

BEST'S REVIEW® ISSUES & ANSWERS:

- Risk Mitigation
- Surety Insurers
- Auto Insurers

Interviewed Inside:



Mark Berven
Nationwide Property and Casualty



James Crinnion
Philadelphia Insurance Companies



Gary Wang
Pinnacle Actuarial Resources

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Fortified for the Future

Mark Berven, President and Chief Operating Officer of Nationwide Property and Casualty, highlighted the company's push for implementation of Insurance Institute for Business & Home Safety (IBHS) FORTIFIED building standards in light of a new era of risk stemming from natural disasters. "Communities across the nation are facing increased threats from hurricanes, wildfires, floods and other extreme weather events," he said.



Mark Berven

President and Chief Operating Officer
Nationwide Property and Casualty



"A recent Nationwide Survey reveals that approximately one-third of property owners have experienced damage from a natural disaster. This figure rises to over 50% in wildfire-prone states."

How are outdated building codes leaving communities vulnerable to damage from weather risks?

The Federal Emergency Management Agency reports that 65% of U.S. counties, cities and towns have not adopted modern building codes, leaving millions at increased risk. Modern building codes are essential tools for safeguarding lives and property. They provide a framework for constructing buildings that can withstand the increasing severity of natural disasters. According to FEMA, adopting and enforcing up-to-date building codes can save communities \$132 billion in cumulative losses by 2040. Despite this, economic uncertainties and rising construction costs have led to a decline in proactive investments. A recent Nationwide survey indicates that only 31% of commercial property stakeholders are willing to invest in enhancing their building's resilience, a 22-point drop from 2023. This hesitation could have long-term consequences.

What role can IBHS FORTIFIED standards play in helping properties withstand nature's fury?

IBHS developed the FORTIFIED program, offering construction standards that go beyond traditional codes to provide enhanced protection against severe weather. These standards have proven effective in enhancing property resilience and reducing recovery times. States like Alabama have embraced these standards through initiatives like the Strengthen Alabama Homes program, which provides grants to homeowners for FORTIFIED upgrades. By offering grants of up to \$10,000 for homeowners to retrofit their roofs, the program has funded more than 10,000 FORTIFIED Roof designations and helped grow awareness of the program bringing the total number of FORTIFIED-designated homes in the state to more than 50,000. This initiative has not only improved structural resilience but also contributed to a more stable insurance market.

How can the gap between awareness and action be bridged?

While awareness of the importance of building codes is high—nearly 100% of property stakeholders surveyed acknowledge

their critical role—implementation lags. Only 39% have upgraded their properties beyond current code requirements, marking a 13-point decline since 2023. To address this, stakeholders must collaborate to provide streamlined resources, financial incentives and educational programs that simplify the process of code compliance. Insurance carriers, distribution partners, policymakers and community leaders have a shared responsibility to promote and facilitate the adoption of modern building codes.

How is Nationwide helping to build a more resilient future?

Nationwide recognizes the vital role that modern building codes play in protecting our customers and communities. As a founding member of IBHS, we actively support initiatives that promote the adoption and enforcement of robust building standards. Nationwide's commitment extends to advocating for policies that make compliance more accessible and affordable for all. The increasing frequency and severity of natural disasters necessitates a proactive approach to resilience. Building codes should be viewed not as regulatory obligations but as strategic investments that protect lives, properties, and communities.

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A Surety Thing

James Crinnion, Vice President, Commercial Surety at Philadelphia Insurance Companies, said that over the last five years, there's been an explosion in surety-backed letters of credit. "There's always been a push and pull between the surety industry and the banking industry," he said. Following are excerpts from an interview.



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What are the biggest challenges facing the commercial surety industry?

Employment and lack thereof. We don't have enough qualified underwriters in the surety industry. Every company is looking for more underwriters in every part of the country. Underwriters are getting calls from multiple companies. They might not take the job, but they get a sense of what's out there. Even the agencies we work with are understaffed in their surety departments. Over the last 10 years, even plus, there haven't been enough trainees being brought into the industry so that we have enough underwriters to go around.

How much is the surety segment growing?

Tremendously. From the five years between 2016 and 2020, it grew steadily from \$5.8 billion to about \$6.9 billion. The last five years is a completely different story. It jumped from \$6.9 billion in 2020 all the way up to \$10.7 billion in 2024. Just exponential growth over the last five years.

What's driving that growth?

