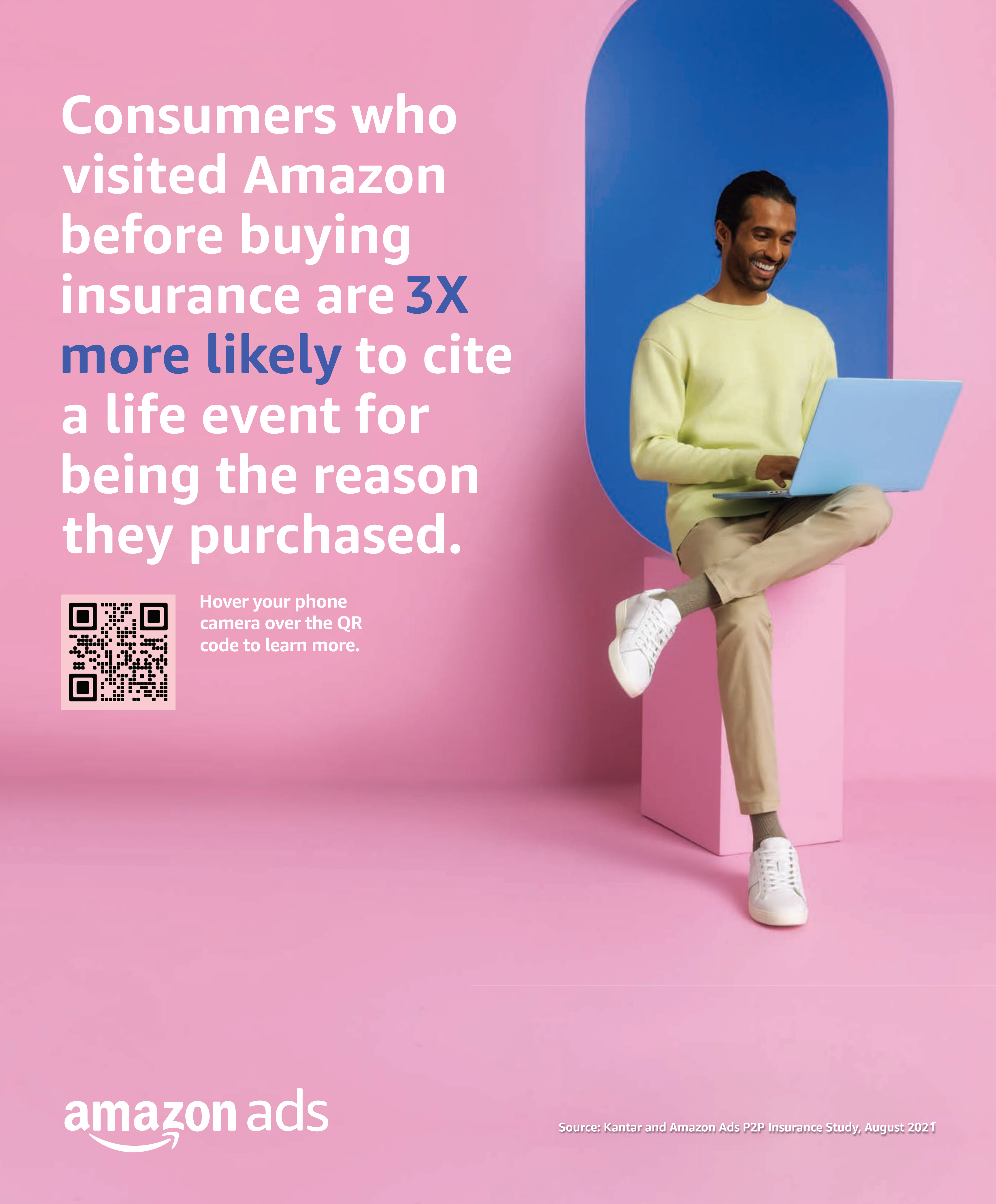
Q2 2022 EDITION

Carrier Management

Critical Information for P/C Carrier Executives

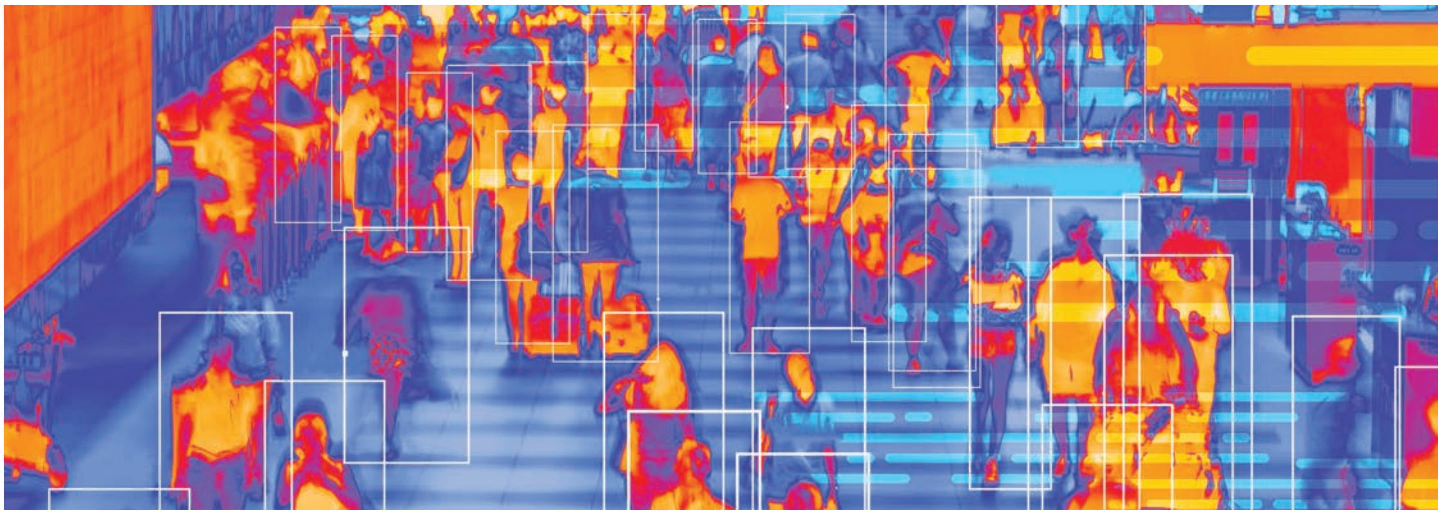
Increasing Operational Efficiency

Strategies of Innovators and Industry Giants



Consumers who visited Amazon before buying insurance are 3X more likely to cite a life event for being the reason they purchased.
Hover your phone camera over the QR code to learn more.
amazon ads
Source: Kantar and Amazon Ads P2P Insurance Study, August 2021

Contents



Giants and Innovators: Increasing Operational Efficiency

They Did It Again.

The Insurance Journal and Carrier Management editorial, audio/video, and design teams have won multiple awards from the American Society of Business Publication Editors!

The awards include those in the categories of technical multi-platform package, article, online single topic, and webinar.

Congratulations on another amazing year of accolades. A big shout out to our winners. You make us look so good!

A:Z:B:E:E:S
ASBPE Awards of Excellence
2022
GOLD NATIONAL AWARD
asbpe.org

2022 ASBPE Award of Excellence Recipients

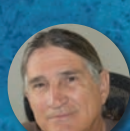
Andrew Simpson
Chief Content Officer

Ashley Waldrop
Assoc. Video Producer

Bobbie Dodge
VP of New Media

Elizabeth Blosfield
East Editor

Guy Boccia
VP of Design



Jim Sams
Editor

Kim Tallon
Assistant Editor

L.S. Howard
International Editor

Michael Fitzgerald
Guest Editor

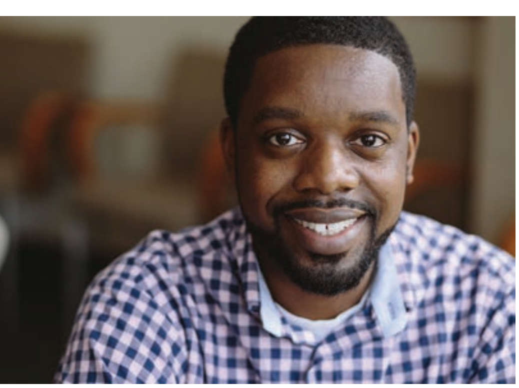
Susanne Sclafane
Executive Editor

INSURANCE JOURNAL

Carrier Management

Features Q2 2022

Features Q2 2022



Carrier Management

VOLUME 9, NUMBER 2 Q2 2022

www.CarrierManagement.com
Critical Information for P/C Insurance Company Executives & Directors

Publisher
Mark Wells | mwells@wellsmedia.com

CARRIER MANAGEMENT EDITORIAL
Executive Editor
Susanne Sclafane | ssclafane@carriermanagement.com
Chief Content Officer
Andrew Simpson | asimpson@wellsmedia.com
Deputy Editor
Elizabeth Blosfield |eblosfield@carriermanagement.com
International Editor
L.S. Howard | lhoward@carriermanagement.com
Assistant Editor
Kimberly Tallon | ktallon@carriermanagement.com

CARRIER MANAGEMENT DESIGN
Vice President of Design & Production
Guy Boccia | gboccia@wellsmedia.com
Graphic Designer
Melissa Reese | mreese@wellsmedia.com

CARRIER MANAGEMENT ADVERTISING/MARKETING
Chief Marketing Officer
Julie Tinney (800) 897-9965 x148 | jtinney@wellsmedia.com
Director of Marketing Communications
Derence Walk | dwalk@wellsmedia.com
Chief Relationship Officer
Gayle Wells | gwells@wellsmedia.com
Advertising Coordinator
Erin Burns (619) 584-1100 x120 | eburns@wellsmedia.com

CARRIERMANAGEMENT.COM WEB
Web Developers
Josh Whitlow | jwhitlow@wellsmedia.com
Jeff Cardrant | jcardrant@wellsmedia.com
Terrance Woest | twoest@wellsmedia.com
Ryan Kleshinski | rkleshinski@wellsmedia.com
Jason Chipp | jchipp@wellsmedia.com
Vice President-New Media
Bobbie Dodge | bdodge@wellsmedia.com

WELLS MEDIA GROUP
Wells Media Group includes *Carrier Management* print and web publications, *Insurance Journal* print and web publications, *Claims Journal* web publication, the MyNewMarkets.com online directory, and the IJ Academy of Insurance.

Executive Chairman
Mark Wells | mwells@wellsmedia.com
Chief Executive Officer
Joshua Carlson | jcarlson@wellsmedia.com
Chief Financial Officer
Mark Wooster | mwooster@wellsmedia.com

SUBSCRIPTIONS:
Circulation Manager
Elizabeth Duffy at: eduffy@wellsmedia.com

Carrier Management, which provides Critical Information for P/C Insurance Company Executives and Directors, is published six times per year by Wells Media Group Inc., 3570 Camino del Rio North, Suite 100, San Diego, CA 92108-1747. Phone: 1.800.897.9965. Standard Postage Paid at San Diego, CA and at additional mailing offices.

POSTMASTER: Send change of address form to Carrier Management, Circulation Department, 3570 Camino del Rio North, Suite 100, San Diego, CA 92108-1747.
ARTICLE REPRINTS: For reprints of articles in this issue, contact us at (800) 897-9965 x125 or reprints@carriermanagement.com for info.

Giants and Innovators

The giant innovator on the cover of this edition teases to the content in these pages, including the accounts of two executives of insurance industry giants, who describe investments in technology to make their operations more efficient.

At a time when inflation worries and investment volatility loom large, carriers like Nationwide and The Hartford are still growing bottom lines. They have spent hundreds of millions of dollars on technology in past years—investments that have ultimately resulted in lower-cost business models for 2022.

Mo Tooker, head of Middle Market and Large Commercial business for The Hartford, describes decade-old IT spends now being leveraged to triage claims and underwriting workflows, innovations in usage-based commercial liability insurance and data firepower to spot emerging risk and claims trends (p. 44).

Mark Berven, president of Nationwide Property and Casualty, says the future-focused transformations of Nationwide's personal and commercial lines operations began seven years ago. Since 2015, Nationwide invested about three-quarters of a billion dollars in process and product modernization efforts, and the carrier has taken out over a billion dollars in P/C expenses over the same period (p. 29).

AM Best provides an overview of what's happening. "Companies with higher innovation assessments have lower expense ratios," the rating agency reports (p. 24). Innovative companies "make a tradeoff between higher expense ratios in the short run and low and more sustainable combined ratios in the long run."

In Tooker's view, scale matters. "This is a place where we will feel a bifurcation in the marketplace. There are only a handful of carriers that can make the investments we're describing." Berven points to the ownership structure of his company as a contributor to success. The "flexibility of not having to always be myopically focused on the next earnings call" allows mutuals to take a long-term view of business health and of how they deliver for customers, he says.

Outside of these pages, on the *CM* website, another industry giant, Berkshire Hathaway's Warren Buffett, expressed a similar view about mutuals in our most-read article of the year, "State Farm Still Wins: Buffett Talks Auto Insurance at Annual Event."

In our second-most popular article of the quarter, "Tesla Insurance Turning 'Nightmare' Claims Experience Into 'Dream': Musk," tech innovator Elon Musk talked about aspirations to bring efficiency to the auto claims handling process at Tesla Insurance. Same-day collision repairs will be "a night-and-day difference" to the old-style insurance claims handling "nightmare," which can involve a month-long wait for claims to be "settled and figured out" by incumbents.

Unappreciated by Musk, existing insurance giants also have customer experience in mind. Berven, for example, talked about photo inspections and automated processes, which will ultimately mean lower premium rates.

Musk, meanwhile, has been touting the benefits of real-time insurance pricing from Tesla car data, which generates Safety Scores based on indicators like the number of forward-collision warnings a driver receives. He may run into some roadblocks, like a lawsuit filed by a Tesla owner in late April. "Unfortunately, Tesla drivers' Safety Scores are inflated because of random 'ghost' Forward Collision Warnings that Tesla vehicles undergo when there is no actual danger or any car in sight," the lawsuit seeking class action status alleges *(Shawn Schneider v. State National Insurance Company).*

Whether Schneider is right or wrong about the technology behaving badly is still to be decided. But we all know that data collected digitally sometimes gives wrong signals. There is a website of people information that says I am on the board of a D&O broker I once profiled. I am not. And if you Google images of me, you may very well see a photo of my *Insurance Journal* colleague Chad Hemenway instead.

The carriers we interviewed about their moves to automate are careful.

"Most of what you're seeing the larger carriers working on is really what I would call augmented intelligence. We're helping our adjusters or underwriters make decisions in a more informed fashion," says Tooker.

"Don't automate everything because there are steps in the process that, from a consumer confidence perspective, the relationship and human voice on the other end of the interaction adds value," Berven says.

Susanne Sclafane, Executive Editor

Read more about the suit against Tesla on the Repairer Driven news website in the article, "Insurer accused of unfairly raising premiums based on false collision warnings from Tesla vehicles" posted May 5, 2022)

Also in this edition, Mike Nelson and Stephanie Niehaus of QuantivRisk describe the prospects of using vehicle data to objectively determine liable parties in auto accidents, including the manufacturers of increasingly autonomous vehicle systems. "On the Road Ahead to Level 3 Automation: Paradigm Shift in Crash Fault Determination" (p. 41)

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

Insurers: Fire Up Your Innovation Engines

By Brian Quinn and Jason Ralph

While the insurance industry as a whole has delivered pockets of innovation, such as cyber insurance and digital distribution, few carriers do so consistently.

This is part of the reason the sector has seen poor productivity growth. For property/casualty insurers, the need to do better in terms of efficiency may be particularly acute. Their resilience could be tested if climate change results in more and worse natural disasters and their ability to raise prices in response is limited. Indeed, the P/C sector's cost performance barely budged from 2005-2020.

The problem is that innovation is generally not embedded in companies' growth models or fully integrated throughout the organization—for example, by organizing data and digital tools in such a way that these capabilities enable and even catalyze continuous innovation. This is the exception rather than the rule. As a result, innovation is episodic rather than systematic.

That does not have to be the case. It is possible to structure, organize and encourage innovation for sustainable growth by implementing the following five steps.

Brian Quinn is a partner in McKinsey & Company's Chicago office.

Jason Ralph is a partner for McKinsey & Company based in Minneapolis.

1. Shift resources to innovation initiatives. Companies that want the kind of innovation that lifts performance need to invest in it. Business as usual, particularly after the disruption of the last two years, is the safe option—but it won't deliver growth. To do that, businesses need to free up capacity, in terms of both time and money. That may require reallocating resources away from core business tasks.

2. Develop distinct product-development pathways and processes. No two innovation initiatives are alike; therefore, no single process will work all the time. Companies should instead develop distinct pathways for product development.

For example, one carrier with a good innovation record considered the risk/return profile of possible innovations. On that basis, it created one track for the development of new products that could generate significant value; a second that focused on developing substantive changes to existing products; and a third that identified minor tweaks, such as repricing or adding minor features that already exist in other products.

3. Design value propositions that incorporate new approaches. Historically, carriers have developed new products through actuarial innovation. Or they concentrated on modernizing their distribution platforms and strengthening their underwriting capabilities. Little of this is exciting to consumers.

The best approach uses all three to create an innovative value proposition that consumers value. One example is to use these capabilities to personalize offerings and tailor messaging for small but distinct customer segments.

It's important to remember that consumers, accustomed to having good experiences with online search engines and retailers, have high standards. That is their baseline expectation for digital interactions. Insurers that fall short will not turn even a great new service into bottom-line improvements.

4. Design a continuous, integrated process. The point of innovation is to create value. So, it needs to be fully integrated into the business-planning cycle. That is why it is important for the relevant units to connect on a regular basis.

Innovation teams that are not fully integrated often lack clearly defined, near-term metrics for success. They may not understand how their own success is critical to the success of the overall enterprise and of specific business lines, and they may lack clear links with other parts of the organization to ensure the innovations they develop are implemented and scaled.

Constant dialogue between innovation and business teams can foster a common understanding of the market landscape, identify potential opportunities and realize their aspirations.

The innovation process should have three phases:

Assessment is a short (two to three week) sprint to identify key problems to solve that are consistent with overall strategy.

Aspiration is about refining new product opportunities based on user testing with clients and distribution partners and prioritizing targets. Growth in premium and profit from this portfolio of innovations is then incorporated into the financial plan and individual executive accountabilities are determined. The understanding is that not all of the ideas will work out—but some must.

Design, build and launch is the final phase. With the most promising ideas identified, it is time to proceed with proof of concept, product design, building activities (including pricing and filings of insurance products) and go-to-market planning.

Innovation teams should develop a business case for each product or initiative, carefully documenting all assumptions underlying the estimated value. Assumptions are tested against the value estimates (with proof-of-concept experiments), refined and tied to clear milestones for each step of product development. This makes it possible to refocus efforts and resources on initiatives considered most likely to succeed.

5. Use an accelerator to advance high-potential product innovations. What innovation operating model to use depends on an insurer's priorities, whether that is improving core operations or seeking disruptive opportunities. One way to keep up the momentum is to use an accelerator—an organization that supports early-stage and startup businesses through investment, mentoring and training—to pursue particularly promising ideas.

The accelerator is a separate entity, but it still needs to connect to the carrier's performance priorities. It also needs to be able to take advantage of the carrier's distribution, underwriting and data capabilities, so that it does not spend time reinventing the wheel.

Time to Innovate

At the height of the pandemic, industry leaders rightly focused on short-term cash management and the welfare of their workforce. But even before the pandemic, only a small number of insurers were earning substantial profits; another subset actually destroyed substantial economic value. Many of the rest did not earn back the cost of capital. P/C insurers, for example, were devoting considerable resources to improving underwriting, but with variable effects.

With the worst of COVID-19 apparently behind us, the question now is how to create strong, sustainable growth. New risks, such as climate and data and cybersecurity, call for new products—and represent big opportunities. And new technologies, such as applied artificial intelligence, drones and real-time datasets, offer new capabilities—if and only if insurers can attract the talent necessary to turn potential into profit.

To take advantage of these trends, and to build value, innovation is the answer. (This article is a summary of the March 4 article, "Five steps to improve innovation in the insurance industry," published by McKinsey & Company. The full article is available on McKinsey's website.) CM

P/C Insurers Positioned for Underwriting Improvement,
But Longer-Term Challenges Await

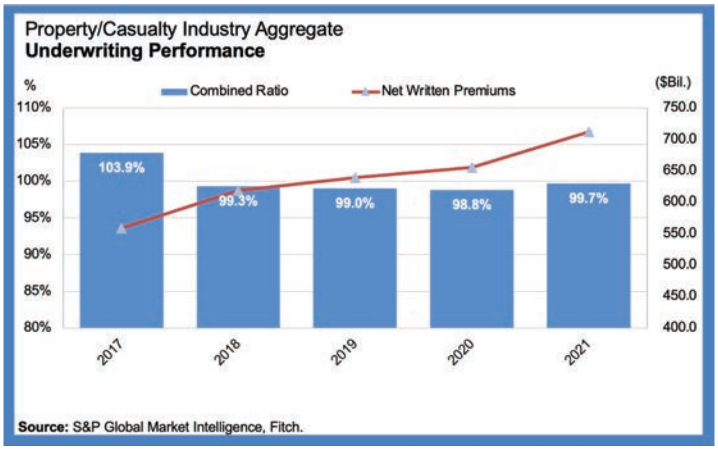
Executive Summary: Even though the P/C insurance industry recorded underwriting profits in 2021, and the industry is positioned to generate a better statutory underwriting profit and net earnings growth in 2022, the road ahead has some obstacles, including the likelihood that pricing momentum will subside in commercial lines and rising loss potential in personal lines tied to inflationary trends and natural catastrophes, writes James Auden, managing director, Insurance at Fitch Ratings. Here, he summarizes key profit measures for the last five years and notes the growing chance that the overall industry won't see true hard market returns on capital in the current cycle.

By James B. Auden

U.S. property/casualty insurers represent a source of stability amid the recent tumult of socioeconomic disruption from the coronavirus pandemic. The industry strengthened its capital base and generated consistent statutory underwriting performance and net profits in the last four years, despite volatility in claims losses from natural catastrophes, pandemic-related claims and litigation-related loss severity.

James B. Auden, CFA, is Managing Director, Insurance at Fitch Ratings. Reach him at jim.auden@fitchratings.com.

However, returns on policyholders surplus fell to 6.4 percent in 2021, relative to a long-term average of 7.7 percent, as underwriting margins deteriorated slightly and recent PHS growth from investment gains has outpaced earnings.



Source: S&P Global Market Intelligence, Fitch.

A number of publicly held commercial and specialty lines writers generated low-90s combined ratios or better, together with double-digit operating returns on equity in 2021. However, there is a growing chance that the vast improvement in commercial lines market conditions over the last three years will not lead to true hard-market returns on capital for the overall market in the current cycle.

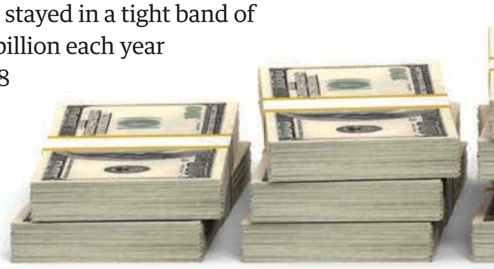
Operating performance in 2022 will benefit from recent growth flowing through earned premiums. Potential for material profit improvement may prove more difficult beyond 2022 as pricing momentum is likely to subside while numerous sources of underwriting uncertainty remain in place.

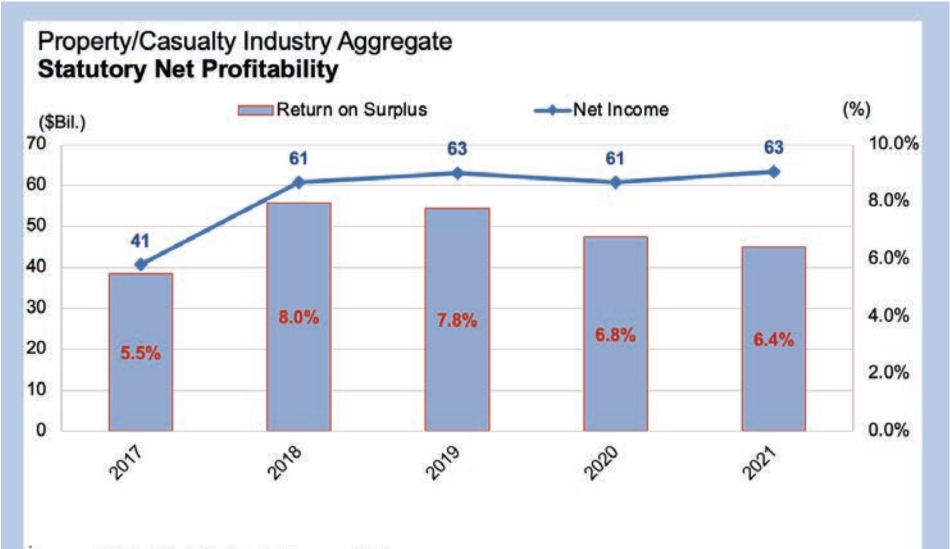
2021 Premium Growth; Steady Profits

Sharply rising prices in commercial lines insurance combined with a recovery in insured exposures following 2020 pandemic-related economic lockdowns led to strong 9 percent P/C net written premium growth in 2021, a level last reached in 2003. The industry reported a 99.7 combined ratio in 2021, representing moderate deterioration versus the prior year, and the fourth consecutive year this figure ranged between 99 and 100.

Factors contributing to weaker underwriting results include inordinately high insured catastrophe losses related to devastation from Hurricane Ida, unusual winter storms, wildfires and other inland events, along with deteriorating private passenger auto results. The industry track record of reserve adequacy continued in 2021, with favorable calendar-year development equal to 1.6 percent of earned premiums for the year.

Statutory earnings grew by 4 percent in 2021 tied to investment earnings expansion and have stayed in a tight band of $60-$63 billion each year from 2018 to 2021.





Source: S&P Global Market Intelligence, Fitch.

