
Carrier
Manag
Critical Information for P/C
MAY/JUNE
2020 EDITION
INSURANCE
CORRECTED:
Digital and
On Demand
SLICE LABS CEO TIM ATTIA P. 24
David Bradford
Guest Editor
Presents View On
Future Shock:
Managing Risk Through
Accelerating
Change P. 30

Contents

FUTURE SHOCK
Managing Risk Through Accelerating Change

***David Bradford** is the Guest Editor for a section of this magazine featuring articles about managing risk through accelerating change. Bradford drew inspiration for the theme from the book "Future Shock" by Alvin Toffler and rapidly changing risks impacting insurers and reinsurers in early 2020.*

Bradford is Principal of Iosis Consulting, providing services to insurers, reinsurers, MGAs and InsurTechs. Read more about him on page 30.

Features MAY/JUNE 2020


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Features MAY/JUNE 2020

Executive Profiles and Viewpoints

The following executives are featured in this edition.

AIR Worldwide, Peter Sousounis, VP and Director
AkinovA, Henri Winand, Co-founder and CEO
Everest Re, Juan Andrade, CEO
InsurTech NY, David Gritz, Co-founder
JUUL Labs, Inc., Loren Crannell, Head of Risk and Insurance
QBE NA, Todd Jones, CEO
ReSource Pro, Dan Epstein, CEO
SageSure, Terrence McLean, CEO
Slice Labs, Tim Attia, Co-Founder and CEO
Slice Labs, Andy Clapson, Data Science Lead

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Angeles National Golf Club
Sunland, California

STRIKE OUT CANCER
August 12, 2020
Bowlmor
Atlanta, Georgia

***SPIRIT OF LIFE* GALA**
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For more information on City of Hope's National Insurance Industry Council, visit **CityofHope.org/niic** *or contact* **Ken Birkett at kenbirkett@coh.org**.

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From the Editor

Leading When the World Restarts

There's a section of this edition focused on new ways to manage risk at a time of accelerating change. The topic was appropriately conceived by our guest editor, David Bradford, a reinsurance industry veteran who was also co-founder of a 20-year-old InsurTech.

CM reached out to Bradford to develop a part of this magazine that was scheduled to be physically delivered to the RIMS 2020 annual meeting. Now working as a consultant advising traditional players and startups on risk challenges and innovation strategies, Bradford drew his inspiration from the 50-year-old book "Future Shock" by Alvin Toffler, which describes a world where too much change happens in too short a period of time.

That's how insurers and reinsurers were feeling when advances in technology and data were emerging faster than they could update systems, understand risks and conceive of new products for the modern economy. In fact, according to a survey published by Willis Towers Watson in February, insurance executives ranked cybersecurity and disruptive technology as the most dangerous risks they were facing.

That was all before the coronavirus pandemic grew to epic proportions and change stopped accelerating. In fact, the world stopped.

For many of us—especially people like me who live in the epicenter in the Corona/Elmhurst ZIP code in New York—listening to New York Governor Andrew Cuomo has become a daily constant as we watch the world from our windows and look for signs of change. On April 1, Cuomo started talking about the future.

"We should start looking forward at how this experience will change us—or how it *should* change us," he said. "This will be a transformative experience" on a personal, social and systems basis.

Going on to acknowledge fears that might prompt us to accept isolation for good, he continued: "We must make sure the change is positive."

"How do we grow from this?" he asked. "If you get up, how do you get up? Do you get up smarter and wiser, or bitter, angry and fearful?"

"How do you make the economy more resilient?" Cuomo asked, noting that something like this will happen again. "We're seeing it with floods and hurricanes."

"Why don't we gear our medical research to these challenges?" he asked, calling for future thinking about backup for first responders who fall ill and about needed "societal stability."

"You can't just tell everyone, 'Sit on your couch and order takeout.' That's not how we were built."

I have included so much of Cuomo's address because this is an industry that deals with catastrophe on a regular basis. I hope that at the time you're reading this, you are safe and planning for the future—and you're reflecting on Cuomo's central questions: How has this changed you personally? As a leader? How has it changed your company? The trajectory it's been on? In Cuomo's words, "We're never going to be the same. We're not going to forget what happened."

Profiles of several leaders who have made gigantic leaps in their careers are included in this edition, too. They suggest that our industry is up to the challenges that lie ahead when the world restarts. *CM* would like to include the thoughts of insurance and reinsurance leaders on these questions in our next edition. Please contact me if you'd like to share your views for publication.

Susanne Sclafane, Executive Editor

Send your feedback to Susanne Sclafane at ssclafane@carriermanagement.com

8 EMERGING RISKS TO WATCH

Pandemic and Privacy Exposures

By Kimberly Tallon

Even the most vigilant insurers and reinsurers scanning the risk landscape for potential future liability problems are likely to fall into landmines.

What insurance risks of the immediate or distant future are being overlooked now?

Carrier Management **offers a continuing look at some partially hidden risks with a regular feature—*CM* Risk Alerts, compiled by Assistant Editor Kimberly Tallon from a subjective list assembled by the entire *CM* team. Our aim is to offer short takes—flagging and summarizing items that may not yet have surfaced in property/casualty C-suites or boardrooms, on insurance conference agendas or in the mainstream press but may well have insurance implications.**

This installment focuses on coronavirus pandemic-related risks, as well as privacy issues and global warming.

1. 'Zoombombing' hits meetings with hate speech and pornography.

In the wake of the COVID-19 pandemic, video-conferencing app Zoom has become the go-to for people looking to work, learn and socialize remotely. Unfortunately, it has also become a target for harassment and abuse coordinated in private off-platform chats.

Millions of individuals have adopted Zoom as a meeting platform, attending school lessons, board meetings, exercise classes, support groups and conferences virtually while they practice social distancing. First-time installs of Zoom's mobile app rose by 1,126 percent in March to more than 76 million, up from just 6.2 million in February, according to data from SensorTower (cited by NY Times).

The app's soaring popularity has been both a blessing and a curse, as reports of uninvited participants "Zoombombing" meetings with pornography, hate images and threatening language have become more frequent.

Those incidents, initially viewed as pranks or trolling, have now risen to the level of hate speech and harassment. On March 30, the FBI even issued a warning and provided a list of safety measures for Zoom users.

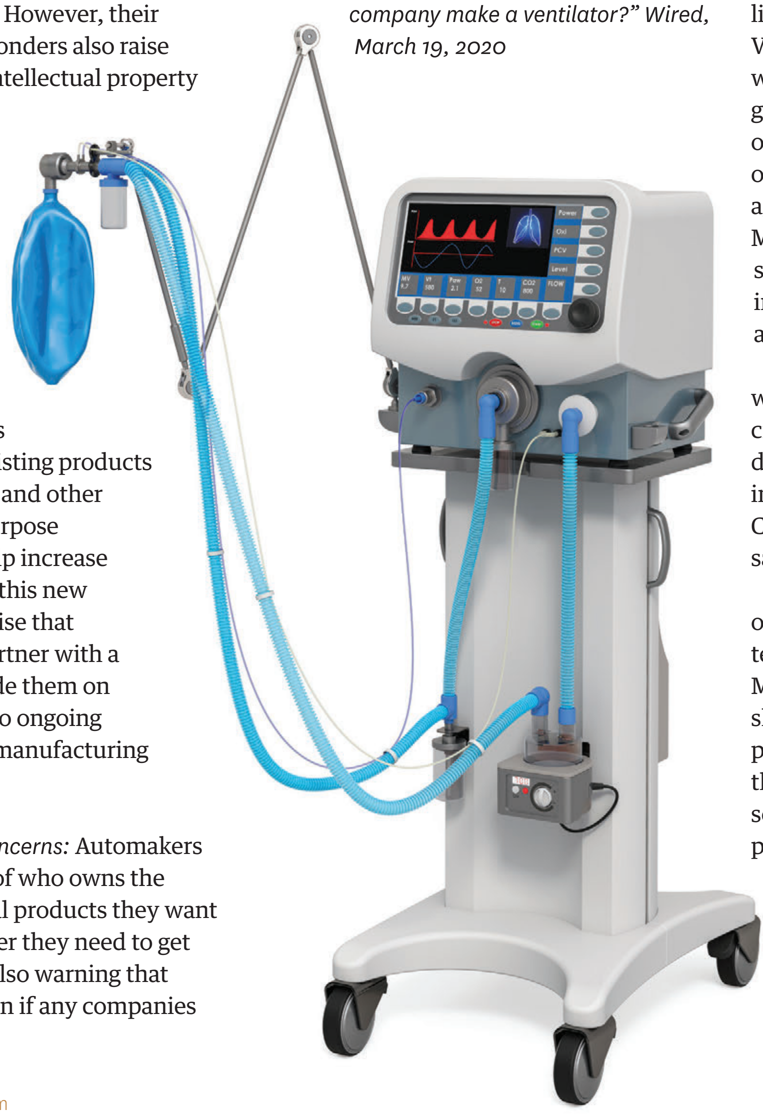
An analysis by The New York Times found 153 Instagram accounts, dozens of Twitter accounts and private chats, and several active message boards on Reddit and 4Chan where thousands of people had gathered to organize Zoom harassment campaigns, sharing meeting passwords and plans to attack public and private meetings.

Consumer advocates have also expressed concern about users' private data, citing some worrying parts of Zoom's privacy policy (which has since been updated for clarity), as well as a feature that offered hosts the ability to turn on “attention tracking” to check whether participants were paying attention during the call. This allowed the hosts to monitor whether users clicked away from the Zoom window for more than 30 seconds while a screen was being shared. This feature has been permanently removed as of April 1, according to Zoom.

Source: “‘Zoombombing’ Becomes a Dangerous Organized Effort,” NY Times, April 3, 2020

2. Can Auto Makers Make Medical, Protective Equipment Safely?

With auto manufacturing on pause thanks to the COVID-19 pandemic, companies like Ford and General Motors are volunteering to manufacture face shields, masks, respirators and ventilators for health care workers and other emergency personnel. However, their efforts to aid first responders also raise product liability and intellectual property concerns, experts say.



FDA Requirements: The U.S. Food and Drug Administration has eased some of its restrictions for making ventilators and respirators to let medical device makers more easily change existing products and allow automakers and other manufacturers to repurpose production lines to help increase supply. But even with this new flexibility, experts advise that automakers should partner with a company that can guide them on requirements related to ongoing reporting and quality manufacturing standards.

Intellectual Property Concerns: Automakers will need to be aware of who owns the designs for the medical products they want to produce and whether they need to get licenses, experts say, also warning that there could be litigation if any companies believe one of their products has been reverse engineered. However, because the president invoked the Defense Production Act of 1950, that might mean the government will accept responsibility for auto manufacturers producing ventilators, said one IP attorney.

Still, there is doubt about whether automakers are even up to the challenge of switching to medical equipment production. “These are extremely sensitive machines with not only a lot of hardware but also a lot of software. If one of the components does not work correctly, the whole machine shuts down and cannot be used anymore,” warned one ventilator manufacturer’s CEO.

Sources: “Automakers’ Shift to Med Supplies Comes With Legal Hazards,” Law360, March 25, 2020; “How does a car company make a ventilator?” Wired, March 19, 2020

3. Safety or privacy?

As coronavirus pandemic stats have grown ever scarier, concerns about what companies like Google and Facebook might be doing with sensitive health information have receded. People are now being asked to allow surveillance of their daily movements and contacts—and even their temperature and other physiological changes—so that researchers and public health authorities can identify and isolate potentially infected patients.

Apple and Google’s life sciences arm, Verily, are partnering with state and federal governments to conduct digital screening of patients that involves collection of data on their symptoms, recent travel, location, age and underlying health conditions. Microsoft and many other technology startups are collecting similar information in partnerships with state governments and hospitals.

At the same time, an app that tracks where you have been and who you have crossed paths with—and then shares the data without revealing personal information—could help curb the spread of Covid-19 by identifying hotspots without sacrificing privacy.

Private Kit: Safe Paths is a free and open-source app developed by a team of tech experts from organizations including MIT, Harvard, Facebook and Uber. The app shares encrypted location data between phones in the network, letting users see if they may have come into contact with someone carrying the coronavirus—if that person has shared the information—without knowing who it might be. An app user who tests positive can also choose to share location data with health officials, who can then make it

continued on next page

continued from page 11

public.

"Making this information available has [public health] uses, but it also has downsides if it is used in the wrong manner," a computer science professor at the University of Virginia who studies the use of advanced computing techniques in epidemiology told Stat. "We have to decide as a society at what point of time we are willing to give up basic rights. Those are questions we have to answer together."

Source: "A new app would say if you've crossed paths with someone who is infected," MIT Technology Review, March 17, 2020; "After 9/11, we gave up privacy for security. Will we make the same trade-off after Covid-19?" Stat, April 8, 2020

4. Hackers targeting pandemic fears.

Cyber criminals are taking advantage of the pandemic panic, launching malicious email campaigns in the "largest coalescing of cyber attack types around a single theme that has been seen in a long time, and possibly ever," according to email security vendor Proofpoint.

The hackers are targeting people looking for safety information related to COVID-19, with attacks ranging from credential phishing, malicious attachments and links, business email compromise (BEC), fake landing pages, downloaders, spam, and malware and ransomware.

"Criminals have sent waves of emails that have ranged from a dozen to over 200,000 at a time, and the number of campaigns is trending upward. Initially, we were seeing about one campaign a day worldwide; we're now observing three to four a day. This increase underscores just how appealing global news can be for cyber criminals," said a Proofpoint senior director.

Source: "Coronavirus now possibly largest-ever cyber security threat," Computer Weekly, March 18, 2020

5. Who else is monitoring the baby?

Parents rely on baby monitors to keep an eye on their infants—but they may not be the baby's only audience.

Some smart baby monitors have security flaws that allow hackers to take over, letting them watch or even interact with the child. For example, iBaby's monitors can be remotely accessed, potentially allowing hackers to download recordings, find the camera's device ID, pull user information and even control the camera.

And iBaby isn't the only brand at risk. In November 2019, a Seattle couple reported that their Fredi brand baby monitor was hacked, causing the camera to scan their home. An unidentified voice even said "I love you" to their three-year-old child. In December 2018, a Nest camera shouted sexual expletives and threatened to kidnap a baby.

Source: "The case against smart baby tech," Vox, March 2, 2020

6. Ride at your own risk.

The MTA's new tap-to-pay fare system, OMNY (One Metro New York), is meant to make paying for transit faster and easier—but it may also be putting rider privacy at risk.

The plan is for OMNY validators (introduced in 2019) to be in every subway station and bus in NYC by the end of this year, with expansion to the Metro North and Long Island Rail Road commuter lines in early 2021. The new system, which is replacing MetroCard, makes it easier for riders to pay fares across different modes of transit by directly linking a credit or debit card to an OMNY account. Riders need only tap their contactless credit/debit cards or smart devices against a reader, and the MTA authenticates the form of

payment and automatically deducts the cost of a ride. MTA said riders who prefer to pay cash will still be able to do so.

However, the new system comes with a downside: OMNY collects a significant amount of information from users, including smartphone device identifiers and location, which, coupled with payment and transportation data, could be used to map out rider movements.

There is also concern that cellphone location data, which is often used by law enforcement to identify and find persons of interest, could be used by U.S. Immigration and Customs Enforcement agents to track down undocumented immigrants.

Source: "The NYC Subway's New Tap-to-Pay System Has a Hidden Cost—Rider Data," The Verge, March 16, 2020

7. Sea levels could rise five feet.

The Denman glacier in East Antarctica has retreated almost three miles in the last 22 years, and researchers warn that if it fully thaws, sea levels could rise almost five feet.

Between 1979 and 2017, the glacier experienced a cumulative mass loss of 268 billion tons of ice, according to a study published in Geophysical Research Letters. Denman, which is around 10 miles wide, has been melting about 10 feet per year, which is above average compared to other East Antarctic ice shelves.

Researchers at the University of California, Irvine and NASA's Jet Propulsion Laboratory are concerned that the shape of the ground surface beneath the ice sheet could make it more susceptible to climate-driven collapse. The Denman glacier rests on top of a chasm more than two miles deep—the deepest land-based canyon on Earth. Scientists believe unusually warm ocean water—at least a few degrees above freezing—is likely seeping beneath the ice shelf and helping to melt the glacier from the bottom up.

"Because of the shape of the ground beneath Denman's western side, there is potential for rapid and irreversible retreat, and that means substantial increases in global sea levels in the future," said the study's lead author, Virginia Brancato, a postdoctoral fellow with NASA JPL.

Source: "Antarctic Glacier Has Retreated 3 Miles in 22 Years," Scientific American, March 25, 2020, reprinted from Climatewire/E&E News article, "Glacier over world's deepest canyon faces irreversible melt"

8. Do you know who's listening?

A warning if you work from home: Turn off your smart speakers before making a business call.

Smart home devices like Amazon's Alexa and Google Home not only listen to us when we don't want them to, but employees of those companies may also be listening to our conversations for the sake of "improving voice-recognition features." This can be a huge problem for people whose jobs require them to handle confidential personal information—for example, doctors discussing treatment plans with patients or lawyers speaking with their clients about an ongoing case.

Amazon and Google say their devices are designed to record and store audio only after they detect a word to wake them up, but such smart speakers are often triggered accidentally by conversations or even TV shows. In fact, research from Northeastern University and Imperial College London suggests that users can inadvertently activate their smart speakers between 1.5 and 19 times a day (cited by Gizmodo).

Video products like Ring, which is also owned by Amazon, and even baby monitors and closed-circuit TVs could also pose a risk.

Sources: "Hey Google: Stop Listening to My Client's Info," Bloomberg/Carrier Management, March 23, 2020; "Unplug Your Smart Speakers While You're Working From Home," Gizmodo, March 23, 2020 CM

QBE NA Reveals Its Identity
With Jones at the Helm

Executive Summary: As a broker executive looking at QBE NA from the outside, Todd Jones saw a company on an upward growth and profit trajectory and an opportunity to amass a lot of broker shelf space. But he also saw a carrier without a clearly defined appetite, something that has since changed, paving the way for QBE NA to maximize its growth opportunity—a possibility that energizes the new leader as he leaves his broker days behind.

By Susanne Sclafane

For Todd Jones, a great moment comes when a former client from his days at Willis Towers Watson calls and wants to do business with him.

Now, as chief executive officer of QBE North America, Jones often has to say no to such requests. "A lot of these organizations aren't in appetite. And it's a good conversation to be able to articulate to somebody, 'Hey, I'd love to work with you, but let me tell you why you can't,'" he said.

Todd Jones
CEO, QBE North America

The point Jones was making was not that he is happy to turn away business but rather that QBE NA has spelled out a formal, consistent appetite across the country, something that was lacking in the past.

During an interview in the company's downtown Manhattan office in early March, five months into his new job for the U.S. operations of the Australia-based global carrier, he responded to questions about why an executive with almost 30 years working on the brokerage side of the business is the right fit for QBE NA at this time in its history.

Looking back on a career that started at Johnson & Higgins, and later included stints at Aon and Willis, Jones said he was primarily involved either in serving clients directly or serving groups of people that served clients. "No matter where you sit on the chain of what we do, understanding how the end users of our product and services are treated, how they think about making decisions, what they're struggling with and how we can help brings a healthy perspective into the organization," he said.

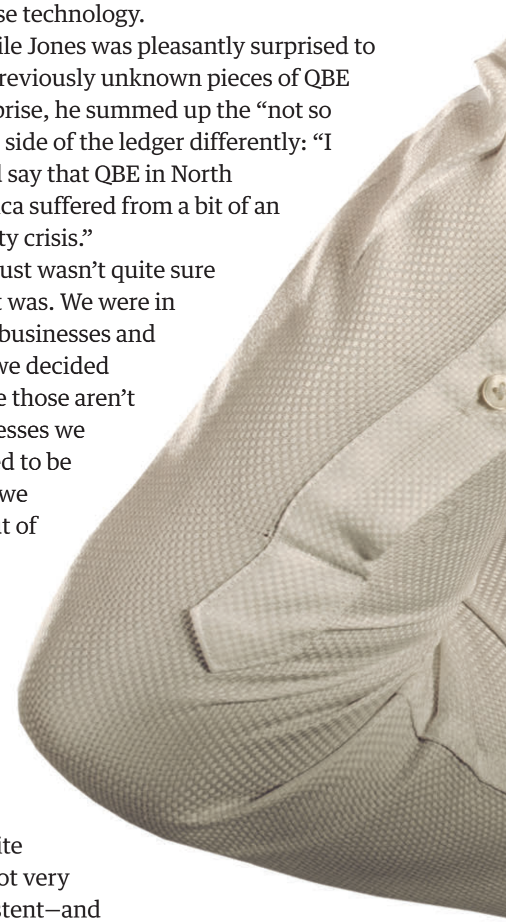
Another benefit of being a broker, he said, is that he has worked with just about every insurance company. As a result, "I know what good looks like. I also know what not so good looks like," he said.

How did QBE NA look from his vantage point at Willis Towers Watson?

"It wasn't the most important trading relationship, but it was an important trading relationship," he said, providing context. "I thought I knew QBE," he added. "It was very clear that I didn't. There were many parts of the organization with which I just didn't interact."

"My best example is our crop insurance business," he said, referring to QBE's NAU Country Insurance Company. "This is an industry-leading business for QBE, and one that I just wasn't—given my old orientation—doing business with," he said, describing his newfound admiration and understanding about how they compete and use technology.

While Jones was pleasantly surprised to find previously unknown pieces of QBE enterprise, he summed up the "not so good" side of the ledger differently: "I would say that QBE in North America suffered from a bit of an identity crisis."



"It just wasn't quite sure who it was. We were in some businesses and then we decided maybe those aren't businesses we wanted to be in, so we got out of them. Our appetite was not very consistent—and depending on which office in QBE you were dealing with, we may say we really want green today, and then out on the West Coast, they'd say we want blue."

"One of the things that I think about [through] my old lens of being a broker is consistency, sustainability, dependability. Those are all very similar words, but whatever word you want to use, it was really important when you were serving clients—because you never wanted to be in

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continued from page 14

a position where you're saying, 'I know I told you I recommended this company last year for the following reasons. Well, all those have now changed 12 months later.'"

Still, he recognized that QBE was trying to get over some past profitability problems in the U.S. and doing some reunderwriting when its preferences were unclear. "That identity crisis...was an important part of the evolution of QBE in North America. We needed to go through some of this stuff in order to land at what we wanted to be: What are the businesses that we want to be in and how do we think we want to compete in those businesses?" he said.

"The good news is we're there today," he said. (See related online exclusive article, "Middle Market Targeted in QBE NA Appetite.") "2019 was about setting that up, and now 2020 is about aggressively being out with our trading partners and our clients, telling that story—and at the end of the day, growing the business and growing it profitably," said Jones, who took on the role of CEO in October 2019.

QBE NA 2020; Shades of Willis Circa 2003

After some poor results in North America in 2012 and 2013 related to write-downs and reserve charges, reunderwriting efforts and moves to boost specialty areas like management and professional liability have largely righted the ship. QBE NA, which wrote nearly $6 billion in gross premiums in 2013 at a combined ratio of 115.8, trimmed down to roughly $4.6 billion in 2019 with only two hiccups in underwriting results in recent years—one in 2017 due to hurricanes and wildfire, and one last year, when crop losses damaged underwriting results.

Jones is eager to lead the next phase of QBE NA's development to take existing insurance businesses on a profitable growth path. He praised Patrick Regan, CEO of QBE Group, and the rest of the group executive committee for what they accomplished globally before he arrived, describing businesses in Europe and Australia in addition to North America.

"Everybody knows who QBE is in Australia," Jones said, eyeing the prospect of building something unique and distinct for the North American marketplace that rolls up nicely into a complement of high-performing businesses.

