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INSURANCE JOURNAL

THE NATIONAL PROPERTY CASUALTY MAGAZINE

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June 17, 2024 • Vol. 102 No. 11

Contents

Opening Note

Write the Editor: awells@insurancejournal.com

US P/C Insurers Investment Income

The U.S. property/casualty insurance segment's net investment income hit a record $73.9 billion in 2023, bolstered by the higher interest rate environment, according to a new AM Best report.

The Best's Special Report, "U.S. P/C Insurers Achieve Record Investment Income in 2023," reported a 1.4% increase in net investment income improvement over the previous year.

Net investment income in 2022 was skewed by a $10.8 billion intercompany distribution at a very large reinsurer, which flowed through net investment income, AM Best said.

Adjusted for this one-time transaction, the growth in the industry's net investment income would have been nearly 20% in 2023, the rating agency added.

The growth in investment income — an important factor in making up for poor underwriting results as a result of increased weather and catastrophe events — helped to partially offset unfavorable performance in lines of business such as auto and homeowners.

The U.S. homeowners insurance segment posted its worst underwriting results in over a decade in 2023, according to an analysis by S&P Global Market Intelligence.

The net combined ratio for the homeowners business, excluding policyholders' dividends, was 110.5 in 2023, the highest since 2011 (121.9).

Auto wasn't much better. Auto insurers posted a less-than-desirable combined ratio of 104.9 in 2023, but the result was about 7 points better than in the historically bad year of 2022, according to S&P Global Market Intelligence.

> **'Property/casualty carriers have had to balance their risk appetites with the need for higher returns when deciding on investment strategies in a rapidly changing economic landscape.'**

"Aggregate net underwriting income has been volatile in the last 10 years — and often negative across the industry — and so investment income remains vital to earnings," said Helen Andersen, industry analyst, AM Best. "Property/casualty carriers have had to balance their risk appetites with the need for higher returns when deciding on investment strategies in a rapidly changing economic landscape."

AM Best said the P/C industry has shifted to riskier assets (also known as alternative investments like real estate, hedge funds and/or private equity interests) in its portfolio in the search of higher yields, but the percentage of Schedule BA assets within the total portfolio dropped to 6.6% in 2023 from 8.1% in the previous year.

At the same time, the share of total stocks increased dramatically in 2023, to $667 billion from approximately $600 billion.

Stocks as a percentage of surplus increased by about 10 percentage points, to 70%, as growth in stock holdings outpaced growth in surplus.

Andrea Wells
V.P. of Content

INSURANCE JOURNAL

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American National Exiting Homeowners Insurance Market

By Chad Hemenway and Don Jergler

Following its announcement several months ago to leave the homeowners insurance business in nine states including California and Louisiana, American National appears to be exiting the line in all states. According to a letter sent to employees and other stakeholders, American National has "made the additional decision to exit the homeowners line of business in all remaining states."

The Galveston, Texas-based insurance group, which operates in all 50 states, began withdrawing its homeowners product from California, Louisiana, Arkansas, Colorado, Minnesota, Oklahoma, South Carolina, South Dakota and Washington in February. The exit from other states will be done in stages through the end of the year.

"Profitability concerns in homeowners are compelling given the significant and persistent underwriting losses over the last 10 years," said Matt Ostiguy, senior vice president and property/casualty chief operating officer of American National Holding Co., in the letter. The company will turn its P/C focus to the farm and ranch line of business, as well as certain commercial lines and a renters insurance program to achieve its goal of a combined ratio of 95, he added.

When reached for comment, a spokesperson confirmed American National had notified state regulators of the intent to withdraw from the homeowners insurance market in the original nine states.

"As we focus on expanding America National's core insurance operations and businesses, we remain committed to serving as a source of certainty for our clients," the spokesperson added.

American National ranks 7th in the country in farm and ranch, according to Ostiguy's letter. About 94% of P/C operating earnings have come from agricultural commercial business, and it has been a growing market for the insurer. The homeowners line is not a large business for American National Group. According to AM Best, annuity, life, and accident and health account for large majority of the group's net premiums.

Ostiguy's letter addressed the impact on the insurer's employees. He said the decision will affect staffing levels. Some team members will be reassigned to support the new growth initiatives.

American National became a subsidiary of Brookfield Reinsurance Ltd. in 2022 when Brookfield purchased insurer American National Group Inc. for about $5.1 billion in an all-cash deal. The company announced a comprehensive rebranding initiative to modernize its brand in 2023.

American National's move comes as the U.S. homeowners insurance segment posted its worst underwriting results in over a decade in 2023.

As of last July, American National Group had a Financial Strength Rating of A (Excellent) from AM Best, with a stable outlook. Fitch Ratings in May affirmed the A Insurer Financial Strength (IFS) ratings for American National. Fitch also maintained the 'BBB+' Long-Term Issuer Default Ratings (IDR) for the company with a stable rating outlook. S&P Global Ratings in May also affirmed American National's A Rating. IJ

Nationwide Pet Shedding 100,000 Policies

By Chad Hemenway

The leading pet insurer in the U.S. said it is dropping about 100,000 policies starting this spring, citing inflation in the cost of veterinary care.

Nationwide Pet, the leading provider of pet insurance for dogs, cats, birds and exotic animals, said May 29 that it needs to take underwriting actions to maintain long-term viability and profitability.

"Inflation in the cost of veterinary care and other factors have led to recent underwriting changes and plan availability in some states – difficult actions that are necessary to ensure a financially sustainable future for our pet insurance line of business," said a statement from the company.

Impacted policyholders will be notified in writing. The firm insures more than 1 million pets and is the first pet health insurance provider in the U.S. It said it has paid billions of dollars in claims over the last 40 years.

"Given the current environment, our rates will continue to be fair and appropriately priced for the plan, pet, and breed," Nationwide Pet said. "We are making these tough decisions now so that we can continue to be here for even more pets in the future."

Nationwide Pet said it will continue to expand its distribution network with new partnerships as well as the established relationships it has with Walmart, Petco and Unum. About a week prior to thedecision to reduce its pet insurance policy count, Nationwide Pet announced Joel Carnes as chief pet officer. Carnes served as vice president of Nationwide Pet's operational excellence team for the past two years.

In other pet insurance news, Chubb has acquired managing general agent Healthy Paws from Aon plc. Chubb had been the exclusive underwriter of the Healthy Paws' program for Aon since 2013. IJ

Figures

1 in 6

More than 5 million Texans, or one in six people in the state, live or work in an area susceptible to flooding, according to a draft of the state's first-ever flood plan. The Texas Tribune reported that the Texas Water Development Board's plan seeks to reduce the risk by recommending solutions to harden Texas against floods and rising sea levels. The board was required to create the plan in a 2019 state law passed in response to Hurricane Harvey.

$38,500

The amount Arthur Grand Technologies, an information technology firm in Ashburn, Virginia, will pay to settle claims that it discriminated by posting a job listing seeking white, U.S.-born candidates for an opening as a business analyst. The Justice Department said the company had listed the business analyst job online in March 2023, specifically seeking "Only Born US Citizens (White) who are local within 60 miles from Dallas, TX (Don't share with candidates)." In the settlement agreement, the company said the ad was posted by a "disgruntled recruiter."

Arthur Grand

3

CITIZENS
PROPERTY INSURANCE CORPORATION

The minimum number of appointments with authorized carriers Florida insurance agents must have before they can sell policies for the state-created Citizens Property Insurance Corp., starting July 1. That's the mandate laid down by Florida House Bill 1503, signed into law by Gov. Ron DeSantis. Previous law required only one appointment for agents.

$1.1 Million

The amount a jury awarded to an Idaho drag performer who accused a far-right blogger of defaming him when she falsely claimed he exposed himself to a crowd that included children during a Pride event in June 2022. The Kootenai County District Court jury unanimously found that Summer Bushnell defamed Post Falls resident Eric Posey, who uses the stage name Mona Liza Million, when she posted a doctored video of his performance with a blurred spot that she claimed covered his "fully exposed genitals," the Coeur D'Alene Press reported. In reality, the unedited video showed no indecent exposure, and prosecutors declined to file charges.

Declarations

First Amendment Rights

"Government officials cannot attempt to coerce private parties in order to punish or suppress views that the government disfavors."

— The U.S. Supreme Court declared in a unanimous opinion written by Justice Sonia Sotomayor, reviving a claim by the National Rifle Association (NRA) that a former New York regulator allegedly violated the organization's First Amendment rights by coercing insurers and banks to terminate their business relationships with the NRA in order to punish or suppress the NRA's gun rights advocacy.

Aerial Imagery Evidence

"Some of the aerial images that we've seen used to take adverse actions against policyholders barely identify the structure of the home, much less the detailed condition of the roof and whether it needs to be repaired or replaced."

— Pennsylvania Insurance Commissioner Michael Humphreys stated in a press release after the state's insurance department released a bulletin reminding insurers of their obligation to conduct a physical inspection to confirm the type and extent of damage to a roof supposedly evidenced by aerial imagery. The department said it has received consumer complaints regarding insurers using aerial imagery canceling or not renewing policies due to the condition of their roofs.

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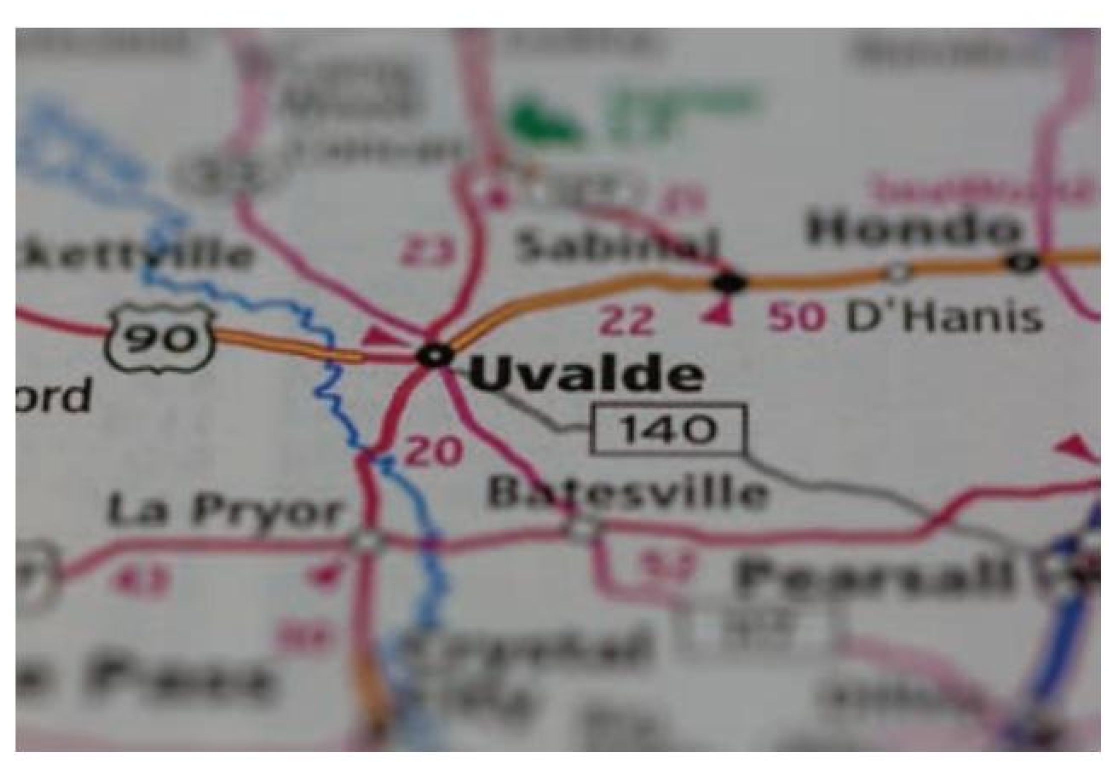
"This was an unprecedented impact on our wind fleet, and we have operated wind farms since 2004."

