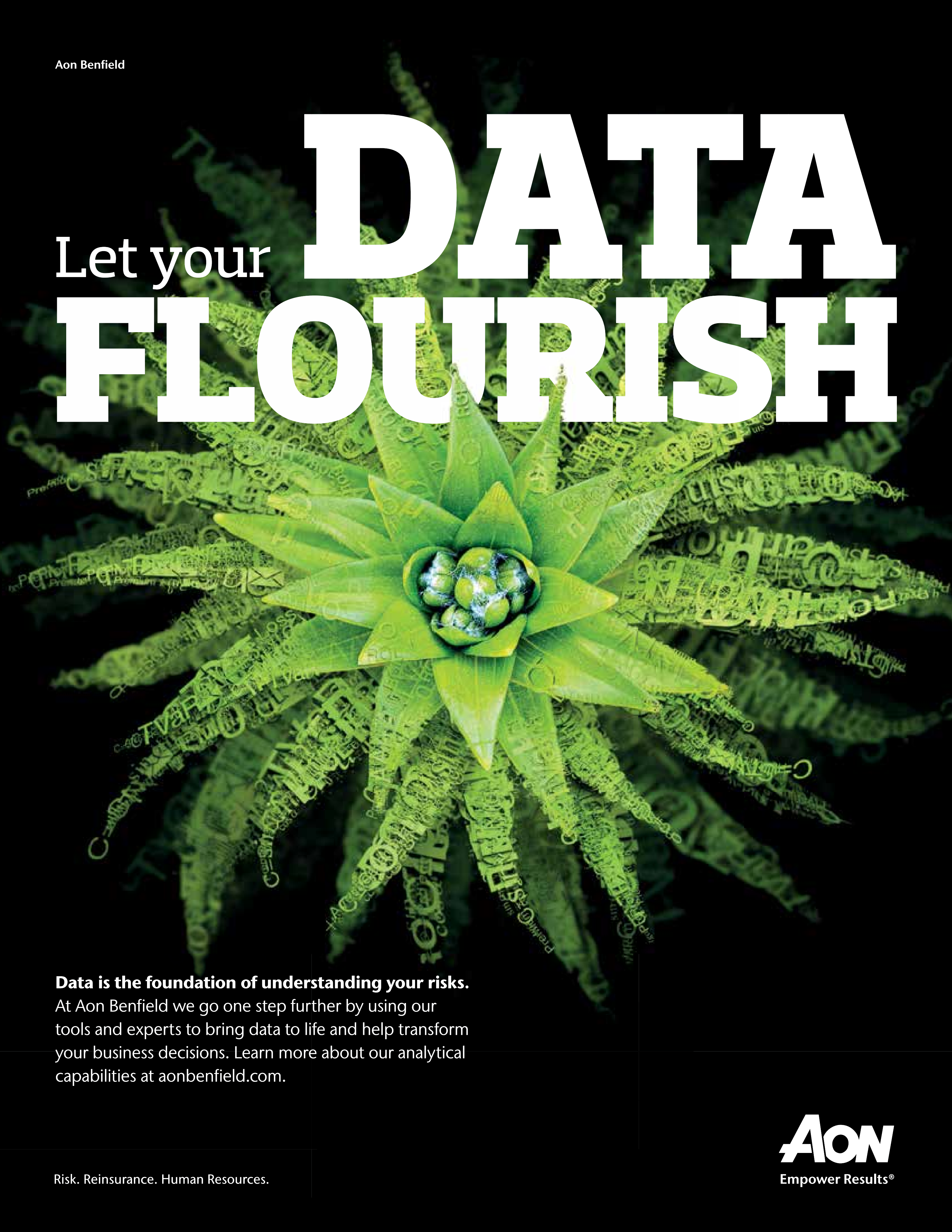
"That can cause a whole host of problems, including lack of confidence in management and stock price decline," he said.

"As many insurers have reduced quota share purchases in recent years, they are more exposed to reserve volatility as those years develop. That is inherently a difficult risk to reinsure, but it's one of the issues that I'd like to see clients and reinsurers devote resources to understanding better."

Speaking about the PCI Annual Meeting itself, Marra told *PCI Today* that growth and M&A would be the topics of choice at this year's event.

"At one end we're awash with capital, at the other there are risks that aren't being insured to the extent risk managers would like them to be. How can we find ways to access attractive risks, and match those up to the most efficient capital?" he said.

"I also expect to hear discussions around M&A and what the industry landscape will look like over the next few years." ■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