Cass Business School
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Global Reinsurance Masterclass Series

Strategic Thinking for the Reinsurance Industry

Masterclass 4
Be a better reinsurer
How to align structure, knowledge and roles for operational excellence

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Executive Summary

Changes in the global reinsurance industry are having a profound impact on the internal operations of reinsurance firms. Competitive success in this environment increasingly relies on a firm's ability to coordinate diverse pockets of specialised knowledge to write different types of reinsurance deals.

This Masterclass:

- Classifies four main pools of knowledge within reinsurance firms that must be coordinated when making reinsurance decisions;
- Assesses the challenges for reinsurers involved in coordinating this diverse knowledge base;
- Identifies three critical capabilities needed by reinsurance companies to coordinate and combine this knowledge for operational excellence;
- Provides key recommendations for the application of these three capabilities through highlighting 'triage' points for their implementation;
- Discusses how these various capabilities can be combined to align with a firm's particular strategy.

This is the fourth of a series of seven such Masterclasses.

John, a catastrophe (Cat) underwriter with GlobalRe, receives an email from the Account Executive, Ingrid, asking him to analyse a 'super-Cat' deal and assess an appropriate level of participation for GlobalRe. John has been preparing for this deal to arrive in his inbox for a while now. He knows it will be the most time-consuming and largest deal he will analyse this renewal season.

Because this client, MegaCedent, is very large and important, with complex deals such as the super-Cat, they have been allocated an Account Executive and John is required to liaise with Ingrid throughout. The Account Executive role is fairly new in the company, but Ingrid has quickly started to grow the relationship with MegaCedent. As she told John: "by getting close to them we learn about deals we wouldn't otherwise know existed." She has indeed managed to access to some highly profitable business by making a few concessions on some other deals. Ingrid is now keen to increase the participation on the super-Cat deal, as it is MegaCedent's top priority.

Not too long ago John was able to analyse and make most decisions on the various deals in his portfolio himself, running some basic models and drawing on his own understanding of the territory to guide him. Today, things are often more complex. First, John works with the analysts to model the super-Cat deal. He is all too aware that the complex nature of this programme requires a deep level of specialist technical knowledge to model it efficiently and effectively; knowledge he does not specialise in. Once the modelling has been done, John liaises with other Cat underwriters responsible for each of the major different territories – e.g. United Kingdom, Asia-Pacific, South America and so on – to price each component of the deal based on their understanding on the various perils in those territories. Beyond the screeds of emails, the firm has a Cat team devoted specifically to MegaCedent's global deal. By drawing on the specialist knowledge of these territory underwriters, and the analysts, John arrives at an overall price for this large global risk.

Once the deal has been analysed, John arranges a meeting with Ingrid. He begins by telling her that the profitability has not improved since last year. Ingrid nods but, based on discussions with the client and her knowledge of what else is in their portfolio, she tells John: "but there are additional smaller deals this client will give us access to, if we can increase our participation on this deal – even by 1%." John points out that a small increase on this super-Cat deal edges them closer to their prearranged capacity limits in certain territories, and GlobalRe's overall risk-exposure and strategy need to be factored in. John and Ingrid agree that this is a decision for senior management, and that they should take the deal to the firm's Chief Underwriting Officer. Ingrid is frustrated as she has wanted to get approval for this additional capacity months ago and that would have saved them time now. However, John states that he himself would not have given the authorisation: "look, I take your point about this deal being a way to access additional client business, and it's not for me to know whether there's justification on strategic grounds to adjust our capacity limits to increase our participation here. All I can do is reassert my team's assessment, which is that this deal's profitability remains marginal and doesn't merit an increase."

John is aware that a deal like this super-Cat requires a team approach. However, as he returns to his desk after the meeting he is also relieved that not all deals require this level of iteration between multiple different people in the organisation. Indeed, sitting in his inbox is a small single-territory deal which he is now has the time to focus on. He knows the client well and will not need to consult widely. Indeed, he should be able to get the modelling done and have his answer back with the client that day. Meanwhile, it will be a good couple of days before he hears back from Ingrid regarding Management's decision on the 'super-Cat' deal.

1. Introduction: Coordinating pools of knowledge to deliver operational excellence

Increasing competition in the reinsurance industry is forcing reinsurers to try to outmanoeuvre competitors in their strategic groups, and to steal market share from rivals by entering new strategic spaces[1]. Many multinational firms have entered new markets outside their traditional base to exploit opportunities for growth in new territories and classes of business. The scramble for opportunity in China, or the wave of Zurich start-ups are prime examples. At the same time, these firms are underwriting more complex arrays of reinsurance deals to meet the evolving needs of large global clients. Many now encompass everything from stand-alone deals, to complex multi-line or multi-territory programmes, to exceptional covers that are unprecedented in size or complexity[2].

Such diversification creates significant operational challenges for firms. The technical, client and contextual knowledge which is so essential to evaluating complex deals no longer sits with one professional group, the underwriters, but is often distributed across analysts, modellers, account executives and senior management who sit in different parts of the organisation – sometimes in different countries! To succeed in this environment, firms will need to:

- Identify which knowledge pools are needed for particular types of deal – and which are not needed;
- Be able to combine efficiently whichever knowledge pools are needed to analyse the deal;
- Be able to prioritise what these different knowledge pools say about the deal, in order to align final decisions with the firm's strategy;
- Assess, develop, and integrate any new knowledge needed to access new strategic opportunities.

