BEST'S REVIEW® ISSUES & ANSWERS:

- Specialty Coverage
- Insurance Accounting
- Talent Development
- Underwriting Trends

Insurance leaders discuss the benefits and innovative developments in specialty coverage as well as the trends and opportunities in insurance accounting, talent development and underwriting.

Interviewed Inside:

William Flinker
Philadelphia Insurance Cos.

Amber Wayne
Nationwide E&S/ Specialty

Brenda (Ballard) Austenfeld
RT Specialty, WSIA

Derek Freihaut
Pinnacle Actuarial Resources

Jill Mraz
Munich Re US

Jeremy Lane
Swiss Re

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Philadelphia Insurance Companies is the marketing name for the property and casualty insurance operations of Philadelphia Consolidated Holding Corp., a member of Tokio Marine Group. All admitted coverages are written by Philadelphia Indemnity Insurance Company. Coverages are subject to actual policy language.

AMERICA'S BEST MIDSIZE EMPLOYERS Forbes 2024

Accident & Health Leader

William Flinker, Assistant Vice President of the Accident & Health Division at Philadelphia Insurance Cos., said PHLY provides a lot of benefits for agents doing business in the Accident & Health segment. "It's based on our ease of doing business," he said. Below are excerpts from an interview.

PHILADELPHIA INSURANCE COMPANIES

A Member of the Tokio Marine Group

William Flinker
Assistant Vice President, Accident & Health Division
Philadelphia Insurance Cos.

"Group accident coverage can round out an insured's insurance portfolio and help fill gaps left by today's health insurance marketplace."

Visit the Issues & Answers section at *bestsreview.ambest.com* to watch an interview with William Flinker.

What exactly is accident insurance?

Accident insurance is a policy that would cover either an individual or a group with the purpose of reimbursing medical expenses for a claimant who would receive medical care due to a covered accident. There are a couple of different types. An individual would be something like travel insurance. If you and your family were going overseas on a vacation, you might buy some accident insurance for that type of a trip. Group accident covers anything from schools to participant groups like daycares, or boys and girls clubs, or intercollegiate sports coverage. PHLY tries to complement what we do in the P&C world by offering accident coverage that helps round out those types of groups.

Why is accident insurance important for organizations?

First and foremost, in a lot of cases it shows really good faith on the part of the insured that they're looking out for the well-being of their participants. Especially in what PHLY does—when we're dealing with schools or youth groups, amateur sports, those types of coverages—you want to make sure that those participants are not put out too greatly if they are injured during these activities and events. That brings us to the next point: It helps minimize out-of-pocket expenses that a claimant might have. Then it also might prevent a lawsuit against the insured because they are able to make up for these shortfalls due to an injury. Lastly, if an insured buys accident coverage, it helps them be more effective if an emergency arises. An example of that would be a private school administrator dealing with an injury at school. They would be confident in seeking care knowing the cost of such care would be covered.

Are there misconceptions about accident plans?

Most group accident plans are written on what's called a full excess basis, and that means that it is a secondary policy to your primary health insurance. The other commonly misunderstood area is called a benefit period. The normal benefit period is one year. If the agent is asking for us to cover a one-week camp, sometimes they see that one-year benefit period and say, "I only asked for one week. I didn't ask for a year of coverage." What benefit period means is the amount of time that a claimant would have to incur medical bills from the date of the injury. If they're injured today and the benefit period is one year, then they can incur medical bills related to that injury for up to one year's time.

What are the benefits of working with PHLY?

Our quote turnaround time is usually 24 to 48 hours. A lot of that is because our group accident policies are usually the last thing that comes into play. It becomes a requirement maybe of the package policy on amateur sports and schools, that type of thing. We also offer outward facing underwriters. Our underwriters will deal with agents and help them through the coverage because the agent might not be used to writing an accident policy. Also, we have over a hundred years of experience between all of our underwriters here at Philadelphia, and our underwriters are regionally based. An agent who works with us would always have the same underwriter when dealing with accident & health related issues. In addition, because we work directly with agents, we offer direct bill instead of agency bill, and the billing is included with most of the other products that they write with PHLY.

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Explore more about our programs business at Nationwide.com/programs.

[1] Applies to property & casualty affiliates. The third highest of 16 ratings. Received: 12/7/23.
[2] Based on revenue, FORTUNE magazine (June 5, 2023).
[3] The fifth highest of 21 ratings. The outlook for this rating is stable. Received: 12/22/08. Affirmed 4/30/24.

