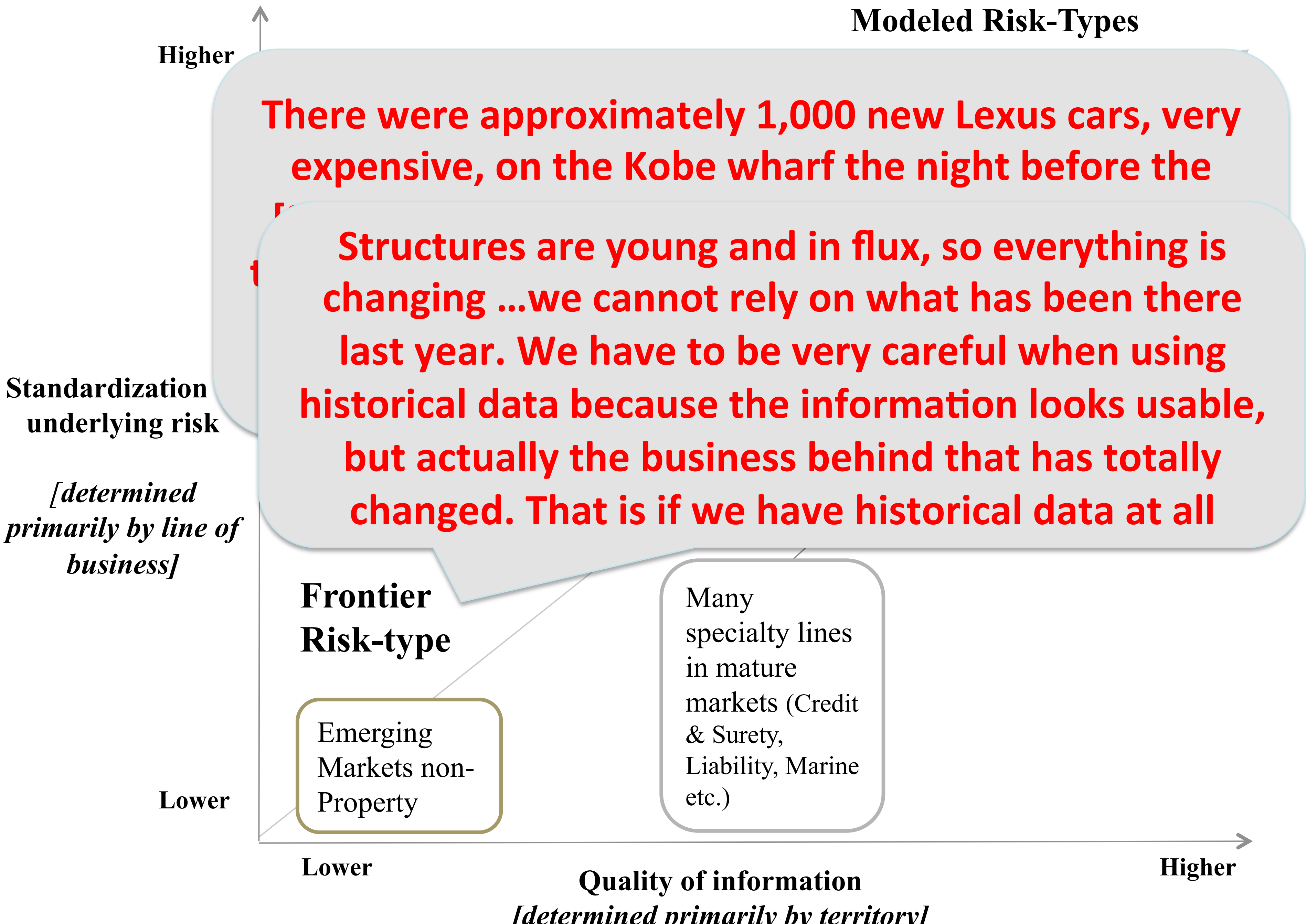
When the models are flawed: Reinsurance risk-trading in practice

Paula Jarzabkowski
Professor of Strategic Management


Modeled Risk-Types
Higher
There were approximately 1,000 new Lexus cars, very expensive, on the Kobe wharf the night before the
Structures are young and in flux, so everything is changing …we cannot rely on what has been there last year. We have to be very careful when using historical data because the information looks usable, but actually the business behind that has totally changed. That is if we have historical data at all
Standardization underlying risk
[determined primarily by line of business]
Frontier Risk-type
Many specialty lines in mature markets (Credit & Surety, Liability, Marine etc.)
Emerging Markets non-Property
Lower
Lower
Quality of information
[determined primarily by territory]
Higher

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Technicalizing & Contextualizing

The technical versus market rate, that is an interesting one because actually it's … they are very, very different and ultimately it's always a commercial decision

	Calculative	Actions
Technicalizing		ilable for
Technicalizing		the rating s, such as
Contextualizing	characteristics	c property) to characteristics of the deal.
Contextualizing	Incorporating the cedent relationship	Knowledge of the cedent's operations comprises soft factors such as claims handling, the quality of information and the reciprocity of relationship.
Contextualizing	Incorporating market dynamics	Using knowledge of the market cycle and rumors to inform capital placement decision.

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Evaluating risk in practice

	Modeled Risk	Specialized Risk	Frontier Risk
			hen
Diff… I…	…ed through contextualizing	technicalizing co-constitute each other	…ing …bers and tools to technicalize

It's crazy that we've only [got data] for 40 years and talk about 1-in-500 year return periods. How the fuck am I supposed to know [whether this model is accurate]?

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In summary

- Models + Judgment

- What happens when models dominate and crowd out other forms of judgment?