

BEST'S REVIEW® ISSUES & ANSWERS: COMMERCIAL RISK

Insurers discuss the evolution and the diversification of various risks and the potential impact on future rates.



Interviewed Inside:



John Lopes
Nationwide



Aaron Hillebrandt
Pinnacle Actuarial Resources

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¹Rating received December 22, 2008, and affirmed April 30, 2024.

²Rating received December 7, 2023, and affirmed November 7, 2024.

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Evolution of Risk

John Lopes, Executive Vice President, Nationwide Alternative Ventures and Emerging Markets, said that given the size and scope of the company, Nationwide is one of the most diversified carriers in the U.S. “We have expertise across a number of disciplines combined with data, analytics and technology that give us a competitive advantage in the marketplace.” Following are excerpts from a recent interview.

How have commercial risk exposures changed in recent years?

The level of change we’ve seen since the pandemic has been dramatic, and that event exposed a lot of new risk. One of the things we saw was supply chain risk that still exists today and has intensified. Something else to come out of the pandemic was remote work, and from that we saw the acceleration of cyber-related risk and a proliferation of ransomware attacks. Now we are seeing artificial intelligence exploding all around us, leading to a multitude of new risks. On top of all that, we have global tensions that are spurring on geopolitical risk. These all happened very quickly, and I would argue they are all interconnected.

Are there certain risks that will see larger rates of change moving forward?

Most likely climate risk, because that risk is a bit different than what I previously mentioned. Climate risk has to be viewed from a different perspective because, unlike with the others, we’re dealing with Mother Nature. The traditional model of insurance is probably not well suited to address the frequency and severity [of climate-related events] that we’re witnessing now. This is an issue we spend a lot of time on at Nationwide, and we’re solving for it through risk mitigation and resiliency. At the same time, we’re helping our insureds become better risks while minimizing losses. That’s the ultimate goal.

How does your team at Nationwide work to address these continuously evolving changes?

We start by taking a very collaborative internal approach to how we address any new segment of the market. We have a cross-functional team that conducts a full risk assessment before implementing anything. Using data, analytics and technology, we consider what could go wrong in any scenario and how to best mitigate that scenario. In doing so, we gain confidence in knowing we can address the risk at hand. This, I believe, is our competitive advantage.



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John Lopes

Executive Vice President
Nationwide Alternative Ventures and Emerging Markets



“At Nationwide, we have all the pieces in place to better serve our customers and are doing so from the spirit of mutuality that gives us a connectivity with the client that you don’t find elsewhere.”

Visit the Issues & Answers section at bestsreview.ambest.com to watch an interview with John Lopes.

What do you look for in bringing new solutions to life?

We look for the right partners, the right risks and the right solutions. As far as partners are concerned, we look for people who are highly skilled, highly specialized and who share our values. The right risks means risks that we understand and have an accurate measurement and assessment of. When you have those first two down, the right solutions naturally fall into place. You’ve got the right parties, you’ve got the right risks and then you can develop the right solution for the customer.

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The Strategic Advantages of Captives



Aaron Hillebrandt, Principal and Consulting Actuary, Pinnacle Actuarial Resources, said diversification of risk is important—and a great strategy. “A captive’s risk exposure is much greater, naturally, for a single coverage, and concentration of risk is much higher than in a captive writing multiple coverages,” he said. Following are excerpts from an interview.

What are the advantages for insuring exposures through a captive?

Of course, the advantages and disadvantages of deploying a captive solution will vary by sector or line of business. But captives have a long and well-established track record as a good defense to changing conditions within the commercial insurance market. It is about control, and flexibility that sometimes is not offered within the commercial insurance market. The commercial market can be volatile at times, and captives can help organizations manage waves in the underwriting cycle. A commercial carrier can nonrenew, restrict limits or enact rate increases even when there are no material changes to an individual company’s exposures or loss experience.

What do companies look for when insuring exposures through a captive insurance company?

Captives are useful for filling gaps in coverage. For example, a large and complex organization’s various risk exposures may be treated differently by the commercial market. Certain risks within a complex organization may be more subject to rate increases or nonrenewal than others, causing holes within the organization’s risk management program. Captives have the flexibility to fill those gaps. If a captive is already in place when a gap is created in the commercial insurance program, the captive can respond quickly.

Where do emerging risks come in?

Sometimes the commercial market can take time to catch up to new and different risks. When there are those new and emerging risks that don’t fit neatly in an existing commercial market bucket, there may be opportunity for captives. Captives have demonstrated that they can be nimbler in many ways than commercial carriers. Captives can quickly assess and understand a complex and emerging risk, and take a comparable policy form and

Aaron Hillebrandt

Principal and Consulting Actuary
Pinnacle Actuarial Resources



“Captives have, over time, successfully established themselves as a viable solution for managing cyber risk.”

adjust it, as needed, to the risk’s unique features. The commercial market can get to that point, but often over time. The commercial market for cyber liability has indeed gotten better, but it has taken 10-plus years.

Why are captive insurance companies seen as so efficient?

Captives are generally very nimble because of their operational structure. Traditional insurers, commercial carriers can be very large organizations with complex IT, marketing and administrative organizations. They often have expense ratios that can be 30% or more of premium. Captives may be seen as lean by comparison. Captives often outsource much of their administrative work to third-party accounting, legal and actuarial firms. Captives often operate with an expense ratio closer to 10% of premium, but there is variation depending on the type of captive and the complexity of the program. That efficient operating model gives captives a great advantage in innovating and being nimble. And it contributes greatly to captives’ reputation for efficiency and flexibility.