He drew a parallel to an earlier career decision to join Willis Group from Aon in 2003. "I was interested in trying to build something. At that time, Joe Plumeri had been with Willis for a few years [as CEO] and had the organization on a big upward trajectory...I was fortunate to be part of a group that helped grow that business and establish it to what it is today."

Regan was one of the executives at Willis around that time, serving as CFO in 2004 and 2005. "One thing that really attracted me to QBE is what I perceive to be the opportunity to take a really good company, and one that has got really solid leadership, [to] be a contributing part of that group and help do what I keep talking about: 'maximize the potential of the opportunity we have here in North America,'" he said, using a phrase he repeated multiple times.

A Career in Insurance Brokerage

Still, some say distribution is the sweet spot of the industry. What else prompted a self-described "risk averse" professional, serving as head of Global Corporate Risk & Broking and co-leader of the North American operations of Willis Towers Watson, to jump to the underwriting side?

Demonstrating a level of transparency that he later would highlight as a valued leadership trait, Jones said, "I was at a point in time in my tenure at Willis Towers Watson where it was really time for me to hand [over] the keys to this business" when the QBE opportunity came along. "We had gone through the merger, which was a challenge," he said, referring to the 2016 deal bringing Willis together with Towers Watson, "when we were taking two big organizations that were culturally fairly diverse and bringing them together to create one company, and that was really hard work. And we did it..."

"I remember talking to Pat and thinking, 'Am I ready to leave what I'm doing right now? The answer was whether I'm ready or not, my people are probably ready for a new voice and a new leader—somebody that can take what we've done and think about how they're going to make it that much better. There was a timing aspect of that which made sense."

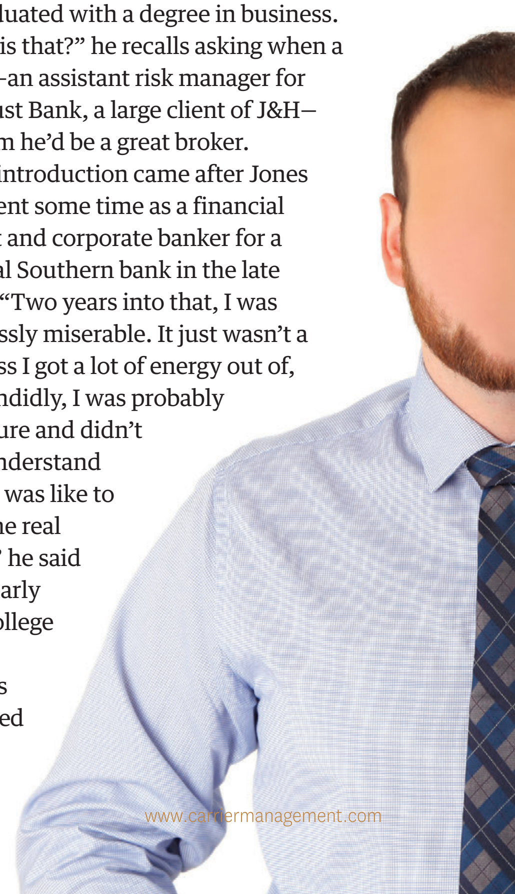
Beyond that, "I was intellectually curious about working for an insurance company, which I never had done."

It clearly wasn't about size. "For comparison purposes, Willis Towers Watson was placing $35-$40 billion of premium into the global marketplace. Now, I'm overseeing a U.S.-only P/C insurer that's $4.6 billion," he said. "It was genuinely this fascination I had with the opportunity to build a really high-performing, fun, culture-led organization—and doing it with somebody I knew well and who I think had the same point of view about what we were trying to do together."

Although Jones peppered the *CM* interview with self-deprecating remarks about having "limited skills"—a personal style of making fun of himself that he ties to his desire to have fun at work—he has had an accomplished career that included key executive positions at J&H, Aon and Willis North America. Insurance broking, however, was not in his career plans when he graduated with a degree in business. "What is that?" he recalls asking when a friend—an assistant risk manager for SunTrust Bank, a large client of J&H—told him he'd be a great broker.

The introduction came after Jones had spent some time as a financial analyst and corporate banker for a regional Southern bank in the late 1980s. "Two years into that, I was hopelessly miserable. It just wasn't a business I got a lot of energy out of, and candidly, I was probably immature and didn't fully understand what it was like to be in the real world," he said of his early post-college years.

Jones was hired



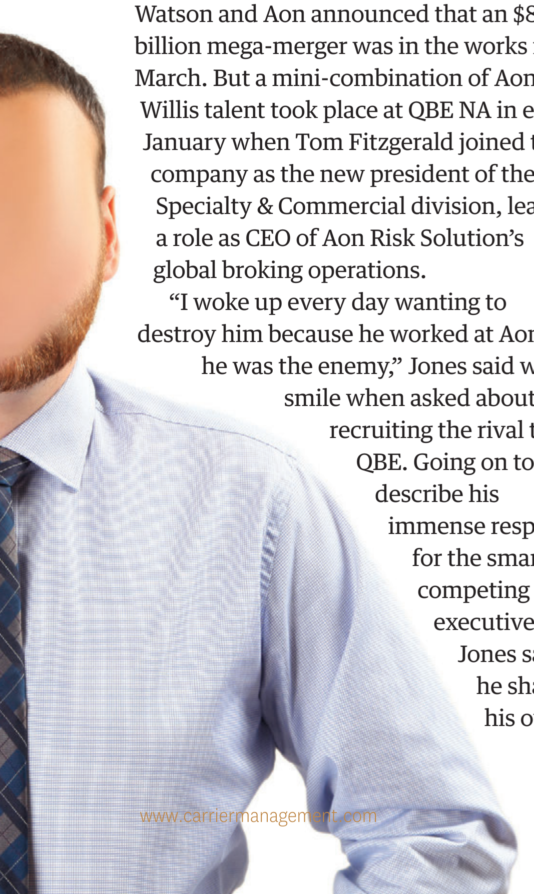
into a management training program at J&H in 1990, where trainees were rotated through the casualty, property, international and financial services business. The latter housed the management liability products, where Jones' banking background lined up with the job tasks. In banking, "you spend all your time underwriting credit risk, and that was a big part of what went into that analysis. There was just a natural fit," he said, noting that the technical broker role involved placing D&O and E&O.

The product expert went on to support clients and client teams at Aon and Willis, in roles like practice leader for the executive risks. He got his chance to lead a collection of retail offices in the Northeast for Willis North America in 2007—his first P&L ownership role. After that, opportunities continued to arise, often with the chaos of mergers and acquisitions expanding his sphere of responsibilities, including Willis Group's 2008 acquisition of Hilb Rogal & Hobbs a decade before the combination with Towers Watson.

Winning and Selling

CM interviewed Jones at QBE NA roughly about two weeks before Willis Towers Watson and Aon announced that an $80 billion mega-merger was in the works in March. But a mini-combination of Aon and Willis talent took place at QBE NA in early January when Tom Fitzgerald joined the company as the new president of the Specialty & Commercial division, leaving a role as CEO of Aon Risk Solution's global broking operations.

"I woke up every day wanting to destroy him because he worked at Aon and he was the enemy," Jones said with a smile when asked about recruiting the rival to QBE. Going on to describe his immense respect for the smart competing executive, Jones said he shared his own thought process for moving to the carrier side to try to coax Fitzgerald over to QBE. "I used my $35 billion to $5 billion; his was $70 billion, and he's now leading a $1.2 billion S&C insurance company. But again, it wasn't about the size. It's really about this opportunity to do something very different in an organization where you can have an impact," he said.



Jones said a number of leadership roles were vacant when he joined QBE NA, so filling the slots took up part of his first five months on the job. In addition, he spent time gathering information from existing associates, he said, recalling a phrase he heard long ago: "You should first seek to understand and then be understood."

Crystallizing the feedback, he said, "My sense is there was a real yearning within QBE for more transparency—just what are the strategies and why are we doing that? Not just transparency but authenticity." Under Jones' leadership, "it's OK to make mistakes. We're going to do things wrong. But you own it, and you acknowledge that didn't go the way we wanted it to go. We learned our lesson; now, we're going to course-correct and move on."

"The organization has really opened up to that kind of an engagement strategy," he said, agreeing that a culture change had already started at QBE before he arrived. Regan and his team rolled out QBE DNA in 2018—a set of seven cultural attributes that include accountability (#OwnItNow), technical expertise (#KnowYourStuff) and teamwork (#Together).

Feeling connected to the strategy, "this natural thing just starts to happen. People start to feel better about where they are... They understand why we're doing certain things more clearly...They're more motivated. There's more energy."

As smart new hires and existing team members motivate one another, "momentum builds around talent, around performance—around winning and everything that comes along with that," Jones said.

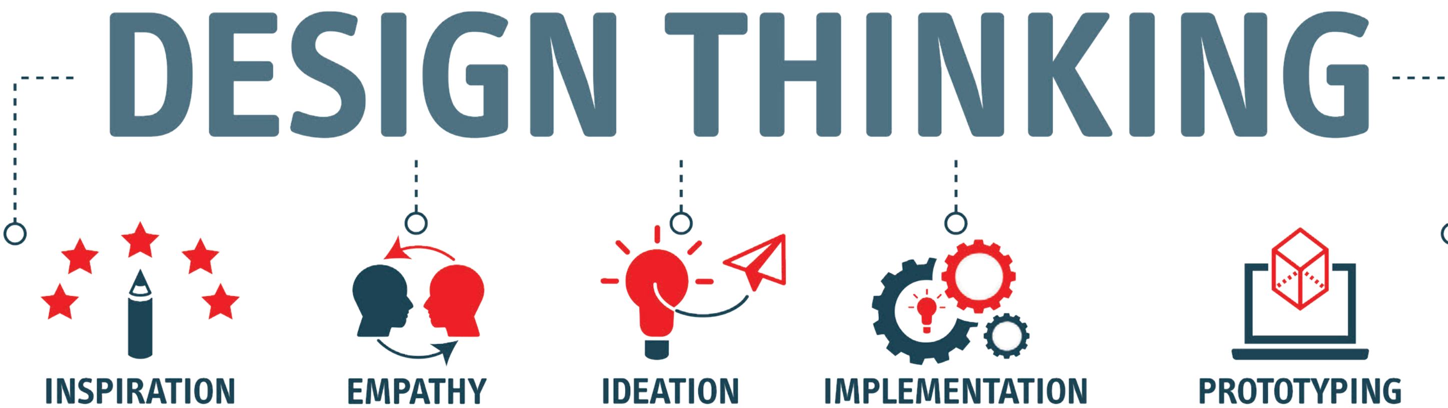
The ex-broker isn't shy about telling a reporter that "winning" is a steady personal goal. When asked to recall the most fun he's had at work, Jones said: "There's nothing better than winning. You win a deal that you just didn't think was going to happen—you just sort of snatch it. And then if you're lucky and you're friends with the people that you took it from, you can call them and tell them, 'I just got this and you didn't.' That's fun because I know they liked to call me," he added, recalling his broker days.

The focus on winning remains. "I am hell-bent on being the best performing geography within QBE. I am very focused on being better than my colleagues in Europe and Asia-Pac. And right now we're not," he said, confirming that the crop results in 2019 put North America behind other regions. "That's probably not a healthy thing to say that I really want to beat my colleagues, but I do," he said, agreeing that a broker mentality may have sharpened his competitive edge.

"Our goal in 2020 is to kickstart that process and deliver performance for the group, continue to nurture the great talent we have in the organization but also attract some new talent into the company as well. We think we've got a really good story to tell," he said. "If you were looking for a job and you gave me 15 minutes, I could sell you on this place," said the former seller of other carriers' policies.

"Tell me, what are the attributes of an environment and organization you're looking for? I promise you this would be that place," he said. "For people that want to do interesting work, be valued, make an impact, not feel they're lost in a machine, we feel we've got a unique proposition—because we're a big company, but when you really break it all down, we're just a series of smaller organizations."

"Coming from where I [sat] on the broker side, I would look at this and say, 'This company's got an opportunity. It's just up to them to take advantage of it—to actually deliver on it,'" he said. "There's always room for really high-quality organizations in the business we operate in. Companies that deliver immense value to their trading partners and clients will always be able to find room on the shelf. CM



Not Magic, But Design Thinking Works

Executive Summary: In a business environment where everyone seems hell bent on change, there are some basics that can help ensure that whatever changes an organization makes are for the better. One key methodology that encourages creativity and meaningful differences is what is referred to as design thinking.

Simply put, design thinking is a philosophy, methodology and practical approach to creating improvements that are designed from a customer needs perspective. The customer might be an insured, producer, underwriter, claims person or any other business person. It just depends on the focus of the solution.

By Craig Bedell

There is so much talk about the need for the insurance industry to innovate. Even AM Best has decided that it needs to assess innovation as part of its evaluation protocol.

I won't offer my reactions to AM Best's decision to pursue an innovation score.

However, I think we can all easily agree that our industry has a great deal of work to do in order to meet the consumer expectations of our insureds, producers and employees.

Many insurance companies are trying to instill more innovation into their organization. But innovation is worthless unless it changes and improves things. And there is no innovation without action.

To be successful, an innovation process must deliver three things: superior solutions, lower risks and the cost of change, and employee buy-in, wrote Jeanne Liedtka, a professor of business administration at the University of Virginia's Darden School of Business, in a 2018 Harvard Business Review article.

in·no·vate
verb
make changes in something established, especially by introducing new methods, ideas, or products.
"the company's failure to diversify and innovate competitively"
- introduce (something new, especially a product).
  "innovating new products, developing existing ones"

Source: Lexico powered by Oxford

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("Why Design Thinking Works," Sept-Oct 2018 edition of HBR)

Enter Design Thinking

Design thinking is a mindset and toolset that has proven extremely successful in helping organizations interested in solving real business problems and improving processes and experiences. My advice is that every insurance company should practice design thinking to some degree.

Design thinking is very much a collaborative approach that draws upon logic, imagination, intuition and systemic reasoning to explore possibilities of what could be. It combines a series of traditional design techniques, such as personas, empathy maps, as-is scenarios, design ideation, to-be scenarios, hypothesis-driven design and minimum viable product (MVP) definition.

Experience has shown that design thinking results in practical, imaginative, purpose-focused solutions that can be delivered iteratively, always with the end-user's satisfaction in mind. And the process always involves the end user or representatives of the target audience.

Design Thinking Is Anything But New

In the 2000s, design thinking became recognized as a catalyst for gaining competitive advantage by focusing on the aesthetics and user design of products. By including designers earlier in the process, their methods and training applied innovative thinking from the onset.

What is relatively new, especially in insurance, however, is the recognition that the acumen is as useful for tapping the creativity of any group of insurance professionals and focusing its efforts on improving the experience of the user.

When talk turns to design and even design thinking, it is natural for "real business people" to assume the conversation will focus on "artsy fartsy fluffer-nutter" (AF2N) sorts of touchy-feelie stuff. (I apologize for the highly technical terminology.) But that's not where I am going, and that's not what is happening in the real world today.

Although design thinking was first perceived as a valued concept for designers of physical goods, it has also emerged as a valuable approach to resolve issues for creators of intangible products and services. This approach extends beyond making goods attractive, but it is appropriate for services, experiences and ecosystems that surround those products and services. This approach demonstrates that creativity is not a phenomenon exclusive to artists and designers.

Tom Kelley of IDEO talks about design thinking as a way to "unbury creativity." (YouTube video, "IDEO's Tom Kelley is Design Thinking's ultimate disciple, he makes the case as to why")

Today, savvy business people are realizing that design thinking serves as a means to "cut to the chase" when it comes to improving or optimizing operations, better utilizing their employees' talent, improving services to their agents and insureds, and driving results. Oh yeah, you can call that innovating too.

Jeanne Liedtka writes in Harvard Business Review that design thinking serves as a way to "unleash people's full creative energies, win their commitment and radically improve processes." But what people may not understand is the subtler way that design thinking gets around the human biases (for example, rootedness in the status quo) or attachments to specific behavioral norms ("That's how we do things here") that time and again block the exercise of imagination," she notes.

Key Design Thinking Steps

The beauty of the design thinking approach is that it emphasizes the experience of the target persona. Whether that is an insured, producer, underwriter, claims adjuster, actuary, accounts receivable clerk or compliance officer, the designing group focuses on the needs of that representative individual (persona), empathizes with their current experiences and evaluates what's needed to optimize it. In other words, they work on defining the problem or opportunity.

Once the gaps are determined in the as-is compared with the desired-to-be customer experiences, then ideas are offered and expanded upon as far as creating a solution (ideation). From there, a prototype can be designed, delivered and then tested.

In short, the basic steps are:

- Empathize.
- Define the problem.
- Ideate—develop a problem statement and ideas for solutions.
- Prototype—minimum viable products.
- Test.

Principal to design thinking is the simple fact that when humans cooperate and communicate, they naturally spark the creativity in each other. The process of a design thinking workshop focuses on overcoming bias and the natural excuse "cause we've always done it that way" to

continued on next page

Design Thinking Training Resources

The author recommends these sources for insurance carriers seeking more information and training on design thinking:

- "Why Design Thinking Works" by UVA Darden School of Business Professor Jeanne Liedtka, Harvard Business Review (https://hbr.org/2018/09/why-design-thinking-works)
- IBM Design Thinking (https://www.ibm.com/design/thinking/)
- IDEO Design Thinking (https://www.ideou.com/pages/team-training)
- MIT Executive Education (https://executive-ed.mit.edu/mastering-design-thinking)
- Stanford Crash Course (https://dschool.stanford.edu/resources/a-virtual-crash-course-in-design-thinking)

Online bonus: A short summary of design thinking tools, such as personas and empathy maps, compiled from information from the IBM Design Thinking link, is available with the online version of this article. (*CM* article titled "Design Thinking Basics")

continued from page 19

create fabulously insightful innovations. Ironically, oftentimes some of these are simple and straightforward and still result in massive improvements and savings.

Now, you might argue that design thinking sounds great in concept, but why should you care about the experiences of your underwriters, claims staff or others. Maybe you have systems problems to address, or else you're worried about a digital transformation or improving customer service.

Designing Blockchain at AAIS

By Craig Bedell

AAIS has developed openIDL, an open blockchain network that streamlines regulatory reporting and provides new insights for insurers. I interviewed Joan Zerkovich, VP of Operations at AAIS, about her experience with design thinking in developing openIDL.

Q: Explain the benefits of design thinking to AAIS's efforts around openIDL.
Zerkovich: Design thinking is critical to our efforts around openIDL. The problem we were addressing is that statistical reporting is not meeting the needs of any of the key stakeholders—i.e., carriers, regulators and advisory organizations. In order to improve the system, we had to bring all of the parties together to build empathy for one another, agree upon what needs to be solved and then agree upon the solution. The design thinking workshop approach helped us accomplish this.

Q: What surprises, unintended consequences or other sorts of revelations came about using DT that otherwise might have gone undiscovered?
Zerkovich: The regulators were surprised to learn about how much work and expense was incurred within carrier data centers regarding data calls. They didn't have the perspective that all 50 states impose operational overhead on the carriers, not just their state.

Carriers share the same values as the regulators. They both want to understand the health of the insurance marketplace and ensure it is fair for consumers. The carriers would like access to the reports that state regulators are creating from data calls to better understand their performance relative to the entire market.

Both groups had lost the institutional knowledge that the role of the advisory organization is to have access to regulatory data for product development. This is something both groups value once reminded.

The regulators and the carriers came to a new realization of how we could all help one another and, for the first time in over 80 years, agreed to work together collaboratively on regulatory reporting.

Q: For someone wanting to explore utilizing DT, what first-steps advice can you offer?
Zerkovich: Partner with someone skilled in the design thinking process to facilitate two or three sessions and train internal staff in the techniques. There are subtleties in how you guide people to build empathy, to think creatively and to come together on next steps. IDEO is the most recognized expert in the field. AAIS used IBM's design thinking practice.

Learn more about openIDL at https://aaisonline.com/openidl and in the CM article, "Why Open Source, Blockchain-Powered Infrastructure Matters," by Joan Zerkovich.

> "For too long, we have focused on the small problems in a disorganized and disconnected manner. Processes and systems have evolved into an inefficient means of conducting business, and we don't necessarily even appreciate just how messed up things really are."

For too long we have focused on the small problems in a disorganized and disconnected manner. Processes and systems have evolved into an inefficient means of conducting business, and we don't necessarily even appreciate just how messed up things really are.

Yes, new technology and solutions may offer the promise of a fix to some of our woes. But the real fix and the real improvements will come when we coordinate, communicate and get creative with what we already know.

Developing a Design Thinking Practice

My advice to every insurance business professional is that you become familiar with design thinking and then explore ways to instill a DT practice with DT champions in your organization.

Companies like IBM offer design thinking training either separately or in conjunction with a project or program. IDEO has its Design Thinking Team Learning; MIT has online training; and Stanford's D School offers an online Crash Course, to name just a few. A quick YouTube search will provide numerous videos as well.

I hope that I have piqued your curiosity about design thinking. I hope you will act. Because, as I said before, there is no innovation without action. CM

Supporting Underwriting, Claims Decisions

With the Science of Behavioral Economics

Executive Summary: Consultants from the insurance practice of Willis Towers Watson describe the ways in which cognitive biases overlap with the decisions typically made by insurance professionals and suggest interventions to minimize their impact.

By Jason Rodriguez and Katey Walker

Successful insurance product administration requires consistent, accurate decisions from the evaluation of submissions at underwriting to the adjudication of claims. Effective decision operations are particularly important for commercial lines carriers, where underwriting teams collectively steer the company into segments of profitability and prosperity or into real trouble.

In fact, many commercial lines insurers are trying to exert greater quality control over underwriter decisions by both systematically capturing the inputs into those decisions and recording sufficient claim detail to attribute outcomes to applicable coverages.

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continued from page 21

Katey Walker, FCAS, MAAA, CSPA, is Americas P&C Sales and Practice Leader for Insurance Consulting and Technology at Willis Towers Watson. She was also one of the guest editors for the Data and Predictive Analytics section of the Jan/Feb 2019 edition of *Carrier Management*.

Jason Rodriguez, PhD, is Data Science Lead, Willis Towers Watson's Insurance Consulting and Technology Americas business.

Claim management teams are working on essentially the same issue: collecting more information on claim facts, decisions and outcomes.

As insurers venture further down the path of digital transformation and examine key decisions in the insurance value chain at greater detail, what are they likely to find? More specifically, where should they look to improve decisions?

Research on Decision-Making

One potential source for answers can be found in the field of behavioral economics, the intersection between economics and psychology focused on elucidating decisions made by consumers and professionals. Over the years, behavioral economists have catalogued many situations where people consistently make irrational choices, and by understanding the elements of each choice they have traced those situations back to distinct cognitive biases in the decision-making process.

Many cognitive biases are believed to stem from limitations in the memory capacity and computing power of the brain. The most interesting and relevant biases result from our tendency to use simplified heuristics to replace complex decision processes. We commonly create and rely on simple heuristics—for instance, using a "rule of thumb" as a guide to help people make decisions—and our brain implicitly uses heuristics as well. Here are some examples:

Availability heuristic: People will rely on information that is easily available when making decisions. For example, research subjects were found to overestimate the frequency of homicide compared to death from diabetes since they hear about homicides in the news (Lichtenstein, Slovic, Fischhoff, Layman, & Combs, 1978).

Affect heuristic: People will use their emotions as a shortcut when making difficult decisions. They will focus on the emotional content of the information and use their "gut feeling" to make a choice. For example, people were found to let their feelings about the risk of nuclear energy influence their assessment of the benefits of the technology (Finucane, Alhakami, Slovic, & Johnson, 2000). This lapse in judgment, like most other biases, becomes worse when people are put under time pressure.

However, not all of these biases are as easy to explain as simplifying heuristics; for example, consider the "anchoring and adjustment" bias identified by Kahneman and Tversky.