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Confidence in Programs

Amber Wayne, Executive Vice President of Programs at Nationwide E&S/Specialty, said the program space is an attractive place to try different things. "For example, when you look in our workers' comp portfolio, you'll see that we have several partners that are leaning into the market with technology that's about avoiding the risk, not mitigating it post injury—it's about detecting and avoiding the risk to prevent the injury from ever occurring."

Nationwide®

Amber Wayne
Executive Vice President of Programs
Nationwide E&S/Specialty

"Quite frankly, our internal team is top notch and great partners when it comes to folks wanting to launch or are looking to move an existing program in the market."

Visit the Issues & Answers section at *bestsreview.ambest.com* to watch an interview with Amber Wayne.

For those not familiar, what is a program or an MGA or MGU in insurance?

It can be a little bit confusing. When we talk about programs, sometimes referred to as MGAs/MGUs, we're generally talking about a program administrator. This is an entity that has various levels of authority to underwrite, bind business, construct portfolios and price risks on behalf of a carrier. They may also help with risk prevention, risk management, claims management, and other reporting on behalf of the carrier. Each arrangement can be a little bit different and is generally designed on the capabilities and expertise of each party.

What makes for an attractive program versus a standard line product inclusion?

We look for people who we can either build or we already have strong trusting partnerships with. In other words, the program administrator is an important part of our strategy. We're essentially providing our capital for them to conduct business so that being able to trust one another is critical, and generally speaking, the program administrator is serving a unique segment of the market that traditional vehicles don't satisfy.

What type of programs does Nationwide like to partner with?

First and foremost, we look for programs that we can build that long-term trusting relationship with. When we get into a relationship with a program administrator, we don't see it as a two-year or three-year or even a five-year thing. We're looking for somebody that we can go the long distance with. Moreover, we generally like programs that are backed by underwriters with a proven track record and that have those specialized underwriting capabilities, whether it be having the best risk selection tools, pricing tools. We also even think a little bit more broadly than that in terms of—what are their broader operational capabilities, like technology? How efficient are they? And what is their reach in the marketplace?

Are there any specific examples of ways your current portfolio offerings are addressing new-age risks or taking a new approach to an old insurance concept?

We have a partner in our workers' comp area that we do business with that focuses on wearable technology to help retrain workers on certain movements that are likely to create sprains, strains. We also have another program within our portfolio called CompScience that uses AI computer vision to identify workplace hazards. As you can see, those things are focusing us on the prevention of risk through safety technology. Additionally, we have a program in our portfolio that looks at the mobile workforce and prices based on real-time changes in a company's workforce, which is unique in the marketplace. Another quick example is, we had the opportunity over the last year to partner with Nationwide's emerging markets function. We were able to deploy and test a parametric solution in the property market. Those would be a couple of quick examples but there are many more.

To learn more about Nationwide E&S/Specialty programs, visit *Nationwide.com/Programs*.

MANAGE RISK. CHOOSE A WSIA MEMBER.

Some decisions are too precarious to take on alone. Sometimes you need a partner who can help you create the right solution for your client's risk, while minimizing yours. In fact, it's so cost-effective that a recent analysis by Conning, Inc. concludes that wholesale distribution does not increase the cost to the insured. That's a good decision.

WSIA MEMBERS ARE INSURANCE PROFESSIONALS DEDICATED TO THE WHOLESALE DISTRIBUTION SYSTEM.

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Innovation and Growth in E&S

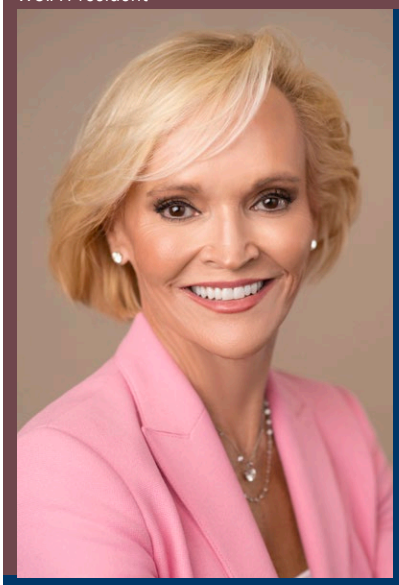
Brenda (Ballard) Austenfeld, RT Specialty, CEO & President – National Property and WSIA President, discussed the record growth of the surplus lines market and where the demand is coming from. Following are excerpts from an interview.

