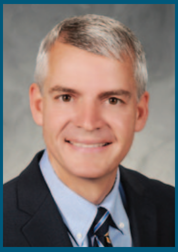
BEST'S REVIEW®

ISSUES & ANSWERS:

MUTUAL SUCCESS

Insurers and reinsurers examine the advantages and challenges of mutual insurance operations and how these companies are finding new and innovative ways to serve policyholders. Also, a look at the excess & surplus lines insurance market.

Interviewed Inside:



Brady Kelley
WSIA

Joe Stuhl
Munich Re

Tricia Loney
Nationwide

John Smith
PLM

Lindsey DiGangi
PLM

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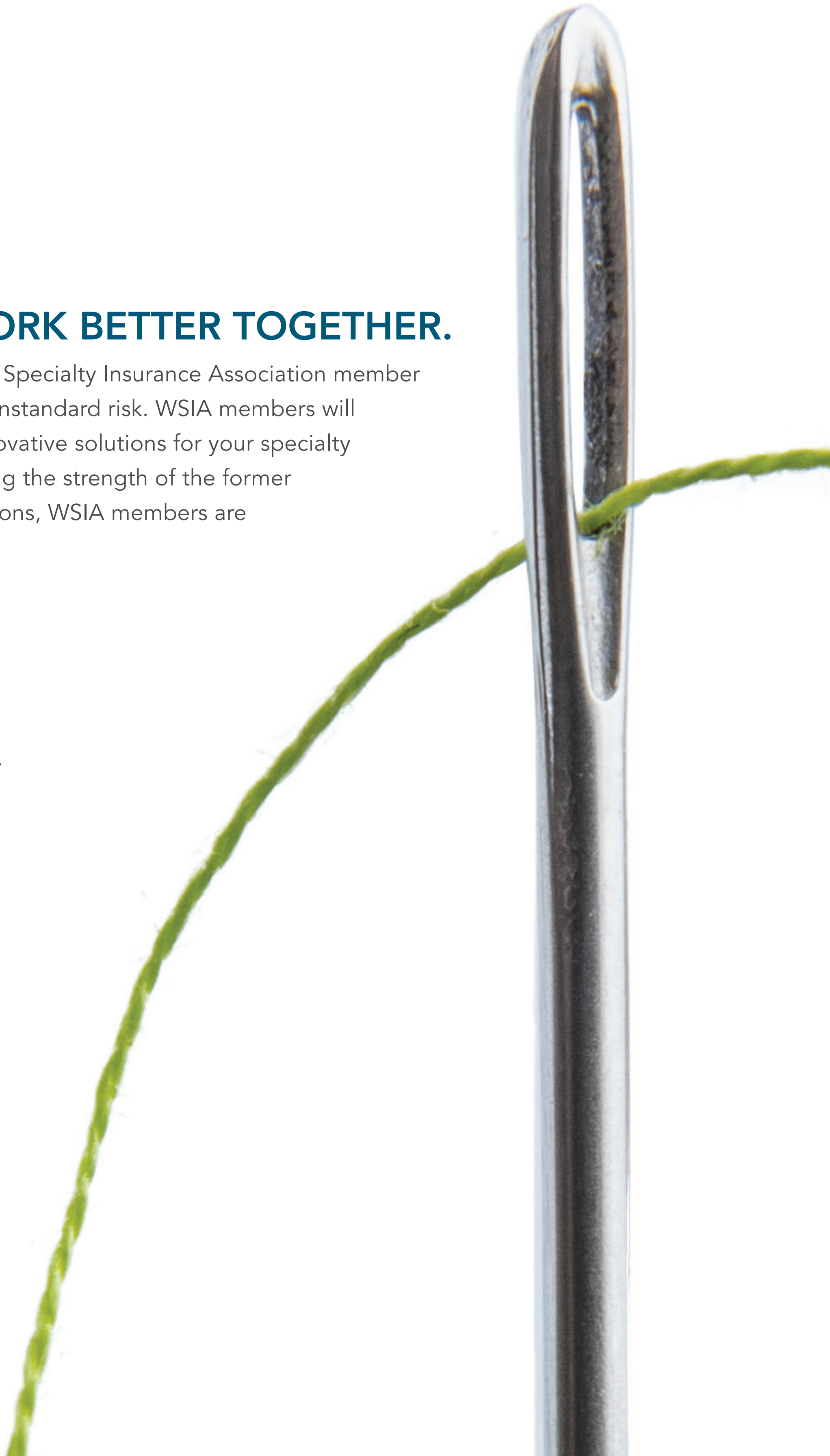
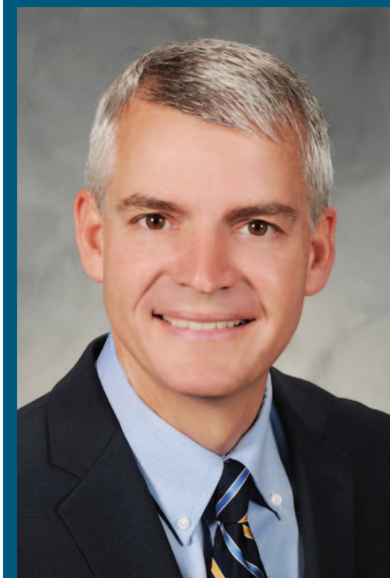


