LMSG July 22nd – Mark Flower: An Actuary in an RI Broker's World

On July 22nd, the LMSG hosted Mark Flower, a broker actuary at Aon Benfield. Mark divided his talk between two topics: his career to date, with specific regard to his work as a reinsurance broker as well as the current state of reinsurance market; encompassing some of the new products and alternative markets being developed.

Mark began his career as a pensions actuary in 1991 (prior to the use of MS Excel by actuaries), before making the switch to London Market GI work in 1996, at which time he said there were probably fewer actuarial students in GI than there were members attending the talk!

He then moved into reinsurance, describing a colourful career involving 'traditional' actuarial work such as pricing and reserving, as well as a chief actuary role at Gallagher Re and elements of broking work, culminating with a move to being a full-time broker at Aon. Mark stressed that reinsurance, in particular, was, (and continues to be) very much a relationships driven market, requiring significant 'people skills' and strong commercial awareness.

One of the key points Mark emphasised was that an ability to 'do the numbers' was more or less taken for granted in an actuary and what distinguished the more successful actuaries was a need and desire to understand the wider context in which the results of an actuarial analysis would be used. This should be coupled with an ability to communicate well with brokers and underwriters, who, though they might lack an actuary's technical acumen, will tend to have much more expert knowledge and experience in a given business class than the actuary. Interestingly, this point of when to trust the underwriter and when to trust the results of an analysis was also touched upon in Brian Bissett's talk in May.

Mark next moved on to discussing the current state of the reinsurance market, commenting that it is currently in a more competitive state than ever before. At present, there is roughly half a trillion USD of capital in the reinsurance market and that a benign (in reinsurance terms, relatively speaking) catastrophe environment has led to reinsurance firms having very robust capital bases, whilst running at a combined ratio of roughly 90% on average, (partly due to continuing reserve releases of roughly 5% on average per annum). Despite the tight margins and highly competitive environment (due, in part, to declining demand), the market's ability to absorb large losses and/or catastrophes is strong and so the current situation is unlikely to shift for the foreseeable future.

The focus of the talk then shifted to some of the more recent developments in the reinsurance market, with Mark discussing two of the new products that are becoming popular in recent times. The first of these was termed a "Large Loss Aggregate Reinsurance Cover", also known sometimes as a "Large Loss Protector" and is a form of multi-class XoL treaty with combined AAD and AAL across the classes covered. The limit and deductible can be tailored to the cedant's needs so as to provide working layer coverage or deep in the tail coverage. The key advantage of such a contract is that it tends to be significantly more efficient, (in terms of saving money) than individual reinsurance purchased by class, while at the same time not jeopardising the cedant's risk appetite. Issues with the contract lay primarily around governance and how to allocate recoveries; particularly when dealing with classes of different tail lengths.

Mark next spoke about financial reinsurance type contracts, which can assist insurers and reinsurers in achieving higher investment returns. These contracts have grown more prevalent in recent times due to insurers' continuing large reserve bases, coupled with their poor investment yields (due to conservatism and regulatory constraints). Such 'cover' is often provided by hybrid banking, hedge-fund backed or other related vehicles and examples include stop loss straddling plans, 'partially underwater' adverse development covers and structured quota share arrangements with override commissions.

An encouragingly large number of questions were then fielded at the talk's conclusion, relating to all aspects of the talk. In particular, attendees were keen to understand what drove Mark to cross over from actuarial to brokerage work and the difficulties that entailed. Mark was positive in his responses, emphasising the emergence of the new, more technical style of broker, (which would be well suited to actuaries with good commercial awareness and strong people skills) over the older, more traditional style that may occasionally be found in the environs of Leadenhall Market (the term 'rosy-nosed' and the Lamb Tavern may have been mentioned).

If you would be interested in learning more about the LMSG or attending our events, please email Cian at cian.ocriodain@xlgroup.com.