Commercial and Personal Lines Results Diverge

Underwriting performance by major customer segment differed widely in 2021 as commercial lines in aggregate moved to a material underwriting profit 96.5 combined ratio, with nearly 15 percent growth in written premium volume. A sharp decline in pandemic-related incurred losses, coupled with improving results across liability segments and continued low-90 combined ratios in workers compensation business fueled this reversal from 2020's sector underwriting loss.

Anticipated growth in earned premium tied to ongoing pricing increases across all lines outside of workers compensation create potential for further near-term underwriting improvement.

The personal lines sector moved to an underwriting loss in 2021. Private passenger auto results stumbled to a 101 combined ratio following record 2020 performance from sharp claims frequency declines as driving activity plummeted in the pandemic.

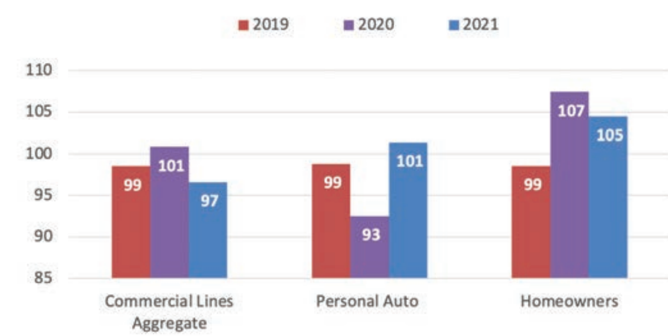
While claims frequency has not fully returned to prior norms, loss severity issues continued for bodily injury claims and emerged in physical damage coverage tied to rising inflation and supply chain shortages. Carriers are now more assertive with substantive pricing actions led by the traditionally more successful large public auto writers, which will promote stabilization in 2022 results. But loss cost trends are likely to remain unfavorable.

Difficulties in the homeowners insurance market continue. Large insured catastrophe losses have contributed to underwriting losses for the line in four of the last five years, including a 105 combined ratio in 2021. Rising costs of building materials and contract labor add to challenges in projecting losses. While pricing trends in homeowners are largely positive, companies face problems in key states: California,

continued on next page

continued from page 11

P/C Industry Statutory Performance
Commercial vs. Personal Lines Segment Combined Ratios



Source: S&P Global Market Intelligence, Fitch Ratings

addressing wildfire exposures, and Florida, where an unfavorable regulatory and litigation environment will hinder overall improvement in segment performance.

Slowing Surplus Growth

Based on current market fundamentals, the P/C industry is positioned to generate a better statutory underwriting profit and net earnings growth in 2022. A reversion toward historical averages for insured catastrophe losses would promote more substantial improvement. However, surplus growth and capital formation is anticipated to moderate relative to the last three years.

Earnings stability and sharp increases in investment gains led to a 38 percent increase in industry policyholders surplus from 2018-2021 to a record level exceeding $1 trillion. Unrealized investment gains, primarily on equity and alternative assets, contributed approximately 50 percent of this increase prior to dividend distributions.

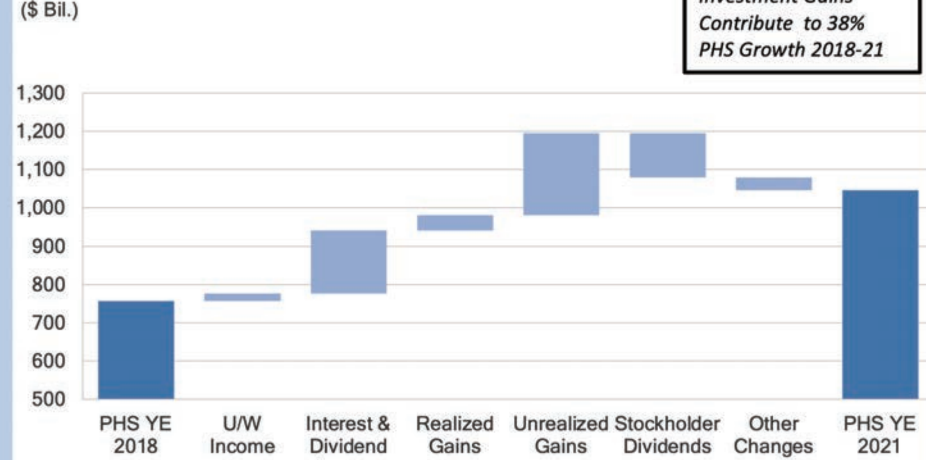
Year-to-date 2022 equity market declines and rising interest rates point to diminishing reported realized and unrealized investment gains going forward.

Longer-Term Challenges

The recent run of surplus growth has strengthened capital adequacy based on operating leverage ratios and risk adjusted capital measures, which boosts the capability to manage through adverse events. Outside of the always present risk for large natural catastrophe losses, several other factors bear watching that could derail future P/C market performance, including:

- **Heightened inflation uncertainty.** A revival of inflation to levels unseen in 40 years from looser monetary policy and pandemic-influenced supply chain disruption poses unique challenges to insurers. In 2021, effects of inflation were most visible in property and automobile lines. An extended period of high inflation would increase the threat of more pronounced pricing errors and reserve deficiencies in longer-tail liability lines and workers compensation.
- **Litigation exposure.** Past under-performance across multiple product segments, including auto, professional liability, product liability, employment practices liability and general liability relates to rising loss severity tied to changes in litigation trends and settlement costs, or "social inflation." A pandemic-related pause tied to court closures and a slowdown in judicial activity is likely to subside, and risk of jumbo settlements and verdicts remains escalated. Passage of any meaningful tort reform measures currently does not seem a high priority on the public policy agenda.
- **Waning pricing momentum.** Hardening commercial pricing actions initially represented a response to poor performance in property and liability product segments. Uncertainty and fear tied to socioeconomic disruption from the pandemic supported further positive rate movement and demand for coverage. Maintaining rate increases at a level to keep pace with loss costs is a longer-term challenge. Inevitably competitive forces and policyholder adaptation will influence a shift in the pricing cycle and deterioration in rate adequacy.
- **Geopolitical risks.** Domestic insurers do not likely have meaningful underwriting or investment exposures tied to the Russia-Ukraine conflict. However, events that affect global trade and economic growth can have unanticipated impact on insurers regarding underwriting exposures, claims costs and investment performance. CM

Property/Casualty Industry
Change in Policyholders Surplus 2018-2021
($ Bil.)



Source: Fitch Ratings, S&P Global Market Intelligence

Lloyds' CFO
Sees Inflation as Biggest 'Emerging Risk'

By Elizabeth Blosfield

The insurance industry has faced myriad disrupters during the past several years, ranging from the ongoing effects of a global pandemic to climate risks to technological advancements. However, the biggest challenge for the insurance industry in 2022 will be an emerging risk: inflation. That's according to Burkhard Keese, chief financial officer and chief operating officer at Lloyd's.

"[Inflation] is by far the biggest challenge," he told *Carrier Management*. "It is, for me, like toothpaste. Once the toothpaste is out of the tube, you can't get it in again. And that's what people need to understand, and that's the reason why this is an emerging risk."

Keese joined Lloyd's in April 2019 as chief financial officer, responsible for all of the corporation's financial functions. At the

continued on next page

continued from page 13

beginning of this year, he also took on responsibility for technology and operations as Lloyd's chief operating officer. He sat down with *Carrier Management* this month in Lloyd's New York office to discuss the impact of inflation, as well as other industry disrupters such as the pandemic and the war in Ukraine.

(This April interview has been edited for length and clarity.)

Carrier Management: The insurance industry has faced a lot of disruption recently due to the pandemic, technology, climate change and now the war in Ukraine. How can the industry navigate all of these disrupters?

Burkhard Keese: There are two core elements to navigate the current world. They are clear vision and strategy, which we have, and resilience. You can't under-imagine how important resilience is. If something happens, because you know you're resilient, you can act. You don't have to react to a crisis. You can act upon a new situation.

This resilience is, from my point of view, always based on three things.

One is a super strong capital base. We have a super strong capital base...and I think that is good because I can simply buffer. Whatever comes, I can buffer.

No. 2 is robust underlying profitability, and our underlying combined ratio is now 82.3 percent. That basically means we can digest over 17 percent in large losses, and we are still under 100. And 17 percent in large losses is a lot because COVID created 13 percent in large losses.

Then, the third thing is basically agility, which you need to have so that you can adapt to a new situation like a chameleon can do. If you're on brown earth, you're brown. If you're on a tree, you're green. This agility is crucially important, and therefore, you need management procedures in place that are agile.

Inflation is coming. I'm not discussing if we have it, like many do—we do have it. So, we need to adapt our management procedures to inflation. That is really important.

Burkhard Keese

CM: What could the insurance industry be doing better in navigating all of this?

Keese: What we haven't done well in COVID is that we haven't shown enough leadership as Lloyd's and as an industry. There are systemic losses, but the BI (business interruption) cases in the UK and in Australia were not entirely helpful for our brand.

So, we learned that lesson, and one part of our strategy is that we have purpose as one of four strategic pillars. One [aspect of this purpose] is future set, which deals on an academic basis with the core problems of today's world. It is systemic risk, climate, supply chain, cyber and emerging technologies. We try to understand the common practice of this, and we try to educate.

CM: You mentioned inflation. Is that one of the biggest challenges you see for the industry this year?

Keese: By far. It's by far the biggest challenge.

Of course, it's devastating—the war in Ukraine and the loss of lives there. That is hugely sad and shocking for me as a Cold War child. I never expected that this would happen again. There will be market losses; there's no question about it. I don't think that they are outside of any management tolerances, but the second order impact of this one is the further acceleration of inflation. It is, for me, like toothpaste. Once the toothpaste is out of the tube, you can't get it in again. That's what people need to understand, and that's the reason why this is an emerging risk.

There are not many practitioners anymore working who have had inflation in their career. When I started, it was the end of inflation, but we had it. In the beginning of the 90s, we had maybe 5 percent inflation and 10 percent interest rates. Now, we have in the U.S. 7.9 percent inflation and 2.5 percent interest rates.

CM: I've noticed some insurers have been reluctant to speak out regarding the impact of the war in Ukraine on insurance business. Is that because insurers are still working to calculate and understand the losses?

Keese: I mean, assessing risk situations is our core business. You need to do this in a really structured way. You need to ask what lines of business could be impacted by war. One is political violence. This is a cover which deals with everything like demonstration losses, riots, etc. Now, it's quite difficult to understand any losses in Ukraine. Were they coming from war or political violence? War is excluded. Political violence is not excluded. Therefore, you need to go through the thousands of [policies] you have and really assess where is the exposure? And are losses reported?

And there aren't losses reported so far. There will be loss. The loss is not threatening, but it will be a loss. There's no question about it. But the bigger thing will be the loss of life, which we should each worry about.

CM: There are some concerns about increased cyber threats due to the war in Ukraine. Do you see this as a challenge for insurers?

Keese: There is this story that Russians will attack us with cyber, or that we will end up in a cyber war. Well, I don't know. So far, we don't see any heightened activity.

Is there exposure? Yes, there is exposure, but again, it's difficult to assess how much it is.

Lloyd's doesn't have silent cyber... In our contracts, you always have to include cyber explicitly. And we have cyber war exclusions. So, if we have a cyber war, there's an exclusion for that. But this wording is new. It was developed last year by Munich Re, and I think also Chubb has wordings for cyber war exclusions.

We have wordings. None of the wording is tested in court, so you get in a situation where if that happens—and knock on wood, it will not happen—then this would be the first order effect.

Trade credit is always a second order effect. It's like with COVID. The war could lead to a recession. Recession leads to bankruptcies. Bankruptcies lead to credit losses, and credit losses are insured via trade credit.

CM: With the war in Ukraine and the pandemic still ongoing, do you think there's concern that these losses could double up for insurers?

Keese: I think we have understood where

continued on next page

continued from page 15

our risk is, and it's too early to really assess this. Can they double? Possibly, yes. But in most of the contracts I have seen, they all have war exclusions. War is something that you don't insure, so what you have to bear in mind is that the biggest loss is probably the second order effects, because this war will accelerate inflation.

There will be supply chain issues. There will be severely higher oil and gas prices. This is really severe, because it will hit vast classes of the population in the Western world. This inflation, I think, is probably the much bigger impact.

CM: Lloyd's said in a press release that it's working with governments and regulators to support sanctions on the Russian state. Can you talk about the work that Lloyd's is doing?

Keese: I think the problem was, three or four weeks ago, sanctions were issued, but they were not issued in a harmonized way. U.S. sanctions were different from UK sanctions, which were different from European sanctions. You have the risk that there are unintended consequences because every word counts at law. There could be a situation where one insurer has to pay, but the reinsurer doesn't have to pay, and you don't want to fall into these cracks. That's the reason why we work really heavily with the government to make sure that there aren't any unintended consequences, because the sanctions are there to hit Russia, not the service industry.

CM: In its full-year results, Lloyd's mentioned that it's closely evaluating some of its underperforming syndicates. Of its lowest performing syndicates in 2021, what have you identified as the most problematic lines for Lloyd's?

Keese: The good thing is that we had PIP lines—Performance Improvement Process lines. That was so successful that we don't have these anymore. So, these lines of business, which were under review in 2018, are now more profitable than the average of all lines in the Lloyd's market. But now with inflation, the trick is to be agile enough that we don't lose underwriting profitability.

The problem is, when you write casualty, which goes over 10 years, you now need to assume in the pricing how much inflation we will see within 10 years, because the claim which I pay out to you in 10 years is nominally much worse than today. So, if you have 10 percent inflation, you double—or you triple—the amount you pay out over 10 years.

That is the trick now, and this is where, again, management procedures, agility, really come in. We need to structure it in a way that we don't burn our fingers with inflation.

CM: I know that Lloyd's focus has been on underwriting profitability, and in its 2021 full-year results, the company mentioned that it's going to continue that focus into this year. Can you talk about that strategy and how you've seen it benefit the Lloyd's market?

Keese: What we all have underestimated is the impact and the influence Lloyd's has on capacity and underwriting discipline. If we are undisciplined in underwriting, then I don't think that the London market can be disciplined. Therefore, I think Lloyd's has to be mindful of its influence. That's the reason why managing underwriting profitability and underwriting discipline will never stop. You always need to be on your toes to make sure that you don't lose discipline in underwriting. That's the reason why I think it became our DNA and our strategy.

Performance management is the most important stuff we should be doing, because if we don't get the performance done, we don't have to worry about digitalization because we won't be there. We don't have to be worried about culture and its purpose because we are simply not there.

That is really important. That is one cornerstone. And the other cornerstone, which is equally important, is capital. Without strong capital, you can't have strong underwriting performance.

> Performance management is the most important stuff we should be doing, because if we don't get the performance done, we don't have to worry about digitalization because we won't be there.

CM: You mentioned that you see inflation as one of the biggest challenges this year, but what do you see as the biggest opportunities for Lloyd's in 2022?

Keese: The biggest opportunity is that we have earned the right to grow over the last few years—to grow in terms of volume. We have to be careful, but we can grow. Now, we have market conditions which are really good, we know lines of business which allow for profitable growth, and we will use this opportunity to grow in the current rate environment, in the profit environment. That is by far the biggest opportunity we have. CM

Reserves and Inflation: Insurers Got This!

William Wilt is President of Assured Research LLC, a research and advisory firm focused exclusively on the P/C insurance industry. Reach Wilt at william.wilt@assuredresearch.com.

Alan Zimmermann is Managing Director of Assured Research LLC, a research and advisory firm focused exclusively on the P/C insurance industry. Reach Zimmermann at alan.zimmermann@assuredresearch.com.

Executive Summary: The P/C insurance industry is largely on its own to face surging inflationary pressures, with only modest back-book reserves left to be released to maintain calendar-year margins if pricing fails to keep pace with inflation. That's one takeaway that Assured Research analysts shared in their summary of the industry's reserve position, which they estimate to be $22.3 billion redundant at year-end 2021. Here, they also analyze a $13.6 billion redundancy in the workers comp line by itself, patterns of reported claim activity by line of business and past inflationary impacts on insurer ROEs.

By William Wilt and Alan Zimmermann

According to an analysis of loss reserves published in mid-March by Assured Research, 2021 marked the 16th straight year that the U.S. P/C industry's loss reserves developed favorably—by about $11.1 billion during 2021, or around 1.7 percent of the prior year's reserves.

$11.1 billion is a big number. It roughly ties with the release in calendar year 2018 and is otherwise the largest release since the last hurrahs from the 9/11 hard market flowed through industry income statements roughly a decade ago.

There's more: Reserves released from pandemic-plagued accident year 2020 totaled nearly $8 billion. That's nearly a 2 percent decrease in the initial ultimate loss

continued on next page

continued from page 17

selection, on par with some of the massive releases experienced on business written during the peak of the 9/11 hard market.

But reserves may not continue developing favorably to that same degree; we all know that "it's different this time." As if social inflation weren't enough, the pandemic disrupted the 2020 and 2021 diagonals on claim triangles by reshaping everything from driving patterns to the economy, consumer and claiming behaviors. And now, for the first time in the careers of many insurance professionals, the industry has to deal with accelerating economic inflation.

The song may be some 50 years old, but you'd think the Kinks were describing today when they characterized the world as *mixed up, muddled up and shook up (except for Lola)*. To help readers make sense of it all, in this article we offer four observations and guideposts drawn from our work on industry reserves and related topics.

Industry Reserves Are Redundant

First, our reserving work estimated that the P/C insurance industry's U.S. loss reserves were redundant at year-end 2021 by about $22.3 billion, or 3.0 percent of the carried loss reserves we reviewed (totaling $743 billion at year-end 2021). The 3 percent figure is broadly in line with where our study has landed most years (at a 2-3 percent redundancy). And while we'd like to make big news with this work, the reality is that with the exception of workers compensation (discussed shortly), we're not really making any strong statements about the industry's reserve position or selection of ultimate loss ratios, which feed into 2022 pricing and reserving algorithms.

In fact, *maybe that is the news:* The industry is largely on its own to face surging inflationary pressures; there are only modest back-book reserves to be released in order to maintain calendar year margins if pricing fails to keep pace with inflation.

Analyzing the results by line, we estimate that the U.S. P/C insurance industry's loss reserves for the workers compensation line at year-end 2021 are redundant by about $13.6 billion—60 percent of the overall redundancy we estimated for 16 lines of business combined.

Based on our work and discussions with professionals, two mega trends continue to drive costs lower and shorten the tail for workers compensation reserves: 1) The frequency and volume of opioid prescriptions continue to decline; and 2) the rising prevalence and use of medical

Figure 1: Loss Development Schematic and Industry ULR Indications: Workers Compensation

Incremental Reported Loss Ratio

Accident Years	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	Industry ULR	Industry 12-Ult	Industry 24-Ult
2005	28.8%	9.0%	4.2%	2.6%	1.5%	1.6%	1.1%	0.8%	0.6%	0.3%			
2006	29.3%	10.6%	5.5%	2.9%	2.2%	1.4%	1.1%	1.0%	0.4%	0.4%			
2007	32.5%	12.8%	5.8%	3.6%	2.2%	1.6%	1.3%	0.7%	0.5%	0.4%	67.2%	2.07	1.48
2008	35.0%	13.9%	6.7%	3.9%	2.4%	1.4%	1.4%	0.9%	0.7%	0.3%	72.9%	2.09	1.49
2009	35.3%	14.3%	6.8%	3.9%	2.4%	1.9%	1.0%	1.0%	0.6%	0.3%	73.8%	2.09	1.49
2010	38.1%	16.1%	7.6%	4.1%	2.7%	1.5%	1.3%	0.8%	0.2%	0.5%	79.6%	2.09	1.47
2011	37.4%	15.4%	7.0%	4.1%	2.5%	1.7%	0.9%	0.3%	0.6%	0.4%	76.3%	2.04	1.44
2012	33.9%	13.8%	5.9%	1.4%	3.4%	1.5%	0.5%	0.5%	0.5%	0.1%	68.5%	2.02	1.43
2013	31.5%	12.9%	5.0%	2.7%	1.8%	0.6%	0.3%	0.4%	0.3%		62.5%	1.98	1.41
2014	30.2%	11.5%	4.4%	2.7%	1.2%	0.6%	0.5%	0.3%			58.4%	1.93	1.40
2015	28.8%	11.1%	4.8%	1.9%	1.1%	0.5%	0.0%				56.1%	1.95	1.40
2016	28.9%	9.9%	3.9%	1.8%	0.8%	0.6%					55.3%	1.91	1.42
2017	28.9%	10.0%	4.6%	1.6%	0.8%						56.6%	1.96	1.46
2018	29.4%	10.6%	3.8%	1.7%							59.1%	2.01	1.47
2019	31.4%	11.2%	4.1%								62.7%	2.00	1.47
2020	30.3%	11.1%									65.5%	2.16	1.58
2021	31.9%										67.2%	2.11	
Avg	31.9%	12.1%	5.3%	2.8%	1.9%	1.2%	0.9%	0.7%	0.5%	0.3%			

Green indicates L/R Below and Red Above Column Average
Source: S&P Global Market Intelligence: Assured Research

The industry is providing for accident year 2021 reported workers comp losses to increase by a factor of 2.11x when most recent years barely double past 12 months.

cost containment measures by workers compensation insurers has helped to control claim costs.

In Figure 1 we show the incremental, reported loss ratio (that is, paid + case reserves, no IBNR) down each column, or year of loss development. Where a cell is green, the loss ratio is less than the column average (i.e., less L/R development = good), or red where it is above the average. An actuary would like to see a random pattern to indicate there is no systemic underlying changes such as from an accelerating loss trend or serial underpricing.

In the gray box to the right of the triangle we show the industry's booked ultimate loss ratio (ULR) by accident year and the implied development factor to move the 12- or 24-month reported loss ratio to its ultimate value (values highlighted in yellow).

Our observations: The large swath of green coincides with eight years where the industry has released $26 billion of reserves compared to their initial loss pick. Incredible! And yet our estimated reserve redundancy holds steady at $13.6 billion. Why? Look at the conservative level of upward development (as we would argue) being provided for by P/C insurers. For instance, the industry is providing for accident year 2021 reported losses to increase by a factor of 2.11x when most recent years barely double past 12 months.

The forecasted increase of 1.58x for accident year 2020 would be appreciably higher, were it to hold, than the average 1.45x (or so) in the years immediately

continued on next page

continued from page 19

Figure 2: Changes in Reported Claim Activity for Accident Years 2020 and 2021 by Line of Insurance

Line of Business	AY 2020 @12 Mos	AY 2020 @24 Mos	AY 2021 @12 Mos	Observation
Commercial Auto Liabilty	84%	84%	93%	Pandemic and economically sensitive
Commercial Multiple Peril	103%	102%	91%	Weather dominates claim activity
Homeowners	115%	116%	116%	Weather dominates claim activity
Medical Professional-Claims Made	99%	102%	102%	No meaningful pandemic impact
Medical Professional-Occurrence	91%	103%	106%	No meaningful pandemic impact
Other Liability-Claims Made	120%	121%	114%	Cyber and EPLI claims/ D&O (SPAC)?
Other Liability-Occurrence	79%	70%	69%	Favorable pandemic impact on claims
Product Liablity-Claims Made	84%	89%	81%	Favorable pandemic impact on claims
Product Liablity-Occurrence	54%	58%	50%	Favorable pandemic impact on claims
Private Passenger Auto Liability	79%	78%	92%	Pandemic and economically sensitive
Workers Compensation	84%	88%	94%	Pandemic and economically sensitive

Reported claims for AY 2020 and 2021 show as % of five-year average claims (2015-2019) at indicated stage of development

Source: S&P Global Market Intelligence, Assured Research

Reported liability claims weren't yet back to pre-pandemic levels for accident years 2020 and 2021.

preceding.

Changes in Claim Activity Begin to Reveal Patterns by Line of Business

Second, upon review of two pandemic-impacted years of claim patterns, we're finding it increasingly useful to place the major annual statement lines into four categories of claiming activity, as shown in Figure 2.

- Lines where the weather dominates claim patterns (homeowner, commercial multiple peril) don't show much impact from the pandemic (or suffer mainly from its second order affects like inflation).
- Economically sensitive lines including private passenger auto, workers comp and commercial auto liability saw large drops in claim frequency during 2020 but appear to be returning to pre-pandemic levels.
- Liability lines that did not appear to benefit, or which experienced adverse consequences, include the medical professional and financial/special Liability lines (aka, other liability-claims made). The medical professional pattern is, admittedly, surprising considering the decline in healthcare utilization during 2020. The increase in claims affecting the financial lines is less surprising—cyber, EPLI, SPAC (D&O claims) are probably all contributing to the increase.
- Liability lines exhibiting a sharp decline in claims include general liability and its much smaller cousin product liability. The GL lines will consist of premises operations, various manufacturers and contractors forms, excess and umbrella policies, and the like. On conference calls most executives at publicly traded insurers have consistently indicated that liability claims "weren't yet back to pre-pandemic levels." They weren't kidding!

Dispersion of Carrier Reserve Changes Has Widened Since 2016-2017

Third, we're mindful that examining financial trends at 30,000 feet can sometimes lead to missed observations of trends at the company level. So, to move our analysis closer to the ground, we examined the distribution of reserve changes across the industry using the 250-some groups and unaffiliated companies holding more than $100 million in loss reserves (Figure 3).

