



**Cass Business School**  
CITY UNIVERSITY LONDON

# Global Reinsurance Masterclass Series

Strategic Thinking for the  
Reinsurance Industry

## Masterclass 5

### Strategic reinsurance relationships

How to evaluate information and build trust

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INSURANCE  
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INITIATIVE



# Executive Summary

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## Changing reinsurance buying behaviours and cost pressures require a smarter approach to managing increasingly diverse client relationships.

This Masterclass:

- Examines how different types of information can reduce your need to rely on trust and goodwill in business relationships;
- Shows how you can use concepts of 'economic value' and of 'information value' as key parameters to select clients and manage your client relationships;
- Systematises four types of client relationship, and shows how these types can help you choose the most appropriate forms of client engagement;
- Helps you to manage large and diverse client portfolios more efficiently.

This is the fifth of a series of seven such Masterclasses.

*To Latin America? In December? Geoff knew that everyone he worked with thought he was mad to go on a business trip in December. Just weeks away from their biggest renewal deadline, Lloyd's was heaving, brokers were queuing all day to see Geoff and his colleagues, and analytics were running all night. Still, he had made good headway on his renewals so far, so he could just about manage the time away, and he was convinced it was going to pay off. First, because he would be able to attend a conference while over there, with the opportunity to meet many potential Latin American clients; and second, because Rob, his broking contact in the region, had lined up a full schedule of engagements.*

*Yes, that would include the usual business dinners, schmoozing with some of the big clients, and some formal client meetings to kick off the renewals in April. But then – and this was his personal favourite – he would make a trip to see the Paraguayan soy fields he underwrote last year. Not only was this fun, he thought it was really important to get a 'feel' for the stuff he wrote. For him, it made a difference to look people in the eye, discuss how they viewed their job, understand how they go about it, and see the risk itself.*

*Some of his colleagues would happily write risks purely based on the data, vendor models and the qualitative information provided by the broker. However, this was not so easy in Latin America and some of the other emerging markets. The models were not very accurate and the data was often patchy and unreliable. Getting a better feel for what he was underwriting would give him more confidence when putting down his line back in London.*

*The other benefit was that his clients felt he genuinely cared. For the big clients in the region, as with big clients everywhere, that was really important. For Geoff's Latin American clients, who were big in the region, but not big on a global scale, meeting Geoff over dinner would probably be enough to build this sense of personal care. It was very different for those of his colleagues who were trying to engage the big US players: for those sorts of client, contact with underwriters or even account executives wasn't good enough, they wanted contact with their reinsurer at the very top level – and getting them onto the CEO's agenda wasn't easy. Those big US clients were the guys for whom you pulled out all the stops: tickets to Wimbledon, Silverstone or a yachting trip, those guys were worth it, given the amount of premium they paid. His Latin American clients weren't quite in that league yet, but maybe some day...*

*What Geoff could never understand was why the firm generally treated all its clients alike. Why do we take **anyone** who comes to London for dinner and drinks? As much fun as wining and dining was for a while, it was really starting to take a toll. Why do we have to bend over backwards to meet everyone, literally **everyone** who turns up at Baden, Monte Carlo or PCI? Conference meetings just aren't right for some clients. But you clog up the three days of meeting time you have, meeting people you've recently met, whose submission is already on your desk or who you just know so well, there is really nothing new you could say in 30 minutes. Why didn't the firm differentiate more clearly **who** they wanted to meet, **for what**, and in **what form**? Surely, there had to be a better way of doing this...*

# Introduction: A strategic approach to client portfolio management

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Building and managing client relationships involves a significant investment of time and resource. As we have seen in previous Masterclasses, increased competitive pressures are forcing reinsurance companies to target new clients, either in new territories or through new and different products. They are therefore having to forge new relationships, maintain more of them, and do so across more diverse client portfolios. “One size fits all” relationship management is less and less likely to work.

In this Masterclass we show how reinsurers can manage their clients strategically, so that the valuable time and resources invested support the business strategy and ‘pay off’; either directly, in the form of profitable business deals, or indirectly, in the form of increased goodwill, or access to information, the lifeblood of the reinsurance business.

Here we investigate how information in business relationships is tied up with the concept of ‘trust’. We draw on theories of inter-organisational trust to demonstrate three distinct types of information and trust.

We then develop a framework that enables managers to distinguish clients based on their economic value and the value of the information they can provide. The framework identifies four distinct client relationship types, each of which justifies different levels of investment in relationship management and suggests different forms of client engagement.

Finally, we examine how the different types of information and trust are generated in different forms of engagement with clients, such as ‘road-show meetings’ or social events. Matching up client types with the appropriate forms of engagement will ensure that the investment in relationships ‘pays off’.

# 1. The roles of information and trust in business relationships

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In an ideal world, all business decisions would be taken with perfect information. Transacting parties would have absolute certainty that the good is valid, the price appropriate, and their counterparty committed to paying the agreed price at the agreed time.

