Broker oligopoly not healthy for the market

The dominance of just three brokers is bad for reinsurers and, what is more, it constitutes a threat to their businesses, says Rod Fox at TigerRisk.

The fact that three dominant brokers in the reinsurance market – Willis, Guy Carpenter and Aon Benfield – hold an 85 percent market share is not healthy nor likely sustainable.What is more, this oligarchy represents a significant risk management problem for reinsurers whose business models are extremely dependent on the good will of these players.

This is the opnion of Rod Fox, chief executive, of TigerRisk – a medium-sized broker in comparison, which he formed in 2008. In a career that has seen him hold senior positions within the incumbent brokers including EW Blanch and Benfield, Fox is well positioned to comment on this dynamic and what it means for reinsurers.

"The market is overly dependent on those three distributors. It is a serious concentration issue that the reinsurance industry faces and it is not healthy for business."

"The market is overly dependent on those three distributors," he says. "It is a serious concentration issue that the reinsurance industry faces and it is not healthy for business."

This risk is understood by most reinsurers, Fox says, to the extent that many acknowledge this business threat in their public filings. "Many note that their business is dependent on a just a couple of major providers," he says. "If one of the big brokers decides they're not going to trade with a particular reinsurer, that reinsurer faces a real challenge," argues Fox.

He also argues that the situation is unsatisfactory for other reasons. There is misperception that size and market clout provides better deals, he says. "But just because the major players have scale, does not mean that reinsurers are willing to offer them a better deal," says Fox.

"They're there to write reinsurance for their account and their shareholders, not to provide a better deal because there's a scale situation. I think that's a complete misperception in the marketplace."

Rod Fox, chief executive of TigerRisk

This dominance of a small number of players and the bureaucracy often incumbent in them also restricts the product offering and distribution offered, he argues. It is often the smaller players that launch more innovative products as they try to differentiate themselves.

"Clients need more choice and the reinsurance markets need broader and more diverse sources of distribution," he says. "Competition helps create better ideas and processes – and that is good for the market," he says.

As a medium-sized broker, Fox says TigerRisk is better able to focus directly on clients' needs. He claims its executives spend 95 percent of their time with clients. "We are less bogged down by the bureaucracy that typifies the larger brokers," he says.

"At the larger firms, some of the best brokers are wrapped up managing people rather than helping clients to solve problems. This is not universal but, as a result, you often have less experienced people handling very complex situations. They may just be out of their depth."

He also notes that while the bigger players have reaped the rewards of investing in new technology and analytics that can be used by clients, a gap often then exists in terms of the way these findings are communicated to customers.

"A massive amount of work is being done but in a lot of cases those delivering the analytical message don't fully comprehend what the consequences are for the client," says Fox. "Also I haven't seen anything where they've really pushed the boundaries in terms of new risk measurement."

As a smaller player, Fox says Tiger Risk, can take advantage of this situation.

"In the big bureaucracies, creating new technology becomes more of a process. It's harder to get things done in a bigger company so it gets a bit stale. Mid-sized players, however, can see an opportunity and jump in. We're trying to really push the envelope on that."

Fox also claims that the three main brokers are also once again introducing contingent commissions via contrived 'bundling of business' and various other offerings. In his opinion, this compromises their objectivity and is not good for clients. "The amount of transparency is still not sufficient in my opinion. We don't do that," he says.