Anchoring and adjustment: People will use reference points (or anchors) when making estimations. Here's an example research task (Tversky & Kahneman, 1974) that helps to illustrate the phenomenon: An experimenter spins a "Wheel of Fortune" device as you watch, and the wheel happens to come up pointing to (version one) the number 65 or (version two) the number 15. The experimenter then asks you whether the percentage of African countries in the United Nations is above or below this number. After you answer, the experimenter asks you your estimate of the percentage of African countries in the UN.

People who randomly were assigned the number 15 guessed lower values than the group assigned the number 65. This demonstrates that people's estimates can be biased by random numbers—i.e., the random number on the wheel in this case.

The field of behavioral economics is filled with errors in human judgment, but what do these have to do with insurance?

Underwriters and claim professionals routinely make decisions that require the careful balance of complex contextual information under the pressure of time constraints and stress—known as cognitive bias magnifiers. Since many of these decisions are linked directly to financial performance and tracked, an examination of the historical outcomes often shows these cognitive biases exist not only in research articles but in the typical insurance product cycle.

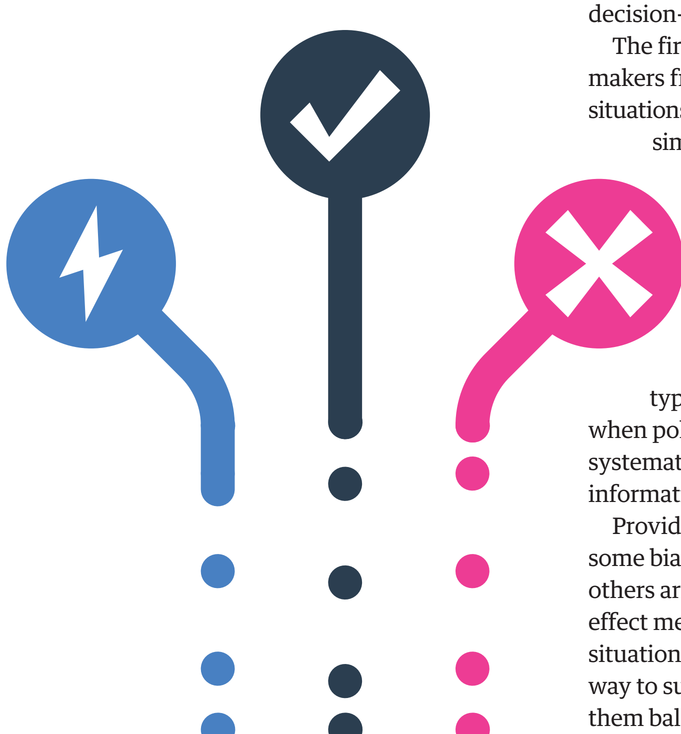
Cognitive Biases in Underwriting

The underwriting management of a midsize commercial lines product claimed they focused on two exposure metrics to determine the fundamental size of each risk under consideration. Let's say this product exclusively covered shopping mall liability and the underwriters focused on number of stores and square footage of the building while ignoring other potential measures of activity, such as gross sales revenue, number of warehouse deliveries, etc.

This is a classic example of what researchers call the "focusing effect," where people tend to focus on a couple of factors in each decision rather than considering higher dimensions. While the performance appeared to be satisfactory across the two metrics emphasized by the underwriting team, the third exposure metric—i.e., gross sales revenue—showed a consistent pattern of profitability issues. Policies with high gross sales revenue ended up with greater loss ratios. The premium had not been adjusted for the additional risk associated with these policies. This was an egregious example of cognitive bias where an erroneous belief had become a guideline, since management was actively discouraging the use of additional exposure information.

Cognitive Biases in Claims

Large claims draw a lot of attention at insurers for good reason. A couple of large claims could be the difference between a great year and a regrettable one. The challenge is these large, devastating claims are amplified in our decision-making process through both the availability and affect heuristics. This could lead to dangerous overreaction as organizations invest too much time in superficially similar circumstances while potentially ignoring the red flags for the next big claim.



Underwriters and claim professionals routinely make decisions that require careful balance of complex contextual information under the pressure of time constraints and stress—known as cognitive bias magnifiers.

Support Decisions With Science

Fortunately, the insurance industry has the data, tools and long-term mentality to mitigate vulnerabilities to cognitive biases. Data and analytics can provide a sanctuary from the perils of cognitive biases by using historical precedent as a guide to good decisions. In practice, there are different levels of support that can be provided to decision-makers.

The first approach is to prevent decision-makers from having to recall comparable situations; instead, a dashboard can present similar cases—e.g., prior underwriting decisions on similar submissions—to a decision-maker in the moment. This can allow an underwriter to evaluate the submission in the context of other similar decisions and determine if this is an outlier or typical case. This is a good solution when policies vary too much for more systematic analysis or the historical information is lacking or inconsistent.

Providing similar cases can address some biases—e.g., the availability bias—but others are still possible, like the focusing effect mentioned in the underwriting situation described earlier. An even better way to support decision-makers is to help them balance the influence in many facts. This entails quantifying the independent impact of many related features of a risk or claim using a predictive model.

This task is well-suited to the goal of predictive modeling: capturing complex relationships between input information (the claim details at a point in time) and outcomes (ultimate claim costs). This mathematical representation can help deciders by raising awareness of the attributes that indicate a poor prognosis or even triggering some process, such as management intervention.

If consistent historical information is available, predictive modeling offers significant benefits in decision support. In fact, most insurers expect to support claims and underwriting decisions with predictive models by 2021 (2019 Willis Towers Watson Advanced Analytics Survey).

The work of behavioral economists has provided useful insights into the decision-making processes that occur in the day-to-day operations of insurance carriers. These insights have revealed the people trusted with important financial decisions at insurers are influenced by biases rooted in the limits of our cognitive capabilities. On the positive side, behavioral economics have also provided a useful guide for identifying these biases.

The combination of knowledge biases and technology innovations—including predictive modeling—provides achievable solutions to support decisions by reducing our vulnerability to cognitive biases. It is now up to us to recognize the issues and put the solutions into practice.

Read More About Behavioral Economics

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From On-Demand Insurance to Slice Mind:

The Evolution of an InsurTech

Executive Summary: Armed with lessons learned from working on overhauls of behemoth insurance systems, Slice CEO Tim Attia and his co-founders moved the InsurTech beyond an original mission of providing insurance focused on homeshares and rideshares. Understanding that sustainable competitive advantage comes from being cost-effective enough to reinvest in ever-changing technology, and that global growth would mean partnering with carriers that have access to more locations than a startup, Slice launched Insurance Cloud Services, setting up digital insurers for traditional companies. And ICS recently gave birth to a new slice of the InsurTech's pie—Slice Mind services.

By Susanne Sclafane

Tim Attia didn't have 400 years to wait for the on-demand insurance distributed by his company Slice Labs to make its way around the world.

"We're focused on this new economy—digital products, on-demand products," Attia told *Carrier Management* in a phone interview in late February, giving a concise description of the five-year-old InsurTech. "These products are distributed through platforms" like Airbnb. "Airbnb is in 191 countries. So, if we wanted to do it ourselves, it could take us 390 years to get into 191 countries," he suggested.

Supporting the estimate, Attia noted that AXA, one of the largest insurance companies in the world, which has been in business for over 200 years, is doing business in just about 60 countries today.

"In order to scale, we were going to have to partner with carriers," Attia said, explaining why Slice evolved from offering homeshare insurance for about half of the U.S. states with just two partners (Munich Re, initially, and later Progressive) to eventually launch Slice's Insurance Cloud Services (ICS) in January 2018. The cloud-hosted, end-to-end, digital-first platform allows traditional carriers to quickly make the leap to become a digital insurer. Within two years of the launch, insurance companies like The Co-operators, Legal & General, AXA XL and Sompo International all started using it to deliver a wide array of products across the globe—in the U.S., Canada and even Southeast Asia.

Attia explained that platforms like Airbnb, Microsoft and Line (a messaging app), for which carriers are now offering Slice-made, on-demand, pay-as-you-go digital insurance, don't have jurisdictional boundaries for service delivery. "Insurance is jurisdictional," he said. "How are you going to support Airbnb in Thailand when all you write is 50 states?" he asked.

To serve the needs of multijurisdictional platforms, Slice "can go across multiple carriers," he said. "Our platform can use one carrier in the U.S. and use a different carrier in Europe...We can stitch together all of the carriers needed," he said.

"Anything you do with technology today, even if you're really advanced, is a boat anchor tomorrow. Unless you lower expenses or improve margins, and you can have that money to reinvest in tomorrow's technology, you're not going to sustain competitive advantage"

On Demand, New Economy

The latest carrier to partner with Slice using ICS is Sompo, focused currently on one jurisdiction, Thailand, and distributing travel insurance through Thailand's most popular social messaging platform, Line. The earliest overseas ICS carrier partner was Legal & General, announcing its intention to bring Slice's flagship product, on-demand homeshare insurance, for Airbnb, Homeaway and OneFineStay hosts in the U.K. in February 2018. The Co-operators followed suit in July 2018, bringing homeshare insurance to Canada under the duuo by Co-operators brand, officially going live in September 2018 for hosts using Airbnb, HomeAway and VRBO.

Another partnership saw AXA XL connect with Slice to offer cyber insurance for small and midsize businesses in 2018, and earlier this year, they connected again to announce cyber risk mitigation and insurance for Microsoft 365 Business and Office 365 Business customers. Those cyber collaborations seem far afield from Slice's original stated purpose, which was providing "on-demand insurance for the on-demand economy."

Attia explained that the "on-demand insurance" part of the mission has stayed intact, while Slice has broadened the target buyers of the insurance beyond the "on-demand economy."

"Now we say new economy," he said, agreeing that on-demand economy narrowly means Uber, Lyft, Upwork—gig economy companies. Cyber is a broad new economy risk, he added. Still, Attia draws analogies to the gig economy to explain what "on-demand insurance" is all about.

When you need a ride, "you tap on a button and an Uber shows up. I don't think insurance can any longer [mean] tap a button, go to a webpage, fill out 10 pages, call a call center, wait two weeks for a bunch of paper to show up. Insurance needs to be that same experience as tap on a button and it just happens," he said. "Insurance itself needs to be on demand. We live in an on-demand world."

In this sense, cyber insurance can be on demand, too. He recalled Slice's experience in buying a cyber policy not unlike the one Slice and AXA XL now offer to SMBs. "We had to fill out a massive 30-page application. We had to give them our security policies—all of our documents, procedures. Forty-seven days later, we got a policy...Two weeks later our CTO spun up our Frankfurt region of AWS and bought up 50 end nodes, and the policy doesn't know anything about it."

With the cyber risk protection that Slice and AXA XL now deliver to SMBs and Microsoft customers, he said, "there's no application for insurance. We don't ask anybody to rep and warrant...We ask six questions, but three of them are risk questions taking away name and address."

Sensors and signals used for automated underwriting are also the engine behind cyber risk modeling—one of four Slice Mind services that even carriers who aren't ICS licensees can purchase—an AI-powered risk service that provides actionable recommendations on ways to reduce exposures and improve a business' cyber posture in real time. (See related article, "What Is Slice Mind?" on page 28)

Insurance Done Incorrectly

"Insurance Corrected" was the original tagline for Slice when the company

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continued from page 25

launched to serve a growing niche of sharing economy participants. Even though the InsurTech has broadened its sights beyond the on-demand economy, Attia, co-founder Ernie Hursh and Stuart Baserman, Slice's chief technology officer—the trio who created the company—still focus on three other parts of the original mission: to create a better customer experience; to take out as much operating expense as possible; to underwrite better.

Attia and Baserman have a long history together, starting back when they were both electrical engineering classmates at McGill University in Montreal, and in their prior jobs they were able to see insurance done incorrectly over time. They both worked at a Canadian consulting firm, CGI, and about eight years into their tenure, CGI bought Teleglobe Insurance, a company that owned some of the largest policy claims and billing systems used by the biggest carriers in the U.S.

Attia was tapped to run the Atlanta office. "These are systems that are circa the '70s and '80s—large COBOL and assembler systems used by the largest carriers [with] very, very innovative names like CLS, which stood for Commercial Lines

"Do we really care if you're a person or a business? You walk in the front door and you have to turn right if you're a business, turn left if you're a person."

System, and UBS, Universal Billing System," he jokingly said, going on to list the names of some "very cool" software, like Ratabase, one of the first standalone rating engines.

"I walked in knowing zero about insurance. They were reading ISO circulars...They rolled all general liability manuals—filling a whole boardroom with paper to show me how complicated it was [and] how many bazillion ISO class codes there are for commercial insurance," Attia said, recalling that he inherited the nation's largest commercial carriers as customers overnight.

"It was the first time CGI had assets," he said, noting that Baserman's job "was to look at all this software and decide what to do with it." After working on projects like building an admin system for an actuarial executive at AIG's American Home to replace her 10-tab spreadsheet for quoting and issuing umbrella policies, they "got hooked on insurance."

"We were front-ending all these ancient systems for the web and thought, 'There's got to be a better way.'" They set out on their own to build a product configurator for insurance: "The whole value proposition back then was [to bring] products to market 10-times faster because it would allow business people to configure products," he said.

"The challenge was nobody wanted to buy it...Not only did they not want it, but the reaction was hostile because insurance companies are line-of-business focused. 'I have GL, I have auto, I have home, and you're coming in talking about a product for a specific customer segment,'" Attia said, conveying the typical response at the time.

The comrades spent the next 12 years building policy, claims and billing systems at various firms. "We were in the whole large system renovation, replacement—you know, the heart surgery of replacing core systems within carriers...That's gut wrenching, difficult work. By the time you start these projects, it's already five years old from when you dreamed up a new operating model. They take 10 years. And they fail a large percentage of the time," he said, also describing the price tags climbing into the "hundreds and hundreds of millions of dollars."

After 13 years, Attia said, "We crossed over to the dark side. We became licensed online agents" for BOLT Solutions. "We were one of the first with direct-to-consumer small commercial. But we also were platform people. So, we had a platform that we licensed to companies like Allstate and Progressive."

They learned that it was hard for insurance companies to ingest technology and change. "We thought if that doesn't work, why don't we just kind of put lipstick on the front end? Let's make it a great buying experience," he said, noting that customer behaviors were changing at the time. But front-ending ancient processes and systems is also difficult, he added.

Attia also recalled that this was around the time when technology startups were launching in California. "Most commercial carriers at the time, which we were agents for, wouldn't write any companies with less than two years in business. And then they were also 'app companies,' which would allow somebody to use their personal car to drive like a taxi in violation of local municipal regulation," which made insurance companies nervous, he said.

"Here we were, one of the first online direct-to-consumer small commercial" insurance providers. These new companies "were coming to us, and none of the carriers would touch them. Nobody," he said, adding, "That was the lens that we started Slice under."

"It's so hard for a carrier to adjust technology. You can't just put lipstick on the front and magically make it a great experience. The only way we were going to get there was if we reimagined and rethought everything."

Insurance Corrected

While technology is key to the reimagined business model, Attia appreciates the difficulty involved in trying to make technology a sustainable competitive advantage. "We know that tomorrow the technology is going to be exponentially better than today. So, anything you do [with] technology today—even if we're really advanced—is a boat anchor tomorrow," he said. "Unless you have a significant advantage in terms of expense or margins like an Amazon would, and you can have that money to reinvest in tomorrow's technology, you're not going to sustain competitive advantage."

That's why Attia, Baserman and Hursh (another Bolt alumnus) set out to remove as much of the expense as possible while, at the same time, trying to create a better customer experience.


Tim Attia, CEO, Slice Labs

The first year of the rethink had Slice employees asking questions like, "Why do we have an application for insurance? Why does the process have to involve issuing a quote that's valid for 30 days, then a binder, then a policy?"

That's "because the cost of underwriting is so high that they have to make sure they're getting their premium on bind, and they can underwrite it and say no before they issue the policy. And then why is there a renewal? Because without it they never get to reunderwrite you," Attia said. Removing all of that eliminates a lot of expense, however. "Think of all the complexities that go away," he said. "All of the 20 or 30 years insurance companies spent—and we were part of it—automating these manual transactions, endorsements, audits."

Another central question followed in the rethinking process: "Do we really care if you're a person or a business? You walk in the front door and you have to turn right if you're a business, turn left if you're a person. If I get rid of the difference between personal and commercial, I get to save a whole tower," Attia said. "[What about] line of business? Do I really care that I'm a casualty underwriter and a property underwriter, if I'm working on an Airbnb host?" he asked.

"It's not homeowners [insurance]. It's an Airbnb host product. Don't I just need *an* underwriter? Then I can come up with coverages like overuse of utilities and municipal fines and vandalism to neighbor's property."

Attia said that the Slice team slowly chipped away at the silos to dramatically lower typical expenses. The technology company built in the cloud wrote its first homeshare policy a year later in October of 2016 in Iowa.

Scaling was the next big challenge, although Slice went on to offer homeshare insurance in more than a dozen states and to introduce rideshare insurance in early 2017, delivering both products online or through an app that allowed customers to sign up for coverage (on Munich Re paper) for whatever time frames they needed—hours, days, months—rather than being locked into annual policies.

The first step in scaling further—to all 50 states—came in October 2017 with Progressive Homeshare by Slice. Then came the launch of ICS in January 2018, bringing homeshare, rideshare and coverage like travel, cyber, event and "rent-my-stuff" insurance to other parts of the world.

Digital = No People

Noting that Slice set out to not just lower expenses and improve customer experience but also to underwrite better, *CM* asked Attia to describe the underwriting process for the products delivered on the ICS platform in more detail.

"There's no people underwriting. That's the key," Attia said. He noted that while insurers often use the term digital to refer to the use of technology, his definition of digital means no people in the process.

continued on next page

continued from page 27

"Insurance Cloud Services is a full digital insurer."

Contrasting a typical cyber insurance book for large customers written by a traditional insurer from the small business cyber insurance that AXA writes via ICS, he said, "Every large cyber product would be looked at by an underwriter—multiple underwriters. But for the monthly subscription ICS product, there's not even a screen on the system for an underwriter to be able to look at it. The machine is always underwriting it. Whether [it starts with] our underwriting rules or one of our partner's underwriting rules, there's no people underwriting it."

Who sets the rules depends on the product, he said, noting that even though Slice created the actuarial, underwriting and claims rules for its homeshare product, a given insurer interested in homeshare could modify those rules. "What they can't say is, 'We decided that we want a person to look at it'...They can't go back to the old world," Attia noted.

In the new world, he said, Co-operators in Canada was able to go live in two months. Back when he was selling policy and claims systems, they took 10 years to implement. "Now, we're doing it in months because it's fully contained. It's a fully end-to-end digital insurer. It collects premium, it pays taxes, it reports regulatory; there's no connection back to the mothership [to] operate. It doesn't need an insurer. It needs a piece of paper and risk capital. It needs real-time signals and events," he said.

Again using cyber as an example, he said, "We underwrite real time all the time." He spoke about a signal and event processor that can look at a cyber score at the time of policy purchase. "With Microsoft, we're integrated into a Secure Score, and so we know things like, 'Is two-factor [authentication] turned on? What's your patch hygiene?'"

Attia asserted: "You can't underwrite a lot of the new risks purely based on actuarial history. You have to look at real-time risk signals and events," also referring to a rideshare vehicle accepting a ride as an event. Being able to react as risks or threats emerge also means that "we could then encourage a small business to do something about that...It's dynamic; it's not static," he said.

Some of the behavioral nudges and real-time scores built into ICS are available to non-ICS users in a suite of four "Slice Mind Services" designed to proactively protect

What Is Slice Mind?

Engineers and algorithms take the place of people for the digital insurers that use the Insurance Cloud Services platform available from Slice Labs Inc.

But even carriers that don't currently use ICS can have access to some scores and predictions produced by algorithms to measure risk and prompt less risky behaviors, Slice announced in January 2020. Specifically, the InsurTech introduced four AI-powered Slice Mind services, enabling insurers "to more proactively and intelligently protect" businesses and consumers from risk by nudging people to buy appropriate coverages and even helping them to mitigate damage from real-time events that may give rise to claims.

Slice Mind combines artificial intelligence, machine learning and behavioral psychology into an engine that transforms data insights into actionable recommendations, CEO Tim Attia told *CM* late last year, before four individual services were made available outside of ICS.

The new services available to insurers and non-insurers seeking to better understand risk by subscription are:

- **Industry Prediction**, which can classify business based on just a website address, a series of keywords or a single sentence. Typing "https://www.slice.is/" into a sample of the service on the Slice Mind webpage, for example, returns the descriptions "on-demand insurance" and "insurance corrected" (the company's original tagline) with "high confidence." It can also return NAICS or SIC codes.
- **Cyber Risk Modeling** to calculate a real-time cyber risk score using externally visible data and non-intrusive algorithms. With user permission, it can also perform a "deep scan," to probe for more subtle vulnerabilities, the Slice website says.
- **Geographic Scoring**, revealing the geographic distribution of risk to help insurers make ongoing pricing, underwriting and claims decisions.
- **Claims Fraud Prevention**, a service that employs sophisticated AI methods to uncover subtle patterns of behavior—and potentially fraudulent activity—present during the claims process.

According to a blog item on the Slice website, Slice Mind services use data and AI to build models that not only predict everything from marketing prospects to degree of honesty in claims submission, but they also use "nudging"—a concept of behavioral science involving small suggestions that influence behavior—to put service insights into action.

During a late-February interview, Attia explained why Slice began offering the services, a subset of the AI/ML and behavioral science tools that are the foundation of the ICS platform, starting with an explanation of behavioral nudges embedded in the claims process.

He noted that Slice spent a year-and-a-half with behavioral scientist Max Bazerman of Harvard Business School, who has since published a paper about some of the behavioral techniques that Slice uses to encourage people to behave honestly when they submit insurance claims.

Almost all claims submissions start

carriers, businesses and customers from risk. (Related article, "What is Slice Mind?")

Attia summarized the concepts of on demand and digital by describing what falls outside of his definition of digital. It's not renovating "the mothership." Carriers need to do that, he said. "They need to implement as much technology as possible inside of their large, $40 billion carrier. They need to buy bots and bring in AI/ML and buy the latest core systems. But when they do that, really what they're doing is trying to shave five basis points off expense by automating manual processes."

"That's not what we're talking about," Attia said. "We're talking about standing up a separate digital insurer side-by-side that operates at a two-orders-of-magnitude better expense than the other side. Both of them sound the same. But if they say, 'Really, what we're doing is trying to renovate our existing shop with a lot of people,' then that's not us. They're looking for systems that can do workflow and move paper around and allow people to do things, then that doesn't fit us."

"If they're talking about a separate digital carrier because an auto OEM approached them or they have to embed insurance inside of an auto OEM, then that fits us," he said.

Bringing the summary of ICS back to what customers experience, Attia said, "It's almost instantaneous. The experience is on demand. [For] really any insurance, you can just hit a button and you're covered. Or you register for it and then there's a signal and it automatically happens."

In order to create a better customer experience, he said, "we're not responding with people. We're responding with engineers and algorithms."

(In an online exclusive article, Attia talks to CM about "What's Next for Slice?" and answers questions about the applicability of Insurance Cloud Services to life insurance risks, the possibility of eliminating insurers from on-demand coverage transactions and Slice's loss ratio experience to date.)

through a bot, which "pops up an honesty pledge" as the claims process begins. "We sign first, saying that we're going to be fair and transparent and honest, and we ask them [claimants] to sign. We pin that to the top. And so they always see the signature as they're going through it."

Not only are the questions written by behavioral psychologists, but Slice nudges honesty further by asking claimants to report first-notice-of-loss reports into a video. "They don't have to do it, but if they do, they get scored higher," he said. "That's a very strong behavioral nudge because it's really harder to lie" to a video camera.

Estimating about eight techniques being used in just the claims process, Attia alluded to another Bazerman technique known as final-offer arbitration (in which two negotiating parties submit final offers, and the arbitrator must select one or the other rather than splitting the difference).