— MidAmerican Energy Company said in a statement after its Orient wind farm in Iowa suffered a direct hit from a powerful tornado that crumpled five of the massive, power-producing towers, including one that burst into flames. The wind farm recorded wind speeds of more than 100 mph as tornadoes approached just before the turbines were destroyed, the company said.

'Not in Agreement'

"We are not in agreement with the insurance companies' proposed increases. ... It is now necessary to hold a hearing to reach a resolution that will make the most financial sense for our residents and insurance companies."

— North Carolina Insurance Commissioner Mike Causey said in a statement after rejecting the NC Rate Bureau's request for an 83% average rate increase in mobile home fire policies and a 50% increase in mobile home casualty rates over the next three years. Causey scheduled a 2025 hearing date but it will likely be canceled if a compromise is negotiated. The last negotiated, final rate increase for mobile homes was 10% and 15%, in 2022.



Uvalde Lawsuits

"There is a direct line between the conduct of these companies and the Uvalde shooting. ... This three-headed monster knowingly exposed him to the weapon, conditioned him to see it as a tool to solve his problems and trained him to use it."

— Said Josh Koskoff, an attorney for families in Uvalde, Texas, who are suing Meta Platforms, which owns Instagram, and the maker of the video game Call of Duty over claims the companies bear responsibility for the May 24, 2022, shooting by the teenage gunman at Uvalde's Robb Elementary School. Nineteen children and two teachers were killed. The families also filed suit against Daniel Defense, which manufactured the AR-style rifle used in the shooting.

'Not a Game'

"This is not a game. ... We are working together for safer California, putting aside politics and making sure we do right for our communities."

— Said California Senate President Mike McGuire, a Democrat who represents the North Coast, after the state senate approved a bipartisan package of 15 bills that would increase penalties for organized crime rings, expand drug court programs, and close a legal loophole to make it easier to prosecute auto thefts. One proposal would require large online marketplaces — like eBay and Amazon — to verify the identities of sellers who make at least $5,000 profit in a year, in an attempt to shut down an easy way to sell stolen goods.

News & Markets

A.M. Best: Rapid Premium Growth Warrants Greater MGA Oversight

Though A.M. Best remains bullish on the delegated underwriting authority enterprises (DUAEs) market, it remains cautious of the risk managing general agents (MGAs) bring to insurers.

In its latest market segment report, the rating agency said “MGAs provide a cost-effective way for (re)insurers to cover niche or emerging risks for a fraction of the investment required for carriers to establish in-house expertise.”

MGAs may bind coverage, underwrite and price select risks, settle claims and bind reinsurance on behalf of an insurance company.

In 2023, direct premiums written (DPW) generated by MGAs grew 14.9% year-over-year to $81.4 billion. This followed robust growth of 19.5% in 2022 and 17% in 2021. Specialty, hard-to-place risks are driving business, the report noted, and the market is expected to grow due to new entrants into the insurance market.

Insurers employing a hybrid model have some programs managed by MGAs, with in-house underwriters managing other programs, the report stated.

“These hybrid relationships have helped grow premium market share generated through MGAs, with insurance carriers relying on MGA expertise for a large share of the distribution and underwriting for these programs,” AM Best said.

In addition, the report noted that MGAs act as a distribution channel for surplus lines business, “contributing to three consecutive years of double-digit premium growth.”

Strong customer relationships, robust frameworks for managing account information and monitoring performance and specialized expertise are markers of successful DUAEs.

“MGAs with specialized product or line of business knowledge have differentiated themselves in the market, providing carriers with risk management and governance infrastructure, in addition to underwriting and pricing acumen,” the report added.

Tokio Marine’s Philadelphia Indemnity Insurance Co. maintained its position as the insurer generating the highest direct premium written (DPW) among the top 20 U.S. property/casualty insurers using MGAs in 2023, the report found.

Ten insurers (including Philadelphia Indemnity) wrote more than $1 billion in 2023 DPW through affiliated or unaffiliated MGAs, an increase from only seven such entities in 2022.

A.M. Best cautions insurers that some MGAs have abused their authority — writing unprofitable business to increase commissions — and recommends carriers structure their relationships with DUAEs to include appropriate checks and balances.

Analysis of the U.S. P/C market for the years 2000 to 2022 revealed that the third leading cause of impairments was “due to affiliated programs.”

Prioritizing due diligence in selecting distribution partners, especially when delegating significant underwriting and pricing authority to DUAE partners is recommended.

“Stakeholders will need to take precautions to ensure that management and underwriting incentives are aligned to prevent excessive risk-taking at the expense of policyholders,” authors of the report added.

A strong enterprise risk management (ERM) program is recommended to protect against inherent risks provided through MGA affiliations.

Private equity (PE) funding for MGAs has grown in recent years and is another area of concern. PE investment allows insurers to capture market opportunities they might not otherwise capture, and because MGAs often require lower operating capital since they don’t underwrite risk directly, it can lead to higher returns on investment for PE firms.

Since PE firms typically exit their investments within a few years to realize better returns, MGAs may feel pressure to prioritize short-term growth over long-term sustainability or strategic initiatives, the report added. IJ

Nationwide's Chetan Kandhari Said the Company Is Working to Build a Bionic Workforce.

By Elizabeth Blosfield

Nationwide's Chetan Kandhari said the company is working to build a bionic workforce. Maybe that brings to mind robots, futuristic technology and sci-fi imagery, but Kandhari said no one should fear robots replacing humans. Bionic simply means that biological components are aided by technology or electronics, and he said this balance is key in driving the workforce at Nationwide forward with generative AI technology assisting human workers.

"One of the things that we think about in the notion of bionic is this augmented play between people and machines, and that's where the bionic word comes in," he said during Carrier Management's annual InsurTech Summit, held May 21. "It's how do you really commingle the two in a way to give excellent customer experience."

Kandhari is the chief innovation and digital officer at Nationwide, where he's responsible for leading the company's digital vision while creating new customer-focused products and services for members and partners. He said this work has been accelerated by the use of generative AI.

"What we can do with the bionic piece is combine and augment the intelligence of the human being with the human in the loop, along with this capability from the machines and with generative AI," he said.

Nationwide does this in multiple ways through front-office and back-office functions. He said generative AI is helpful for front-office functions such as customer service, conversations between wholesalers and advisers, internal sales and distribution, as well as back-office tasks such as human resources, legal considerations, risk management or IT coding. He said the company is even testing internal chatbots to assist staff members who seek additional training or are looking for quick resources.

Kandhari sees all of this contributing to a transformed relationship between insurers and their customers as humans and AI robots work together to "demystify" insurance, making it simpler and more efficient.

"If you think about it right now, how many people really understand insurance?" he said. "How much jargon is there in the insurance vernacular? So, imagine if you could just convert that into straightforward English for everybody to understand. Demystify it. Demystify these contracts that we have. I think the relationship between insureds — the protected and the protector — will become a lot easier. And I think people will understand the value of these products in a way that's better today."

This, in turn, will bring more trust to an industry that has struggled to win the trust of its consumers. "I think that will bring more trust to this industry which we know often is not as trusted," he said. "We might over time be able to be more competitive in our pricing of these products and that, ultimately, is I think better. It drives more economic value to the consumer."

Challenges Ahead

The road there will likely be paved with challenges. "We have challenges relative to bias and responsible AI. We have challenges for people believing in whether technology is giving the accurate information. We also have challenges with how do you fit this into your business process. I think getting the data right, getting the bias

Chetan Kandhari

out of our models, is going to be work cut out for us," he said.

He noted that Nationwide has worked to get on top of this by hiring a team of experts to ensure information from its generative AI models is accurate. "We deployed it to experts first who said whether the generation was correct or not correct," he said. "And over time, we would get feedback into the system."

One of the biggest challenges insurers must navigate when it comes to generative AI, Kandhari said, is fear. "There has been fear of many technologies that have been rolled out over decades and centuries. If you take a step back, there was a fear, when the personal computer came out, of job losses," he said. "But if we take a step back and think about what it's really done to society, it's really ramped up productivity … The technology age has ramped up productivity like nothing before, and I believe generative AI is going to be just like that."

That said, Kandhari believes the technology will change how the industry looks and will lead to a needed skills refresh as the type of work available to humans shifts. "I think it will, as always, lead the human population to higher-value, creative, empathic, decision-making type of work as opposed to rapid tasks," he said.

To tackle this challenge, Nationwide employed a red team, blue team approach. "One of the things that we do as a blue team is really thinking about opportunities and how to drive forward," he said, while the red team is focused on challenges and risks that could come from those opportunities.

"So, the two of them really work together," he said. "And the other thing that we have within those two teams is our HR processes and our people. So, one thing we're trying to understand is, do we need new skill sets to really work with the machines and the human beings? Do we need people who understand the concept of prompt engineering?"

Advice to Business Leaders

He encouraged other company leaders to ensure they're implementing generative AI within the context of a real business problem that human workers couldn't have solved as efficiently on their own. He also said business leaders need to understand that it's going to be a journey.

"To put something up quickly is easy. But to put something up quickly, accurately and at scale requires a lot of work, and it requires intentionality in all of your business processes, your experience, design, the augmented intelligence, all of those components," Kandhari said. "I would say get yourself some momentum with two or three use cases. Don't try to boil the ocean." He added that leaders implementing generative AI within their business strategy should also stay true to their principles and create a goal for their organization that they can return to again and again.

"And then probably, finally, make sure you've got good checkpoints," he said, "to know that the value is being obtained relative to these use cases."

Ultimately, he said he believes the use of generative AI to build a bionic workforce will work best when humans are kept in the loop.

"Empathy cannot be replaced. Human beings give more confidence when people are at a loss," he said. "The decision is still in the hands of the human."

The full conversation is available on demand at www.theinsurtechsummit.com.

Blosfield is the deputy editor of Carrier Management, a Wells Media Group publication.

Supreme Court Backs NRA in First Amendment Claim Against New York Regulator

By Andrew G. Simpson

The U.S. Supreme Court has revived a claim by the National Rifle Association (NRA) that a former New York regulator allegedly violated the organization's First Amendment rights by coercing insurers and banks to terminate their business relationships with the NRA in order to punish or suppress the NRA's gun rights advocacy.

"Government officials cannot attempt to coerce private parties in order to punish or suppress views that the government disfavors," the court declared in a unanimous opinion written by Justice Sonia Sotomayor.

The Supreme Court found the NRA's allegations that former New York Department of Financial Services Superintendent Maria T. Vullo violated its First Amendment rights to be plausible. The high court vacated a 2022 judgment of the U. S. Court of Appeals for the Second Circuit that dismissed the NRA's claims. It remanded the case back to the circuit court for further proceedings.

The NRA claimed that Vullo infringed its free speech rights when she spoke out against gun violence and issued a press release and guidance letters urging banks and insurance companies in New York to consider the "reputational risks" of doing business with gun groups including the NRA. The gun advocacy organization argued that Vullo's statements and letters constituted "threats" of adverse action if insurers or banks failed to support her efforts to "stifle the NRA's speech" and to retaliate against the NRA.