Excess & Surplus Value

Brady Kelley, WSIA executive director, said the excess and surplus lines insurance market was in a relatively strong position entering into this year. "That helped well-position members to manage through the pandemic and continue to serve clients as seamlessly as possible," he said. The following are excerpts of an interview.

Brady Kelley
Executive Director
WSIA



"Our Annual Marketplace facilitates network-focused meeting time for professional and financial lines specialists and their wholesale-dedicated trading partners."

How is WSIA serving the needs of professional and financial lines specialists?

WSIA is the only trade association that serves the entirety of the wholesale, specialty and surplus lines insurance industry, with domestic and international wholesalers, wholesale-dedicated insurance markets and service-provider members comprising the U.S. wholesale insurance distribution system. We recognize the growing need for networking-focused events for our professional and financial lines brokers and underwriters who are dedicated to wholesale distribution. Our Annual Marketplace meeting last year highlighted those attendees with a discounted first-time attendee rate, a special networking reception and the opportunity for them to proactively schedule networking and business meetings during the week with other attendees.

What is WSIA's position on potential liability arising from COVID-19 claims?

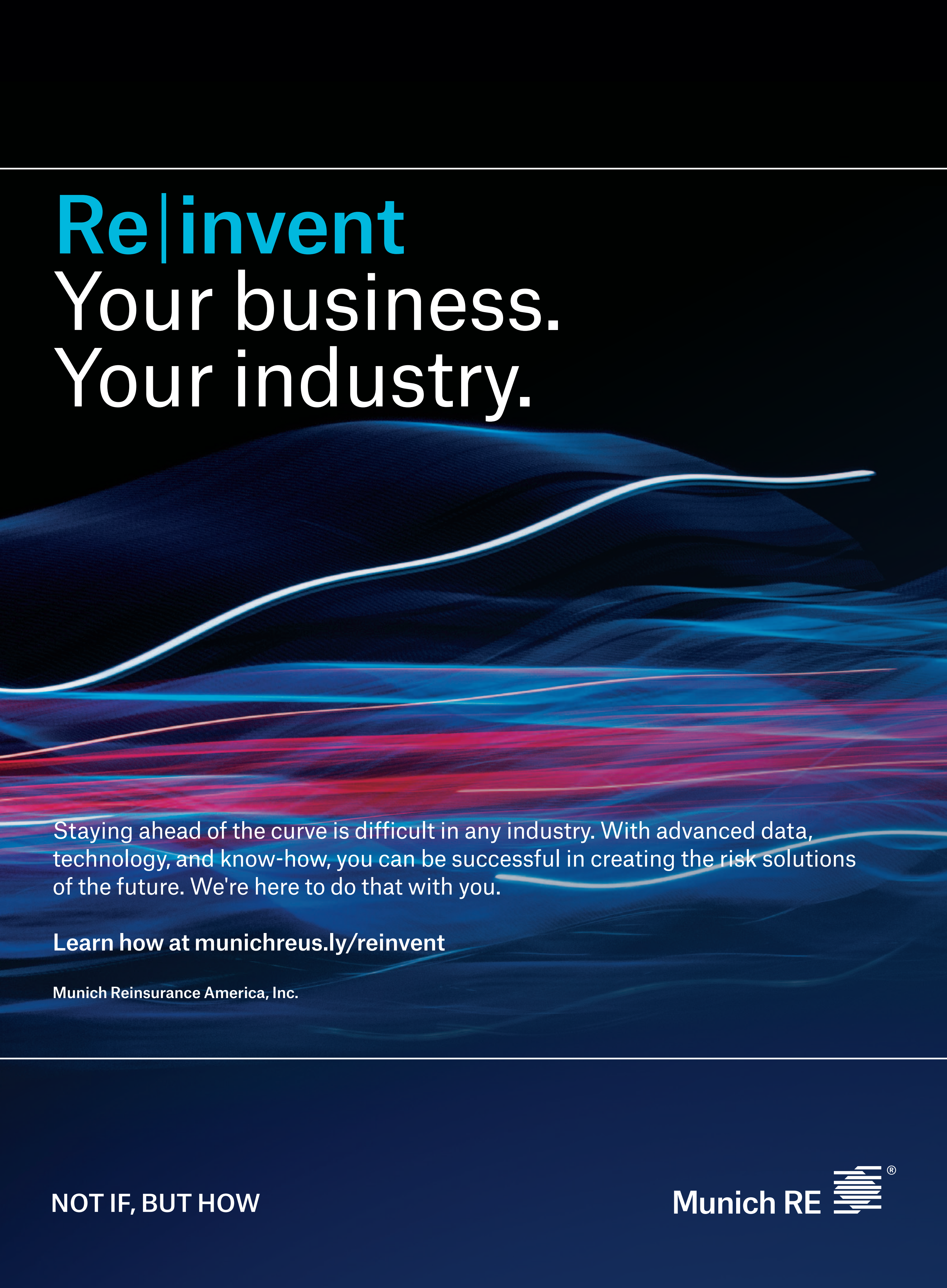
