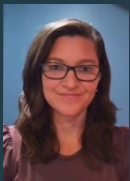


BEST'S REVIEW® ISSUES & ANSWERS:

- SURPLUS LINES
- ASSET MANAGEMENT
- ARTIFICIAL INTELLIGENCE
- LIFE/HEALTH REINSURANCE
- MUTUAL SUCCESS

Insurance industry leaders discuss surplus lines, asset management, technology, litigation and risk in an evolving economy.

Interviewed Inside:



Jamie Langes
Philadelphia
Insurance
Companies



Mike Marks
Nationwide



Sabrina Hart
Munich Re



**Brenda
(Ballard)
Austenfeld**
WSIA



**Tim
Antonelli**
Wellington
Management



Matt Daly
Conning



**Manish
Khetan**
Xceedance



**Neil
Sprackling**
Swiss Re



Chris Myers
NEAM

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**AMERICA'S
BEST MIDSIZE
EMPLOYERS**

**Forbes
2024**

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Future of PFAS Risk

Jamie Langes, Vice President of Environmental Underwriting for Philadelphia Insurance, said that per- and polyfluoroalkyl substances, known commonly as PFAS, represent an opportunity for significant losses for companies in a wide range of industries. Below are excerpts from an interview.



A Member of the Tokio Marine Group

What is the background of PFAS?

PFAS are a group of man-made chemicals. They're comprised of thousands of chemicals with characteristics of heat, oil and water resistance and are used in a variety of consumer and business products. PFAS were largely unregulated until the early 2000s, but have been related to carcinogenic and neurological impacts to humans. This year, the Environmental Protection Agency reached a significant milestone in their roadmap for managing PFAS. The recent parameters, the first ever at a federal level, has been set to focus on drinking water.

What is the background on PFAS in the insurance industry?

In the insurance industry, PFAS, because it was an unregulated substance and because they're emerging chemical compounds of concern, are unregulated from a standpoint of looking at our coverage terms. Generally speaking, environmental insurance has very broad definitions of what constitutes a pollutant. It doesn't necessarily have to be regulated, but it does have to reach a level for environmental law to intervene. In this case, because PFAS wasn't necessarily regulated, there were not standards to which remediation or cleanup values were accepted or anticipated; it was largely unutilized as a potential exclusion or affirmative coverage.

What are the potential long-term impacts on the insurance industry?

The insurance industry has decisions to make. Our policies could be very long term. For example, if we were writing a transactional preexisting, so something's happened in the past that maybe will be litigated in the future—those policies could be 10 years in terms. Alternatively, there were five-year term options available and regularly there's still three-year options available for premises-based coverage. That means that there's a lot of limit for long periods of time that are running on claims made and reported forms. Meaning, in the future, if there are claims made and reported, there might be an aggregation of potential issues, in particular, if carriers have written certain books of business for risk classes such as wastewater, water treatment, or any of the manufacturers.

Jamie Langes

Vice President – Environmental Underwriting Officer
Philadelphia Insurance Companies



“We find ourselves in an interesting position to have to navigate how different appetites, coverage restrictions, or coverage grants might actually be allowed in each of our carrier appetites.”

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

What's next for the insurance industry now that the EPA designated some PFAS as hazardous and set national drinking water standards?

What's next is that we need to determine actuarial modeling. We haven't really had an opportunity to do so because it's an emerging issue. How do we price the coverage? What structure considerations do we place on it from a retention valuation? Maybe we want to supplement our exposures. A lot of the coverage is unknown. Remediation techniques are uncertain. Modeling isn't completed from either a bodily injury or property damage standpoint. Regulatory body hasn't even set those standards yet. What we're looking at is trying to determine our future as a group, a marketplace, but also as individual carriers within our risk appetites.



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For Nationwide®, collaboration with our partners is key to innovating — through a spirit of collaboration with our team of experts and industry leaders, we're able to introduce thoughtful solutions for emerging risks. After being at the forefront of the insurance landscape for nearly 100 years, we remain ready to help you be prepared for what's next.