In addition to behavioral techniques around claims, underwriting algorithms allow Slice to offer $2 million commercial liability, full replacement costs of the house and 16 coverages with no retention to homeshare hosts while only asking two questions: What's your address, and what's your name?

"Even though we need protection class and replacement cost, we do that all in the background," Attia said, explaining that carriers using ICS and seeing these in action started asking if they could use the AI algorithms and behavioral nudges for the rest of their books that weren't on ICS.

"That's the genesis of a Slice Mind," he said, going on to describe the "industry prediction" service in some detail. Being able to classify a small business based on a website address or an English description is "such a huge, huge thing," Attia said, referring to GL manuals with thousands of ISO classes like "restaurant with a fryer" and with a non-owned auto.

"The classification of the business is so key to how small businesses are priced and underwritten, yet we misclassify businesses all the time, either intentionally or unintentionally and for all kinds of reasons," he said.

The Slice Mind cyber risk modeling service provides actionable recommendations on ways to reduce exposures and improve cyber posture for businesses in real time. According to an announcement about the launch of the service, carriers "can leverage these insights to introduce gamification into client relationships with progression, accomplishment and recognition for improved cyber risk management."

Referring to "the intersection of data, algorithms and behavioral psychology" captured on Slice's ICS platform, Attia gave a non-cyber example. "One of our algorithms can send an email to Airbnb hosts saying, 'There's a wildfire or a hurricane coming. Do you really think you should book a stay?'" encouraging the host to proactively reach out to a prospective guest.

Attia confirmed that carriers that are not Slice ICS customers can subscribe to any one—or all—of the four specific services announced in January, and that those that are ICS partners can use them for parts of their books not on ICS.

Dealing With Rapid Change:

Bradford Examines Risk Management in 2020

Insurance and risk professionals know there are new risks emerging they need to address, but a related development isn't always appreciated, an industry veteran suggests.

"The fact that things are changing so rapidly is a risk factor itself," said David Bradford, principal of Iosis Consulting. Bradford's extensive background in the reinsurance industry, and his experience in co-founding what is arguably one of the oldest InsurTechs, prompted *CM* to invite him to serve as guest editor for part of this magazine. Answering our call, he chose the theme "Future Shock: Managing Risk in a Time of Accelerating Change."

"It's a concept that has intrigued me forever," he said, referring to the book "Future Shock" by Alvin Toffler, published 50 years ago. "The thesis was that people were not equipped to deal with the rate of change and that it caused psychological, emotional and social problems." The rate of change created two groups of people: "those who adapt well to change and who can capitalize on that, and [others], who are not comfortable with change and retreat and get left behind in the process."

"If the rate of change in the 1970s was causing problems, what does the world of today mean in terms of how we deal with change?" The pages that follow summarize answers he got from risk experts with varying perspectives: one involved with taking a disruptive product to market; another with the creation of investment markets for risks like cyber and pandemics; a third bringing technology companies together with insurers; and an executive whose company responds to customers' coverage needs in an instant—on demand.

Early InsurTech

Bradford learned his own lessons about keeping up with rapid change during a 40-year career that started at Allstate Re in 1980. After holding executive positions at Reliance Re and Swiss Re, as well, Bradford and Tom Ruggieri, a former managing director of Marsh & McLennan, teamed up to launch Advisen with the goal of providing an online information resource for the commercial insurance industry.

"We didn't get it right at first," Bradford said, noting that the pair assumed people wanted to do all their work digitally. "We envisioned an Advisen on every broker's desktop, but that wasn't the way brokers worked, [and] it wasn't the way risk managers worked," he said. Over time, Advisen "migrated to becoming largely a data company," licensing the data separately from the Advisen.com platform.

The Advisen pioneers were ahead of the curve with another part of their vision: to create underwriting tools using natural language processing and machine learning. "We made a huge investment in that technology, which in 2000 was pretty primitive. The training involved was just beyond the capabilities that we had." With no payoff on the investment, they scrapped the idea.

Leading his own consulting firm today, Bradford helps tech startups navigate insurance markets. His sobering past experiences—of taking fantastic ideas to market and then having them not work out—help him guide InsurTechs when they need to pivot, he said.

Advisen could be described as a forerunner to InsurTechs like RiskGenius and RiskMatch with its policy comparison and prospecting tools. But Bradford had an even earlier experience trying to bridge the insurance technology gap with a platform not unlike InsurTech Boost Insurance's infrastructure-as-a-service offering today.

While at Swiss Re, he formed a joint partnership with Policy Management Systems Corporation to create "a soup-to-nuts turnkey operation for launching new insurance companies. If somebody came in with a good idea, PMSC not only had the outsourced IT systems, they also had a complete outsourced backroom for a virtual insurance company," he said. Swiss Re provided the reinsurance and had an investment division that provided capital.

In an earlier role at Swiss Re, Bradford worked with McKinsey to revamp the U.S. operation. Recalling huge disruption that occurred when all of senior management was let go, he said helping to re-engineer Swiss Re America was a great learning experience. The team started from scratch, "thinking about the markets not from the standpoint of a going concern but how we would like to build the company," he said.

Today, Bradford works with leading firms to provide feasibility studies, financing, back-office outsourcing and other services to early stage insurers, MGAs and RRGs. He also helps mature players develop innovations to address emerging risks and underserved markets. CM

Executive Summary: The head of Risk and Insurance for JUUL Labs, Inc., Loren Crannell, discusses the task of managing risk at a disruptive startup company with *CM* Guest Editor David Bradford. Crannell explains how JLI works through regulatory scrutiny and relationships with insurance underwriters in the wake of lawsuits challenging past marketing practices and product safety.

Navigating a Risk Management Maelstrom:

An Interview With JUUL Labs' Head of Risk and Insurance

By David Bradford
***Carrier Management* Guest Editor**
Principal, Iosis Consulting

JUUL Labs, Inc. (JLI), an alternative cigarette company, went from startup to a $4 billion revenue company in just four years. As of September 2018, the company had more than 70 percent of the e-cigarette market.

In September 2019, the U.S. FDA warned about deceptive marketing practices in JLI's "Make the Switch" campaign, which portrayed its products as a safer alternative to traditional cigarettes. JLI subsequently replaced CEO Kevin Burns with K.C. Crosthwaite, an executive at tobacco company Altria, and announced it would suspend "all broadcast, print and digital product advertising in the U.S." In October 2019, JLI announced it would no longer sell most of its flavored products, which were seen as appealing primarily to teens.

Still, JLI's travails continue. In February 2020, a coalition of 39 states announced it will look into marketing and sales practices, including whether JLI targeted underage smokers and made misleading claims about the nicotine content of its products. The company also has been named in lawsuits concerning its marketing practices and product safety, including a suit filed by a former executive alleging it knowingly sold contaminated mint-flavored nicotine pods.

In the midst of this turmoil, Loren Crannell, head of Global Risk and Insurance, advises senior management and the board of directors on risk management issues and communicates regularly with underwriters to keep them abreast of the latest legal and regulatory developments as well as changes JLI has made to its executive team, product and marketing.

Q: Nearly everyone knows JUUL by now, but just to level set, what would be a quick description of the company and the product?

Crannell: JUUL Labs Inc. is an alternative to tobacco products, a vaporizer product. The goal is to allow adult smokers an alternative to smoking cigarettes.

Q: Was the product initially brought to the market as a safer alternative to combustible cigarettes?

Crannell: The original goal of JLI was to give the world's one billion smokers an alternative to traditional cigarettes. Our founders had been smokers, but they knew that the No. 1 cause of preventable death and illness was from smoking.

Q: I assume that you took JLI to the insurance market and talked with underwriters about the product. How did you represent it to underwriters, and how did they receive that message?

Crannell: We talk to them quite often. At least twice a year, we go see them in New York, Bermuda and London. We talked about JUUL as an alternative [to combustible cigarettes]. We talked about the science. And we talked about the changes this

continued on next page

continued from page 31

year—pulling flavors off the market.

As we pulled the flavors off the market, we talked about building trust. We talked about K.C. Crosthwaite, our new CEO, and Joe Murillo, our chief regulatory officer. We changed the message from "switching" to, "We're trying to build trust in the public domain. We're trying to do the right thing." That's the message that we've given to underwriters, and it's been well received.

When I first got here [in January 2019], there were very limited direct conversations with underwriters. And so, when I came here it was to build those conversations, be transparent, be open, talk about the litigation, to talk about how we're approaching it. We put it all out there. They all have NDAs and we talked about really the brass bolts of the company.

Q: Product liability issues come to mind as being forefront in your risk profile, but has the character of the company and the product also bled over into directors and officers liability, or even cyber or some other lines?

Crannell: There's been surprisingly little bleed over from product liability to D&O. I think that's a good sign because the way the consolidated matters are working is all being held within product liability. That's good. On cyber, we don't hold data. We use data, but we get them from third parties. We are not very data-centric. Overall, things are pretty much focused on product liability.

Q: Talk about the response from the insurance market. Have you found that insurers are prepared to deal with an innovative product with an untested risk profile?

Crannell: I'm happy that many of them want to hear our story, but I recognize the headwinds that underwriters face. While we have a current product recall policy without any claims, continuing to secure that coverage will be difficult. It also will be a struggle to continue to have general liability premises coverage, even though I will strip out certain coverages from the policy language. Those two lines will require reviewing all options that are available to us, including reinsurance avenues and other alternatives.

On the larger lines, on the financial lines, underwriters have been a bit more open to discussion. But this year, we will need to continue building our direct relationships and share business updates.

(Editor's Note: JLI, Inc. currently has product recall insurance, but while the company took actions to proactively pull flavors from the markets, the actions did not involve recalling products from store shelves and therefore did not give rise to any policy claims.)

Q: Describe the role of your broker. From a broker standpoint, is it different with a startup that has an innovative, disruptive product vs. a more established company?

Crannell: For a disruptive company that's global, you actually need the bigger brokers. For a large established company, you can get by with a more regional broker, but for a large disruptive company like JLI, we needed to use Marsh. We needed direct access to the markets. We needed those relationships with a Beazley or Hiscox or Chubb. Without those, without a broker [that] puts a lot of premium into those underwriters, I don't think we would have been very successful.

Q: I assume that your need for that kind of firepower through your brokers is exacerbated by the fact that we're into hard market conditions in some lines. Are market conditions having a big impact on you?

Crannell: Underwriters are being very judicious in how they deploy capital, and then you have a very controversial or very in-the-news or media-heavy company like JLI, which makes it even worse. Even benign companies are having a hard time. Then you add on all of the media stress that we have, it can be overwhelming sometimes for the underwriters.

Q: How has that regulatory tension impacted your relationship with underwriters, and what have you learned from working through this?

Crannell: Having regulatory experience in-house brings credibility, and that allows good, transparent conversations with underwriters. Our general counsel was general counsel at the FDA, and Joe Murillo was a regulatory officer for 27 years with Altria. Having credible people in-house offers credibility to outside people. If we didn't have that, I don't think our message would resonate as loudly.

Q: How does regulatory scrutiny change your role? What do you do differently now that you're under such intense scrutiny?

Crannell: I work very closely with the legal department, and I speak to the regulatory counsel and chief compliance officer all the time. I'm partnering with our chief compliance officer to make sure that when we look at risk management, regulatory is a part of that. We look at risk from a business perspective and an enterprise perspective, but it comes down to having those partnerships. I just continue to build out that framework, those conversations, that teamwork and make sure we're all aligned.

Q: How about the board of directors? How engaged are they in risk activities, and what's your role relative to them?

Crannell: I converse with the board a lot. It is an absolute must because we're a public company forum, so we need to operate as if we are a public company.

(Editor's Note: JLI is a private company.)

That's why the chief compliance officer and I are teaming up, because I'm looking at things from a risk perspective, and he's looking at the same things from a compliance perspective. The two of us will start reporting into the audit committee on a quarterly [basis]. So, yes, the board is very involved. CM

David Bradford is a Principal of Iosis Consulting, providing services to insurance and reinsurance companies, MGAs and InsurTech firms seeking to achieve sustainable advantages in the competitive and rapidly changing commercial insurance market.
Bradford is the Guest Editor for this section of *Carrier Management*. Read more about him on page 30. Reach him at dbradford@iosisconsulting.com.

Creating a Tradeable Market for Cyber Risk—and More:

Q&A With AkinovA Founder Winand

Executive Summary: A tradeable market for cyber risk opened up early this year, when London-based AkinovA announced the first such transaction covering the risk of a cyber event disrupting power generation assets in the U.S. Here, AkinovA Co-Founder Henri Winand tells *CM* Guest Editor David Bradford why capacity for cyber needs to expand to the capital markets and how cover-triggering indexes can be tailored to different types of cyber events—and for more risks, such as pandemics and political risks. He also describes the prospect of creating real-time insurance securities for wildfires and other natural catastrophes that are simpler than those that exist today.

By David Bradford
***Carrier Management* Guest Editor**
Principal, Iosis Consulting

London-based AkinovA represents itself as "the electronic marketplace for the transfer and trading of risk." Founded in 2017 by Henri Winand and Jean-Michel Paul, the first trade on the platform—a cyber parametric instrument developed and structured by Hiscox with Guy Carpenter as the broker—was completed in January 2020.

Q: Explain AkinovA.

Winand: AkinovA is an independent... regulated venue to transfer and trade insurance risk. That's the summary tagline...It's a one-stop shop with all the tools that you need to match capital to risk, with brokers essentially making sure that the right instrument is for the right people.

Over time, we see AkinovA evolving into a digital ecosystem: one where brokers and users can draw from modular contracts, which can be easily priced and quickly assembled into tradeable instruments by insurers, reinsurers and capital markets; one [that will] work in tandem with service providers such as actuaries and model providers, interfacing with the marketplace to build a true ecosystem; one where insureds, brokers, underwriting capacity providers and other marketplace ecosystem members are better served within a world where the risk environment has become increasingly more dynamic and global.

AkinovA's ambition is to become a highly user-centric platform, where participants enjoy an end-to-end experience of a wide range of services and products. This will help the insurance industry to fundamentally transform itself, grow and reach new markets it cannot serve today.

Henri Winand, the co-founder and CEO of AkinovA, has a long résumé that includes previous roles as CEO of a technology company, Intelligent Energy, which had an IPO at $1 billion, and as VP of New Ventures for Rolls Royce plc.

Q: Your initial focus is on insurance-linked securities rather than traditional insurance.

Winand: The first few trades have all been based on a parameter—an index, we call it in this instance. We encourage parameters

continued on next page

continued from page 33

because they are simple to understand. That reduces the need for the buyer and seller to understand the real, underlying risks, but more to understand how the index performs. And once both parties—buyers, sellers—and of course, brokers, look at the same index, it makes for a faster purchasing cycle. And that's how you can more dynamically match risk to capital.

With a parameter, of course, the art is to choose the index that matches the insurance risk as closely as possible. Once you've done that, the insured doesn't need to provide a lot of data.

Q: The first transaction on AkinovA was a cyber transaction. Is cyber a good choice because it is amenable to an index?

Winand: I think you'll find a lot of things can be amenable to an index. Cyber is not really a class of business; it's a peril or it's risk that permeates about $170 trillion of P/C assets. So, cyber is interesting because it goes across a lot of assets. And there are lots of data with which you can create third-party, credible and robust indices. It's more dynamic, so it brings more liquidity to a marketplace.

As you look at how cyber events influence stocks [and] different key performance indicators for companies, you find that not all cyber events are the same. Hacking a factory does not have the same impact as hacking an aircraft, a fleet of cars or a banking system. They all have different behaviors. So, for a capacity provider—whether an insurer, reinsurer or capital market player—you have the ability to construct a far more dynamic portfolio than a portfolio linked to let's say climate. That's why cyber is a good place to start.

Also, if you think about why ILS came to be in the first instance, in the 90s, [it was] because there was lots of demand [for natural catastrophe reinsurance] and not enough capacity. If you start to take into account boardrooms' requirements for business interruption and intangible assets cover, where they need billions—not tens or hundreds of millions—then there's clearly not enough cyber capacity and there won't be for quite some time, unless capital markets have a place where they can, electronically and on a regulated venue, be able to match their capital to the risk. That's why cyber, I think, is important. *(Editor's Note: AkinovA's first parametric cyber transaction covers the risk of power outage originating from a cyber event. Coverage is triggered with reference to the combination of prescribed values of a third-party power generation index, outage times and disruption levels.)*

Q: What other classes of business or what other categories of risk are good candidates?

Winand: Cyber certainly has been at the forefront of our mind for reasons I outlined, but I think nat cat (natural catastrophe) will change and morph into something a little bit simpler and faster. So, we see, for instance, tradeable wildfire products where you can essentially transfer some of those risks in real time; you don't have to buy something that's sold for a season and hope for the best.

We also see inbound requests around political risk. Think of Brexit, what does that mean for companies? What does it mean for travel? You could choose to wrap a cat bond around it.

We see pandemic-related items as well. You may have seen some press recently on some of the pandemic cat bonds with [prospectuses of] 300-and-something pages. The audience for that is very small. But by having something that's a lot simpler to price and buy and sell, you open it up to a brand new audience.

Q: Is this leading to something analogous to crowd-funded risk capacity? Obviously, it's not going to be individuals putting $20 up, but basically a marketplace where individuals and institutional investors can pick and choose and put their capacity behind various sorts of risk?

Winand: This is a regulated marketplace for sophisticated participants, where everybody is KYC-ed [identified in accordance with know your customer rules], where anti-monetary laundering is cross-checked. And we do daily checks against a database of 120 million data points for sanction checks for all our participants continuously.

So, let's put it like this. At the very start, you want to make sure that you have sophisticated participants around the table. You want to make sure that the broker is on board because they see growth and opportunity for developing new lines of business and new advisory [services] for their clients. And they can forge a more rapid response and a more tailored response to what their clients want by having a simpler instrument but being able to pick from a mix of instruments and being able to construct what the client wants faster. That then opens an audience for capacity that is not there today.

Q: What else should the readers know?

Winand: I think there is a big role for good regulatory oversight and partnership with regulators. We invest a lot of time to make sure the balance between willingness to take risk and capital efficiency is struck right so you don't find yourself with a situation where people plow into a particular risk and then didn't quite understand the consequences of that. I think that's going to be very important, and we've struck the balance so far very well with the regulators.

Regulators are also pushing for boards of directors to take ownership of more types of risk, and certainly cyber is one of those. In the U.S., there are a number of regulations coming out there highlighting... that this is not an IT issue; this is a corporate and therefore a board issue.

Also, I think it will be helpful for boardrooms to think of insurance as a more dynamic hedge, as opposed to just a yearly product. CM

David Bradford is a Principal of Iosis Consulting, providing services to insurance and reinsurance companies, MGAs and InsurTech firms seeking to achieve sustainable advantages in the competitive and rapidly changing commercial insurance market. Bradford is the Guest Editor for this section of *Carrier Management*. Read more about him on page 30. Reach him at dbradford@iosisconsulting.com.

Creating New York's X-Factor:

Building an InsurTech Community
InsurTech NY's CEO Interviewed

Executive Summary: As co-founder of InsurTech NY, David Gritz has a unique vantage point on tech trends reshaping the management of rapidly changing risks, developments in InsurTech-carrier relationships and funding trends. He shared his insights with Guest Editor David Bradford 10 days before InsurTech NY hosted its mid-March Spring Conference virtually—converting the format from on-site to online in less than a week when officials shuttered Metropolitan area business because of coronavirus risks.

By David Bradford
***Carrier Management* Guest Editor**
Principal, Iosis Consulting

InsurTech NY's Spring Conference on March 19 had nearly 500 registrations. With events happening one every other month, the community has had more than 600 unique participants to date, and 9,000-plus people receive the group's New York Metro Area newsletter.

In less than one year, InsurTech NY has grown from an idea shared by founders David Gritz and Tony Lew into a vibrant hub for East Coast insurance entrepreneurs, insurers and investors.

Q: Let's talk about InsurTech NY and what inspired you to launch it.

Gritz: I was part of the Silicon Valley Insurance Accelerator, and I saw what was happening in the InsurTech space in Silicon Valley. Also, by observing a lot of other smaller communities—in Minneapolis; Des Moines, Iowa; Hartford, Conn.—I saw that something magical happens when there is a community to connect carriers and brokers with InsurTechs.

Communities bring people together. They accelerate the process of developing relationships, which for InsurTechs is otherwise an expensive and time-consuming part of their business. Nothing similar was happening in New York. There were events and conferences, but nothing on a timeline that was centered and focused toward InsurTechs.

Q: This seems to be an opportune moment. Why is the flow of money continuing to accelerate in the InsurTech space?

Gritz: There are four areas that I think are contributing. Many insurance carriers who were, early on, just observing have now decided to allocate funds [for InsurTech investments] or expand existing funds. A lot of it is seeing the success of others and following on.

The second [factor] is that a number of InsurTechs have come of age. If you think about the life cycle of a startup, it takes at least two to three years to get past its first fundraising round and prove it has enough traction to take on a series A, B or C round. For many InsurTechs, it took until 2019 to get to the point that a conservative investor would want to invest in them.

The third piece is acquisitions. 2019 was a big year for acquisitions, including Assurance IQ by Prudential and CoverWallet by Aon. Those successful acquisitions showed investors that if they put money in, they will be able to get it out. It also showed carriers that if they put time in, they will get value out.

The last piece is what I call the X factor. Certain catalysts make what might be an OK investment, a better investment. For example, in Des Moines, there's the Global Insurance Accelerator, which has more

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continued from page 35

than 10 carriers participating. So, if you're a startup in the MVP stage in that accelerator, you have an excellent opportunity to expand and get customers quickly. Usually, you would have to first build the product and then get customers. But by being nurtured by an accelerator, you can do both simultaneously.

Q: You mentioned that one reason that we're seeing an influx of capital is that a number of InsurTechs now have reached a point where they've proved their viability and are ready to move to the next level. Is that typical of the investment strategy at this point in time? Is a lot of that money focused on series A and B and beyond rather than seed capital?

Gritz: Unfortunately, that is the case. Most of the investors have moved upstream to focus on series A and beyond. And even some of the carriers have looked way far out. Like Swiss Re is looking at cutting big checks for series C and D rounds. It's unfortunate because there still are a lot of really great startups that aren't in that C stage, but they're being ignored.

Q: We're living in a time of accelerating change. Is partnering with InsurTechs a way for carriers to be more responsive to changes and to more quickly address new exposures?

Gritz: One way is through rapid prototyping. A New York company, Protosure, is a good example, and Kasko in London offers a similar capability. Protosure built a platform that enables insurance companies to develop a new product prototype and be ready to go to market in several months. I think that is revolutionary for some carriers.

InsurTechs can also enable carriers to do things that they couldn't do before in terms of pricing. One example is microinsurance, which was originally introduced to make inexpensive, low-limit insurance available to people and businesses in developing countries. The concept has expanded to insurance on phones, cameras and other small personal property. Travelers, through Traverse, is doing that on their own, but there are a couple of InsurTech companies, like Trōv, that were in that space earlier.

David Gritz is co-founder of InsurTech NY, the largest InsurTech community in the New York metro area. In addition, he advises growing InsurTech startups through his roles at Startup Owl and the Silicon Valley Insurance Accelerator.

Another example is on-demand or episodic insurance. Slice is a good example; they created the infrastructure to offer insurance that can be dynamically underwritten and turned on and turned off. They partner with carriers, so they deploy the technology and the carrier takes the risk. (See related article, p. 24.)

Q: Insurers and reinsurers are clear beneficiaries of innovations coming out of the InsurTech market. In some cases, however, the beneficiaries are the insured companies. Is that a trend?

Gritz: Risk management is definitely slower to change. But there are areas where risk managers and safety engineers can take advantage of new technologies. One example is Safesite, which is a construction management software that enables virtual inspections of construction sites. The idea is that if you have more insight into what's actually happening on your construction site, you can focus resources on the risks with the highest severity.

