

# Achieving a meeting of minds: the value of challenging risk models

How and when to apply modelling in informing better decision-making is a core competency at Holborn. The firm's Tim Releford explains the ethos to *APCIA Today*.



**“Applied modelling helps create** a meeting of minds across all parties. It allows risk to be transferred in a way and at a price agreeable for reinsurers and cedants alike and understood by all. Where that happens, relationships last and prosper over time.”

That is how Tim Releford, senior vice president and head of applied modelling at Holborn, describes the importance of his role and extended department. His position, in a nutshell, is to work with all the models and data available to Holborn (vendor and in-house), as they relate to a specific client, and create something that adds value to the client—and is easy to understand.

“We take the models—together with data in and data out—and effectively apply them in the process of understanding and transferring risk on behalf of our clients,” Releford explains. “It is our job to make the inherently complex more understandable to all parties.”

“The more we do that, the more we have that meeting of the minds and land on sustainable risk transfer solutions.”

Perhaps ironically, for his team to perform to the best of their ability, a certain amount of scepticism is needed around the output of the very models they are working with.

“Models are not the be-all and end-all. Most are working in the realm of probabilities, the measurement of which is inherently difficult, particularly the deeper you go into the tail,” he explains.

“Yes, there is empirical data to leverage, but there’s still a lot of uncertainty even with that. Understanding and respecting the same within the process is key.”

“Understanding risk, and particularly tail risk (which comes in a myriad of forms), and communicating that to clients is core to what Holborn does. Applied modelling plays an upfront role in doing this. A better understanding of risk naturally leads to better decision-making when it comes to structuring and transferring risk,” he says.

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## Pushing the boundaries

Releford’s ethos reflects the value that is central to Holborn: everything the firm does is designed to help and enhance its clients’ experiences and ability to perform and make better decisions. He has been a Holborn employee for 17 years—and represents a new generation of leaders pushing the boundaries of what is possible.

He joined the business in 2004 after completing a financial engineering degree at Princeton. He started and continues to serve as a broker. However, his analytical nature drew him towards the way the business was using and applying models in the broking of clients’ reinsurance programmes to the market.

About three years ago, Releford was asked to formalise and institutionalise his approach.

“Demystifying” the application of risk models and their outputs into information Holborn brokers and clients could use to make better decisions became part of his remit.

In some ways, the role was a natural extension of Holborn’s increasing dedication to analytics: some 25 percent of the workforce are focused on analytics. Releford and Holborn’s team provide that vital but sometimes missing link by making valuable yet opaque and complex information transparent and fathomable.

In practical terms, Holborn licenses risk modelling suites from firms including AIR Worldwide and RMS and has also developed several in-house models, which it uses to complement these and compare and contrast perspectives.

“It is our job then to help both clients and brokers better understand all these outputs to allow them to make judgements on the risk and make a quantitative case for what the best solutions will be for clients,” Releford says.

“It is never a case of one-size-fits-all with models or the outputs. We spend a lot of time rolling our sleeves up and delving down into the data as it may apply to individual clients. We then develop appropriate risk transfer strategies unique to each client and, of course, identify the reinsurance markets that understand those exposures and will work with us in the right way. It is about making better-informed decisions.”

Releford emphasises that the actual value of what his team does is in the journey, instead of the destination.

“It is human nature always to seek an answer, but there is also danger in viewing models in that way,” Releford says. “We need to have a healthy respect for the uncertainty and the nature of the underlying risks unique to each of our clients. We will often develop new and innovative insights from delving into the data and challenging some of the assumptions being made.”

This, he believes, sets Holborn apart compared with its competitors. “It is all too easy with models to follow the path of least resistance. In contrast, what we do is the road less travelled—expediency is not an option, at least not a good one. That gives us an edge, and our clients an edge, and that is the entire purpose of what we do.”

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## Challenges

The biggest challenge, Releford acknowledges, are the constantly changing parameters around the nature of the risk.

“The bottom line is that large-scale catastrophe events have increasingly proven to contain variables that have caught the industry flatfooted. Despite the collective industry’s best efforts and advances in technology, history suggests our industry does not probability-weight the future very well,” Frank Harrison, Holborn’s chief executive officer (only the third in its 100-year history) wrote in a “Letter from the CEO” this year.

Releford concurs: “Everything is always changing—the risks, the models, the underlying portfolios,” he says. “Staying abreast of these developments, the science, the latest trends, is the most challenging thing we do. And overlying all this now is climate change.

“It is clear that climate change is creating greater volatility and even more uncertainty. We have to find a way to deal with what is a reality now.

“The learning and evolution are constants, and so is a keen awareness and willingness to be very flexible, which necessitates transparency, communication and humility to maximise the potential benefits and avoid the potential pitfalls.”

It is all about the clients, Releford stresses. “We pride ourselves on a very hands-on approach with clients. Modelling is an inherently technical subject matter that can be easily misunderstood and misused. It is crucial to demystify models for clients and transparently and simply explain their value and, perhaps more importantly, their limitations.

“Carefully and thoughtfully walking a client through the risk parameterisation process and building frameworks to easily interpret output is a key focus at Holborn. We succeed when our clients succeed, and our clients succeed when they truly understand their risk and, in turn, can develop an informed approach to addressing and managing it.

“Some of our most gratifying and rewarding work at Holborn comes in taking this journey with our clients and seeing it through to a set of decisions that positions them for long-term, sustainable success,” he explains.

“We are selective as to who we work with because, once a client is a client, we do our very best for them—and they tend to stay for the long term.

“It is not about sales for us—it is about client service, which is why we have a stable of great clients who have been with us for a long time. I am proud to be a part of that.”

*Tim Releford is senior vice president and head of applied modelling at Holborn. He can be contacted at [timothy@holborn.com](mailto:timothy@holborn.com)*

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