A tailored suit is the best fit

Amid complex market conditions, Holborn is helping its clients find solutions by leveraging a unique approach entailing bespoke risk models developed for client-centric risk strategies.

Amid what many now regard as once-in-a-generation tumultuous market conditions, characterised by tighter capacity, higher prices and restricted terms and conditions, brokers must look to leverage more bespoke risk models to develop client-centric risk strategies suited to the nuances of each client's portfolio—as opposed to using a broad-brush approach.

That is the argument of Daniel Zitelli, senior vice president, co-head of catastrophe modelling, and Scott Rosenthal, executive vice president, head of analytics, at Holborn, speaking to *APCIA Today* ahead of this year's conference in Boston.

Zitelli says a confluence of factors including years of heightened cat losses, higher interest rates and economic turbulence are to blame for what became a capacity crunch at the end of last year. A mixture of caution around the industry's ability to understand and model cat risk in the context of climate change and more appealing investment opportunities elsewhere has stymied new capital coming into the sector.

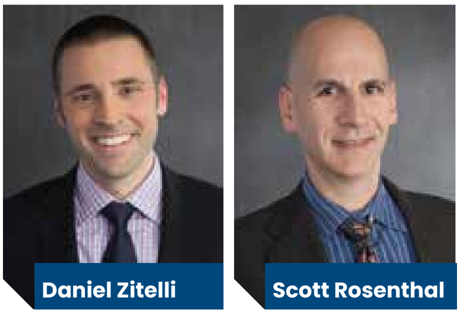
All this has meant one of the most challenging environments he has seen for clients to secure reinsurance.

"I believe new capital will come in, but investors are being cautious and waiting to see what will happen with cat losses (after so many years of heightened activity), what will happen with interest rates, and whether the industry understands climate change.

"I don't think it is a permanent withdrawal for most, but they are being judicious. They want to see if the industry can sustain profitability before they enter again," he explains.

Rosenthal adds that the challenges facing insurers have not been limited to rates. One of the biggest changes in the last renewal was that retentions increased sharply, leaving cedants retaining more risk and bearing more volatility. All this has forced insurers to examine their exposures and business strategies—something Holborn is uniquely positioned to help with.

He stresses that Holborn has never relied solely on vendor models to help and inform clients—they feed into a much bigger and more nuanced picture that is unique to each client's portfolio. This approach, he argues, allows for more meaningful conversations and better decision-making.


Daniel Zitelli Scott Rosenthal

> "Each one of our clients has distinct underwriting guidelines."
> Daniel Zitelli

"We always say a tailored suit fits better than one off the rack," Rosenthal says. "There's now computational power that was not around in the past, so we have something that's more client-centric.

"To capture the true risk of a client, you need to understand and collaborate with the client and to know everything about their unique risk profile. We've employed a variety of different technologies and methods to identify risk drivers and trends and enable our clients to make informed decisions."

Reflecting the loss reality

Zitelli stresses this approach is especially important in what appears to be a rapidly changing risk environment, especially on the catastrophe side, where severe convective storms, wildfires, tornados, and hail are all increasing in their frequency and severity in ways that are not being accurately predicted by vendor models.

> "You need to understand and collaborate with the client."
> Scott Rosenthal

"It is a complex picture but what we do know is that when we run commercially available cat models against our clients' portfolios, they aren't reflecting the loss reality our clients are seeing," he says.

"That provides an opportunity for Holborn to drill deeper into our clients' exposures and loss history to extract the story their data is telling us. We then take that and apply it to their reinsurance renewal in a way that benefits them."

In addition to rates and higher retentions, terms and conditions are in the spotlight, with reinsurers moving to named perils and excluding many forms of risk that were previously the norm in contracts.

Rosenthal adds that Holborn's approach has been to consult with its clients and build custom models that reflect the unique profile of their specific portfolio, as opposed to attempting a more broad-brush approach.

"Our goal is to empower clients to understand the risk so that we can develop a good solution together, which can then be communicated to the market.

"Each one of our clients has distinct underwriting guidelines and with that comes distinct loss history," says Zitelli.

"What has their expansion process been in the past several years and how does that play into what's going on with their loss history? What are the trends we're seeing, and what factors are pushing these losses?

"We use those insights to adjust the models we've already built or perhaps create a new one to make something that properly fits each individual client." ●

Daniel Zitelli is senior vice president, co-head of catastrophe modelling, at Holborn. He can be contacted at: danielz@holborn.com
Scott Rosenthal is executive vice president, head of analytics, at Holborn. He can be contacted at: scottr@holborn.com