I also think that risk managers and safety engineers are just now becoming aware about what is available for them through technology. A lot of loss prevention investments to date have been physical things like guards on machinery. They haven't been thinking about software. Over the next five years, there's going to be a lot more awareness.

Last year at their annual conference, RIMS had a showcase for InsurTech, and risk managers were the judges. That's the first step—creating awareness and having InsurTechs meet risk managers. As risk managers and safety engineers start to contextualize software investments like they look at PPE [personal protective equipment], then it's going to be easier for InsurTechs to work with them.

Q: What do you see as key trends that will drive InsurTech over the next several years?

Gritz: A trend that is already happening, but I think it's going to accelerate, is the creation of digital MGAs to tackle specific areas of demand for insurance. Whether it's a specific population of people, a type of risk or within a defined segment like small commercial, I think a lot of those areas are going to hit the digital MGA wave.

Also, there are a number of startups that have created what is basically insurance infrastructure as a service, whether it's Boost Insurance in New York or InsurTech Gateway in the UK. They've created an ability to rapidly get into 50 states or find a reinsurance partner or get a front company or have the infrastructure to be able to manage policies. Because that capability exists, I think there are going to be a lot more digital MGAs created. And if you look at the most valuable companies, I think it's going to be digital MGAs.

Another trend I see, which I'm surprised more people are not talking about, is internal InsurTechs—traditional carriers creating skunkworks to create InsurTechs internally. It's solely owned by the carrier, but it can have a life on its own. And some are really successful. AIG has Blackboard Insurance, Swiss Re has iptiQ, Nationwide has Spire, Travelers has Traverse, and they've all been doing well. CM

David Bradford, a Principal of Iosis Consulting, is the Guest Editor for this section of *Carrier Management*. Read more about him on page 30. Reach him at dbradford@iosisconsulting.com.

Improving the Quality of Life for Humanity:

The North Star for Carriers and Agents

in an Age of Rapid Change

Executive Summary: In an opinion piece authored days before coronavirus infections started to swell across North America, Tim Attia of Slice Labs thought deeply about increases in longevity and the future roles of carriers and insurance agents in improving the lives of consumers. Carriers and distributors need to invest in consumer happiness, which means not asking them to call an insurer to protect against new economy risks but instead providing coverage spontaneously as they live out their daily lives, he suggests.

Executive Viewpoint:
By Tim Attia

The definition of insurance risk will always evolve as long as this industry exists.

Perhaps the earliest date associated with insurance risk on a person and not an asset (which dates back even earlier) is the Edmund Halley survival table from 1693, which later formed the foundation for determining life insurance premiums. As an article from the Journal of the Royal Statistical Society states, in the 1840s as the insurance industry expanded in Britain, the Halley table was still vital in determining potential risk.

Halfway through the 20th century, the insurance industry went through what likely seemed to the 19th century insurance industry as rapid change as the world emerged from two world wars and the Great Depression. The same could be said of the transition from the 18th to the 19th century. Technology, economic and healthcare changes have been the constant driver impacting life expectancy, business efficiency and large societal changes.

Tim Attia is the CEO and Co-Founder of Slice Labs. Read more about Attia and Slice in the profile interview on page 24 of this edition.

While this article is not about predicting the future, given the goals of societies around the world about improving physical, mental and financial health, the prospect of achieving longer lifespans—beyond 100 years of age—due to smarter technology, medicine and financial management assets will redefine how we manage risk like never before. There are scientists who

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In the future, the consumer does nothing other than working and enjoying life—without having to purchase and take medicine, buy groceries, call an insurer or engage in other "menial" tasks we do today. Instead, omniscient and omnipresent models create service delivery, financial management and healthcare experiences for them.

continued from page 37

believe that there are people alive today who will survive to be 200. If they are right, then we are in for exponential changes in the business of insurance.

Where does insurance fit into a world whose age expectancy is supposed to rise perhaps faster than any time in history? How do insurers plan for this along with trying to understand how to best serve the needs of customers who want instant and flexible services in every industry?

Understand the Heart of the Matter

If consumers, technology companies, insurers and other service providers all were asked what is the most foundational goal of all of their efforts, they would likely say to improve the quality of life for humanity on a micro and macro scale. This is why you see all of these groups involved in philanthropic endeavors, whether it is serving at a soup kitchen or planting trees for every new cloud software customer.

At times, the insurance industry can be so busy with trying to catch up with the "Joneses" on technology advances and keeping up with changing customer expectations that this common goal can be neglected. Beyond what needs to be done to modernize legacy insurance technology, customer engagement and service delivery models, carriers need to modernize how they look at improving life.

Improving life and maintaining the highest quality possible will still be the desire of the 200-year-olds that scientists believe are alive today. On a practical level, this means that insurers need to become partners with their customers in personalizing how they understand and manage risk. Yes, there should be the strategic integration of sensors and signals at the home, office, car and on the insured. But it goes beyond that. This type of customized insurance plan means carriers must say goodbye to the one-size-fits-all approach to analyzing risk and protecting customers.

A major factor influencing scientists who are predicting exponential increases in longevity is that they are assuming that humanity is benefiting from continued

On a practical level, insurers need to become partners with their customers in personalizing how they understand and manage risk.

advancements to create a new "smart" lifestyle that is ultra-personalized, proactive and intelligent. They expect a service delivery, financial management and healthcare customer experience that is well beyond on demand and pay as you go—where we need to get to this decade—to a near omniscient and omnipresent model where the consumer does nothing other than work and enjoy life without having to purchase and take medicine, buy groceries, call an insurer, or other "menial" tasks we do today.

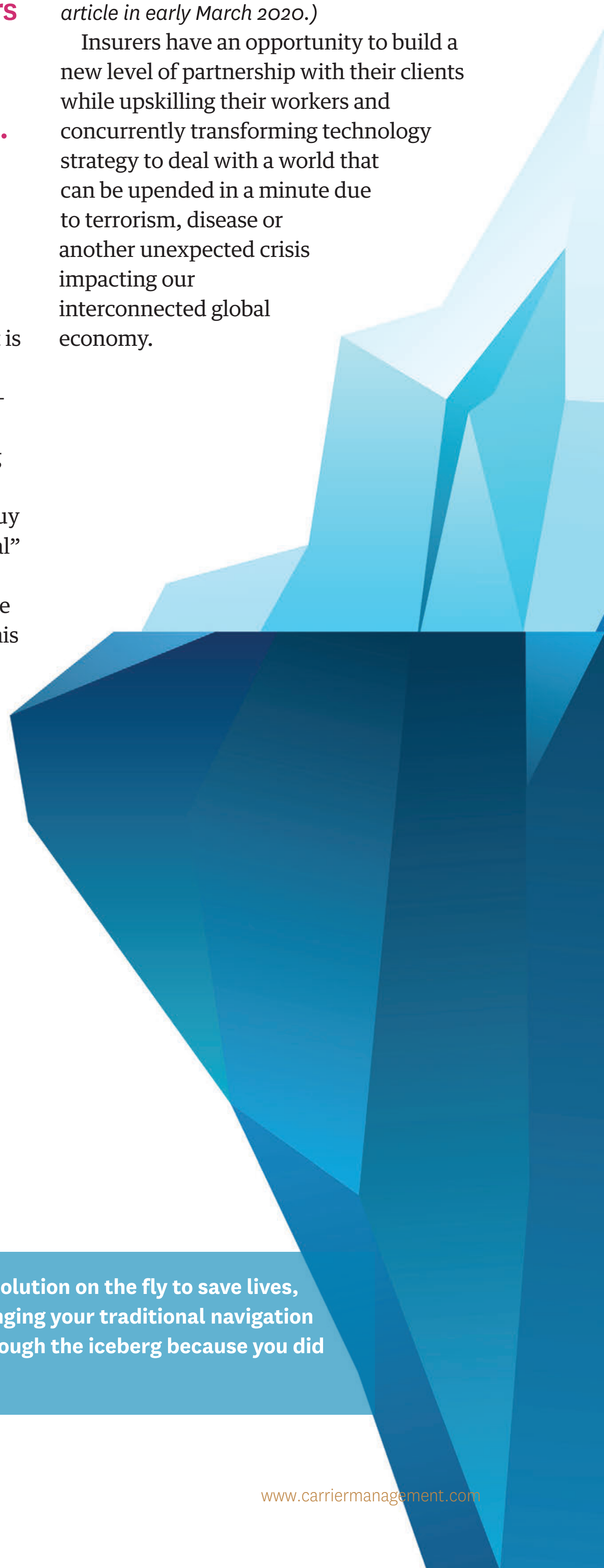
Believe it or not, insurers and insurance agents can be a key bridge to getting to this point by embracing a new living service delivery and product development model that shows customers that they are invested in their longevity and happiness.

Breaking Down What's Happening With Risk in the Next Five Years

Our partner and investor AXA XL released a report in 2019 with the five main emerging risks by 2025. In descending order, the risks are climate change, cyber risks, AI/IoT and robotization, financial instability, and natural resource management.

With COVID-19 still spreading, the outcomes of the virus may have greater impact in these five areas beyond the health impact. This is starting to show today as there have been reports of increased cyber crime related to the virus and the global financial markets are tumbling. *(Editor's Note: Attia wrote this article in early March 2020.)*

Insurers have an opportunity to build a new level of partnership with their clients while upskilling their workers and concurrently transforming technology strategy to deal with a world that can be upended in a minute due to terrorism, disease or another unexpected crisis impacting our interconnected global economy.



If you had the technology to create a solution on the fly to save lives, would you take it even if it meant changing your traditional navigation practice? Or would you steer right through the iceberg because you did it once and it has to work again?

Insurers shouldn't be surprised about the trends that AXA XL has outlined. However, I believe carriers feel constrained and unprepared for how to effectively underwrite and mitigate risk in each area.

Through our partnership with AXA XL, we are proactively taking on the cyber threats facing SMBs with a new product framework and service delivery model for cyber insurance powered by cloud, AI and other technologies. This product has received recognition from customers, partners and industry

The prospect of achieving longer lifespans—beyond 100 years of age—due to smarter technology, medicine and financial management assets will redefine how we manage risk like never before.

influencers for the innovation to become a real-time, flexible asset to the insured. We were successful in creating this product as we aligned on the imperative to steer clear of the one-size-fits-all approach for cyber insurance that works for large enterprises, understanding that the same approach might not be acceptable for SMBs.

Slice has also recently done the same in Thailand with another major insurer, SOMPO, by creating an on-demand travel insurance product that leverages advanced payments infrastructure and service delivery models in a cashless society.

While we cannot claim to have every one of the top five risks that AXA XL raised covered today, our commitment to recognizing the foundation that we have from the old world of insurance into an on-demand economy makes us confident that we can have a better chance of finding the right product and service mix through experimentation.

Yesterday's insurance delivery models allowed carriers to become comfortable as risk, and macro-customer activity was very predictable. This is no longer the case: Even though we have advanced predictive analytics technology, carriers cannot build a blanket policy that serves millions.

Carriers also must realize that failure is OK in an agile and flexible product development environment based in the cloud. If you have a strong partnership with a customer and they provide feedback that requires the product be re-architected, this is an easy option with cloud-based insurance. And it doesn't cost as much or take as long as it would to completely revamp previous stagnant annual policies.

It is hard to know if another anomaly like a virus, war, terrorist attack or civil unrest could occur and upend insurance risk management. However, this flexible product development and service delivery model coupled with more personalized carrier-insured relationships leveraging sensors and signals can give carriers the power to provide value even in these environments if they can quickly add a new feature to a product or coverage area for a specific region or customer segment without having to start from scratch.

The Right Combination

In the next century, we may become better than ever at proactively identifying and managing risk. No matter the advances in healthcare or technology, the common denominator of longevity should be our North Star while we navigate through identified and unplanned risks with flexible and customized policies, service plans and products.

The insurance industry has strong experience thinking about longevity, but it needs to adapt better. Imagine if you were steering a large boat on the ocean and an iceberg appeared in the path. If you had the technology to create a solution on the fly to save lives, would you take it even if it meant changing your traditional navigation practice? Or would you steer right "through" the iceberg because you did it once and it has to work again? The insurance industry has adapted before in major ways; it is time we do it again. CM

CM Guest Editor David Bradford invited Slice CEO Tim Attia to author this article as part of Bradford's collection of articles about Managing Risk Through Accelerating Change. Separately, CM interviewed Attia, who appears on our cover, to discuss the five-year evolution of his company. *(See page 24.)*

Turning **Intelligent Sensors and Signals** Into Insurance Customer Value

Executive Summary: While insurance was ahead of other industries in using behavioral economics offline, insurance is a mainly reactive service, writes Andy Clapson, data science lead of Slice Labs. In the second article of a three-part series, he notes that "break this and get paid" coverages remain important but paints a picture of a brighter future of proactive insurance made possible by combining signals and sensors with AI and behavioral science.

By Andy Clapson

Amazon's futuristic Go stores caught the world by storm with a new vision for advanced shopping experiences. In fact, 7-Eleven felt the heat and recently announced plans to build intelligent cashless stores. The IoT, AI and computer vision technologies that are serving as the foundation for these stores can do more for consumers across multiple industries than simply creating an expedited shopping experience.

What can insurers learn from Amazon, Walmart, 7-Eleven and other companies building these types of sensors- and signals-based customer experiences?

Like these billion-dollar retailers, what is required for senior insurance professionals to operate in a "smart" world is for insurers to realize that there is no way for an insurance agent to keep up with every customer movement and insurance need of their clients in today's digital world without some help.

For the most part, today's insurance industry executive or senior insurance agent started their career in a world that was just becoming "smart." This meant it was much easier to predict and anticipate the behaviors of the insured in a less technologically integrated world. Upskilling is a topic for another series, but it does not mean everyone is replaced by robots and AI.

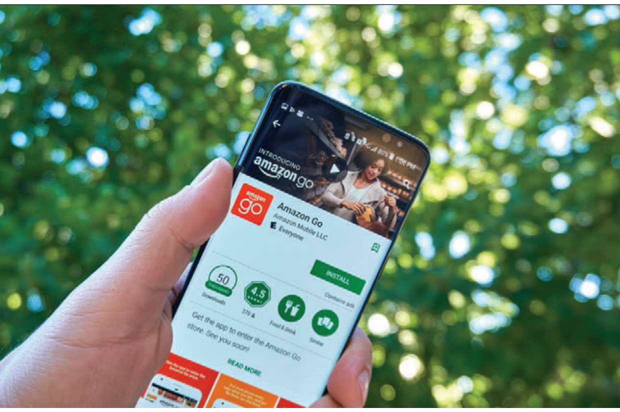
Now, nearly every aspect of the B2B and B2C customer experience has a level of intelligence that has created a wealth of data about customer activity, behavior and preference. From smart speakers to smart watches, phones, appliances, outlets—you name it—sensors and signals are everywhere and, with customer permission, are measuring nearly every aspect of our lives.

The second major learning from these retailers is that insurers need to strategically invest in ways to capture and master this data to transform customer experiences in an age of instant delivery and satisfaction. Like these retailers that understood the traditional retail shopping and checkout experience did not fit today's interconnected world, insurers must do the same.

According to a 2018 IDC study (sponsored by Seagate), there will be 175 zettabytes (one zettabyte is approximately equal to a thousand exabytes, a billion terabytes or a trillion gigabytes) of data worldwide by 2025, with 90ZB of data created on IoT devices.

What can the insurance industry do to combine sensors and signals with AI and behavioral science to be at the forefront of

The first article in the series explaining what P/C insurers should know about AI and behavioral economics—How Insurance Executives Can Harness the Power of Behavioral Economics—was published in the March/April edition and is available online.



industries that provide the most value to customers?

A typical B2C insurance customer is always connected to devices that could constantly monitor their every move or communication to deliver instant service. In fact, there are many sources of research that indicate that a company's ability to provide instant service to either protect or entertain a customer can be the difference between winning and losing business.

So, for an industry that once was at the forefront of capturing customer data on paper applications and claims forms, it is paramount to move beyond telematics boxes and discount programs and introduce sensors and signals with AI and behavioral science to create a new age of proactive insurance.

If you boil everything down, while insurance was ahead of other industries in using behavioral economics offline, it is for the most part a reactive service: break this and get paid; miss a trip and get reimbursed. These types of coverage are important, but with signals and sensors coupled with AI and behavioral science, there is a much bigger and brighter future on the horizon.

It should be noted that this future cannot happen within the framework of the traditional annual policy. If changes and new information are permitted only on a yearly basis, all this exciting real-time information is effectively thrown away.

Every sensory perception is impacted by technology; insurers can rely on technology vendors to provide an integration or alliance to have consumer permission to access sensors and signals data. This type of ecosystem relationship could enable the insurer to leverage AI, ML and IoT to build customized products on an individual basis for a high-net-worth customer, for example. Such a relationship could also drive innovation into new, larger product categories based on a consistent theme identified while parsing collective consumer behavior.

I noted at the end of the first article in this series that I would discuss insurance product development, underwriting and pricing. I've just connected how sensors and signals provide a deeper level of insight into customer behaviors instead of insurers just stopping at developing strategies based on direct customer interactions. When insurers couple both of these approaches, there is huge potential for product innovation that will make insurance product development an exciting and fluid process compared to yesterday's view of slow, incremental improvements to insurance products.

How do sensors and signals impact underwriting?

The great thing about sensors and signals is that the real-time insight into customer behavior equips underwriters with more awareness of potential risks than ever before. For these new products built on this real-time data, there should be tight alignment with helping to proactively protect the insurer and the insured from risk. This should shorten the underwriting process, enabling insurers to significantly reduce application time or possibly eliminate application cycles as the customized products would already be built on the risks identified from the sensors and signals.

Pricing can also be customized based on these sensors and signals—and could be presented to customers so they understand how their behaviors not only shape the products but also impact how much they have to pay for proactive protection. A model like this turns the insured into an active partner in protecting themselves. This type of mutual ownership will help preserve customer relationships when new entrants begin offering insurance services from outside the industry.

We're quickly approaching the day when a smart watch, phone or speaker will start proactively offering new insurance products via alerts based on this approach. Insurers need to be aware that the companies that make these devices and that are very skilled at aggregating and using data will be well-positioned to start providing these new insurance products potentially with—or without—major carriers.

The last article in this series will cover how AI and behavioral science coupled with signals and sensors analytics impact claims. CM

What Insurers Can Learn From Amazon Go

- Insurance agents cannot keep up with every customer movement and insurance need without help in today's digital world.
- Insurers need to strategically invest in ways to capture and master "smart" data about customer activity, behavior and preference, recognizing that the traditional insurance shopping and checkout experience does not fit today's interconnected world.
- Companies that make "smart" devices and that are very skilled at aggregating and using data will be well-positioned to start providing new insurance products with—or without—major carriers.

Andy Clapson leads the data science team for Slice Labs, the first on-demand insurance platform. Recently recognized as one of the top 40 data scientists in the world under 40 by Analytics Insight, he has helped Slice transform how insurers and other digital ecosystem service providers think about AI, machine learning and behavioral science to provide intuitive insurance customer experiences.

Fifth-Generation Wireless Technologies: Suspicion vs. Evidence

Executive Summary: Praedicat's Adam Grossman and Sheryll Mangahas debunk the conspiracy theories surrounding 5G wireless technologies and examine the evidence for whether radiofrequency transmissions and EMF are responsible for bodily injury.

Adam Grossman, Ph.D., is Praedicat's Senior Scientist and Vice President of Modeling.

Sheryll Mangahas is a Senior Bioscience Analyst at Praedicat. As part of the Modeling team, she manages company and bioscience analyses.

By Adam Grossman and Sheryll Mangahas

One of the more surprising recent conspiracy theories to make the rounds of the Internet and social media is that the COVID-19 pandemic is actually a hoax perpetrated by corporations to cover up the devastating health effects of fifth-generation (5G) wireless technologies.

This is obviously nonsensical, since the SARS-CoV-2 virus has been identified, isolated, sequenced and more. In addition, 5G is clearly incapable of producing the health effects this conspiracy theory attributes to it. The only coincidental relationship is that the rise of 5G has been exponential in China and some other countries where the SARS-CoV-2 virus established itself early. And in other ways, it's the latest in a long line of conspiracy theories related to the health effects of electromagnetic fields (EMF).

Cutting through the conspiracies, what does the science say?

We've been using radiofrequency (RF) transmissions for over a century, but with each technological revolution that exploits newer ways of using this large swath of the electromagnetic spectrum comes the potential for new risks. While the first four "wireless generations" were geared almost entirely to mobile phones, 5G technology is expected to be used in a much wider array of devices, including vehicles, smart appliances, smart buildings and more. The proliferation of 5G-connected devices we expect to see, alongside certain physical properties of 5G EMF—primarily decreased range and increased interference from buildings—all but guarantees we will all be exposed to increasing amounts of RF EMF.

Just as questions eventually surfaced about the safety of various kinds of EMF, we are now faced with the same questions about 5G technologies as they start to come into wide use. This is a classic case of technological evolution driving changes in risk, and we expect the scientific community to accelerate today's early investigations of whether 5G RF exposure can lead to bodily injury or other harms.

The first expressions of scientific concern for 5G were not directly bodily injury but rather weather satellite interference. One of the frequency bands

used by 5G, the 24 GHz band, is very close to the frequency that weather satellites use to detect water in the atmosphere. Too much interference from 5G transmissions could significantly degrade weather forecasts, including those for hurricanes.

What is known about 5G's propensity to cause bodily injury? Because the exposure is so new, it's impossible to have conducted epidemiology studies yet, or even direct human exposure studies. Scientists have therefore turned to lab-oriented ways to probe the potential effects of the new frequencies and modulations used by 5G compared to other wireless technologies that use the RF spectrum.

So far, there are only a handful of animal and cell studies complete. Scientists are in the earliest days of investigating effects on the immune system, neurological system and skin. To date, the studies have yielded mixed results. When harmful effects are found, it is not always clear whether the exposures used in the lab produce human-relevant doses and whether the animal and cell results can be extrapolated to humans—a problem that has vexed RF exposure researchers for many years.

With the evidence so thin around 5G exposures, and likely to stay so for several years, what can we learn from other RF literatures? Radiofrequency exposures have been around for over a century, and a body of literature has been published commensurate with its history. RF exposure varies in intensity, frequency and modulation—there's little reason to assume that 640 kHz AM radio waves, 107.1 MHz FM radio waves, 800 MHz UHF television broadcasts, 2.4 GHz Wi-Fi and 34 GHz Ka-band radar will have identical effects. We can look at some of these literatures to get a sense of what biological effects might be caused by RF exposure.

The first observed effect is the heating of body tissue at extreme exposures, which can lead to injuries like any other burn. There is no evidence that the normal operation of RF-enabled devices exposes humans to the amount of EMF that would be required to heat tissue and cause burns.

The next thread of literatures concerns occupational exposure to military personnel and broadcasting company workers. Military personnel are sometimes exposed to high levels of RF EMF by manning radar stations, while broadcasting company workers who install and service transmitter towers can also have unusually high exposures. Reduced fertility in male Naval radar operators has been observed due to decreased sperm motility and viability. This phenomenon has also been observed in Navy seamen more generally. Nonetheless, the weight of the evidence for this bodily injury, along with the evidence that RF can cause blood cancers and cognitive disorders, still argues against there being a causal relationship.

Literature exploring consumer exposures to the kinds of RF EMF we use in daily life usually show no association between RF exposure of any kind and any bodily injury.

Lastly, mobile phone exposures have produced their own specific literatures, in part because of the ubiquity of cellphones but also because the exposures are unique: to the head when talking on the phone and near the reproductive organs when phones are kept in the user's pocket. While much has been said about the possibility, the weight of the evidence, according to Praedicat's General Causation model, is that cellphones do not cause brain cancer or acoustic neuroma. When diving deep into the literature, it also becomes clear that a small number of researchers are responsible for the lion's share of the studies showing a causal relationship. It is also interesting to note that the type of RF modulation (i.e., GSM vs CDMA) has little effect on the experimental results.