About WSIA

- A non-profit association of insurance professionals and specialty market leaders dedicated to the wholesale distribution system.
- Serves more than 730 member firms representing more than 1,600 offices and tens of thousands of industry professionals.
- Provides world-class member services including networking, education, talent development, legislative advocacy and promotion of the value of wholesale distribution.

Brenda (Ballard) Austenfeld

RT Specialty, CEO & President – National Property
WSIA President



"Wholesale insurance brokers are specialists who work with their retail broker clients to develop customized solutions for challenging or unusual risks."

What makes the wholesale, specialty and surplus lines insurance segment unique and how do those characteristics benefit insureds?

Wholesale insurance brokers are specialists who work with their retail broker clients to develop customized solutions for challenging or unusual risks. The wholesaler works with unique and emerging risks every single day creating a deep expertise and understanding of these risks, while insureds benefit from this technical expertise. Furthermore, wholesalers have access to coverages and options that are often not available in the standard insurance market. Their ability to tailor a competitive solution for each risk is extremely valuable. It is also important to remember that there is no cost to seek a wholesale quote, yet there can be high return for buyers. Two analyses by Conning Inc., in 2016 and 2021, determined that wholesale distribution does not increase the cost of the transaction to the insured. The most recent analysis actually found that the cost of wholesale distribution was lower than retail distribution by 1.8 percentage points, which is a savings win for the retail agent and the insured.

The surplus lines segment continues to experience growth. How much is it growing?

The surplus lines market has grown to record levels, according to both a recent AM Best Market Segment Report and the *2023 U.S. Surplus Lines Service and Stamping Offices Annual Report*. The AM Best report, *Surplus Lines Insurers Focus on Evolving Risks to Sustain Premium Growth*, indicated growth of 19.2% in surplus lines direct premium written in 2022, which resulted in a new record for annual surplus lines premium of $98.5 billion. The 15 states with surplus lines stamping offices—which account for approximately 64% of all U.S. surplus lines premium, making them a valuable indicator of the entire market—reported an increase of 14.6% in surplus lines premium for 2023. That report also indicated a 5.2% increase in transactions. Together, these reports offer a good insight into the state of the market, which is strong.

Where is the greatest demand and growth right now?

The 15 states' stamping offices collaborated to map each individual state's coverage codes into nine key lines of business, and the *Stamping Offices Annual Report* now includes data categorized by those lines. Through 2023, commercial liability and commercial property coverage comprised most of the market. While not the greatest proportion of the market, some states are seeing increases in homeowners and disability policies as well. I think it's also important to note that this industry was built on, and continues to excel at, the ability to innovate insurance products for emerging risks. This global economy is moving fast, and the surplus lines market helps make that possible.

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Expected Adverse Deviation

Derek Freihaut, Principal and Consulting Actuary for Pinnacle Actuarial Resources, said expected adverse deviation (EAD) can be a risk management tool well beyond assessing risk distribution. "By measuring volatility in retained losses, EAD can inform an insurance company's management and ownership about the potential variability in loss results they can expect," he said. Following are excerpts from an interview.

PINNACLE ACTUARIAL RESOURCES

Derek Freihaut
Principal and Consulting Actuary
Pinnacle Actuarial Resources

"EAD benefits considerably from the numerous common methods and assumptions it shares with ERD, or expected reinsurance deficit, the most commonly used measure of risk transfer."

Visit the Issues & Answers section at *bestsreview.ambest.com* to watch an interview with Derek Freihaut.

Can you briefly describe expected adverse deviation as developed by Pinnacle?

The expected adverse deviation, or EAD, is the average amount of loss that an insurance company will incur in excess of their expected losses. We typically divide that value by expected losses to produce an EAD ratio. That is the actuarial definition but importantly, the EAD ratio is a simple measurement of the risk distribution or diversification of an insurance company's loss exposures. For a company with all of their exposure tied up in one loss event, their risk would not be well diversified, and they would have an EAD ratio approaching 100%. For a large insurance company with thousands of exposures and regular steady claim activity, their EAD ratio would reflect how well their risk is diversified or distributed and would be closer to 0%.

