BEST'S REVIEW®

ISSUES & ANSWERS: NEW TRENDS IN SPECIALTY COVERAGE

Industry experts discuss new opportunities and emerging risks in the marketplace.

Interviewed Inside:

Michael Flood
Philadelphia Insurance Cos.

Noelle Collado
Nationwide

Davis Moore
WSIA, Amwins

Dixon Gillis
A-G Administrators

Gordon Browne
AIG

Chris Sparro
Sompo International

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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.

Playing It Safe

Michael Flood, Vice President of the Accident & Health division at Philadelphia Insurance Cos., said he is seeing a lot of families with private health care plans that have large family deductibles sometimes upward of $5,000. "Our claim frequency for smaller claims that fill in these high family deductibles is on the rise," he said. Following are excerpts of an interview.

PHILADELPHIA INSURANCE COMPANIES

A Member of the Tokio Marine Group

Michael Flood

Vice President of the Accident & Health division
Philadelphia Insurance Cos.

"PHLY delivers a seamless approach to underwriting both general liability and accident insurance."

Go to the Issues & Answers section at *www.bestreview.com* to watch an interview with Michael Flood.

What types of organizations should consider participant accident insurance?

Just about any type of organization that sponsors an activity for its members or participants, so long as it's not an employee/employer type of operation. Examples include special events, volunteer groups, child and preschool operations, and amateur sports teams and leagues.

With uncertainty surrounding the return of many in-person activities, is participant accident insurance still beneficial?

It is. Medical professionals have a much better understanding of how to treat COVID, and vaccination rates are on the rise. This is helping the country to open up, and we're definitely seeing more in-person activities. At the same time, we're going to continue to see virtual events take place for quite some time. PHLY is in a position to provide underwriting solutions for both in-person and virtual activities.

What should agents look for in a carrier offering participant accident insurance?

The first is very quick quote turnaround time. The second is a willingness for underwriters to get on the phone with agents and walk through the coverage and terms of the policy. The third is a seamless approach to underwriting both the general liability and the accident insurance. We deliver in all three of these areas in ways that I don't think our competitors do as well as PHLY. A simple example is when we underwrite both the general liability and the accident insurance, we can issue one direct bill invoice to an agent's customer. It has a line item for the charge for the liability insurance and the accident insurance. It also gives the customer the ability to make payment on their premium for both lines of coverage in the same manner. For example, if we have a premium payment plan of 25% down and five consecutive monthly installment payments, that customer will make the premium payment on both the accident and GL coverages at the same time.

What are some of the nuances of PHLY's participant accident insurance that are important to understand?

We frequently receive questions from agents about some nuances that are unique to accident policies. The first is full excess coverage. It's a provision in the policy that means that the accident insurance coverage will be secondary to a member's own health care plan. This is often misunderstood in terms of how this process will work when we're filing a claim. There's two scenarios that arise. The first scenario is if the participant or member has no health care coverage or if they're covered under Medicaid, then our accident insurance plan must drop down and become the primary coverage. Alternatively, if the claimant has their own private health insurance coverage, our accident plan can reimburse the claimant for medical expenses not payable by their private health care plan. Good examples of that are deductibles, coinsurance, and copays. Another provision that we frequently get questions on is the benefit period. A benefit period is a unique term with accident policies. It does not mean the policy term. What it means is it's the time frame that a claimant can incur eligible medical expenses. That time frame starts with the date of the accident.

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Getting With the Programs

Noelle Collado, Vice President, E&S/Specialty Programs, Nationwide, said consolidation is driving opportunity in the program space despite a more than yearlong pandemic. "Technology is often a key differentiator when seeking best in class program managers," she said. Following are excerpts of an interview.

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- Fourth-largest domestic specialty (Excess & Surplus) commercial lines insurer

Noelle Collado

Vice President
E&S/Specialty Programs, Nationwide

"We continue to see many insurtech opportunities and anticipate they will be a growing segment of our portfolio."

What sort of M&A activity are you seeing in the program space?

