

ACTUARIES & BROKERS



by John Birkenhead
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Until recently, it was rare for brokers to ask for actuarial assistance with the annual renewal process. In today's environment of higher deductibles, higher aggregate limits and limitations on cover, the demand by brokers for actuarial support has increased as clients look to brokers to negotiate hard with insurers.

Brokers often perceive actuaries to be expensive, too technical and un-commercial. Actuarial reports are thought of as large, often unwieldy documents, needing lots of data which is time-consuming to produce and having a large number of caveats - for which actuaries are perceived as having little experience in finding practical solutions.

When a broker does seek actuarial support, it is typically on a very limited budget - paid for out of the broker's own fees, with very short time-scales, very limited data, and no requirement for a 'full-blown' actuarial

Getting together at last

Brokers are increasingly working with actuaries as change overtakes the intermediary market. John Birkenhead explains what has happened

report. The cost of having a viable in-house actuarial team, inclusive of salaries, office space, IT and software, can easily reach £1m per annum. This option is therefore only viable for large broking firms.

An alternative is to utilise outside consultants. With daily rates of £3,000 and £1,500 for senior consulting actuaries and newly qualified consulting actuaries respectively, a small amount of actuarial support from outside consultants can cost a disproportionate part of the brokerage fee, especially for small brokers.

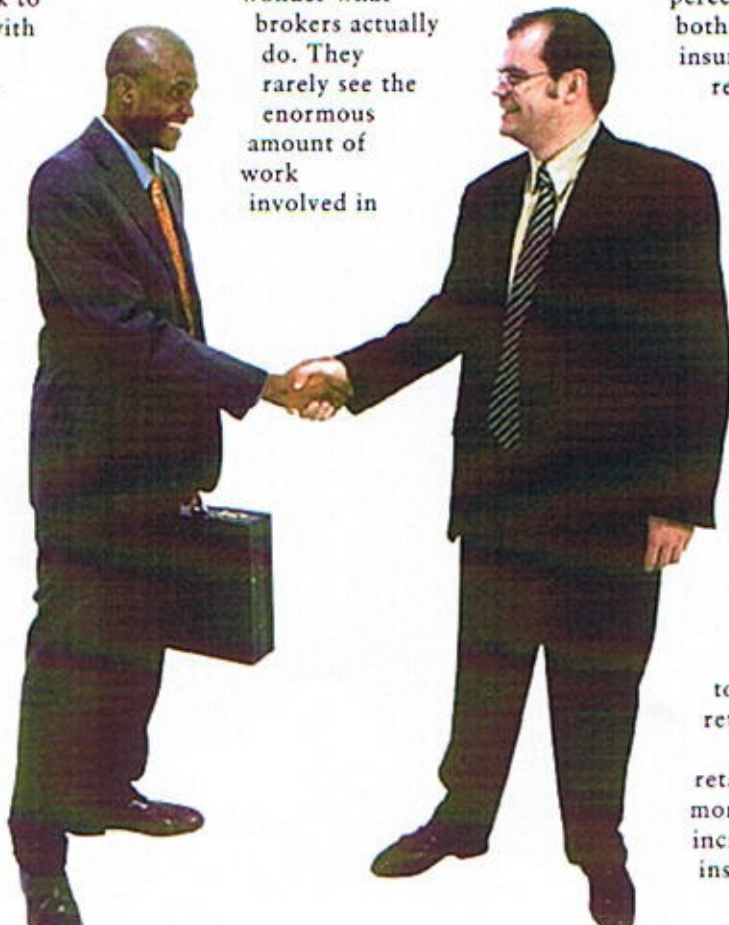
For their part, actuaries often wonder what brokers actually do. They rarely see the enormous amount of work involved in

large broking assignments, the risk management, captive management and claims handling capabilities of brokers and their in-depth market experience of particular sectors such as marine, energy, or warranty.

It is also very difficult for actuaries to work on the same contingency/brokerage fee basis as brokers. Such fee bases may be seen to compromise any perceived independence of the actuarial advice given. Even without a contingent element to the actuarial fee, it is difficult for a broker's in-house actuary to be perceived as independent by both the insured and the insurer, as they are being remunerated by the broker, and hence by the insured.

Given that the actuarial proposition is unattractive to brokers, what has changed to create new opportunities to work together? The insurance effects of 9/11 have been well documented - higher deductibles, higher aggregate limits, withdrawal of unlimited covers, higher premiums etc. etc.). These effects increase the financial risks to insureds of higher retained claims.

Additionally, with more retained risk, clients need more data to analyse their increased exposures. Some insureds may even have been



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fully insured 'from the ground up' in the past and thus have never collected historical data in an appropriate form to quantify their new exposures. There will also be more volatility in the actual claims out-turn from year to year, as large claim events now have a greater impact on the insured's retained claims.

Insureds with internal loss funds for retained claims are finding that existing surpluses are becoming less 'spendable' than before, for example on risk management initiatives. Now, it may be more prudent to retain surpluses to help fund poor claims experience.

Actuaries can help brokers and their clients in many ways. For brokers:

- technical negotiation with the insurer's actuaries for annual premiums at renewal and monthly premium rates for

scheme business (where the insured may be 'locked in' to a particular insurer for a number of years)

- creating value-added benchmarking tools for their in-house data
- creating technical content for leading-edge renewal packs

For their clients:


- regulatory actuarial sign-off of self-insured loss reserves/provisions for captives, regulators etc
- assistance with data management, premium allocation, etc
- dispute resolution e.g. profit commission on termination
- risk management bulletins of exposure and loss experience

The current trends leave plenty of scope for a new approach. Market research has identified this increased demand from brokers for independent, low-cost actuarial support services, particularly for smaller brokers at a fraction of normal consultancy

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rates. Hourly rates of £120 to £240 per hour mean that brokers can obtain six hours of senior actuarial assistance for less than £1,000. In today's market, actuaries are at the heart of insurers' rating processes. And brokers can now afford to have an actuary 'on their side' too.

John Birkenhead is an independent actuary offering services to brokers and their clients: www.independentactuary.co.uk 

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