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Nationwide E&S/Specialty Emerging Markets

Emerging Markets

Mike Marks, AVP, Emerging Markets, Nationwide Excess & Surplus and Specialty, says that his dedicated team brings the capability to Nationwide to explore and discover emerging and unmet customer needs to address these unique opportunities. Following are excerpts from an interview.



Nationwide®

How does your team define emerging markets?

In the context of our industry, the term emerging markets traditionally refers to geographic regions that are newly accessible to specific products or services, or sectors experiencing rapid evolution necessitating specialized insurance to manage unique risks. However, given our perspective as a U.S.-centric mutual insurance company, we take a more nuanced approach. We interpret emerging markets as areas where customers' needs are either unaddressed or insufficiently served, finding innovative methods of delivering and distributing traditional products and new applications for existing coverages.

What's Nationwide's approach to addressing the risks associated with these markets?

Our approach to navigating the risks of emerging markets is rooted in our identity as a mutual insurance company. This unique structure empowers us with the flexibility to prioritize long-term stability, social impact and alignment with our policyholders' interests. We harnessed a proactive strategy, leveraging data-driven insights and fostering open communication with a diverse array of stakeholders and partners. Our commitment to innovation is evident in our collaborative efforts with both traditional partners in our industry and non-traditional allies from sectors like retail, banking and health care.

What are some of the areas your team is exploring in these emerging markets?

Weather and climate change has shifted, and there are other weather challenges, such as extreme heat and cold, that businesses and customers are trying to solve. One of the areas specifically in the weather space, but not limited to just weather, is parametric insurance. While not new, with the increase in better-trusted data, we're able to go further in our potential offerings, and this will allow for unique solutions versus traditional offerings. You also hear about alternative energy, electric vehicle infrastructure, intangible assets, to name a few things. Lastly, AI. While most of the work around AI is focused on the use of the technology, the emerging markets team is thinking about the risks that AI creates and what a potential solution or product or service is needed.

Mike Marks

AVP, Emerging Markets
Nationwide Excess & Surplus and Specialty



“The Emerging Markets Group, in partnership with others, operates as an innovative hub where we proactively identify and develop strategic responses to address new risks.”

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

What do you look for when assessing new partnership opportunities?

When assessing new partnership opportunities, we look for alignment on our purpose, vision and values. Nationwide has a strong reputation and brand in the market, so we want partners who also inspire trust and confidence. We look for complementary strengths, where the partner can bring a skill or insight that our team lacks, creating a synergistic relationship. Data insight is one of these evolving capabilities. Openness to sharing knowledge and resources is important to fostering a collaborative environment conducive to innovation. We need partners who want to challenge the way we do things today, and not be anchored to how we've always thought about a problem or risk. If we can manage our risks, minimize risk to capital and provide an acceptable return, we are super excited about where emerging markets can take us over the next 100 years.

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In today's evolving insurance landscape, you need simplified access to a wide range of solutions and services. You can rely on **Munich Re Specialty**, for specialty insurance. A financially strong and dedicated partner, we are committed to providing tailored solutions that meet your unique coverage needs. When you choose us, you gain unprecedented access to top-tier claims, underwriting, and risk management services powered by a network of trusted advisors across the globe. With **Munich Re Specialty**, you can navigate the complex insurance landscape with confidence and peace of mind.

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Munich Re Specialty is a description for the insurance business operations of affiliated companies in the Munich Re Group that share a common directive to offer and deliver specialty property and casualty insurance products and services.

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Dynamic Specialty Market

Sabrina Hart, President and CEO, Munich Re Specialty - North America, said that risk-taking is a core competency for the company. “We see the market poised for growth in our existing product lines and we will bolster such with the launch of new products,” she said. Following are excerpts from an interview.



What is your take on the current state of the specialty insurance market?