Large brokerage firms acquiring smaller brokers and program managers continue to be a trend in the program space. We are seeing large wholesale brokers looking to diversify revenue streams by investing more heavily in program business. Many segments of program business have been fragmented and in need of consolidation. Brokers recognize that these acquisitions will allow them to scale more quickly and more efficiently. If they leverage their distribution and technology, they can aggregate and monitor the business holistically.

Is consolidation leading to opportunity?

M&A in the insurance industry continues to thrive, even after a slight pandemic slowdown. We are certainly seeing program opportunities because of the continued M&A activity. Consolidation causes disruption which puts more programs into the market. As carriers merge you may find overlap within the combined portfolios or you may find that the acquiring company does not have an appetite for program business or a particular line of business. Additionally, M&A is also creating the opportunity for underwriters who do not want to join the merged entity to become displaced and seek out alternative options such as starting an MGA or joining an existing MGA.

How much is technology and insurtech impacting programs?

When considering partnerships with new program managers we prefer partners who have a competitive advantage. Technology is oftentimes a key differentiator identified in the due diligence process when seeking best in class program managers. That technology could be a customer facing platform, a digital footprint that attracts a certain customer base, or real-time data that improves pricing. More startup MGAs today are changing the way we do business and that's where insurtech comes in. Insurtechs are another way to meet new or developing customer needs. Insurtechs are not only on the forefront of emerging risks, they also are providing traditional products in a differentiated way; whether that's how they assess risk, package products, or access customers.

What are some of the emerging risks that are catching your eye?

Emerging risks that are of interest to us are ones that have high growth potential. We are already thinking about the aging population and how technology is changing in response to this issue. An example would be telemedicine and developing a product around the platforms that support telemedicine visits. Responding to climate change through both traditional and supplemental products is also an area catching our eye. We started building products in the intellectual property space and will continue to pursue this segment. We continue to discuss evolving ways to manage cyberrisks, insure A.I. and develop products around social responsibility/ESG.

New Trends in Specialty Coverage

Davis Moore, WSIA President and Vice Chairman Brokerage, Amwins, said recently released statistics demonstrate the financial strength and operating performance of the wholesale market. "Looking ahead, key drivers of growth will be the strong economy, increased demand for solutions to emerging risks, and continued product innovation," he said. Following are excerpts of an interview.

- A nonprofit association of insurance professionals and specialty market leaders dedicated to the wholesale distribution system.
- Serves nearly 700 member firms representing approximately 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.

Davis Moore
President, WSIA
Vice Chairman Brokerage, Amwins

"A report from the 15 states with surplus lines stamping offices indicates that premium is continuing to grow, an increase of 15.1% over the prior year during the first quarter of 2021."

What is WSIA and who are its members?

The Wholesale & Specialty Insurance Association, WSIA, is a trade association that serves the entirety of the wholesale, specialty and surplus lines insurance industry. WSIA's members are domestic and international wholesalers, wholesale-dedicated insurance markets and service provider members comprising the U.S. wholesale insurance distribution system.

The wholesale distribution system delivers tremendous value to retail agents and insurance consumers. WSIA members specialize in hard-to-place, complex, unique or high-capacity risks. Surplus lines insurers are able to cover unique and hard-to-place risks because, as nonadmitted insurers, they can react to market changes and accommodate the unique needs of insureds. This results in cost-effective solutions for consumers that are not "one size fits all," but are skillfully tailored to meet specific needs.

During a time of rapidly evolving risks, what trends are surplus lines insurers seeing?

The E&S segment continually innovates and develops new solutions, and emerging risks are an area where the industry excels. While cyber is not a new risk, we have seen that its form and impacts are changing and expanding, and it's an area where insureds need true expertise. We are also seeing construction on the rise, and the energy sector is in a strong rebound, so both are rising needs. It is important for agents and insureds to remember there is never a cost associated with seeking a wholesale quote, so it's risk free. A 2016 Conning Inc. analysis concluded that wholesale distribution does not increase the cost of the transaction to the insured, which makes consulting a wholesale expert a common-sense approach for insurance buyers, particularly in emerging risks.