Where the cellphone literature has some low potential to trend toward scientific consensus is with male infertility from pocket exposures to cellphone RF EMF. There is no epidemiological evidence to date that establishes a clear connection. However, studies suggest there is a potential for RF to reduce the health and viability of sperm. When held up alongside the evidence of sperm alterations in Navy seamen, this further points to the possibility that certain higher-intensity RF exposures might contribute to infertility. However, other hypothesized causes, such as endocrine disrupting chemicals and dietary trends, have much stronger evidence.

To come back to 5G, what can we extrapolate from the above observations? First, the 5G devices that use established RF bands in the same range as today's wireless devices are unlikely to cause new kinds of bodily injury. Second, although the ambient level of RF exposure we all experience may increase, there's little to indicate so far that it will cause health problems at recommended maximum exposure levels that safely prevent tissue heating. Third, there will be new discoveries due to the use of RF bands outside those used for devices today. CM

Risks and Non-Risks

It's a daunting task to comb through scientific and medical literature to identify potential risks that may ultimately drive up liability insurance claims while separating out the popular theories of liability that are really risk myths.

Praedicat, a Los Angeles-based InsurTech analytics firm, takes on the challenge, using algorithms that scan more than 30 million scientific journal articles—a number that grows every day. "Using machine learning and artificial intelligence, we are rapidly refreshing our data to capture new articles and identify new risks," the company says on its website.

The accompanying article is part of a series of regular articles that Praedicat's people have authored expressly for *Carrier Management,* alerting the casualty insurance community to growing areas of concern and to areas where potentially insurable risks lie beneath hyped theories linking products to human harm.

Agility Guide:

A How-To for Navigating Tech Transformations

By Oleg Sadykhov and Krishna Prasad

Executive Summary: Asking the right macro-level questions up front is a key part of the introduction of new technologies in large transformation efforts that insurers miss. X by 2 consultants provide some examples of questions to ask along with a checklist of helpful do's and don'ts to handle early naysayers and inevitable detours and course corrections along the way.

In the race to modernize, many insurers have found their progress slowed by the size, scale and scope of large transformation programs. From core systems to data warehouses, and from cloud platforms to customer-facing services and apps, some insurers are struggling to get to the finish line.

There are many reasons for this, but more importantly, there are methods and approaches to address the many issues insurers may face—and they're applicable for those insurers that are just beginning their transformational journey or those in the midst of it.

For the purposes of this short primer, a large transformation program is defined as an effort that includes one or more core insurance functions; is technically

Oleg Sadykhov is a Principal at X by 2. For over 25 years, Sadykhov has worked to deliver practical, scalable and extensible architectures and solutions, as well as successful architecture refactoring on large-scale enterprise initiatives.

Road maps are the navigational tools for the transformation journey and must be adaptable and flexible to whatever headwinds or squalls pop up—and they will pop up.

complex in terms of scope, scale and duration; and results in significant changes for all stakeholders—customers, agents and employees.

Hit the Right Key(s)

Taking the wrong approach from the start can doom a transformation program to suboptimal results, so it's critical to establish a solid foundation of program principles and elements as follows:

- **Establish core objectives.** Establishing a few (but not more than several) core objectives for the program helps to anchor the overall effort and will serve as the key milestones along the way.
- **Adopt a product mindset.** Break down the transformational program into a series of several product deliveries. It's a subtle but key shift that allows the teams involved to think and act in concert with long-term objectives but implement and deliver new functionality incrementally.
- **Think like a startup.** Use an MVP (minimum viable product) approach to bring in stakeholders early and often, allowing them to be hands-on with new development. In this way functions or interfaces that aren't well-received can be changed and iterated quickly, rather than having to retrofit after a more formal delivery.
- **"It's the communications, stupid."** Engage stakeholders early, often and forever. The more they're involved, the less the inevitable changes will be resisted.

The Goldilocks Road Map

A road map is not a project or program plan where false assumptions are made about what will happen in the future. Rather, it's the framework that facilitates an agile approach to the effort. It provides structure for creating teams, breaking down development efforts, and making decisions about scope and scale. If a road map is too broad, it won't be seen as consumable or achievable; if it's too narrow, it will be seen as too tactical in nature. It has to be just the right size, and that only happens after an "Inception Phase" analysis of the business and technology current-state challenges matched against the desired-state goals and objectives.

Road maps are the navigational tools for the transformation journey and must be adaptable and flexible to whatever headwinds or squalls pop up—and they will pop up. Road maps should also be built with opportunities for early and quick wins that help to create momentum and build morale for the overall effort.

You Can't Score If You Don't Shoot

Large-scale transformations are often about

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Krishna Prasad is a Senior Architect at X by 2. Prasad has over 25 years of delivering hands-on experience in areas such as IT strategy and road map development, execution planning, and agile delivery leadership for initiatives involving insurance IT modernization.

continued from page 45

introducing new technologies into the environment. In fact, given the time, resources and efforts insurers commit to transformation projects, it almost seems negligent not to leverage newer technological approaches to traditional insurance processing issues. The truth is that by the time the overall transformation is completed, many of the new technologies introduced will have become mainstream solutions.

That said, new technologies should never be introduced for their own sakes but rather should be used to materially advance and achieve the core objectives of the transformation. Additionally, newer technologies should always be put through proof-of-concept exercises to be sure of their fit and long-term value, and once validated, they should be exposed early and often to those stakeholders impacted.

However, the introduction of newer technologies in a large transformation effort should always be couched in the answers to a few macro-level questions.

1. Should we be customer-centric?
Many insurers are still policy-centric.

2. Should we be real-time and event-driven?
Many insurers are still batch-oriented in process and mindset.

3. Do we have or desire a modern infrastructure?
Look to the cloud for infrastructure transformation.

4. Do we ask our users to enter data we could provide automatically?
Look at online agencies or comparative raters for inspiration.

5. Do we focus on the entire user journey?
Nice kitchen, but have you seen the basement?

These are just a few of the kinds of questions that should be answered early because they represent fundamental directions and approaches that will persist over time. For example, many insurers are still batch-oriented, not only in their technology platforms and processes but in their culture and customer approaches. If an insurer is going to change that and move from a policy-centric orientation to a customer-centric one, nearly everything—technologies, processes, services, and employee and agent culture—must change. In that context, the technology changes become the "easy" part.

Putting It All Together

The biggest key to any transformation program is to make sure that those stakeholders being transformed by the modernized systems and platforms are fully and completely on board. Business and technology visionaries are essential, but just as essential are the incumbent subject matter expert-skeptics, as they're the ones who really need convincing. Identify these SMEs and pull them in early. Listen to their concerns and heed their advice about the impact of the transformational changes. Winning them over and turning them into champions for the effort can go a long way toward cultural buy-in and transformation.

Accomplishing the above will also help prepare the organization to become nimble and adaptive, inclusive of a readiness to meet the challenges from the unexpected issues and opportunities that inevitably arise over the course of a long transformation program. Also, it's critical to conduct regularly scheduled and all-inclusive stakeholder meetings where progress is charted and explained and where stakeholders are hands-on with working demos of prototyped software.

Finally, there should be a constant conversation around change management. The last thing any stakeholder wants is a surprise change in requirements, or functionality, or target dates, etc. To avoid this, communicate often, clearly and broadly across the organization. CM

Modernizing the Finance Function:

Achieving Rapid Results Through Micro Transformation

Executive Summary: For P/C insurers and reinsurers, transforming the finance platform doesn't have to be a colossal, long-duration exercise with diminishing returns. Here, members of the FTI Consulting Global Insurance Services practice describe some of the tools to accomplish micro transformations—individual "quick-win" projects. When replicated in a series of projects aligned with overall profit and cost-reduction strategies and objectives, the micro transformations can collectively aggregate into broader, enterprisewide transformations.

By Michael Flagiello and Agnes Lau

Michael Flagiello is a Senior Managing Director for the Global Insurance Services practice of FTI Consulting Inc.

Agnes Lau is a Senior Director for the Global Insurance Services practice of FTI Consulting Inc.

The insurance and reinsurance industry is notoriously slow to change, with many companies unable to fully take advantage of innovative new technology. Burdened with legacy systems and constrained by limited funds and resources, CFOs are often reluctant to even contemplate new technology to advance the finance platform.

For many companies, transformation of the finance platform is viewed as a colossal exercise of long duration with diminishing returns. This view is underscored by the perceived complexity of the process: conducting current-state analysis, future-state planning and a detailed gap analysis followed by system selection and a

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continued from page 47

multiyear implementation.

Adding Value Through Micro Transformations

Micro transformations are comprised of smaller projects, rapid deployments, lower financial investments, and immediate successes and returns. While the projects may be smaller, the rewards can be significant.

Each micro transformation is focused on a targeted function but can add value across the enterprise. The success and value of multiple individual micro transformations can quickly build, increasing enterprise performance improvement momentum.

Focusing on the Finance Function

The finance function is an ideal starting place to implement micro transformations, since it touches every aspect of the company value chain, providing services that include accounting, auditing, budgets and forecasts, cost management, controls, financial analysis, investor relations, tax and treasury.

Begin by choosing functions such as the tax department and financial planning and analysis (FP&A), which are likely to produce early "quick wins" and have the potential for broader impact.

Consider implementing tools that improve efficiency and capabilities, such as:

- **Dynamic workflow** tools that enable creating and tracking tasks, with the added ability to review and approve documents.
- **Excel eliminator** tools that facilitate data management and analysis, with the same look and feel as Excel but with the addition of a powerful database in the background.
- **Dashboards** that facilitate progress monitoring and decision-making.

Apply tools within the selected functions, develop KPIs, conduct measurements and calculate the value of improvements achieved. This value calculation should include error reduction, actual efficiency gains, tangible and intangible benefits, ROI and lessons learned.

Consider, for example, the hypothetical tax department at a global insurance company that manages hundreds to thousands of tax filings and returns using a spreadsheet that was taped to a wall. This archaic method of keeping track of returns is prone to a multitude of errors and risks. The company is also subjected to many penalties and fees for late returns.

In this instance, a dynamic workflow tool will enable the tax department to monitor, track and help ensure full compliance per return. This implementation, or micro transformation, doesn't just improve monitoring of the department's tax filings but can also eliminate many penalties and fees as well.

Another example involves targeting the FP&A process, where input sheets sent to many different cost centers can be lost during consolidation. This problem can be eliminated easily with Excel eliminator tools that are widely available. However, even though Excel has limitations, many organizations are stuck in a "comfort zone" of using Excel as the foundation for their work. Excel eliminator tools mimic the functionality of Excel but have additional features, such as a robust database for consolidation and other calculations, an internal workflow tool that will help with monitoring and coordination of the FP&A process, and a full suite of functions that improve the planning cycle time and increase efficiency and accuracy of analysis.

Both examples illustrate the immediate impact in a department within a company adopting and implementing a micro transformation for their respective functions. The effects are not only immediate but cost-effective as well. Once these micro transformations are up and running, other departments within the company can observe the improvements and begin their own respective micro transformations. A series of micro transformations that are aligned with the strategies and objectives of the organization will begin to integrate and form broader, enterprisewide transformations.

Capturing Maximum Benefits

Successful micro transformation projects generate momentum that can be augmented and accelerated by working with insurance industry consultants with insurance domain experience and expertise in data management, process mapping and re-engineering, analytics and organizational alignments. Working in collaboration with in-house personnel, independent experts can transfer knowledge, provide advice and assistance in understanding technology options, and help plan and implement broader improvement capabilities.

Micro transformations enable insurance organizations with limited resources to achieve performance improvements, starting with "quick win" single projects and moving toward multiple projects that accrue value across the organization.

When planned and implemented properly, micro transformations can potentially be self-funding propositions, reducing costs while improving performance and, in some cases, reshaping process flow and shifting costs from low-performing functions to higher-performing functions. The improvement momentum created by the success of each micro transformation can be magnified and accelerated with the right industry expertise. CM

From Insurer COO to Reinsurer CEO: Andrade Rolls Up His Sleeves at Everest Re

Executive Summary: Everest Re's new CEO Juan Andrade describes a series of leadership positions across the insurance industry that have made him comfortable with complexity and a roll-up-your-sleeves leadership style that has served him in almost every corner of the business. Poised for the first time to lead what is largely a reinsurance operation, he also talks about growth strategies already in place at Everest in primary insurance and reinsurance, which are likely to continue in the years ahead.

By Susanne Sclafane

Although his early dreams of covering world events as a foreign correspondent were never realized, Juan Andrade, the new chief executive of Everest Re, has seen and done almost everything in the world of insurance.

Until October 2019, however, he hadn't worked on the reinsurance side of the business. Now leading a 47-year-old company that currently reports 70 percent of its total premiums in reinsurance and 30 percent in insurance, Andrade is eager to dive into the nuances of assumed reinsurance for the first time.

Officially becoming chief executive officer on Jan. 1, 2020, Andrade joined Everest Re as chief operating officer last October. Before that he was president of Overseas General Insurance at Chubb, with responsibility for both traditional and specialty property/casualty insurance business in over 50 countries outside of North America. That was just one of the challenging leadership roles that shows up on a résumé that includes positions commanding the underwriting, product development, claims, sales and distribution, and strategy development teams of some of the industry's most iconic brands, domestically and internationally, for both personal and commercial lines.

Throughout a career in insurance spanning more than 25 years, Andrade has also met and learned from some of the most famous leaders in the business, including Peter Lewis of Progressive, Ramani Ayer of The Hartford and Evan Greenberg of Chubb. As CEO of a top-10 reinsurer rated "A+" by AM Best today, Andrade traces the footsteps of predecessors Chair Joe Taranto and retiring CEO Dom Addesso, and says that the

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"When you're dealing with over 50 countries around the world, different cultures, different operating systems, different regulatory environments, complexity is something you get comfortable with."

continued from page 49

prospect of making wholesale changes to their strategy are not on his agenda. An approach to create a more diversified company that started in 2015—accomplished mainly by building out a staff of experienced primary insurance professionals—is solid and was part of his attraction to the company.

"I come from a school of thought that says the more diversified, the better off you are, the more accretive your earnings will ultimately be. I like the approach of trying to grow an insurance company and then trying to maintain and grow a reinsurance franchise [while] understanding the differences of both," he said.

"What you'll expect from me is basically not 180-degree turns, but it's going to be potentially course-corrections—five degrees north, south, east as we try to identify pockets of profitability, places where we can bring value-add and then just be a lot more aggressive in those areas," he said, while also confirming that he does foresee the prospect of a 50-50 mix of insurance and reinsurance at some point in the future. "The goal is to make money at the end of the day, being profitable—and that's my background," he said.

During an interview in early March, Andrade expanded on what attracted him to Everest.

Passport to the World

First, Andrade explained how the insurance industry gave a journalism major his passport to global adventure, with a stop along the way working in national security and international affairs for the Executive Office of the President of the United States.

While working toward his bachelor's degrees in journalism and political science, Andrade was a stringer for UPI, interning for local newspapers and writing for his school paper as well. "What I really wanted to do was be a foreign correspondent. I thought the best way to get there was to study international economics...Then I'd be eligible to go work for The New York Times," he said. "It doesn't quite work that way," he realized later. Instead, major publications would likely make a young journalist work for decades at the local desk somewhere before he could work internationally, which was part of his dream.

While studying for his master's degree in international economics and Latin American studies from the School of Advanced International Studies at John's Hopkins, Andrade's aspirations moved away from journalism. "A few of my professors were actually from the Reagan administration," including an undersecretary of defense for policy and Reagan's chief ambassador to the UN.

Eventually, he had an opportunity to apply for the Presidential Management Internship Program—a program run by the White House that allowed students to spend two years at the senior-most levels of government. Andrade worked at the Department of Defense, the Department of State and the Office of National Drug Control Policy at the White House, and after the two years, he was allowed to pick an area where he could continue to work. First choosing the Department of Defense, he later moved on to the Department of Justice at the Drug Enforcement Administration. "Part of that is the timing of what's happening. This is the late '80s, so you have the civil war in El Salvador, you have the Contras and the Sandinistas in Nicaragua. Then at the end of the '80s, beginning of the '90s, you now have the drug wars beginning. The U.S. government started to put a lot of money and effort into that, and because I'm Hispanic and speak languages, I was a natural to be involved."

Family responsibilities interrupted a longer career in government, he reported, noting that it was time "to get a grown-up job" when his wife gave birth to their first child. He "would disappear literally for a few months at a time" without being able to say where he was going.

The prospect of working at a multinational company had the most appeal. Applying to Occidental Petroleum, AT&T and AIG, he got offers from all three but chose the global insurer, which offered exactly what he hoped for: a training program and a promise of an overseas

position down the road.

Andrade learned to be an underwriter in AIG's trainee program, and 18 months later, AIG sent him to a Caribbean division of American International Underwriters. He not only served as assistant to the division president but took on P&L responsibility in personal lines for the islands in the Caribbean. There he was mentored by Manalo Rodriguez, a Cuban who Maurice "Hank" Greenberg installed in San Juan to lead AIU's Puerto Rico offices. *(Editor's Note: A 2016 Wall Street Journal article also described Rodriguez as AIG's longest-tenured employee, logging more years than Greenberg himself.)*

"I attribute a lot of my success to him," Andrade said, noting that Rodriguez taught him the ropes of general management.

When AIG made an acquisition in

“Understanding balance sheet risk, claims and underwriting is so fundamental to what we do day in and day out that you must have that in your DNA.”

Mexico, Andrade hoped to make Mexico his home base for a while. But with a second child on the way and an offer from Progressive Insurance to work back in the U.S., he headed back to Florida to join the entrepreneurial insurer.

“When I started, they were a $2 billion company, and when I left, they were roughly $15 billion over a 10-year period of time,” Andrade said, recalling how Lewis ran the company: “You put in very smart people, you give them a lot of autonomy and you let them run. That’s what we did.”

Andrade held positions as product (underwriting) manager in Florida; general manager in California, Wyoming and Colorado (responsible for pricing, claims, sales and distribution); head of claims for Florida and then all the Gulf states. In 2000, when Glenn Renwick became CEO, Progressive reorganized the general managers to oversee six regions rather than 50 individual states.

“It was a good change. The company had gotten so big that you couldn’t run it the same way that it was being run before,” Andrade recalled, noting that his stint leading claims in some of the most litigious places in the South—Alabama, Louisiana, Florida, Mississippi—coincided with Hurricane Katrina and other massive storms, serving as a learning experience for him. “That’s when you really realize the value of what insurance is about. There’s that intangible promise—that piece of paper actually becomes real when you’re facing people who have no home or no cars [and] their life’s been destroyed.”

The Hartford’s call for a chief claims officer, with a promise to put back into the sales and underwriting side of the business, drew Andrade north in 2006, and he later served there as head of sales and distribution and president of the P/C company. He joined ACE four years later as global head of personal lines and small commercial, domestically and internationally. Participating on a management team that led the company through 11 different acquisitions—culminating in the ACE-Chubb combination—Andrade was tasked with running international operations: 54 countries, 14,000 people in over 600 branches for all lines of business.

Why take the call from Everest to be the next CEO?

“Everest has a great reputation, has a very strong balance sheet. It’s a very good platform—and they wanted to grow,” he said, noting that he also liked what he heard about the culture.

Comfortable With Complexity

Andrade describes the culture at Everest by saying that it’s a “collaborative but decisive place.”

“People work here; they work very hard. They’re very committed...That’s the sort of environment I like,” he said, noting that none of the companies he worked for were “hierarchical, patriarchal places. These are places where you roll up your sleeves and you work with people and you get things done.”

“At the end of the day, I’m a builder and these guys are builders here. That cultural fit matched.”

Looking beyond the “A+” rating, the low debt-to-equity and expense ratios—“all very good signs of a company that was well managed”—Andrade witnessed the growth of Everest's insurance operations as a competitor and the roster of talented professionals flocking to that side of the business, headed by Jonathan Zaffino.

Zaffino, a 25-year veteran of the industry, joined Everest from Marsh in early 2015 and has been building the talent pool since. According to Andrade, Everest has hired over 1,000 people in the last five years, with close to 200 underwriters joining in the last year alone.

Why is Andrade the right person to lead the entire company forward?

“I’m used to dealing with complexity. When you’re dealing with over 50 countries around the world—different cultures, different operating systems, different regulatory environments—complexity is something I’m pretty comfortable with,” he said.

“Having worked at some best-in-class carriers, there are things you can bring to the table,” he added. “Even though this is a great company, any company has room for improvement and room to sharpen strategies and execution,” he said, going on to note that he’s not out to change the strategy more than a few degrees at a time.

Asked about recent articles in reinsurance publications suggesting that

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continued from page 51

his appointment signals a bigger push in the direction of insurance or international business, Andrade confirmed that he likes the current approach to the business. "When I talk about cultural fits, one of the things I liked about this company is that it's also an underwriting company," he said.

In 2019, Everest put $9.1 billion of premium on the books—a 7.8 percent increase over 2018—with insurance premiums soaring 23.4 percent, reinsurance premiums rising just 2.1 percent and both segments reporting combined ratios around 95. Since 2014, the insurance business has more than doubled from $1.2 billion to almost $2.8 billion, an average jump of roughly 18 percent per year. With a few years of declining premiums on the reinsurance, premiums still rose more than 40 percent in the same time period, growing from $4.5 billion in 2014 to $6.4 billion in 2019.

Insurance premiums, which represented just over 20 percent of the overall premiums in 2014, were 30 percent of the pie last year. "It's only been five years," Andrade said, when asked if he thought the figure should be closer to 50 percent. But the potential exists to go further, he said, noting that Everest's $2.8 million is a fraction of a $250 billion U.S. insurance market. "Think about the runway you have to be able to grow in this market, particularly when you have the team, the infrastructure, the products to be able to do that. To me, all of that indicates that as long as we can do it profitably, the insurance side of the business ought to get much bigger than this. But things take time..."

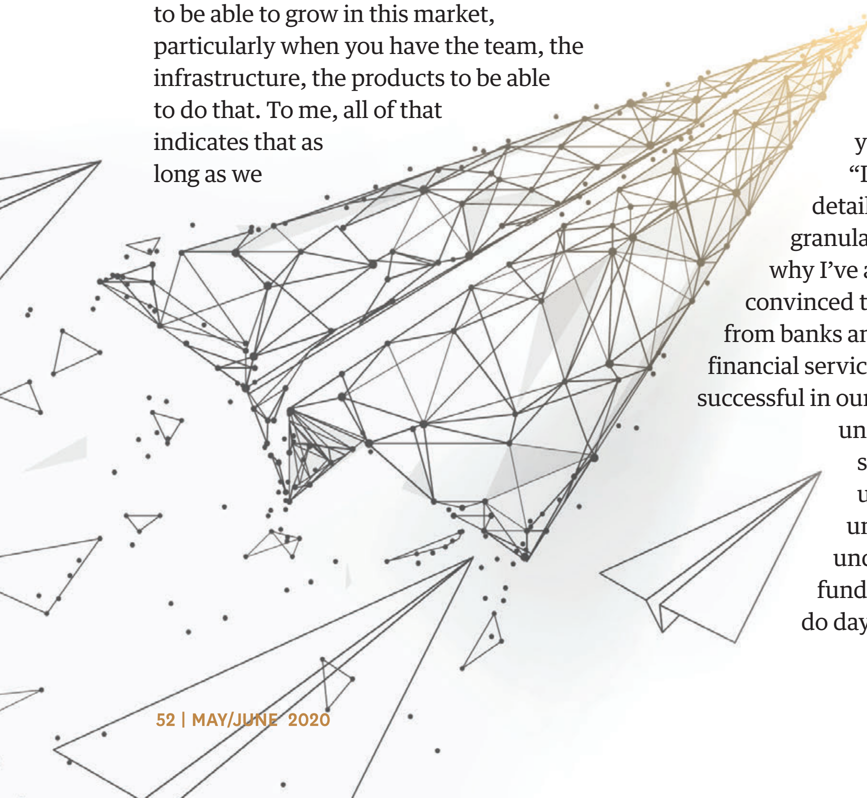
"To answer the question directly, I do foresee the insurance business could be as much as 50 percent of the company over time," he said, stressing that while market firming that could continue for 18-24 months in his view is a factor in the equation, a condition for growth is that "we can do this in a sustainable way."