Dynamic! The global specialty insurance market is projected to reach over \$270 billion by 2030. The E&S market continues to grow at a faster rate than the general P/C market. In 2023, the E&S market saw 14.5% growth. The E&S market now is in excess of \$85 billion and very quickly approaching \$100 billion. The market continues to be poised for growth. We do see continued business flowing into the E&S market and the specialty markets. The world certainly continues to be a riskier place. We see our businesses and industries are becoming more specialized, even more interconnected. This also brings more complex risk.

What are some trends or challenges you anticipate in your business as we move into 2025?

Inflation tends to be the first thing that comes to mind. We certainly see continued rising claims and insurance costs that are tied to increased litigation, as well as legal system abuse. Cyber is also top of mind as a product offering. There's also a continued focus on climate change as a challenge and an emerging risk, and the repercussions of how the climate crisis really impacts our industry. We see natural disasters—whether it's floods, wildfires, storms—continue to increase at really alarming rates. I also see signs of the moderating market and this actually is a call for action to keep a keen focus on risk selection.

How are your partners and customers benefiting from Munich Re Specialty's new unified global approach?

First and foremost, it's ensuring that our partners have access to the full breadth of products and services across the Munich Re Specialty group. As with any large global organization, there certainly is always an element of complexity, but we do not want to be complicated. We want to simplify that access to the offerings that we have. We leverage tools and expertise and capabilities across the organization to expedite efficiency in the system and the ease of doing business, and bringing together a technical expertise to really think about new product innovations. As an example, we recently launched a California

Sabrina Hart

President and CEO
Munich Re Specialty - North America



“Our approach and value to the market rests on three pillars: expertise, partnership and stability.”

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

FAIR Plan Commercial Wrap policy. After the successful launch of our surety practice in 2022, we're now launching surety across Europe. This will be led by our Global Markets team out of Europe. We have also collaborated with our Global Markets and our HSB teams to develop cyber solutions.

What makes Munich Re a leader in the specialty market?

Munich Re has made a significant commitment to the specialty insurance space by bringing all of our specialty insurance capabilities across the globe together as a single global specialty insurance organization. We have now branded ourselves as Munich Re Specialty. Our approach and value to the market rests on three pillars: expertise, partnership and stability. We've built a really dynamic team that has a great understanding of risk and risk assessment, and strives to achieve an understanding of our brokers and customers and the challenges that we all face. In today's riskier world, selecting the right partner is more important than ever. Learn how you can partner with Munich Re Specialty at munichre-specialty.com.



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.



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Growth Market

Brenda (Ballard) Austenfeld, WSIA Chair and RT Specialty, CEO – National Property, said the surplus lines market helps make it possible for our global economy to move quickly. Following are excerpts from an interview.



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

AM Best's 2023 Market Segment Report on U.S. surplus lines 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—just released their 2024 midyear report, with an increase of 10.1% in surplus lines premium for the first half of 2024 over the same period last year. That report also indicated a 10.8% increase in transactions. Together, these reports offer a good insight into the state of the market, which continues to be strong.

Where is the greatest demand and growth right now?

The 15 states' stamping offices now collaborate 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 the first half of 2024, commercial liability and commercial property coverage constituted most of the market. Some states have also seen a slight rise in personal lines coverage over the last 18 months. 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.

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.

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

WSIA Chair and RT Specialty, CEO – National Property



“The surplus lines market has grown to record levels, according to both the recent AM Best report and the 2024 midyear report.”

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.

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Winds of Change

Tim Antonelli, Head of Insurance Multi-Asset Strategy for Wellington Management, says insurers should refocus their investment efforts to be more dynamic and opportunistic. The following are excerpts from a conversation we had with Tim.

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How do you see the macroeconomic environment evolving?

We're expecting a macro environment with much more volatility. We're seeing increased divergence in monetary policy as central banks from around the world are trying to find the right balance between growing their economies but moderating inflation. We're also seeing more isolationist fiscal policy, as countries focus on onshoring or nearshoring systemically important industries and sectors, and a more pronounced trend toward deglobalization overall. This will lead to more localized supply chains and, in our view, more desynchronized macroeconomic cycles. These environments have the ability to test historical relationships across asset classes.