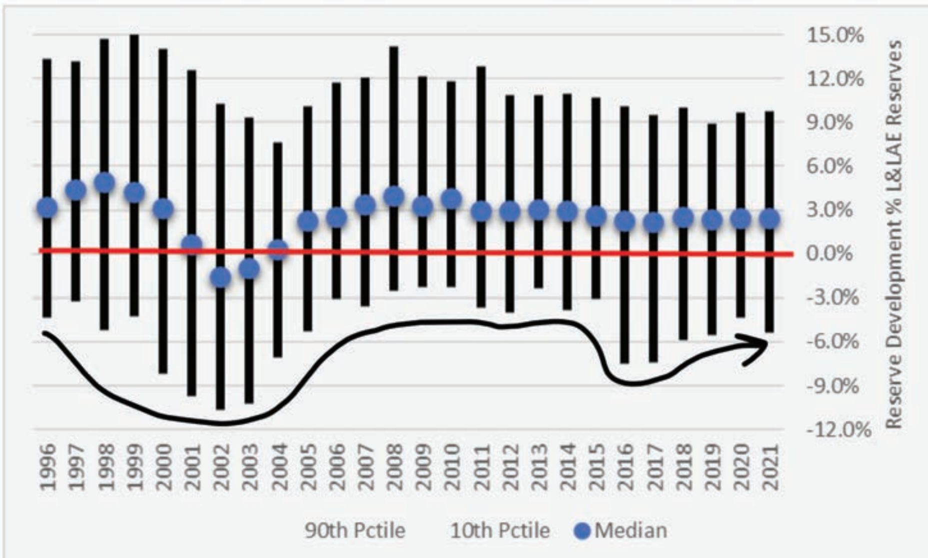
What we observe is an interesting rise in the negative skew (i.e., more reserve charges) beginning around the 2016-2017 timeframe and about the time social inflation picked up. Coincidence?

Notably, that negative skew has continued into 2020 and 2021 despite the opportunity for most companies to reserve conservatively during the pandemic. As analysts, this reminds us not to become too complacent with "industry average" results. There's still plenty of risk out there.

ROEs Positively Correlated With Inflation

And fourth, since economic inflation is on everyone's mind, in Figure 4 we use data back to 1973 to show that the ROEs of both personal and commercial insurers are

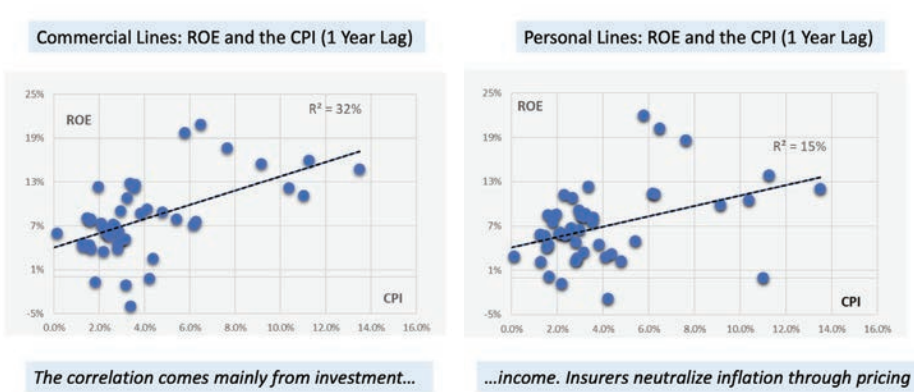
Figure 3: Distribution of Calendar Year Reserve Changes (% Held Reserves) since 1996



The endpoints of the bars shown for each year on the accompanying chart indicate the 90th percentile and 10 percentile amounts. For example, for the 2021 year, the 90th percentile (top of bar), which corresponds to favorable development of 9.8 percent of reserves, indicates that 90 percent of the carriers analyzed had either lower levels of favorable development or unfavorable development.

Also in 2021, 10 percent of companies analyzed experienced unfavorable reserve development worse than -5.3 percent (the bottom of the bar).

Figure 4: Changes in Reported Claim Activity (AY 20/21) by Line of Insurance



Source: A.M. Best, ©2022 S&P Global Market Intelligence, Assured Research

The ROEs of both personal and commercial insurers are positively correlated with inflation.

positively correlated with inflation. We don't mean to imply that anticipating or measuring economic inflation to build into insurance rates is an easy task. We're sure it is not. But over the long arc of history and through many economic cycles, insurers have proven adept at neutralizing the negative impacts of inflation via pricing actions while their investment income rises as inflation takes interest rates higher.

Viewed from the industry perspective, we think insurers and reinsurers are well-situated to navigate this mixed-up, muddled-up and shook-up world. At the individual company level, well, there's still plenty of risk out there. CM

This article is based on the Assured Research report, "Assured Industry Study | 2021 Industry Reserve Analysis: Reserves Are Level Set; Bring on 2022," published March 16, 2022, revealing a $22.3 billion redundancy at year-end 2021.

In last year's report, "Assured Industry Study | 2020 Industry Reserve Analysis: Conservatism will influence pricing cycle," published March 15, 2021, the authors estimated a $28 billion redundancy for year-end 2020.

Both the 2020 and 2021 reports break down the results by line of business and comment on the pricing implications of the reserve positions.

Both analyses cover the most recent 10 accident years only. Legacy liabilities from prior years are not considered.

Throughout this article and in the most recent Assured Research report, the authors reference industry reserve figures after excluding a large, intracompany transaction in the "international" line of business that added several billion dollars of (seemingly) adverse reserve development to industry figures. The development relates to a 2021 treaty where a U.S. company is assuming liabilities from an overseas affiliate.

Private Equity Tops U.S. Carrier Investment Choices; Europeans Pick Green Bonds: Survey

Insurers around the world are going to be putting more of their firms' money into private equity and green bonds this year, according to an asset manager's recent survey of carrier investment and financial officers.

Fifty-eight percent of carrier CIOs (chief investment officers) and CFOs selected private equity among the top three asset classes they believe will garner the highest returns in 2022, according to the 11th annual Goldman Sachs Asset Management Insurance Survey, titled "Re-Emergence: Inflation, Yields, and Uncertainty." And 42 percent said they were planning to increase their firm's allocation to private equity investments in the next 12 months.

An equal percentage—42 percent—said they would buy more green or impact bonds over the next year as well, but regional variations put green and impact bonds ahead of private equity in Europe and Asia. In the Americas, private equity tops investment choices, with 53 percent of respondents saying they will allocate more investment dollars to that asset class, followed by middle market corporate loans and U.S. investment grade private placements (both at 48 percent). In Europe, 58 percent said green bonds were earmarked for greater allocation, with infrastructure debt and equity as the next two choices (38 percent and 35 percent).

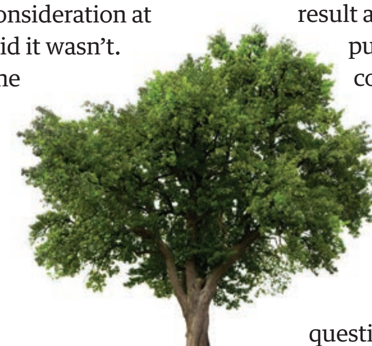
Even though green bonds weren't among the top investment choices of insurers in the Americas (the U.S. and Bermuda), the increasing importance of environmental, social and government considerations in investment choices showed up in answers to another question: Is ESG a primary consideration in making investments?

"We have been surveying on this question every year, and every single year the impact of ESG on investment considerations just continues to increase," said Michael Siegel, global head of Insurance Asset Management for Goldman Sachs Asset Management during a webinar presenting the results.

In 2017, 85 percent of U.S. and Bermuda carriers said it was not a consideration at all, but this year only 15 said it wasn't. "Europe continues to be the leader," he said, noting that only 2 percent of EMEA insurers said ESG was not considered in investment decisions.

The survey analyzed responses from 328 executives of global insurers representing more than $13 trillion in assets, which represents about half of the total assets for the insurance sector. Property/casualty and multiline insurers and reinsurers accounted for 57 percent of respondents.

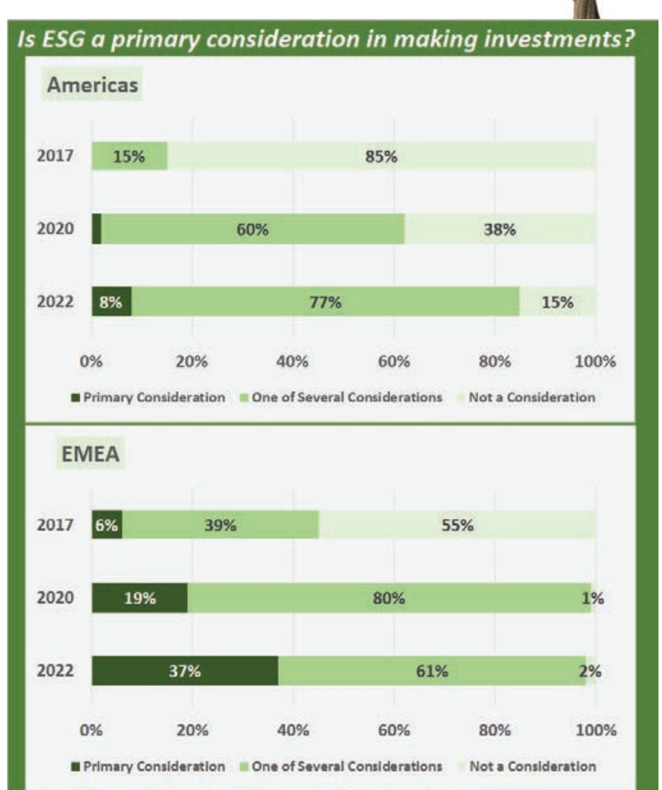
Responding to a *CM* question about investment preferences by sector, Siegel did not have breakdowns of P/C vs. life but said that P/C carriers tend to have more capital on their balance sheets, and as a result are able to invest more in public and private equity. Life companies, with longer liabilities, lean into investment grade private placements, commercial mortgage loans, and infrastructure debt, he said.



In addition to the ESG question, Siegel said that Goldman Sachs asks insurers to identify the greatest risks to their investment portfolios, noting that inflation topped the list for the first time in 11 years, with 28 percent ranking it first, and 59 percent in the top three. Monetary tightening and volatility in the credit and equity markets ranked behind inflation among carriers' risk concerns.

Political events and the global pandemic ranked much lower. Between the two, political events overshadow the pandemic, with 33 percent identifying those as a top-three risk to their investment portfolios vs. 20 percent selecting the pandemic in the top three.

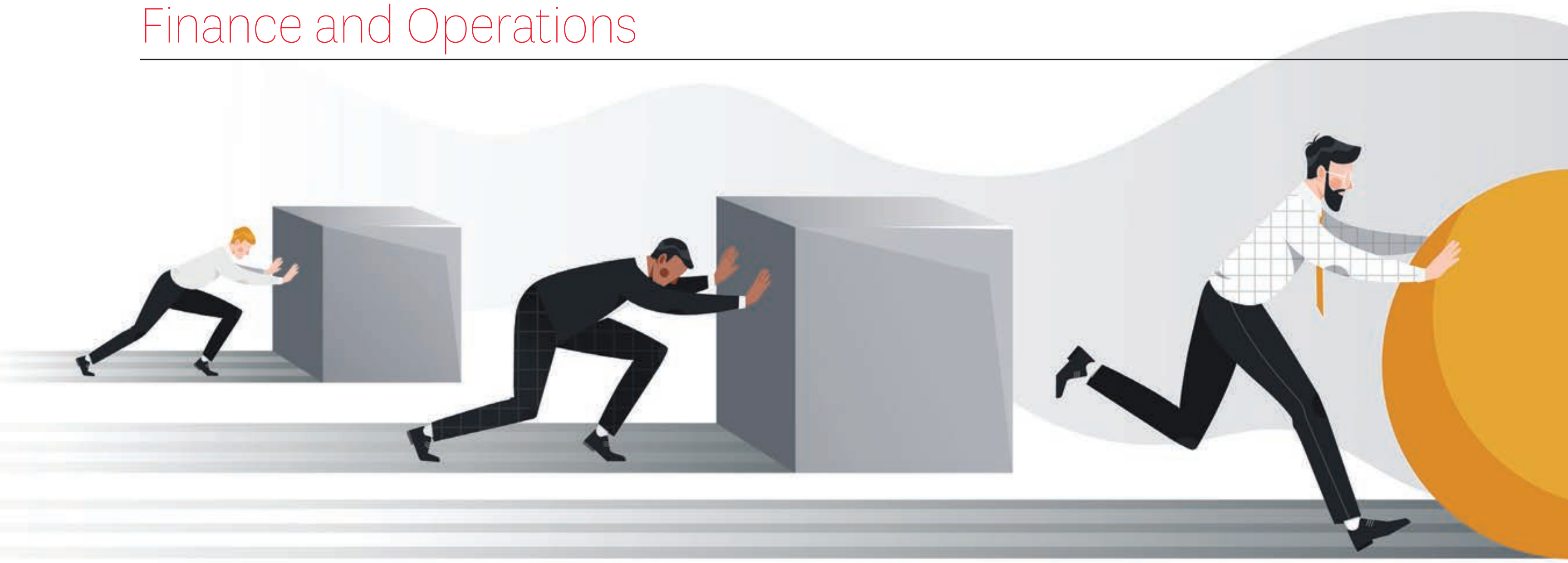
Siegel noted that the survey was conducted in mid-to-late February, when "the Russian-Ukraine difficulties were in the press and being discussed in the market but the invasion had not yet started." CM



Source: Goldman Sachs Asset Management Insurance Survey

Increasing Operational Efficiency

Strategies of Innovators and Industry Giants



Innovating to Control Costs: Carriers Seeking Top-Line Growth *Amid Bottom-Line Pressures*

Executive Summary: Innovators stand out. Facing significant bottom-line pressure and seeking top-line growth, P/C industry leaders have made optimizing operating efficiency through innovation a crucial component of their overall strategy, according to AM Best.

In a special report titled "Insurers Leverage Innovation for Financial Strength," AM Best analysts used innovation assessments that the rating agency assigns to insurers and reinsurers to gauge levels of invention and then compared five-year operating performance metrics of innovators and laggards.

Here, AM Best's Chief Operating Officer James Gillard and Associate Director Edin Imsirovic provide highlights, finding that the most innovative companies demonstrate lower expense ratios, less volatile loss ratios and combined ratios, and higher premium growth rates.

By James Gillard and Edin Imsirovic

Given the highly competitive non-life market, and the depressed pricing that accompanies excess capacity, leaders in the global property/casualty insurance and reinsurance markets have found innovative ways to cut expenses to improve underwriting profit margins.

A five-year benchmarking analysis of AM Best-rated non-life companies' innovation assessments indicates that COVID-19 has widened the innovation divide, with a clear link to better top-line growth and favorable key operating ratios across the board for insurers with more developed innovation initiatives. These companies' investments in underwriting and claims systems, designed to reduce losses and the costs of administering policies, help them to enrich their analytical capabilities and improve their risk management capabilities—all of which enhance their underwriting efforts.

AM Best formally integrated its criteria procedure, "Scoring and Assessing Innovation," in March 2020, and within weeks of its official launch, the criteria was put to the test by the COVID-19 pandemic. The pandemic challenged insurers' ability to pivot and innovate in the midst of global upheaval. Not surprisingly, the pandemic accelerated insurers' investments in digital transformation initiatives, with increased focus on customer experience. More innovative companies leveraged their digitally enabled operating models to continue business as normal even under pandemic conditions, while less innovative companies struggled to retain existing customers and attract new ones.

AM Best's innovation scores are the sum of two factors: an input score and an output score. Innovation input scores are based on leadership, culture, resources, and processes and structure. Output scores are based on results and levels of transformation. Innovation scores are then translated into five innovation capability assessment categories: leader, prominent, significant, moderate and minimal.

In March 2021, one year after the criteria integration and amid the pandemic surge, AM Best found that insurers generally still faced difficulty drawing clear linkages between innovation inputs and results, given the impact and uncertainty of the crisis. For the purposes of this 2022 analysis, AM Best considered operating performance metrics for each innovation assessment from 2016-2020. Additionally, the leader, prominent and significant assessments were merged and given the label of innovator.

Importance of Expense Management

According to the analysis, companies that AM Best deemed as innovators had a five-year average expense ratio of 34.6, while companies assessed as moderate had a five-year average expense ratio of 35.3. Companies assessed as minimal had the highest five-year expense ratio, at 41.6.

AM Best notes that various other factors could impact the relationship between innovation and the expense ratio; correlation is not causation. For example, the innovator category has a higher proportion of companies from the reinsurance, health and auto segments, while the minimal category is composed of companies that may have a different expense structure. Larger companies have access to financial and human capital that may enable them to innovate at scale. Smaller companies may have a culture that allows them to be agile as well. The predominance of larger companies in the innovator category also suggests the benefit of scale may mask the overall impact of innovation on the expense ratio.

Most insurance companies realize efficiencies through automation, especially in back-office operations. Companies increasingly use automation to reduce errors, lower costs and increase speed.

Optimizing customer interactions is another area of focus, with many insurers "digitizing" their call centers and expanding the available forms of communication to include chat tools, social media and self-service channels.

Innovative players are increasingly leveraging Big Data, Internet of Things and advances in machine-learning technologies to automate more complex tasks such as claims processing, policy management, underwriting, customer service and regulatory compliance.

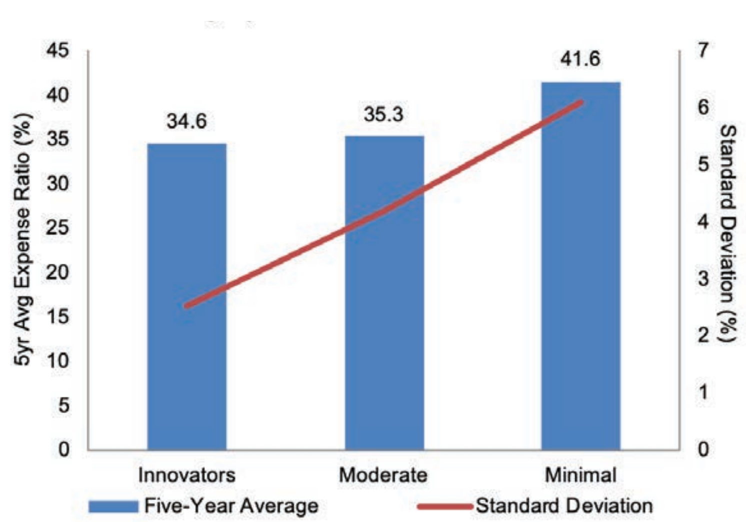
Non-life companies aren't alone. Publicly traded U.S. health insurers have been heavily involved in merger and acquisition activity over the last decade, not only acquiring other health insurers but also increasing vertical integration and diversifying into other health services. An increase in scale helps insurers achieve a lower administrative expense ratio over the medium to long term as costs are spread over a larger membership base. Larger scale also creates greater bargaining power with health providers.

continued on next page

James Gillard is Executive Vice President and Chief Operating Officer for AM Best.

Edin Imsirovic is an Associate Director for AM Best.

Global Non-Life – Five-Year Average Expense Ratio by Innovation Category



Source: AM Best data and research

(%)

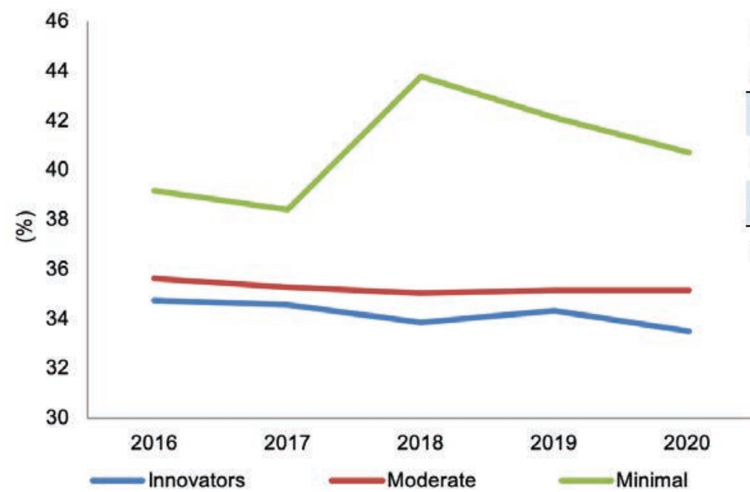
Category	Five-Year Average	Standard Deviation
Innovators	34.6	2.52
Moderate	35.3	4.21
Minimal	41.6	6.10

Source: AM Best data and research

The insurers that have not transitioned to a more automated process or modernized their IT systems have paid the price with higher expense ratios.

continued from page 25

Global Non-Life – Average Expense Ratio by Innovation Category, 2016-2020



Source: AM Best data and research

(%)

Category	2016	2017	2018	2019	2020
Innovators	34.7	34.6	33.9	34.4	33.5
Moderate	35.6	35.3	35.0	35.2	35.2
Minimal	39.2	38.4	43.8	42.1	40.7

Source: AM Best data and research

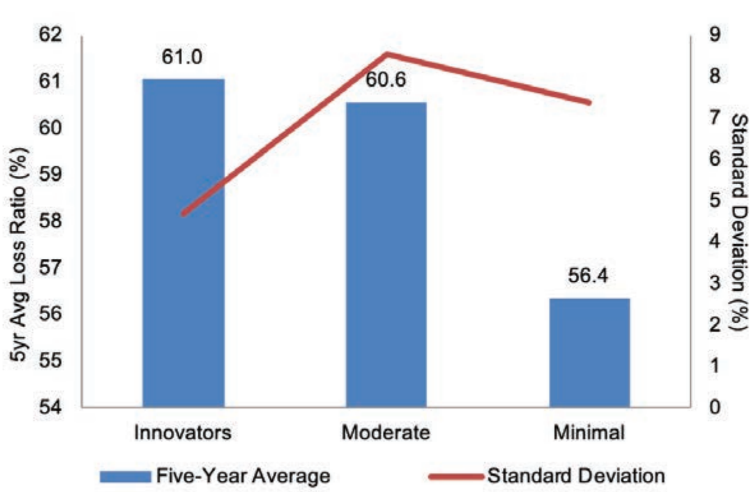
Innovators have shown the greatest improved efficiency as measured by their expense ratios over the last five years; results of carriers with lower levels of innovation have been mixed.

One of the biggest obstacles to operational innovation and its associated benefits continues to be a fragmented landscape on legacy information technology (IT), driving costs higher while hindering innovation efforts. While the pandemic unsurprisingly accelerated various automation initiatives, especially the customer-facing ones such as claims, AM Best believes that innovative companies may need to make a trade-off between higher expense ratios in the short run for lower and more sustainable combined ratios in the long run, as the costs associated with migrating to new systems can be daunting.

Leveraging Innovation for Financial Strength

Insurance industry innovation leaders have been able to leverage innovation as a competitive advantage, even in a strained underwriting and investment environment. Still, steady, favorable underwriting results that help drive strong operating performance are a key attribute of many companies with consistently higher credit ratings; lower expense ratios also help differentiate companies at higher rating levels. Irrespective of market pressures, AM Best expects innovation leaders will continue to invest into operational efficiencies to capitalize on

Global Non-Life – Five-Year Average Loss Ratio by Innovation Category



Source: AM Best data and research

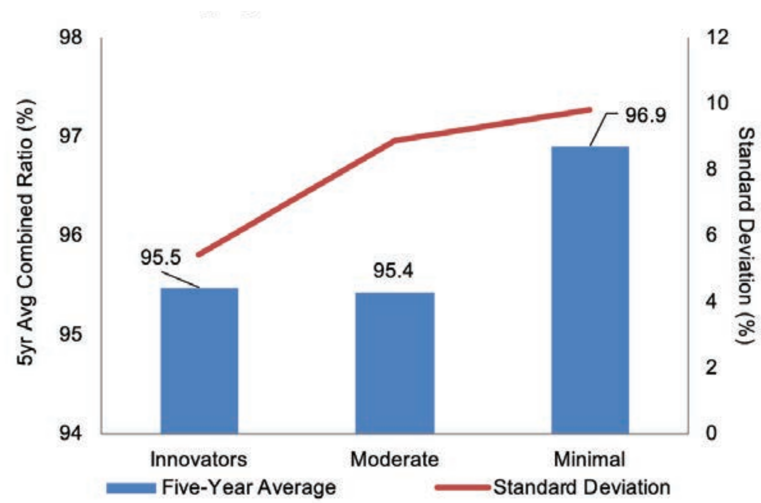
(%)

Category	Five-Year Average	Standard Deviation
Innovators	61.0	4.68
Moderate	60.6	8.54
Minimal	56.4	7.39

Source: AM Best data and research

The higher five-year average loss ratio in the innovator category may be a function of the lower expense ratio, which allows for more competitive pricing, thus increasing the loss ratio but still achieving enterprise-wide profitability and premium growth goals.

Global Non-Life – Five-Year Average Combined Ratio by Innovation Category



Source: AM Best data and research

(%)

Category	Five-Year Average	Standard Deviation
Innovators	95.5	5.43
Moderate	95.4	8.88
Minimal	96.9	9.82

Source: AM Best data and research

AM Best believes that innovative companies may need to make a trade-off between higher expense ratios in the short run for lower and more sustainable combined ratios in the long run, as the costs associated with migrating to new systems can be daunting.

future trends. As with the expense ratios, insurers' innovation efforts are resulting in better performance across other key financial ratios, albeit with some deviation.

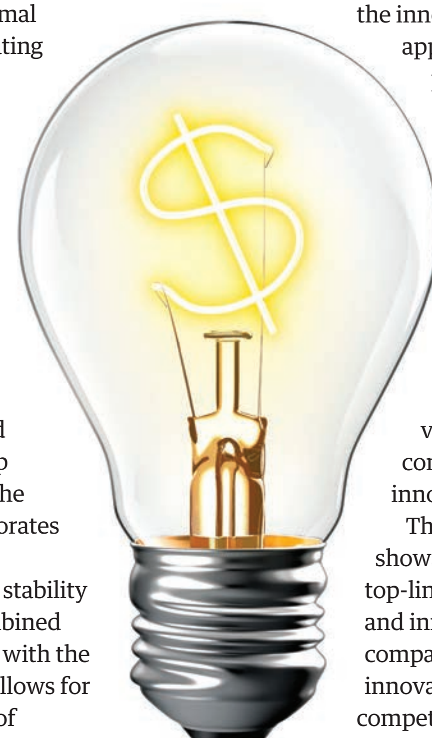
One of the main characteristics of companies assessed in the innovator category is a well-diversified spread of business, with significant assumed risks. Companies identified as innovators typically have best-in-class enterprise risk management frameworks, which help to manage the severity and volatility of losses. AM Best's analysis shows that these companies had a five-year average loss ratio of 61.0, slightly higher than the moderate category and significantly higher than the minimal category.

Part of the reason for higher loss ratios may be because lines of business experiencing the most innovation, such as personal auto, tend to be highly competitive and have elevated loss ratios. The higher loss ratio in the innovator category also could be a function of the lower expense ratio, which allows for more competitive pricing, thus increasing the loss ratio but still achieving enterprise-wide profitability and premium growth goals.