This Masterclass highlights three critical capabilities to integrate different pools of knowledge. Firms will need to develop all three capabilities, to ensure that they direct knowledge and resources to where they are most needed, while avoiding wasting valuable time and money putting knowledge where it is not needed. They will use these capabilities as needed to write different types of deals, from the small and routine, to the large and exceptional.

The three capabilities also need to be aligned with the firm's overall strategic priorities and product offerings. For example, Bermudian reinsurers, whose basic strategic proposition was to provide capacity to support US catastrophe programmes, need to be excellent at combining in-depth contextual and analytical expertise. However, as these mono-line reinsurers diversify into new European markets in an attempt to access risk, they will need to find capabilities which can inform a whole-account approach to underwriting.

To explore how firms can develop the three capabilities, and achieve operational excellence, we draw on the knowledge-based view (KBV) of the firm, the main premises of which are summarised in the Theory Guide overleaf.

[1]See Masterclass III for a detailed discussion.

[2]See Matserclass II for a detailed discussion.

1. Introduction: Coordinating pools of knowledge to deliver operational excellence (cont.)

THEORY GUIDE: The knowledge-based view (KBV)

The KBV takes seriously the proposition that knowledge is the most strategically significant asset a firm possesses. When knowledge assets are effectively developed and combined, they can generate superior operational performance and provide a basis for sustained competitive advantage.

- ***The coordination problem.*** The KBV suggests that a critical operational challenge for multinational firms is effectively coordinating and combining diverse knowledge assets to make decisions and exploit business opportunities when they arise. Because knowledge coordination comes at a cost, firms must be selective and flexible in how they organise and combine this key resource.[3]
- ***Appropriate coordination.*** The KBV states that organisations need to develop and match knowledge assets to strategic priorities and situations. In reinsurance firms, for example, deals often vary in complexity and strategic importance. These deals must therefore be assessed so that appropriate combinations of knowledge are brought to bear on the decision-making process[4] – the challenge for firms of course is to work out what those combinations are, and when they should be applied!
- ***Dynamic coordination.*** The KBV stresses that knowledge should be coordinated dynamically so that firms can adapt to environmental shifts and exploit new market opportunities. Developing dynamic capabilities to adapt and switch between different knowledge configurations is particularly relevant in an reinsurance industry where client buying patterns are changing, deals are becoming more varied and change is becoming a daily reality for small and large firms alike.[5]

Study Question 1

The Theory Guide suggests that reinsurance deals vary in complexity and strategic importance, requiring different combinations of knowledge.

Identify two deals known to you which are at opposite ends of the 'complexity' or 'strategic importance' spectrum. How do they differ in terms of the elements of knowledge required to assess them?

[3]Eisenhardt, K. M., & Santos, F. M. 2002. Knowledge based view: A new theory of strategy? In A. Pettigrew, H. Thomas, R. Whittington, et al. (Eds.), Handbook of strategy and management: 139–164. London: Sage.

[4]Grant, R. M. 1996. Toward a knowledge-based theory of the firm. Strategic Management Journal, 17: 109– 122.

[5]Teece, D. J., Pisano, G., & Shuen, A. 1997. Dynamic capabilities and strategic management. Strategic Management Journal, 18: 509–533.

2. Knowledge and power in reinsurance firms

2.1 The knowledge base of reinsurance firms

Reinsurance firms occupy distinct strategic positions in terms of the type of business they go after, their risk appetites, and their client management (see Masterclass III). Nevertheless, they all rely on four main pools of knowledge, to a greater or lesser degree, to analyse reinsurance deals and make capital placement decisions. These can be defined as: (2.1.1) contextual line and market knowledge; (2.1.2) analytical knowledge, (2.1.3) client knowledge, and (2.1.4) knowledge of the reinsurance firm's own portfolio and risk appetite.

2.1.1 Contextual knowledge

Reinsurance cover is often classified according to lines of business, for example, property, casualty, aviation; or by 'market', for example Germany, Florida, or Caribbean. Experienced underwriters, in particular, possess in-depth knowledge about specialist lines of business or particular geographic markets and contextual conditions associated with them. This might include knowledge about:

- Market trends;
- Industry rumours;
- Local laws and regulation;
- Programmes where pay-outs are anticipated;
- Cedents in a market (e.g. ratings, market share, financial strength);
- Nuances associated with particular types of risk (such as planes or boats).

All these elements, and more, form the context within which any deal must be judged. Experienced underwriters are, therefore, the professionals best placed to apply line and market knowledge to decisions, ensuring that deals of a similar type (e.g. German property risks) are assessed comparatively, and in the context of points such as those above.

> *No-one's going to know the business in infinite detail across all the lines of business being reinsured. So what you want to be sure of is that the people doing the reinsurance of each of the lines of business are really smart people, who really know their area. (Reinsurer)*

2.1.2 Analytical knowledge

As the industry has developed finer-grained information and models, underwriting decisions have been increasingly supplemented by the specialist knowledge of analysts (actuaries and modellers). These skilled professionals use mathematically-derived models to analyse specific perils, using historical data and programme metrics – such as total insured values, territorial scope, estimated losses, and predicted returns by programme and layer – to establish relative 'technical' prices.

These prices are then used to support risk appraisals (i.e. the comparison of risks within and across regions), client or broker negotiations, and placement decisions. But they need careful interpretation, because they strongly depend on:

- The accuracy of the underlying data (how trustworthy is the source?);
- The level of detail of the underlying data – in some territories or lines it can be sketchy;
- The approximations inherent in the models themselves.