Are insurers prepared for these sorts of swings?

In a word, no. Quite frankly, they haven't had to be. If you think about how a typical insurance asset owner is positioned, they're obviously constrained by a host of factors. You have regulations. You have risk capital charges, accounting rules, and, on top of that, liability-relative constraints. What this has meant for insurance asset owners is that they are positioned for a "cool" environment marked by low growth and low inflation, or a Goldilocks environment, which is where we've been recently, where you're getting periods of good economic growth and low inflation.

How should insurers be reacting?

First, you really need to be able to adapt to a faster rate of economic change, so really focus on becoming more tactical and more diversified. Second, rely less on history and more on what-if analysis. The third element is using thematic investing as a way to target alpha opportunities but also provide diversification against broad market cycles. Finally, place a greater weight on implementation—how are you getting these ideas in your portfolio? Simply buying market beta may become increasingly challenged in a world that's marked by more divergence and volatility.

What should we expect moving into 2025?

There are 64 major elections occurring in 2024. As we've already seen with some of the results, there's going to be a lot of change that's

Tim Antonelli, CAIA, CFA, FRM, SCR

Head of Insurance Multi-Asset Strategy
Wellington Management



"We are hyperfocused on challenging ourselves when we're thinking about managing downside risk and how the combination of various investment levers and tools can provide a more stable path of returns moving forward over time."

Visit the Issues & Answers section at bestsreview.ambest.com to watch a video interview with Tim Antonelli.

occurring around both developed and emerging economies alike. If our hypothesis is correct, some of the changes around the shift in macro regimes could be expedited by the new political landscape. You might start to see some of the divergence play out in real time as certain central banks may be more inclined to leave interest rates higher for longer, while others are going to be more aggressive in cutting. That divergence alone should create a lot of buying opportunities for insurance companies that have already thought further ahead. Insurers should also begin to prepare for a world of normalized interest rates. Be thoughtful about what your portfolio is going to look like over the next few years on the back of central bank rate cuts. Also, insurers should be prepared for the second and third waves of the AI revolution. I think you want to be actively investing in that space outside of just the frontline players in 2025. Finally, the last theme is the energy transition. That discussion has really shifted from one focused solely on climate science to one involving national security risk. I view this as a structural theme that isn't going away anytime soon. I'd expect that to really show up in 2025.



The right tools in the right hands.

You need the right tools to sketch out a customized vision, but it takes an expert team to construct a framework that stands the test of time. With over a hundred years of serving the insurance industry, a high level of expertise in strategic asset allocation and a partnership approach, Conning has earned a reputation for delivering innovative and client-centered solutions across a wide range of asset classes. Our capabilities extend beyond traditional fixed income and include bank loans, CLOs, mezzanine and equity commercial real estate, emerging market debt, and dividend equities.

LEARN MORE ABOUT OUR ASSET CLASS CAPABILITIES AT [CONNING.COM](https://www.conning.com).



Effective Asset Management

Matt Daly, Managing Director, Head of Conning North America, said that the higher interest rate environment has been impacting clients. “For the most part, insurers have welcomed higher rates and investment income,” he said. The following are excerpts of an interview with John Weber at the end of July.



Matt Daly

Managing Director, Head of Conning North America
Conning



“The investment environment for insurers is becoming increasingly complex. Each insurer’s portfolio requires a specific combination of asset classes and strategies to serve their needs.”

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

What are insurance clients looking for in terms of their asset management needs?

Effective insurance asset management is never a one-size-fits-all approach. Our clients value high levels of service and customized solutions. The ability to work closely in partnership with clients continues to be a hallmark at Conning. Insurers want an investment portfolio tailored to their specific business needs. The foundation of our work for clients is strategic asset analysis. We need to understand both sides of a client’s balance sheet to help them build the right investment strategy for their business and the macro environment. We then stress test it, so portfolios are ready should the investment environment change. Further, Conning’s clients have benefited from the broadening of our investment product platform. The investment environment for insurers is becoming increasingly complex. Each insurer’s portfolio requires a specific combination of asset classes and strategies to serve their needs.