WSIA supports temporary, targeted, and timely COVID-19-related liability relief legislation to safeguard business and the U.S. economy from unfair lawsuits that could impede an effective recovery from the pandemic. We, and more than 500 other organizations with broad-based interests, have worked with the U.S. Chamber of Commerce to advocate for temporary liability protections for business and institutions that work to follow applicable public health guidelines against COVID-19 exposure claims; healthcare workers providing COVID-19-related services; manufacturers and distributors of medical devices and therapeutics related to COVID-19 response; and public companies targeted by opportunistic COVID-19-related securities lawsuits.

Sen. John Cornyn (D-Texas), has introduced the "SAFE TO WORK Act," which would help ensure COVID-19 liability reform for these frontline workers and small businesses who follow public health guidelines, and we are hopeful that it will gain the needed support to protect them from undue litigation.

How are WSIA members delivering value to their clients through the disruption of the pandemic?

The COVID-19 pandemic has dealt significant disruption for the global economy, and this industry has certainly not been spared. WSIA members have experienced operational impacts of remote work and the need to quickly adapt through this evolving situation, but the wholesale, specialty and surplus lines industry has a successful track record in navigating through catastrophic situations like this. As key players in the wholesale distribution system, WSIA members excel at creating customized responses in unique, and often challenging, times.