The case stems from events in 2018 after Vullo's department investigated the NRA-sponsored Carry Guard insurance programs offered by broker Lockton and insurer Chubb and similar programs underwritten by Lloyd's of London. The DFS investigation concluded that the NRA-endorsed programs violated New York insurance law by providing insurance coverage for intentional criminal acts. DFS also found that the NRA promoted Carry Guard without an insurance producer license.

As a result of the DFS investigation, Lloyd's of London, Chubb and Lockton signed consent decrees agreeing to discontinue the sale of the NRA insurance plans in New York. Each consent decree expressly allowed the entities to continue to do business with the NRA.

Former New York Department of Financial Services Superintendent Maria T. Vullo

Vullo was quoted in the press release as stating that "business can lead the way and bring about the kind of positive social change needed to minimize the chance that we will witness more of these senseless tragedies," and urging "all insurance companies and banks doing business in New York to join the companies that have already discontinued their arrangements with the NRA, and to take prompt actions to manage these risks and promote public health and safety."

Vullo's comments came two months after the shooting at Marjory Stoneman Douglas High School in Parkland, Florida, where 17 high school students and staff were killed. In the wake of the shooting, the NRA and other gun promotion groups faced intense backlash.

A panel of the Second U.S. Circuit Court of Appeals ruled in September 2022 that Vullo was within her rights as a regulator and that she was entitled to qualified immunity for speaking out as she did. The federal appeals court said that NRA's First Amendment claims rested on whether Vullo's statements were "implied threats to employ coercive state power to stifle protected speech." Circuit Judge Denny Chin, writing for the three-judge panel, found that was not the case and that Vullo's words "speak for themselves, and they cannot reasonably be construed as being unconstitutionally threatening or coercive."

The NRA appealed to the Supreme Court that has now rejected that appeals court approach, concluding that the NRA plausibly alleged a First Amendment claim.

"While a government official can share her views freely and criticize particular beliefs in the hopes of persuading others, she may not use the power of her office to punish or suppress disfavored expression," the high court stated, adding that the First Amendment prohibits government officials from relying on the "threat of invoking legal sanctions and other means of coercion . . . to achieve the suppression" of disfavored speech."

As DFS superintendent, Vullo had direct regulatory and enforcement authority over all insurance companies and financial service institutions doing business in New York.

The court said Vullo's communications with the DFS-regulated entities made clear she wanted Lloyd's to disassociate from all gun groups, although there was no indication that such groups had unlawful insurance policies similar to the NRA's. Vullo also told the Lloyd's executives she would "focus" her enforcement actions "solely" on the syndicates with ties to the

NRA, “and ignore other syndicates writing similar policies.”

The Supreme Court said the “message was loud and clear” that Lloyd’s could avoid liability for unrelated infractions if it aided DFS’s campaign against gun groups by ending its business relationships with them. Vullo’s alleged communications, the court found — whether seen as a threat or as an inducement — “were reasonably understood as coercive.”

The court said NRA’s other allegations concerning Vullo’s guidance and communications reinforce the NRA’s First Amendment claim. The high court criticized the Second Circuit’s conclusion that they were “examples of permissible government speech” and “legitimate enforcement action,” finding that the circuit court could only reach this conclusion by taking the allegations in isolation and failing to draw reasonable inferences in the NRA’s favor.

Vullo claimed that the NRA’s position, if accepted, would stifle government speech and hamper legitimate enforcement efforts, but the Supreme Court said its conclusion simply reaffirms the general principle that where the complaint plausibly alleges coercive threats aimed at punishing or suppressing disfavored speech, the plaintiff states a First Amendment claim.

“Nothing in this case immunizes the NRA from regulation nor prevents government officials from condemning disfavored views. The takeaway is that the First Amendment prohibits government officials from wielding their power selectively to punish or suppress speech, directly or (as alleged here) through private intermediaries,” the court stated.

The American Civil Liberties Union provided legal representation for the NRA in the appeal.

Reaction

A lawyer for the NRA called the ruling “a landmark victory for the NRA and all who care about our First Amendment freedom.” The attorney, William A. Brewer, added that the opinion confirms that “New York government officials abused the power of their office to silence a political enemy.”

Vullo’s attorney, Neal Katyal, said the ruling required the Supreme Court to treat the “NRA’s untested allegations as true even though these allegations have no evidentiary merit.”

Katyal said the NRA’s allegations about the Lloyd’s meetings are false, and that Vullo “did not threaten, coerce or retaliate against anyone.” He said he believes that the Second Circuit, which threw out the lawsuit on qualified immunity grounds before, will reaffirm Vullo’s claim of qualified immunity. The Supreme Court did not address the immunity issue.

Business Moves

National

American Coastal Insurance, Interboro Insurance, Forza Insurance Holdings

American Coastal Insurance Corp. (ACIC) has agreed to sell its subsidiary Interboro Insurance Co., a New York domiciled insurer, to Forza Insurance Holdings, a Houston-based firm that funds insurance organizations serving coastal property owners.

Forza will expand its coastal coverage by acquiring 100% of the issued and outstanding stock of Interboro.

Closing is subject to the approval of the New York Department of Financial Services.

ACIC had indicated it had a buyer for Interboro last November, at which time Interboro's book value was approximately $23 million.

The transaction completes the run-off of ACIC's personal lines portfolio and allows ACIC to focus on its commercial specialty property portfolio in Florida.

Located on Long Island, New York, Interboro writes homeowners insurance in New York through 450 independent brokers. Interboro is also licensed to write business in South Carolina, Louisiana, Alabama and Washington, D.C.

Interboro's personal lines homeowners and fire insurance products are written exclusively in New York, with approximately 18,700 policies and $34 million of premium in-force.

Concurrently, Interboro entered into program and claims administration agreements with SageSure, a managing general agent specializing in coastal residential and commercial property insurance.

East

King Insurance Partners, Marcus Insurance

Florida-headquartered King Insurance Partners has acquired Marcus Insurance, an independent agency based in Wethersfield, Connecticut.

The terms were not disclosed.

Founded in 1941, Marcus Insurance is a family-run agency with Mitch Marcus as president, and Zach Marcus as vice president. The agency offers personal and commercial insurance and benefits.

Marcus is King's third agency in Connecticut. It also has locations in Avon and Essex.

Relation Insurance Services, Elite Insurance Agency

California-based Relation Insurance Services has acquired Elite Insurance Agency Inc.

Elite, based in Brooklyn, New York, offers employee benefits, commercial insurance, and high-net-worth personal insurance. Owner Yechiel Bromberg will continue managing that office as part of Relation.

Terms of the transaction were not disclosed.

Bromberg said Relation's "expertise and broad network of carrier relationships" will allow his agency to offer clients the "best options for coverage that fits their needs."

Relation Insurance Services is ranked by Insurance Journal within the top 25 largest agencies in the country by revenue and has approximately 1,350 employees across more than 137 locations nationwide.

Privately-held Relation is backed by Aquiline Capital Partners, a private equity firm based in New York and London.

Midwest

Risk Strategies, Silveus Insurance Group

Risk Strategies acquired Silveus Insurance Group Inc. (Silveus).

Silveus, an Indiana-based broker, dates back to 1940 and is the country's largest independent specialty provider of crop insurance.

Terms of the deal were not provided.

Based in Warsaw, Indiana, Silveus is widely recognized nationwide for its deep expertise and understanding of both federal and private products available to growers to reduce their risk exposures.

The firm is the industry leader in private product development, selling a variety of private and federal insurance products.

The firm's client base is geographically diverse, spanning 40 states, and ranges from small, five-acre farms to some of the nation's largest corporate farming operations.

Inszone, ISU Coverall Insurance Group

Inszone Insurance Services announced the acquisition of ISU Coverall Insurance Group, a prominent full-service insurance broker serving the Chicago area.

Founded in 2013 by Casey Brennan, ISU Coverall offers personal, commercial and life insurance.

Sacramento, California-based Inszone is an insurance brokerage firm that provides property/casualty insurance and employee benefits solutions. The firm has 65 locations across California, Arizona, Colorado, Idaho, Illinois, Indiana, Kansas, Michigan, Missouri, Nevada, New Mexico, Oklahoma, Oregon, Texas, Utah and Washington.

Arthur J. Gallagher, CCI Surety

Arthur J. Gallagher & Co. announced that its U.S. wholesale brokerage, binding authority and programs division, Risk Placement Services Inc. (RPS), has acquired Golden Valley, Minnesota-based CCI Surety Inc.

Terms of the transaction were not disclosed.

Founded by Michael Williams and led by Jeremy Crawford, CCI Surety is a managing general underwriter (MGU) specializing in wholesale contract and commercial surety bonds for retail agents throughout the U.S.

Crawford and the CCI Surety team will remain in their current location under the direction of Matt Lynch, head of RPS' national binding operations.

South Central

Inszone, JHC Insurance Agency, T Blackwell Insurance Group

Sacramento, California-based Inszone Insurance Services acquired the JHC Insurance Agency Inc., an independent insurance agency serving the Victoria, Texas, community and beyond.

Rooted in the values of independence and client-focused service, JHC Insurance Agency has become a key player in the insurance sector of the Victoria community. The agency specializes in evaluating clients' insurance needs and designing customized insurance programs to meet those needs.

Inszone Insurance Services also acquired T Blackwell Insurance Group, an agency based in Garden Ridge, Texas.

Founded by Tracey Blackwell in 2012, T Blackwell Insurance Group has carved a niche in personal lines insurance, offering a spectrum of services from home and auto to life insurance.

Relation Insurance Services, First Insurance

Relation Insurance Services acquired the assets of First Insurance an Affiliate of FirstBank Inc.

The transaction went into effect on April 1; terms of the deal were not disclosed.

First Insurance, based in Durant, Oklahoma, offers commercial and personal insurance with specialties in farm and ranch.

Relation Insurance said in an announcement it is actively seeking partnerships to expand its offerings, industry expertise, and geographic footprint.

Southeast

The Liberty Co., Ayers Brackfield Insurance

The Liberty Co. insurance brokers, based in Gainesville, Florida, continues to expand with the addition of Ayers Brackfield Insurance in Knoxville, Tennessee.

ABI, in business since 1992, has operations in 18 states, offering personal and commercial lines of insurance products. Kristi Brackfield, owner of ABI, called it a strategic move that will allow the agency to expand its offerings to clients.

Terms of the deal were not provided.

Brown & Brown, Public Entities of America

A part of Brown & Brown's wholesale insurance group has acquired Public Entities of America LLC, a brokerage based in Alpharetta, Georgia, that caters to the public sector and risk management marketplace.

PEA will now be part of Apex Insurance Agency, which is part of Bridge Specialty Group, B&B's wholesale platform. Brown & Brown is based in Daytona Beach, Florida, and has expanded through acquisitions in recent years.

The PEA team will join the Apex agency and work with leaders Apex Vice President Michelle Hill, and with Karl Snearer, Apex president and regional leader for Bridge Specialty.

PEA said it has several hundred public sector clients, including small communities, large municipalities, counties, public schools and utilities.

West

Mercury Insurance, Tokio Marine America, Trans Pacific Insurance

Los Angeles-based Mercury Insurance announced a plan to assume 12,556 home policies of Tokio Marine America (TMA) and its subsidiary, Trans Pacific Insurance Co. (TPIC). The policies represent premiums of $11.3 million.