Insurance growth will also not be done at the expense of the reinsurance side, he stressed. "That market's got its own dynamic. And we have some really creative people on that side," he said. While working to mitigate volatility in property catastrophe reinsurance—an area that Everest has been known for over the years, Everest has been growing in the mortgage and casualty reinsurance spaces, and writing more casualty on a proportional basis to take advantage of the improving rates and terms.

Leadership Style

Asked to describe his leadership style and what it takes to lead a P/C organization, Andrade offered that he is "very hands on—involved, decisive, inclusive"—attributing his inclusiveness to his years at companies like Progressive and ACE. "You realize that you're not a team of one and you can't be.

"In our business, details matter and granularity matters. That's why I've always been convinced that CEOs that come from banks and non-insurance financial services are seldom successful in our industry—because understanding balance sheet risk and understanding claims, understanding underwriting is so fundamental to what we do day in and day out that you have to have that in your DNA. You can learn it, but it takes a long time. We're very experiential in insurance. You learn by making mistakes along the way," he said. "You have to learn from issues in the past, and adapt and go forward."



Andrade attributes his leadership style to both inborn traits and business experience. "If you're into the details with your sleeves rolled up, that's something you're born with. You either have that or you don't. The other part of it is you either like people or you don't," he said, also pointing to CEOs like Greenberg, Ayer and Lewis, who he learned from.

Asked about career successes, Andrade said he is proud of the work leaders did to integrate the Chubb and ACE businesses—and the people. "There's a lot of complexity because you were dealing at that point with probably over 30 countries where there was overlap in business. There are social issues anytime you bring all of that together, but we tried to make that as seamless as possible from the outside in. From the perspective of our customers and brokers, it appeared relatively seamless."

Working at The Hartford during the financial crisis also stands out. "What I'm proud [of] is that we were able to hold the business and people together. It was probably one of the most difficult leadership challenges I've ever faced. But we got through it. You get through it because your distribution supports you, your employees are loyal, and [because] you put in the time and effort."

"Optimism, perseverance and absolutely communication" were the keys to weathering that storm, he said. "I can't tell you how many town halls and individual interactions with external stakeholders, internal stakeholders we had to have during that period of time," Andrade said, also offering what he learned from Ayer. "He never gave up. He was always looking for a solution...And if that door got closed, then he'd looked for the next door. You admire that, and that's something that sticks with me to this day. There's always more than one way to get around an obstacle; you just have to find it." CM

ESTIMATING CLIMATE CHANGE RISK: Do Scientists Need a New Approach?

Executive Summary: AIR Worldwide's Peter Sousounis discusses approaches used to determine if classes of extreme weather events and individual historical natural catastrophe events occurred as the result of climate change or current atmospheric conditions at the time. Approaches include historical observation, the use of climate models that compare how extreme events unfold in the presence or absence of rising temperatures, and assessing explanability (the level of scientific knowledge about how global warming will affect the atmospheric processes that produce certain types of events) for classes of events. Fractions of attributable risk measure the proportion of an individual adverse event attributable to the presence of greenhouse gas emissions.

By Peter Sousounis

It has become increasingly common for the general media to say that weather-related disasters have been caused by climate change. Such headlines have largely been frowned upon by the scientific community as hyperbole because scientists could not say with confidence that any given weather-related event was the result of climate change. That's beginning to change.

Advances in climate models and data science are being fed by a deeper physical understanding of the mechanisms that cause extreme weather events and have opened up a relatively new branch of climate change science: event attribution.

Extreme weather events are a natural part of Earth's climate system. We have seen them throughout recorded history, and there is no reason to believe we've seen the worst even without climate change. Extreme events are, by definition, rare, so observational data for them is naturally scarce in the short historical record and we should expect loss records to be broken. This is why catastrophe models include correspondingly rare events that cause losses well above those in the historical record.

But what if extreme events are becoming more frequent, or more extreme, or both as a result of climate change?

One way to determine that is to look at historical observation data to see whether there is an upward trend in the occurrence rates of extreme events. Lately, it seems as though "100-year"—or rarer—floods happen every year, but it's

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Peter Sousounis, Ph.D., is Vice President and Director of Climate Change Research at AIR Worldwide, a Verisk business.

continued from page 53

important to understand that a 100-year flood isn't a level of flooding that will happen only once every hundred years but a level of flooding that has a 1 percent chance of happening every year in a particular location. For example, Hurricane Harvey broke many precipitation records and river levels in many locations: flood levels corresponded to astounding 100-, 200- and 750-year return periods for river water-level stages on Cypress Creek near Westfield, Greens Bayou near Houston and West Fork San Jacinto River near Porter, Texas, respectively.

In addition, the presence of long-period climate signals such as the Atlantic Multidecadal or Pacific Decadal Oscillations may influence an observed increase in frequency in storms rather than the impact of climate change, thus it is important to distinguish between the impact of climate change from climate variability. Climate models can help.

While we should expect records to be broken even under stable climate conditions—and even expect to see rare instances of clusters of extreme events—we should not expect the same records to be broken year after year, as in the case of global average surface temperatures, or even every few years. For each of the last three years, for example, the U.S. has experienced the wettest and slowest tropical cyclones on record for the locations they impacted—Harvey (2017), Florence (2018) and Imelda (2019).

If observational data seem to show a trend, we can investigate what's driving that trend by trying to replicate it using general circulation or climate models. By perturbing the models' initial conditions—increasing greenhouse gas (GHG) concentrations, for example—model simulations can compare how weather-related extreme events develop and unfold in the presence or absence of rising temperatures. Conversely, our confidence in model output increases if we see results borne out in the observation data.

In fact, climate models do show an increase in the frequency of the most intense tropical cyclones (Categories 4 and 5) globally, although this varies by ocean basin and the results are more ambiguous when it comes to overall frequency of all categories. Observation data appear to confirm what the models predict. Since 1980, storms with winds of 200 km/h (roughly 124 miles/hour) or greater have more than doubled in frequency, while storms with winds of more than 250 km/h (155 miles/hour) have tripled.

Climate models have also revealed a significant impact on the planetary-scale waves that are the result of the temperature difference between the poles and the equator. Because the poles are warming three times faster than the tropics, the temperature gradient is now flatter, causing these waves to become longer and slower—even to stall for days or weeks. Weather systems, which usually follow the steering currents within these waves, can become trapped, as Hurricane Harvey did when it dumped more than 60 inches of rain on Houston over about two days in August 2017.

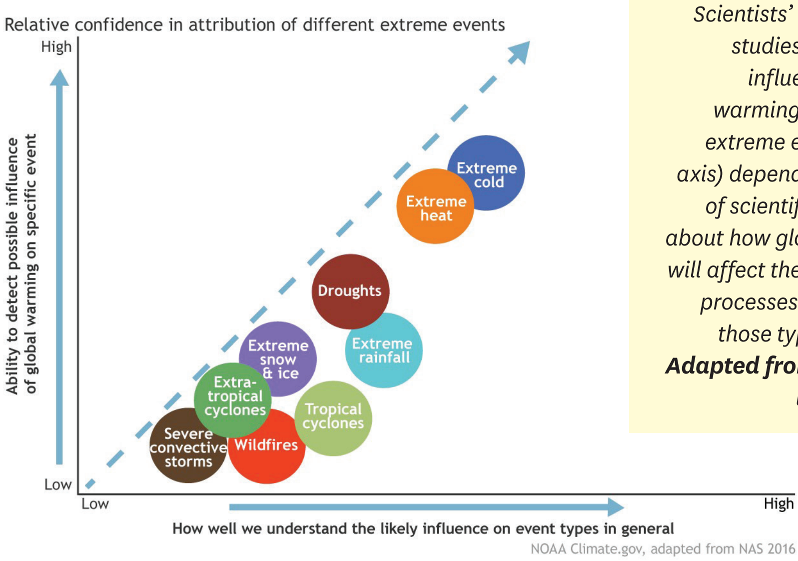
There is a third criterion for increasing confidence that climate change has played a role in a particular event or class of events: physical understanding of natural phenomena.

Some event types are easier to explain than others. The accompanying graph shows that extreme temperature records (even cold ones) are the most easily explained, as they can be reliably reproduced by climate models and are frequently exhibited in the observational record. We therefore have the highest confidence that such events are influenced by climate change.

Heavy precipitation events are the next easiest to explain, because a warmer atmosphere simply contains more water vapor; planetary waves can move more slowly due to reduced pole-equator temperature gradients; and weather systems can be more intense and squeeze more water vapor upward to condense and fall as rain.

Drought events yield similar levels of climate change confidence, because the dry-pressure ridge of a slowly moving planetary wave can block precipitating systems from getting through.

Tropical cyclones, winter storms, severe convective storms (thunderstorms) and even wildfire events, however, can be difficult to attribute to climate change because their ingredients are complex and each may be influenced by climate change in competing ways. Severe convective storms are a good example. These storms need a lot of convective available potential energy (CAPE) to fuel them and moderate



Scientists' confidence in studies to detect the influence of global warming on a specific extreme event (vertical axis) depends on the level of scientific knowledge about how global warming will affect the atmospheric processes that produce those types of events. ***Adapted from Figure 4.7 in NAS 2016.***

wind shear to tilt the storms vertically so that they can be long-lived. While climate change is increasing CAPE, it may also be weakening vertical wind shear. Thus, for any single event especially, it is difficult to say whether climate change played a role.

Climate Variability vs. Climate Change

A post on AIR Worldwide In Focus blog distinguishes climate variability from climate change.

Climate Variability usually refers to fluctuations over time periods ranging from months to as many as 30 years and typically describes natural—not manmade—processes that affect the atmosphere.

"There are many things that can cause temperature, for example, to fluctuate around the average without causing the long-term average itself to change. This phenomenon is climate variability."

An example of a non-manmade process causing variability is the North Atlantic Oscillation (NAO)—abnormal changes in atmospheric pressure at sea level that occur near Iceland. According to the blog post, NAO-positive phases are often associated with above-average storm counts over parts of the U.S. and Europe.

Climate Change refers to alterations to the Earth's atmosphere that occur over much longer periods—decades to millennia.

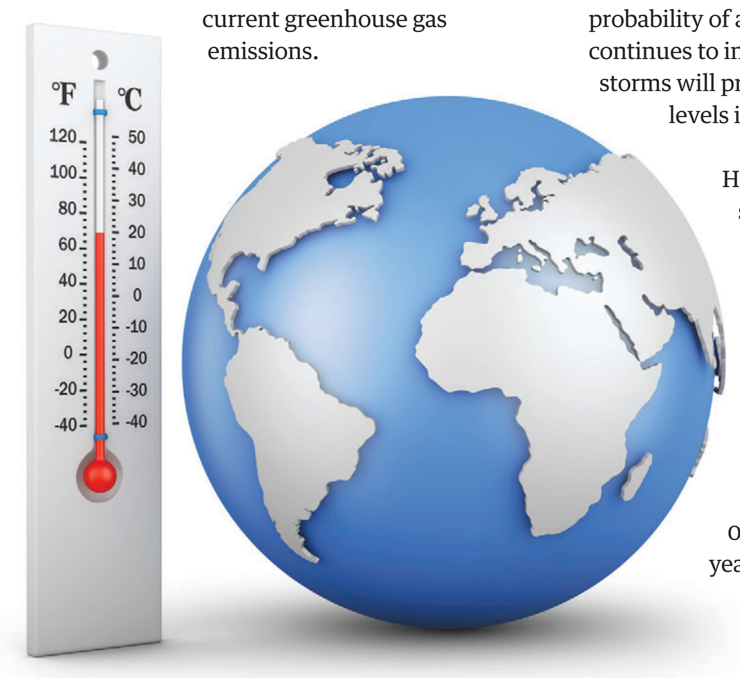
While climate change can be caused by natural processes—such as volcanic activity, solar variability, plate tectonics or shifts in the Earth's orbit—the term usually refers to changes attributable to human activity when talking about climate change, such as increased greenhouse gas emissions.

Source: *AIR Worldwide In Focus blog post, June 15, 2017, "Climate Variability vs. Climate Change—What's the Difference?"*

Individual Events: Fraction of Attributable Risk

Until very recently, most event attribution studies attempted to determine the impact of climate change on classes of events, such as tropical cyclones, wildfires, severe thunderstorms or floods. Some studies, however, now attempt to quantify the influence on individual events.

To do this, climate scientists often use statistical techniques similar to those used in epidemiology. The epidemiologist will calculate the attributable fraction (AF), or the proportion of people who contract a disease as a result of a risk factor present in the natural or occupational environment, or lifestyle choices. Today, climate scientists are deriving the fraction of attributable risk (FAR) using similar statistical techniques in combination with climate simulation models. FAR represents the proportion of adverse event risk attributable to the human influence on climate change or, conversely, the likelihood that an event would have happened in the absence of current greenhouse gas emissions.



While Hurricane Sandy's (2012) wind speeds and atypical westward track were the result of many different and complex factors, various event attribution studies have determined that the coastal flooding was more severe than it would have been if Sandy had occurred 50 years earlier, due to sea-level rise. They estimate that the probability of a Sandy-like inundation continues to increase and that less intense storms will produce similar inundation levels in the future.

Shortly after Hurricane Harvey occurred in 2017, scientists determined through evaluation of observational data and long-term simulation using climate models that an event like Harvey had a 0.05 percent chance of occurring in a given year late last century, had something closer to a 0.3 percent chance in a given year when it occurred, and that by the end of this century it will have a 1 percent chance. Thus, in the time-span of just 100 years, climate change will have increased the likelihood of that kind of flood event by a factor of 20—and has already increased it by a factor of six.

Extreme Events Continue

Extreme event attribution is still a relatively new branch of climate change science, demonstrating its usefulness in quantifying impacts of climate change on many temperature- and water-related extreme events. The special issues of The Bulletin that the American Meteorological Society has released at the end of each year going back to 2011 are still dominated by such events. Their latest issue highlights 20 extreme events in 2019, including 10 temperature and seven precipitation events.

As our knowledge of climate change impacts grows, as the science of event attribution matures and as computers become faster, the expectation is that climate attribution studies will begin to focus on other types of extreme weather, such as tropical cyclones, extratropical cyclones, severe convective storms and wildfire. CM

Managing REMOTE Workers

Executive Summary: More companies are allowing employees to work remotely, but will they succeed? Learn how to manage employees you can't see from people who are doing so successfully. Among their ideas: Set up performance and productivity guidelines as well as parameters for an acceptable at-home workspace; ensure employees feel connected with collaboration tools and daily check-ins.

By Lori Widmer

Don't look now, but the trend toward working remotely has just found solid footing in the form of a global pandemic. Companies around the world have been forced to conduct business in new ways since the COVID-19 pandemic took hold in March 2020. Employees were sent home in droves—many of them expected to work from home.

For a significant portion of America's workforce, it was just another day at the home office. According to Upwork's 2018 Future Workforce Report, 63 percent of companies in the U.S. already had remote work arrangements with some or all of their workforce, thanks in part to a tight labor market and a new generation of workers pushing for more flexible work arrangements.

It's a trend that was already on the rise. The number of workers who work remotely part or all of their workweek has risen 173 percent from 2005-2018, according to Global Workplace Analytics data.

But while hiring managers believe their companies are equipped to offer remote work, the company policies simply aren't there. The Upwork study shows that 64 percent of hiring managers feel there are resources and processes in place for their company to offer work-from-home options, but 57 percent of the companies surveyed said they lack a remote work policy.

Colleen Ritchie is senior vice president of operations for TTEC, a digital customer experience technology and services company that serves a number of industries, including the property/casualty space. TTEC has offered remote work options to employees for five years, and Ritchie said that far too many companies try to replicate the physical location experience rather than adapting the business to support a remote environment. "Trying to replicate a physical location adds more obstacles and creates a less-than-perfect experience for remote employees," she said.

It's a common problem, said Dean van Ormer, senior vice president of North American Work at Home Operations for SYKES Enterprises Inc., a multichannel global customer engagement services company that provides personalized customer insurance life cycle support for agents and brokers. With 10-15 percent of the SYKES workforce working remotely, van Ormer has seen companies assume that sending employees home is all that's needed. Not so, he said. "You need to set up your organization very thoughtfully around how you're going to do it."

The Benefits

So, why should carriers go remote at all? Jill Johnston said there are plenty of reasons why companies may want to embrace the work-from-home model. Johnston, director of Work at Home Project Management for SYKES, said virtual employees give employers an immediate benefit—access to more job applicants. "You have a much larger talent pool because the geography in which you can hire is much larger."

Also, Johnston said companies that offer remote work can attract candidates who might otherwise be looking elsewhere. "Work-at-home is one of the most desired benefits that employees are asking about." Moreover, Johnston added that remote work and flexible work pays back in another big way. "We've also seen a reduction in attrition." In fact, the 2017 State of Remote Work report by Owl Labs and TINYPulse shows that companies offering remote work have 25 percent lower employee turnover than companies without remote work options.

Outcomes improve, as well. "By having a remote workforce, it really forces you to come up with measurements that focus on productivity," said Greg Hanover, CEO of Liveops Inc., a virtual call center company with an estimated 75 percent of the workforce working remotely.

Common Pitfalls (and Cures)

Yet none of that matters if companies are not managing their remote workers effectively. Be the workforce temporarily remote or more permanently so, there are right and wrong ways to set up and manage remote workers. Johnston said companies go astray when they assume their high-performing employees are the best candidates for remote work. That's not always the case, she said. Not every employee is able to work at home or even wants to.

Johnston recommends that companies assess each employee to ensure they're well-suited for remote work. Her company assesses employees on a host of behavioral points. "A typical work-from-home person is going to rate a little bit lower on the sociability scale than someone who doesn't work at home. The social environment may not be their priority." She said employees who are a good fit for remote work are going to rank high in self-sufficiency.

Also needed: technical capability. Van Ormer said his company looks for people who understand how to use the technology the company employs. "We support people [working] remotely, but at the same time, you need to be able to do some of that on your own."

Such screening of employees should begin at hiring, said Hanover. He said companies that are intent on engaging more remote workers should be sure they're hiring the right person.

He, too, suggests personality screening on candidates and existing employees. "Have they worked remotely before? Are they disciplined enough to be able to do their job in a remote environment? What is their home environment like? Is it conducive to remote work? What are their technology capabilities? Will they be able to leverage necessary technology to be effective in a remote environment? Then you can get into some of those more

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continued from page 57

psychology-related questions around if they are somebody who can work in isolation."

Effectively Managing Remote Workers

Hanover said companies must put policies in place that address the issues that come with managing an unseen workforce. Managers should start by setting up performance and productivity guidelines. "Are they clear? Are employees clear on how they're being measured? Is the manager clear on how to measure? Those things should be in alignment before you send somebody home to work," he said.

Companies should also set parameters for an employee's workspace, he said. Distraction-free space and clear guidelines on what the expectations are around the home work environment should be addressed. "Be very clear around work environment, the tools that need to be used and what those expectations are."

Those tools should include collaboration capabilities, said Ritchie. Employers should do whatever they can to make collaboration easier for remote workers. She suggested using social collaboration tools that allow employees to share information and message easily. Document sharing via project management tools can make it easy for employees to work in teams. Also, "use video as much as possible so people feel connected," she said.

For larger companies, Ritchie suggested providing a directory that can help a remote worker easily find answers and expertise. "Create an 'expert library' of employee profiles based on subject matter expertise to help associates locate key employees to resolve customer issues quickly and efficiently."

Beyond productivity, both Ritchie and Hanover recommend that managers connect with remote workers daily. "How are you keeping in touch and keeping that connection?" asked Hanover. "And again, it's getting aligned with remote employees on what success looks like in this position. How are we going to measure your success? Make sure it's very clear so that when you do calibrate on productivity, you're both working from the same scorecard."

That and maintaining the company culture, said Ritchie, will help employees feel they're part of the company no matter where they're located. "Maintain daily huddles with teams," she said. "Ask all employees to use video conferencing for their daily communications. Also, appoint an individual or form a committee to come up with virtual team-building activities that are connected to and uphold your company values."

Additionally, Ritchie recommends that managers acknowledge birthdays, anniversaries and upcoming special occasions when groups get together, plus create morale-building activities, as well. "Invite senior leaders to come to group meetings, celebrate wins and share information with teammates," she added.

Also, training does not need to end when employees head home, Ritchie said. Companies should shift their training and ongoing education to an anytime, anywhere learning model. "Associates can get a hands-on learning experience at their convenience," she said.

Or managers can provide coaching via video or chat session. This allows for more personal interaction with managers.

That interaction, said van Ormer, is key to successfully maintaining the company culture across a remote workforce.

"How do you plan on continuing to drive that culture when your employees aren't there in the building with you?" Hanover said. "You really need to be aware of how you're communicating."

Johnston said companies should start at the beginning of the employee experience. A critical factor is to ensure that employees are still engaged with one another, she said. "No one who works at home wants to work in a silo. They just connect differently. Are we making the way they engage with the rest of the company easy? It's like asking yourself how we do it in an office, and then through technology, how we apply these same concepts and our same culture to the work-at-home employees." CM

Lori Widmer is a Philadelphia-based freelance writer and editor specializing in risk management and insurance.

Intentional Effort:
How to Build a Diverse Workforce

By Kimberly Tallon

Building a diverse workforce doesn't happen by accident. Companies must make an intentional effort to cast a wide net when searching for potential recruits and to understand that one-size-fits-all benefits won't help them retain top talent, said panelists at the 2020 Joint Industry Forum in January.

"I think that the word of the day, when we talk about recruiting, is 'intentional,'"

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continued from page 59

said Randa Rawlins, EVP of Shelter Insurance, during the panel titled "A 21st Century Workforce That Reflects the Communities We Serve."

Craig Lapham, CEO of executive search firm The Lapham Group, agreed that companies must be intentional if they want to hire for diversity. The main problem, he said, is that "the world has gone the way of the specialist over the past decade."

Clients come in and talk about diversity, he said, but when it comes to creating a position description and required background for the potential ideal candidate, most clients get far too specific. They want specific industry experience, line of business experience, functional experience. Some clients even look for specific regional experience.

"When you put all of those filters on top of the position description, you may talk about being committed to diversity, but you've created such a narrow, specialized focus that you're going to be damn lucky to get a single white male that fills that, let alone a slate of diverse candidates," Lapham said.

He noted that "diversity recruitment is an odds game," and companies need to use a wide net if they want to capture diverse talent. "But there is a mentality within P/C insurance of, 'Let's hire who we know. Let's bring a team in; we'll know all of them. It will mitigate the risk.'" However, he warned, "the team you're bringing in is going to look just like the hiring manager." Companies looking to hire for diversity need to broaden the scope of their search, he said. For example, rather than insisting a candidate needs to have experience in multiline P/C insurance, consider looking at people with a background in diversified financial services.

Pictured above (l-r): Margaret Redd, National African-American Insurance Association; Deborah Aldredge, Farmers Insurance; Denise Campbell, AIG; Craig Lapham, The Lapham Group; Randa Rawlins, Shelter Insurance (photo by Don Pollard)

"When you put all of those filters on top of the position description, you may talk about being committed to diversity, but you've created such a narrow, specialized focus that you're going to be damn lucky to get a single white male that fills that, let alone a slate of diverse candidates."
Craig Lapham, The Latham Group

Denise, Inc.

Denise Campbell, AVP of National Accounts at AIG, is a shining example of the importance of being intentional—both for a company and an individual.

