

Mobilising scale in the large corporate risk market

The radical restructuring of Mapfre Global Risks provides it with the flexibility to prosper in a rapidly changing environment, the company's new chief executive says



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The past few years have been challenging for large corporate risk insurers. The relentless competition among new and existing players and excess capacity in the reinsurance market have meant a significant softening of rates in the large corporate risk segment. Indeed, in recent years the vast majority of carriers have found themselves in a situation where rate levels have been far from technically adequate.

However, things are beginning to change. The pressure on insurers' earnings, coupled with catastrophe losses over the past two years, have brought the large risk insurance sector to a point where rating levels are now being stabilised and, in some cases, increased. Policy terms and conditions are also being tightened.

This is happening across the board, right down to industry sector and individual client level, according to Bosco Franco, the new chief executive of Mapfre Global Risks (MGR), part of Spain's Mapfre Group.

Franco says the market is definitely moving in the right direction,

although there is a high level of uncertainty about the extent to which the market will continue to harden and how long any potential hard market will last.

This is no time to be complacent. One of the most serious challenges facing the sector now is the need to adapt, not only to the new conditions in the market, but also to the increasing complexity of the global corporate risk landscape, Franco says.

"You could say this is uncharted territory for insureds, brokers, insurers and reinsurers, all of which have a certain degree of experience, but have never before encountered a tightening of conditions across the board of this magnitude.

"It's now up to underwriters, brokers and corporate risk managers to demonstrate their expertise and find a stable equilibrium between this more complex environment and the most adequate risk solutions, not just in terms of rate, but also in terms of coverage," he says.

New focus

As a way of addressing this situation, Mapfre last year radically restructured its global corporate risks business, by transferring portfolios of business to other parts of the group to allow MGR to just focus on large risk business.

Previously, MGR had been acting as a direct insurer in Spain and across the EU. In other parts of the world, it also operated as a reinsurer of global risks business for the direct insurance operations of local Mapfre group companies whenever they wrote that type of business. This business was written under the direct supervision of MGR.

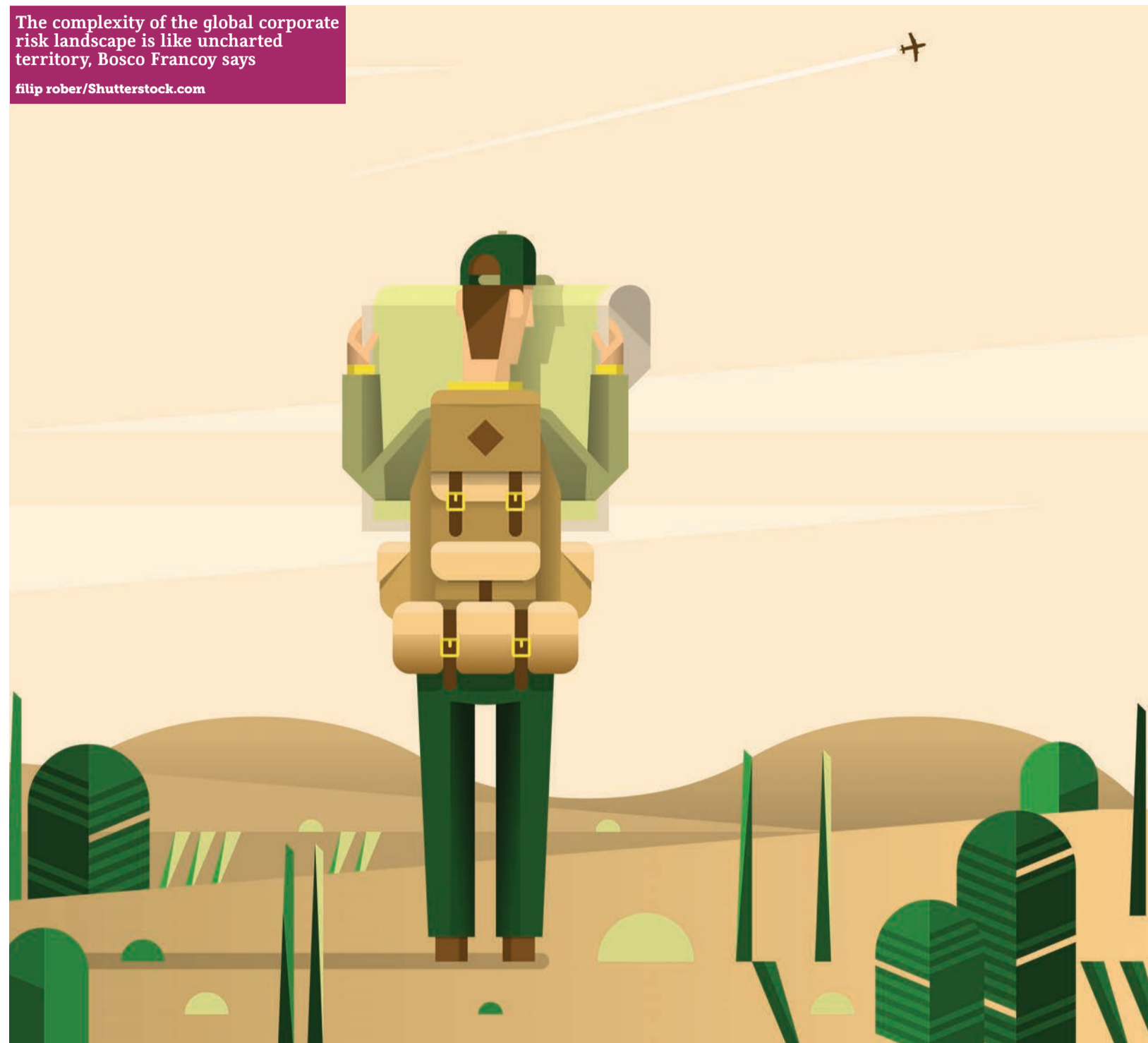
As part of the restructuring, MGR's reinsurance business was transferred to Mapfre Re, the group's reinsurance entity. Some of the primary insurance business written by MGR, particularly some of the smaller corporate accounts, was transferred to Mapfre Spain. MGR branches in the UK, France and Italy were integrated into Mapfre Re. The company's German branch ceased operations in October last year.