TMA offers personal lines insurance only in California and writes only a small percentage of the state's market. The company announced in April that it would be exiting personal lines in the state in July because it determined it cannot "sustainably support" such a small segment of personal lines business given the cost of updating information technology systems.

TMA's and TPIC's exit has no impact on any other Tokio Marine Group company, and the company will continue writing commercial coverage for businesses in California and across the country, according to an announcement.

Mercury Insurance offers personal auto, homeowners, and renters insurance directly to consumers and through independent agents in Arizona, California, Georgia, Illinois, Nevada, New Jersey, New York, Oklahoma, Texas and Virginia, as well as auto insurance in Florida.

TMA sells commercial property/casualty insurance products in all 50 states, Puerto Rico, and the District of Columbia.

Crest Insurance Group, Crossroads Insurance Services

Crest Insurance Group acquired trucking and transportation specialist Crossroads Insurance Services in Henderson, Nevada.

Crest said its Henderson location will become the hub of Crest's trucking and transportation division and will provide the logistical base to expand the agency's services to existing Nevada clients.

With the acquisition, Frank Maglalang, Crossroads' founder, with more than 30 years of experience in transportation and trucking insurance has joined Crest.

Crest is licensed in 50 states, with a physical presence in Arizona, California, Colorado, and Wyoming. The firm has more than 250 employees.

Inszone, Nam International Insurance Services

Sacramento, California-based Inszone Insurance Services acquired Nam International Insurance Services Inc. in Fremont, California.

Nam was founded in March 2003 by Parvinder Janda to serve the insurance needs of individuals and businesses in the Fremont area. IJ

People

National

FM Global's board of directors named President and CEO **Malcolm C. Roberts** chair of the board. Roberts succeeds **Thomas A. Lawson**, former president and CEO of FM Global, who served as chair since 2018.

Roberts joined FM Global, headquartered in Johnston, Rhode Island, in 1995 as a loss prevention consultant in London. In August 2021, Roberts was named president and elected to the board of directors. He began as CEO on Jan. 1, 2022.

Beazley appointed **Melissa Carmichael** head of U.S. cyber. She is based in New York.


Melissa Carmichael

Carmichael joins from Aon, where she most recently held the role of managing director, specialty and middle market leader. Prior to this she spent more than 16 years at Marsh where she went on to become managing director, NY FINPRO practice leader.


Anne Rappa

Marsh McLennan Agency, headquartered in New York, appointed **Anne Rappa** to the newly created position of fine arts and specie leader.

Rappa joins Marsh McLennan Agency from Aon's Huntington T. Block Insurance Agency, a fine arts insurance broker, where she was most recently a senior vice president. She has nearly 30 years of experience in the fine arts insurance field.

East


Henry Watkins

New York's **St. John's University** appointed **Henry "Hank" Watkins Jr.**, regional director and president of Lloyd's Americas, as executive director and associate dean of the Maurice R. Greenberg School of Risk Management, Insurance and Actuarial Science (GSRM) at The Peter J. Tobin College of Business.

Watkins assumes his new role on November 1, replacing Brandon W. Sweitzer, who has served as dean of the Greenberg School since 2011 and who is retiring from the position.

Watkins served for 15 years at Lloyd's Americas. He has more than 43 years of experience in the global property/casualty insurance industry.


Terry Grindle

Former owner **Terry Grindle** has retired from **The Roland Grindle Agency**, a division of Brown, Holmes & Milliken in Bucksport, Maine.

Grindle spent nearly 50 years in the insurance industry. His grandfather, Ivor Grindle, founded the agency in 1937. The agency was sold to Cross Insurance in 2016 and sold again in 2019, becoming a division of Brown, Holmes & Milliken while operating under the Roland Grindle name.

Brown & Riding, headquartered in Dallas, hired **Rina Visconti** as a senior vice president and broker in its national casualty practice.

Based in New York, Visconti has over 27 years of experience in the insurance industry, specializing in construction. She most recently served as a broker at CRC Insurance Services.

Holden Strub joined **Alliant Insurance Services**, headquartered in Irvine, California, as a producer within its national employee benefits group. Strub is based out of Alliant's east region.

Before joining Alliant, Strub was a brand account manager for Corestream and an account project manager for Vancery.

John Bell joined Alliant as vice president within its employee benefits group. Bell's will support clients in the Northeast with benefit selection, employee enrollment efforts, and the onboarding process.

Before coming to Alliant, Bell served as sales manager at Roofing Rochester, as an associate broker at Keller Williams Realty Inc., sales director at US Employee Benefits Services Group and strategic benefits consultant at Brown & Brown Insurance.

Midwest

RT Specialty, headquartered in Chicago, promoted six to leadership roles in its environmental and construction professional practice.


Hanna Altomare

Hannah Altomare was promoted to consultant. Altomare joined RT ECP six years ago. She previously served as commercial lines account manager at Dash & Love Inc. and as a senior associate claim constant at Conner Strong and Buckelew.


Tim Prosser

Tim Prosser has been promoted to assistant vice president and will continue to lead RT ECP's southeast region. Before joining RT, he was an underwriter at RLI Insurance Co.


Drew Rothman

Drew Rothman was promoted to assistant vice president. He will continue to lead the southwest region. Before joining RT, he was an AE lines claims manager at Beazley and an attorney at Andrew Moore & Associates and Powell Trachtman Logan Carrle & Lombardo P.C.


Joseph Buono

Joseph Buono was promoted to assistant vice president. Buono has been with the RT ECP team for nearly 15 years. Before joining RT, he was an account manager at HUB and Bart Proud Insurance.


David Slaughehoup

David Slaugenhoup has been promoted to senior vice president. He joined the RT ECP team in 2013 after working as an environmental consultant at Kleinfelder.

Joe Reynolds has been promoted to executive vice president.

Before joining RT ECP in 2018, he served as vice president-architects and engineers product head at Hiscox and vice president-design professional liability at XL Catlin.


Joe Reynolds

CRC Group, headquartered in Honolulu, hired **Andrew Weinberg** as an underwriting team leader specializing in transportation. Weinberg is based in CRC's Minneapolis office.


Andrew Weinberg

Before joining CRC Group, Weinberg served as an underwriter at Burns & Wilcox and a commercial transportation specialist with The Paladin Group.

Huntington Bancshares Inc., parent company of The Huntington National Bank, headquartered in Columbus, Ohio, appointed **Angie Klett** as president of Huntington Insurance Inc.


Angie Klett

Current president Mary Beth Sullivan is retiring July 1 after nearly 20 years of service at Huntington.

Klett most recently served as senior vice president of corporate development at Nationwide Insurance, where she led mergers and acquisitions, ventures, and strategic partnerships.

South Central

IMA Financial Group Inc., headquartered in Denver, named **John Mizell** a director within IMA Houston's energy and marine practice.


John Mizell

Before joining IMA, Mizell led McGriff Insurance Services Inc.'s Houston office as executive vice president and energy and marine practice leader.

XPT Specialty added **Suzette Torres** as vice president of personal lines.

With a career spanning more than 15 years in the industry, Torres previously served as managing director at Burns & Wilcox and vice president, underwriting leader, and senior vice president at AmWINS Group.


Suzette Torres

West

Risk Strategies, based in Boston, named **Bryan Newman** private client services leader for the West region.

Newman has more than 15 years of experience. Most recently, he was the field marketing director for Cincinnati Insurance.

The Liberty Company Insurance Brokers named **Neal Rubin** senior vice president, benefits. Rubin is based in Irvine, California.

Rubin has more than 40 years of experience in the Southern California employee benefits sector. He spent seven years as vice president at Millennium Corporate Solutions and previously served as a consultant at Reliant Reinsurance Company, vice president at CBIZ and president at Planned Health Services.


Neal Rubin

Liberty is headquartered in Gainesville, Florida.

Specialty wholesaler **Capitola Insurance** in California completed its rebranding to **Flow Specialty** and added new leadership.

David Derigiotis has been named president of brokerage and head of insurance. Derigiotis has 20 years of specialty insurance industry experience.

BenefitMall named **Sam Patton** benefits sales executive for Colorado.


Sam Patton

Patton most recently served as an executive disability benefits consultant with Unum.

BenefitMall also added **Xavier Montes** to its individual and senior division (ISD) as broker sales executive for California.


Xavier Montes

Montes is based in Whittier, California.

Montes has over 25 years of experience in the insurance industry. He most recently served as a broker sales executive at Kaiser Permanente.

BenefitMall is headquartered in Dallas, Texas.

Lynn Roberts joined the employee benefits group in the Gold River, California, office of LP Insurance Services LLC.


Lynn Roberts

Roberts has over 30 years of industry experience and most recently worked as a benefits consultant at OneDigital.

LP Insurance is headquartered in Reno, Nevada.

AMERIND, headquartered in Bernalillo, New Mexico, named **Sheryl Sattler** chief financial officer.

Sattler is an advisor and strategic partner to the company's leadership team and oversees finance, human resources, IT and corporate communications.

Sattler has more than 35 years of experience in the financial and insurance industries. She was most recently assistant divisional controller at Trean Corp.

Andy Anguis joined **Crest Insurance Group** as a commercial lines broker in its Chandler, Arizona, office.

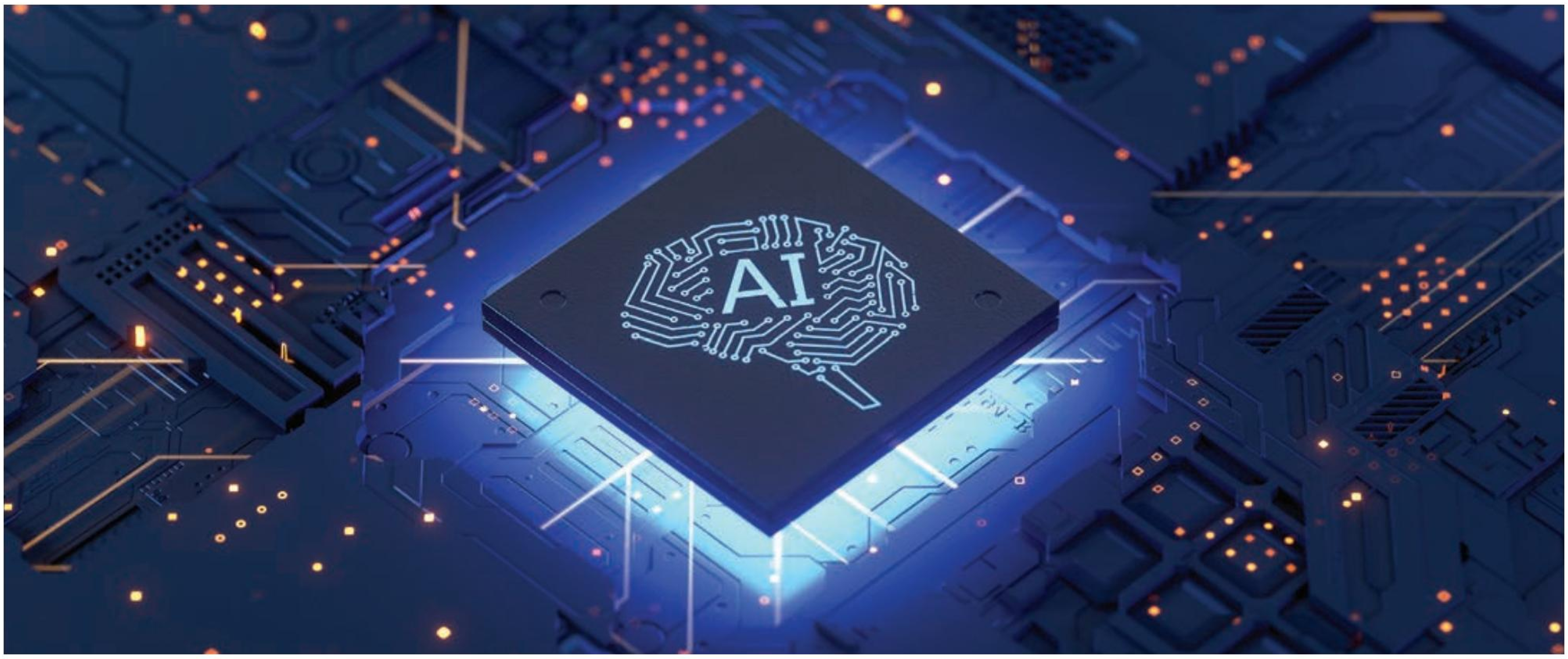

Andy Anguis

Anguis has 25 years of insurance industry experience. He most recently served as vice president of sales, personal lines, at Arthur J. Gallagher (U.S.) LLC.