Companies in the minimal innovation assessment rating also may face the least amount of competition due to their presence in more niche markets, reflected in a lower loss ratio.

Loss ratio volatility, however, is significantly lower for innovators than for other companies.

While the loss ratio and expense ratio relationship allows for an analysis of the way management incorporates innovation in an effort to increase profitability and stability from operations, the combined ratio, and its relationship with the innovation assessment, allows for an enterprise-wide view of management effectiveness. A direct correlation can be seen between the innovation assessment and the volatility of the combined ratio, as measured by the standard deviation by the innovation category. The low standard deviation of



the innovators category, at approximately 5.4 percent, compares very favorably with the minimal category standard deviation of 9.8 percent. In other words, the innovators are able to achieve significantly more consistent results with very little variability year over year compared with non-innovators.

The AM Best analysis also shows that innovation and top-line growth are linked, and innovation has allowed companies deemed as innovators to not only gain a competitive advantage but maintain it as well. These companies had a five-year average net premium written growth rate of 11.9 percent, while companies assessed as either moderate or minimal lagged behind,

continued on next page

continued from page 27

at 9.1 percent and 7.9 percent, respectively.

AM Best recognizes that other factors may contribute to the observed correlation between innovation and premium growth. Some of the companies in the lower assessment categories dominate focused niches, reducing the need to innovate and grow. Larger companies tend to be concentrated in the innovator categories and to benefit from mergers and acquisitions. Regardless, innovative capabilities are becoming increasingly associated with sustainable growth.

Prioritizing Innovation to Get Ahead

At the end of the day, innovators stand out. Facing significant bottom-line pressure and seeking top-line growth, these industry leaders have made optimizing operating efficiency through innovation a crucial component of their overall strategy. Insurers with more developed initiatives have a clear competitive advantage in the form of profitable top-line growth compared with those behind the innovation curve.

Additionally, companies that have adequately compensated their distribution partners on the front end while providing them with profit-sharing opportunities on the back end will find themselves in a better position to control acquisition costs effectively. This will help keep them in the fight to build the loyalty among their production partners, which can lead to mutually beneficial and profitable long-term relationships.

Companies in the minimal category may not have the business need nor the immediate competitive pressure to innovate. It is AM Best's view, however, that over the long term, a lack of appropriate and necessary innovation initiatives could lead to competitive disadvantages and place pressure on the company's business profile.

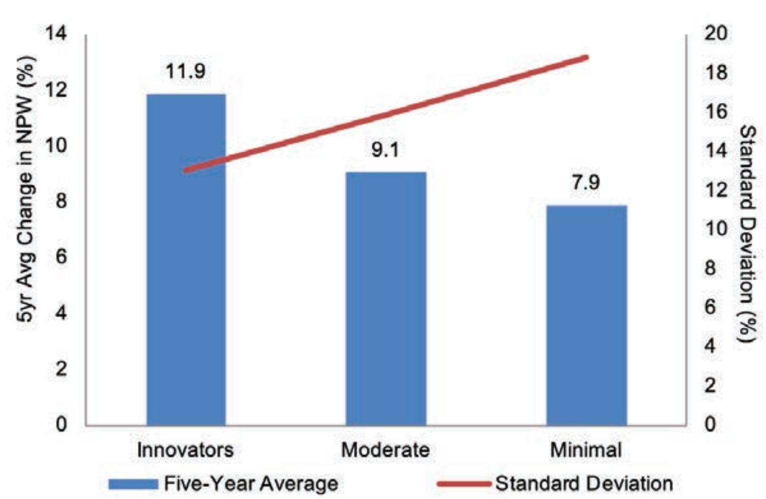
The insurers that have not transitioned to a more automated process or modernized their IT systems have paid the price with higher expense ratios. Earlier adopters of digital transformation initiatives have been able to translate their innovation efforts into concrete results, bolstering their financial strength.

As insurers further innovate—proactively addressing consumer needs, creating seamless customer experiences and responding to emerging risks—they should be able to translate this growth into sustainable underwriting results. Innovation can help insurers expand their market position and relevance. CM

Learn more about AM Best's Innovation Assessments in these articles published by *Carrier Management* in 2019-2022:

- **What Insurance Executives Should Know About AM Best's Innovation Assessments**
- **P/C Innovation Leaders Scarce, AM Best Finds; Reinsurers Reign**
- **Putting Insurer Innovation Under the Rating Agency Microscope**
- **One Year In: How Insurers Are Doing on AM Best Innovation Assessments**
- **Innovation Boosts Carrier Top Lines: AM Best**

Global Non-Life – Five-Year Average Change in NPW by Innovation Category



Source: AM Best data and research

(%)

Category	Five-Year Average	Standard Deviation
Innovators	11.9	13.06
Moderate	9.1	15.85
Minimal	7.9	18.84

Source: AM Best data and research

The AM Best analysis also shows that innovation and top-line growth are linked, and innovation has allowed companies deemed as innovators to not only gain a competitive advantage but maintain it as well.

How Nationwide Is Transforming Commercial Lines —and More: **Q&A With P/C President and COO Berven**

Executive Summary: Mark Berven, the COO of Nationwide P/C, talked to *Carrier Management* about how major investments in technology and talent, which started being made in the mid-2010s, fueled record volume of $19 billion in 2021 and $1 billion in net operating profit. One key to success—a mutual structure that allowed the company to make decisions to modernize faster than public competitors who struggle to get past the lag between spending hundreds of millions of dollars and the ultimate expense savings to come in the future.

Since 2015, Nationwide has taken out over a billion dollars in P/C expenses, with another half billion on deck.

By Susanne Sclafane

In 2021, insurer and financial services company Nationwide reported the strongest earnings in the Fortune 100 company's history—$2.8 billion in operating income with sales of over $50 billion, another record number.

What wasn't immediately apparent in a late-February media statement announcing those results was the contribution of property/casualty operations to those numbers—roughly $1 billion in profit, $19 billion in P/C premiums and a 5-point improvement in the combined ratio over the prior year.

In mid-April, Mark Berven, the president and chief operating officer of Nationwide Property and Casualty, shared the P/C figures with *Carrier Management* and described the future-focused transformations of both Nationwide's personal and commercial lines operations that started seven years ago, propelling the businesses to their new heights in 2021.

"We really began an effort around investing in the future in the mid-2010s. So, 2015, 2016, we started making massive investments for what we thought the future of our businesses would need," Berven said. "It was really placing bets around modernizing our technology and creating a platform to innovate off of...We also felt as if that would give us a chance to review all of our processes and products, rationalize in order to meet customer needs but figure out a way that we could drive improved efficiency and better customer experience through all parts of the value chain."

"We looked at everything and thought: 'What can we eliminate? What can we then automate? And then let's optimize what's left.'"

He continued: "It really began a mindset shift for the organization around what we thought the future would bring. And that's coming to fruition with digitization of business models, working in a new kind of agile model, constantly testing ourselves to rethink what's possible.

"And a big part of that effort, though, was about investing in our workforce," he added. "We started a Future of Work program that was provided to all Nationwiders with a focus on reskilling, upskilling and providing the capabilities that would be needed to compete as we

continued on next page

continued from page 29

continue to move forward with a better understanding by our workforce of what does it mean to drive a digital operating model and how do we utilize agile planning processes versus kind of the historical way that planning would take place."

Said Berven, "That really has contributed to expense ratio improvements but also better customer experiences for our distribution partners as well as the end consumer."

Included in the efforts on the commercial side were investments in new platforms to make small business easier for agents and brokers to place, moves to develop specialties in distinct sectors of the middle market, and even leaps into the world of reinsurance and global account business.

Along the way, Nationwide spent roughly $750 million in technology investments and in 2020 made a five-year, $160 million investment in talent, equipping associates with digital literacy and future capabilities training. During an hour-long phone interview recently, Berven described all the changes and advanced the idea that Nationwide's structure as a mutual allowed the company to move earlier than peers.

Parts of the interview relating to commercial insurance, specialty and reinsurance are presented below. Berven's answers to questions about personal lines and telematics are available on the *Carrier Management* website.

Q: The annual report states that Nationwide is prioritizing capital deployment toward growth in commercial and specialty lines in 2022. Discuss how and why the personal and commercial lines mix is shifting.

Berven: 2021 was the first year in the property/casualty company's history that we actually had more commercial premium volume than personal lines premium volume. That shift took place because of accelerated capabilities across our commercial portfolio.

We really have three areas in our commercial portfolio. The first is our standard commercial or retail commercial business, which is the traditional small market, as well as mid-market commercial operations that we insure.

Nationwide has long been an industry leader in providing solutions to small business owners. [And] around 2014, we began a multiyear effort to really build a new platform product, create new processes designed around delivering a better experience in our standard commercial lines. And we saw the uptake of that hit with new platform releases and new product in 2021. So, small business quotes, new business binds all saw tremendous increases.

We attribute that to ease of use. The ability for a distribution partner to quickly navigate through a quote, get automated responses—really, as you think about that small business owner space, that is what is critical...

The delivery of our new platform in 2021 really hit at the right time, creating that efficiency and speed to go through our small business processes...

In mid-market commercial, we also have built capabilities over the last few years to really create distinctive risk management capabilities across the value chain in a few critical areas, which was also a catalyst for growth. [We have built] an industry vertical specialization from distribution, underwriting, claims, loss control, services in construction, in human services (think of nonprofits, treatment centers, senior living facilities...) and in food...All really were a catalyst for growth in 2021 and have taken off here in 2022 in the first quarter also.

On our standard commercial business, we saw near double-digit growth in 2021. And we're doing the same thing again here in 2022.

Q: For the second area of commercial business at Nationwide, E&S/specialty, Nationwide announced the launch of Geneva Re a few years ago. And in 2020, the N2G partnership was also

"Since about 2015, we've taken out over a billion dollars in P/C expenses. We are coming to the next tranche of work where over the last two years, plus this year, we'll have another over a half-a-billion dollars of expense removal from P/C expenses."

Mark Berven, Nationwide

2021 was the first year in the property/casualty company's history that Nationwide had more commercial than personal lines premium volume.

announced. What are those about?

Geneva Re is a joint venture that we launched about two years ago with Ryan Specialty Group, really with a focus on two distinctive business opportunities. [One was] program business and having highly effective program managers that bring distinctive capabilities and large books of business with them. [The other is] on the reinsurance side. This led to about a half-billion dollars of growth in 2021 through those efforts with Geneva Re.

Our N2G operation is a partnership with Generali, located and headquartered out of Italy, which is really about doing multinational global mid-market business through a reciprocal where Nationwide provides the underwriting and service capabilities for all domestic U.S. operations and Generali handles European operations. [Previously], we have not been multinational or global, and this provided an opportunity given some of the customer needs that we continue to see evolving as operations become more and more global. This was a way for us to enter into that marketplace with a great partner in Generali...N2G brought us a couple hundred million of growth in 2021 and really positioned [us] to accelerate here in 2022.

Outside of that, we saw good growth across all of our core E&S business. The marketplace drove growth there, and the rate environment was obviously very favorable in that segment of the industry...

The last [commercial area] is our Nationwide Agribusiness division... Nationwide started in 1926 as the Ohio Farm Bureau Insurance Company. And agribusiness has long been an important part of what we do. We're the largest provider of farm insurance in the industry today. And so, that business line also continued to grow for many of the same reasons that I described in the standard commercial portfolio—new platform and products coming out in our farm space. We provide insurance for nine state farm bureau systems...

Q: Going back to Geneva Re: Is Ryan Specialty the program manager? Is Nationwide providing reinsurance? How does that exactly work?

Berven: Ryan Specialty reached out to Nationwide in conversations a couple of years ago. They always had been on the broker or the distribution side, and they were interested to see if there was a way for them to begin to get in on the risk side of the business.

In essence, they invested capital; Nationwide invested capital. We established this new entity that provides a 50/50 split of revenues and profits between Nationwide and Ryan Specialty Group. Within that they have constructed their own operations—that's where the program managers sit that produce the business but then submit that business into this new entity. That is where opportunity for growth is. But then it provides both Nationwide and Ryan Specialty the opportunity to share profits. [There is] a heavy focus on partnering with the right program managers...

On the reinsurance side, [we] are a reinsurer provider through Geneva Re. And our client list is like any other reinsurer. We partner with them to provide offerings to the top 20 insurance providers. Many of them are our clients through this venture. And it's just a new way for us to get into markets that we had not been in previously.

Q: Earlier, you mentioned a five-point improvement in the combined ratio. Unpack that: Was the improvement lower losses and lower expenses, or was it a function of better market conditions driving higher premium volume?

Berven: All. We saw improved loss ratio in all of our businesses and the contribution of that related to investments that we had made through data analytics, underwriting and claims. But also we saw a benefit obviously through rate increases that collectively were in line with industry averages as well. As rates were going up in commercial in aggregate 6 or 7 percent, varied by line of business, all of those things contributed to performance improvement.

Q: Financial analysts are reporting that the P/C insurance industry's expense ratio last year was the best in five years as carriers work to increase operational efficiencies and cut costs. Talk specifically about what you've done in the area of cutting costs—outsourcing, automation, investments in technology.

Berven: All. You just hit it...Since about 2015, we've taken out over a billion dollars in P/C expenses. We are coming to the next tranche of work where over the last two years, plus this year, we'll have another over a half-a-billion dollars of expense removal from P/C expenses. And really, this goes back to my long answer early on. It's a combination of things.

So, it was really about looking to the future. How did we think business models would change? [How would] consumers... want to navigate the insurance experience, and how are distribution partners lining up with that as well? And we've seen efficiency across all of those areas.

It started with kind of this mindset that

continued on next page

continued from page 31

we had of modernizing all of our processes. [And] as we were going through technology modernization, to simply put it I would say, we looked at everything and thought, what can we eliminate? What can we then automate? And then let's optimize what's left.

So, that elimination process was all around really testing ourselves around the old rules that we had embedded within underwriting or claim processes, and the way that we had built technology, and really from a perspective [of] were those things testing through analytics? Were we getting the value out of all of those old processes?

Also, [we tapped into] third-party opportunities where we could capture data that we needed without [having] to run [questions] through a distribution partner to go to a customer, and...follow up with email. Third-party data availability [helping with] that elimination of unnecessary steps in the process [was] critical.

Then when we looked at what we had left, were there opportunities to create more efficiency through automation? Here, what was critical was really looking at the customer journey—understanding where automation was the best route and where human interaction still adds value—and being very purposeful. [You] don't automate everything because there are steps in the process that, from a consumer confidence perspective, that relationship and human voice on the other end of the interaction adds value.

Then at the end of the day, optimization is just about how do we continue to find ways to take cost out. Is there a different org model? Are there opportunities for us just through other efficiency efforts, like lean management that we can find that [can help us] complete [remaining] processes more efficiently than the way that we had approached them before?

Q: Discuss one or two key areas where you went the route of automation.

Berven: One was in the underwriting process. We looked at it, and as we would talk about our commercial and [about] what was a catalyst for the growth that we saw in our small business owner segment, [we recognized that] margins are small in that category, especially for distribution partners. They don't want to spend time in the interaction, having a lot of back and forth.

By making investments in data and analytics, we were able to automate large parts of that underwriting process. So, now on a bypass—no human touch—an agent enters in a quote from a client [and] it goes through the system with no touch. In the small business segment, [we're] looking at getting three-fourths of business to flow that way. A couple of years ago, maybe it was 10 to 15 percent...That automation made a huge impact on the economics of the transaction and the ease for the distribution partner, which helps them in their mind figure out which carrier they want to go to.

Another one would be in automating parts of the claim process...The old way of estimating a vehicle [meant] an adjuster would go out and inspect the car, write an estimate, provide the estimate and payment to the customer. The customer then would go into the body shop. The body shop might look at that and no problem it runs through, or maybe they find that there's something additional. And it creates a lot of back and forth in the interchange and sometimes puts the customer in the middle of that.

Now with new processes, through digital photographs of the vehicle, we can, through a predominantly automated environment, provide an estimate that is

Q: How much has Nationwide spent on developing new technology?

Berven: You heard me talk about commercial lines transformation...We also have personal lines transformation, [and] we started these efforts in the 2013, '14, '15 time frames. Over that period of time from let's just say 2015 through today, we invested about three-quarters of a billion dollars in those technology process and product modernization efforts.

It had to be a multiyear effort, obviously, because you couldn't take that type of a cost all upfront all at one time. But one of the things that we think about as a mutual company is this balance between making sure that we're investing for the future in a way that will deliver the products and experiences that our distribution partners and customers need while also balancing what we need to do from a performance basis.

And one of the dynamics that we definitely are seeing is we made big investments during that middle-2010 time frame that were not going to pay off with immediate benefits—just from the lag time of all of these builds, and all of the efforts that I just described. 2021 was the first year since those investments were made that we began to see more of the significant deployment to the market. And we clearly see the impact in better financial performance, better agency feedback around our capabilities and better customer feedback.

So, you have to make investments in order to continue to be relevant moving forward. And we have, we believe, a unique opportunity to do just that as a mutual—and nothing against public companies...Many of our distribution partners are public companies. But the flexibility of not having to always be myopically focused on the next earnings call and quarterly report—that you can take a longer-term view of the health of the business and how you deliver for customers, that we think is really beginning to pay off as these new capabilities are hitting market.

Q: So, you think that the mutual form of ownership helped you be able to invest earlier? I'm paraphrasing...

Berven: It absolutely did. So, paraphrased that way, you bet.

completed without the need to wait for that scheduling of the adjuster. The estimate through the photos can be exchanged immediately with the body shop. And it takes time out of the process. It provides a better customer experience because the claim is settled more quickly [and] it provides efficiency and economic benefit to both the body shop and the insurance carrier as well, which ultimately then gives us the opportunity to have that built into our rating plans.

From around 2015 through today, Nationwide invested about three-quarters of a billion dollars in technology process and product modernization efforts in personal and commercial lines, Berven said.

Q: Were those automation tools built in house by Nationwide or are they third-party tools?

Berven: Predominantly built through Nationwide. Now with that, we had vendors that we may have partnered with on a part of the process, in particular on that claim side, but it was predominantly an in-house solution.

Q: Would it be correct to say that companies that haven't started or started more recently, say within the last four or five years, won't be able to catch up to the likes of Nationwide? Or who aren't large enough to put in three quarters of a billion into the effort?

Berven: That's incumbent upon us, right? If we stand pat, those companies will catch us. But we don't believe that we're going to stand pat. We know that these platforms are now creating more opportunities for us, and we see it.

So, our ability to deploy new products is about 50 percent faster than it was prior to having these new technology platforms in place. Speed to market and continuing to find ways to be more efficient are absolutely critical to keep that gap, a positive gap for Nationwide...

Q: Were there any reductions in your workforce that happened as Nationwide invested in technology and automation?

Berven: There were. And this [brings me to] one of the things that culturally is really important to Nationwide—creating a culture of engagement for our workforce. We could share with you all of [our talent management] accolades—we can give you that commercial—but one of the important parts [of our transformation] was being transparent with our associates about what we did think would take place in the future.

So, well in advance of the technology actually hitting the marketplace, we were sharing with associates these investments that we were making and were sharing our best perspective as to how that would begin to impact our workforce. That is when we really began our dedicated effort on upskilling, reskilling [effort]. We called it the Future of Work program.

We began to see that while we may need less individuals for a part of the work effort that was being automated, we knew that we were changing the way that we worked. And so, with a focus on trying to provide more digital skills, analytic skills, we provided an online training curriculum that could be customized to individuals so that they could go through, and based upon their own interest—it was not mandated, but [they] were provided the opportunity to go through that training [so they could] have better opportunities to continue with Nationwide in the emerging areas that we knew would be critical for the business.

We also knew while maybe not everyone would stay with Nationwide through that process, we felt as an employer, if we could provide associates with the opportunities to upskill, they would be better candidates if they had to look somewhere else.

So, we did see workforce impact as we automated more, but we have also seen a tremendous amount of those reskilled associates moving to new and different positions. And through the period of time that we saw the most significant impacts to our employee counts through these changes, we also saw our highest engagement scores as measured by Gallup. And a big part of that was being transparent, communicating and putting as much as we possibly could into the hands of our associates to manage their careers. CM

Commercial Litigation Funding and Social Inflation: A Non-Sequitur

Executive Summary: Countering views often expressed by property/casualty insurance organizations—notably, a recent report published by Swiss Re—Dai Wai Chin Feman, director of Commercial Litigation Strategies at Parabellum Capital, explains why commercial litigation funding is not the root of social inflation. Here, he describes the differences between consumer and commercial litigation funding, noting that commercial funders focus on areas where insurance coverage is rare. He also offers data to show that the industry is too small to materially contribute to social inflation.

In his view, regulation reforms being pushed by insurers and reinsurers would increase insurance costs and prolong case durations.

By Dai Wai Chin Feman

Voices in the insurance industry have recently called for the regulation of commercial litigation funding on the ground that it is "a key driver of social inflation." Such calls to action lack empirical support and fail to withstand even gentle scrutiny.

In reality, commercial litigation funding does not—and cannot—meaningfully contribute to social inflation. It should be welcomed by the insurance community as a means to decrease costs and increase exposure to meritorious affirmative litigation risk.

Overview of Commercial and Consumer Litigation Funding Markets

Non-recourse litigation funding in the U.S. consists of two separate markets: commercial and consumer. Each market involves different types of legal claims, different counterparty profiles, different deal structures, different uses of funds and, therefore, different regulatory considerations.

Commercial funding involves investment in high-value commercial claims that are predominantly business-to-business in nature. Funders finance legal spend and provide working capital at various stages of litigation, as well as help law firms manage contingency risk. Investments primarily pertain to patent, antitrust, investor-state, contract and other commercial disputes where insurance coverage is uncommon or unavailable.

The commercial underwriting process is rigorous and can take months for each individual investment. Collectability is an important consideration, particularly given the infrequency of insurance coverage. Industry data from Westfleet Advisors reflects that the average commercial investment commitment in 2020 was $7.8 million, with 56 percent of commitments made directly to law firms rather than litigants. Returns are typically expressed as multiples of invested capital or percentages of proceeds rather than interest rates.

By contrast, consumer funding involves advances against personal injury, medical malpractice and other tort claims (including mass torts). Consumer funding may bear more resemblance to payday lending than to the commercial market. Advances are generally made to individuals for living expenses and rarely exceed five-figure amounts. Underwriting decisions can be made "in as little as 24 hours." Law firms also receive financing for portfolios of contingent consumer claims, often as an alternative to traditional debt. Returns are typically expressed as interest rates.

From a regulatory perspective, legislation tends to target the consumer market. Certain states have implemented interest rate caps, contractual requirements, disclosure mandates and other measures designed to enhance consumer protection. (Notably, many bills to regulate litigation funding have failed.) To the extent a bill broadly applies to both markets, legislators have historically been receptive to excluding commercial investments entirely, where counterparties are not natural persons or where transactions exceed a dollar threshold (often $500,000).

The Call for Regulation

Commentators have casually lumped litigation funding with other purported drivers of social inflation since 2019. In December 2021, the Swiss Re Institute published a report titled "U.S. Litigation Funding and Social Inflation: The Rising Costs of Legal Liability." The report labels litigation funding "a contributing factor to the trend of social inflation in the U.S." and calls for "stronger regulation." The report principally derives its conclusions from (1) growth in commercial funders' assets under management, paired with (2) larger general liability and vehicular negligence verdicts and (3) longer durations of personal injury cases.

The report has received ample support from the insurance industry. Despite its almost exclusive reliance on consumer tort data and case studies, the report's call for regulation does not make any distinction between the commercial and consumer markets. Nor does it address the insurance industry's existing involvement in commercial funding through various products, ranging from capital protection insurance to after-the-event cost coverage (discussed further in the last section of this article).

According to the Geneva Association, "the extent to which litigation funding has unwanted effects is an empirical matter." Yet the Swiss Re Report eschews an empirical analysis, instead linking commercial funding to social inflation based on a series of invalid assumptions and inferences. Most saliently, the report incorrectly assumes that: (1) funded commercial cases commonly implicate insurance, and (2) the volume of funded cases is sufficient to have a non-trivial impact on social inflation. Neither is true.

Lack of Coverage

The report uses data points exclusive to consumer funding to justify commercial regulation. This is problematic given the starkly different characteristics of the two markets.

While insurers regularly cover consumer claims, coverage is rare or non-existent for the majority of funded commercial cases in the United States. As the report acknowledges, "commercial litigation financing has focused on disputes involving antitrust, intellectual property and business contract issues, as well as international arbitration." Unsurprisingly, commercial fund documents frequently prohibit investments in non-commercial claims. Consequently, commercial funds are not driving the "nuclear trucking verdicts" oft-cited by the insurance and defense lobbies as demonstrative of the dangers of litigation funding.

The report admits that commercial investments "are mostly removed from consumer claims." Nevertheless, the report's cursory commercial conclusions are founded solely on general liability and

Dai Wai Chin Feman is Director of Commercial Litigation Strategies at Parabellum Capital, a litigation finance firm based in New York. He was previously a litigator at Dorsey & Whitney and Satterlee Stephens, where he represented, among others, insurance carriers and brokers.

continued on next page

continued from page 35

vehicular negligence data. Observing that "U.S. general liability and commercial auto lawsuit data show a strong rise in the frequency of multimillion-dollar claims over the past decade," the report cites data that "the average size of trucking claims increased by nearly 1,000 percent from 2010 to 2018" to argue that "nuclear verdicts against trucking companies are driving up insurance premiums."

The report also claims that litigation funding "is associated with longer cases," citing only the average duration of funded "personal injury cases." Furthermore, the report specifically cites the commonplace funding of "trucking accidents, bodily injury, product liability mass torts and medical liability claims, etc.," as affecting general liability and commercial auto lines.

As insurance professionals know, coverage for patent and antitrust claims is the exception rather than the norm, and it is non-existent for investor-state arbitration (disputes against sovereigns often related to investment expropriation). Coverage of contract and business tort claims is also uncommon. And even where coverage is present, it may ultimately be limited to defense costs in light of the intentional misconduct frequently at issue.