MGR now focuses exclusively on large-risk clients in territories where the Mapfre Group has an insurance company to which MGR can provide its specialised services. The company currently concentrates mainly on Iberia (Portugal and Spain) and Latin America. These are all markets in which the Mapfre group is the dominant corporate risk insurer. Indeed, Mapfre has also emerged as one of the major players in the large corporate risk market in Turkey.

Iberia and Latin America remain

The complexity of the global corporate risk landscape is like uncharted territory, Bosco Franco says

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key markets for MGR. They accounted for 81% (Iberia 31% and Latin America 50%) of the €1.2bn (\$1.3bn) in premium income generated by MGR in 2018. North America and Eurasia accounted for the remaining 7% and 12%, respectively, of premium income.

MGR's new operating structure only became operational at the beginning of this year, but Franco says the unit's management remains comfortable with that distribution scenario and will aim to emulate it over the coming years as the company continues to develop and grow in the large corporate risks sector.

Franco, who took up the role in January this year, previously served as chief operating officer for MGR. Before that, he spent more than two decades at Mapfre Re, latterly as regional director for Latin America and chief underwriting officer for facultative reinsurance in the region.

Geographic diversification

In terms of further geographic expansion, MGR's main aim for the next few years is to grow alongside its clients, Franco says. "This means even if they don't have origins in the markets where the Mapfre group has a direct presence, but they identify Mapfre as an ally for their business in the Iberian and Latin American markets, we will gladly work with them to grow together."

Some of these critically important clients, he notes, are already part of MGR's portfolio and the company is working hard to ensure it expands their number over the coming years. While geographic diversification is important, MGR's main focus for now is to put the client at the core of everything it does by constantly improving its quality of service and the scope of its product offering.

"The idea is to continue to grow and boost further the leadership

we have achieved in Latin America and Iberia," he adds.

MGR, given the nature of the territories in which the Mapfre group operates, will look to optimise the efficiency of its new business model. For example, most dedicated large corporate risk insurers stipulate a cut-off point in terms of the annual revenue of the typical client. Most carriers tend to draw the line at €500m. MGR, however, takes an alternative approach and applies different thresholds for each country where Mapfre has a presence.

"As an example, a client qualifies as a large corporation in Brazil when its turnover exceeds \$300m, while in Honduras we have a lower limit. In addition, companies with international insurance programmes and which are active in global industry sectors such as aviation, energy, maritime or large infrastructure, become global clients

irrespective of their annual turnover," Franco says.