These limitations mean that the outputs from modelling are used more for comparisons and benchmarking than to set an absolute price. The limitations also create a spectrum of 'model-ability':

> *One example of a completely unmodellable risk would be a political risk, based on a prediction of political circumstances in a country in several years' time. There it is down to 'the art of underwriting' – using experience to come up with a price. (Underwriter in London)*

2.1.3 Client knowledge

Client knowledge has always been central to reinsurance underwriting. Traditionally, line and market underwriters, who underwrote single territory, local or regional programmes year-after-year, developed in-depth understanding of various clients and their books of business. In this traditional sense, client knowledge overlaps with contextual knowledge: it helps the underwriter to judge – and therefore price – the risk through 'soft' factors which go beyond the data. (It also helps the underwriter to judge the accuracy and trustworthiness of the data which will be fed into models.)

However, widespread consolidation of cedents, and the increasing prevalence of complex bundled reinsurance programmes incorporating multiple lines of business and spanning multiple territories, has elevated the importance of specialised, in-depth client knowledge. The appointment of account executives by many firms is a manifestation of this development.

> I'm the central steering point for all things 'Client A'. That's the easiest way to look at it. So if someone at Client A has a grouse with our organisation in Chile, he or she may well call me first here in London. (Account Executive)

The role of account executives is to 'know the client' across the array of their business; to know, as far as possible, their true needs and the complexity of their combined programmes; to make the most accurate possible estimate of their overall potential; as well as knowing practical aspects such as their preferred ways of buying cover. Clients benefit because the reinsurer understands their complex programmes, so that the client receives product offerings that are better tailored to their requirements. In return, reinsurers get more business and potentially preferential terms.

This holistic knowledge can then be used in numerous ways:

- To sell (e.g. on-selling reinsurance capital across an insurer's whole book of risks);
- To inform (e.g. making line and market underwriters aware of the broader implications of their assessments and decisions);
- To evaluate deals (e.g. taking a holistic view of a cedent's portfolio, perhaps writing business where an underwriter's purely deal-level assessment suggests otherwise).

2.1.4 Knowledge of the firm's own portfolio and risk appetite

Finally, knowledge of the overall firm portfolio and aggregate exposures across clients, regions and markets is continuously incorporated through capital allocation and exposure management parameters set by CFOs and CUOs. These senior executives set the governance rules and policies on risk management, and use their 'big picture' knowledge to ensure that underwriting judgments are consistent with the risk appetite and exposure of the firm.

2.2 The location of decision-making power within reinsurance organisations

Multinational reinsurance firms live and die by the quality of their underwriting, and underwriter judgment has always been at the heart of this process. These skilled professionals have traditionally been the 'point-of-sale' decision-makers for their companies, using their contextual, analytical and client expertise to make deal decisions relatively independently.

However, powerful industry trends, and organisational adjustments, are taking some of the decision-making authority away from underwriters and sharing it with technical staff, middle management and corporate executives. This increased need for team underwriting challenges the notion of the "empowered" underwriter with whom decision-making power is vested. As a result, different roles within reinsurance firms jostle for position, creating structural 'pulls' which are illustrated in Figure 2.2 (overleaf), and discussed in the subsequent sections 2.2.1–2.2.3.

2.2.1 The pull towards numbers

There has been a general pull towards technicalisation – towards 'number-crunching'. The increasing prevalence of vendor models and mathematically-based approaches, used for analysing property Cat business and other types of risks, has led to the creation of a stronger technical function within reinsurance firms (bottom left of Figure 2.2). While the growth of more sophisticated analytical knowledge has many advantages, it also encourages the standardisation of judgments around common analytic tools and techniques. Thus, the numbers generated by technical staff, such as actuaries and modellers, constrain underwriter judgment by providing increasingly tight parameters within which decisions must be made.

2.2.2 The pull towards middle management

A second key development has been the consolidation of cedents into a number of key global players, and the trend towards centralised, global reinsurance purchasing of large multi-territory programmes. The increasing size of clients, and the complexity of their deals, requires more collective work: knowledge from many underwriters and analysts is coordinated at the client level across many territories and/or lines of business. While individual underwriter knowledge remains an important input, decision-making power – and even authority – has shifted towards middle managers such as Account Executives. This again represents a challenge to the notion of the empowered underwriter.

> We Account Executives are the ones in the organisation who will carry the decision upwards and outwards. We're the ones who say we will support something, rather than the pricing [underwriting] side. That's because we're the ones who take the view of the whole client and say 'Well okay, we could do that because of this, this and this'. Whereas if we viewed it as a separate deal, it probably wouldn't fly. (Account Executive)