Unfortunately, perfect information is a myth. In reinsurance, losses are never predictable; risk and claims management are difficult to monitor; and 'payback' is beyond the scope of a legal contract. For centuries, however, the reinsurance industry has managed to trade risks on the basis of imperfect contracts, relying on elements of trust in long-term relationships between cedents and reinsurers. These relationships therefore underpin what is essentially a 'gentleman's agreement' supported by mutual trust.

To trust in the absence of information is akin to a 'leap of faith'. Having more and better information turns that leap into a smaller, and less risky step. So trust and information actually lie on a spectrum. At one end lies 'hard' information specific to a particular transaction; at the other lies 'trust' – an expectation of behaviour in *this* instance, based on past experience or information about *other* similar instances. Wherever possible in business transactions, it is preferable to make decisions based less on trust and more on specific information.

So why not be smarter in using these business relationships to get more and better information, and rely on trust less?

## 1.1 The three dimensions of trust and information

We can distinguish three different dimensions of trust/information, as described in the Theory Guide overleaf. Trust and information lie on a spectrum in personal, process and institutional dimensions. We will see that, just as it is important to move towards information wherever possible, it is also important to operate not only within the personal dimension, but to incorporate the process and institutional elements of trust and information.

Interestingly, our trust is also based on information – of the kind we might call 'background information'. Personal trust derives from *knowing* how your counterpart has acted in the past, *knowing* their attitudes, *knowing* that they understand your needs. Process trust comes from knowing how the counterpart's firm is organised, what its policies are. Institutional trust comes from knowing that the law, or trading standards, or reputation will deter the counterpart, or their firm, from misbehaving.

# 1. The roles of information and trust in business relationships

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## THEORY GUIDE: The role of trust in inter-organisational relationships<sup>1</sup>

Inter-organisational relationships – such as long-term exchange arrangements or strategic alliances – involve complex interactions, often in situations that are not anticipated and not covered by contractual agreements. In such situations, neither organisation has formal authority over the other. The partners are often co-dependent, but their actions are voluntary and unmonitored. Can they be trusted?

While everyone invests and experiences some level of trust in their personal relationships, it is important to take a more differentiated view when it comes to business relationships. In particular there are three different forms of trust:

- **Personal trust** generally refers to people and is dependent on personal commitments which are echoed in concrete interactions. In short, people build those ‘positive expectations’ of each other’s future behaviour by acting upon their promises. Colloquially, this form of trust is often equated to personal ‘goodwill’ or likeability. To evaluate the level of personal trust in a relationship, you might ask yourself: Will this person act with honesty and integrity? Will they value our relationship sufficiently so as not to ‘cheat’ for their own personal gain?

- **Process trust** usually refers to an organisation’s willingness and capability to deliver on their promises. The focal point of this form of trust is no longer the individual, but the operating standards, governance, controls and policies of the organisation in which the individual works. Often, these may interfere with delivering on personal or organisational promises, because these are simply beyond the capabilities or processes of the organisation. A simple question to assess the level of process trust is: can this person/organisation actually deliver on their promise?
- **Institutional trust** refers to the confidence that legal and political systems, professional standards or reputational networks would discourage dishonest behaviour. The key question, thus, is to what extent broader societal structures would keep organisations and their representatives honest. You can check your level of trust in these systems by simply asking: what would be the consequence of dishonest behaviour?

Importantly, while personal relationships typically exclusively rely on personal trust, business relationships have to take into account process and institutional trust as well. They may inspire confidence in a faithful business relationship even where you don’t perfectly trust the direct counterpart you are personally dealing with.

<sup>1</sup>Mellewigt, T., Madhok, A. and Weibel, A. (2007), Trust and formal contracts in inter-organisational relationships – substitutes and complements. *Managerial and Decision Economics.*, 28: 833–847. Sydow, J. (1998), Understanding the constitution of inter-organisational trust. In Christel Lane, Reinhard Bachmann, *Trust Within and Between Organisations: Conceptual Issues and Empirical Applications*. Oxford University Press.

# 1. The roles of information and trust in business relationships

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## 1.1.1 Personal trust

Personal trust has historically been considered vital to client relations, particularly in markets such as Continental Europe or Lloyd's, where long-term relationships and personal advocacy are part of expert judgment. Through their various meetings, often over many years through social activities such as dinner, drinks, or golf, individuals gain an impression that they 'know' each other. When these evaluations are positive, they are often expressed as: "I know him"; "He's a good guy"; "I trust him". As relationships solidify over time, we develop more confidence in our counterparts' intentions and behaviour and 'trust' that they will consider the good of the relationship when making decisions, rather than exploiting opportunities to profit at our expense. But note that there is often very little time in business relationships to 'test-drive' this kind of personal confidence in another's actions.