Crest is based in Tucson, Arizona. IJ

Where the AI Risks Are:

Swiss Re's Top 10 Ranking by Industry



By Susanne Sclafane

The insurance industry came in sixth in a ranking of 10 major industries based on current AI risk, and seventh based on future risk, with healthcare replacing IT as the most exposed sector in the next 10 years.

The rankings appeared in a new white paper from Swiss Re Institute titled, "Tech-tonic shifts: How AI could change industry risk landscapes," which highlights the opportunities for insurers to cover AI risks of those industries more exposed today and in the 2032-2034 time frame with existing policies and with new products targeting specific AI risks such as algorithmic underperformance.

"Providing AI risk solutions is a significant opportunity for the [insurance] industry. It is also a potential vulnerability, particularly when AI risks accumulate unseen within insurers' portfolios," says the white paper, which shows the insurance industry's own AI risk ranking moving only slightly and in a favorable direction — from a sixth-place ranking currently to seventh place in the next decade.

Meanwhile, AI risks will grow for many sectors they cover, such as mobility and transportation and healthcare, the analysis shows. The table below, summarizing Swiss Re's AI Risk rankings at a high level, shows that only the IT and other services (retail/hospitality/legal) sectors exhibit more favorable ranking changes than insurance in the future.

The white paper itself provides much more detail, indicating severity and frequency risk rankings for each of the 10 industry groups. In addition, for six of the industries analyzed, the white paper shows the contribution of each of six specific risks related to the use of artificial intelligence: data bias, cyber, algorithmic and performance risk, ethical lapses, intellectual property and privacy risks.

Key findings include these:

- Across industries, while risks such as ethics, bias and privacy are prominent in the short term, over the longer term, performance risk will grow in importance in terms of frequency.
- IP risks are currently the most severe loss category — "likely associated with the use of generative AI and copyright material" — but over the longer term, Swiss Re expects the single most severe risk to be one of performance as AI becomes embedded across a wide range of industries. Think "vehicles, manufacturing plants, crop modeling, consumer chatbot interfaces or any manner of other uses" when gauging potential future performance risk, the white paper suggests.

Health, Mobility Industries Getting Riskier

Swiss Re Institute: Analysis of AI Risk by Industry

	AI Risk Rank per Swiss Re		
	Current 2024-25	Future 2032-34	Change in Rank
IT services	1	4	3
Energy and utilities	2	3	1
Health and pharma	3	1	-2
Other services (retail, hospitality, legal)	4	10	6
Mobility and transportation	5	2	-3
Financial and insurance services	6	7	1
Government and education	7	6	-1
Manufacturing	8	8	0
Media and communications	9	5	-4
Agriculture, food and beverages	10	9	-1

Source: Swiss Re Institute report, "Tech-tonic shifts: How AI could change industry risk landscapes

• Frequency risk is currently concentrated in a few sectors, with the IT sector in the lead, followed by the government and education sector and then media. Currently, more than half of the risk flow (55%) falls to the technology sector, which "is reflective of the sector's 'first mover' status" in developing AI technology and putting it to use.

• Within the next 8-10 years, when AI is being used extensively across a range of industries, frequency risk will be more evenly distributed, but the health and pharma sector will edge out IT slightly in terms of frequency and overall risk.

• Severity of incidents is currently highest in the energy and utilities sector, reflecting the critical nature of infrastructure, even though frequency is low (ranked ninth out of the 10 industries). That's set to change with the energy sector's severity ranking falling to fifth place in the next decade, but frequency risk is growing "as smart grid technologies powered by AI increasingly come on stream to support net zero transition," Swiss Re said. The white paper indicates a third-place overall and frequency risk rank for the sector in the 2032-2034 time frame.

• Health and pharmaceuticals is the second most severely impacted sector today, and AI risk severity will remain high for the sector in the next decade (with potentially high-dollar losses for bodily injury and professional liability). This will be exacerbated by a rise in frequency, Swiss Re Institute says, noting that a high number of applications in the healthcare value chain could use AI in the future, pushing the sector up to the first-place spot on all three scores — frequency, severity and overall.

Bias in pharmaceutical development as well as AI diagnoses (performance risks) are among the specific risks to watch when covering insureds in this sector, the white paper notes.

• Self-driving cars are set to drive AI risk rankings higher for the mobility and transportation sector, the white paper notes. Contributing to a higher risk ranking — a second place overall risk ranking for the next decade versus a fifth place ranking today — is a 66% jump in the severity score for algorithmic and performance risk calculated by Swiss Re.

Coverage Insights

A detailed loss severity matrix for all 10 industry sectors shows that the financial and insurance services sector will have lower severity scores for every risk type in the future versus the current level of risk. In both periods, algorithmic, IP and bias risks are the top three contributors to AI risk severity scores for financial and insurance companies.

Meanwhile, the insurance industry has an important role to play in addressing AI-related risks and helping build the digital trust needed to harness the full potential of emerging technologies. "Providing risk protection products and services for those vulnerabilities" potentially created by AI "is the business of insurers," the white paper states.

The newest coverages to address AI risks are AI performance guarantees including offerings from Armilla Assurance. Armilla Assurance offers verification and assessment of AI model quality, and since late 2023 has been offering performance warranty products backed by Swiss Re, Greenlight Re and Chaucer, indemnifying the performance of AI models.

But there may also be coverage under existing policies, the paper suggests, noting that AI's failure to perform could "spill over into property damage," for example. As for other risks, IP infringements may fall under professional lines, and data bias may fuel liability claims.

The white paper later references "silent AI risk," noting that when traditional insurance lines neither specifically include nor exclude coverage for AI-triggered events, this could have "potentially serious consequences for accumulation risks in insurance portfolios." (The white paper promises more information on silent AI risk as the focus of an upcoming Swiss Re Institute publication.)

The paper also notes that while cyber insurance already exists as a possible coverage of cyber risks related to AI, cyber risk scored lowest in terms of both frequency and severity across industries in the current environment and for severity in the future environment. "We only have limited past experience of AI-targeting attacks," the paper says, providing one explanation, also adding "our forward-looking data does not include illegal activity."

"If cyber criminals come to target AI systems in the same way they target non-AI digital systems, the risk could be significantly higher," the paper suggests. "One can imagine the damage that could be caused by, for example, hacking the AI of an autonomous car fleet, let alone the use of AI as a hostile attack weapon."

Methodology for Scores and Rankings

To develop the rankings, Swiss Re isolated six specific risks related to the use of artificial intelligence: data bias, cyber, algorithmic and performance risk, ethical lapses, intellectual property and privacy risks. Using a text mining approach, Swiss Re mined data on historical events from the OECD AI Incidents Monitor (which identifies AI incidents in global media sources) and forecasted forward-looking views for each industry referencing the PATENTSCOPE database of the World Intellectual Property Organization.

The paper notes that Swiss Re Institute analysts used a combination of 22 AI technology terms along with industry-specific keywords to classify the patents by relevant industries, resulting in a total of 41,742 AI-relevant patents (granted between January 2022 and March 2024) being used for the analysis.

For its investigation of the current risk landscape, Swiss Re notes that the OECD AI Incident Monitor provided a database of 13,398 incidents since 2014 available after cleaning the data. IJ

Sclafane is the executive editor of Carrier Management, a publication of Wells Media Group serving property/casualty insurance carrier executives. She is a media professional with deep background in the P/C insurance industry. Her prior experience includes 14 years as a casualty actuary.

Umbrella Liability:

The Triple Upsell Possibility for Personal Lines Clients

When it comes to most of the personal lines market, it's pretty straightforward. A person buys a car, and they need insurance. A person buys a home or rents an apartment, and they need insurance. Often, they can benefit from the marketing device we call bundling because they have both. Is that all that the insurance consumer needs? Could they benefit from some additional risk management?

By Patrick Wraight

What About an Umbrella Policy?

You're probably aware, but just in case you aren't, an umbrella policy is a liability policy designed to go over other liability policies to provide additional insurance for underlying coverages and potentially provide coverage for events that may be excluded or not anticipated by the underlying coverage.

You might be wondering why you should even attempt to sell personal umbrella policies, especially since most insureds aren't walking through the door, begging to buy more insurance. That's a fair question and here are a few thoughts.

It's a triple upsell opportunity.

Because an umbrella policy provides additional insurance above other policies, we have to consider what other policies it's going over. In the personal umbrella market, we are specifically looking at the personal auto and homeowners (renters' contents or condominium unit owners') policies.

Opening up the conversation about an umbrella policy allows you to discuss liability limits on those other two policies. A personal umbrella policy will require a minimum limit of insurance for all underlying policies. The insured who is carrying a $100,000 auto liability limit may have to upgrade to $300,000 to qualify for an umbrella. The same applies to their homeowners liability limit.

The client who is interested in a conversation about a personal umbrella policy may not be as price sensitive as other clients, but the other side of the coin is that liability insurance tends to be less expensive compared with what they are getting. For them, the money spent on the increased auto and homeowners limits added to the umbrella limit is money well spent because it provides an additional layer of protection.

Cost of Liability Risk

Today's liability exposures are higher.

You've probably noticed that everything is more expensive today. This is not new, but it is something that clients are particularly focused on lately. This truth then puts us in a potentially uncomfortable position. The insured is already likely paying more than they used to for their insurance and now you're asking them to pay even more for the policies that they already have and buy a new policy on top of everything else. But there are some good reasons to make the ask.

Liability claims are going up. I was involved in an auto accident several years ago. The other party hired an attorney and sent my insurance company a demand letter for my policy limit. They probably did some digging and realized that I didn't have much else. My company responded with an offer of $5,000.

I didn't hear much for a little while so I called to find out what had happened. Turned out that they were happy with the $5,000.

‘You might be wondering why you should even attempt to sell personal umbrella policies, especially since most insureds aren’t walking through the door, begging to buy more insurance.’

It’s a little more complicated than that today. If the accident causes significant enough bodily injury or property damage, the demand letter could be much higher. The highways are littered with billboards shouting the high-dollar judgments that certain attorneys have gotten their clients. Depending on all of the facts of the case, the demand letter could be much higher than the liability limit and the insured could be personally responsible to make up the difference between the judgment and the limit of insurance.

