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# Ryan and Berkley Talk Risk

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*By* **SUSANNE SCLAFANE, PROPERTYCASUALTY360.COM**

Highlighting inescapable consequences of concentrations of known risks, the lurking dangers of unforeseen ones and even potential reputational disasters, two industry veterans say the world is getting riskier even as technologies emerge to make aspects of our lives safer.

"On balance, it's far, far riskier," says Patrick G. Ryan, the founding chair of Ryan Specialty Group and former chair and CEO of Aon Corp., weighing safer workplaces, automobiles and stronger financial institutions (including Lloyd's) against rapidly growing risks present in cyberspace and evolving from the "incredible instant communication available" in the modern world.

"The risk of the unforeseen and the unpredictable has gotten much bigger," says William R. Berkley, chair and CEO of W.R. Berkley Corp., highlighting risk concentrations and risk correlations that cannot be diversified away.

This week's edition of *National Underwriter* magazine features the responses of more than 30 thought leaders who understand something about the business of risk to a single question: Is the world becoming safer or more risky?

## See the responses of 30+ industry leaders

"A tornado or hurricane isn't a particular risk. That requires our judgment in figuring out the probability of that event occurring and the level and exposure you have to it," Berkley says. "That has always been around in the insurance business."

"Risk, in my view, is possibility of the unforeseen or unpredictable event," Berkley says, starting off with a definition that distinguishes true risks from predictable events.

Basing their opinions on more than 40 years of service to the insurance industry, two of the most recognized executives in the world of specialty insurance, Ryan and Berkley, voted with the majority—saying the world is getting riskier—peppering their answers with different examples of known and previously unknown risks that damaged individuals and entire industries.

Ryan, the broker executive, starts his answer in cyberspace, offering the example of an e-mail he received from a friend a day earlier to highlight the growth of an emerging risk issue. "I've been hacked," it said, Ryan reports, noting that network-security specialty-insurance coverages are now gaining traction among insurance buyers as the risk becomes well known.

"Then you have something like the Murdoch issue," he says, referring to recent news of the phone-hacking scandal in Rupert Murdoch's publishing empire—and using the example not to illustrate security risk, but brand risk instead.

“A brand can get attacked quickly, and [the information will] move all around the world,” he says. “You can see Congress making its sausage in public because there’s such a demand for information,” he says, speaking to *NU* as the debate over the debt ceiling raged in Washington.

“It’s going to continue to get worse,” he says, predicting the level of brand risk has not peaked. “We’re all vulnerable to the actions of one employee, or a few.”

Berkley, the underwriting executive, turns the clock back three years to frame his response, focused on financial risks. “The most important thing we learned in 2008 is that independent risks—or risks we thought were independent—have a much higher correlation than we expected,” he says, referring to consequences of the subprime crisis, which would explode into a global financial crisis. “Where you thought you could have a diversified investment portfolio, everything went to heck all at once,” he says.

Berkley, who spoke to *NU* a day after the stock market plunged more than 500 points, fueling some economists’ forecasts of a second recession, uses the prior day’s events to exemplify the risk he describes. “Yesterday, every class of asset went away—gold, commodities, stocks, everything. The only thing you could have owned was U.S. Treasuries. But if you owned those, you’d be losing money every day, as opposed to just losing your money when risk occurs.”

People buying U.S. Treasuries weren’t protecting against the risk of loss, but instead were just changing their positions from the large risk of volatility to the everyday risk of not making any money.”

“We have more risk today because there’s less predictability, more volatility, and larger swings in volatility in financial markets and in [insurance] loss exposures.”

“A billion-dollar loss is just not an unbelievable event any longer,” he says, turning his attention from financial losses to insurance property losses, and to concentrations of values that create more volatility in loss-damage totals.

“If you look at NOAA [National Oceanic and Atmospheric Administration] statistics for frequency of tornadoes, 2011 isn’t a particularly high-frequency year,” he observes. It was high, but the number of tornadoes was higher in 1974. And in the 1940s and 1950s, frequencies were higher for three or four years, he reports.

“Two things have happened. First, [property] values have changed dramatically and we haven’t recognized those value changes.” In addition, “concentrations of values have changed dramatically,” Berkley says.

“We just don’t have all those small towns and the spreads we had. Natural disasters, when they hit in a concentrated area, cost more money.”

As a consequence, insurers and reinsurers require more capital to survive, he says, recalling that $1 billion capital base was required to participate in the reinsurance market back in 1986. “That’s not a serious player anymore, and that’s because of the volatility,” he says.

Adding to his tally of increasing risks, Ryan similarly highlights the “tremendous flocking by people to be part of major coastal populations”—a trend he says is worldwide. “People are living and working in much more dangerous locations. It’s a phenomenon that’s not slowing down. It’s accelerating.…”

“The world is riskier, but they’re ignoring the risk,” he says, also noting that despite the fact that “the earth has been opening up around the world,” the take-up rate for earthquake insurance remains low.

“We have just been really fortunate—it sounds terrible—that our hurricanes are limited to mostly residential damage. We haven’t had really serious industrial damage,” he says, contemplating the potential damage from a storm that ran up the East Coast, heavily populated with industrial exposures.

In addition, Ryan says “the problems that we labored through in the 1970s and 1980s” continue, pointing to systemic risks like asbestos—risks impacting entire industries at once. Lawyers still advertise on television to exposed workers, he notes, adding that “systemic risk is global today.”

“We don’t know where the next systemic risk will come from, but when it hits, it gets viral very quickly.”

Offering an event that touched him personally to support the views on systematic and brand risks, Ryan recalls the “systematic risk created in the Spitzer period, which hit the [insurance] industry.”

“It hurt certain people harder than others, but it did put a cloud over the industry,” he says. Everything got resolved, “but you have to look back on brand and what kind of damage, if any, lingers from that period.”

Finally, like Berkley, Ryan points to a final overarching risk—the risk of the unknown. “It is not that far-fetched to think that businesses will be faced with a growing number of crises in which they have to deal with very vexing issues that can come out of nowhere,” says Ryan.

“We’ve seen where those can become broad issues that impact a large number of people,” he says.

Berkley notes that “everyone’s models are geared toward what we can think of.”

“If we look at what really happens, it isn’t what we can think of. It’s always the unforeseen,” Berkley concludes.