However, belief in a person's goodwill, integrity or likeability is not, on its own, sufficient for a good business relationship. 'Getting along' helps to lubricate business, but it is entirely possible that the firm's internal processes may not allow your counterpart to deliver on a promise. In general, reinsurance buying has become more corporate, decided in teams or committees, and people are audited more, which greatly discourages 'backscratching' and favours. It is also the case that there is more mobility in the workplace, and that the personal relationship you build up may increasingly often be consigned to the dustbin when another employee takes over.

As a result of these changes in the workplace, the personal dimension of trust/information is losing value relative to the process or institutional dimensions. Reinsurers may by all means enjoy relating to clients as 'mates', but should recognise that this is not the same as a business relationship. Personal trust in a business relationship is only a proxy for information about the individuals concerned. Much more pertinent information can be gathered about the client's business practices and broader institutional context, as we see in 1.1.2–1.1.3.

## 1.1.2 Process trust

Process trust addresses two fundamental questions. First: 'does the organisation actually have the capability to deliver on the commitment that the individual made on its behalf?', and second: 'if the individual was inclined to cheat, or to over-promise in the relationship, how likely is it that organisational policies or structures will protect against that?' By asking these questions,

organisational characteristics such as governance, financial management and control come into view.

For example, in business meetings, reinsurers typically ask prospective insurance partners about their underwriting procedures, claims management practices, strategies for growth and financial security. Indeed, some enlightened reinsurers use this information to grade firms on the quality of their organisational practices:

*"We want to understand the company, understand how they make decisions, get inside how they underwrite, how they select risks, how they adjust claims, what risks they're taking on and how they're taking those risks on."*  
(Chief Underwriting Officer)

Such information can be obtained through personal contact, but not necessarily through social events, such as dinner or drinks. Rather, relational activities such as site visits – encompassing a detailed discussion of the current firm position and any recent loss history, and some auditing of the prospective partners' books – are more likely to provide information that supports process trust. Where this information suggests trustworthy practices and procedures, there is less need to base business decisions on the personal qualities of your counterpart; you can put your faith in the company's processes to deliver good results.

## 1.1.3 Institutional trust

Lastly, to predict current and future behaviour, you can zoom out further and look at the institutional context in which your partner organisation operates. 'Institutional trust' in a relationship would be based on the judgment that legal and political systems, professional standards or reputational networks would provide confidence in the viability of a business, its practices and expected behaviour.

Sources of institutional trust/information include:

- **Regulatory policies** that provide reasonable standards of assurance about business practices – preferably in countries with stable political systems! Ideally regulatory systems will subject companies to scrutiny and exact retribution from those that fail to comply;
- **Professional regulation.** One of the key insurance markets, Lloyd's of London, derives much of its reputational assets from the strong financial and regulatory assurance that underpins membership in Lloyd's. An insurance company cannot operate out of Lloyd's without meeting these standards;

# 1. The roles of information and trust in business relationships

(cont.)

- **Public information**, of good quality and easily available. Many countries of North America and Western Europe have government databases with consistent, fine-grained, independently-verified information on insured properties;
- **Ratings** produced by agencies such as Standard & Poor's. An example would be 'financial strength' ratings which estimate the ability of companies (or other entities) to meet their financial obligations – which could be cedents' premium payments or loss payments by reinsurers, so that both parties to reinsurance deals can gain trust from such ratings. S&P rate entities that offer life insurance, property and casualty insurance, annuities, health insurance, title insurance, mortgage and bond insurance – and reinsurance.

People prefer to do business with partners whose activities are underpinned by some or all of these factors.

## 1.2 Information/Trust in reinsurance: a summary

Managers need to consider *jointly* all three dimensions of information and trust: personal, process and institutional.

While personal trust is an important part of the client management process, increased employment mobility is making such trust less reliable, as key contacts move on to other jobs. Such trust is based on knowledge of the person's past actions, their

attitudes and abilities – as well as the likelihood that they will behave consistently in the future – and such assessments take time. There is also more evidence for process and institutional trust – policies, standards, laws, or, more broadly, any documents that could be used in court if necessary. At the base level, personal trust is a 'gentleman's agreement'.

Therefore not only should we move from reliance on trust to obtaining and using more specific information wherever possible, but also away from reliance on personal trust towards process and institutional trust whenever possible. Process and institutional information/trust are often easier and less expensive to generate, particularly in the short-term, and ideally reinsurance companies should target both in their business relationships.

This ideal is not always possible. An example of a business area with very high levels of 'institutional' information and trust would be US Property Cat, where there is publicly-available, long-term, historical, and extremely fine-grained data (street-by-street) and a very robust regulatory system. At the other end of the spectrum, in some emerging markets political instability, or perhaps corruption, could mean that institutional information may be absent and the institutions themselves not wholly trustworthy. In such situations, sufficient information and trust in a business must be built using other means. Developing a sound knowledge of some specific insurers' organisational processes would help with selecting the best clients in such markets and learning how best to operate within that market.