How has third-party asset management for insurers changed over the past few decades?

Changing regulatory requirements, market volatility, the evolution of monetary and fiscal policies, and most recently, the impact of inflation and rising rates all make many insurers realize that they need help managing their portfolios. Given the ever-changing environment for insurers, it’s especially critical to partner with an insurance-focused third-party asset manager. This high level of focus can tailor investment products and services to meet specific insurance client needs.

What do you foresee as the major challenges and opportunities in the U.S. insurance asset management industry in the coming years?

Insurers are telling us that inflation has been their top concern. It erodes the real value of portfolios. It affects the ability to meet future claims obligations. We believe core inflation could remain sticky. The opportunity here is for insurers to consider a range of asset classes to help offset the negative effects of inflation. Floating-rate securities like CLOs, inflation-linked investments, and other fixed-income securities can help portfolios offset the impact of inflation. While core fixed income is now providing much better investment income in this higher rate climate, insurers have become more comfortable with different

asset classes. The industry embraced a variety of asset classes to help combat the very low-yield environment from a few years ago. Even if inflation pressures subside, the broader mindset in terms of asset class diversification into alternatives and privates we think is likely here to stay. There’s also going to be continued opportunity for asset managers to serve clients with highly customized solutions. That area should remain an important differentiator.

What emerging trends or market shifts are you monitoring?

Spreads on risk assets are relatively tight, so we’re watching to see if this could actually be a spread widening catalyst should Treasury yields go lower. Some insurers are interested in locking in interest rates and possibly extending duration. Our team has helped several clients think through alternatives and trade-offs associated with duration extension. Some insurers are short liability duration and that’s been really a tactical call as well as a result of interesting floating-rate investment opportunities. Insurers need to consider extending duration in this environment and mitigating any asset liability mismatch. In addition, we watch for potential areas that could result in market shifts, such as geopolitical risks, elections, policy changes and regulation.

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AI Adoption in Insurance

Manish Khetan, President and Co-Founder of Xceedance, said that the speed at which artificial intelligence technologies have grown has allowed insurance companies to evolve faster than ever. Following are excerpts from an interview.



How do you see generative AI and solutions transforming the insurance industry in the next five years?

This technology's accessibility allows both individual and enterprise-wide adoption. Individually, AI can enhance personal productivity and risk assessment. On an enterprise level, AI will enable personalized insurance coverage, improved risk assessments, streamlined regulatory compliance, and enhanced collaboration tools. These dual pathways will dictate the evolution and implementation of generative AI in insurance.

What is the concept of prompt engineering and its significance in leveraging AI tools for insurance processes?

Prompt engineering is critical in utilizing AI effectively. Think of it as a conversation: You ask specific questions, and the AI provides answers based on its training data. The more refined the prompt, the better the response. For instance, detailed prompts can generate tailored and valuable insights rather than generic answers. In insurance, this is essential for tasks like risk assessment, where precise information is needed to make informed decisions. Effective prompt engineering maximizes the utility of AI tools in insurance processes.

What measures should insurers take to ensure security and data governance when using generative AI technologies?

Data security and governance are paramount. Insurers must prioritize data privacy, regulatory compliance (e.g., CCPA, GDPR), and managing AI bias. Incorrect or biased information can significantly impact operations. Regular audits are necessary to mitigate bias, ensuring alignment with company philosophy and data protection standards. Bias in AI responses can lead to skewed risk profiles and poor decision-making, which can have far-reaching negative consequences. Proactively addressing and auditing for bias ensures fairness and accuracy, safeguarding both business integrity and customer trust. Proper encryption and consent management are also crucial. With AI, the potential for amplified errors makes stringent data governance essential to maintaining security and compliance.

Manish Khetan

President and Co-Founder
Xceedance



“Generative AI technologies are driving both individual and enterprise-wide adoption, reshaping the insurance landscape.”

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

How should insurers approach finding the right platform or sandbox to experiment with generative AI?