Accordingly, there is no actual support for the claim that the growth of commercial funding corresponds to any real rise in insurance costs.

Market Size

Even if financed commercial disputes were likely to involve insurance (which is not the case), the size of the commercial market would render any impact on social inflation negligible.

The Swiss Re report states that litigation funding is a $17 billion market based on "investment into litigation funding globally in 2020." The $17 billion figure is repeated five times in the report and repeatedly in follow-on articles from insurance trade publications, including *Carrier Management*. While the report's emphasis on investor capital commitments may seem significant, it is a red herring. The number of cases actually financed is a more important indicator.

Funders are highly selective and seek only meritorious investments. As a result, funders rarely make more than a handful of commercial investments per quarter. Public filings reflect that Burford Capital—the largest funder in the U.S. and world—made 18 new North American investments in 2020. Omni Bridgeway, which has the second-largest commercial investment team in the U.S., reported nine new U.S. investments in its active U.S. fund in its 2020 fiscal year. Burford and Omni Bridgeway together account for approximately 48 percent of the commercial market according to the report. *(Editor's Note: Read the Carrier Management article, "An Innovator's Journey: From Star Litigator to Litigation Finance," profiling Burford Capital CEO Chris Bogart to learn about Burford's strategies)*

Statistics from Burford's public filings indicate that the proportion of financed cases with insurance coverage is likely to be a minority of overall investments.

> Attempts to regulate the commercial industry lack any legitimate basis and will only serve to ironically increase insurance lobbying and litigation costs...One could argue that resistance to litigation funding is itself stoking social inflation.

Specifically, of Burford's 18 North American investments, six were antitrust and seven were intellectual property investments. In the aggregate, Burford has invested approximately 1 percent of its portfolio in "tort" matters (with no such investment made since 2018), whereas it has made 56 percent of its investments to antitrust, intellectual property and international arbitration matters. Burford has made an additional 9 percent of investments to asset recovery and 8 percent to contract claims, categories also unlikely to have coverage.

Commercial figures—even when conservatively extrapolated—pale in comparison to the consumer market, which witnesses thousands upon thousands of transactions per year. (Oasis Financial, one of multiple major players in the consumer market, claims to have made "more than 250,000" investments.) Thus, even if commercial funding affected social inflation, its impact would be de minimis.

Regulation of Commercial Funding Would Be Inimical to the Insurance Industry

The report argues that both the commercial and consumer markets should be subject to enhanced regulation "to support consumer protection and an efficient legal system." Such regulation would consist of "disclosure of funding arrangements to all involved parties" and "greater transparency and consumer protection in funding terms."

As an alternative to litigation funding, the report cites the availability of "legal aid for consumer protection claims" and advertises "legal expense insurance."

The report's regulatory goals are misguided and short-sighted.

The report's concentration on "consumer protection in funding terms" has no application to commercial funding. The commercial market is comprised of sophisticated actors represented by competent legal counsel. Funders made 56 percent of commercial investment commitments to law firms rather than litigants in 2020, obviating consumer protection concerns for the majority of capital committed.

The report also supports increased usury restrictions, which do not apply to commercial funding due to the high risk inherent in non-recourse commercial investments.

Legal aid is similarly unsuitable for funded commercial disputes, where expert expenses alone routinely run into the millions.

Finally, legal expense insurance is a nascent market that, as conceded by one of the report's sources, is similar to litigation funding "as far as the volume of litigation, the quality of litigation and the timing of settlements is concerned."

The only regulatory reform relevant to commercial funding for which the report advocates is disclosure. The report argues that "disclosing funding arrangements to courts, opposing parties, arbitration tribunals and counsel would facilitate the assessment of potential conflicts of interest; discussion of cost shifting and allow all parties to realistically assess the prospects of settlement of the case." The report further avers that "disclosure also enables litigants to transparently assess parties' fiduciary duties and calculate attorneys' fees."

The objective of such disclosure is clear: to obtain tactical advantages for defendants that will prejudice funded cases by providing insight into issues ranging from case budgets to analysis of case merits. The scope of such disclosure far exceeds that necessary to "facilitate the assessment of potential conflicts of interest" and would have no relation to "cost shifting" under the American Rule. It also exceeds the level of financial disclosure applicable to insurers and defendants by leaps and bounds.

Putting aside that a potential detriment to insurers does not necessarily warrant regulation, the report unfortunately ignores the costs and legal framework associated with disclosure. Implementing disclosure regimes would actually increase defense costs and prolong case durations by causing frivolous satellite litigation over discovery. That is because once litigation funding is disclosed, defense counsel invariably seek additional disclosure of funding terms and communications between funders and litigants. Such efforts seldom yield results.

Courts have overwhelmingly rejected attempts for discovery of funding arrangements on the grounds of relevance and privilege (Source: "What Courts Are Saying About Litigation Finance Disclosure," Law360.com, subscription required). So, too, have legislatures and other bodies, such as the Civil Rules Advisory Committee and Uniform Law Commission, both of which have declined to recommend mandatory disclosure mechanisms.

To the extent the report sincerely seeks to enhance consumer protection and improve efficiencies in the legal system, it should tailor its efforts exclusively to the consumer market. Commercial players would have no objection to enhancing true consumer protection or limiting liability for trucking claims. But attempts to regulate the commercial industry lack any legitimate basis and will only serve to ironically increase insurance lobbying and litigation costs.

Indeed, one could argue that resistance to litigation funding is itself stoking social inflation.

Clear Upside of Commercial Funding Outweighs Amorphous Downside

The report attempts to cast a negative spotlight on commercial funding. Looking past the report's unsupported assessments regarding social inflation, the insurance industry should embrace commercial funding as an opportunity for the development and expansion of new and existing business lines.

Notwithstanding the rarity of insurance in funded commercial cases, insurers should appreciate the benefits of commercial funding. Duty-bound to seek efficient returns for investors, funders filter out frivolous claims, prioritize the likelihood of settlement in underwriting and structure transactions that incentivize early resolutions. In addition, funders are rational and independent economic actors that do not make decisions driven by emotional or other non-monetary factors. As a result, funders favor settlements and attempt to avoid the binary risk inherent in trials.

Insurance and commercial funding already enjoy significant synergies. For example, AmTrust invested in Therium, an established commercial funder. It has also arranged insurance wrappers for limited partnership interests of commercial funds and wholly owns a law firm that provides "litigation funding services."

Insurers have entered into agreements with litigation funders to provide adverse cost coverage across portfolios of investments. Thomas Miller acquired TheJudge Group to start "a new litigation finance business with access to $1 billion in capital." Aon, Marsh, Gallagher and Lockton all have insurance litigation groups that broker products such as plaintiff-side judgment preservation insurance, insurance-backed judgment monetizations, after-the-event cost insurance, principal protection insurance for litigation-related investments and insurance for law firms on contingency.

Beyond existing lines of business, the insurance industry has ample opportunities to increase exposure to commercial funding in ways that would be mutually beneficial. Doing so would be a net positive for insurers. A social inflation stamp should not stand in the way. CM

Fight Social Inflation:

Humanize Corporate Defendants

Executive Summary: It's time for defense attorneys to avoid the "David vs. Goliath" scenarios that play out in courtrooms, which lead to nuclear verdicts, according to Robert F. Tyson Jr. Here, Tyson, the author of the book "Nuclear Verdicts: Defending Justice for All," explains why defense attorneys have to ignore prior training to stick to the facts and adopt new trial skills to humanize corporate defendants, summarizing some of the ideas he'll share during a session of the Nuclear Verdicts Defense Institute, in June.

By Robert F. Tyson Jr., Esq.

Insurance carriers, are you and your defense counsel ready for the "perfect storm" of litigation that is coming once the pandemic is over?

Are your teams trained to defend against the increasing wave of nuclear verdicts—jury verdicts of $10 million or more, or those in which non-economic damage awards are disproportionate to the economic damages—that is sure to come?

If you cannot confidently say "yes" to these questions, the time to remedy that is now!

One way is to make sure your defense team knows how to personalize—read humanize—the corporate defendant. The following are some core ways to do just that and, ideally, minimize the chances of an exorbitant jury verdict at trial.

Avoid an Angry Jury

The No. 1 emotional motivator of a nuclear verdict is anger. Because of this, plaintiffs' attorneys are increasingly employing a number of tactics to incite juror anger at the corporate defendant. As a result, the average jury award has skyrocketed in the last 10 years, with data for trucking industry defendants revealing that the average size of verdicts from 2010 to 2018 spiked from just over $2.3 million to just under $23 million, and things only got worse during the pandemic. (Source: "Understanding the Impact of Nuclear Verdicts on the Trucking Industry," June 2020, published by the American Transportation Research Institute)

The new reality is that justice has been hijacked by creative plaintiffs' lawyers throughout the country. Change now lies in the hands of defense attorneys and in-house counsel. To mitigate the onslaught of nuclear verdicts, attorneys must learn new trial skills and change the way they communicate with juries. This can be a challenge for defense attorneys, who are trained to avoid the emotional part of the process and to just present the facts.

It's time for defense attorneys to alter their strategy by helping a jury identify with a corporate client. If a jury cannot relate to or empathize with the business, the defense may lose a "David vs. Goliath" scenario and face a nuclear verdict.

Learning to personalize the corporate client by telling their story—family, pride of ownership, community standing and more—is essential to reducing potential exposure at trial, diffusing juror anger and minimizing the likelihood of a runaway jury verdict. Stories about employees and officers, the company's values and vision, and how such businesses contribute to their communities are what enable jurors to relate to corporate defendants.

Remember, Corporations Are People, Too

When you read the closing argument for the defense in a nuclear verdict, what do you typically know about the corporate defendant? Usually nothing. In almost

Robert F. Tyson Jr. is a trial lawyer and the strategic managing partner of national defense firm Tyson & Mendes LLP, as well as the author of "Nuclear Verdicts: Defending Justice for All." Reach him at rtyson@tysonmendes.com.

every nuclear verdict, the jury knows everything possible about the plaintiff and absolutely nothing about the defendant. This is unacceptable!

In my book "Nuclear Verdicts: Defending Justice for All," I focus on the importance of making an emotional connection with the jury, addressing why defense attorneys must personalize the corporate defendant—and detailing how to do so. Getting a jury to identify with a corporate client is especially critical when it comes to damages, as jurors typically impose higher awards against corporate defendants they view as faceless brand names with hefty bank accounts.

In the eyes of the law, a corporate defendant or public entity is "entitled to the same fair and impartial treatment" as an individual human being. But the jury has to feel like they really "know" the defendant to be able to treat them as such.

Presenting a Relatable Entity

Turning a business or brand into a relatable entity enables jurors to appreciate and understand the value your insured brings to society, the impact an unreasonable award would have on them

continued on next page

"Attorneys must learn new trial skills and change the way they communicate with juries. This can be a challenge for defense attorneys, who are trained to avoid the emotional part of the process and to just present the facts."

Prior Carrier Management articles written by Robert F. Tyson Jr. are:

- Stop Nuclear Verdicts: Hire Plaintiff Lawyers
- Nuclear Verdicts: What P/C Carriers Need to Know

continued from page 39

and how it would affect others.

Their corporate story must be told throughout trial, from jury selection all the way to closing arguments. Here is how:

• **Corporate Representatives.** Claims professionals, general counsel, risk managers and defense counsel must partner to develop the corporate story and provide the jury with the basis to identify with the client. This often comes in the form of a "corporate representative"—the person selected to attend every day of trial and serve as the "face" of the defendant's business.

While this person may never testify, their presence alone humanizes the company, demonstrating its regard for the lawsuit and its outcome.

• **Voir Dire.** Jury selection is the defense's only opportunity to identify and excuse prospective jurors who hold anti-corporate sentiments. Even with instructions to "not let bias, sympathy, prejudice or public opinion influence your verdict," the reality is that no human being can completely leave their biases out of the courtroom.

During voir dire, the defense can signal their corporate story—setting the stage for when the full story is told during trial. Framing the client's story as early as possible and continually reiterating it will help the jury remember the information you want them to retain.

• **Opening Statement.** The best time to recount the corporate story is during opening statements, since plaintiffs' attorneys typically focus on the defendant's conduct during this time, not the actions of the plaintiff. For this reason, defense counsel should use opening statements to reframe the story and tell the jury about the history of the corporation and its representative.

Is the client a family-owned business? Is the representative an immigrant? Does the company have a long history? Why does the company even exist?

Hearing this story during opening statement will shape the way the jury views the rest of the evidence and arguments presented.

• **Witness Testimony.** If your attorneys plan to question client witnesses, it is important they take the time during preparation to remind them of the business' mission and history. During the trial, they should ask the witnesses questions about the company's story and involvement in the community, as well as their personal experiences with, and loyalty to, the company.

And remind them to be human. Such testimony fosters a connection between the jury and the corporate defendant.

• **Closing Argument.** The defense must not wait until closing arguments to convey the corporate story. Delaying the story may lessen the impact on the jury and the defense runs the risk of not being able to tell the full tale.

Closing arguments should be used to reiterate the good the client has done and to solidify any connection between the jury and the company. This information is just as relevant for your insured as background information is for the plaintiff.

Plaintiffs' counsel should not be the only person in the courtroom connecting with the jury.

Humans Run Corporations

Putting a face to a company name and sharing the story behind a brand will not guarantee a win, but it will help. A jury that can identify with your client is much less likely to satiate its anger and bias with astronomical damages than one that has only been provided enough information to simply view the case as a resented example of the "little guy" vs. "Corporate America."

Regardless of what the corporate story is, the defense team must always convey it as a human story. Corporations and public entities are made up of people—not awards, or products, or mission statements, or financial accomplishments. No matter what business your client is in, the defense's story to the jury must be one about the people the jury will ultimately care about. Human beings must be the focus.

Insurers should also insist their defense lawyers learn how to become better trial lawyers by continuing their education and receiving adequate training on how to avoid nuclear verdicts in a post-pandemic world. There are many resources for defense attorneys, including a new trial academy created by Tyson & Mendes.

The only way the insurance and defense industries are going to turn the tide against nuclear verdicts is to learn from each other.

Remember, it is justice for all, not just plaintiffs and their lawyers! CM

Wrapping Things Up: A Closing Argument

While defense lawyers should not wait until closing arguments to convey the human side of a corporate story, it's a great time to reinforce the messages delivered at trial.

Here's an example of a forceful closing argument:

It is easy to throw around accusations. It is easy to file a lawsuit. But it is very difficult to defend one. I don't mean financially, because you cannot consider the costs of all of this, or attorney's fees over the last three years. You will receive a jury instruction on that.

It is difficult to put your and your business' reputation in the hands of 12 strangers and say, "Hold me accountable."

But that is what my clients are doing. They have flown across the country to be here with you. You have met the CEO of this company, who has been here every day for the last three weeks, even when the plaintiff hasn't been here. He has done what he and this company have done their entire careers: They have shown up, they accept responsibility, and they are here for you to hold them accountable. And you know why? Because they care.

They care about their employees, they care about their products, and they care about the plaintiff.

It has been an honor to represent this corporate citizen.

On the Road Ahead to Level 3 Automation: Paradigm Shift in Crash Fault Determination

Executive Summary: Level 3—the first level of truly automated driving—is almost here, according to recent reports about Mercedes-Benz. While the reports reveal the German auto maker's intention to seek approval for its Drive Pilot system in the U.S. by year-end, and to accept full responsibility for crashes in Drive Pilot, Mercedes's commitment is practically illusory in its impact on U.S. consumers, insurers and liability professionals, write lawyers Mike Nelson and Stephanie Niehaus. Here, they explain why and also briefly describe the prospects of using vehicle data to objectively determine liable parties in auto accidents, including the manufacturers of increasingly autonomous vehicle systems.

By Mike Nelson and Stephanie Niehaus

On March 20, 2022, industry publication Road & Track caused a bit of a splash when it reported not only that German auto manufacturer Mercedes-Benz plans to seek approval for its "Drive Pilot" system here in the United States by year-end but also that "Mercedes will accept full legal responsibility for the vehicle whenever Drive Pilot is active."

Per the Road & Track report:

> Mercedes' new Drive Pilot seems, in operation, like many 'traffic jam

continued on next page

Stephanie Niehaus is General Counsel for QuantivRisk, a technology company that uses vehicle performance data to uncover objective views of vehicle crashes. She is also a partner in the law firm Nelson Niehaus LLC, which offers litigation and risk management services related to emerging mobility technology. Reach her at Stephanie.Niehaus@nelson.legal

Mike Nelson is the Founder and CEO of QuantivRisk, a technology company that uses vehicle performance data to uncover objective views of vehicle crashes. He is also a partner in the law firm Nelson Niehaus LLC, which offers litigation and risk management services related to emerging mobility technology. Reach him at nelson@nelson.legal.

continued from page 41

assistant' technologies already on sale today. On certain highways, below 40 mph, a Drive Pilot-equipped S-Class or EQS will take control of the car's speed, steering, and brakes to move you along in traffic. But there's one key difference: Once you engage Drive Pilot, you are no longer legally liable for the car's operation until it disengages. You can look away, watch a movie, or zone out. If the car crashes while Drive Pilot is operating, that's Mercedes' problem, not yours.

Source: Mack Hogan, "Mercedes Drive Pilot Beats Tesla Autopilot By Taking Legal Responsibility," Road & Track (March 20, 2022)

Road & Track does not reference or cite a specific press release or other source in which Mercedes makes this seemingly groundbreaking commitment to accept legal liability. But the report is consistent with then-aspirational commitments several manufacturers and tech companies made in 2015 to accept liability if their autonomous technologies were found to be responsible in an accident.

In a 60-Minutes episode called "Hands Off the Wheel" that aired on Oct. 4, 2015, Mercedes was identified along with Google as saying "if their technology is at fault once it becomes commercially available, they'll accept responsibility and liability."

Just days later, Volvo announced that its president and chief executive officer would include commitments during a speech in Washington, D.C., that "Volvo will accept full liability whenever one of its cars is in autonomous mode, making it one of the first car makers in the world to make such a promise." (Volvo Press Release, Oct. 7, 2015).

As it stands today, though, only Mercedes faces the potential of having to satisfy its prior liability commitments with its release of Drive Pilot—its first SAE Level 3 system.

Many readers will recognize SAE Level 3 as the first level of truly automated driving. As reflected in the accompanying SAE graphic, updated as of last year, Level 3 features are capable of driving the vehicle—albeit only under specific conditions—and do not require driver supervision unless and until the feature makes a take-over request of the driver. For further context, despite its marketing and promises of "full self-driving," even Tesla has only reached SAE Level 2 with its currently available features.

On its website, Mercedes touts that it was the "first automotive manufacturer worldwide to secure internationally valid system approval for conditionally automated driving (SAE Level 3)," referring to authorization it received late last year from the German government to begin selling S-Class vehicles equipped with Drive Pilot in Germany. According to the press release announcing that approval: "The German Federal Motor Transport Authority (KBA)...granted system approval for [Drive Pilot] on the basis of the technical approval regulation UN-R157, thus paving the way for offering such a system internationally, provided that national legislation allows it."

The press release also states that the "first customers will be able to buy an S-Class with Drive Pilot in the first half of 2022, enabling them to drive in conditionally automated mode at speeds of up to 60 km/h in heavy traffic or congested situations on suitable stretches of motorway in Germany." (Source: Mercedes-Benz Press Release, Dec. 9, 2021).

And there, in essence, is the fine print. Several paragraphs into its report, even Road & Track qualifies that:

Right now, Drive Pilot can only engage at speeds under 40 mph (60 km/h in Germany) on limited-access divided highways with no stoplights, roundabouts, or other traffic control systems, and no construction zones. Eligible roads must be mapped by Mercedes for Drive Pilot use (similar to GM SuperCruise); the automaker has already mapped every such highway in Germany, and most of those in Nevada and California. The system will only operate during daytime, in reasonably clear weather, without overhead obstructions. Inclement weather, construction zones, tunnels, and emergency vehicles will all trigger a handover warning. And no, you can't close your eyes or go to sleep while it operates.

Mercedes, Honda and Level 3 Approvals

In December 2021, Mercedes-Benz announced that it was the first automotive company in the world to meet legal requirements of UN-R157 for a Level 3 system.

What exactly is UN-R157?

In March 2021, UN Regulation No. 157 - Automated Lane Keeping Systems (ALKS) was implemented by the United Nations Economic Commission for Europe as "the first regulatory step for an automated driving system...in traffic and it therefore provides innovative provisions aimed at addressing the complexity related to the evaluation of the system safety."

While Mercedes may be the first automaker to receive approval of a system in compliance with UN-R157, our research indicates that Honda was the first automaker to receive government approval of a Level 3 system. In November 2020, the Japanese government approved Honda's Traffic Jam Pilot, which Honda offered to consumers through a very limited run of Honda Legend sedans in early 2021 (Source: Ericka Pingol, "Honda Reveals First Autonomous Car with L3 Autonomy" Trend Micro, March 16, 2021).

Other manufacturers, including BMW and Polestar, have announced plans to introduce Level 3 technologies into their lineups in the near term. See, for example, Sebastian Blanco, "BMW Level 3 Autonomous Driving Tech Is Coming in 2025," (Car and Driver, March 13, 2022); Murray Slovick, "Level 3 Autonomous Vehicles: Regulators Can't Keep Up with the Tech," (Electronic Design, Jan. 24, 2022). CM

In other words, while commendable in principle, Mercedes's apparent commitment to "accept responsibility and liability" if Drive Pilot is at fault in an accident is really quite limited.

Even in Germany, where Drive Pilot is approved for commercial sale and is operable across 13,191 kilometers of the Autobahn network, the circumstances under which Drive Pilot can be used are circumscribed pursuant to the regulation (UN-R157) under which it was approved.

Here in the United States, where regulations and infrastructure can differ dramatically from state to state and Level 3 consumer vehicles remain a thing of the future, Mercedes's commitment is practically illusory in its impact on consumers, insurers and liability professionals. Indeed, Mercedes acknowledges on its website that, while it is "working intensively" to obtain regulatory approval for Drive Pilot in California and Nevada by the end of 2022, the availability of Drive Pilot in those states assumes "the legal and regulatory framework allows use of the system." Right now, that is just an assumption.

Still, the commitment by manufacturers to accept increasing responsibility for increasingly autonomous systems is not insignificant. In some ways, it is merely a recognition of our existing product liability regime—when a product malfunctions during its expected use, the manufacturer can be held liable. A manufacturer's pre-acceptance of liability also can help drive innovation and adoption.

But we think these commitments also reflect an awareness by manufacturers that advanced automotive technologies themselves can advance liability determinations. Connected and autonomous cars generate vast amounts of data, and that data can be used to objectively determine fault in the event of an accident. BMW noted as much in a May 2020 Safety Assessment Report for SAE Level 3 Automated Driving Systems, stating that "all BMW vehicles equipped with highly automated driving technology such as the SAE Level 3 BMW ADS have a number of data recording capabilities to allow for an accurate reconstruction of crash-related events."

In the face of this objective data, the at-fault party will be hard-pressed to deny liability, including if that party is the manufacturer. To loosely quote Mercedes, the introduction of these technologies will result in a "radical paradigm shift." We believe this shift will encompass a new approach to liability determination based on vehicle data.

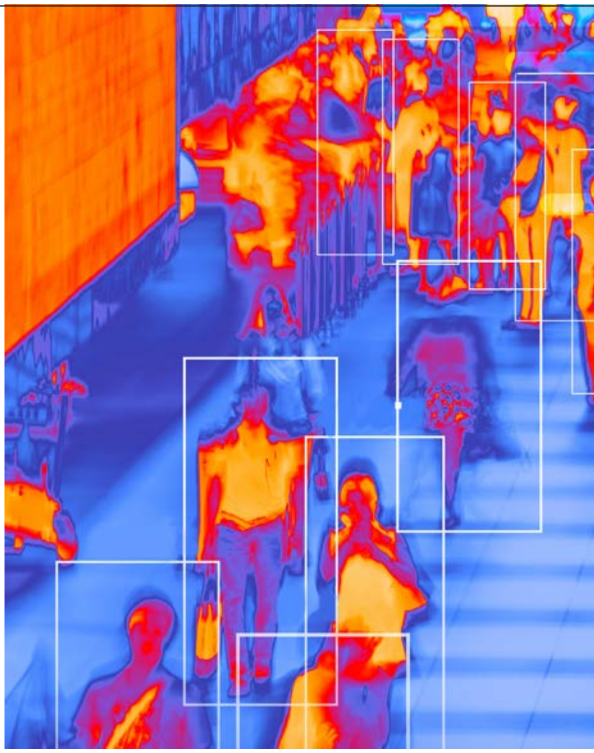
Kimberly Gross provided research assistance for this article. CM

SAE **J3016**™ LEVELS OF DRIVING AUTOMATION™

Learn more here: sae.org/standards/content/j3016_202104

	SAE LEVEL 0™	SAE LEVEL 1™	SAE LEVEL 2™	SAE LEVEL 3™	SAE LEVEL 4™	SAE LEVEL 5™
What does the human in the driver's seat have to do?	**You are driving** whenever these driver support features are engaged – even if your feet are off the pedals and you are not steering			**You are not driving** when these automated driving features are engaged – even if you are seated in "the driver's seat"		
	You must constantly supervise these support features; you must steer, brake or accelerate as needed to maintain safety			When the feature requests, you must drive	These automated driving features will not require you to take over driving	
	These are driver support features			**These are automated driving features**		
What do these features do?	These features are limited to providing warnings and momentary assistance	These features provide steering **OR** brake/ acceleration support to the driver	These features provide steering **AND** brake/ acceleration support to the driver	These features can drive the vehicle under limited conditions and will not operate unless all required conditions are met		This feature can drive the vehicle under all conditions
Example Features	• automatic emergency braking • blind spot warning • lane departure warning	• lane centering **OR** • adaptive cruise control	• lane centering **AND** • adaptive cruise control at the same time	• traffic jam chauffeur	• local driverless taxi • pedals/ steering wheel may or may not be installed	• same as level 4, but feature can drive everywhere in all conditions

Source: SAE International



Tech Arms Race Favors Giant Commercial Carriers

Executive Summary: The Hartford and other large carriers are competing in a technology arms race that may leave small, regional companies behind, Mo Tooker, the head of The Hartford's Middle Market and Large Commercial business, told *Carrier Management* during a recent interview. At The Hartford, investments in technology and talent are moving process efficiencies and data firepower up market from the small commercial segment, he said, describing capabilities that include leveraging the Internet of Things to create customized products that respond to the real-time exposures of middle-market customers.