Campbell wasn't looking for a career in insurance. "I not only did not come from the insurance industry, my degree is in music, from NYU. So, I really had zero background into anything that you people do all day long. But I really wanted health insurance," she admitted. She joined AIG in 2008 as an administrative assistant, but "I didn't even know what AIG did or what it was. I had car insurance. That's about the extent of what I knew about insurance."

And then Campbell found the company's employee resource groups (ERG). She joined AIG's Black Professionals ERG and was later introduced to the National African-American Insurance Association (NAAIA), later becoming a leader for both groups.

While emceeing a group event, Campbell made a connection that changed everything. "An executive in the audience—a woman who had never seen me before—came up to me afterward and said, 'What do you do here? Who are you? You come see me.'"

She went to the executive's office, unsure of what to expect. After a brief discussion about where Campbell saw her career going, the executive told her, "I think you'd be really great as a business development manager," explaining what the job entailed. When Campbell immediately began to point out her lack of experience, she was told: "That's OK. I can teach you those things. These are things you can learn. I can't teach you how to be who you are. And we need someone who can go out and speak to people and engage, and so I think you should interview. And I'll introduce you to the hiring manager."

Campbell became a business

development manager, working with sales and underwriting teams and learning all about insurance. After four years in that role, she was promoted to AVP of National Accounts.

"Now I'm a client director for the team, and all of those things came about from groups of people who believed in me. So, it was the ERG that gave me a platform and a vehicle. It was NAAIA that introduced me to other people who looked like me who were doing amazing things in the company—because on a daily basis, I'm the only one who looks like me at any table that I'm in. And then it was the confidence that gave me that passion..."

Campbell credits these groups and organizations with allowing her to thrive and helping her go from admin to AVP. She stressed that "contrary to what my mother told me, I'm not that special. There are actually a thousand Denises at this organization who are not being seen, who don't have the voice that I have, or the luck that I've had to have the people on my side—the coaching and the sponsorship to put me in front of the right people. There are a lot of really brilliant people of color, backgrounds, disability, LGBTQ who are waiting for the chance," but they're getting overlooked because they don't know the right people or have the expected experience.

But she noted that employees also need to be intentional if they want to thrive. "Meritocracy is a wonderful idea that does not really exist in this world...You need to brand yourself and sell yourself. You don't have to be an extrovert to do that. I test as an introvert."

Campbell also stressed the importance of diversity in leadership when it comes to recruiting younger generations. "Millennials and Gen Z, they want to see a world that represents the world they live in...When my little cousins and so are looking for jobs, they Google the company and look up the leadership, and nobody there looks like them," she said. "And so they immediately assume 'This is not for me.'"

The Power of Listening

Employee resource groups helped Campbell launch her career, but they also serve a number of other purposes. ERGs can help companies realize what benefits are truly important to employees and also point out opportunities the company may be missing.

Deborah Aldredge, chief administrative officer at Farmers Insurance, said that when she first started at the company, she was the only woman with a seat at the executive table. "I would find that we have these really talented women that felt for the most part very isolated in their roles... So, we started bringing them together into a women's network...We wanted to give women an opportunity to have a voice, and in the organization to be able to influence some of our policies and our practices," she said.

And the effort paid off, with Farmers moving from 15 percent of people manager jobs being held by women to well over 42 percent, Aldredge said.

At Shelter Insurance, listening to employees helped the company be more intentional about trying to hire women into IT jobs, said Rawlins. The company had apparently been recruiting at colleges that had programs that only had males, she noted. They also learned it's too late if you wait until high school or college to start recruiting young women, so Shelter now works with a middle school and has led presentations at a local girls' summer camp for gaming.

Listening is also important when it comes to employee retention, Rawlins said. Millennials and Gen Z aren't interested in the same benefits as earlier generations. They aren't thinking about 401(k)s and what's going to happen 30-plus years down the line. They want benefits that impact their current lives. CM

"Contrary to what my mother told me, I'm not that special. There are actually a thousand Denises at this organization who are not being seen, who don't have the voice that I have, or the luck that I've had to have the people on my side—the coaching and the sponsorship to put me in front of the right people."

Denise Campbell, AIG

InsurTechs Will Not Shape the Industry's Future Alone

Executive Summary: With a harder market shaping up, ReSource Pro CEO Dan Epstein offers a reminder of the importance of having insurance professionals who have lived through prior hard markets oversee technology solutions—to contribute understanding that can guide customer service experiences. He supports arguments about the need for insurance industry-technology company collaborations with a review of recent tie-ups and a call for design thinking and customer journey mapping to center tech solutions on the humans served by the insurance industry.

By Dan Epstein

InsurTech was once the Wild West of the insurance industry. Many early InsurTech players came from outside insurance after observing the industry struggle to deliver what was, in their view, a competitive customer experience.

Led by ambitious entrepreneurs from outside insurance, backed by Silicon Valley and focused on industry disruption, early InsurTech initially promised to displace incumbents and usher in a new era of insurance offerings and tech-driven solutions.

Nearly 10 years since its inception, the reality of InsurTech has evolved. The messaging about supplanting industry giants is gone. In its place is a more collaborative environment led by insurance industry leaders partnering with tech solution providers. The simple reality is technology cannot do everything. The integration of experienced insurance professionals and tech is needed to manage across the insurance value chain.

There are powerful drivers of change toward greater automation: insurance professionals aging out of the industry, consumer expectations changing, the transformation of risk itself through the Internet of Things, the continued fragmentation of the industry and legacy systems that don't talk to each other. Startups and incumbents alike are embracing these challenges through innovative methods designed to drive change across the value chain. Customer journey mapping, design thinking, lean process mapping, intelligent automation all have become increasingly part of the industry's response to evolving customer service needs.

The new promise—the modern concept of InsurTech—is the embrace of a strategy driven by collaboration and innovation rather than disruption.

The Era of M&A Is Here

Currently, InsurTech is creating buzz through mergers and acquisitions, further integrating innovative technologies with insurance industry leaders.

Last year's acquisition of Indio Technologies by Applied Systems is one such example. Applied saw the acquisition as an opportunity to bring Indio's digitized commercial insurance application and renewal process to Applied's agency management system, Epic, which serves thousands of agency and brokerage customers. According to Applied CEO Taylor Rhodes, the integration of Indio reduced double entry for customers at the point of renewal or application within the company's Epic system. It also allowed for a more productive application of Applied personnel elsewhere in the renewal and application process while improving customer experience.

Another example of this M&A era is the 2017 deal between Vertafore and RiskMatch. The latter is a business intelligence and analytics company serving insurance brokers and carriers. The deal allowed Vertafore, an insurance technology firm, to better compete with companies like Applied Systems for analytics and risk placement services by substantially enhancing Vertafore's data and market insights to improve efficiency and profitability.

> **"Technology alone is not a solution. Adoption of technology without an underlying strategy can create tremendous inefficiency to insurance processes, adding complexity and creating more costly issues for companies in terms of time, personnel and customer service."**

In both examples, as seen elsewhere across the industry, standalone technology solution companies are either being acquired or partnering with industry leaders to apply those tech solutions to operational capabilities with existing reach into the insurance space in an effort to reduce complexity, create efficiencies and maximize the productivity of insurance professionals. And the numbers back this assertion up.

Deloitte Center for Financial Services reported in September that InsurTech investments for the first half of 2019 were on the rise at $2.2 billion at the midyear mark, while the number of InsurTech startups had declined. *(Editor's Note: In a recent update, Deloitte reported an increased figure of $3.3 billion.)* Additional examples of big carriers investing in digital platforms that support their core and ancillary business markets are ample: Chubb's 2018 investment in Bunker, Munich Re's 2016 partnership with Slice Labs, Prudential's $2.35 billion acquisition of Assurance IQ—a veritable laundry list of insurance leaders have invested in or partnered with tech startups to apply digital solutions to their established processes to maximize the customer experience.

The Challenge

Technology alone will not fully eliminate the challenges that surround key processes like claims, which is the foremost area the insurance industry is moving to address.

The combination of innovative technology solutions and startups with more established industry players offers exciting promise for the industry—assuming we don't lose sight of the need to ensure a solution that serves humans must also be driven and populated by humans. Put simply, there is no general AI.

Algorithms, bots and other technologies are not end-to-end solutions. These tools are highly localized and offer a narrow focus. As part of a process, they offer greater efficiency and a streamlined manner to consumer data analytics. However, technology alone is not a solution. In fact, adoption of technology without an underlying strategy can create tremendous inefficiency to insurance processes, adding complexity and creating more costly issues for companies in terms of time, personnel and customer service.

There is tremendous emotion around claims and losses. Technology can help in managing the claims process, but humans with customer service skills will remain a critical part of the process, allowing for insight, empathy and creative thinking that no algorithm can yet replicate.

With a hard market on the horizon, the complexity of applications and claims will grow. As this more complex situation evolves, standalone AI solutions will likely fail to adapt, while integrated technology solutions driven and overseen by insurance professionals who have lived through prior hard markets and know what to expect can help best guide their companies and their customer service experiences.

Advice for the Future

Companies that will succeed in this new industry landscape will be those whose leaders think big but start small. The temptation is to chase the big, shiny objects. This was an early mistake of many InsurTech startups. The reality is that so much can be gained from small, incremental improvements.

Start by taking a close look at existing processes through the eyes of the customer. Design thinking and customer journey mapping ought to be part of the daily conversation of management looking to InsurTech for solutions. InsurTech is the culmination of a lot of these things. Look outside of the insurance industry for inspiration.

Look for companies that can help alleviate some of the more complex pieces of digital transformation. Some of the most successful advances in InsurTech to date have come from organizations that took an honest look at their tech and innovation deficits and identified an effective partner to maximize what they do best with new thinking and processes. By freeing up time to focus on the core business pieces, they seek to drive growth and success.

As we move into a harder market, additional burdens will be placed on agents and carriers to manage submission flow, markets will become more restrictive, submission volume will go up along with exceptions and exclusions. InsurTech alone cannot solve for these realities.

In the hard market to come, there will be a premium on customer service and customer satisfaction. Technology can certainly help mitigate some of the burden agents and carriers will face. Addressing coverage needs and solving claims challenges, however, is a big part of what will be needed. This will require both a tech-based and a human-centric solution. CM

Dan Epstein is the Chief Executive Officer of ReSource Pro. After joining ReSource Pro as Vice President of Business Development in 2005, he became CEO just a year later, leading it from a small startup to a company with 3,000 employees in delivery centers in the U.S., China and India.

Epstein has degrees from Columbia Business School and the London School of Economics. He served in the military in the Israel Defense Forces, conducted economic research in East Africa, performed international trade work in the U.S. House of Representatives, and recently served as Vice Chair on the board of the World Future Society.

MGU SageSure: A Tech Company DRESSED UP in an Insurance Company

Executive Summary: The CEO of SageSure, Terrence McLean, describes the evolution of a startup technology firm, launched to license specialized software to insurers writing property risks in underserved coastal areas in the aftermath of hurricanes Katrina, Rita and Wilma, into an MGU that leverages the technology and relationships with multiple carriers to offer consistent capacity to agents struggling to place that business for middle-market insureds.

By Susanne Sclafane

While InsurTech carriers selling personal lines insurance see software licensing deals as new avenues to growth, a technology company operating in the special niche of catastrophe-exposed property has found success moving in the opposite direction.

Terrence McLean, chief executive officer of SageSure, a Jersey City, N.J.-based managing general underwriter, explains that the initial business—a technology company known as Insight Catastrophe Group—still exists and generates about $3 million of revenue per year. But the MGU, which produced over $462 million in premiums for carrier partners in 2019, is now the main focus of the company.

SageSure, which writes middle-market primary personal property insurance for a handful of carriers in underserved coastal areas, uses technology that scores the impact of adding each individual property risk (or set of risks) to a portfolio. With bigger investments in that kind of technology than traditional national homeowners carriers have made, SageSure has an edge in underwriting and pricing underserved risks, McLean told *Carrier Management* during an interview in January.

"It's not that they're not smart enough or capable. Of course they can do that. They

just decide that's not where they're going to put their investments because they're not focused on that area," he said.

In addition to scoring technology, which essentially delivers metrics like ROE, reinsurance cost impact, aggregation impact in real time as potential risks are considered for binding, SageSure has also made heavy investments in quoting technology that makes it easy for agents to do business with the MGU, which describes itself as "the largest independent residential property MGU in the U.S."

Although at least one 2019 media statement issued about SageSure describes the company as a subsidiary of InsurTech firm Insight Catastrophe Group (ICG), McLean admits to being uneasy about using the descriptor "InsurTech" for either company.

"What I would say [instead] is that we are a technology company dressed up in an insurance company," McLean said. "There's a lot of buzz and conversation around the InsurTech space. We think of ourselves as a technology company. We operate a lot like a technology company. But where we've come from is much more an insurance focus—with actuaries who have been doing this for decades and a focus on managing profitable business."

(Editor's Note: SageSure officially became the lead company at the end of 2020, with ICG now as a subsidiary.)

"We don't think technology alone is enough to be successful in this. Risk management, exposure management [and] carrier partnerships where you trust this person like family" distinguish SageSure, he continued.

"The technology is critical, and sometimes I think I even potentially take it for granted, because we've always been good at that and it's woven through the fabric of what we do. But at the core, I believe to be successful in this space, you've got to be insurance-focused and insurance-minded...One without the other does not work. Insurance-minded without technology is a real struggle. Technology without the insurance-mindedness, I think, is also challenging," said McLean, himself a hybrid of both worlds.

Hard-to-Place Coastal Insurance and Technology

McLean studied actuarial science, finance and computer science before embarking on a diverse career path that saw him move from being an analyst and software development manager for investment banking firm Donaldson, Lufkin & Jenrette to become the chief operating officer of American Superior Insurance Company in Florida, and then into positions in the risk management group of RenaissanceRe before launching

"Carrier partners who have capacity are much more interested in people bringing them revenue than bringing them expenses."

Terrence McLean, SageSure

ICG and SageSure.

In 2005, McLean and Andrew DiLoreto, a former executive for Benfield Group and General Re, co-founded ICG, starting out as a software and services company for insurance carriers and MGAs writing catastrophe-exposed property. "It was after two years of significant hurricane activity—2004 and 2005," he said, noting that the timing coincided with the pullback of large national insurers from cat-exposed markets.

"We had a really good product, but frankly, most insurance companies that are writing cat-exposed property don't have the analytical tools at the point of sale. So, it was a real struggle," he said, explaining the pivot from a software company to an MGU model. The MGU, leveraging the same technology, wrote its first policy for IAT Group in September 2009, he said.

While Insight had a "healthy amount of revenue" (eight figures) for several years, that wasn't permanent, he said. "Our revenue went down to a couple million a year, and we de-emphasized that business." He noted that ICG nonetheless still serves some happy 10-year clients. "But we haven't invested in that model," he said, adding that nearly 300 employees focus more on the MGU than software licensing today.

McLean also suggested that technology for scoring and pricing risks in catastrophe zones, which was novel back in 2005, is less unique today. "Every insurance company, every actuary that does pricing for cat-exposed property business understands the fundamental math that goes in. What we did is we operationalized it," he said, describing how ICG was able to integrate with AIR and RMS cat models, combining model output with a layer of logic—algorithms—to come up with the expected profitability or return on capital of a single risk.

"We made that all possible seamlessly," McLean said, noting that when a risk comes in (to the MGU or to carriers that do license the software), carrier-specific reinsurance costs and capital allocation

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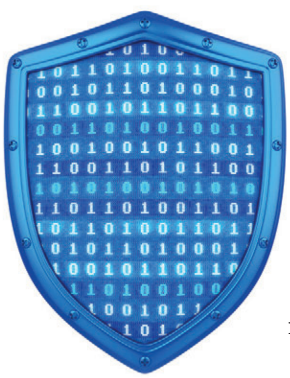
continued from page 65

strategies are layered with the modeling results to come up with prices to charge for breakeven results or to be at some prescribed level of profit.

For carriers looking to write more in cat-exposed areas, "we were clearly the most efficient way to do that. We had the best tool and for the least cost. But you had to be committed to using it. Most carriers simply just don't use it," he said.



"Carrier partners who have capacity are much more interested in people bringing them revenue than bringing them expenses," McLean said, explaining why the MGU model made more sense.

The revenue has to be profitable, he stressed. "We've made profits for all of our carriers every year since inception. That's not something that most people can say when they're writing cat-exposed property and they've been through hurricanes Sandy, Irene, Isaac, Matthew, Dorian, Harvey—I could keep going. Pretty notable ones," McLean said, explaining that the track record relates to the "dressed up as an insurance company" part of being a technology company.

"We're not a competitive marketplace; that's not our model. We're essentially an outsourced partner with our carriers," he said, noting that SageSure has exclusive arrangements with the carriers in the regions where it writes for them. "We have a small number and they're deep partnerships, with trusting relationships. I think of it as insurance done the old-school way, where you really do trust that person you sit across. It's not a transactional type of business model," he said.

"We work closely with our carrier partners. Ultimately, of course, they retain all of the authority, but they give us a pretty long leash to run the business the way we need to. We have the expertise on staff: We have the actuarial staff, the product development staff, the underwriting staff. We do all of that work ourselves and then we hand the filings over to our carriers," McLean said, noting that while they can say they don't like what SageSure has come up with, that generally does not happen.

Winning the trust to operate with such a long leash takes "time, integrity, honesty," McLean said. "Do what you say. Say something, have conviction and then actually go do it. Deliver solid results," he said, noting that the basis of the first relationship with IAT Insurance Group started with a test state. They gave SageSure some capacity in New York, "and we produced exceptionally good results. We were also extraordinarily conservative."

"Today, we would never be that conservative. The market wouldn't tolerate" it, he said, referring to being so disciplined on underwriting guidelines and insurance-to-value that it frustrated distribution partners. "What that means is you bind a risk and you disrupt them after binding because you underwrite it after binding," McLean said, noting that SageSure inspects 100 percent of the houses it writes.

"We were just putting out pending cancellation notices on a large number of policies early on. That's challenging," he said, going on to describe the importance of balancing agents' needs and profitability promises to carriers. Incremental changes to loosen underwriting in order to help agents were done slowly, being mindful of the need for stability—not by "running into a market writing as much as you can. Not underwriting and saying, 'Oops, I just lost a bunch of money. I need to jack up my prices. I need to non-renew customers.' That's disruptive, and we've been able to stay away from that. We very, very rarely shut down business," McLean said. "We've

InsurTech? **Not Really**

Terrence McLean, CEO of SageSure, describes the company as a "technology company dressed in an insurance company."

Asked specifically if he would hate it if the accompanying article referred to SageSure as an InsurTech, McLean said he believes the title has some negative connotations that make him apprehensive. He expressed particularly strong objections to ideas of disintermediating agents that he sees as a common InsurTech theme.

"I think there's a perception that technology can just solve the problems of insurance [or that] it's largely sufficient to disintermediate. This perception that it should be direct-to-consumer—I don't agree with that. I'm not saying it won't go there, that people won't be buying insurance in five seconds on their phone in 50 years, but I don't think that's happening in the next five...I don't think we're going to wake up and see a 20-point increase in the percentage of homeowners customers who are buying insurance directly from a carrier," he said.

"I don't think we're going to have a drastic change in the way the distribution's done. I have read many articles and have this perception that InsurTechs are not giving the insurance industry enough credit. There are some really smart people and talented people in this industry who do really good things. They may not be as good at technology as many technologists out there, but insurance in and of itself, especially because of the regulatory nature, has its challenges. And you can't just blow through those..."

"There's probably not a day that goes by that I don't read a significant amount of insurance press, and [a lot of] the press I read says that this stuff's easy. I don't think it's easy," said McLean, whose father, Gil McLean, was an insurance journalist for Ohio Underwriter (National Underwriter) for three decades. CM never taken a double-digit rate increase," he added.

Does that mean rates are high to begin with?

"Our close rate wouldn't indicate that," McLean responded. "Our rates are very competitive for a cross-section of customers we're targeting" he said, noting that SageSure writes mostly middle-market, admitted homeowners business at an average distance of 10 miles from the water.

"We're writing what we would consider very good business that happens to be relatively close to the coast. That's the story," he said. "The big national players generally shy away from it. Often, they'll take some of it, but they generally have enough. They're not seeking large growth in these areas as a general rule."

While SageSure's prices are higher than insurance prices for properties without hurricane exposure, they are lower than what other carriers charge for the same risks. The model for the business is to go after "those customers who we believe are overpaying with other players"—because those other carriers apply a "high-risk label" across the board without drilling down on differences in exposure.

"Clearly, Allstate, State Farm, Travelers, all these companies have the sophistication and they've got really smart people. But because they're shying away from the coastline, they're not making huge investments in getting that right. It's logical. It makes sense," McLean said, explaining that SageSure has made investments in technology and "rating algorithms that are dramatically more granular."

"Hurricanes degrade over time. Wind speeds go down. There's protection from trees and various things over land, surface roughness. I could go on and on. Because of those reasons, that house a mile inland doesn't deserve the same rate" as the one right on the coast, he said. "They, in fact, deserve a lower rate."

"We can be more competitive for customers that deserve a better rate for risk reasons," McLean noted. CM

Why One MGU Values Employees Who **'Don't Try'**

In addition to building patented technology for scoring individual residential coastal property risks in real time and using it to make profits for carriers, MGU SageSure gets stellar ratings from employees on an online employment site.

In fact, Glassdoor ratings for the company come in at 4.9 out of 5 stars on average. While the sample size is small (only 15 reviews for a company that has 300 employees in six locations), a 100 percent approval rating prompted *Carrier Management* to ask about the secret sauce for pleasing employees.

"The No. 1 thing is culture," CEO Terrence McLean said, crediting Chief Marketing Officer Tammy Nelson with leading the effort to build the culture when she joined three years ago. A big part of that was codifying it in writing. "That has made such an immense difference in both recruiting and in knowing the type of people" who fit the culture, McLean said.

"It's a meaningful differentiator because the behaviors that we value are unique. Nobody else is going to have the values that we have," he said.

Among the ones that sprung to mind during the interview:

- We are fountains.
- We run down the hall.
- We don't try.

"When we're thinking about what we do as a business [and] who's going to fit here, we ask, 'Are they fountainy?' To us, that's a verb describing someone who's uplifting, who's going to build other people up. When somebody's down, they're going to help them up," not knock them for mistakes.

"When we say, 'We run down the hall,' we literally do it a lot," said McLean, who is a runner. "But it's obviously [also] figurative in nature...I have empathy for people around me. I know that if I'm not running down the hall, I'm impacting my customer. I'm impacting agents. I'm impacting my co-workers because they're depending on me to get my stuff done."

And, "We don't try," is a bit of a "Star Wars" Yoda reference: "Do or do not, there is no try," he said, underscoring a value of real commitment. "You're not caveating everything with, 'I might not get that done.' You can't say, 'I'm going to try to do that.' You can't say that."

"These things come up in meetings almost every day, certainly every week. People say, 'I'm going to try.' Then they stop themselves and say, 'I'm not going to try; I'm going to commit to do that.'"

In addition to culture, "growth doesn't hurt" in making SageSure a great place to work.

Like McLean, reviewers on Glassdoor refer to the growth of a 10-year-old MGU that now employs 300 to write $462 million of residential property premiums in 14 states.

"We are hiring like crazy," McLean said when asked if staff size is set to increase. As for what roles need to be filled, he said, "I don't think there's an area of the organization that's not growing," listing sales and marketing, customer experience professionals, customer service and underwriting.

SageSure has also continued growing the technology staff, but McLean added, "We're increasingly focusing technology on insurance-minded people. We have a lot of great technologists who don't have a lot of insurance experience, and it works OK as long as they're surrounded by people who do have insurance experience. We're a little bit too weighted to the non-insurance experience. So, we're actually increasingly focused on hiring people where insurance is their first language." CM

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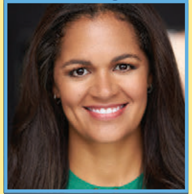

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