BEST'S REVIEW®

ISSUES & ANSWERS: NONPROFITS AND RISK ANALYTICS

Experts discuss the challenges facing insuring nonprofits and how insurers can creatively use data and analytics to assess risks.

Interviewed Inside:

Paul Siragusa
Philadelphia Insurance Companies

Stephan Hochburger
Munich Reinsurance America

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Protection for Nonprofits

Paul Siragusa, vice president of underwriting for Philadelphia Insurance Companies' Human Services Division, said there's been a devaluation of money in the public eye from an insurer's perspective. "You hear more and more about billion-dollar jury verdicts when a million dollars used to be a large verdict," he said. The following are excerpts of an interview.

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What are the biggest issues facing the nonprofit insurance marketplace these days?

We're starting to see the impact of recent legislation on the availability of insurance coverage in the marketplace, specifically for abuse and molestation coverage. All of the social inflation and the media coverage of these new bills and laws that have been passed in several states have really brought abuse and molestation issues into the forefront. We're starting to see jury verdicts that are far in excess of what we used to encounter in this space. Another problem is latency of claims. By extending the statute of limitations, people who were abused can come forward as much as 40 years later in some cases. It's difficult for an insurer to defend a case for something that happened that long ago. The resulting effect in the marketplace that we're seeing is a real reduction in capacity.

Tell us more about your capacity concerns.

We're starting to see decreased capacity on the part of both primary carriers and reinsurers, in terms of high limit excess policies. PHLY is no longer offering high-limit umbrellas and instead turning a keen eye toward high-hazard exposures. We're seeing the same thing on the reinsurance side. On one-off placements, we're seeing them offer significantly less in total limits exposed on a particular risk. Carriers who used to specialize in just excess casualty have shown a decreased interest in this space.

What do you suggest for agents on how to face the current market challenges?

The biggest issue agents need to face is getting out ahead and informing their clients of the lack of availability of coverage and educating them of the nature of a hard market and the fact that prices are firming in addition to the fact that the capacity is dwindling. The greatest source of friction that we see between agents and their clients is that they weren't properly prepared for the news. It wasn't the fact that their premiums went up or that their limits decreased. The other issue I would say that's important is to start discussing with clients that their insurance program may very well change in the coming years. They may need to talk to them about maintaining less in terms of excess limits.

Paul Siragusa

Vice President of Underwriting

Philadelphia Insurance Companies' Human Services Division

"PHLY's risk management is amongst the best in the industry with the resources available to help our clients assess their enterprise risk management programs."

Go to the Issues & Answers section at *bestreview.com* to watch an interview with Paul Siragusa.

What is PHLY doing to help address the market challenges?

PHLY is one of the top five players in this human services insurance space. Last year, we finished out the year with $1.1 billion in written premium for just our human services products. We're looking to grow that segment in the coming years. The way that we plan to do it, however, is to judiciously apply the limits that we have available to us and to really scrutinize the particular exposures on a given risk. As we move forward, we'll be looking much more closely at difficult legal jurisdictions, along with the types of programs that our insureds provide, whether that's foster care and adoption type programs or child residential facilities. All of that will factor into the availability of limits and the pricing that goes along with that. We currently have some of the best coverage forms in the industry to address these liability concerns.