How is the financial stability of the wholesale market?

The market is at a record level of surplus lines premium, and surplus lines carriers continue to maintain a higher proportion of secure financial ratings than the overall property/casualty market. AM Best's 2020 Special Report, U.S. Surplus Lines – Segment Review, found growth of 12.8% in surplus lines direct written premium in 2019, with surplus lines premium totaling a record $56.3 billion and no financial impairments in the surplus lines segment during 2019, in contrast to 13 admitted property/casualty company impairments during the year.

Closing the Coverage Gap

Dixon Gillis, CEO of A-G Administrators, said finding the right solution for that first-dollar medical payment for brokers and agents can help deliver a higher level of excellent service to their clients. Following are excerpts of an interview.

- Founded in 1983
- Committed to personal service
- A leader in special risk and accident insurance

Dixon Gillis
CEO
A-G Administrators

"We're committed to providing the most value to agents and brokers in delivering high-quality programs to their clients."

Go to the Issues & Answers section at *www.bestreview.com* to watch an interview with Dixon Gillis.

Is there a coverage gap issue when it comes to accident and health coverage?

There is a coverage gap. First, and foremost, with the Affordable Care Act, we know that consumer driven health care plans have created more exposure of first-dollar costs for claimants for slip and fall and accident coverage than it had before. There's a very big exposure for brokers and agents to potentially have liability claims hit their books prematurely. We feel a well-designed and customized accident solution at the forefront of a GL program can help reduce those gaps. Traditionally, many GL programs have exclusions that could be applicable to very frequent scenarios, such as athletic related injuries.

Has the pandemic contributed to that coverage gap?

The pandemic has contributed to this coverage gap; the overall record high unemployment rates have contributed more financial exposures to our programs. For example, a student or student-athlete attending school might not have the same coverage in place that they had before, and this could put an unnecessary financial exposure on the secondary program of an institution or the GL program of an institution. It's always important for the agents and brokers to make sure that they have coverage from first dollar appropriately secured, which is what we do here at A-G Administrators.

What should agents and brokers know about the coverage gap?

There are customized solutions that can fit into many GL programs; these solutions provide first-dollar coverage which helps manage the costs of those claims. By being proactive, agents and brokers can partner with A-G on a customized solution that will help preserve the long-term financial sustainability of their clients.

What ultimately needs to be done to close the gap?

Agents and brokers should definitely make sure they have a fully customizable accident medical program in place that complements their client's GL program. This solution will help reduce a lot of the upfront costs that their clients may be facing right now.

Specialty Leader

As Head of North America Specialty and Global Head of Energy and Construction for AIG, Gordon Browne leads the company's Specialty franchise in the U.S., Canada and Bermuda. This includes Energy, Marine, Aerospace and Credit Lines. Gordon also oversees the company's Energy and Construction Property practices, globally. "It's an exciting time to be a partner of AIG," Gordon says. "We have strong economics that position us well to be the sustainable solution-provider our clients and brokers need as the risk landscape evolves." Following are excerpts of an interview with Mr. Browne.

Gordon Browne
Head of North America Specialty, Global Head of Energy & Construction
American International Group

"Our goal is to bring the consistency, simplicity, solution-oriented mindset and technical underwriting acumen clients and their brokers need when navigating the evolving risk landscape."

What are some emerging risks or trends that clients should be concerned about?

There are a number of topics clients should have top of mind when formulating their risk management strategies and insurance programs. For starters, we have increasing complexity around insurable risk. By this I mean the potential impacts of: Environmental, Social and Governance (ESG) considerations, climate change and the higher propensity for natural catastrophes, as well as the rise of the activist investor and shareholder activism. Our clients' supply chains are becoming ever more complex, complicated by the continuing global pandemic and geopolitical instability. Macroeconomic factors are also at play such as the increase in inflationary pressures driven in part by the current degree of global financial stimuli. This is all happening at the same time of rapid technological advancements and digitalization bringing with it heightened cyber security risks.