### Study Question 1

**Identify a reinsurer-client relationship – either one of your own relationships or one known to you – in which there is a strong element of trust.**

- (a) If possible, identify an element of a deal which relied on trust in this relationship. What specific information could have improved decision-making, and reduced the need for trust?
- (b) Trust that the client will 'do the right thing' on a specific transaction is an expectation – a leap of faith – based on 'evidence': e.g. knowledge of past actions, or organisational systems, or regulatory pressure. For this relationship, list some of the evidence which generates each of the three dimensions of trust: personal, process, and institutional. Could any be improved, and if so, what new information would be needed?

## 2. Relationship types

Looked at strategically, relationships should be managed not only to facilitate business transactions themselves, but to serve the purpose of harvesting very specific kinds of information (some of which will generate trust). How should we assess clients to discover what kind of relationship we should pursue? We will discuss two valuable client parameters (section 2.1) which allow us to identify four different groups, for whom different kinds of relationships are appropriate (as discussed in 2.2).

### 2.1 Client dimensions for assessment of relationships

There are two key dimensions reinsurers need to consider when assessing clients: **information value**, and **client economic value**.

#### 2.1.1 Information value

Information is valuable, both in itself, and for the generation of different types of trust. Therefore the information clients can provide is an important indicator of those clients we should choose and how we should manage the relationship. The information available has value when it increases the reinsurer's potential for profit. Examples of such information might allow the reinsurer to:

- Produce more accurate estimates when modelling risk, or provide context to evaluate the results of modelling;
- Understand a client's processes and their regulatory and reputational context;
- Trust that a client has motives for prioritising the mutual benefit in the relationship, rather than profiting at the expense of the reinsurer;
- Understand the evolution of markets, thus informing strategic planning and future decisions.

For simplicity, information value can be measured on a 'low-to-high' continuum. If information is only accessible through personal contact, for instance, it forms the low-point. The availability of detailed, independently verifiable information, along with first-hand information about an organisation and its processes, in addition to the personal, would comprise the maximum on the scale.

For example, in emerging market countries like South Africa, information is held by local brokers who do not share it very widely, so personal contact

is crucial for access to information. Furthermore, in many rapidly-growing emerging markets, such as China, historical data are not publicly available, which makes it difficult for reinsurers to plan any expansion. By contrast, the ready availability of quality historical data in countries such as Australia and New Zealand makes it easier to formulate opinions and decisions on a deal, even without close personal contact.

"I met an Albanian client at the conference and then visited them in Albania three weeks later, my first visit to that country ever! When I was there I had a closer look at their organisation, their products, and how they analyse policies; I also gained an understanding of regulatory topics such as how insurance premium is taxed." (Underwriter)

#### 2.1.2 Client economic value

Business relationships have to 'pay off'. Where pay-off is likely to be limited, firms should avoid over-investing in personal relationships, or other expensive relational activities.

Client economic value, here, means the expected financial return to be generated from a client relationship, typically measured as a combination of return on equity and revenue volume. As with information value, client economic value can be assessed on a simple continuum from 'low' to 'high', but it is important to consider both *current* and *potential* client value. Every company, for example, will have some large economically significant clients in their portfolio where they have an established relationship and a proven financial track-record. However, reinsurers also need to team up with customers who may not to be valuable today, but in the future: good indicators might be the client's recent growth rates, their business prospects and strategic orientation, and the overall potential of their market (such as an emerging territory).

"I've radically cut back my engagements with some clients. However, they're still on our list as a key strategic partner for future growth. It's just that for now, the types of deals that they provide are simply not profitable." (Underwriter)

## 2. Relationship types (cont.)

### 2.2 Four types of relationship based on information value and client economic value

Our analysis can be summarised as a simple matrix – the information/economic value matrix – shown in Figure 2.2 below. It suggests that client relationships can be divided into four different types which we call Watching, Maintaining, Investigating, and Nurturing, discussed in sections 2.2.1–2.2.4.

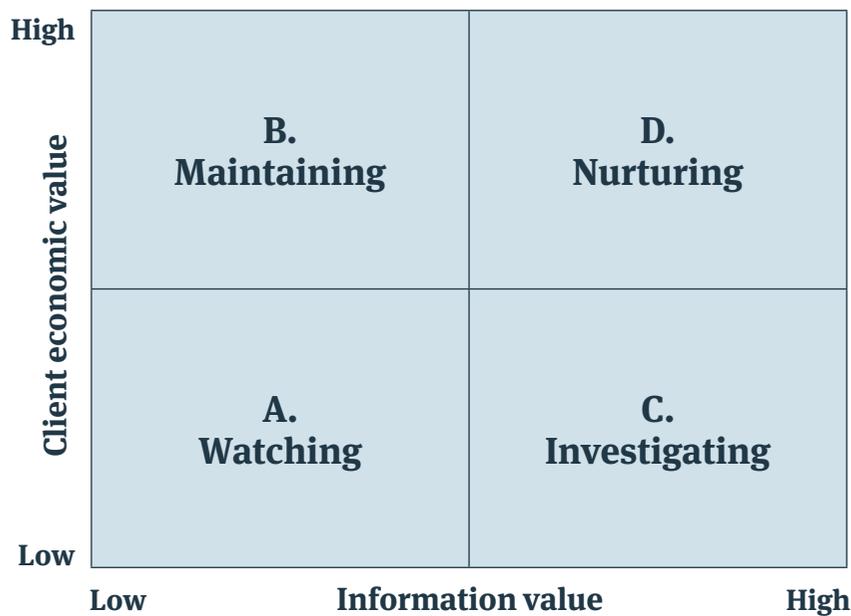


Figure 2.2 The information/economic value matrix. The quadrants represent different types of client relationship.

