

BEST'S REVIEW® ISSUES & ANSWERS:

- Specialty Coverage
- ESG

Experts discuss how specialty lines insurers cover unique, high risks not accommodated in the standard markets. Also, there's a look at how ESG scores are being incorporated into rating and underwriting decisions.

Interviewed Inside:



Mike Cundiff
Philadelphia Insurance
Cos.



David Nelson
Nationwide



Brady Kelley
WSIA



Rick Grimes
One80 Intermediaries



Seth Rachlin
Capgemini

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The Bonds That Tie

Mike Cundiff, SVP, Surety, Philadelphia Insurance Cos., said that PHLI is a full-service surety company whose goal is to provide solutions for agents and brokers. “We strive for excellent customer service, a consistent approach to underwriting, we listen to the needs of our customers and approach the issues with an open mind,” he said. Following are excerpts from an interview.



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What types of organizations need surety bonds?

Construction is the biggest part of the surety industry. Sixty percent of our bonds go to contractors, and then the other 40% we call commercial surety, which essentially goes to all different types of businesses, such as retail, wholesale, banking, and the renewable-energy industry. Any business or industry can get a surety bond and may in fact need a surety bond.

What should you look for in a surety partner?

It's really important to look for a financially strong partner with an excellent AM Best rating and a Federal Treasury Listing. You also want to look for a surety company that has a full gamut of options for you that can cover large-account business, small-account business, contracting and commercial. You're hoping to get somebody that's a one-stop surety shop. You would want to work with somebody who has all the capabilities, from loss control to claims. There are a lot of different things that go into a construction project and making sure that it's successful. If it runs into issues, PHLI is there to step up and make sure that things are resolved using in-house Engineering, Accounting, and Legal resources.

What are the biggest issues facing the surety market right now?

The things that keep me up at night are employees, not only from the surety standpoint but also a lack of employees in the construction industry. The construction industry pre-pandemic was short of skilled labor. As the pandemic occurred, you had a lot of skilled laborers retire. There's a huge shortage of skilled labor. Young people are not going into the construction industry like we would hope. Beyond that, there are supply-chain issues that continue to impact every business. On top of that is the increased prices of those materials. In the surety industry itself, we have a shortage of people to hire in the industry. We have a lot of new entrants into the market, and everybody's looking for underwriters. That's definitely a concern as well.

Mike Cundiff

SVP, Surety
Philadelphia Insurance Cos.



“We have Contract & Commercial Underwriting teams for account business in most major metro areas and dedicated Commercial Express & Contract Express teams available to our agents and brokers.”

Visit the Issues & Answers section at www.bestreview.com to watch an interview with Mike Cundiff.

What advice would you give agents that are just getting into surety?

Reach out to a surety company. Like a lot of different businesses, it's relationship-oriented. You want to work with a surety that you can build a relationship with, that you can trust is responsive and consistent. Because you're placing your business with that company, you want to trust that they're going to do the best for your client and provide you with the type of products that you need for either your contract account or your commercial account. You really want to build up those relationships. Relationships can last a long time, and you can have clients that last just as long with these types of relationships.



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Nationwide
is on your side

Opportunity in E&S

David Nelson, Executive Vice President, E&S Wholesale for Nationwide, E&S and Specialty, said that surplus lines insurers can respond to the market needs of agents and brokers much more quickly than the standard market. “We’re able to cater our products and appetite to fit those areas where uniqueness, higher risk, or specialization cannot be accommodated in a more commoditized marketplace,” he said. Following are excerpts from an interview.



Nationwide®

What does the current E&S market look like?

The E&S market today is very fluid and still recovering from the effects of the worldwide pandemic. The market feels like it’s in a constant state of flux. Depending upon line of business and geography, we’re seeing capacity constriction, more exits, new entrants, existing players retooling portfolios, and economic and environmental impacts all driving a constantly changing marketplace. Over the last two years, many changes have occurred in the market. The most immediate impact was on reduction in capacity for many carriers, both in standard lines and E&S. Opportunities were there for carriers looking to replace others cutting their limits, and rate increases were almost a given. Today, most of the capacity reduction has already taken place, but there are still some openings out there for opportunistic carriers.

What emerging risks and trends are you seeing in specialty coverages?

We’re noticing things like insurance to value impacted by rising home values and cost to rebuild, inflationary conditions both on economic and social inflation, and exceptionally high jury awards. In addition, we’re starting to see some hot-button topics like PFAS or cryptocurrency exposure. Carriers that cover PFAS, most commonly referred to as forever chemicals, are facing difficult decisions about whether to exclude PFAS from all risk or to evaluate each account on a case-by-case basis.

What do you view as opportunities for the excess and surplus market moving forward?

It’s an ever-changing marketplace, and the E&S market is primed to react swiftly to mitigate risk and take advantage of new opportunities. We’re seeing standard lines carriers changing appetites and jurisdictions, which are becoming more complicated. We’re poised to cater products that provide viable solutions. The E&S market will need to evolve quickly as the world around us changes. Carriers who plan for and quickly adapt to changing

David Nelson

Executive Vice President, E&S Wholesale
Nationwide, E&S and Specialty



“The Nationwide E&S leadership team is constantly monitoring changing market conditions for opportunities to drive greater diversification and further enhance our financial performance.”