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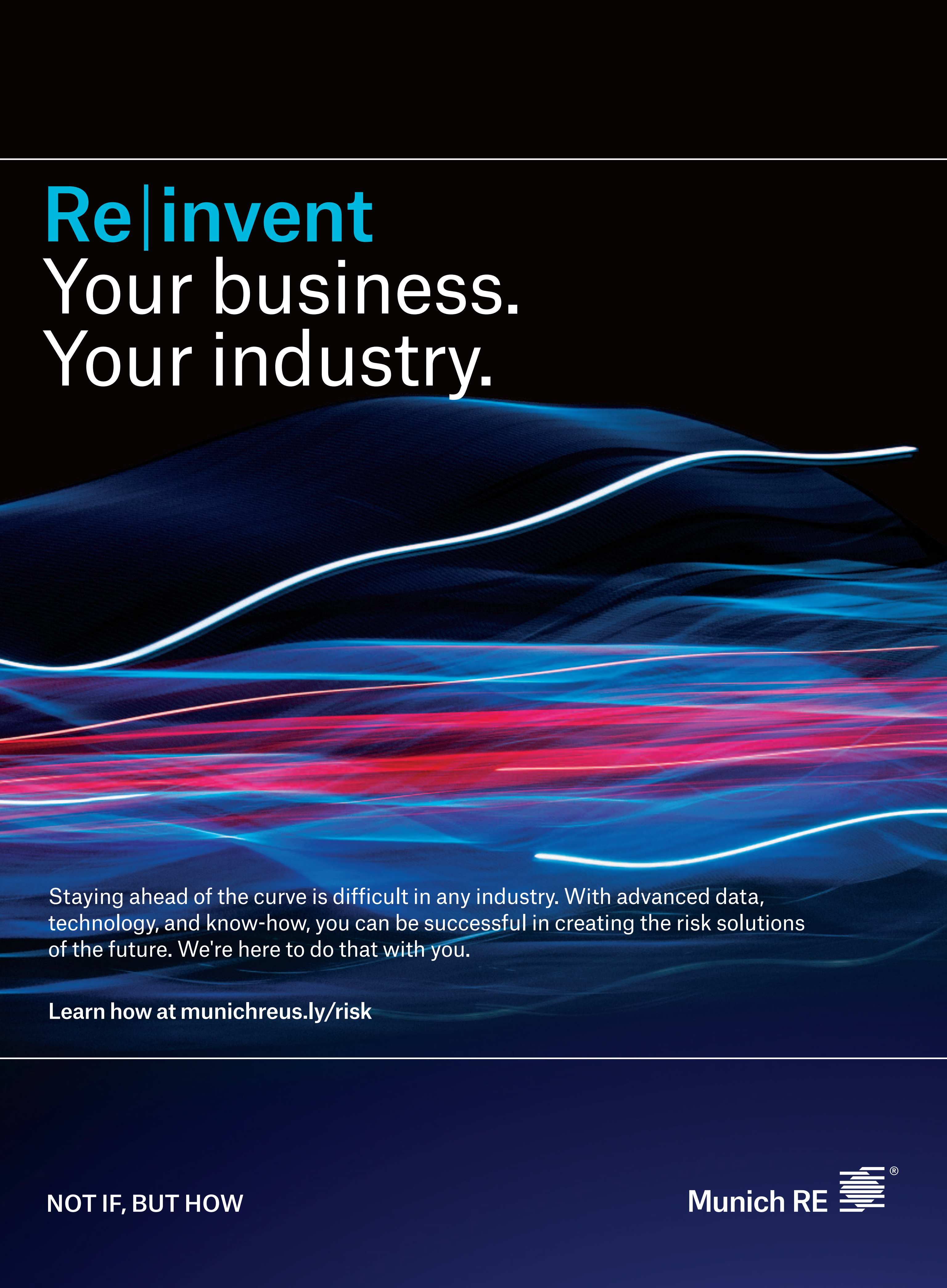
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Data Analytics Reimagined

Stephan Hochburger, client executive and senior vice president for Munich Reinsurance America, said there has been a tremendous evolution in data and analytics over the past five years. "Sophisticated carriers have caught on and are just now cracking the nut in how they can creatively use data and analytics to make better informed decisions when it comes to risk assessment and placement," he said. The following are excerpts of that interview.

Stephan Hochburger
Client Executive and Senior Vice President
Munich Reinsurance America

"[Risk analytics] is going to allow us to identify trends faster, and not just on the underwriting side, but also on the claims handling side."

Go to the Issues & Answers section at *bestreview.com* to watch an interview with Stephan Hochburger.

When it comes to evaluating risk, how are data and analytics being used today?

They're used in various ways helping us in risk assessment. They help us in rating and pricing of risks. They supplement and complement both internal data as well as outside data from traditional insurance questionnaires. In extreme cases they're actually at the point now where data and analytics can, in some cases, take the place of the manual underwriting process. For some lines of business data, analytics, and feeding artificial intelligence can select risk and price risk.

What do you see as the biggest challenges in risk analytics?

It's the data quality. As the saying goes: It's garbage in, garbage out. Testing the data that you collect before you actually implement it in any kind of decision-making process is an extremely important step. Otherwise you run the risk of using data to make incorrect selections, and that can have a very bad outcome, and can be a very costly outcome. The second challenge is how to creatively use your own data. All insurance carriers have tremendous amounts of data, but the way the data is organized has to be adjusted to be suitable for data analytics and to give us broader answers.

How do you see risk analytics changing in the future?

It's going to get better. I think it's going to become an even more important part of our industry with every day that goes by. It's going to allow us to identify trends faster and not just on the underwriting side, but also on the claims handling side. Data analytics can help us here.

How do you see analytics being used for better risk assessment?

It's the combination of available internal data, using it creatively and then looking at it differently. Then supplement it with regularly available outside data. There are areas that are more suitable than others at this point. Personal lines would be one as it is more than half of the property and casualty industry and it's more than half of the premiums written. That's a tremendous opportunity for a quick start. Small commercial is obviously also quite attractive, low-hanging fruit for creatively using data and analytics. Munich Re is working with our clients to help them better be prepared to use both proprietary and third-party data to analyze and predict risk. Ultimately, the goal is to help them price, underwrite, and process claims more efficiently and effectively for their customers.

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