#### 2.2.1 Watching relationships (Quadrant A, Figure 2.2)

Watching relationships are appropriate for clients of lower value, in particular for those that operate in regions where institutional information is of poor quality and it is hard to assess the quality of the company’s practices or its longer term viability – that is, there is little process transparency. Many insurance firms in emerging markets fall into this bracket. People may know that these regions will develop, but it is hard to generate sufficient information to select particular firms to partner with, and the size of current and potential business is not sufficient to invest in a closer relationship that could overcome information deficits.

The aim of ‘watching’ relationships is to gather enough information to spot those companies with potential to grow into one of the other quadrants. In particular, if they can learn to improve the quality of the information they provide – and therefore its value in terms of immediate decision-making or future strategic planning – they can move towards the right-hand side of the matrix.

#### 2.2.2 Maintaining relationships (Quadrant B, Figure 2.2)

‘Maintaining’ relationships are oriented towards clients that are economically important today, but are unlikely to provide major information value. These clients are often situated in relatively stable markets that are not expanding; they therefore offer little growth potential, and their business portfolio does not change much from year to year. This is particularly the case in mature Western European and US markets. As a European Market Manager explains:

*“We have a very long history with [Client] so over time we’ve reached some kind of optimal portfolio. I mean give and take, it depends on some market cycles but we are already more or less where we want to be in terms of size. Perhaps we would like to have better results but overall we get what we want.”*  
(Underwriter)

## 2. Relationship types (cont.)

Within ‘maintaining’ relationships it is important to spot new conditions which could change the relationship. If the client diversifies into a new area which shows potential for growth, instead of the current, merely stable, economic value, then they might need to be moved into a ‘nurturing’ relationship (2.2.4). Relationship change is covered further in section 2.3.

### 2.2.3 Investigating relationships (Quadrant C, Figure 2.2)

‘Investigating’ relationships are suitable for potentially valuable clients where there is a lack of publicly available information, but the relationship could potentially generate quality information. They might be clients who deal with unusual lines of business that are less ‘knowable’, such as credit, terror or nuclear risks; or who operate in an unknowable market place, where it is difficult to get quality public information.

It is also possible to use an existing client relationship in this way, when a known client is becoming more established in a new growth area, perhaps expanding in new international markets such as Eastern Europe or Turkey, which are not well understood. This new business does not yet have economic value, but the client is known – and trusted, in one dimension or another – and exploiting that relationship offers potential to gain knowledge of that new market with the client.

Once the firm has gained information about new markets (product or territory) through one client, the knowledge can be leveraged to expand to other clients in those markets.

### 2.2.4 Nurturing relationships (Quadrant D, Figure 2.2)

In any industry there are some leading clients that are of high economic value *and* offer rich knowledge generation possibilities. These are often global clients whose business spans multiple territories and product lines, and who are often at the forefront of industry developments. As such, they are highly sought after; there is typically considerable competition to do business with these clients. Reinsurance firms therefore invest a lot of time and resource in nurturing or ‘cultivating’ these relationships to exploit their value. Such a nurturing relationship is focused on gaining client-specific knowledge, building the personal dimension of trust and information, and protecting the relationship from encroachment by competitors.

## 2.3 Relationship development pathways

Clients’ economic value and information value will change and evolve. Information value in particular also depends on context, and on the (changing) knowledge needs of the reinsurer: it may be that the requisite knowledge can be generated from another client or public source.

The critical point for managers is to avoid inertia within client relationships. Problems can arise where historical traditions and widely accepted practices propagate the myth that “relationships are always good.” This can lead to an unreflective, interpersonal approach to client management. As one manager put it:

*“Some people want to prolong relationships. You get to know them quite well and there becomes this sort of bond and almost friendship. There’s an element of potential protectionism in there of one’s mates.”  
(Chief Underwriting Officer)*

Reinsurance firms need to be able to ‘shift a gear’ in relationships, in response to environmental shifts and changing strategic objectives. Here we consider some illustrative examples of typical pathways.

### 2.3.1 Information value trajectories

An information value trajectory could connect, for example, watching and investigating strategies. While ‘watching’ a large pool of clients – at low cost per client – it might become clear that one particular client could fill an information deficit. That client’s information value has shifted, and it should be investigated. The classic example of this trajectory occurs when a reinsurer wants to explore new growth opportunities, and needs to learn more about an emerging market. More intensive client engagement – see section 3.2.3 – might follow as the firm moves from watching to investigating clients in this market.