If the client ends up with a judgment against them that exceeds their limits, that puts the rest of their assets at risk. This goes back to why we buy insurance in the first place. Insurance is there to pay for

claims that we cannot afford on our own and to protect our assets from the potential of being lost in a judgment.

Personal umbrella insurance isn’t as exciting as cyber coverage. It’s not as ubiquitous as homeowners or auto insurance. But umbrella coverage is a key part of a client’s personal risk management strategy and should be considered a part of their protection package. IJ

Wraight, CIC, CRM, AU, is director of Insurance Journal’s Academy of Insurance. He can be reached at pwraight@ijacademy.com.

Survey: Mid-Market Leaders Peg Cyber, Economy and Regulation as Top Concerns

By Jahna Jacobson

Business leaders place cybersecurity, the economy, regulatory challenges and global instability among their top concerns for the coming year, fueled by factors such as AI, climate change, nuclear verdicts and political unrest.

That's according to the annual Marsh McLennan Agency Business Insurance Trends report, which offers insights into the evolving risk landscape experienced by middle-market business leaders across the United States.

Cybersecurity and AI

While 52% of leaders say technology developments like AI, advanced imaging, data analytics, automation will lead to new challenges for their business, 93% also say it would lead to new opportunities.

For example, integrating AI technologies can significantly enhance an organization's ability to detect, respond to, and mitigate cyber threats more effectively. At the same time, risks can include the emergence of AI-driven attacks and the inadvertent release of sensitive information when data is shared with third parties.

Regulatory Risks

Key themes of improving the employee experience, data privacy and business accountability are pervasive across the 2024 compliance landscape.

Examples gaining momentum include worker classification, Biometric Information Privacy Act (BIPA) laws, regulatory frameworks to enhance environmental transparency and accountability, and workers' compensation insurance presumptions.

Workforce Risk

New ways of working, changing worker expectations, and expanding regulations have created an unpredictable talent market. Only 34% of business leaders surveyed believe their organizations are well-prepared to manage gaps effectively. Small and mid-sized businesses face challenges related to the expanding regulatory and compliance requirements around workforce safety and absence, disability and leave (ADL) benefit regulations. Worker safety and satisfaction hinge on established processes and procedures that reduce incidences and turnover.

Catastrophic Weather Risks and Property Limit Capacity

Rising exposure from secondary perils, the increasing number of climate events resulting in $1 billion losses or more, and urbanization in riskier areas will continue to define a "new normal."

Swiss Re Institute analyzed 2023 natural catastrophes and found global economic losses totaling $280 billion. Of these, $108 billion (40%) were covered by insurance, above the previous 10-year average of $89 billion. Swiss Re also stated that claims costs have risen by approximately 30% since 2020, signaling that organizations need to double down to reduce their loss potential.

Companies can minimize exposures by understanding risks, using catastrophe modeling, conducting a comprehensive assessment of insurance coverages and gaps, and following insurer recommendations.

Long-term solutions will require a commitment to systemic changes and adaptations to evolving risks.

Nuclear Verdicts and Social Inflation

From 2010 to 2019, the average award for general liability verdicts increased by 224%. The cost of corporate nuclear verdicts nearly quadrupled after that, from $4.9 billion in 2020 to over $18.3 billion in 2022. Increases are attributed to litigation tactics, sympathetic juries, increased availability of funding for litigation, and third-party litigators providing financial support to plaintiffs. The ripple effects of nuclear verdicts impact insurance premiums, C-suite and shareholder confidence and a business's bottom line.

To address inflation, underwriters review contracts more thoroughly, and industries that work closely with third parties or subcontractors review agreements more carefully to ensure enough protection exists between parties. Robust risk management practices, such as developing processes to anticipate potentially harmful claims and building relationships with risk mitigation experts, can help bolster protection against nuclear verdicts.

Global Instability

Geopolitical uncertainties are increasingly at the forefront of business owners' concerns. The upcoming year is the largest global election year in history, making misinformation and disinformation one of the most concerning global risks anticipated over the next two years.

Global instability leads to the potential and likelihood of supply chain disruptions, market volatility, regulatory changes and political risk. The instability of global economic conditions, such as recessions and inflation, can also affect consumer spending patterns and investment decisions. IJ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California Supreme Court Resolves Question on Coverage for COVID Business Shutdowns

The California Supreme Court resolved a question about insurance coverage for COVID-19 business shutdowns in the issue of a virus exclusion in a ruling that is consistent with the vast majority of courts nationwide: the presence of the virus on an insured's premises does not establish direct physical loss or damage to property within the meaning of a commercial property insurance policy.

The question arose from a lawsuit filed against Vigilant Insurance Co. by Another Planet Entertainment, a company that owns California venues for concerts that had to be shut down during the pandemic. Another Planet filed suit against Vigilant after the insurer denied the concert promotor's claim for its $23.9 million policy limit for business income lost because of the pandemic.

While federal courts have generally held that COVID-19 cannot cause a direct physical loss, the 9th Circuit noted that California appellate courts were split on the issue, so it turned to the Supreme Court for the final word.

The case saw amicus briefs pile up as the California high court mulled the issue, with breifs from nearly a dozen parties.

Attorneys for policyholders contended that the virus that causes COVID can cause a "loss" of property by making it unusable. Insurers countered that even "all-risk" property insurance policies do not cover intangible losses, there must be some tangible alteration.

The California Supreme Court ruling states:

"Under California law, direct physical loss or damage to property requires a distinct, demonstrable, physical alteration to property. The physical alteration need not be visible to the naked eye, nor must it be structural, but it must result in some injury to or impairment of the property as property."

Another Planet attorneys argued that the COVID virus alters a property by bonding or interacting with it on a microscopic level, but they did not allege that any such alteration results in injury to the property itself. The property's physical characteristics are not affected by the presence of the virus, the court ruled.

"Another Planet focuses on the virus's risk to humans, and it alleges that the actual or potential presence of the virus rendered its properties unfit for their intended use," the court ruled. "But the mere fact that a property cannot be used as intended is insufficient on its own to establish direct physical loss to property."

The court also found that the fact that a business was forced to curtail operations due to pandemic-related public health orders do not constitute direct physical loss or damage to property. IJ

Washington Asbestos Removal Company Fined Nearly $800K

A Lynnwood, Washington, asbestos removal contractor is facing stiff fines for knowingly and repeatedly exposing employees and homeowners to extremely hazardous conditions.

The Washington Department of Labor & Industries inspection of two Seattle Asbestos of Washington job sites at homes reportedly found dozens of violations that created a risk of exposure for workers and homeowners.

At a Mountlake Terrace home, inspectors reportedly found plastic barriers, which are meant to seal off an area from airborne asbestos particles, that had large holes in them.

At a Ferndale home, inspectors reported employees leaving the regulated work area without protective clothing or respirators, and without using the onsite showers required at asbestos removal jobs.

At both locations, L&I listed violations of basic asbestos-removal regulations including:

- Equipment to clean harmful particles from the air was not working properly.
- A dishwasher, water heater, and wood stove were not covered with plastic to seal them from particles.
- Multiple respirators for workers were inside containment areas exposing them to contamination.
- A large pile of drywall sitting on the living room carpet was not bagged nor saturated with water to keep down the dust.
- There were no plastic drop cloths placed anywhere in the work area.

L&I ordered work stoppages until the problems were corrected. Between the two inspections, the agency reported more than 35 willful health and safety violations and issued fines of more than $790,000. Violations are considered "willful" when the company knew or should have known the requirements, but still failed to meet them.

The company filed an appeal in the first case, but did not appeal the second.

L&I reports there have been five inspections where Seattle Asbestos of Washington violated asbestos safety measures. L&I has started the process to revoke the company's certification to do asbestos work in Washington. IJ

KEEP YOUR FLEET ROLLING

Comprehensive Transportation Coverage from M.J. Hall & Company

M.J. Hall & Company Insurance Brokers is one of the longest-running surplus lines brokerage firms in the United States. We represent 100+ insurance carriers and offer products covering the most typical to the most unique risks imaginable. We continue to approach transportation-focused carriers so we can offer the best customized coverages and pricing possible for your clients.

- Auto Liability
- Auto Physical Damage
- General Liability
- Excess Liability
- Motor Truck Cargo
- Non-Trucking Liability / Bobtail
- Contingent Auto Liability / Motor Truck Cargo
- Warehouseman's Legal Liability

Oregon Wineries and Vineyards Seek $100M from PacifiCorp for Wildfire Smoke Damage

By Claire Rush

Dozens of Oregon wineries and vineyards have sued PacifiCorp over the deadly 2020 wildfires that ravaged the state, alleging that the utility's decision to not turn off power during the Labor Day windstorm contributed to blazes whose smoke and soot damaged their grapes and reduced their harvest and sales.

In the latest of several lawsuits to hit the utility over the fires, some 30 wineries and vineyards in the Willamette Valley accused PacifiCorp of negligence and requested over $100 million in damages. The suit was filed in Multnomah County Circuit Court. In an emailed statement, PacifiCorp said it is "committed to settling all reasonable claims for damages as provided under Oregon law."

The wine producers named as plaintiffs in the suit are located in the Willamette Valley, home to two-thirds of Oregon wineries and vineyards and the oldest wine region in the state, according to the Oregon Wine Board.

In their complaint, the wine producers say the fires "produced harmful smoke particles that landed on and infused themselves into the grapes."

Vineyards couldn't sell their grapes to winemakers, and wineries have been unable to sell their wines, resulting in lost revenue and damaged reputations, the complaint says.

"Grapes and grape juice that are infused with smoke can carry the smoke compounds and smoke taste through the entire wine production, bottling process, and sale to the consumers," the complaint said.

Despite paying "extraordinary costs" to try to cleanse the soot and smoke from their 2020 vintages, such efforts largely failed, according to the complaint.

Other Oregon wineries have also sued PacifiCorp in lawsuits that contain similar allegations and requests for economic damages.

In other cases that have gone to trial, Oregon juries in multiple verdicts have ordered PacifiCorp to pay hundreds of millions of dollars to victims. Ongoing litigation could leave it on the hook for billions.

Last June, a jury found PacifiCorp liable for negligently failing to cut power to its 600,000 customers despite warnings from top fire officials. The jury determined it acted negligently and willfully and should have to pay punitive and other damages — a decision that applied to a class including the owners of up to 2,500 properties.

Thousands of other class members are still awaiting trials, though the sides are also expected to engage in mediation that could lead to a settlement.

The 2020 Labor Day weekend fires were among the worst natural disasters in Oregon's history, killing nine people and destroying upward of 5,000 homes and other structures. IJ

My New Markets

Contractor Auto / Towing Companies

Market Detail: Insuranceisland has coverages available for contractor auto and towing companies. High commissions — 8% to 10% on new business and renewals. Just write business and let our technology platform run your business. Highlights: $255 maximum premium, $100 minimum premium; has pen; appointment required.
Available Limits: Not disclosed.
Carrier: Hartford; admitted; rated AAA.
States: Available in California, District of Columbia, Maryland, Pennsylvania, Tennessee, Virginia, West Virginia.
Contact: Madhavan Chakravarthi; sales!@insuranceisland.com; 240-335-2426.