By Susanne Sclafane

Midway through a recent interview, the leader of a key business at The Hartford paused to ask a question relevant to executives at carriers that don't have 11-digit premium volumes or capital levels like the Connecticut-based giant.

"How does a small or regional company keep up with the scale of investments that a handful of the larger carriers can make?" asked Mo Tooker, head of Middle Market and Large Commercial business.

Tooker turned to the question after describing the investments The Hartford has made to transform its underwriting and claims processes in recent years in order to eliminate inefficiencies, react to customers' needs and improve the jobs of Hartford professionals. "It's an interesting topic because I do think you get to a place of scale that really allows you to outperform—to take advantage of data and data science and help your underwriters and claims adjusters in a way that changes the game altogether in the future."

"This is a place where we will feel a bifurcation in the marketplace. There are only a handful of carriers that can make the investments that we're describing here," Tooker said.

How much money is involved in these investments?

"I think hundreds of millions of dollars at the corporate level," he said, without giving a specific spending figure for The Hartford. He did reference a recent *Carrier Management* article in which competitor Travelers talked about spending a billion dollars annual on technology investments. "That is the type of scale necessary to respond to the demands from the consumer and also to really take advantage of the way the world has evolved from a data and modeling perspective."

"There aren't many that can keep up that level of investment year after year after year—and that creates a gap that grows larger year after year after year," he said.

In July 2020, The Hartford announced a companywide operational transformation and cost reduction initiative known as Hartford Next, with plans to spend hundreds of millions of dollars on technology investments and employee severance costs associated with a planned workforce reduction. The goal of Hartford Next is to reduce insurance operating expenses by over $500 million annually, shaving 2-2.5 points off the P/C expense ratio reported in 2019.

The carrier's 2021 annual report reveals that $217 million of Hartford Next program costs were incurred in 2020 and 2021, with another $184 million anticipated in the next few years.

Usage-Based Commercial Insurance

Later, Tooker referred to a "nuclear arms race" in the industry—essentially, a technology battle that's creating the ever-widening gap when asked to describe what he views as the most exciting technology The Hartford is using today.

"The hypothesis we're starting with is that usage-based or behavioral-based insurance is right around the corner," he said. "This is a place where I think this nuclear arms race and people's ability to keep up is really important to think about."

Carriers that are better armed with customer data—in particular, with data coming from sensors and telematics devices—will be better able to "reflect the actual exposures that our customers have rather than proxies" in their product offerings, Tooker believes.

"Most of what you're seeing the larger carriers working on is really what I would call augmented intelligence. We're helping our adjusters or underwriters make decisions in a more informed fashion."

Mo Tooker, The Hartford

He used the example of rating general liability policies to explain the idea. "A lot of times, we rate off square footage or sales. But that's a proxy for the real exposure. Think if you have occupancy sensors that are actually [recording] foot traffic. Now you're getting to something that actually is related to the exposure that industry or that subclass of business has."

The Internet of Things and sensors "open up an incredible opportunity" for carriers that can make the right investments, he said. First, you have to be able to deploy the sensors" and experiment to understand what information they provide. "Then, you've got to figure out how to get all of that data that [sensors] are sending to you every second into a usable format," Tooker said.

Experiments with that part of the process are underway at The Hartford right now, he said. "We've actually got a lot of test cases—even beyond test cases. We have more and more customers every day, where we're actually connected to them and getting real-time information about their exposures. That's only happened over the past 24 months," he said.

At The Hartford, a third key to making the near-term future vision a reality was the acquisition of an InsurTech called Y-Risk four years ago, which didn't add significant premiums to the carrier's books but did bring more power to the arms race. "They had started to think about how to do insurance for the sharing economy," bringing with them not just new technology and a new business model but also incredible amounts of data. The Hartford's Middle Market and Large Commercial team is now leveraging the data to design customized usage-based and behavior-based insurance products.

"That is the frontier right now. What can the sensors bring you? How can you harness the data, and then how can you design products?"

While this is a place in the commercial lines arena where The Hartford may be a step in front of similar-sized competitors, Tooker isn't complacent. "If we don't keep moving, I know that many people will catch up because it's such an important concept for the industry to work on."

Process and Product Transformations

The Hartford has been moving for a while, with its Middle Market and Large Commercial business unit not just learning from InsurTech Y-Risk but also applying lessons learned in The Hartford's Small Commercial businesses to process transformations. And a major acquisition in 2019—the $2.1 billion deal for specialty insurer Navigators Group—has allowed the carrier to bring more products to business customers.

"There is too much paper, too much process, too much inefficiency in the middle and large commercial space," Tooker said, explaining why The Hartford has pushed for process transformation in recent years.

"Our second hypothesis is that our customers and brokers really want, especially in the middle-market space, to buy more products from a more limited number of carriers," he said. "If they could have a one-stop shop, they would do that in more situations."

The Middle Market and Large Commercial business that Tooker heads up offers core P/C lines, such as auto, workers compensation, general liability, property and umbrella, aimed at the middle and large commercial customer segment.

continued on next page

continued from page 45

Complementing that business, The Hartford's Global Specialty business, borne out of the Navigators deal, brings all of the other products to the same customer base, such as financial lines, ocean marine, environmental insurance and surety.

"That's a major transformation for The Hartford because we didn't have everything in the building [before], and now we can compete with some of our more diverse competitors." Highlighting an advantage over P/C-only competitors, Tooker noted The Hartford's capabilities in group benefits as well. "Think accident and health, and some of the voluntary benefits products...We are the only P/ C carrier in the marketplace that also has a group benefits offering," he reported.

Operational Efficiency, Data Fire Power

Describing the second transformation aimed at increasing operational efficiency, Tooker said "that one really is about us building from the incredible base we have in Small Commercial," referring to The Hartford's significant digital capabilities for small business customers. "We're trying to build on that strength and take it up market into the middle-market space, and certainly into the smaller end of large commercial over time."

"We do believe [that] all the demands for speed and efficiency that we're seeing in small commercial right now, all the demands that we feel for speed and efficiency in our private lives, will come into the middle-market space. And, in fact, those demands are already there."

As an example, he said, "We now can take into our systems anything that our agents and brokers send us without anybody touching that—without somebody onshore or offshore having to do that work." That previously was only possible in Small Commercial.

There are also places where The Hartford is building different technology for middle-market and large commercial. Tooker explained, "In the small commercial space, we ask agents and brokers to put their information into our portal, and it's an on-the-glass transaction—kind of a straight-through process. But in the middle-market space, agents and brokers don't necessarily want to enter in their information for seven different carriers..."

"That's really where we're trying to meet brokers and agents where they are. We are building proprietary technology for the middle-market space" while also leveraging insights from the small commercial digital transformation journey.

Beyond building platforms that respond directly to the evolving needs of customers and distribution partners, The Hartford's technology spending is reaping internal benefits—making claims and underwriting professionals more proficient.

Referring to a major investment that The Hartford made in a Guidewire claims system a decade ago, he said, "We have a feedback loop that's getting back to underwriting and actuarial and product very, very quickly because of the data we collect. Over the years, the feedback loop has been refined to a point where I think our claims leadership would say we're seeing smoke before there's a fire."

"The hypothesis we're starting with is that usage-based or behavioral-based insurance is right around the corner."

In addition to the benefit of spotting emerging risk and claims trends, The Hartford is leveraging its IT investments to triage workflows. "Because of the data and the models that we've built off that new system, we are now able to point our claims handlers to those areas that really need their attention. And [for] those where a model works fairly well or really well, we can automate processes..."

"We have taken cost out. Adjusters are working on claims [where] they can really add value. [And] those that really can go straight through are coming off their desks."

The story similar in underwriting. "Now that we've harnessed the data, now that we have some models and analytics and data science models firing, we are pointing underwriters toward those risks where they should be spending more of their time and [identifying] risks that we believe are less complex and able to go through in a less hands-on process.

"That has not been done in the middle-market space in a widespread fashion," he said, introducing his comments about the bifurcation between large carriers and smaller, regional competitors. "It will transform the underwriting job," said Tooker, a former chief underwriting officer for The Hartford who started his 30-year career as a property facultative reinsurance underwriter for General Re. "Most of what you're seeing the larger carriers working on is really what I would call augmented intelligence. We're helping our adjusters or underwriters make decisions in a more informed fashion."

"And then I do think over time the industry will get to what truly is artificial intelligence," he added, looking out into the future of commercial insurance.

On the claims front, a newer investment in the workers compensation area isn't putting money directly into data or IT but instead builds upon prior spending. "We are now trying to build a broader stable of injury prevention services," Tooker said.

With the claims system "firing early warning signs, we can see where the injuries are happening and when they are happening. So, for example, with one of our major customers we have now, we're starting to open up clinics on construction sites," he said.

"That 'front foot' metaphor is what I talk to my team about because we have done so much work over the past three, four, five, 10 years…2022 for me is really about execution and being in the market and trying to solve problems," Tooker said.

"Think about it. An insurance company is providing an onsite clinic...When [a worker has] a niggling injury, is not feeling well or something just happened, the speed really matters in terms of getting a diagnosis and making sure that injured worker is looked after quickly," he said, noting that the early interventions of nurse clinicians can significantly lower an insured's total cost of risk.

The professionals working in the onsite clinics could be employees of The Hartford or employees of vendors that the carrier works with to ensure it can scale quickly, he said.

Preparing the Workforce

On the talent front, Tooker said The Hartford has made a major investment over the past five years to bring on specialized underwriting, claims and risk engineering professionals who understand particular industry verticals to the Middle Market and Large Commercial business. For example, he said the carrier has life sciences underwriters that specialize in life sciences risks exclusively—"because those customers and brokers are demanding that they have somebody sitting across the table from them who understands their business."

Another hiring theme relates to data engineers and analytics staff—"people who can help us think about leading with data," Tooker said. And The Hartford has had to make investments in change management, he confirmed. "For every dollar of [technology] investment you have to spend, you probably need another dollar to help prepare people for what's coming and to help them be comfortable with what's coming."

While The Hartford and other carriers invested in talent in recent years, they have also reduced costs with reductions in force. At The Hartford, the reduction was part of the Hartford Next initiative.

"You've always got to be looking strategically at where you're going and whether or not you're creating enough resources for what you need tomorrow," Tooker said. "So, I looked at the entire Hartford Next effort as a way to free up dollars [and] people to be able to invest in what we need tomorrow."

In Middle and Large Commercial, as a part of the strategy, leaders looked at the structure to understand where investments in automating processes meant fewer people were needed. "What it allows us to do is to invest in actuarial talent, data science, data engineers...There were some numbers we shared publicly which were important" about workforce cuts. "But I think it's also really about enabling us to think about what's around the corner and making sure we have the talent to do that."

Asked about the hot topic of retaining talent during the "Great Resignation," Tooker said The Hartford has reported retention numbers that are better than competitors. "But it's not going away, and it's something that will remain a challenge because longer-term supply-and-demand issues do not change" across the industry, he said, referring to the fact that carriers and brokers alike have double-digit business growth targets, which drive the need for talent.

As for strategies to retain talent, Tooker said he believes culture is an underplayed one.

"Obviously there's a compensation lever. You've got to be competitive. And I don't want to minimize that because the market is moving on that front, too. But I find, increasingly every day, the culture is what is driving people to stay or to come."

"What is my career opportunity? How am I treated as an individual? How does the company think about D, E and I? How does the company think about its purpose in society? How does the company think about the environment?" Those are the key culture questions that candidates think about, Tooker said.

"I haven't been at The Hartford forever, but I am grateful for how hard The Hartford has worked over decades to get the brand, the ESG grounding, our commitment to the community, the commitment to the environment, because all of those things help in this equation. And I would be really worried if I was at a place that's just starting that journey because it really matters."

When asked about what's ahead for The Hartford in 2022, Tooker stressed the idea that The Hartford isn't at the start of its operational and product transformation journeys.

"The biggest thing I'd like people to know is that we are on the front foot as a company and [that] the investments that we've made over the past whatever number of years just allow us to be able to be proactive with our customers and agents," he concluded.

"For me, 2022 is really about the fact that we're not cleaning up anything in Middle and Large Commercial. We don't have any book problems. We don't have acquisitions to digest. The book is healthy, and we just can really now be on the front foot with some of these innovative ideas," he said.

"That 'front foot' metaphor is what I talk to my team about because we have done so much work over the past three, four, five, 10 years to enable us to do that. 2022 for me is really about execution and being in the market and trying to solve problems," Tooker concluded. CM

How to Move Past 'Analysis Paralysis':

5 Steps for Leaders

Executive Summary: Carol Williams, a risk management and strategy consultant for P/C insurers and recurring contributor to *Carrier Management*, builds on the work of executive coach and author Melody Wilding to help leaders make better and more timely decisions. Here, Williams applies Wilding's tips for moving past the paralyzing effects of overthinking and the compulsion to rely on too much information and too many data inputs to the everyday decisions of insurance leaders.

By Carol A. Williams

As an executive and leader of a property/casualty insurance carrier, you are responsible for making consequential decisions that impact policyholders, employees, credit ratings, regulators, investors and others.

Whether it concerns the company's strategic goals, a marketing strategy, what the post-COVID remote work policy should be or why the company is experiencing an upward trend on claims, your decisions will play a defining role in the future course of the company.

Putting deliberate thought into these types of decisions is an inherent expectation of the role of company executives, while possessing the skill of examining different perspectives and nuances of a problem or situation is a necessary quality of any type of leader, especially in today's world.

Executive coach and author Melody Wilding defines individuals with these traits as "sensitive strivers," and while they can be quite effective at processing complex information, this quality also comes with a major drawback.

Contemplation eventually turns into overthinking and, thus, causes the insufferable problem of analysis paralysis.

There can be countless reasons why executives and decision-makers struggle with this problem. Some of these reasons are outlined below, but an overarching reason can be found in the book "Decision Quality: Value Creation from Better Business Decisions," where the authors Jennifer Meyer, Carl Spetzler and Hannah Winter state: "All decisions are about the future, which is uncertain. Even with a high-quality decision, the outcome is not guaranteed. Since the only way to achieve value is through action, this discomfort must be overcome."

Analysis paralysis is a common problem, especially with the plethora of data available to help drive decisions. Let's use one of the examples mentioned above—your company's long-term remote work policy. Gathering data on productivity levels of in-office vs. remote work and comparing it against external data is a likely way to arrive at an informed decision.

Remaining in data gathering mode, especially when uncovering new areas to research, makes it easy to fall into the analysis paralysis trap.

Finding yourself (or others at the company) in this situation is frustrating, but it also exacerbates the possibility of a host of consequences like missed goals, a ratings downgrade or worse if left unchecked. This is especially the case in light of different and numerous challenges plaguing insurers today.

Fortunately, there are steps executives can begin taking immediately to address the challenging issue of analysis paralysis. Each step represents a common way insurance carrier executives experience analysis paralysis and actions that can be taken to prevent it or at least reduce its impacts.

1. Stop aiming for perfectionism. Whether a new product launch, marketing strategy or moving into a new market, every executive wants to be successful in their pursuits. However, when taken too far, it becomes an "all-or-nothing" mindset that can wind up preventing timely and effective decision-making.

To stop this mindset from creeping in, see if there are ways to break a decision into manageable chunks and separate out those parts that should take the highest priority. Doing this also allows you to identify the one thing you can do today to move the needle toward a goal.

When you are ready to launch a new internal initiative, do not think it has to be rolled out to the entire company. Choose a department where you can run a pilot to work out the kinks. Starting small like this can help overcome the nagging fears that keep many companies stuck.

The following idea, which entrepreneur and CEO of The ASK Method Company Ryan Levesque says is his mantra, speaks directly to this challenge: "You don't have to get it perfect, you just have to get it going." (Editor's Note: Some online sources attribute the idea to success coach and author Jack Canfield.)

Another quote attributed to former President Harry S. Truman also sums this

continued on next page

Carol A. Williams is the Chief Executive Officer of Strategic Decision Solutions, a consultancy that has helped numerous P/C insurers address unique challenges to their success. Williams started her career in insurance and risk management with the Florida Office of Insurance Regulation nearly 20 years ago, more recently holding various ERM leadership positions for Citizens Property Insurance Corporation. At Strategic Decision Solutions, she focuses on helping carriers move beyond putting out fires to achieving strategic goals. Reach her at Carol@strategicdecisionsolutions.com.

continued from page 49

up well: "Imperfect action is better than perfect inaction."

2. Stop placing every decision on the same level. Which decision do you think is more important: the color palette on a marketing flyer or the language in a policy form? How many vacation days employees should receive or the company's main strategic goal for the year?

To put a decision in its proper place, Wilding suggests a "10/10/10" test where you consider how you will feel about a particular decision 10 weeks, 10 months and 10 years from now. Framing a decision like this can help you determine which ones are consequential and which are not. (Read the *CM* article, "Want Your Work and Life in Balance? Take a Long-Term View, Exec Coach Says," for another application of the 10/10/10 test.)

Another tactic is not worrying so much about what others will think. Soliciting advice is one thing, but trying to satisfy everyone all the time will lead you to analysis paralysis—satisfying no one at all.

3. Don't be afraid to go with your gut. Today's world, especially the world of insurance, is awash in data. This will only continue to grow in the years ahead. Whether it is internal policy or claims data or external data of storm patterns or industry financial trends, there is no shortage of ways to understand a particular issue from a quantitative perspective.

On the other hand, intuition or "going with your gut" uses past personal experiences and other knowledge gained to make the best call possible. You make decisions using your "gut" all the time without realizing it for small decisions. When blended with data and analytical thinking, intuition can be a powerful tool for more confident, better decisions on bigger topics.

Besides bringing your own intuition to the table, you can also lean on the wealth of experience at your disposal within your company. Whether from fellow executives, managers or even entry-level employees, everyone has a perspective to offer.

If you have an idea on changing how your company compensates agents or different ways to manage these relationships, you can lean on the experience and intuition of others for constructive feedback of your idea.

4. Prevent mental burnout by limiting the number of decisions you have to make. Making decisions can be mentally exhausting, especially when you consider that the average person makes 35,000 decisions a day, according to some estimates. When combined with the high-impact decisions P/C executives make daily, the ingredients for mental burnout become readily apparent.

Besides creating routines and delegating some decisions to others to conserve brainpower, you can also harness tools like the Daily Priority or "Eisenhower" matrix first developed by former supreme Allied Commander and U.S. President Dwight Eisenhower (prior page). A tool like this helps you visualize what you absolutely must decide today (tasks with deadlines or consequences), what you can put off, what to delegate (activities that don't require your skillset), and what is ultimately inconsequential.

Another tactic reframes decisions as opportunities. A decision tends to focus on choosing right or wrong, good or bad; an opportunity sounds more like an exciting journey or a new direction.

5. Place time boundaries around a decision. There is a concept known as Parkinson's Law that says that no matter how simple a task or decision is, we will take as long as we are allowed to make it. This condition is something "sensitive strivers" struggle with mightily.

If you have a week to kick around an idea, you will take a week even if the decision does not require that.

Setting deadlines can be helpful for combating this, but what really can address this issue is to have an accountability partner. Commonly used in exercise regimens, you can communicate deadlines to a designated person and encourage a culture of gentle reminders and encouragement when something is due.

Another method of accountability is proactively communicating expected decisions with impacted parties. Without these sorts of boundaries or constraints, it is likely the decision will continue to get postponed, and analysis paralysis quickly sets in.

Remember, you are not alone.

Analysis paralysis is something everyone encounters, even the most seasoned executives and professionals, and it is even more of an issue with certain personalities like sensitive strivers.

This dreadful problem can be a major roadblock for insurers and other companies, keeping them from ultimately reaching their goals. As an executive, being mindful of analysis paralysis for yourself and your people, while also taking steps like the ones outlined above, can be tremendously helpful in alleviating a troublesome burden and ensuring your company's success. CM

Read More

In the accompanying article, Carol Williams puts her interpretation on five tips for better decision-making drawn from the work of Melody Wilding, an executive coach and author, making the idea relevant to P/C insurance leaders and decision-makers.

Wilding's article featuring these tips, "How to Stop Overthinking Everything," was published in Harvard Business Review, Feb. 10, 2021

Williams, who is CEO of Strategic Decision Solutions, is a regular contributor to *Carrier Management*.

Other articles that Williams has written for *Carrier Management* in this series include:

- *Stop the Deluge: Why Leaders Should Rethink Project Management*
- *Carpe Futurum: How to Reorient Your Company's View of Risk*
- *How to Achieve Organizational Goals With Scenario Planning*
- *Taking a Growth Pause: Preparing for Long-Term Success*

From Pandemic to Cyber War,

Clear Policy Wording Is Key for Insurers

By Elizabeth Blosfield

Insurers and insureds alike agree that clear policy wording will be the path forward in dealing with concerns about cyber war in the wake of the Russia-Ukraine conflict. This isn't the first time in recent history that reworking policy language has been top-of-mind for the insurance industry, either.

"The pandemic has shown some ambiguities can exist in traditional policy wordings," said Jürgen Reinhart, chief underwriter for Cyber at Munich Re. "All of this underlines the importance for insurers to have clear wordings that are fit for purpose."

The structure of that policy language, however, is something on which insurers and insureds have struggled to find common ground.

These challenges recently came to light during the COVID-19 pandemic, which served as a wake-up call for the insurance industry in terms of how it approaches cover for non-damage business interruption (NDBI), wrote Alastair Speare-Cole, president and general manager of insurance for QOMPLX, in an article for *Carrier Management* at the beginning of last year.

This is because federal and state measures were enacted starting in March 2020 to reduce the spread of COVID-19, and with stay-at-home orders in place, many businesses sought compensation from their insurers under their business interruption policies. Chris Cheatham, product evangelist at Bold Penguin, and MIT Researcher Bryan Wilson wrote about this in a series of articles for *Carrier Management*, investigating the link between stay-at-home orders and numbers of business interruption insurance coverage lawsuits by state.

The insurance industry has largely denied most of these claims, citing virus-related

continued on next page

continued from page 51

exclusions, but this has led to an ongoing conversation about unclear policy language and even lawsuits being filed against insurers. Now, the industry is facing a similar challenge regarding the Russia-Ukraine conflict as the threat of cyber war looms.

"War is a prime example of a systemic risk that cannot be controlled and, therefore, needs to be excluded due to its ruinous potential," Reinhart said. "Typically, war is excluded in all major lines of business. This is true also for cyber insurance."

Munich Re is one of several insurers that has been rethinking cyber war exclusionary language on the back of what's happening in Ukraine. *Reuters* reported in April that the insurer is planning new wordings in cyber insurance policies to exclude war and avoid disputes over what is covered.

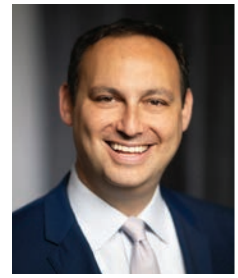
"Munich Re has been very active in forcing clear and effective, more standardized cyber war exclusions," Reinhart said. "This would be beneficial to all stakeholders."

AXIS Insurance is another insurer that has been paying close attention to the recent rhetoric around cyber war exclusions. Pete Vogt, the company's chief financial officer, said in its first-quarter 2022 earnings call AXIS feels good about the war exclusion in its cyber policies given the current landscape. "We think it's one of the best out there," he said.

Dan Trueman, the company's head of global cyber and technology, told *Carrier Management* that while war exclusions vary, AXIS is confident that its own is "clear and effective."

"Internally and externally, we continue to prioritize ensuring clear understanding around the terms of our exclusions, be that relating to war or infrastructure exclusions, and the importance of putting in place minimum standards across our book."

The Lloyd's Market Association has also been working to clarify its policy language around cyber war exclusions, recently releasing four model clauses to exclude coverage for acts of war from cyber insurance policies.



"When something catastrophic is happening, that's when you're supposed to be covered by your insurance, and then they come out and say, 'Oh, well, we can't pay for all this. It's too expensive.'"

Peter Halprin, Pasich LLP

"I mean, assessing risk situations is our core business," Lloyds Chief Financial Officer Burkhard Keese told *Carrier Management* in an April interview. "You need to do this in a really structured way. You need to ask what lines of business could be impacted by war."

Policyholder Pushback

Similar to what has played out during the pandemic, however, insurers are once again facing pushback from policyholders regarding exclusionary language.

"When something catastrophic is happening, that's when you're supposed to be covered by your insurance, and then they come out and say, 'Oh, well, we can't pay for all this. It's too expensive,'" said Peter Halprin, partner at law firm Pasich LLP. "So, what's the point, right? It's the same thing that policyholders are saying with the pandemic. [They're saying], 'I thought I bought business interruption coverage. My business was interrupted, and it's not covered.'"

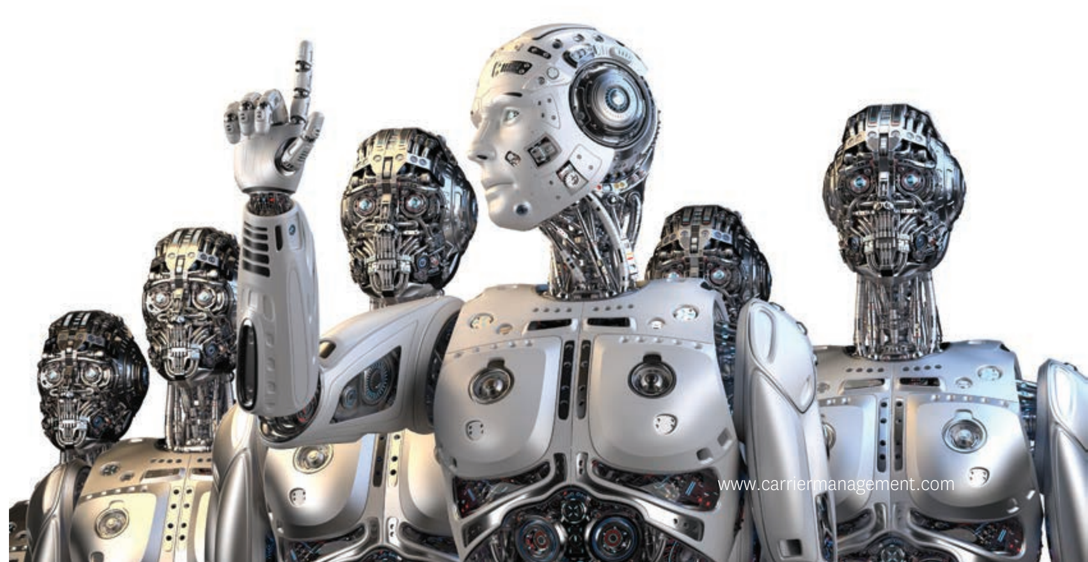
"Typically, war is excluded in all major lines of business. This is true also for cyber insurance."