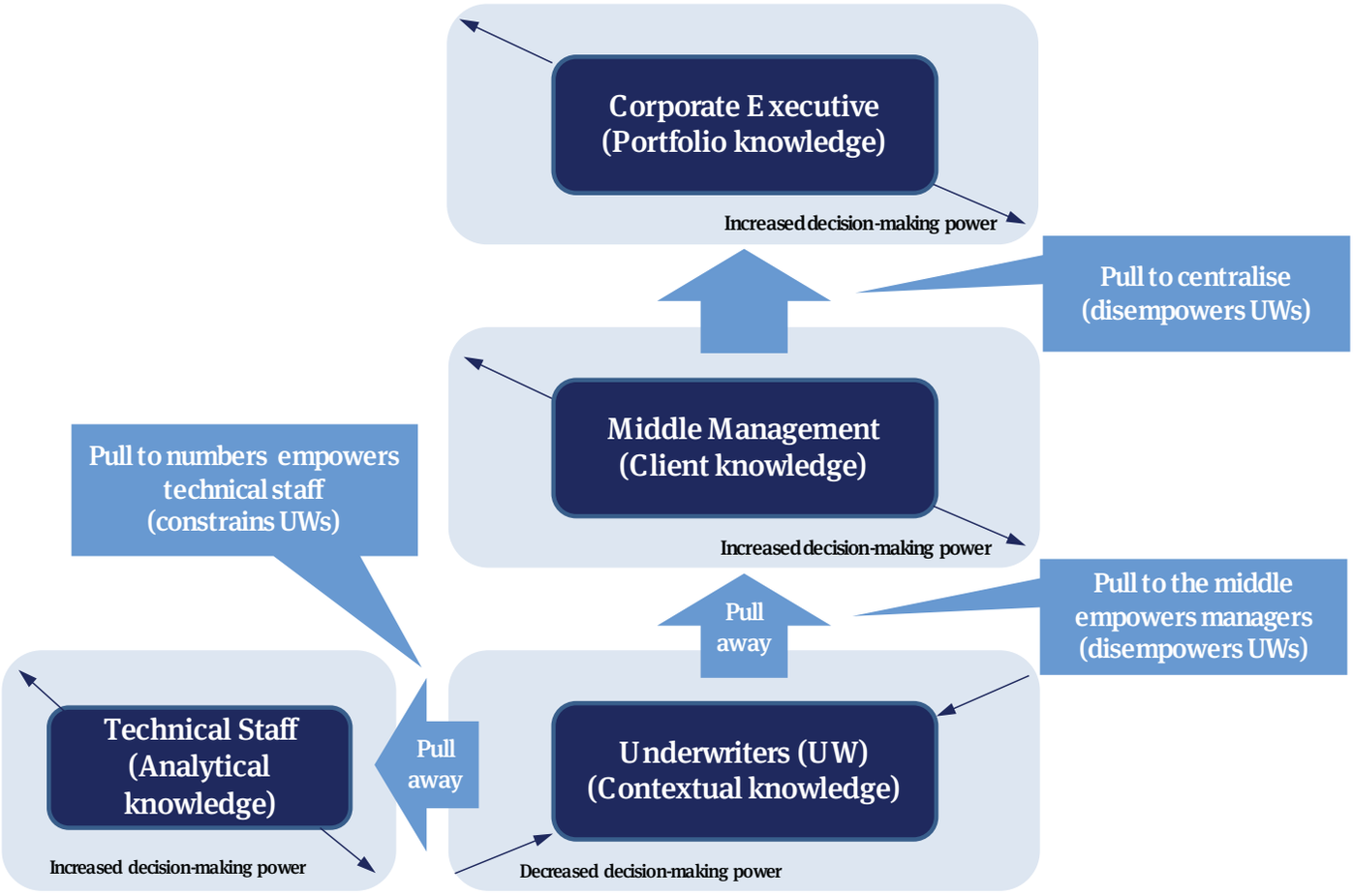

Figure 2.2 Structural pulls associated with different knowledge roles[6]

2.2.3 The pull towards corporate executives

As middle management layers grow, there is also a pull up the organisation hierarchy towards centralised decision-making. More complex product bundling and special deals such as QBE's global programmes – which are three-year deals, not the normal one-year, for their lead reinsurers – also means that corporate executives are becoming more involved in making deal decisions. Such deals often need to be considered in light of the firm's risk appetite, strategic priorities and the overall balance of the risk portfolio.

[6]Adapted from Mintzberg, H. (1979). 'The structuring of organisations: A synthesis of the research.' Englewood Cliffs, NJ: Prentice-Hall.

2.3 Managing the coordination of knowledge and decision-making power

These 'pulls' are not in any sense negative. Indeed, these different pools of expertise are all essential for the underwriting process, and for strategic success. However, heightened structural complexity, and shifts in decision-making authority, can generate several tensions and trade-offs that need to be managed.

First, reinsurers must ensure that the unique expertise of experienced line- and market-underwriters is fully utilised, no matter who has the final decision or how many people are involved in getting there. Situations will arise (as in the vignette at the start of this Masterclass) in which there is a tension between an underwriter's evaluation of a particular deal, and an account executive's view that it can be 'traded off' against other elements of a client's whole account, or a corporate executive's need to balance the portfolio. It is vital that the final decision-maker can recognise the full weight of the underwriter's expert view in this balancing act, because not doing so will result in poorer (and therefore costly) decisions.

Second, reinsurers must direct knowledge and resources to where they are most needed. Unnecessary knowledge coordination – i.e. "getting everyone involved" in each and every underwriting decision – wastes valuable time and money by calling on pools of expertise (such as portfolio knowledge) where it is not needed.

In a sense reinsurers need to become 'strategic chameleons' in their client management, and develop triage points in their underwriting processes that enable them to treat different types of deals and clients differently. Some deals will need input from all four of the knowledge pools we have identified; some perhaps only two (analysis from the technical staff and context from the underwriter). Reinsurers need to develop a system of criteria, based on the nature of each particular deal or client, which allows them to:

- Identify the correct combination of knowledge, and who should apply it;
- Identify where a deal should enter and exit the reinsurer;
- Avoid confusion or tension over roles and decision-making authority.

The capabilities required to combine knowledge appropriately, and the process of triage, are outlined in the following section.

Study Question 2
Identify the primary pools of knowledge in your organisation.

(a) Who controls them and where are they located – physically/geographically, and in the company structure?

(b) What is the nature of the interdependencies between them? Considering them two by two, do they always need to be combined, sometimes need to be combined or rarely need to be combined?

(c) What difficulties does your organisation face in combining these pools of knowledge?