Misc Professional Liability — Consultants, Tax Preparers, Media Creatives and More

Market Detail: Draftrs Miscellaneous Professional Liability E&O insurance covers many miscellaneous professional classes, including consultants, bookkeepers, tax preparers, recruiters, media creatives, arbitrators and mediators, travel agents and more. The product is underwritten by an A-rated carrier and is admitted. Draftrs is the exclusive provider of digital access to this product underwritten by Hanover. Small firms with up to $500K in revenue are covered. We offer full commissions as we are not a wholesaler. We work with both generalist and specialist agencies. We have instant online quotes, billing, endorsements and automatic renewals. Fast appointments; has pen.
Available Limits: Small firms with up to $500K in revenue are covered.
Carrier: Hanover; admitted; rated A by AM Best.
States: Available in most states plus District of Columbia. Not available in Alaska, Hawaii, Nevada and Virginia.
Contact: Paul Beck; paul.beck@draftrs.com; 214-210-3476.

Retail

Market Detail: Next Insurance offers a program for retail businesses. Coverage highlights: Broad appetite with over +1,300 professions available; quote and bind online for businesses up to $5 million in annual revenue; carrier admitted and A- rated by A.M. Best; direct bill, automatic renewal, flexible payment options; no trailing documents needed to bind. Target professions include e-commerce, retail stores, electronics store, clothing store, arts and crafts store, florist, candle store, hardware store. Lines of business available: business owner's policy, general liability, umbrella/excess liability, workers' compensation. Underwriting guidelines: maximum revenue — $5 million; limits available — $500,000/$500,000 to $1 million/$2 million. General liability coverage highlights: You can add additional coverage to GL coverage such as umbrella/excess liability, cyber insurance, employment practice liability insurance, products completed, and more. Has pen.
Available Limits: $500,000/$500,000 to $1 million/$2 million.
Carrier: Next Insurance Co.; admitted; rated A by AM Best.
States: Available in all states plus District of Columbia.
Contact: Jessica Gutheil; Jessica.g@nextinsurance.com; 855-222-5919.

New Venture Markets

Market Detail: JenCap Fort Worth offers three A-rated trucking markets that will accept new ventures. The new venture owner must have three or more years of experience in industry; drivers over 23 years; MVRs with no more than 1 minor violation in last three years. Forward application, new venture narrative, MVRs and equipment list. Not available in all states. Has pen; appointment required.
Available Limits: Not disclosed.
Carrier: Non-admitted.
States: Available in Arizona, Arkansas, California, Colorado, Delaware, Florida, Georgia, Illinois, Iowa, Kansas, Missouri, Nevada, New Jersey, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas and Virginia.
Contact: Darren Yancy; darren.yancy@jencapgroup.com; 817-447-9046.

Home Health Care HNOA

Market Detail: Amwins Program Underwriters offers the Home Health

Care HNOA program that provides hired and non-owned auto liability coverage for home health care operations. This specialized HNOA program addresses the unique challenges that providers encounter while delivering essential services to patients within their residences. Eligible accounts include visiting nurses, doctors/nurse practitioners, physical therapists, counseling/mental health, occupational therapists, blood delivery services, phlebotomists and more. This coverage is available in all U.S. states except Louisiana. Submission requirements: Completed industry-standard applications; Home Health Care HNOA supplemental application; currently-valued loss information (current year and four prior years); current drivers list; current MVRs for all drivers (random sample approach used on larger accounts).
Available Limits: Primary HNOA limits of up to $5 million; defense costs are outside the limit.
Carrier: Non-admitted; rated A++ by AM Best.
States: Available in most states plus District of Columbia. Not available in Louisiana.
Contact: Julie Reisinger; julie.reisinger@amwins.com; 717-214-7616. IJ


Insurance
Keeping Up With
CONSTRUCTION
DEMAND
Construction Activity
'Phenomenal' Despite
Labor Shortage

By Andrea Wells

While the labor market continues to come up short for the construction industry, the insurance market is doing its job supplying the coverages the industry needs to keep up with the significant demand for new building.

Despite the challenges finding qualified workers to keep pace with the demand for new building projects, construction is still booming, with overall spending up by 10% compared to a year ago, according to the Associated General Contractors Association.

As building continues, contractors are finding a more stable insurance market for most lines of coverage. Market corrections over the past several years have resulted in a more steady rate environment, leading to improved insurer-combined loss ratios throughout the construction industry, reports WTW in its Insurance Marketplace Realities 2024 Spring Update - Construction, released in May.

"We anticipate significant construction activity will continue through 2024," said the WTW report, which noted infrastructure, renewable energy, industrial manufacturing and healthcare as areas of growth in the commercial construction world.

The construction industry boom in the U.S. is "phenomenal," according to Darren Tasker, North American head of energy and construction at Allianz Commercial. "We're seeing record number of submissions and activity."

"The amount of backlog that some contractors have is tremendous, often in the billions of dollars of work," he said. That means contractors can be selective on the types of jobs they choose, and so can their insurance partners, Tasker added.

"They can be selective on the projects that they feel will have the best opportunity to execute and have the highest margins," he said. "It's the same for us on the insurer side."

Two exceptions to the good news may be the market for builders' risk insurance, especially in catastrophe-prone areas, and excess liability market for high hazard risks.

Residential Builders Risk

Recent loss trends have led to a hard adjustment period for the builder's risk market for residential construction and while the market is seeing some signs of improvement, high-cat prone areas remain extremely difficult.

Wood frame fire losses ranging both in size and geographic location exploded in 2023 compared to prior years with 16 different substantial fire losses totaling nearly $400 million, with the largest loss estimated right under a $100 million, according to a WTW estimation. The 2023 annual total of builder's risk frame losses nearly doubled compared to 2022 and quadrupled compared to 2021, WTW said

Dudley Ray, managing director of Higginbotham's Houston office, says builder's risk rates for coastal Texas regions and the entire Dallas-Fort Worth area are still going up "quite substantially." That's with large increases in deductibles for wind and hail, he added. "And it is not getting any better, especially if it's frame construction," he said. "There are a lot of carriers that just won't write over a certain limit if it's frame so that is becoming a struggle and a challenge. Some contractors and the owners of properties are choosing to self-insure above certain limits."

'The amount of backlog that some contractors have is ... often in the billions of dollars of work.'

'There are a lot of carriers that just won't write over a certain limit if it's frame so that is becoming a struggle and a challenge.'

He sees the same trend for new homes built anywhere in the U.S. in wildfire prone regions. "There was a home that we were asked to insure, a second home, in Montana or Idaho ... when the client and the home builder got the builder's risk quotes, they decided to totally self-insure, and this house was over $25 million in value."

Ray says there's a void in the Texas market right now for builder's risk, and property in general, when it comes to insuring homes in wind and fire regions. "Frame construction scares the underwriters, but it's more cost effective for the builder," he added.

Dudley hasn't seen any new carriers enter the builder's risk market in Texas but that's not stopping the building boom. "We're just seeing builders taking larger deductibles and being a little more watchful of their product." For example, some of his homebuilder clients will hire security services for after hours in an effort to be more proactive in protecting their product, he said.

So far, 2024 is seeing strong building growth in residential construction, he added.
But it's not just residential construction. "This is one of the first times I've seen in my career where almost every sector of construction is doing well," he said. "Generally, in Texas, when oil and gas is

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up, construction's down and vice versa. But right now, we're seeing both doing well. We're involved in oil and gas construction as well, and we see both sectors doing well," he said. "Builders are still building a lot."

Umbrella Liability and Excess Liability Market

The umbrella/excess market has steadily stabilized over the last few years, according to the WTW report. But challenges remain for high hazard risks, including contractors with large auto fleets, New York construction operations, for-sale residential, wood-frame construction, wildfire exposed utility work and trades that participate in demolition, and those contractors doing curtain wall and foundation work, the report noted. "Construction activities with these risk profiles will continue to see rate increases through their excess tower," WTW said.

Another recent benchmark study on the construction insurance market released in April by Unison Risk Advisors, an Assurex Global partner, found that excess liability limits overall decreased compared to last year, likely due to substantial rate increases.

"While we expected excess liability rates to increase, we were surprised by the amount," the study noted. The study found that the rate variance between construction specialties is driven by the perceived risk associated with the construction activity, but when premiums were compared to last year's benchmark study, average rates and premiums increased substantially, regardless of the type of contractor.

The Assurex Global benchmark study included data from almost 1,500 construction companies of various sizes and specialties that are insured through 26 partner firms of Assurex Global, an exclusive, global partnership of independent agents and brokers.

'We're finally starting to see money from the infrastructure bill really trickle in, and we're also starting to see some of those really large mega projects, in the pipeline.'

"Several years ago, everybody wanted horizontal limits, the $2m/$4m and then stacking above that," said Richard Savino, principal and managing partner, Broadfield Insurance. "And then the marketplace really had trouble and it started going back to the $1m/$2m you'd see more on projects plus whatever higher limits they wanted depending upon the project."

Savino says he's now seeing $2m/$4m "becoming more of a staple on a day-to-day basis" especially in the commercial world. And "I think part of that is because it's not uncommon these days for claims to go through the first layer" of an umbrella with the rising costs of social inflation. That's resulting in expensive first layer umbrella coverage for many contractors. "That first layer of excess coverage has become ungodly expensive and sometimes almost unavailable," Savino said. It's unaffordable for some smaller contactors, especially those in the New York City area, he said.

"For example, we have an electrical contractor that does small commercial work and residential work, and part of his job is to change bulbs in traffic lights. He doesn't deal with the timing ... he doesn't deal with anything other than that part." But recently, after being with the same carrier for a long time, the account was nonrenewed. "They wouldn't keep him anymore and he was hard to place in the marketplace." He previously had an excess liability policy for $800. "Now that coverage costs him $12,000."

Opportunities

Infrastructure building continues to present opportunities as funds from the federal Infrastructure bill are being distributed. The Bipartisan Infrastructure Investment and Jobs Act, signed two years ago, promises to deliver more than $400 billion to infrastructure construction and fund some 400,000 projects.

"The first half of 2024, we've really started to see infrastructure start to pick up," said Lyndsey Christofer, Chubb's executive vice president of construction, real estate and hospitality. "We're finally starting to see money from the infrastructure bill really trickle in, and we're also starting to see some of those really large mega projects, in the pipeline." Some have not come to market yet but they're in the final bid stage, he added.

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Familiar Concern: Construction's Labor Woes

While the rise in new business activity in the construction space is exciting for insurers, the decades-long dilemma over a shortage of qualified talent does worry underwriters.

Darren Tasker, North American head of energy and construction at Allianz Commercial, says one of the biggest perils to consider in an environment like today's is faulty workmanship that leads to design defect, he said.

"For example, last decade, the Canadian economy had their boom," he said. Worker shortages led to a rise in claims activity with the shortage of labor. "We saw a direct correlation between increased activity, resulting in increased claims around faulty workmanship and design defect, so there is a concern for sure that claims may come to fruition here in the U.S. with the boom."

The construction sector's labor shortage is not a new issue, according to Lyndsey Christofer, Chubb's executive vice president of construction, real estate and hospitality. "As long as I've been in construction, labor has been an issue, but it is a growing concern for contractors and it's being exacerbated now by the size of these new projects," he said.

Most infrastructure projects used to be under $1 billion. Now, almost every project seems to be over $1 billion, some are tens of billions of dollars," he said. "So when you're building something that large, often in a very remote location, finding the labor, the skilled labor, is really challenging." IJ

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"That's where a lot of the activity has been, as well as the sustained increase in chip facilities, manufacturing facilities, data centers, battery storage facilities," he added. "That's really where we've seen just an explosion of growth over the last two years."

Christofer says he's hopeful to see more activity in the second half of the year for the "typical building" such as in residential, condos, apartments, hotels, even commercial buildings.

