

A plan for all seasons



Continual evolution is vital to the survival of the modern reinsurance intermediary, says Aon CEO GREG CASE. Operating at the forefront of catastrophe risk science is now expected by clients.

In every business sector, firms are constantly searching for new ways to differentiate themselves from their competitors. Some separate themselves through aggressive brand marketing, where their efforts are directed at creating an attractive niche for their brand that resonates positively with their current and prospective client base. The apparel industry offers some great examples of this strategy – just think of global brand giants such as Nike and Gap.

Other firms differentiate themselves more by product range, delivering to their customers goods and services that are truly innovative, thought-provoking or just plain fun. Apple is a world leader in this regard, consistently remaining one step ahead of its competitors and spawning myriad imitations of its award-winning electronic devices.

In the reinsurance industry, while many of the more complex reinsurance classes are far from being commoditised products, reinsurers often struggle to communicate that their offering is substantially different from their competitors'. For reinsurers, brand marketing is therefore incredibly important, and many of today's leading firms strive to build and maintain a first class brand name that when communicated both visually and orally evokes images of superior reputation, integrity, knowledge, loyalty and trustworthiness.

While it is incredibly important for reinsurance intermediaries to build a brand that is associated with these core qualities, our focus has, through necessity, turned more towards the development of innovative products and services that help our clients achieve sustainable growth, continuity and profitability.

Two decades ago, intermediaries were generally considered to be deal brokers, but this was never a sustainable proposition for those seeking growth, and we were forced to evolve. This evolution has been highly successful, given that over the past 20 years there has been a stark increase in intermediated reinsurance business in both the US and Europe.

Today, it is essential that our evolution continues apace, given the prevalence of ever more efficient digital services, which are reducing the transactional and administrative burden of the reinsurance transaction.

Many businesses need to be nimble, but in our sector, where our sole purpose is to serve our clients and provide proactive and reactive solutions to their challenges, ongoing adaptation is absolutely vital.

Progress through adaptability

It may be a cliché, but in recent years the largest global intermediaries have evolved to become very much "one-stop-shops" for insurers' and reinsurers' risk



management requirements. The intermediary has been forced to increasingly prove its worth in order to retain and win business, and this has led to it becoming involved in a greater range of its clients' operations.

Clients still require the intermediary's wide network of connections that assist the reinsurance transaction, but now they also look to our expertise in a host of other areas that are key to the success of their businesses.

To illustrate this trend, take Aon's reinsurance business, Aon Benfield. Today, the scope of its services is enormous, comprising more than 3,000 skilled professionals across the globe who provide advice and solutions for any and all of our clients' business challenges.

Aside from rating agency and regulatory consultancy, investment banking services, claims processing and business optimisation tools, the firm invests heavily in the continued expansion of its analytical solutions, as it recognises that in this area clients require and demand optimum support. Indeed, Aon Benfield now invests a total of more than \$100 million in its Analytics function annually.

Within the Analytics unit sits an area that is increasingly in demand, and where continued investment is particularly important: catastrophe risk science.

In today's industry, a great deal of emphasis is placed on catastrophe models and their ability to assess reinsurers' aggregated exposures both before, during and after a catastrophic event.

However, before a catastrophe model can be constructed, there needs to be a comprehensive understanding of the nature of the underlying risk. This understanding is continually changing, as analytical techniques become more advanced, and as computer

processing power allows scientists to better quantify the causes and effects of natural hazard events.

A tremendous amount of work into risk science is being undertaken by a multitude of academic institutions worldwide every day that is focused on better understanding natural perils to the benefit of people, governments and the global business community.

By tapping into this pool of knowledge and identifying those institutions conducting research most relevant to our industry, intermediaries are creating academic networks that drill down to the very core of the business we're in – the business of risk.

The better our understanding at this level, the better we can develop catastrophe models, assist in the structuring of reinsurance products, and advise our clients on the risk management challenges they face.

Aon Benfield has spent several years cultivating its global collaboration of academic partnerships in order that we are linked directly to those finding ways to forecast or mitigate the next earthquake in Chile, Japan or New Zealand, the next hurricane in Florida, or the path of the next major windstorm to impact continental Europe.

For instance, we are partners with the Aon Benfield UCL Hazard Centre in London, which has spent months analysing data from the February 2011 New Zealand earthquake, one of the worst tragedies in that country's history.

According to feedback from the Centre, its analysis of the event will contribute to "dramatically increasing the information database available for future research to improve earthquake forecasting, mitigation and response planning in New Zealand and around the world".



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Greg Case, CEO, Aon

As part of its work, UCL conducted a detailed study of the ground movement recorded during the earthquake and has related this to the performance of structures in the affected area, potentially leading to further development of building codes in the region. The research has already posed important questions, such as the value of New Zealand’s older “heritage” buildings, in light of their potential increased risk to human safety in the event of an earthquake.

Meanwhile, HR Wallingford, a UK-based world leader in the field of engineering and environmental hydraulics, continues to undertake extensive work into the 2010 Queensland, Australia floods.

Its research highlights that such large scale flooding is not unprecedented for the area, but that mitigating future flood losses is not straightforward, and that the traditional solution of raised defences around settlements can actually present increased danger to local residents.

According to HR Wallingford, such defences can change the nature of flooding to one of rapidly rising flood water with little advance warning of danger, as seen in New Orleans in 2005 during Hurricane Katrina. Therefore, the modern practice for flood risk management should utilise “a portfolio of structural and non-structural measures to reduce both the frequency of inundation and the potential for floods to cause damage and loss of life”.

When looking at research from a wide range of academic partnerships, it becomes clear that there is rarely one answer to a risk challenge, and it is often by combining the findings of several niche areas of study that we as intermediaries can best advise our clients.

Honed research findings can help our clients with portfolio management, and assist them to work more effectively with communities and governments to develop initiatives that will mitigate future events.

Academic institutions are providing direct input into the major risk analyses that intermediaries and

insurers perform every day. For instance, to further our understanding of windstorm risk, the University of Cologne has performed detailed research into European windstorms through cutting edge diagnostics, extreme weather modelling and impact assessment.

Meanwhile, Aon Benfield has entered into an exclusive partnership with the Shanghai Typhoon Institute (STI) of the China Meteorological Administration – the only state-funded typhoon research institute in China – to boost typhoon research in the Northwest Pacific Basin in China, and then report relevant findings to the insurance industry.

By forming these key global academic partnerships, intermediaries will remain at the forefront of risk science. This will allow us to continue to deliver valuable solutions to our clients, and will help reinsurers to make more accurate assessments of their exposures and be better placed to allocate a cost of capital against the risk.

For Aon Benfield, findings from these external institutions are important to the work of several of our internal teams, including Impact Forecasting and Catastrophe Management, assisting them in developing, running and evaluating catastrophe models, and furthering their understanding of weather events.

We, as an industry, are continually being driven to better understand risk by many entities including rating agencies, regulators and stakeholders. The forthcoming Solvency II regime in the European Union is a great example of how those insurers who can demonstrate first class risk understanding and analysis will be given credit by EU regulators, which should ultimately benefit capital optimisation across their organisations and assist future business growth.

Developing a better understanding of risk has been a key part of the intermediary’s evolution, and is now a core component of Aon’s value proposition.

For us to ignore the very latest developments in risk science would be a huge risk in itself.

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