[6]Adapted from Mintzberg, H. (1979). 'The structuring of organisations: A synthesis of the research.' Englewood Cliffs, NJ: Prentice-Hall.

3. Coordinating processes: capabilities for combining knowledge

Operational excellence requires the development of capabilities which coordinate knowledge in different combinations to suit specific deals and clients.

Here we identify three critical capabilities that reinsurers need (section 3.1); we then examine the process of ***triage*** – how the appropriate capability can be identified to match up with deals and clients (section 3.2); and finally we show how capabilities can be aligned with the firm's strategic priorities (section 3.3).

3.1 Three capabilities for combining and coordinating knowledge

The three central capabilities are depicted in Figure 3.1 below. They are represented by three lines, in red, blue and grey, and the capabilities are discussed in the following sections 3.1.1–3.1.3.

As a deal is processed in time (time is represented along the x-axis) it is considered by different roles within the firm (shown in horizontal bands) so that when a deal passes from, say, an underwriter to an analyst, the line travels across from one band to another. As you move from left to right, the number and breadth of interactions between roles increases. This increases the time and resources involved in making decisions – which means that reinsurers cannot respond as quickly to their clients.

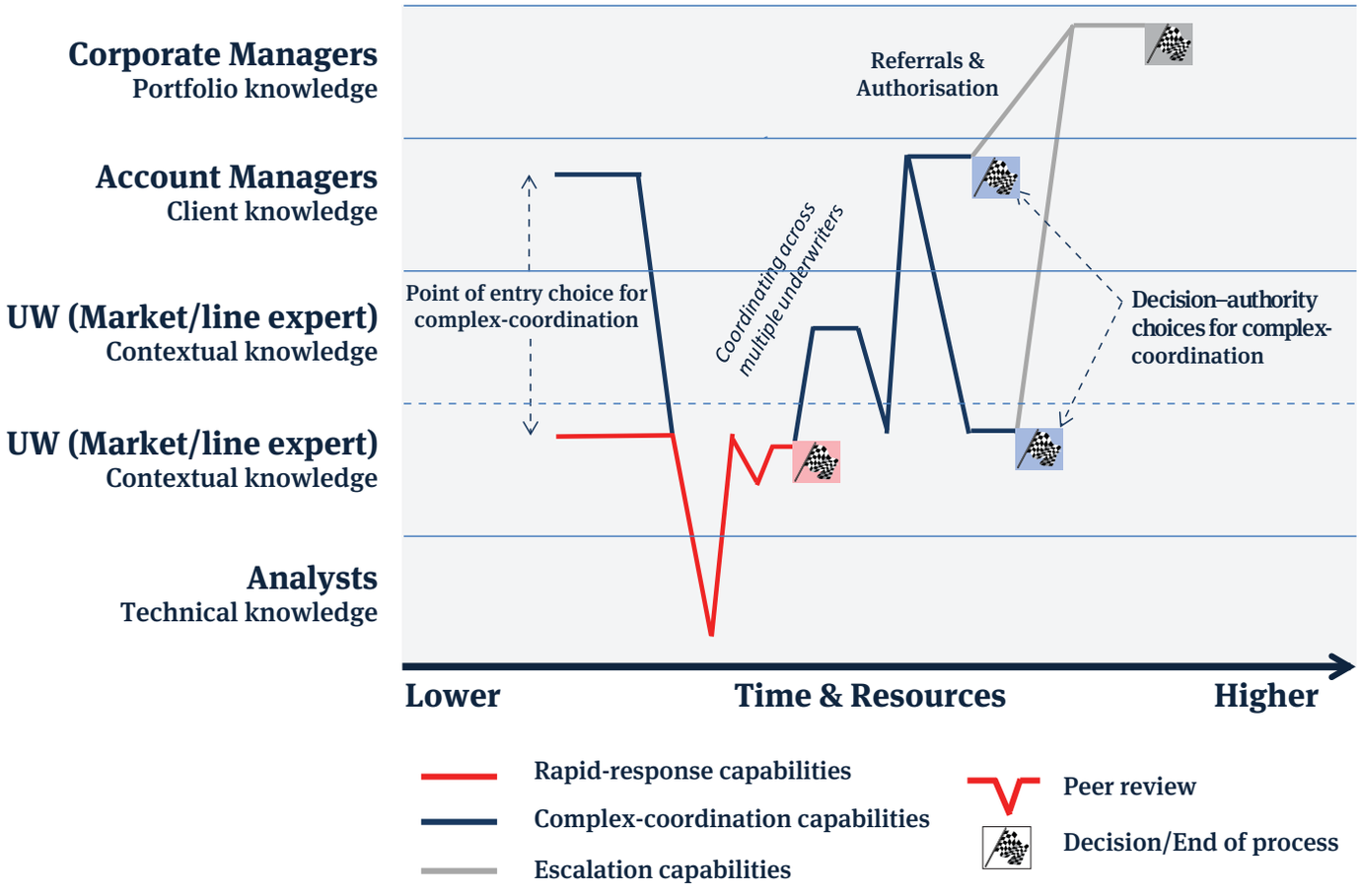

Figure 3.1 Three capabilities for combining knowledge

3. Coordinating processes: capabilities for combining knowledge (cont.)

3.1.1 Rapid-response capabilities

Rapid-response capabilities have traditionally dominated the reinsurance business. Reinsurance deals enter and exit the reinsurer via the underwriter, with whom decision-making authority is vested. Rapid-response capabilities take the numbers generated by technical analysis, and filter them through the underwriter's vital understanding of context, to make a decision (the red line in Figure 3.1). Put simply, rapid-response capabilities empower underwriters: this empowerment ensures that underwriter quality is supported and maintained.