Who has benefited from EAD and what were the benefits?

Since we began measuring risk distribution with the EAD ratio seven years ago, we have largely applied it in situations where captive insurance companies wish to document their risk distribution as an insurance company. Producing an EAD ratio as part of a review of a company's risk distribution provides some objective documentation for the captive owners to show that their insurance company does have the necessary amount of risk distribution. The EAD ratio is an actuarial measure but it can, along with a review from a captive's accounting and legal providers, provide strong support for whether or not risk distribution is present in a captive insurance company.

Do you find that EAD is easy to communicate?

When we worked on developing a metric to measure risk distribution, we started by laying several key criteria for any approach we developed. Two critical criteria were transparency and accessibility. Any metric we developed needed to be explainable so that any user would understand what they are seeing. It is also important that users and other professionals reviewing the metric calculation could see all of the assumptions and know that there was no manipulation of the results. In our review of several potential metrics, we felt the EAD ratio performed incredibly well for being easy to explain and to understand.

How has Pinnacle put what it's learned about the benefits of EAD into use with clients?

Beyond determining the presence of risk distribution and providing documentation, we have found the EAD ratio to be helpful when captive owners are making coverage decisions for their captive. Whether it is initially starting a new captive, considering new coverages, or considering offering higher limits, a review of the captive insurance company's EAD ratio under various options can help owners better understand the level of risk involved with the new exposures being considered. It probably seems intuitive that adding a significant amount of deductible reimbursement exposure is less risky than choosing to insure whole properties on the coast in Florida, but it isn't clear how much more or less risky each opportunity is for the company. The impact of adding these types of coverage on the EAD ratio is one way to measure the risk being added for the insurance company.

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Learn more

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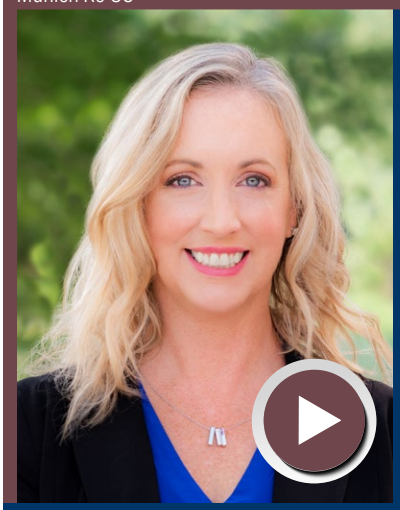
World of Opportunity

Jill Mraz, Business Development Executive at Munich Re US, said the company is looking to spread the word about insurance careers "starting young and expanding the concept of Take Your Child to Work Day by including children, other than a son or daughter, with a relationship to the employee. We don't stop there and in fact offer programs at key stages of a person's life, such as high school, college, graduate, entry career and mid-career levels, to attract and maintain key insurance talent."

Munich RE

Jill Mraz
Business Development Executive
Munich Re US



"We are committed to addressing the talent gap to ensure the future of our industry."

Visit the Issues & Answers section at *bestsreview.ambest.com* to watch an interview with Jill Mraz.

What does the insurance job market look like?

According to the U.S. Bureau of Labor Statistics, research predicts that positions for insurance professionals will likely grow by 6% from 2021 to 2031. That translates to about 33,000 new jobs per year. There's so much opportunity right now, and that's the good news. The bad news is that there are many individuals in the industry that are retiring. There are about 400,000 individuals who will be retiring in the upcoming years. That is a significant shortage for this landscape, and it is a concern. A recent survey by The Institutes reports 8 in 10 millennials have limited knowledge of our industry. To me, this is a meaningful opportunity that we must take advantage of.

What opportunities do you see in the industry?

Let me answer that with a story. My niece is a senior in high school, and she was deciding which college to attend and what major should she pursue. She asked me, "What do you do? You're always in a suit. Are you a lawyer?" I said, "Interestingly enough, I'm in reinsurance. Is it something you would ever consider?" She asked, "What is it?" I explained the purpose of reinsurance and how there are endless opportunities in this field.I mentioned that regardless of what your major may be, or what you're looking to do in the future, there's a potential role for you in the industry. It's fascinating to me, and I get excited and passionate about it because you can have a diverse background, and be integrated in this industry very seamlessly.

How can the industry engage future talent?