Inflation is a big part of it. Quite simply, contracts are more expensive. What used to be a \$10 million project—it's now \$12 [million] to \$15 million, so that's absolutely driving the growth in premium. Bonds are bigger on the contract side. [There are] a lot of new bond products out there, especially SBLC, surety-backed letters of credit, mainly used on the commercial side. Those don't come in small packages, and they're driving a lot of premium. [There are] newer industries, too. Renewables, solar companies, wind—they are requiring a lot more bonding.

What emerging risks or industries are increasingly seeking commercial surety bonds?

On the commercial side, the renewable space is driving it more than anything else. Large commercial solar developers need land procurement bonds, power purchase agreements bonds and even panel purchase agreements are bonded. These bonds could vary sizably and run in the tens of millions in size. These are large projects that five to 10 years ago weren't on the horizon, weren't being bonded, and it's the new emerging market right now, especially on the commercial surety side.

James Crinnion

Vice President, Commercial Surety
Philadelphia Insurance Companies



"At the end of the day, all we're selling is a piece of paper, so there has to be a trust value there and an understanding that we can get the job done for that agent."

Scan to watch an interview with James Crinnion.

What are the benefits of working with PHLY?

It starts with the strength of paper. PHLY's A++ paper goes a long way. These are tough times. Our company does better than most in managing some of the catastrophe exposure that's out there. Chiefly, we've got to make sure we're here tomorrow for you. And then it goes to the services. We're a full-service commercial surety operation. We're able to do reverse flow from international clients. We're licensed in all 50 states. We have underwriters that can underwrite up to \$300 [million], \$400 million large obligations. We also have a transactional unit that has a point-of-sale system where people can go online and buy that simple bond they need to keep their industry or keep their work going. Last, it ends with the people. This is a relationship business. At the end of the day, all we're selling is a piece of paper, so there has to be a trust value there and an understanding that we can get the job done for that agent.



Beyond numbers

Alternative
Markets

Enterprise Risk
Management

Legislative
Costing

Litigation
Support

Loss
Reserving

Predictive
Analytics

Pricing and Product
Management

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Commitment Beyond Numbers

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Vehicle Scoring Made Easy

Earlier this year, Pinnacle Actuarial Resources and CARFAX announced the release of a new vehicle scoring and automobile pricing tool called the CARFAX Vehicle Build Score (VBS). Pinnacle Senior Consulting Actuary Gary Wang discussed the value of the VBS solution for automobile insurers. Following are excerpts from an interview.



How does CARFAX's VBS differ from the historically used symbols-based vehicle rating system?

Like typical vehicle symbols development methods, VBS is based on vehicle characteristics. But it represents an evolution toward a more complete form of vehicle rating. VBS uses the vehicle's entire 17-digit vehicle identification number, incorporating build sheet and window sticker information curated by CARFAX related to the VIN. The VIN data allows CARFAX and Pinnacle to develop a VBS that focuses on the risk associated with individual vehicle values, safety features and options. With the VIN, the VBS leverages a depth of data beyond basic vehicle information to include post-factory-installed features and new- and used-car listings data.

How does VBS help companies pricing auto insurance?

In a few key ways. First, VBS can access a deeper and richer mine of vehicle data. CARFAX has a database of more than 35 billion records. That was a lot of data for modelers to parse, but it offered really incisive and useful insights into vehicle attributes and related risk. That includes a specific vehicle's factory- and post-factory-installed features. In that way, VBS can help insurers better understand the impacts of a car's characteristics on risk and price policies appropriately. And the way we developed it, VBS is also a very easy-to-use, -understand and -communicate score. That can have great value for insurers, above and beyond the VBS' completeness and accuracy.

How do you develop a VBS?

It is a secret sauce, but not a black box. The VBS does deploy generalized linear models as part of its development. But GLMs have limits, notably when processing complex interactions between different variables. The VBS uses advanced machine learning techniques to capture more details and patterns within data. What this enables is a more sophisticated score and a more thorough assessment of a vehicle's risk. Again, it is the ability to assess risk via the interactions and relationships within different variables that makes VBS so useful. The VBS model works to capture that interplay and dialogue within the data for a more detailed picture.

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Gary Wang

Senior Consulting Actuary
Pinnacle Actuarial Resources



"VBS can be integrated into existing insurance models easily."

Scan to watch an interview with Gary Wang.

What is next for the VBS?

With regard to the product, the VBS will evolve with every new model year. Symbol rating systems have to update tables as new models and model-year changes are rolled out. With regard to regulatory approvals, the VBS is being filed and approved with state regulators across the United States for approvals. We are moving toward a national rollout as quickly as the regulatory process will allow.