Reinsurers should retain rapid-response capabilities as they are the most efficient underwriting process and frequently the most effective, prioritising the contextual knowledge of empowered underwriters. These capabilities also allow reinsurers to respond and react promptly to clients where appropriate to the deal, using minimal organisational resources to do so. The central elements to be managed in this process are: (1) ensuring that decision-making authority remains with the underwriters, not the analysts, no matter how technically-minded the reinsurer (because models are flawed and the numbers they generate must always be interpreted in context) and (2) maintaining the ability to vary the degree of analytical involvement depending on the complexity and size of the deal.

3.1.2 Complex-coordination capabilities

Complex-coordination capabilities coordinate a wider variety of knowledge across a greater number of roles to inform reinsurance decisions. These processes (shown in the blue line in Figure 3.1) include the same activities as rapid-response, but they incorporate more interactions and iterations to combine knowledge about key clients, different lines of business (e.g. property and casualty) and multiple geographical territories. This capability often relies on a coordinating middle management role which can bring together all this knowledge; it is most often formalised in the account executive role.

By integrating knowledge from different underwriters (who will also have elements of client knowledge), complex-coordination capabilities can also provide a more holistic view of a client and/or the various elements associated with a complex deal. While they consume more resources and take more time, the explicit integration of account-level client knowledge for those deals where it is appropriate helps the reinsurer to clarify the best approach to satisfy important global clients.

> The underwriter has their in-depth view of different deals, whereas we bring our view of client expectations... how we feel this fits into our jigsaw with that client. So it's bringing all that into one sort of little space and deciding where we pitch our offer price; that would be the base process. (Account Executive)

Formalising complex-coordination capabilities helps organisations decide where a deal should enter and exit the reinsurer. Decision-making authority is naturally skewed towards the entry or exit point, but should this be with the Account Executive or the Underwriter? This decision obviously depends on organisational priorities and the primacy given to client knowledge (see section 3.3.1). Whichever is chosen, the process should be made clear to all involved to avoid undue tension over authority.

3.1.3 Escalation capabilities

Escalation capabilities (as shown by the grey line in Figure 3.1 on page 8) are required to deal with exceptions that demand portfolio management oversight and control. These capabilities have become more important as the reinsurance environment, and the deals that reinsurers encounter, have become more and more 'exceptional'.

Taking 30% on QBE's global per-risk covers is an example of an exceptional deal. No matter how well an organisation's complex-coordination capabilities work, the reinsurer will need to incorporate an additional component of portfolio-knowledge – via senior executives – within the underwriting decision itself.

Escalation capabilities require a clear pathway to portfolio knowledge and clear decision rules about what does, and does not, need it.

There are two main 'traps'. Organisations which fall into the first trap are constantly managing by escalation. That would mean that decisions – such as small shares on, say, complex multi-territory deals – are unnecessarily and consistently landing on senior executives' desks. This, we would argue, is an inadequate development of escalation capability, rather than an example of it. Such a situation might arise where organisations have not adequately developed the necessary complex coordination capabilities (see 3.2) to manage such deals. The three capabilities need to be developed alongside each other.

The second trap ensnares the organisations which do not utilise escalation capabilities at all or enough. This may occur if the route for senior executives' involvement in decision-making in exceptional cases is ambiguous or poorly defined. This might mean that organisations miss out on valuable deals due to a lack of clarity around when senior executives should be involved. For example, a client manager or underwriter might assess a particular deal as too capital-intensive – or 'strange' – and thus not assess a deal further, if there is little precedent for escalating such decisions upwards.

3.1.4 Why should a reinsurer bother developing these multiple capabilities?

There are at least four reasons not to rely solely on one way of doing things:

- ***To avoid inefficiency.*** Rapid-response capabilities are retained for the appropriate deals, rather than being unnecessarily replaced in all cases by complex-coordination. This avoids wasting organisational resources (time and expertise), and provides clients with swift responses.
- ***To avoid undervaluing underwriter expertise.*** Retaining rapid-response capabilities ensures organisations allow underwriters to make decisions on deals where their expertise and experience are the vital element in the assessment.
- ***To be able to assess, and access, the whole range of opportunities in the external environment.*** Complex-coordination and escalation capabilities mean that organisations can understand increasingly complex deals. They also ensure that they do not miss out on opportunities; for example, an organisation that always underwrites strictly on a line-by-line basis (via a rapid-response process) may well find it difficult to access the business of clients with whole-account expectations. Indeed, they may even be unaware that additional attractive deals with such clients exist!
- ***To avoid constant management by escalation.***

Of course, reinsurers need to be able to identify and access the right capabilities for the right business, as discussed in section 3.2.

Study Question 3.1
In your organisation can you think of three typical deals where the above three capabilities would be usefully applied?

Which of these three capabilities does your organisation do particularly well?

Do any of these capabilities require further development?

3. Coordinating processes: capabilities for combining knowledge (cont.)

3.2 Triage – matching the capability to the deal

To apply knowledge appropriately, organisations need clear triage processes to match each deal to the correct capability. Many underwriting teams have weekly meetings during renewals, which can summarise incoming business and incorporate a triage process. A simple ranking system (Levels 1, 2 and 3 for example) could be used to channel business toward different capabilities, and enable speedy communication and collective clarity. Weekly summaries can be emailed to managers and relevant account executives as a reference in case of queries or ambiguities.