As an industry leader, Munich Re strives to educate future talent about the positive impact our industry has on society. We develop educational programs that start at a very early age. We target a diverse talent group on a global scale. We also offer opportunities and benefits that make the industry attractive and emphasize this is an industry that you would want to pursue as a long-term career.

What types of programs does Munich Re offer?

We have programs like "Dare to Dream" internships that provide hands-on opportunities for young, diverse members of our communities to learn about careers within the insurance industry and that help them build skills for the future. We also offer job shadowing programs. We welcome high school seniors to shadow an individual for a few weeks. Beyond that, we have a phenomenal Summer Leadership Development Program. It's similar to an internship, where we take a handful of students to develop leadership skills and collaborate with our experts from all disciplines and backgrounds and to find answers to today's most pressing issues. After college, we have an international graduate trainee program. It gives individuals a two-year global experience in a variety of roles. Recently, we conducted a talent exchange with mid-level employees who demonstrate leadership potential from other industry organizations. The purpose of this exchange is twofold. One is to have individuals understand the intricate workings of what a reinsurer does and two, network with reinsurance leaders. The feedback for this talent exchange was phenomenal. Finally, we have an advanced program. This is an intense six-week leadership training held annually in Munich, for high-potential individuals from client companies around the globe. This is considered a "mini-masters" program on insurance/reinsurance issues.

Swiss Re

Forward with clarity

Transforming underwriting and building efficiency, insight and value for life and health underwriters worldwide.

Embracing AUW

Jeremy Lane, Head of Mortality Services in the United States for Swiss Re, said that accelerated underwriting (AUW) has become increasingly essential for many insurance companies. "AUW is enabling insurers to leverage technology to make decisions and deliver quotes more efficiently," he said. Following are excerpts from an interview.

Swiss Re

Jeremy Lane
Head of Mortality Services in the United States
Swiss Re

"While traditional underwriting methods must still be respected, industry players must also embrace the opportunities for innovation."

Visit the Issues & Answers section at *bestsreview.ambest.com* to watch an interview with Jeremy Lane.

Why has AUW become an essential topic for life insurers to have a proactive strategy around?

The driver of AUW centers around creating a better consumer experience. Life insurance buying, as we all know, is not the easiest process in the world, and AUW has been a way for us to try to improve that aspect. In addition, I would say the pandemic has played a significant role in helping to push AUW forward through necessity. As we got into the pandemic, the availability of a lot of the tests that we've had in the past started to diminish. Moving to some of the accelerated approaches that were put in place became a way to continue to manage the business that was coming to market.

What's a major challenge that life insurers should pay attention to when it comes to AUW and mortality experience?

AUW offers a few unique aspects. One is understanding the distribution channel that you're trying to put your accelerated process into. Another item I would point to is looking at the evolution of the new tools and the comprehensiveness of the information that's included. With things like digital health data, medical billing records, we've seen a steady increase in the hit rates on these and how much information is included. The last item I would point to is getting a better handle on smoker identification. We must keep a reasonably high ability to identify smokers and appropriately rate those applicants.

How can life insurers collaborate with reinsurance partners like Swiss Re to further position underwriters for success?

First and foremost, in our position, aggregating data across the industry gives us great insights into the protective value we expect to emerge out of different programs. Another area that I would note with AUW is the need for ongoing monitoring. Whatever the best-laid plans are for carriers when they put accelerated underwriting in place, there are inevitably surprises that come up. We've worked with a number of our clients to be an extra set of eyes to help establish a program to monitor performance and then try to figure out how we make adjustments when things start to deviate from what's expected.

What tools or solutions does Swiss Re offer to help insurers be more efficient?

First, I would look on the underwriting side of things. Magnum is a tool that we've had in the market for 30-plus years around the world, and it's a way for our clients to automate the underwriting journey for some of the business that they write. A newer tool that we have in the underwriting space is Underwriting Ease, a tool to help clients effectively ingest a lot of the digital data that can feed into the underwriting process. Shifting to the claims side, we've done some work to create an automated front end for a claims process for consumers to quickly and efficiently put their data forward to start the claims process. Additionally, we have a tool that's focused on helping our clients automate some of those simpler and easier claims processes to be able to get the consumer paid more quickly. Last but not least, one of the areas where we're most excited is enhancing the ability to perform analytics on the in-force business. We've created a tool called Impact+, and this tool allows better understanding of all aspects of the data that sits around the business that has been written. It just improves efficiency.