Jürgen Reinhart, Munich Re

Some have said this could further a lack of trust between insurers and policyholders at a time when the industry is already struggling with reputational risk.

"What we haven't done well in COVID is that we haven't shown enough leadership as Lloyd's and as an industry," Keese said. "There are systemic losses, but the BI [business interruption] cases in the UK and in Australia were not entirely helpful for our brand."

Has the insurance industry learned from



“If we see a true cyber catastrophe on the order of a hundred billion or more losses or insured losses in one country, the government is going to step in, regardless of whether there’s any scheme in place in advance.”

Jon Bateman, Carnegie Endowment for International Peace

“War is excluded. Political violence is not excluded. Therefore, you need to go through the thousands of [policies] you have and really assess where is the exposure? And are losses reported?”

Burkhard Keese, Lloyd’s

“Policy wording can differ across policies and insureds, but generally speaking, a formal declaration of war is likely to trigger the war exclusion that is present in most insurance policies.”

Gerry Glombicki, Fitch Ratings

the pandemic in time to apply these lessons to recent concerns about cyber war? Halprin isn’t sure.

“I think that insurers have a difficult task ahead of them because if they want to take a hard line on cyber crime and cyber incidents where things are murky, I think they risk shooting themselves in the foot on growing this market,” he said. “You want to encourage people into this market. You want to show that the product actually covers what it’s supposed to cover, and you want to give people confidence. To tighten exclusions and to raise costs and to increase deductibles and do all the things that we’re starting to see in the marketplace—those are mixed signals for consumers.”

Alexandra Roje, partner at law firm Lathrop GPM, echoed these thoughts, challenging the industry to think differently about coverage exclusions in the face of disaster or risk repeating the same cycle with policyholders again and again. “The cyber terror risk is real, but this really is part and parcel of the insurance business in that when they see a risk that they maybe didn’t anticipate, and they recognize that there’s coverage there, this is what happens,” she said. “It happens every time.”

The insurance industry, though, has remained firm that unprecedented disasters such as the COVID-19 pandemic and any potential act of cyber war are simply too big to insure.

“As was mentioned in our most recent earnings call, war exclusions have been in place across our cyber book for a long time and are one of the key tools we use to manage individual risk exposure and exposure to systemic risk,” Trueman said.

Government Backstop

Jon Bateman, a senior fellow in the cyber policy initiative of the Technology and International Affairs Program at the Carnegie Endowment for International Peace, said on a recent episode of *Insurance Journal’s* Insuring Cyber Podcast that exclusions could be especially helpful to the industry now as insurers are facing an unprecedented level of disruption.

“This outbreak of cyber war, if it does occur, is happening at the worst possible moment in financial terms for an industry that’s been pummeled by ransomware and more broadly by COVID and inflation and natural disasters around the world,” he said. “At a time of hardening cyber insurance markets, an outbreak of cyber war is in some ways the worst nightmare for insurers and reinsurers and could be a historic challenge to the marketplace.”

Reinhart agreed, adding that risks related to war should instead be taken on by the public sector. “Given that war is generally considered uninsurable, the risk needs to be retained by the economy,” he said.

Bateman said that a government backstop is one solution that could have positive implications for the insurance industry. For policyholders, government backstops can step in when insurance coverage runs out during a catastrophic incident, he said. Insurers struggling to find the line between insurable and uninsurable incidents can benefit, too, he added, knowing coverage up to a certain limit could be supported by additional capital in the marketplace.

“I see it as a potential win-win,” he said, noting that the government likely would

continued on next page

continued from page 53

step in to assist in the face of a truly catastrophic incident of cyber war anyway.

"If we see a true cyber catastrophe on the order of a hundred billion or more losses or insured losses in one country, the government is going to step in, regardless of whether there's any scheme in place in advance," he said. "We've seen this with Hurricane Katrina, with wildfires. If there's a huge catastrophe that devastates a locality or a broad sector of society, the Congress or another legislature will just need to come in and have some kind of emergency assistance. COVID is another example of that."

Lack of Uniformity

Although the insurance industry can draw similarities between the threat of cyber war and pandemic-related challenges, there are some key differences. Insurance Services Office forms providing a template for virus exclusions added some clarity for COVID-related business interruption claims, but one big problem in the case of cyber war is a lack of uniformity.

"There is no ISO form," Halprin said. "You're seeing tremendous variations in language. I think it makes it hard for the industry as a whole to kind of wrap its arms around this issue and say, 'Here is our definitive war exclusion that we're all going to use.'"

What's more, Bateman said affirmative or standalone cyber insurers have different incentives for enforcing their exclusions than property/casualty insurers or those facing silent cyber coverage.

"It's a fine line between state-sponsored and just rogue attack. It's just hard to tell, and I think that's really the key issue."

Alexandra Roje, Lathrop GPM

"Ambiguous policy language can also result in legal actions," said Gerry Glombicki, senior director in Fitch's U.S. insurance group.

Bateman added this creates a whole new set of challenges as different jurisdictions will have different precedents for settling these actions. That said, Glombicki maintained most policy wordings will be clear enough to exclude a formal declaration of war.

"Policy wording can differ across policies and insureds, but generally speaking, a formal declaration of war is likely to trigger the war exclusion that is present in most insurance policies," he said.

"I've been working in cybersecurity for more than 15 years, and the thing that you always thought was going to happen,… it doesn't quite happen like that."

Jake Olcott, BitSight

Ambiguous Attribution

Perhaps just as big of a challenge as unclear policy language is a lack of clarity around how cyber attacks are attributed, experts said.

"It's a fine line between state-sponsored and just rogue attacks," Roje said. "It's just hard to tell, and I think that's really the key issue."

Regarding the situation in Ukraine, this means it can be difficult to determine where cyber losses are stemming from, Keese said. "Were they coming from war or political violence?" he said. "War is excluded. Political violence is not excluded. Therefore, you need to go through the thousands of [policies] you have and really assess where is the exposure and are losses reported."

Even the term "cyber war" itself brings ambiguity, according to Bateman.

"'Cyber war' is one of those commonplace terms that is bandied around a lot by casual news coverage or even professionals, but it really lacks a clear definition," he said. The term "cyber

What Munich Re Is Saying

In terms of cyber, war is basically excluded; however, the insurance and reinsurance market has to deal with some ambiguity in existing exclusion language. There is a consensus that exposure stemming from war must be excluded also in cyber business. As a thought leader, Munich Re has worked with the industry on new clauses tackling the challenge of state-sponsored cyber attacks between conflicting nation-states, which are intended to be applied in the future. With respect to the current situation, we are not directly exposed to losses in Ukraine or Russia. However, there is a threat from cyber attacks that not only lead to losses in the countries party to the conflict but may also spill over with collateral damage virtually worldwide. But any losses would probably not accumulate to meaningful dimensions. Due to our efforts in eliminating systemic exposure from outage of critical infrastructure (i.e., telecommunication, the Internet and power supply), we are confident that our cyber book is already today protected from losses of such events.

“Internally and externally, we continue to prioritize ensuring clear understanding around the terms of our exclusions, be that relating to war or infrastructure exclusions, and the importance of putting in place minimum standards across our book.”

Dan Trueman, AXIS Insurance

war” can mean one of two things, Bateman explained. It could serve to define a nation-state attack in which one government hacks into another country in a way that is so damaging it is considered an act of war, or it could mean two countries are at war in a physical sense and cyber operations become a part of that war, similar to what’s happening now with Russia and Ukraine.

“It’s very hard in this environment to attribute events or vet the claims that are being made publicly, and it’s easy to jump to conclusions if there is some kind of cyber disruption that it must have something to do with the conflict in Ukraine,” he said. “So, the term ‘cyber war’ is very vague and unclear, and the reality of cyber war is very vague and unclear as well.”

Once again, this challenge could likely fall on the courts, Glombicki said, which presents its own set of difficulties. “One of the main challenges in a cyber attack is attribution of the attack,” he said. “Absent a credible admission by a sovereign nation, attribution would be left to the courts to decide, which is historically difficult.”

Likelihood of Cyber War

Despite talk about the heightened risk of cyber war given the conflict in Ukraine, what is the likelihood that it could actually happen?

The answer is, again, unclear.

“As is always the case in insurance, it would definitely depend on a number of specific factors,” Bateman said. “So, we have to admit that no one really knows the exactly likelihood.”

That said, Bateman said he believes the risk is greatly heightened right now.

“U.S. government has said in most of these warnings that there is no specific credible threat at this time against the United States, but that just means that we don’t have specific intelligence warning,” he said. “I personally believe that the threat of cyber attacks against U.S. infrastructure and other large-scale cyber disruptions in the United States is greatly, greatly elevated right now—maybe the highest that it’s been in history, actually.”

Jake Olcott, vice president of government affairs at cybersecurity ratings company BitSight, said this means companies, including insurers, need to recognize that cyber risk is real even for companies that aren’t intended targets.

“In the past, a company or an organization would say, ‘Well, it wasn’t an attack targeting me and, therefore, I was able to avoid damage or harm,” he said. “In the last five years, we’ve really realized just how integral the supply chain actually is to our own ability to do business. At this point, every attack—even an unintended attack on an organization—should be considered a direct impact if it affects our supply chain.”

Glombicki said that for insurers seeking to mitigate cyber risk, standalone cyber is more transparent than packaged cyber polices and that disciplined underwriting is imperative.

“Disciplined underwriters have a long-term advantage over carriers that have naïve capacity or a short-term focus,” he added.

One positive development Olcott has observed as the cyber insurance industry has matured is that carriers are starting to learn how to model cyber risks and gather data to understand how these could affect their portfolio.

“I think that data and analytics are increasingly playing a very important role in bringing awareness,” he said. “I think that there’s a lot more to do in this space, but I think data and analytics are increasingly driving that conversation forward.”

However, as is always the case in cyber, the risks remain everchanging no matter how much preparation is done. “I’ve been working in cybersecurity for more than 15 years,” he said, “and the thing that you always thought was going to happen,...it doesn’t quite happen like that.”

With this in mind, he said the most important thing for insurers to do is to be ready to respond quickly when an incident happens by understanding the risk areas within their own software and third-party vendors, as well as collaborating with insureds to identify problem areas.

“One of the problems that insurers have is that you can kind of stimulate the risk, but nobody’s 100 percent certain about where the next risk is coming from,” he said. “That is increasingly becoming the name of the game in cybersecurity. There’s always going to be another SolarWinds, another Microsoft Exchange, another Log4J. These incidents will persist, likely for eternity, but the ability to build a security program that can rapidly identify and respond to these things is going to be the difference between experiencing a significant material incident and not.” CM

To learn about the language of the Lloyd’s Market Association model clauses, read related article, “Russian Invasion of Ukraine, Cyberattacks, and War Exclusions in P/C Policies” by Vincent Vitkowsky, a partner in Gfeller Laurie LLP, on our sister website Insurance Journal and Vitkowsky’s Briefing Note on the New LMA War, Cyber War and Cyber Operation Exclusions for Cyber Insurance Policies.

4 EMERGING RISKS TO WATCH: Gun Liability, Subpar Building Codes and More

By Kimberly Tallon

In this edition of Risk Alerts: the shifting gun liability landscape, outdated building codes, and the possibility of a Cat 6 hurricane.

1. Gun manufacturers under fire.

The gun liability landscape is shifting, leaving insurers on the hook for multimillion-dollar verdicts, says Charlie Kingdollar in a recent article on HB Litigation Conferences.

"Insurers and reinsurers providing liability coverage for gun manufacturers did so believing that federal law protected gun manufacturers from liability arising from shootings under the federal Protection of Lawful Commerce in Arms Act (PLCAA). It seems likely that policy terms and conditions as well as pricing of the risk reflected that perceived liability protection," he writes.

But on Feb. 15, Remington Arms, which manufactures the Bushmaster AR15-style rifle, agreed to pay $73 million to settle a lawsuit filed by the families of nine of the victims of the 2012 Sandy Hook Elementary School shooting. That settlement will be paid by four of Remington's insurers, Kingdollar says.

The Connecticut plaintiffs filed their suit under the Connecticut Fair Trade Practices Act, alleging that the Bushmaster was a combat weapon and that Remington improperly marketed it to civilians. The Connecticut Supreme Court ruled that the federal PLCAA did have some carve-outs for state laws and declined Remington's request to dismiss the lawsuit.

Kingdollar says it seems likely the lawsuit will be used as a template by plaintiffs in other states that have similar statutes, which could result in burgeoning litigation against gun manufacturers. How many other types of firearms might be deemed "combat weapons"?

And will wholesalers and retailers also be found liable?

Source: "The Shifting Gun Liability Landscape: Plaintiffs Say Companies are Marketing Illegally, Insurers End Up Paying," HB Litigation Conferences/Charlie Kingdollar, 2022

2. Most states not enforcing up-to-date building codes.

A recent analysis by the Federal Emergency Management Agency (FEMA) revealed a widespread failure to protect people against windstorms and flooding through up-to-date building standards. In fact, when FEMA categorized each state based on the stringency of its building codes, 39 states ranked in the lowest category, according to a recent article in Scientific American.

The agency also rated each state on a 100-point scale. Ten states received a top rating, including California, Florida, New Jersey and New York, each with a score of 99. Meanwhile, 19 states received a score of 0, including some of the nation's most disaster-prone states such as Louisiana, North Carolina and Pennsylvania.

"It's really a dirty little secret that many communities that are highly prone to disasters don't put the codes in place to prepare and protect the communities," Leslie Chapman-Henderson, president of the Federal Alliance for Safe Homes, told Scientific American.

Building codes regulate new construction and major renovations, setting minimum standards for homes and commercial structures to withstand events such as hurricanes, floods and earthquakes.

"They're the single most important factor and predictive factor in whether or not a home can withstand a disaster," Chapman-Henderson said. She called FEMA's ratings "the gold standard."

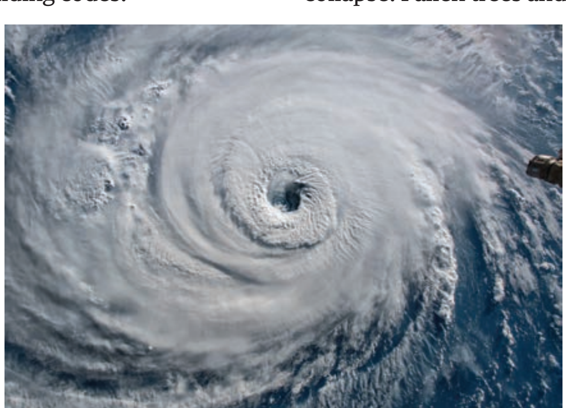
FEMA and groups such as the insurance industry and climate advocates have been urging states and localities to adopt the newest building codes for better protection against climate impacts.

Scientific American noted that FEMA's ratings differ from an analysis last year by the Insurance Institute for Business and Home Safety, a nonprofit research group funded by the insurance industry that studies disaster safety. The Institute rated 18 states on the Atlantic and Gulf coasts and gave Louisiana and North Carolina "good" ratings while New York received a "poor" score.

The differing results reflect the inconsistency in how observers evaluate state building codes.

FEMA ratings and scores are based on the percentage of communities in each state that are following the latest building codes. The ratings do not account for community population, which means they do not necessarily reflect the percentage of a state's residents facing hazard exposure from outdated building codes.

Source: "Most States Are Failing on Building Codes, FEMA Says," Scientific American, April 6, 2022



3. Prepare for Cat 6 hurricanes.

With real-world Atlantic hurricanes pushing the limits of the Saffir-Simpson Hurricane Wind Scale, Florida International University researchers think it's time to consider the possible damage that could be sustained from a Category 6 hurricane.

FIU's Extreme Events Institute already operates the 157-mph Wall of Wind hurricane simulator, where experimental results have been applied to the Florida Building Code. Now, the school is spearheading a $12.8 million National Science Foundation partnership to design a larger national testing facility capable of generating 200 mph winds. This Cat 6 project will incorporate a water basin that can churn up to 20 feet of storm surge.

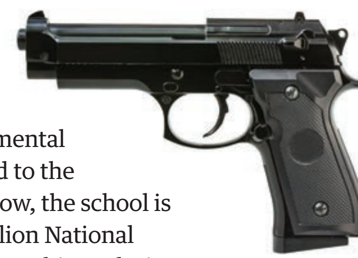
Design work began in January on the future simulator, which is technically named NICHE (National Full-Scale Testing Infrastructure for Community Hardening in Extreme Wind, Surge, and Wave Events).

"Storms with sustained wind speeds of 180 mph should no longer be viewed as extremely rare," said Richard Olson, director of FIU's Extreme Events Institute, in a 2019 FLORIDA TODAY guest column. Olson has lobbied for creation of a new Category 6 hurricane—with sustained wind speeds of 180 mph or higher—atop the five-level Saffir-Simpson Hurricane Wind Scale.

According to the scale, damage from a Category 5 hurricane—with sustained winds of 157 mph or higher—includes: "A high percentage of framed homes will be destroyed, with total roof failure and wall collapse. Fallen trees and power poles will isolate residential areas. Power outages will last for weeks to possibly months. Most of the area will be uninhabitable for weeks or months."

Imagine the damage that could be caused by a Cat 6.

Source: "Researchers Designing 'Cat 6' Hurricane Simulator With 200 mph Winds," Carrier Management/AP



4. Guns are top cause of death among children.

Firearms have surpassed motor vehicles as the leading cause of death among children and adolescents in the U.S., according to new federal data analyzed by researchers at the University of Michigan.

The U-M researchers co-authored an article published in The New England Journal of Medicine that quantifies the leading causes of death nationwide for individuals ages 1-19. Based on their analysis of data from the Centers for Disease Control and Prevention, firearm-related deaths among children and adolescents increased by 29 percent from 2019 to 2020.

More than 4,300 individuals ages 1-19 across the U.S. died as the result of firearms in 2020, which includes suicides, homicides and unintentional deaths. Motor vehicles caused about 3,900 fatalities among children and adolescents in 2020, while drug poisoning deaths increased by more than 83 percent—to more than 1,700 total deaths—to become the third-leading cause of death in this group.

More than 45,000 people across the U.S. died as the result of firearms in 2020, regardless of age—a more than 13 percent increase when compared to 2019. The national increase was driven largely by firearm homicide, which jumped more than 33 percent from 2019 to 2020, according to data analyzed by U-M researchers.

Source: "Firearms now the top cause of death among children, adolescents, U-M data analysis shows," University of Michigan, April 20, 2022; "Current Causes of Death in Children and Adolescents in the United States," The New England Journal of Medicine, May 19, 2022 CM

The Next Wave of Climate Change Litigation: Industrial Meat

Executive Summary: The oil and gas industry may be an obvious target for climate change litigation, but it's not the only large industrial target. Production of meat accounts for up to 20 percent of global emissions.

By Adam Grossman and Arianna Libera

Many insurers think they have climate casualty risk managed by virtue of avoiding writing the oil and gas industry or with limitations on their policies.

Climate casualty risk is broader than this view indicates, with the primary and secondary effects of climate change creating risks across most sectors of the economy. The importance of this fact is made more salient because the latest reports from the International Panel on Climate Change make clear that we are quickly approaching a point of no return and that, even if we meet the targets established in the Paris Climate Accords, our world may look vastly different than it does today.

Climate activists and those most directly affected by climate change have both attempted to hold the oil and gas industry accountable for their emissions of greenhouse gasses (GHG) that are the largest drivers of climate change. The first round of cases, however, resulted in defeat for the plaintiffs and anybody else trying to use federal public nuisance law in the U.S. against the oil and gas industry. The Supreme Court's decision in *Connecticut v. AEP* held that the Clean Air Act's regulatory scheme "displaced" the federal common law of public nuisance, leaving plaintiffs without a viable legal theory.

Plaintiffs have shifted their efforts to state courts, hoping to evade "displacement," and there are currently nearly two dozen cases pending in individual state courts alleging the same sort of public nuisance causes of action. If plaintiffs succeed at keeping these cases in state courts, they may be able to recover the costs of mitigating the effects of climate change.

Although the oil and gas industry remains the most obvious target for climate change litigation, it is far from the only large industrial target. Scientists have continued to elucidate the relative contribution of many industries to climate change and have recently determined that the agriculture industry is responsible for over one-third of global greenhouse gas emissions. Production of meat accounts for up to 20 percent of global emissions.

It comes as no surprise, then, that climate activists believe that reducing meat consumption is one of

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

Arianna Libera is the Environmental Scientist at Praedicat.

the keys to ameliorating climate change and that litigation against these industries may help their cause. These activists have some legal thought on their side. Daniel Walters from the University of Pennsylvania Law School published a law review article laying out how federal public nuisance lawsuits could be used to hold the meat industry responsible for their emissions, and why they would not be "displaced" (Article title: "Animal Agriculture Liability for Climatic Nuisance: A Path Forward for Climate Change Litigation?").

Walters' argument implies that state attorneys general will file lawsuits against the meat industry with gusto, but that supposition ignores that most Americans (the authors of this *Carrier Management* article included) enjoy a great steak and might not appreciate their representatives taking actions that would double or triple the cost of those steaks. Further examination of the practices involved in the industrial raising of livestock for meat fills in this gap.

First, the environmental impacts of raising livestock go far beyond GHG emissions. The meat industry uses an incredible amount of water, which is in short supply in parts of the U.S. The waste generated in livestock raising and processing also leads to water contamination, both from escaped animal waste and from carcasses. Water contamination isn't limited to the animals themselves, as the crops used to feed livestock are commonly grown using pesticides and fertilizers that often make their way into our waterways.

The health impacts of raising animals to eat are significant as well. Animals being raised in close quarters in large-scale feed operations (which have a documented history of mistreating their animals) are highly susceptible to infection and so they require treatments with antibiotics far more frequently than those raised on open pastures. The profligate use of antibiotics on farms, especially when they're used to promote growth instead of treating infections, has been a major driver of the emergence of antibiotic-resistant bacteria, which is both a public health crisis and a potent liability risk itself. (Related *CM* article by Praedicat executives, "Opioids Are the Next Tobacco. Are Antibiotics the Next Opioids? published May 25, 2021, http://carriermag.com/mbcwp)

Last, we note that producing 100 calories of beef requires the cow to eat roughly 3,300 calories of feed. Redirecting some of the 3,200 lost calories into human food would significantly reduce our GHG emissions—to a startling degree. Estimates suggest that we could get halfway to our emissions targets under the Paris Accords simply by growing and eating only the recommended amount of meat.

"Estimates suggest that we could get halfway to our emissions targets under the Paris Accords simply by growing and eating only the recommended amount of meat."

The benefits of catalyzing change in Americans' diets and in the way the meat industry operates may provide the reasons necessary for attorneys general to pursue the meat industry for their contributions to climate change and the chronic disease burden. We've devised two sets of scenarios that examine what those hypothetical lawsuits could look like.

We look first at climate-focused litigation as described by Walters.

We begin our estimation by modeling GHG emissions as far back as reliable estimates allow—to 1990—and estimate that the total cost to the economy of meat-related GHG is approximately $860 billion. This includes all on-farm emissions of carbon dioxide, methane and nitrous oxide and the other emissions directly linked to on-farm activity. This excludes a significant percentage of the total meat-related emissions, those due to electricity use and transportation, as those costs are likely unrecoverable under these legal theories.

Following Walters' logic, we envision that these costs could be spread up and down the entire production chain of meat—from the meatpacking companies all the way up through the crop growers themselves for the emissions related to growing animal food. Alternatively, it also seems likely that courts may not hold the crop growers responsible, leaving the meat growers and packers to pay all the costs.

continued on next page

Where's the Beef?

Investigating the potential costs of two types of potential lawsuits targeting the meat industry, Praedicat offers these estimates:

$860 Billion

The total cost to the economy of meat-related greenhouse gas emissions.

This estimate includes all on-farm emissions of carbon dioxide, methane and nitrous oxide, and the other emissions directly linked to on-farm activity.

The estimate excludes meat-related emissions related to electricity use and transportation.

$290 Billion - $1.4 Trillion

The costs to society of disease caused by red and processed meat consumption from 2005 to present.

These costs include both the direct healthcare costs and the indirect costs of the ailments linked to meat consumption.

Lawsuits seeking to recover these costs could extend beyond the meat industry to grocery stores and restaurants that promote and sell red meat, giving this potential litigation a large industrial footprint.

continued from page 59

As we noted above, climate change is not the only reason some lawyers think the meat industry is a promising litigation target. In 2013, before the opioid litigation began, a lawyer then at the Lewis & Clark Law School, Amanda Winalski, wrote a law review article laying out the case for suing the animal industry using the tactics of the tobacco litigation. (Article title: "Shocked, Horrified, Sickened: How Cigarettes (And The Lessons From The Tobacco Litigation) Can Take Years Off Animal-Based Food Industries")

Winalski claims that all the essential elements of the tobacco litigation could be applied to the meat and dairy industry, from the manipulation of research to claims of fraud and the initiation of fourth-party lawsuits, where state attorneys general attempt to recover the costs of medical treatment linked to meat consumption. Seeing the success of the opioid litigation reinforces the risk that they may pursue a "next opioids" lawsuit against commercial causes of public health problems, including the meat industry.