North America Specialty includes a diverse set of business lines. Why bring them together under the Specialty umbrella?

Energy, Marine, Aerospace, and Credit Lines tend to be complex classes of business that by their very nature are accessed and distributed globally. Our goal is to bring the consistency, simplicity, solution-oriented mindset and technical underwriting acumen clients and their brokers need when navigating the evolving risk landscape. This starts at the beginning of our relationship with our brokers by clearly articulating our risk appetite and continues on with our clients, whether it's building out a compliant multinational program structure, proactively addressing potential claim exposures by suggesting proven risk engineering practices, efficiently handling a claim or sharing insights otherwise not available through our data and analytical capabilities. A great example of this coming together is how we can support our clients in developing alternative risk solutions, either from the fronting or captive management perspective, which is becoming an ever-important characteristic of risk management.

Can you speak to the broader commitment AIG is making across Specialty to help clients and broker partners address these evolving risks?

Given the importance of an underwriter's technical expertise when working through such complex risks, we're investing in our people. We've attracted and have retained some of the industry's leading talent. Our 600+ Specialty Underwriters are locally available on a global scale with over 200 underwriters based here in North America. In addition to our people, we're also investing in technology so we can continue to use data and analytics to further improve the deep technical capability of our underwriters. To learn more, visit *www.aig.com/whyaig*.

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Winds of Change

Chris Sparro, CEO U.S. Insurance, Sompo International, shared we are going to see more emerging risks as the world becomes more connected. "There will be more emerging, global, systemic risks, and it will be interesting to see how political administrations and economies respond to them as we move forward," he said. Following are excerpts of an interview.

SOMPO INTERNATIONAL

Promise. Trust. Protect.
At the center of everything we do.

Chris Sparro
CEO U.S. Insurance
Sompo International

"Dislocation is providing Sompo International with opportunities to invest and grow our diversified book of business."

Go to the Issues & Answers section at *www.bestreview.com* to watch an interview with Chris Sparro.

How has specialty coverage evolved over the past 18 months?

The specialty market and product areas continue to evolve as the result of a variety of things, some of which are directly related to the pandemic. But more importantly is also related to the fact that over the past 10 to 15 years we experienced a softening marketplace and as the impact of the marketplace continued to soften, particularly around our long-tail lines of business, a lot of carriers began to shift from more traditional property and casualty products into more of the specialty products. Over the past 18 months, insurance carriers in a hardening market were looking to grow a diversified portfolio, moved away from some of the more typical property/casualty risks associated with natural catastrophe events and shifted their focus to specialty markets and products.

What do you see as possible emerging risks?

One emerging risk is the transition back into the new normal for society. What will that new economic normal look like? In the U.S., some of the efforts and programs coming out of the new administration under President Biden with respect to government programs, expansion of infrastructure and climate change policy, will generate new risks. From an insurance perspective, as activity starts to increase within these areas, there will be legislative, regulatory and legal implications that could create emerging risk that carriers will have to take a long, hard look at and evaluate.

Are you seeing opportunity amid these market conditions?

Like most carriers, we are seeing many opportunities. What's unique about the marketplace right now is the current trends and very firm market allow us to implement an underwriting strategy that will be successful for years to come. As carriers implement that new strategy, that creates market dislocation, providing opportunity for companies to execute their plan.

What should we expect out of specialty as we emerge from the pandemic?

As mentioned above, there will be a greater shift toward specialty products as we move forward. Specialty products are generally the first wave of product coverages that evolve out of new, emerging risks. They typically are introduced in nonstandard markets and they tend to be more short tail in nature at inception, so it's an easy entry for those who are willing to assume the underwriting risk with that said risk. Depending on appetite, the opportunity to introduce new products and build new relationships is clearly possible within the specialty market segment. As we've seen over the past 20 years, through major changes in world events, the specialty market space has continued to change and grow at a faster rate than the traditional retail marketplace. There is opportunity for carriers to continue to distinguish themselves, as well as distribution partners in many ways, to bring the solutions to the needs of the customers that are looking for ways to mitigate risk.

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