Here we provide recommendations for triaging capabilities primarily based on 'deal-type' (sections 3.2.1–3.2.3) and, more broadly, by client segmentation (3.2.4).

3.2.1 Stand-alone deals and rapid-response capabilities

Stand-alone deals that are clearly defined by specific line of business and/or market territory boundaries (see Masterclass II) – should trigger a rapid-response capability. Even if a client sends such a deal to an account executive, this should be swiftly passed on to the appropriate underwriter.

For example, a moderately sized stand-alone UK motor deal should draw on the contextual knowledge of an underwriter who understands the intricacies of motor risks within that market, in conjunction with the analytical support. Adding additional process (i.e. complex-coordination capabilities or referrals to corporate executive) to such a deal would be needless and inefficient. Likewise, placing decision-making authority elsewhere, such as in 'models', would mean the deep contextual knowledge the underwriter has about this type of business, and their informed assessment of the risk, would be undermined or not fully utilised.

3.2.2 Bundled products and complex-coordination capabilities

More complex 'bundled' products should be a triage point for implementing complex-coordination capabilities. These products are likely to require the expertise of several different underwriters, and possibly also someone with client knowledge, like an account executive. Specifically, these products may be bundled either across:

- Multiple ***territories*** (e.g. SuperRisks such as global Cat programmes, but quite possibly even a 'Euro-wind' or nationwide US Cat cover). Even the most experienced line- or market-underwriter is unlikely to have enough expertise in all the territories covered;
- Multiple ***lines of business*** (e.g. Motor, Property, Cat). Many European clients, both large and small, present their deals as a bouquet or package to be considered together in this way, and they are likely to need input from several line-underwriters.

The large clients often associated with such deals are usually important to reinsurers, because of the amount of premium volume available from them; and they can be difficult to understand, due to their size and complex array of needs. Therefore the integration of underwriter assessments may be usefully done by an account executive – who has the requisite in-depth client knowledge.

3.2.3 Exceptional deals

While multi-territory and multi-line deals should be 'routinely' amenable to analysis using complex-coordination capabilities, an increasing number of non-standard deals falls outside normal parameters. Triggers can include:

- ***Deal size***, such as when an opportunity arises which is outside pre-defined capacity limits. The size of capacity being put down on a single deal is a common indication of when portfolio knowledge should be triggered. For example, in response to Japanese Earthquakes it might have become apparent to underwriters that there was potential for large capacity deals at high-profit margins. Such major deals, falling outside standard capacity limits, should have triggered escalation capabilities to re-evaluate capital allocation for that market, based on exposure management limitations and profitability assessments.
- ***Anything outside the typical renewal cycle.*** For example, participating in a three-year deal, rather than the standard one-year. Such deals are exceptional as they do not allow the normal price adjustments in relation to market events: they therefore demand a high level of commitment to the reinsurer-client relationship, and involve a longer duration of exposure to the risk.
- ***Innovative products*** which the organisation, or indeed the market, has not underwritten before.

For example, new terrorism covers were devised post 9/11. Inevitably, as a new product, they were not already well-understood, and had to be considered as 'high-risk'. Decisions to participate in such products therefore required portfolio-level oversight, as the overall risk of the rest of the portfolio needed to be balanced against these extra-risky products. Another example of an unusual product which the organisation has not previously underwritten would the opportunity to participate in a private deal.

An organisation can define its own parameters for 'exceptions' within its formal underwriting guidelines, being careful to ensure that those parameters do not result in over-referrals.

3.2.4 Formalised client segmentation

Client segmentation is an important means of simplifying deal-level triage. Client segmentation should identify:

- Important clients, alongside whom the reinsurer wants to grow across all of their business (rather than a specific line or product area) e.g. due to the client's premium size;
- Clients with particularly complex needs who are more difficult to understand, e.g. large global cedents with programmes spanning multiple territories, who nonetheless have strict whole-account expectations.

Such clients require complex-coordination capabilities. In this connection, the structural process of allocating an account executive to specific clients is itself a form of client segmentation, and a clear triage indicator that the client's deals will require complex-coordination. Very few reinsurers will allocate account executives to all clients; instead they will be allocated to important or complex clients like those above, and especially to global giants such as QBE, Allianz, or Axa.

A smaller client, by contrast, might not merit formal complex-coordination despite having a bouquet deal, due to the minimal capacity and exposure involved. Such clients can remain within the preserve of a single underwriter.

The central benefit of client segmentation is that the triage process can be partially achieved prior to the busy renewal period, and in a more comparative way as the reinsurer looks at all their clients together.

Study Question 3.2

What mechanisms for triaging deals exist in your reinsurance firm, or in a firm known to you?

3.3 Applying capabilities to fit your strategy and structure

Every firm needs the three capabilities to overcome coordination challenges, integrate knowledge and write different types of deals. However, not every company will need to apply these capabilities in equal measure.

Each firm will have its own unique strategic priorities as they target different opportunities and attempt to steal market share from rivals. They will also differ structurally in size and geographical dispersion. These factors all impact how the capabilities are applied.

3.3.1 Deal versus whole-account underwriting

As Masterclass III outlined, certain reinsurers are predisposed towards assessing each deal in isolation, and less inclined to assess profitability of a collection of deals at 'client level'. A Bermudian firm, focused on US property catastrophe business, would be typical in this regard. Such reinsurers will primarily use rapid-response capabilities.

By contrast, some firms, typically continental European reinsurers, prefer to assess client portfolios holistically (the 'whole-account' approach) – as their unique selling point to the client. They need to evaluate all the client's lines of business simultaneously, and therefore lean towards complex-coordination capabilities.