Visit the Issues & Answers section at www.bestreview.com to watch an interview with David Nelson.

socioeconomic conditions such as insurtech disruption, supply-chain interruption and inflation, just to name a few, will rise to the top.

What positions Nationwide as a leading carrier with wholesale distribution partners?

There are many things including our brand recognition, our financial strength and our breadth of product and appetite, but most importantly our specialized expertise across a broad set of product verticals. The breadth and depth of E&S coverages we offer coupled with our world-class underwriting expertise make us a market leader for our distribution partners. We have strong diversification across our product offerings. We’re currently working to leverage our capability and successes on the contract binding side to grow our brokerage business. Within brokerage specifically, we have launched verticals in 2022 so that we can scale our book with a consistent appetite, deep expertise, and exceptional customer service for our partners. We’re excited about the ongoing work that we’re doing to become a meaningful brokerage player to our wholesale distribution partners.



THERE ARE NO BAD IDEAS,
JUST BAD DECISIONS.



MANAGE YOUR RISK BY CHOOSING A WSIA MEMBER.

Some decisions are too precarious to take on alone. You need a partner who can help you create the right solution for your client's risk, while minimizing yours. Choose a WSIA member to craft cost-effective solutions for complex risks. 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!



Find a WSIA member at wsia.org/findamember

WSIA MEMBERS ARE INSURANCE
PROFESSIONALS DEDICATED TO
THE WHOLESALE DISTRIBUTION SYSTEM.

Delivering Value

Brady Kelley, Executive Director, Wholesale & Specialty Insurance Association (WSIA), said the organization has always known that wholesale distribution delivers tremendous value to retail agents and insureds. “WSIA members are specialists who can offer access to markets, coverages and options that just aren’t available in the standard market,” he said. Following are excerpts from an interview.

What makes the wholesale, specialty and surplus lines segment unique and how can that benefit insureds?

Wholesale brokers are specialists, and they provide retail agents and their clients access to customized solutions for excess or unusual risks. Insureds benefit from their technical expertise because wholesale brokers cannot only help provide coverages and options that are often not available in the standard market, but they can also gain access to markets that not all agents can. It’s also important to remember that there is no cost to simply seek a wholesale quote, but there can be a great return on that effort when an insured needs a tailored solution in the form of the right coverage.

WSIA has partnered with Conning Inc., to conduct an updated analysis of 2016-2020 data investigating the non-loss cost of the wholesale transaction versus retail transaction. That analysis confirmed that wholesale distribution does not increase the cost of the transaction to the insured, and in fact it found that the cost of wholesale distribution was lower than retail distribution by 1.8 percentage points, which makes consulting a wholesale expert a logical step for insurance buyers.

What is the current financial outlook for the surplus lines segment?

The market is growing. According to 2021 year-end data from the 15 states with surplus lines stamping offices, premium increased a record 22% for 2021 over the previous year, with a 6.6% increase in transactions. We’re hearing that demand is strong for D&O, professional, excess liability, property, residential flood, wildfire and cyber coverages. Coupled with the 17.5% increase reported for the market in the AM Best 2021 Special Report for 2020, and anecdotal evidence that these figures remain strong halfway through 2022, the market is as strong as ever. This segment is also designed for innovation, so in a time of rapidly developing technologies and emerging risks like we’re currently seeing, the E&S industry performs well.



- A nonprofit association of insurance professionals
- More than 700 member firms representing 1,600 offices
- Providing world class member services

Brady Kelley

Executive Director
Wholesale & Specialty Insurance Association (WSIA)



“It’s our mission to help WSIA members build profitable business relationships and strengthen the industry.”

What initiatives is WSIA working on to strengthen the surplus lines marketplace?

It’s our mission to help WSIA members build profitable business relationships and strengthen the industry with networking, education, talent recruitment, regulatory/legislative advocacy and promotion of the value of the wholesale distribution system. Diversity, equity and inclusion initiatives are a priority because they impact every element of the association and our members’ work. With financial support from WSIA member firms, the WSIA Diversity Foundation was formed in 2020 to help influence greater diversity, equity and inclusion in the industry. Many of those efforts are student-focused right now because they dovetail with the identified and ongoing need to attract talent to the surplus lines industry. We are also developing resources and education opportunities for member firms that can be a starting point for them in their own DE&I journey or can enhance existing initiatives.



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Rick Grimes, Financial Lines Practice leader and Managing Director, Professional Risk Solutions, a division of One80 Intermediaries, says the company is able to give its employees better options in terms of multiple career paths, which can lead to a more rewarding experience working for a firm that values specialty. “It allows them to focus on building a deeper base of knowledge and making them even more valuable and irreplaceable to our retail partners,” he said. Following are excerpts from an interview.

Why are specialized solutions important in today’s program market?