Change management is crucial. Insurers must educate employees on evolving roles due to AI adoption to prevent fears of job elimination. Insurers should establish a secure sandbox environment where data remains within the infrastructure, ensuring that sensitive information is protected. User experience is another key factor; a user-friendly platform encourages adoption and reduces resistance to change. Insurers should also ensure the chosen platform can integrate seamlessly with existing systems. Defining clear objectives and success criteria is essential to measure the effectiveness of AI integration.

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with you every step of the way.



Commitment to Resiliency

Neil Sprackling, CEO Life & Health Reinsurance US, Swiss Re, said that coming out of the worst stages of the pandemic, excess mortality stood at around 4%. “That has started to trend down and we expect that to further come down in subsequent years to about 2%,” he said. The following are excerpts of an interview.

What are some key trends and innovations you and your team are focused on?

One of the key trends we see this year has been the shift in sales. We’re seeing a real uptick in sales of annuity products, which is a good thing for the industry and a good thing for the consumer, coming off the back of interest rates at very high levels. The flip side to it is we’ve seen a little bit of a flattening and almost decrease in the sales of traditional life insurance products. Another thing we’re looking at closely is mortality trends in terms of excess deaths. The third area of focus continues to be improvements in the way that we underwrite risk and, in particular, accelerated underwriting. Then the last area I would share with you is what I’ll broadly call digital distribution and product innovation for those underserved segments.

What mortality trends are relevant to the life insurers?

Through the pandemic, we saw quite high levels of excess mortality. If we look back into 2023, when you could argue we were largely coming out of the worst stages of the pandemic, we still saw that excess mortality at around 4%. It was quite elevated compared to the norm where we were at back in 2019. As we move into this year, that has started to trend down; however, even in the early months of this year, it was still trending between 2% and 3%. We expect that to come down, over the course of this year and into the subsequent years, to around 2% on average. It’s important to understand what the drivers are and some of the causes that are leading to this excess mortality.

What is Swiss Re’s value proposition in the life and health reinsurance space?

We actually have a value proposition that sits across all lines of business that we write. That’s what we call making the world more resilient. People often associate it more clearly on the property/casualty side when you see large natural catastrophic events, but we had our own situation through the pandemic with COVID. That, in a sense, for the life insurance industry and an organization like Swiss Re, is about making the world more resilient, making sure that we’re there to pay out on the promises that we made to the insurers and then, obviously, to the end consumer. From a life insurance point of view, think about us



Neil Sprackling

CEO
Life & Health Reinsurance US, Swiss Re



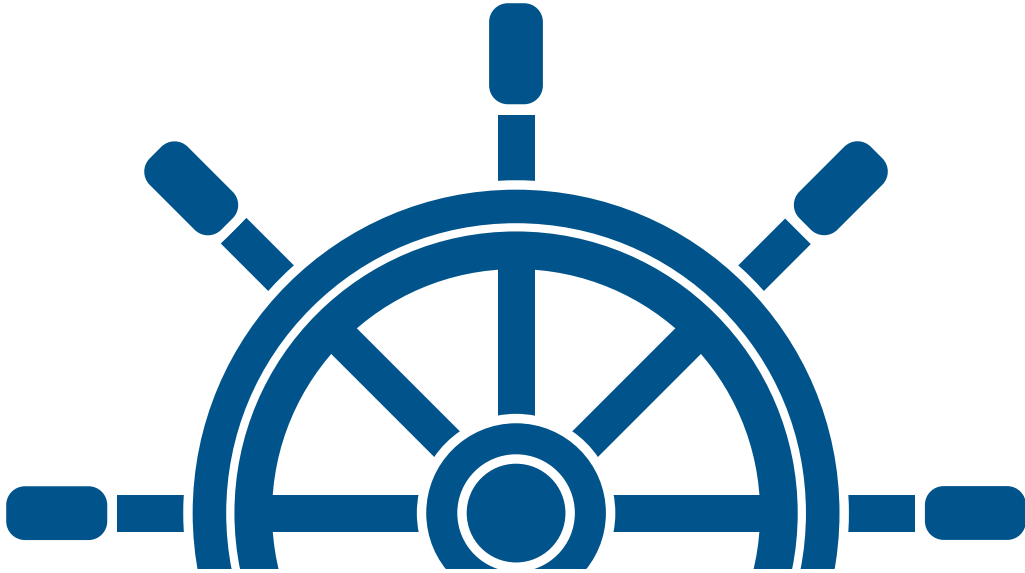
“Our focus has been in solving the protection gap for those who’ve got too little or no level of insurance cover and don’t have easy access to the products that we sell.”