A similar trajectory can exist between nurturing and maintaining strategies. Nurturing strategies are appropriate when there is both high value information and high client economic value. However, for certain clients, these relationships may stabilise and become routinised as the reinsurer reaches its optimum growth with that client. The information available within the relationship is unlikely to lead to further growth, so the relationship may move toward the ‘maintaining’ category, requiring a lower degree of engagement.

## 2. Relationship types (cont.)

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### 2.3.2 Client economic value trajectories

Firms must be aware of and sensitive to shifts in client economic value. Some shifts are extremely obvious, such as a situation of financial mismanagement on the part of the client. A more subtle example is when the knowledge gleaned from an investigative relationship suggests new,

potentially lucrative, economic opportunities, which may warrant a nurturing relationship strategy.

Of course, an economic value trajectory can also be triggered by changes within the reinsurer, for example, when the reinsurance firm reduces its appetite for business in a particular market in order to focus on opportunities elsewhere with different clients.

### Study Question 2

**Identify a short list of maybe 8 to 10 reinsurer-client relationships known to you.**

- (a) 'Mark' each relationship in the list 'high' or 'low' according to 'economic value' and 'information value'.
- (b) Use figure 2.2 to identify the type (watching, investigating, maintaining, nurturing) of each relationship.
- (c) Has any of these relationships changed category at some time in the past? Which parameter – economic value or information value – changed and why?

## 3. Matching the right engagements to the right relationships

The next step is to consider the most cost-effective types of engagement – meetings, conferences, social events, etc. – that will generate the most valuable mixture of personal, process and institutional information and trust. It is important to realise that ‘cost’ must also include the valuable time of the staff who engage in events, meetings, and their organisation, and not just the bottom line of the invoices submitted to Accounts.

### 3.1 Forms of engagement

The reinsurance industry provides many opportunities for reinsurers and client representatives to meet, do business, exchange information and develop personal relationships. These include:

- **Conference meetings** at annual global conferences in Monte Carlo, Baden-Baden and across the USA, as well as more regional events;
- The so-called **road-show meetings** during which clients make a formal presentation to their key reinsurers, typically at their premises. For example, a Japanese client might meet key reinsurers in London and across Continental Europe to discuss current or future deals. During these meetings, both partners provide business updates, query business developments and may push for changes in their terms of engagement. Such meetings are often followed by lunch or dinner, to deepen social connections as well;
- **Site-visits** where the reinsurer physically visits the client’s premises, sometimes for days at a time, to inspect the client’s books, learn about their work practices and visit some of the properties being insured;
- **Social events**, encompassing anything from corporate golf days, to sporting events, to wining and dining, to chartered sailing trips. While these events are expensive, they foster relationships and can provide a more nuanced understanding of their client’s business pressures, goals and aspirations.

To date, though, there seems to be little discrimination between the purposes that different forms of engagement serve and, therefore, the types of clients they should be applied to. In the following section (3.2) we examine appropriate forms of engagement for the four relationship types outlined in section 2.

### 3.2 Appropriate engagement with clients of different types

Business relationships serve the ultimate purpose of collecting information, building trust, and – in reinsurance – facilitating placements at the time of renewal. Hence, in a first instance, they should generate the information and trust needed to make business decisions.

#### 3.2.1 Client engagement in ‘watching’ relationships

A low-engagement strategy that enables reinsurers to watch from a distance would be appropriate to explore the potential of clients in ‘watching’ relationships. Meeting at one of the annual industry conferences is usually sufficient to stay apprised of the client’s business development without committing serious resources.

“I went to a Latin American insurance conference. It was a useful fact-finding trip. Every client appreciated that we were there. Many of them don’t travel to the big industry conferences because of financial constraints.” (Underwriter)

Regional conferences allow a reinsurer to signal its potential interest in that market, which can flush out possible clients who could then proactively make contact – some of whom might have potential to grow in information or economic value. The knowledge of the general market conditions gained from such meetings might also facilitate small deals with other clients, providing a small additional payoff from the small investment of time and resource.

“In a lot of emerging markets, I don’t see many prospects currently in the short to mid-term... So in China, for instance, we only deploy a small amount of capacity. Okay, with that small resource, we go out and make a footprint, get to know the people, and in the process we get a feel of the sandbox we’re playing in...It’s a taster of that market.” (Account Executive)

### 3. Matching the right engagements to the right relationships

(cont.)

#### 3.2.2 Client engagement in ‘maintaining’ relationships

These relationships are important to a firm’s overall client portfolio because their current or future economic value is high, and they yield steady and predictable rents. They are nonetheless relatively easy and low cost to ‘maintain’, largely using the standard channels for annual meetings at conferences, or in the ‘road shows’ where insurance companies visit their main reinsurers once a year to explain their business portfolio and attract future reinsurance funding. In addition, there might be an invitation to an industry dinner. The reinsurer should be careful to maximise the value of information arising from these meetings by sharing it internally, to inform operational activity.