We estimate that from 2005 to the present, the costs to society of disease caused by red and processed meat consumption are $290 billion and $1.4 trillion, respectively. These costs include both the direct healthcare costs and the indirect costs of the ailments linked to meat consumption. These lawsuits have the potential to impose large costs on the meat industry but also on grocery stores and restaurants that promote and sell red meat, giving this potential litigation a large industrial footprint.

Because we expect plaintiffs to allege that the meat industry caused these harms over a span of 15-35 years, it's an important fact that many of the companies that would be targeted in meat litigation are written on the occurrence form. This presents significant stacking risk across legacy policies, especially with the 12- and 13-digit damages that plaintiffs could attempt to recover.

As we've seen with the opioid litigation, the insurance coverage questions are complex and are far from being settled in litigation. For example, the McKesson case that was recently decided in favor of their insurers may provide precedent that cuts against them here (*AIU Insurance Co v. McKesson Corp*, U.S. District Court for the Northern District of California, decided April 5, 2022). The insurers won based on their argument that McKesson's conduct was deliberate and therefore not insured, but the court also agreed with McKesson's argument that the policies would cover the damages sought due to bodily injury.

The hypothetical lawsuits described serve as a powerful reminder that climate change liability is not limited to the oil and gas industry. Tracking the emerging scientific literature that shows us who is responsible for climate change alongside the leading edge of legal thought gives us the information we need to properly manage the full range of climate casualty risk. CM

Risks and Non-Risks

The accompanying article is part of a series of regular articles that Praedicat experts 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.

Previous articles in the series include:

- Opioids Are the Next Tobacco. Are Antibiotics the Next Opioids?
- Are Forever Chemicals a Forever Problem for Insurers?
- PFAS Litigation Levels Already at Epic Proportions
- What Do You Do With Emerging Interest Risks?
- Emerging Damage: The Case of Melamine

All are available on the *CM* website.

Experts Say InsurTech Faces

'Leveling Out Period'

Amid Tighter Capital, Market Challenges

Executive Summary: InsurTech M&A activity is expected to pick up substantially throughout the remainder of the year, with InsurTechs on the acquiring side, said Bold Penguin's Chris Cheatham and Anthemis' Matthew Jones during a panel at *Carrier Management*'s 2022 InsurTech Summit.

By Elizabeth Blosfield

The InsurTech industry is facing what experts say is a "leveling out period" after investment in the space accelerated during the pandemic due to changes in the workplace and a greater focus on the use of technology.

"We're in this leveling out period," said Chris Cheatham, product evangelist at Bold Penguin. "I don't know what to call this period yet, because I think we're still seeing the market shake out. This period right now is different. This is not pandemic. I don't even know what to call it because I don't want to try to name this particular economic moment, but you're seeing valuations come down."

Cheatham was speaking during a session on mergers and acquisitions in InsurTech for *Carrier Management's* 2022 InsurTech Summit. He said he expects to see merger and acquisition activity pick up throughout the rest of this year as the marketplace grapples with this shift.

"I think there are a lot of people, honestly, probably trying to figure out their exit strategies right at this moment, right in the next few weeks, because things are looking interesting, I guess, is a nice way to put it," he said.

Matthew Jones, managing director at Anthemis, also spoke at the summit, adding that InsurTech weathered the pandemic well as excitement about opportunities in the space increased among fintech and InsurTech investors. However, he said this means InsurTechs that didn't consider acquisition opportunities during the past couple of years because of excess capital may be rethinking those decisions as the market has tightened.

"I might even go as far as to say that I know for a fact some are regretting saying no to some of those deals because they're now coming out of the pandemic period and capital isn't necessarily so available," Jones said.

To understand how things might play out in InsurTech throughout the remainder of 2022, Cheatham recommended examining what's happening in the public markets.

"We're seeing a realignment of software companies in the public markets, but also, I think it's going to filter down again to the private markets where valuations are also going to get pushed down to some degree," he said.

Indeed, Bloomberg reported in May that software companies that saw big returns during the first couple years of the pandemic have lost more than half of their value since hitting peaks last fall. Zoom Video Communications Inc., DocuSign Inc., Snowflake Inc. and Asana Inc. experienced double-digit gains during the pandemic before crashing this year, and while most of the market has seen a recent decline, computer application and data

continued on next page

continued from page 61

storage providers have seen sharper losses, according to Bloomberg's report.

"That's a macro indicator of how things are going in software, and InsurTech has clearly aligned themselves as a software engineering play," Cheatham said. "All of that's going to matter as we look at this. I think it all plays again into more M&A coming down the pike as an alternative to what was available."

With this in mind, both Cheatham and Jones said they expect InsurTech M&A activity to pick up substantially throughout the remainder of the year. "[It's] certainly a topic that has been right at the top of our agendas in all of our board meetings so far this year," Jones said. "I think it's fair to say the biggest trend is that we're expecting quite a lot of it."

Jones also observed that the industry is beginning to mature and has entered a second wave, with InsurTechs that were founded nearly a decade ago beginning to command healthy valuations.

"There are probably two categories of companies: the ones that really made it—those are the ones that are going to command healthy valuations and be doing the acquiring—and the ones that didn't quite make it. The ones that didn't quite reach escape velocity," he said. "I think each of those types of companies are going to be really interesting acquisition opportunities for the industry at large. I think as these companies continue to mature,...you get to the point where they have to make critical decisions about their future. I'd expect the pace to pick up."

InsurTechs as the Acquirers

Jones said that despite funding and market challenges, however, he expects to see more InsurTechs doing the acquiring than being acquired this year.

"If I had to choose, if I was told I can't pick both, I think I would probably say that I expect slightly more on the InsurTechs acquiring side," he said. "Again, if I think about board conversations, there's probably slightly more activity and more discussions around InsurTechs being acquirers than the other way around."

His advice for those InsurTechs is to understand the purpose of the acquisition prior to engaging in a deal. "I think the first thing that comes to mind is to ask yourself the question, 'What are we buying here?'" he said. "Are we trying to bring in talent that we otherwise couldn't recruit? Are we trying to bring in tech? Or both?"

These questions are best answered by keeping the same mindset as an early-stage startup—to understand how the company can grow and continue working toward its goals while taking on another company.

"M&A is a muscle," he said. "As you do more and more of these transactions, you will become better at them."

However, he also offered a word of caution. "I think too many organizations are perhaps tempted to engage in M&A because their competitors are," he said. "With such an active environment in this space, I think that's the challenge—making sure that you don't turn into a full-time M&A shop, which can be very tempting."

For InsurTechs seeking to acquire other InsurTechs, Cheatham said their focus should be all about the technology.

"You've got to dig in really hard on the tech [and] really understand what does it do, how well does it work," he said. "The tech becomes key here. I think it's really exciting but also potentially perilous to acquire for tech."

Although a much greater focus has been placed on tech and automation in the insurance industry during the past few years, partially due to pandemic shifts in workplace culture, Cheatham added that it's also important to remember insurance is a people-focused industry. "The people that are coming with that tech are super, super, super important because they've built that tech. They know where the bodies are buried. They will help you fix all that stuff that you need to fix," he said. "They'll help you scale it. They probably have ideas that never got executed upon. Making sure the people are happy as well is really important in these deals."

Coping With Challenges

Strategic acquisitions don't come without challenges, the speakers said.

"I think the thing I've realized in hindsight is every financing round or acquisition I went through looked dead at some point in the transaction," Cheatham said. "That is a horrible, horrible feeling."

He said the best way to navigate this difficult period is to fully commit to the acquisition and ensure proper communication with everyone involved.

"If you are going to do an acquisition, really commit in your brain to trying to make it happen, because if you're half in and half out, I don't think these things go particularly well because the other side will note that, and they want you to be wanting to do this, " he said. He added, "Keep track of your employees during the process because probably the information's going to get out that something's going on, and you have to manage that appropriately with your team. Make sure everyone's on board and talk them through the process."

Jones said that equally as important as transparent communication is honesty about the company's own objectives. "Be honest with yourself about what you're trying to achieve," he said. "Is it an exit full stop? Is it a new job? Is it a legacy for the technology that you've built?"

He added that time management is crucial as well. "Time kills deals," he said. "Outline a timeline, and do your very, very best to stick to it."

Offering his biggest piece of advice, Jones said: "Have a coping mechanism. A girlfriend, boyfriend, parent, best friend, someone that you can call because it's going to be stressful. Having a rock that you can rely on to be able to get through that process is really important." CM

How a Fintech Named Captain
Helps Homeowners Rebuild After Natural Disasters

Executive Summary: Demetrius Gray, the CEO and founder of Captain, spoke to *Carrier Management* soon after Captain announced that it emerged from stealth mode with $104 million in financing. Gray, a second-time founder who previously led a property damage prediction company known as WeatherCheck, explained what he learned from his prior experience: that alerting homeowners and carriers to hail or wind damage isn't enough to get victims of natural disasters back in their homes quickly. Contractors need funding and the incentives to make it happen.

By Susanne Sclafane

When former accountant and roofing contractor Demetrius Gray talks about his personal journey to become founder of a fintech with ties to the insurance industry, he doesn't dwell on the challenges for even a second.

Still, it can't be easy to move from the back office up to the top of a residential property—literally standing on the shingles—and then to dive into entrepreneurship with a mission to help homeowners recover quickly after natural disasters by advancing capital to building contractors, not to mention also founding the first Black-owned InsurTech meteorology company in the U.S. along the way.

"It's not that it's easy. But frankly, we don't have the hard part. The hard part is what the policyholder is having to do. They're having to put their life back together. That's much harder," he told *Carrier Management* when asked about that during a recent interview. "We keep that top of mind."

Gray lists contractor struggles next when ranking post-disaster difficulties. "Finally, then it's the insurer and us—[and] I would say probably the insurer has a harder time than we do because sometimes they have to say no."

Once an insurer says yes to a natural disaster claim from a home insurance policyholder, Gray's company, known as Captain, essentially buys the insurance receivable and loans capital to contractors to get the work done more quickly than had been the case in the past. Captain helps homeowners get their repairs completed within 30 days by advancing money to their contractors to pay for materials, labor and fees associated with repairs. For storms like Hurricane Katrina or Sandy, the average primary recovery period was 14 months, with smaller storms still requiring up to five months for repairs and financing, Captain said in a media statement in March in which the fintech also announced that it raised $104 million. The total financing consisted of $100 million in debt financing from CoVenture and a $4 million seed round backed by NFX, GGV Capital and Red Swan.

Captain®

"We're here to help grease the skids" as rebuilding moves forward, said Gray during a video interview, which was posted online as part of this publication's recent InsurTech Summit 2022 conference content. The theme of the Summit was

continued on next page

continued from page 63

"Towards a Safer, Smarter, Better World," and Captain fit that ESG focus in more ways than one.

"We consider ourselves, yes, a fintech but also a climate tech company," Gray said, stressing an idea that is top of mind for the property/casualty insurance industry: "We have to adapt to this new normal of the number of events."

"I'm from Western Kentucky. I grew up in a town that was impacted by the tornadoes," he said. "This ability to step into the moment is really what frankly gets us up every day," Gray said, referring to a team of 12 Captain employees with ambitions to be a staff of 50-75 by year-end. "There are just real, tangible benefits in being a part of that third wave that comes in after those events."

Also in that wave are contractors, "who frankly are doing more work because of our capital. They're growing. They're becoming more stable. They're refining their processes and becoming really, really great businesses," Gray said, giving the example of a small Black-owned contractor named DCD Construction in Ohio. With Captain buying insurance receivables, "it became easy for him. Easier," he said, referring to an impactful DEI follow-on effect of Captain's business proposition. Referring to a volatile period in terms of race relations, Gray said he is encouraged. "We're excited about that part—stabilizing some of these companies."

Aligning Incentives

Gray is a second-time tech company founder, having previously launched WeatherCheck, a Y-combinator company involved in weather damage prediction that monitored properties for hail damage. It was during his time running WeatherCheck that Gray recognized the need for a financial technology company like Captain, he said.

"What became apparent was that you could create really, really high-quality data around insurance losses, and predictive analytics around whether or not somebody had been impacted at a specific property. But if the financial incentives weren't actually aligned, then it really didn't make much sense to provide that high-quality data," he said, finding an answer to a question he kept coming back to—about why property damage claims were moving so slowly even as technology advanced.

"The epiphany that we really had was that there was actually nobody fronting any money, which was making the carriers sometimes squeamish about what's actually happening."

"We really have tried to help Wall Street meet Main Street so that there is liquidity, so that it's not the carrier taking the financial risk. They're certainly approving a claim. But [then Captain is] really helping the contractor through the process so he doesn't feel like he needs to supplement and do all these other things in the process of working these claims," he said, referring to the possibility that contractors feel they need to overbill to make a profit.

Gray walked *Carrier Management* through the post-disaster process for a homeowner needing a roof repair.

"Frankly, carriers have already done a very good job of getting to the insured at FNOL [first notice of loss]. The insured calls, files a claim, and the carrier is pretty good in most cases about getting to the insured person and making their initial adjustment. It's really after that moment that we have a long tail...Does the insured know what to do next? Have they identified a good contractor?"

With Captain in the mix, what happens next is that Captain lets the insurers know that the fintech has vetted a group of contracting firms to which it is willing to front money. "The insured then says, 'OK. We are actively going to let you handle our claim with this particular contractor...'"

Captain steps in to pay all the associated bills in accordance with the estimate the insurance company has already provided, Gray explained. That allows two things to happen that aren't happening today. "Now, Captain has all the metadata on what we actually spent money on. Then secondarily, [for] the insured, we've also mitigated all the potential lien risk that exists today," he said, explaining that if the contractor doesn't pay their material bill or laborers, then suppliers and subcontractors can lien the policyholder.

> "Really the intent here is to create a new institutional asset class of a claim-backed security, so that it's seen as something that is a sure bet."
>
> **Demetrius Gray, Captain**

Those potential risks pop up even though the insurance company is doing what it's supposed to do. Captain steps in to mitigate all that risk—"and as a result, we move the claim along faster, moving that 180-day claim down to right around 30."

Gray gave more insight into the reasons for speedier repairs as he answered the question of how Captain makes money through loans to contractors.

"We charge the contractor, and the contractor pays us out of his profits. We charge them 5 percent on the face value of every single claim, and we charge them that every 30 days...Now there's a complete incentive for the contractor to move quickly to get the work done... There's no longer a long tail because it's costing him more over time," he said.

"The best contractors in our cohort actually will move our claims up in front of the rest of their queue because they want those things done. That's really what Captain has done with this capital—[introduced] a really embedded finance approach to what we all know has been a long problem."

The technology part of the term fintech, he said, "is 100 percent about automating the underwriting of the actual insurance company's estimate up against contractor's market pricing. If you think about it in the context of what Xactimate does today, Xactimate scans the field and says, 'Periodically, we're going to get pricing' related to the cost of repair work,'" he said referring to well-known claims estimating software from Verisk. "What Captain says is, 'No, we have dynamic pricing right now,' and [then asks], 'Does our pricing across all of our contractors fit within the context of what that Xactimate estimate said?'"

Captain is in the position, then, to advise the contractor about whether working on the claim will produce a baseline level of profitability that the contractor needs.

"A lot of times I think there is certainly a game, a world in which contractors are trying to bill the insurance company for as much as possible," Gray said.

Captain advises against this and still puts contractors on the path to profitability. "We give this to them in our playbook for profitability," said Gray, who is an accountant by training and also once led a roofing company himself. Captain tells contractors, "You need a baseline, a number that you are willing to work from. If there are supplements beyond that, you really shouldn't pursue those because you've gotten the profitability that you need to make sure your company is growing well over time."

"Some of the challenge in the [repair] industry today is that they're not sure what level of profitability they're going to get from claim to claim. What Captain really does through its technology is say, 'Ah, OK. Yes. This does fit within your baseline level of profitability. Yes, you should do this claim and then move forward.'"

Gray added, "Contractors have a difficult job. They need to be heavily focused on doing a really, really great job on the work that they've been tasked to do...With Captain, they get to focus on that one thing. The administrative and clerical side of trying to make sure that the insurance company is billed at the right time and they get all the necessary documentation is something that Captain takes away from them so that they can focus."

Captain also does the legal due diligence for the contractor to make sure their contracts are fully enforceable in every single state. That means insureds benefit "because now they're getting all of the consumer protections, all of the things that maybe were omitted in these older three-ply contracts that are just sign-on-the-dotted-line" situations.

From InsurTech to Fintech

Beyond mitigating lien risk for policyholders, Gray envisions Captain evolving to a point where the fintech can give insureds more financial products to mitigate risk in the future. "When you think about things like deductible financing and insurance-backed warranties and non-structural warranties over the long run, those are the things that Captain is frankly interested in."

In that vein, Gray rejects a description of Captain as a "managed repair network" that people often suggest. "Really, no. We're a marketplace that's building the financial tech stack for disaster—frankly, all of the tools will be there to de-risk the transaction financially so that everybody's good."

Reflecting again on his experience with WeatherCheck, Gray said, "We certainly found that carriers do like to maintain an arm's length transaction with the policyholder—and regulators are requiring it. In a lot of ways, what Captain allows for the carrier to do is increase customer satisfaction while not having to maintain these ingrained and entrenched managed repair programs where they're taking on liability. But then [they are] also getting clarity into what is actually happening," he said, noting that Captain maintains a portal for carriers to go in and see progress information.

"How far along are they? Is the project done? They're invited into that immediately upon us getting the claim. Those insights, giving them metadata on [questions like], 'Is our insured good? Are they satisfied?'"

Part of WeatherCheck's mission as a damage prediction platform was to allow insurers to notify policyholders. "What we really found is that it really violated the fiduciary responsibility of the carrier to know which policyholders actually had valid claims because it screwed up the balance sheet in terms of having

continued on next page

continued from page 65

to reserve capital up against these potential losses," Gray said.

Captain's mission leverages the value of weather prediction data differently. "WeatherCheck's data will help power our underwriting in Captain, but moreover it will also help increase the overall deployment of capital up against losses. When we think about partnering with carriers down the road, it's about ensuring that we can feed the beast that is the capital markets, who are looking for ability to deploy capital," Gray said.

While WeatherCheck was mainly involved with hail claims, Gray confirmed that Captain is going to be involved with other perils, such as tornado and wildfire as well. "From a funding perspective, we are preparing for large and complex losses," he said, noting that Captain has already approved its first $1 million-plus wildfire claim for funding.

Carriers and Lenders

Asked to describe the challenges he's faced so far in building a fintech, Gray said "creating a path to communicate with carriers is always one of the hard parts. Depending on what carrier you're dealing with, it can really prolong the overall process."

"The thing I really generally want to say to most carriers is [that] we're here to make the process move faster. Don't get worried. Don't get trepidatious. Frankly, we don't want any of these to go to litigation. We don't want them to go to appraisal. We just want to get them [moving] forward because, frankly, it goes far better for us in the long run. And lenders have given us capital for this reason."

What about the lenders? How did Gray convince them that this is a good idea?

"The reality is that 80 percent of all claims are paid—80 percent. That's a really great risk," Gray said. "We're not really playing in the pool of the remaining 20.

"We're saying, 'Hey, for this 80 percent, we can improve satisfaction so much that really, frankly, we think we can actually have a knock-on effect on the remaining 20. Really the intent here is to create a new institutional asset class of a claim-backed security, so that it's seen as something that is a sure bet..."

> "I call it the last mile of insurance, which is the insurance deductible. It really is this thing that we have to figure out."

"That's how our financiers are looking at this, saying, 'Yes, in order for us to go through this next phase of this climate emergency that we're in, we're going to need to find alternative solutions for funding these events.'"

"Frankly, eventually we think that will supersede insurance and it will eventually transcend to federal government payments and the like."

The Last Mile: The Insurance Deductible

"There is a level of complexity that even goes beyond the carrier, as you start to deal with FEMA dollars, as you start to deal with local and state grants that insureds are receiving after a disaster, especially in the event of a total loss." Captain can step in there to guide disaster victims, too, Gray believes.

What else is on the horizon for Captain?

"There are so many financial products that don't exist yet," Gray said, following up on an earlier comment about insurance-backed home warranties and insuring deductibles. "When we think about the larger carrier relationship over the long haul, it is really [about] building out those financial products so that they're available for the policyholder at the point of sale, so that the carrier can feel comfortable that there's solid workmanship warranty behind the contractors."

Describing a potential gap insurance product that would cover insurance deductibles, the fintech founder confirmed that it's something Captain is interested in pursuing in the future. "I call it the last mile of insurance, which is the insurance deductible. It really is this thing that we have to figure out," he said, referring to the question of how to take away pressure off insureds who have deductibles averaging $1,000 or $2,500 on their homeowners policies.

Speaking on a Nov. 24, 2019 podcast posted online by Innovator's Edge and a separate Sept. 20, 2019 podcast published by FNO: InsureTech (both unaffiliated with CM), Gray suggested that increasing deductibles are "breaking the system" of post-disaster repair because they remove incentives for policyholders to further protect their properties—a situation that could eventually result in a trend in deteriorating the housing stock that P/C carriers have to underwrite. In fact, high deductibles can work against carrier goals as insureds seek cheaper contractors to minimize the amount of cash they have to lay out—a situation that parametric insurance solutions may be able to fix, he said during those 2019 online interviews.

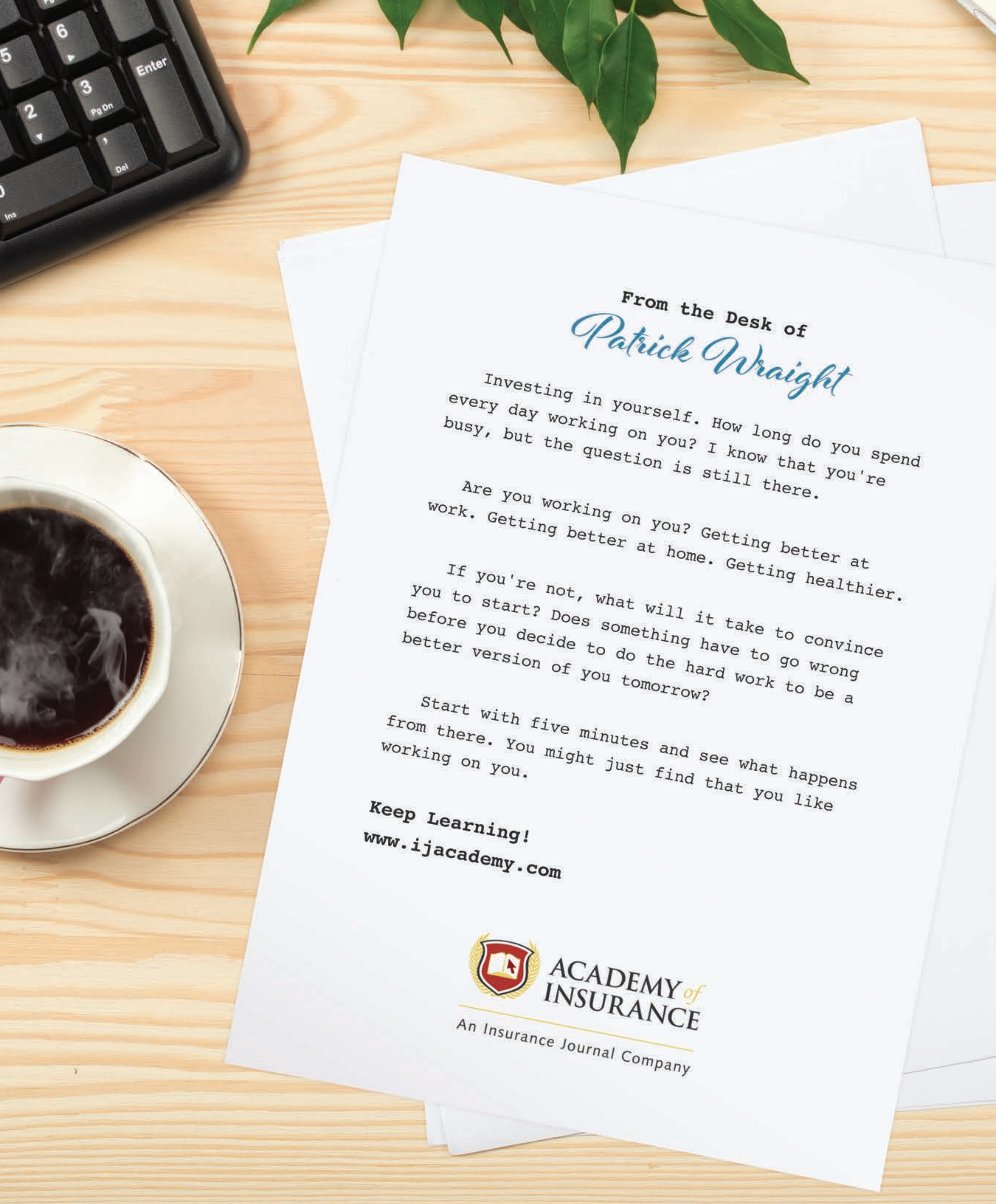
Speaking on the more recent CM video interview, Gray said he's thinking beyond the problems of insureds with large deductibles. "We're also looking even at underinsureds and folks who don't have insurance at. All of those things are on the table."

The name of the fintech sums up much of Gray's thinking overall on insurance claims. "What we think policyholders need is a Captain. Somebody to marshal the actual overall process post-claim."

"What we have to remember is that there are two sides to this contract that this policyholder is in: the insurer side, and then the policyholder side. So, what Captain really is about is really moving the policyholder through that process accordingly so that there's success."

"Nobody wants a dispute. Nobody wants the claim to be impaired. We really just want to get the policyholder whole. And that is the basis of the resilience work that we're doing."

(Online bonus article, "A Fintech Founder's Backstory: Who Is Demetrius Gray?") CM



From the Desk of

Patrick Wraight

Investing in yourself. How long do you spend every day working on you? I know that you're busy, but the question is still there.

Are you working on you? Getting better at work. Getting better at home. Getting healthier.

If you're not, what will it take to convince you to start? Does something have to go wrong before you decide to do the hard work to be a better version of you tomorrow?

Start with five minutes and see what happens from there. You might just find that you like working on you.

Keep Learning!

www.ijacademy.com

ACADEMY of INSURANCE

An Insurance Journal Company