Aon Benfield CEO **Eric Andersen** believes the industry can drive growth if it looks to take back risks which have been previously been assumed by national governments or taken back onto their client's balance sheets.

GROWTH WILL COME WITH RISK

WORDS: Jon Guy

For many their first Monte Carlo rendezvous is often viewed as a fact finding mission, a time when they will simply look to get the feel of the event and have the ability to listen to others to get a view on the market's direction.

However when you are the CEO of Aon Benfield there is little chance to ease your way into the Monaco vibe and for Eric Andersen there were many who were keen to get his views on how he sees the market.

Given Mr Andersen's career prior to his appointment to the helm of Aon Benfield there will be few in the reinsurance market who may have had much to do with him prior to this role.

His career with the Aon Group stretches back to 1997 when he joined the group when his then employer Minet was acquired by Pat Ryan's broking empire.

He had previously been based in London with Alexander Howden and during his time with Aon has enjoyed a variety of roles including U.S. retail field leader, CEO of Aon Global Americas' global account segment, co-national Managing Director of Aon Financial Services Group and resident Managing Director of Aon in Southern California.

Prior to his current role he was CEO of Aon Risk Solutions Americas, based in New York City. He was responsible for leading Aon's largest geographic business with teams in the United States, Canada and Latin America. He also played a key role as a leader of Aon Risk Solutions' Global Executive Committee, which guides the operations of the business unit.

So one thing Mr Andersen does bring to the role is a fresh view largely untainted by being immersed in the reinsurance market and its complexities.

He also joins at a time when Aon Benfield remains the leading advisor to the launch of ILS and cat bonds in the market and it used the rendezvous to highlight that it believes alternative capital now accounts for 20% of the global catastrophe reinsurance market at a level of around $9.4 billion, driven on the whole by what has been described as "highly favourable pricing conditions".

The broker also reported that the cost of reinsurance for catastrophe risk had decreased to one third to one half of the cost of equity capital for insurers in many instances.

It means said Mr Andersen that the growth in multi-year capacity from insurers will enhance the ability for insurers to view

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ERIC ANDERSEN, AON BENFIELD

sustainable growth in catastrophe prone reason with a greater degree of plausibility.

What is clear to Mr Andersen however is that the reinsurers have to look to opportunities to grow business rather than simply look to grab a greater share of what is already a tight market.

"For underwriters the goal has to be to find ways in which to grow the pie to a size which is reflective of the capacity the market has for risk," he explains.

"By that I mean that they have to begin to offer products and services which we do not offer today."

It is clear that Mr Andersen believes that the reinsurers have to look at how they can create a situation where they are comfortable assuming risks that they have not looked to underwrite in the past.

"We as an industry have seen many of what could be described as the higher risk products which were underwritten in the past leave the market."

He cites some major industries such as the automotive and pharmaceutical industries as sectors which are looking for cover for risks that they had enjoyed in the past.

"It is not a case of these risks simply going away," he adds. "The risks are still there but they have been assumed by governments or been put on the company balance sheet.

"We as an industry have to look at how we can find a way to bring that back into the private sector."

Mr Andersen recounts a situation where he was discussing a new

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flood product for the US market and found it was for homes that were not within 3 miles of the coast.

He asked what the insurance situation was for those within the three mile buffer zone and the response was that their flood cover provider was unknown.

“This is what we need to look at,” he explains. “There are risks which we need to look to provide coverage for and in a way it is down to the fact that to grow the market we will need to address risks that would be deemed to be higher risk.”

Mr Andersen adds: “Reinsurers are well attuned to what their position is within the marketplace. What we are trying to do is to get them to take more risk. It is clear the insurers are looking at how they can grow their business.”

He adds: “You look at the commercial markets and there are risks such as product liability for the pharmaceutical and automotive industries, LNG and fracking in the energy market, there is very little of this finding its way in to the market as the firms look to keep it on the balance sheet and we have to look at how we can change that.

“Keeping such risks on the balance sheet does not sit well with the CEO or the CFOs and we have to look at how we can help.”

Are there lessons that can be learned by the reinsurers from the retail sectors?

“Reinsurance is a broad portfolio,” replies Mr Andersen. “But I have to say the retail teams are more in touch with the customers and they tend to be innovative.

“Reinsurers need to figure out how to better understand the risks in the market and to get a greater understanding of where the client is lacking potential cover.”

Mr Andersen said the issue for the market was the conservative approach by insurers to their reinsurance coverages and as such they are not pushing the reinsurers to create new products and it is down to brokers to apply the pressure to benefit both the cedents who will have access to cover for new risks and opportunities for reinsurers.

”If insurers are not asking for greater levels of reinsurance then we have to look to give them more attention so we can look to ensure they are utilising the reinsurance market as efficiently as possible,” he adds. “I think it will take a little while but the clients need new products. However, the question is how do we get those products to them. It is how we have seen some of these risks end up with governments as the reinsurers of last resort.”

Mr Andersen says after 22 years in the retail broking sector he is aware that whatever the state of the pricing cycle opportunities will always exist if you understand where you need to look.

And it is these opportunities that Mr Andersen says will be the core focus for reinsurers in the years ahead as pricing absent of a major event or multiple events continue to come under pressure.

There is says Mr Andersen an argument for reinsurers to look back to the type of products they were underwriting 20 years ago

“The industry may well want to look at the risk they were underwriting 20 years ago and no longer offer,” he explains. “With two decades of loss data and a great deal more in terms of modelling and analytics it may well be a case where these risks could be underwritten again as the market has a great deal more data and knowledge of the risk trends in order to offer a product to mitigate those risks.

“It comes back again to the fact that we need to look at how the industry can increase the size of the market rather then continue to chase a diminishing amount of business.

“The risks simply have not gone away they have been pushed back to the customer, you have to widen the breadth of what you cover.”

Mr Andersen believes the market has to look at its current model and accept there needs to be change to adapt to the demand for new products to cover new and emerging risks.

“Reinsurers need to do things differently,” he adds. “It may well be in terms of new products or new geographies but they need to expand their relevance with the insurers.” □