

PROVIDING STRATEGIC INSURANCE INDUSTRY CONSULTING SERVICES TO INSTITUTIONAL INVESTMENT FIRMS



by
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To Institutional Investment Firms Worldwide
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The institutional investment firms, commonly referred to as capital management firms have significantly grown in number over the last several years. The analysts at these investment management firms need answers to significant technical comments being made by executives of insurers and reinsurers. Especially when the institutional investor has a significant equity position in the property-casualty insurance company, and needs a good deal of answers to his/her questions.

More and more analysts are utilizing the consulting services of the industry consultant to provide them with important information, and clarifying their questions.

Since most of the work is done with Confidentiality Agreements, analysts are protected with complete confidentiality.

The portfolio managers at the institutional investment management firms need a good deal more specific information, when it comes to the insurance and reinsurance industry. For instance, when one publicly held Texas insurer owns stock in another Texas publicly held insurer, and then each begins to reinsure each other under various terms and conditions, revealed in the Form 10-Q. What are the financial implications of these type events? You the portfolio manager must understand them.

The registered investment advisor which specializes in the financial services industry needs more detailed information than just reading the prepared press releases of the publicly held insurers regarding their loss amounts due to hurricanes. Are those gross losses, before collectible reinsurance, or net losses? Did the carrier really buy enough reinsurance catastrophe protection? Should I own 500,000 shares of that insurance company's convertible preferred stock because of its Florida catastrophe exposure?

DIRECTORS OF PUBLICLY HELD INSURERS AND REINSURERS

What is the investment management firm's reaction to the following, "Mr. X was recommended for consideration by a current member of the Board of Directors and approved by the Nominating Committee. See related party transactions."

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What about the comments, “He was recommended for consideration by a Board Member or by a third party insurance industry search firm and approved by the Nominating Committee.”

Analysts should be seeking more aggressive Directors for the insurance industry.

Do investment management firms want to begin nominating their own insurance company Board of Directors? Should the Board have Business School Professors who never were active in the industry? Most professors lack the actual experience in the insurance industry? The practitioner of insurance makes a better Director than the academic type, only because the practitioner understands the financial implications of the comments being made, as well as, the “politics” of the situation.

Serving on current board of insurance companies is a challenge because CEOs do not want interference with their ability to make decisions. That is how they were able to rise to CEO of the insurance company. Most act, then ask for Director comments. Analysts must begin to understand this management style of insurers.

WHY USE INSURANCE INDUSTRY CONSULTANTS?

The experienced insurance industry consultant provides new fresh perspectives, a sense of independent thinking, and, of course, deep insurance industry knowledge. The consultant has practical hands-on experience.

Investment management companies retain the insurance industry consultant because of his comprehensive insurance industry contacts and firm grasp of insurance industry trends. Remember this is a highly specialized industry. Attending the American Association of Managing General Agents convention, the National Association of Surplus Lines Producers convention, the CPCU convention, the Big “I” convention, the Property and Casualty Insurers convention, the National Association of Mutual Insurance Companies convention, the National Association of Insurers Commissioners convention, gives the industry consultant a significant advantage when formulating ideas of what’s really going on in the insurance industry. The International Insurance Society’s annual meeting is a must. Access to the top executives of insurers puts the consultant at a significant advantage.

CONCLUSION / SOME CONCEPTS TO THINK ABOUT

Will institutional investment firms worldwide demand Board of Director positions in the future? How does the institutional investment firm react to the class action lawsuit they are the very significant investor in? Are the firms going to take a more active role in the management of the insurer and reinsurer? In the aggregate institutional investors play a very important role in the ownership of property casualty insurers in the United States, and will that role become more active in the future?

ABOUT THE AUTHOR

Andy Barile, CEO of ANDREW BARILE CONSULTING CORPORATION, INC., with 40 years of experience in the property-casualty insurance industry, co-founder of the first publicly held Bermuda reinsurer, is on the Board of both domestic and offshore insurance companies. He has an MBA from Stern's (NYU) Business School, and won the Anglo-American Fellowship to study at Lloyd's of London, with his thesis on the captive insurance company. He can be reached at abarile@abarileconsult.com.

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