Catastrophe risk management

These days, catastrophe exposure management remains a key issue for all insurers, but particularly for large corporate risk carriers. MGR, given the geographic areas it is in and the kind of business it writes (utilities, telecommunications, power transmission, oil and gas, aviation and construction), is significantly exposed to catastrophe risks. For example, in 2017, the impact of catastrophe events led MGR to report a loss of €66.3m for the 12-month period, compared with a profit of €47.3m in 2016.

Franco says by the end of 2016, because of a continuous soft market scenario, MGR had already begun to tighten up the underwriting guidelines for a number of classes. This action entailed imposing a number of control measures at renewal.

From risk carrier to underwriting agency

Mapfre does not disclose how much premium income remains within the newly restructured MGR after the transfer of business to other units within the group.

This is, in part, because MGR, whose corporate status was changed from that of a risk carrier to an underwriting agency as part of the restructuring process, now has access to the Mapfre Group's balance sheet and other resources in a way it did not have previously.

An underwriting agency is similar to a managing general agency (MGA) in the US and the UK and, in much the same way, requires prior authorisation from the insurance regulator, which, in MGR's case, is the General Directorate of Insurance in Spain.

Under the new arrangement, the Mapfre Group acts as the sole capacity provider for MGR which remains as an autonomous business unit and now serves as the undisputed centre of expertise for large corporate risk underwriting, claims handling, risk inspection and distribution. Franco says MGR's focus is on transactions in which Mapfre is the lead insurer and where MGR's expertise enables the group to offer a differentiated service.

"In addition, we provide all the necessary ancillary services, including claims handling and risk inspection, while Mapfre Re acts as the reinsurer," he adds.

The new structure, Franco says, helps to provide a better service to clients and it enables Mapfre to optimise its

capital and other resources by mobilising the economies of scale present within the group. The change in corporate status, he says, provides MGR not only with the resources, but with the flexibility, to better adapt to new market conditions.

The view within MGR is that its highly specialised underwriting, risk inspection and claims handling teams and the knowledge they possess, built up over decades, mean the company is ideally placed to meet and exceed the insurance and risk mitigation requirements of its large corporate clients in the property/casualty, third-party liability, engineering and transportation sectors.

Mapfre has made a significant effort to explain the transformation to all the markets concerned. The reaction has been overwhelming positive, according to Franco. "After closing the first quarter of this year, we can confidently say the process has taken place without causing even the most minimal disturbance to our business," he adds. ■



"This was based on rigorous technical analysis of the industry concerned and the specific situation of each client," he says.

"The 2017 catastrophic losses just strengthened a philosophy that had started several months before. The impact of these policies could already be seen in the fact that we were able to reverse the combined ratio trend in 2018, by getting it down to 92.7%, a level we are very satisfied with."

However, under Franco's leadership, will there be any changes in terms of how the restructured MGR manages its catastrophe exposures? He points out that Mapfre Group, as a matter of principle, manages its catastrophe exposures extremely carefully.

"For instance, Mapfre was able to provide the market with accurate and prompt loss estimations for the different business units arising from their exposures to the catastrophe

events of 2017. Our aim at MGR is similarly to maintain the best level of accuracy in terms of controlling our catastrophe exposures," he says.

Against this background, how focused is MGR currently on writing business that is not catastrophe exposed? Franco says what matters most to MGR, going forward, is profitable growth. "So we will get behind any action plan, be it traditional or groundbreaking, that enables us to be part of our clients' insurance programmes over the long term. Whether or not those programmes are catastrophe exposed, that is our singular raison d'être."

This is not to say geographic or business diversification is not a consideration for MGR. Franco notes that while damage coverage currently generates the highest premium volume for MGR, there is ample room for diversification in the short term. "The aim will always be to provide

a unified, integrated offer that properly covers the whole range of the exposures of Mapfre clients."

The company, Franco explains, is taking a staged approach to the diversification of its overall portfolio, both by class of business and by geography. "The first phase will start with the development and diversification of some of our traditional lines of business in which the company is well established, but where there is still space in the market for us to gain a greater share. Such lines could include third-party liability, transport and aviation."

Less conventional coverages, such as parametric insurance, are also being considered, according to Franco. "They will go hand in hand with the diversification of the portfolio in the future, although I do not believe that over the next three to five years, parametric insurance will represent a large portion of our revenue." ■



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Bosco Franco
Mapfre Global Risks