There is little additional value to be gained in applying higher levels of relationship management, such as CEO-to-CEO contact, or expensive and time-consuming social engagements, such as golf weekends. Deeper personal engagement is inefficient:

*“It’s an hour of talking about the business, what they’ve been doing in the last year, what is important in the next renewal. But if it’s a client I know I don’t want to grow further with, I avoid the dinner.” (Chief Underwriting Officer)*

So long as any change in circumstances is carefully monitored – such as new and interesting diversifications by a client – the main threat to this relationship strategy would be competition from other reinsurers, who attempt to ‘seduce’ the client with more lavish engagement.

In fact, in this kind of relationship, where each party’s position, needs and strategy are well understood, it is more effective to develop other ways of locking the client into a good business relationship rather than relying on corporate entertainment and other expensive strategies to make the client feel ‘wanted’. Deepening relationships by co-developing reinsurance structures, devising tailored products, or granting access to sought-after skills and competences might actually prove more effective here.

*“It’s two-way. We need to understand them; they need to know that we’re partnering with them. We’re getting to that level of dialogue which isn’t one-way; it’s come and help me with my business plan. Does it look sensible? What are the risks that I can run? That sort of dialogue is superb. That’s where we want to be.” (Account Executive)*

#### 3.2.3 Client engagement in ‘investigative’ relationships

Significant close engagement is needed either to probe existing relationships for new opportunities, or to develop new investigative relationships. As these forms of engagement are expensive and the relationship does not yet offer significant economic value in itself, the levels and forms of engagement need to be carefully tailored. The aim is to exploit the information value dimension of the relationship, so engagement will typically be at a granular and detailed technical level – ‘kicking the tyres’.

Reinsurers would need to visit client premises and investigate their work practices, potentially using audits or at least looking through the books, and asking people at various levels what the client is doing, where it is going, and whether there are opportunities to support the client for mutual future economic benefits.

#### 3.2.4 Client engagement in ‘nurturing’ relationships

Nurturing relationships involve multiple points of contact at both executive and professional levels to service clients and extract value. CEO-to-CEO contact is obviously the highest form of engagement and, due to the commitments of senior executives on both sides, should be used selectively to consolidate important client relationships and/or explore new strategic opportunities.

*“We try to have more high-level meetings, where we talk about global issues, global interests... It’s not so much about these single product issues.” (Chief Executive Officer)*

High-level meetings are typically accompanied by dinners and other social events, such as a visit to the opera or a golf day. Keeping in touch in a non-business environment is an important signal of willingness to invest in a relationship, but such engagements should be more than simply a ‘corporate junket’. As one senior underwriter explains:

*“We’ve just spent a whole day with a client going up Mount [X]. It was a beautiful day, a wonderful day... we’re having interesting discussions, we’re getting insights into how they think, how they operate, what are the pressures in the US market these days. There’s more value than just expressed in financial terms in such interactions.” (Underwriter)*

### 3. Matching the right engagements to the right relationships

(cont.)

These social events provide the necessary setting for the reinsurer to spend longer with a client than can be justified during a simple conference meeting or a roadshow. This extra time gives the opportunity to talk over many aspects of the client's needs and establish a reinsurer as the partner of choice in a client's mind:

*“You're working with them, with the client, on new ideas and new products... you try and tend to have at least two discussions a year with each client on new ideas that are reflective of their business goals and what they're trying to do.”*  
(Account Executive)

Finally, it might be thought that, as with 'maintaining' relationships, some of this expense might be better directed to attempts to 'lock in' these clients – i.e. protect the relationship from predatory competitors – by more purely commercial/business means. The problem is that with these very large clients, the reinsurer typically does not have a large enough share of their business to 'lock them in' – and there are many predators!

#### Study Question 3

**Take a close look at the contacts you (or a colleague) typically meet at Baden-Baden, Monte-Carlo or PCI.**

- (a) Which of the short meetings genuinely generate new information?
- (b) As you did in Study Question 2, identify the appropriate relationship type for each and all of these client contacts.
- (c) Based on the appropriate relationship type, which contacts could you more beneficially engage differently? Which clients are you engaging in a way that does not match their economic value? Or their information value?

## 4. Conclusions: implications for relationship management

Despite industry trends of increasing technicalisation, regulatory constraints, and changes in reinsurance buying, relationships are still important – but they have to be strategic. They are not just a tradition and not just a nice way of connecting with personal contacts.

### 4.1 A client assessment diagnostic

We have outlined a framework, and a set of generic strategies – watching, investigating, nurturing and maintaining – that can be used to manage different types of client according to their economic value, and the information value they can provide.

We suggest that managers need to address the following core questions:

- What is the economic value of this client?