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

as an extension of the life insurance companies. Our value proposition isn’t any different. We’re there to stand behind those companies and to make those commitments and pay the claims as and when they become due.

Are life insurers grappling with social inflation in the same manner as P/C insurers?

We don’t often think about social inflation in the context of life insurance, but this is something we’ve been looking at over the last six months or so. We do see an increasing trend for life insurance companies to settle cases before they actually get to the litigation point. Our data and analysis would suggest that somewhere around 55% of cases are settled where in fact there are strong grounds for denial of the actual claim. This is ultimately a function of what we would call the unpredictability of court verdicts. In that level of uncertainty, what is the better outcome? Also there’s the reduction of time and the cost of that litigation. These can be very long, drawn-out processes. It’s a trend that we see increasing.



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ERM for Mutuals

Chris Myers, Enterprise Capital Strategist at New England Asset Management, said risk-adjusted returns and benchmarks can be very effective. “We often use peer and industry analysis focusing on key risk metrics, such as value at risk, to see how a specific insurer compares to the leaders and laggards in their competitive space,” he said. Following are excerpts from an interview.



How do you approach enterprise risk management within a mutual insurer?

One of the first areas of focus from an ERM perspective is understanding the insurer’s risk appetite and risk tolerance. Many mutuals have limits or targets for specific risks, such as probable maximum loss for catastrophe risk. However, a holistic view of risk tolerance where all risks are jointly considered relative to, say, surplus or net income is less common.

Can you explain the importance of stress and scenario testing in the context of mutual insurance?

Stress and scenario testing helps facilitate an understanding of a company’s financial sensitivity to extreme events and, if necessary, employ risk management actions to control or transfer exposures that are outside of acceptable risk limits. This also supports identifying capital management strategies, including, say, reinsurance or other risk transfer mechanisms.

How do you integrate the results of stress and scenario testing into your overall ERM framework?

We use our advanced risk analytics suite and financial scenario projection engine to evaluate the potential impact of historic and hypothetical events on a current portfolio and balance sheet. Stress and scenario testing is also used to evaluate the riskiness of potential investment strategies. Understanding the consequences of being wrong is thematic in what we do. Stress testing parameter assumptions and performance expectations is also critical and can help improve both the modeling process and to help level set expectations.

How does the ERM process ensure that the interests of policyholders are safeguarded during times of financial stress?

This relates back to the foundation of any ERM framework, those being risk appetite and risk tolerance. Ideally, these risk preferences are linked to the expectation of policyholders and other stakeholders. ERM frameworks and the models within them should help reduce exposure to extreme events and

Chris Myers

Enterprise Capital Strategist
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“Period-to-period changes can be very informative for the board, showing how and why stress-testing results and risk metrics evolved over time.”

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

ought to clarify if the insurer can service claims and remain a going concern if such extreme events were to occur.

What role does regulatory compliance play in ERM and stress testing processes?

Risk-based capital ratios are one way to evaluate mutual insurers’ ability to withstand adverse financial stress, but these only provide a partial understanding of financial strength. Some mutuals must file Own Risk Solvency Assessments, or ORSAs, with state regulators. ORSAs provide a tailored perspective of the capital at risk for an insurer. Some of NEAM’s analytics, which can include results of stress and scenario testing, can be effective in articulating risk intelligence to regulators within ORSAs or other reporting requirements that they might have.