Strategic communication is also absolutely imperative right now. The impacts of the pandemic on insureds and the business operations of industry partners have varied widely. Some industry stakeholders have been able to maintain business essentially as usual, while others are in much more challenging circumstances, so our members have communicated openly with their partners in order to clearly understand each situation.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Trusted Partnerships

Joe Stuhl, senior vice president, broker executive for Munich Re US, said it's important to understand the client's needs, ambitions and business strategy. "Trust is the foundation for any business or personal relationship and our clients know Munich Re has the credibility to bring the solutions they need," he said. The following are excerpts of a recent interview.

Munich RE

Joe Stuhl
Senior Vice President, Broker Executive
Munich Re US

"People want to talk to reinsurers like Munich Re to find out how we can help them manage through the crisis that is this global pandemic."

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

What should brokers look for in a reinsurance partner to help insurers grow their business?

It comes down to four key areas—communications, partnership, innovation and claims management. As far as communication, it's more important than ever that we have an open dialogue with our broker partners and clients. We found that especially for us, as we evolve from a direct reinsurer to more of a broker market reinsurer, it was really important to build trust with our broker partners. Another part is being innovative or solution-oriented. The client is looking to us to be a trusted adviser on a whole range of issues, from capital management to geographic expansion to analytics. Finally, brokers should look for a partner that is reliable and fair when it comes to claims payment.

What should insurance companies expect from their reinsurance partners to help them mitigate and manage emerging risks?

The broker is looking for a risk expert, someone that can help insure and manage these emerging risks. A lot of times, the number one question a broker is being asked by the client is, "How can you help us grow our business?" Usually that involves getting into a new area where there is emerging risk. The insurer may not have the comfort level or the expertise to either underwrite the risk or manage the claims. That's where a reinsurer like Munich Re can come in and provide the expertise, help them with forms, help them with pricing, help them with analytics, and then back it up on the claims side. Also, we hear from clients seeking to manage climate change. A company like Munich Re that spends a lot of time with our scientists on understanding the impact of climate change is a great value to brokers.

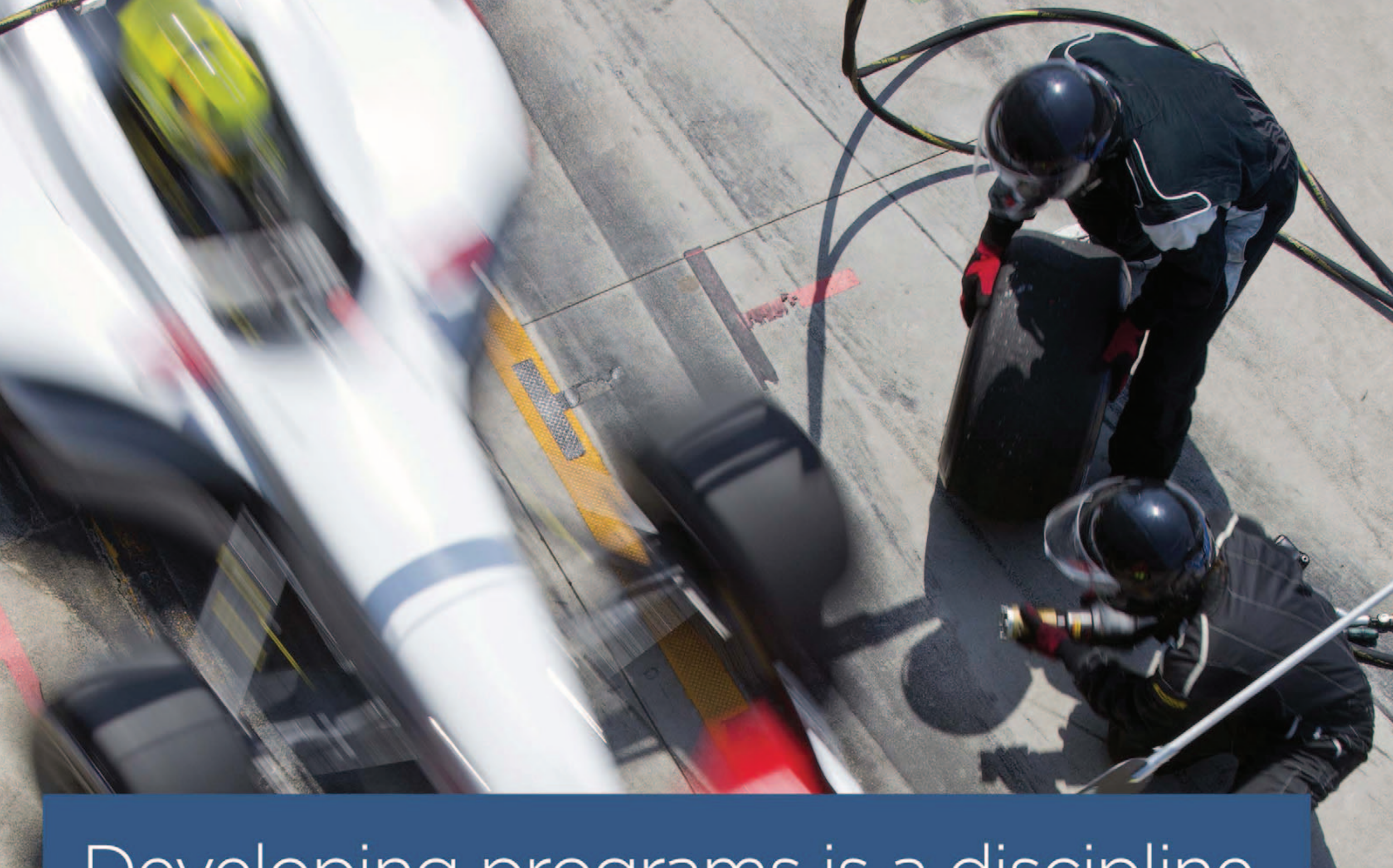
What are some tools that brokers should expect from their reinsurers that will enable them to offer innovative solutions to their insurance clients?