- What is the information value available from this client?
- How do we meet this client?
- How frequently do we meet this client?
- Is the assessment of this client relationship (economic value and information value) consistent with the relationship strategy we are applying (nurturing, maintaining, investigating, watching)?

The client assessment tool in figure 4.1 provides a diagnostic for managers to implement the framework. While deceptively simple, this exercise can help organisations to reflect continually on their relationship management, and thus to ensure that scarce resources are not wasted on lower-value clients, while also ensuring that higher-value clients are effectively utilised.

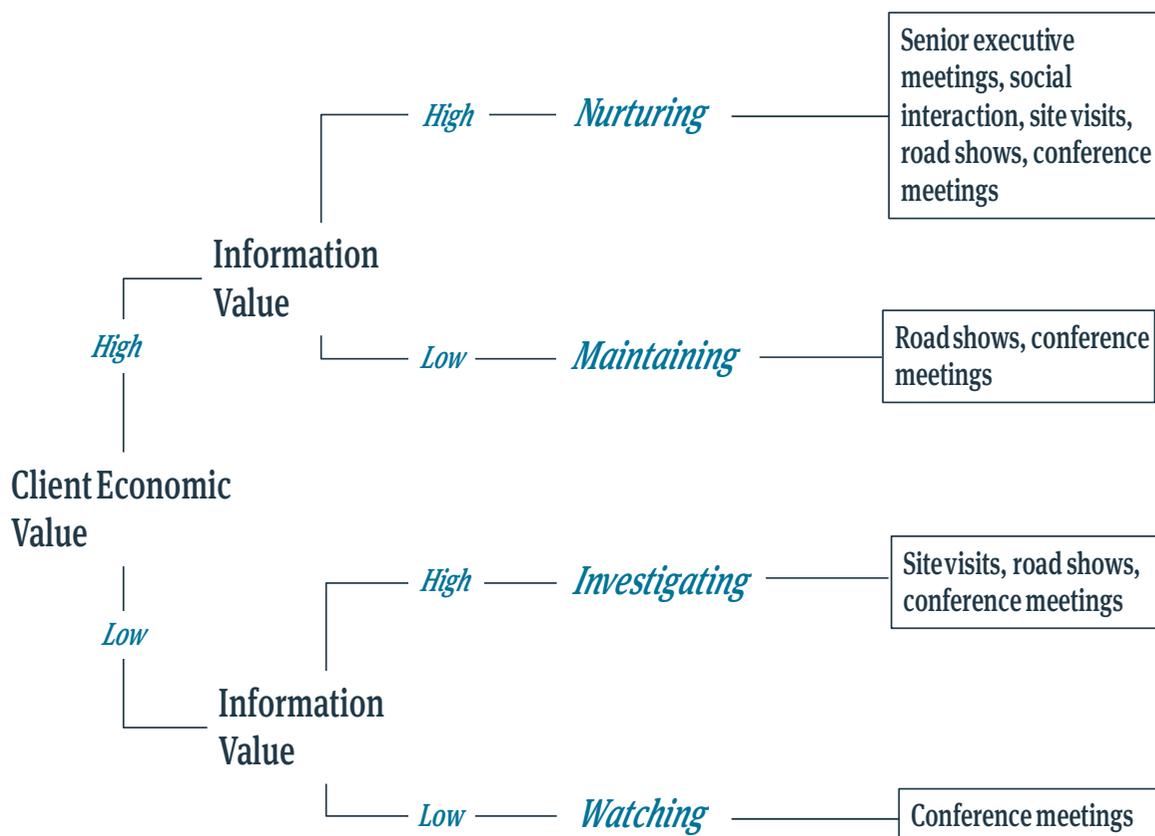


Figure 4.1 Client assessment checklist for deciding appropriate forms of engagement with clients

## 4. Conclusions: implications for relationship management (cont.)

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### 4.2 General recommendations

- ‘Don’t shoot cannons at sparrows’: make sure you match your relationship management expense to the expected payback, in economic terms. Your relationship management strategy should be as differentiated as the portfolio of relationships you maintain;
- Make sure you have the right people connecting, both in terms of the scarce human resources you are willing to devote, and the information you are planning to gather;
- Reinsurance buying is increasingly located in purchasing departments or allocated to different executive functions and there is more mobility in the industry. You don’t want your organisation to lose a relationship because the key contact is moving (either in your organisation or in your partner’s), so make sure you strike relationships at the organisational, rather than personal level. The more people know each other across different parts of both companies, the better;
- Communicate clearly how you manage your relationships and explain who you are meeting, how, and why.

#### Study Question 4

**Ideally you should run all your contacts through the decision tree in Figure 4.1.**

- (a) Identify relationships and engagement types which need to change. What are the obstacles to that change? How can they be overcome?
- (b) In section 1 we demonstrated that it is best to move towards the process and institutional dimensions of information and trust wherever possible. To do this, what new information do you need to generate from your engagements with these contacts?

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