In today’s highly competitive insurance environment, our clients demand deeper knowledge of products to ensure that proper coverage, along with broadest terms and conditions, are applied. With constant new entrants and changing appetites in the marketplace, agents prefer specialization as opposed to a jack-of-all-trades approach to make sure they’re getting the best for their client. What’s more, they help our retail partners differentiate themselves from their competition by enabling them to provide unique solutions and increase branding opportunities, which would lead to traditionally higher retention ratios for those types of accounts. The third point I’d like to make is many agencies we work with simply don’t have the scale or the financial resources to hire multiple specialists, so we act as their outsourced center of expertise.

How is One80 working to meet the needs of your broker partners?

We listen to our broker partners. I learned this at an early stage in my career as an underwriter. We would have dog-and-pony shows with all departments pitching their capabilities to an agency in a conference room. Eventually, the agents’ eyes would glaze over due to information overload. I found the more fruitful conversations were the ones in which a good deal of pre-work was done prior to the meeting so we could learn about their strengths, weaknesses, and what kept them up at night. Any information that I couldn’t learn about my client on my own was the basis for a conversation where I would ask questions to see where they may struggle competing and their areas of strength. These conversations were much more engaging and helped us align our strengths with their weaknesses to help them compete and retain clients.



Rick Grimes

Financial Lines Practice Leader and Managing Director, Professional Risk Solutions, a division of One80 Intermediaries



“In looking at today’s environment, it’s about investing the upfront time and energy on those classes of business that may be understood and hard to place and addressing the concerns a carrier may have.”

Visit the Issues & Answers section at www.bestreview.com to watch an interview with Rick Grimes.

Why is culture so important in building and maintaining partnerships?

One of the things that made a lasting impression on the partners at Professional Risk Solutions was when we were talking to One80 about selling. They emphasize putting employees first. They went on to explain that employees are the most valuable assets of a firm. If employees aren’t being valued and treated fairly, how can they expect them to go the extra mile for clients? That exchange resonated with all of us, because as a small, boutique, independent wholesaler, we had the same philosophy. Our brand was our employees. They’re the only ones providing solutions to our clients every day, whether it was our brokers placing coverage, our technical support staff shepherding the workflow process or accounting and compliance departments tying up the back-end details correctly. All of these roles play a critical part of the success of an agency. In our shop, the entire team was a valuable part of the equation, and we wanted to make sure that type of culture was celebrated and continued going forward.

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Capgemini 

Climate of Change

Seth Rachlin, EVP, Global Insurance Leader for Capgemini, said he's been noticing a move toward the incorporation of ESG scores as factors in rating and underwriting decisions. "Look for a lot more of that going forward because I think that's absolutely the way of the future," he said. Following are excerpts from an interview.



What are the major challenges that insurers face due to climate change and how are they tackling them?

The major challenge is a simple one, that is, the increasing frequency and severity of climate events—the hurricanes, the wildfires, the flooding, other natural disasters, making insurance more expensive. They are creating insurability issues for insurers who may be moving out of certain areas because of the risk that's involved in writing the insurance there. They're forcing policyholders to work harder to find insurance and also to get value out of that insurance. It's creating an insurance climate crisis that in some ways mirrors and reflects the broader crisis, the broader climate crisis.

Are policyholders fully aware of climate-related risks?

They are. Our research shows that policyholders rated the pandemic as the biggest risk that they saw in their lives. Climate was a close second. That's a significant and an important finding. The challenge is that they don't necessarily know enough—enough about what they can do to protect their homes from wildfire, enough about what they can do to make their roofs more stable and more secure. That's really the opportunity for insurers, to become their expert partners in risk mitigation and helping them prepare to weather the storm, as it were.

How can insurers lead when it comes to sustainable underwriting and investment practices?

It's an evolution. Insurers have both a carrot and a stick when it comes to climate activity. The carrot is all of the incentives that we can provide to enable people to better be prepared for risk. The stick is a little bit the underwriting and investment piece. It's about the choices that insurers make when it comes to climate behavior, particularly on the part of corporate citizens. On the commercial lines side, there are huge opportunities to reward companies that do the right thing from an environmental sustainability perspective and to effectively punish, in higher rates or in underwriting decisions, those companies that don't take those steps.

Seth Rachlin

EVP, Global Insurance Leader
Capgemini



"It's about understanding the mission, and the mission being to keep insurance an affordable and high-value product for customers."

Visit the Issues & Answers section at www.bestreview.com to watch an interview with Seth Rachlin.

What are the key steps that insurers need to take to embed climate resiliency into their strategy?

Step one is to make it somebody's job. Not every insurer that we interviewed for the report has a chief sustainability officer. That is a C-suite role. It's absolutely critical to have that person on board, coordinating and orchestrating the response. Step two is to get a whole lot smarter with data. I talked earlier about the possibilities that the world of climate data, the world of satellite and visual imagery provide as a way of better understanding risk and better working with customers to change and manage it. Finally, it's about the customer perspective. It's about understanding the mission, and the mission being to keep insurance an affordable and high-value product for customers. That's where I think a lot of innovation is going to come in the future.