One of our most innovative tools is called NATHAN. It helps a client by providing spatial technology to identify risk and exposures worldwide, because we have a global database. Wildfire is another area that is an emerging exposure, especially for West Coast clients. It's very difficult to model, so we're working hard to develop some scoring strategies using data, and applying a scientific method to help clients understand their exposures and manage their portfolio.

As for clients who are trying to get into different classes of business, we've developed a lot of white label products for exposures such as inland flood.

Cyber is another emerging risk that's on a lot of folks' minds. Especially in this remote work environment, their clients are asking them about it. We have developed solutions that allow them to keep their customers from going to another competitor to look for a solution.

As we address these emerging issues, there's a lot of hard work and dedication put into solving clients' problems and providing solutions.



Room for Growth

Tricia Loney, senior director, P&C Programs, Nationwide E&S/Specialty said that while mutual success can happen quickly, it involves a long-term partnership. "It's about taking on the challenges of each other to find a solution and building a level of trust that neither party feels like they could replicate with anyone else," she said. Following are excerpts of an interview.

Nationwide®

- Fortune 100 company
- AM Best Rated A+ (Superior) FSC XV
- Third-largest domestic specialty (Excess and Surplus) commercial lines insurer

Tricia Loney
Senior Director, P&C Programs
Nationwide E&S/Specialty

"With the property market hardening, we are seeing more property opportunities than we might have in the past."

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

How do you define mutual success between a program manager and a carrier?

Mutual success between a program manager and carrier is one of the components of a true partnership. You want that success for your program manager as much as they want it for you. That is the goal with all of our program manager relationships. It's about hitting your objective goals, but it reaches well beyond that. It's about each party bringing their own expertise to create value and delivering an outcome that neither one could probably deliver on their own.

What trends have you seen regarding new program opportunities?

We're noticing the emergence of unique coverages and structures along with more risk-sharing. All of this is a positive trend for us since we are always looking for opportunities that are unique and different. For example, we just launched a program for rent default coverage, and our professional programs area just launched a program for collateral protection insurance. While these aren't never-before-seen products in the industry, they are certainly unique compared to your traditional P&C and Management Liability products.

Nationwide writes over $1.3 billion in programs business. What makes Nationwide such an appealing market for programs?