3.3.2 Target deals

The type of deal a reinsurer is targeting is another important consideration. If a reinsurer wants to be, or is, a major global player, who writes very large or unique deals at the forefront of industry innovations, they will require highly-developed escalation capabilities.

However, if a reinsurer is a smaller market follower, who can generate most of their premium volume through focusing on more simple stand-alone deals, they are likely to rely more on rapid-response capabilities and have less need for escalation capabilities. Organisations focused on a narrow product range will also be line-focused, rather than client-focused, which will favour underwriter-led rapid-response capabilities.

3.3.3 Strategic opportunities and strategic trajectories

Even if a reinsurer strategically specialises in deals which require one particular capability, the increasingly competitive reinsurance environment still requires the ability to shift between capabilities, for ***opportunistic***, or ***evolutionary*** reasons.

- ***Opportunistic shift:*** for example, a reinsurer may not be a whole-account underwriter, but may wish to underwrite in this way with a small subset of the very best clients, as a way to grow business. The core business model is not fundamentally changed. This is also a way to "steal" deals off existing competitors as a new player, profiting from situations where clients are not completely satisfied with existing providers.
- ***Evolutionary shift:*** reinsurers may consciously evolve their business models to access new forms of business, especially when their core area gets ever more competitive. The Zurich start-ups, set up by Bermudian companies to access European risk, required a shift away from line- and deal-focus towards a whole-account approach. Firms must link such changes in their strategic priorities to building the appropriate internal capabilities.

3.3.4 Structural considerations

Structure plays a part in the way these capabilities are implemented within organisations. The greater the size and geographical dispersion of a reinsurer the more likely that formalisation of the various capabilities will be required and that coordination itself will be more difficult. For example:

- The analysis of a large global risk might rely on expertise residing in different offices;
- In larger firms it is likely that some underwriters will not know that a client is simultaneously engaging with their organisation over other deals, or through other contacts.

Smaller firms can often rely on less formalised coordination mechanisms. Analysts and underwriters may share a common workspace, so that they can more easily access the expertise of colleagues from other lines of business who sit close by through informal means. Similarly, underwriters in such firms might informally coordinate together to analyse complex deals without the need for an account executive role.

However, there remains a danger of ambiguity and potential for confusion in all but the smallest firms, unless clear processes and associated triage points are agreed, as discussed above.

3. Coordinating processes: capabilities for combining knowledge (cont.)

Study Question 3.3

(a) Is there a predominant capability used in your firm (or one known to you)? Does it fit well with the strategic position of the firm? Why/why not?

(b) If possible, describe a shift in capability required (in the past, or in the future) in your firm or another. The shift might be temporary or permanent. Why was/is this shift needed? Does it involve more, or fewer, interactions between knowledge pools?

4. Coordinating for operational excellence: conclusions

Table 4 below summarises the triage points for appropriately applying capabilities by deal (such as stand-alone or bundled) and by client. It also suggests how reinsurers can fit capabilities to their strategic priorities (their target business and underwriting approach).

	Rapid-response capabilities	Complex-coordination capabilities	Escalation capabilities
Target deals	• Stand-alone	• Super-risk • Bundled products	• 'Special' or new deals (e.g. 100% deals, large capacity)
Clients	• Stand-alone • Smaller clients	• Important (e.g. large or high-quality) clients • Complex clients	• Complex clients • Special relationship clients (e.g. multi-year relationships)
Underwriting approach	• Mono-line approach • Analysis driven	• Whole-account approach • Relationship driven	• Targeting a greater variety of more complex & innovative business
Summary: Strategic type (MC III)	• Patch-work Partner • Deal-making Partner • Price-taking Profiteer	• Blanket Partner • Portfolio Partner	• All organisations encounter 'exceptions' but large industry leaders (Portfolio & Deal-making Partners) will most frequently.

Table 4 Implementing knowledge coordination capabilities

As Table 4 suggests, the most appropriate blend and configuration of internal knowledge varies from firm to firm. It depends on such factors as the profile of the firm's client base, the type of business it is targeting and general underwriting approach.

In a world where large deals and large clients are becoming increasingly prevalent, rapid-response capabilities, involving efficient bi-lateral coordination between empowered underwriters and analysts, are no longer sufficient to handle all decisions. It is even possible that, as insurers consolidate even more, and as reinsurance deals become more and more complex (see Masterclasses I and II), deals suited to rapid-response become a small minority – certainly for some reinsurance firms. Over a very short period of time, far less than a working lifetime, underwriters are having to shift from being the key decision-maker on the vast majority of deals, to a 'team-player' whose contextual knowledge is a piece of a jigsaw – albeit an indispensible piece for the finished picture to make sense.

So: underwriters' knowledge, for many deals, already requires complex-coordination. However, firms must not end up applying elaborate coordination mechanisms in a wholesale fashion to all deals; this wastes valuable economic and human resources, and unnecessarily disempowers underwriters in the process. To help reinsurers avoid such traps, this Masterclass has highlighted that while reinsurers will have a propensity for a certain way of underwriting, the operationally excellent reinsurer draws on a range of different knowledge-integration capabilities as and when needed.

Masterclass III shows what type of business a reinsurer should specialise in if they are, or want to be, a particular strategic type. This Masterclass builds on Masterclass III by describing the capabilities they need to develop in order pursue this strategy, but also how to shift between capabilities to make the most of opportunities outside of their traditional focus.

Study Question 4
Identify a trend in the kinds of deals and clients handled by your firm (or one known to you).

What implication does this trend have for the future knowledge integration capabilities of this firm?

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