We understand the program manager model, the challenges they face, and how to complement what they do through all cycles of the program. Between our Management Liability and P&C lines, we have a very broad appetite that can fit almost any opportunity. We also are investing in new technology that will give our program managers better data to measure performance and add efficiency to their processes. We have an experienced group of people, which is recognized immediately by our program managers and brokers that are sending us new opportunities. Most importantly, Nationwide's financial strength and A+ paper sets us apart from much of the competition and gives our program managers the stability of knowing they will have a long-term partnership with Nationwide.

As the programs market continues to grow, what's Nationwide doing to capitalize on that growth?

It's actually amazing how much the program market has grown. According to the Target Markets Program Administrators Association, program business produces over $40.5 billion in premium annually. Nationwide's $1.3 billion seems like a large number, but if we think about it against total market share, really, it's still quite a bit of room for growth, so it is very important to see what opportunities are on the horizon. No doubt with the pandemic, we will see an emergence of new programs or products. We want to make sure we explore that, and are ready and have the right internal and external partners to pursue that type of business if it makes sense.

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STURDY AS THE OAK

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Knock on Wood

John Smith, president and CEO of Pennsylvania Lumbermens Mutual Insurance Company, and Lindsey DiGangi, corporate marketing manager for Pennsylvania Lumbermens Mutual Insurance Company sat down with *Best's Review* to discuss the COVID-19 pandemic, how it's affecting the insurance industry and what the future looks like. The following are excerpts of an interview.

John Smith
President and CEO
PLM

Lindsey DiGangi
Corporate Marketing Manager
PLM

Go to the Issues & Answers section at ***bestreview.com*** to watch an interview with John Smith and Lindsey DiGangi.

How has the pandemic impacted mutuals?

Smith: Businesswise, I'm not sure mutuals have been impacted any differently than stock companies. We're all seeking production, we all have losses, expenses, and it's probably not that much different between the two types of organizations. Where you are likely to see the difference is in how mutuals reacted internally. Mutuals tend to be a little more family-oriented and perhaps have closer relationships with their customers. It puts us in a more unique position than a stock insurance company. When the coronavirus broke, we made clear to our employees that our number one concern was their safety, and taking that stance I believe has paid off as we have been COVID-free from day one.

How has the pandemic impacted the wood industry?

DiGangi: For the most part, the wood industry has really fared well throughout the pandemic. With so many people at home more often, there's been more time to spend on household projects. We're seeing that a lot of our insureds experience actual growth during this period. We're also seeing that the sawmills and pallet mills as well as heavy manufacturing are still operating as well. We've had about 85% to 90% of our insureds deemed essential. For the most part, things are going well in the wood industry.

Has the pandemic offered an opportunity for mutuals to shine?

DiGangi: Any crisis offers any company the opportunity to shine, but mutuals are really poised to take advantage of that opportunity, with our focus solely on our insureds. For a lot of mutuals being focused in niche areas like we are, we really have a good understanding about how our insureds are doing. We're in tune with the industry, the industries that we serve. I think that gives us the ability to offer more flexibility in the way we work with our insureds as mutuals in general, and it gives us the opportunity to be close to them, and to hear them, and respond to them.

Where do you see the market headed in 2021?

Smith: On one hand, there are a lot of uncertainties with things such as COVID-related claims, the upcoming election and pandemic issues that are floating that are not claims-related. On the other hand, there's also a great deal of certainty. We know commercial auto will continue to be a problem. We know that the reinsurance industry has started applying COVID exclusions, pricing on reinsurance programs has gone up about 10% in the property to catastrophe area, and that many companies are struggling for cash flow. I think many companies are coming to understand that the fixed-income portfolios are going to have muted returns for a long time. As such, that would tell me that pricing will continue to be harder as opposed to softer. I think the only wildcard there is that it'll be interesting to see as we get into the fourth quarter, whether companies start chasing premium to make premium plans. Otherwise, I don't see any softening coming into market in the short term.