"We've seen very little of that since end of summer last year once the interest rates really started to rise," he said. "We've talked to a lot of developers that have said, 'Listen, we have the money, we have the land; we're just waiting because the interest rates are so high.' It just doesn't make sense at this point," he added. "The infrastructure bill will continue to fuel the market for years to come at this point."

Aldo Fucentese, senior vice president, construction practice leader at Liberty Mutual Insurance, also sees infrastructure continuing through 2024 and beyond but cited opportunities in K-12 schools, health-care, manufacturing and data centers as well. While some sectors have slowed a bit, there's still plenty of building everywhere, he said, and the cost of insurance is not going down.

"The cost of insurance is not going down in the US where we still have a lot of pressure on severity, and a lot of claims being litigated," he said.

His advice to contractors and their agents and brokers - know your partners. "Know who you're doing business with so if something goes wrong, they can call you back, then you can fix the problem rather than them suing you," he said. "And manage your risks now." IJ

Industry Drill Down:

NCCI Sees Declines in Construction Claim Frequency

By Jahna Jacobson

The construction sector accounts for the largest premium share when it comes to workers' compensation premium in National Council on Compensation Insurance (NCCI) states but improved safety measures and employee tenure throughout the sector has led to decreasing frequency, declining at an annual rate twice as large as all other industries.

That's according to data from NCCI's presentation, Industry Drill Down — The Next Level, during the 2024 Annual Insights Symposium (AIS) held in May.

"Trends by industry are important because carriers specialize by writing insurance in specific industries where they have deep expertise into the risks that they write," said Sandra Kipust, senior practice leader and actuary at NCCI. NAICS codes reported in NCCI's policy data can provide granular industry-level analysis.

Construction (20%), manufacturing (17%), trade (14%) and transportation and warehousing (9%) make up 60% of NCCI premiums.

NCCI's estimates of overall trends assume this mix, but companies write their own unique mix of business. So, while trends are accurate for the industry in aggregate, they may be less appropriate for individual companies, she said.

"For example, 20% of workers' comp premium is written in the construction industry," Kipust said. One company may be very focused and write the majority of their business in construction. Then, another may write business across a spectrum, including manufacturing, wholesale trade, healthcare, etc., similar to the industry average. "These two hypothetical companies will have very different trends."

Claim Frequency

Claim frequency has returned to the long-term decline observed for decades, Kipust said.

Many factors impact frequency, but one key factor is employment. Increases in newly hired workers can cause a higher rate of frequency. Other considerations include more extended hours, expanded roles and less-qualified hires, all of which can place upward pressure on frequency. Employers may also lose more qualified workers to other opportunities in a tight job market.

Trends from 2015 through 2022 show that construction and manufacturing frequency is lower than average, while transportation and warehousing, along with trade industries, are higher. However, overall frequency has declined for all industries.

But, when numbers are split into pre- and post-COVID years, the transportation and warehousing and wholesale trade industries show an increase in frequency in the post-COVID period, possibly explained by variability in employment. Transportation and warehousing employment increased by 4.8% between 2019 and 2022, driven by the demand for online shopping and package delivery.

Construction premium is largely driven by specialty trade work, such as plumbers, roofers and electricians. Coverage for these types of workers represents 70% of the industry premium, said Amanda Glish, director and actuary at NCCI.

The remainder of the premium is divided among building construction, and heavy and civil engineering construction.

The frequency of lost time in construction has been steadily declining since 2015. Still, unlike all industries that experienced mild volatility over those years, construction was resilient to the indirect pandemic effects and experienced consistent

yearly declines, Glish said. When directly comparing annual changes year over year for construction versus all industries, construction frequency declined similarly or more than that in all industries every year. When the changes are combined across years, construction lost-time frequency declined nearly twice as much (-26%) as across all other industries (-15%).

Claims decreased across all claim size groups:

- $0 to $25K: -3.9%
- $25K to $100K: -3.5%
- $100K to $500K: -3.8%
- Over $500K: -3.1%

Frequency across policies based on size also decreased between 2015 and 2022. For small policies up to $50,000, the average annual change was -4.6% year over year. Medium policies, $50,000 to $250,000, saw a change of -4.3%, while large policies, those over $250,000, saw a year-over-year change of -3.4%.

Glish said that the consistency in declining frequency trends across all policy groups points to a focus on safety.

Employment

Construction is an industry that has been having higher employer growth than many other industries. While numbers dropped in 2020, construction employment didn't decrease as much as other industries. From 2016 to 2023, construction employment averages a 2.8% increase across all years.

How do these new hires impact frequency?

In construction, Glish said there is a consistent gap between the hires and separation rates. In recent years, the number of hires and separations has been lower than it has been in the past, meaning fewer people are leaving their construction jobs, and there is reduced need to hire replacements.

"So even though employment is growing, there is less turnover," Glish said. "And worker tenure in construction may actually be increasing rather than decreasing. And when employees become more tenured, this can actually have a favorable impact on frequency."

Severity of Claims

While construction has lower frequency, the nature of the work means that it has higher than average severity. "And total lost time severity for claims in construction is nearly 50% more than the all-industry average," Glish said.

Burn claims are the most severe, with an increase of 12% on average from 2015 to 2022. While the claims are large individually, they are manageable because they comprise only 2% of total counts. Other causes of high-severity claims during those years include motor vehicle accidents (+3% annual severity change; 6% claim share), slip and fall accidents (+3%; 32% claim share) and strike injuries (+3%; 13% claim share).

Other Industry Trends

Recent upticks in transportation frequency are driven by worsening frequency coming from couriers and messengers (local delivery drivers), correlated with unprecedented employment growth since 2019. However, these are typically claims of lower severity.

Retail trade is the only industry with no consistent decline in frequency. This flatter trend is observed throughout retail, which could indicate a change in the type of risk and job activity (e.g., typical "cashier" duties may be replaced with other higher-risk activities like gathering items for curbside pickups).

While recent manufacturing employment shifts occurred across job types, frequency results remain favorable, suggesting that frequency is resilient to within-sector employment mix changes in the manufacturing industry. IJ

View the full presentation at Industry Drill Down—The Next Level (ncci.com).

Hiring Insurance Agents: The Secret to Cultivating Successful Producers

Having spent 15 years traveling across the country meeting principals, I've learned much about why some agencies are successful and others fail when it comes to acquiring and nurturing new producers.

What I've discovered is that the most favorable results have been achieved by agencies inclined to set their new producers up for success, not failure.

Hiring producers is a process that must be regarded as a shared responsibility among the agency's leadership to create positive outcomes for the agency and prospective new talent. All too often, agencies hire a new producer, move ahead with an ill-conceived plan (or none at all), and both parties fail. However, those agencies that achieve the maximum benefit of integrating new producers are the ones that commit to a mindfully conceived, long-term plan with management's support and guidance.

By Elizabeth Schenk

Hiring a new producer is one of the biggest investments you'll make in your agency; it's an expensive and time-consuming proposition. The agency principal is the one who must establish a vision for what that new hire will achieve and then commit to making that vision a reality.

First Steps

To both fuel your agency's growth and perpetuate it, agency owners should hire a new producer at least every five years. New talent provides your agency with new clients, premium growth, renewed energy, fresh perspective and can help rejuvenate your staff. To help subsidize these efforts, the cost of future hires must figure into your agency's annual budget.

When it comes to finding the best fit for a producer, use a recruiter who specializes in insurance (one example would be AEBetancourt, in Grand Rapids, Michigan).

The better the hire, the better the chances they'll excel. If you'd rather conduct your own search, internships work well, connecting with universities who have an insurance program, or keeping your eyes open when you encounter any individual who displays excellent sales skills; this could include anyone in the retail or hospitality industry and beyond.

Leveraging your own network can also be a good way to source candidates. Always be on the lookout for high performers who might someday prove a fit for your agency.

It's best to hire producer talent based on proper vetting, not your emotions. Rely on the experts to guide you through this very expensive decision. Screen prospective hires by using assessment tools such as those offered by the Omnia Group and Hogan Assessments — you may find that certain candidates are better suited for service rather than sales.

Before you even start, however, self-evaluation should be the first step in hiring a new producer. Consider: Is your agency prepared to onboard this new hire and take concrete steps to foster an environment in which this individual can thrive?

When asked, many principals have shared that they've never taken that type of approach and what they're often left with is bright talent sitting in a cubicle with

a list of leads who've been told to go sell, with little guidance. The agency owner must be fully committed to developing this individual and involved in setting and tracking performance goals over a concrete timeline.

Best Practices

Once committed to fostering the success of a new producer within your ranks, here are some best practices for agency principals to follow:

- Create a well-defined training plan. Many of the best elements for crafting an effective plan can be obtained online or from consultants who specialize in producer training. Empower your new hire to excel through proper training and coaching.
- Assign one of your experienced producers to partner with your new agent, and have the latter shadow the former on client visits for a certain period to become comfortable with the agency's sales process. Offer a financial incentive that ties into the veteran producer's bonus, based on the performance of the new hire. Your experienced producer must be invested in the new producer's success.
- For agencies with multiple producers, realign the premium threshold for the members of your sales team. Veteran producers should focus on larger accounts, allowing new hires to focus on accounts garnering $500 to $1,000 in commission. Don't task your seasoned producers with chasing accounts that generate little revenue; rather, this is the perfect incubator for a new producer.
- Establish a timeline and milestones for the new hire (including the amount of premium and/or number of new policies secured, how many proposals delivered, how many calls made, etc.), and begin the review process immediately. This enables you and the new producer to clearly communicate expectations and make it known what the consequences will be if those targets are not met.
- Meet with your new producer weekly to review his or her progress.

Additional Strategies

When possible, hire two new producers at the same time. This helps to create a "buddy system" that fosters healthy competition and can help counter generational isolation.

Seek to hire candidates within 10 years in age of each other, and from a separate generation from yours. Each new age group of producers thinks differently, sells differently and operates differently; leverage this to your agency's advantage.

Allow room for creativity; methods that work well for you might not be suited for a new hire. Members of Gen Z (those born between the mid-1990s and mid-2010s), for example, rely heavily on social media, and can be skilled at building quality client relationships online. They are also adept at using technology. A 65-year-old agency principal, on the other hand, might find this far more challenging. Conversely, tried-and-true, shoe-leather sales processes won't work for the younger set. Listen to their ideas.

Consider dedicating your new producer to a specific niche. You can train the new hire to become an expert in a particular class of business (for example, manufacturers, contractors or the hospitality industry), and empower them to develop a strong knowledge base of the exposures so that they can confidently target those accounts. Rather than having them operate as a generalist, this approach enhances the new producer's focus and skill.

Retention Strategies

If you're fortunate enough to find the right producer talent and lead them into a successful career with your agency, the next step is retaining them. The last thing you want to do is successfully hire and train a producer who builds a strong book of business and then allow them to stagnate without any hope of a future at your agency.

The most successful agencies will develop and present a long-term ownership plan that includes a series of targets for the agency's book, and the ownership-percentage options associated with achieving those goals. If you're put off by the idea of crafting a succession plan, don't be. Not only will it help ensure the future of the business you've built, but when introduced in the early stages of a talented producer's career, it enables them to stay motivated to sell and grow into achieving ownership over time.

Your agency culture should foster growth, and bringing new talent on board provides both a boost in morale and extended bandwidth to power the acquisition of new business. A thoughtful, well-executed plan, continuous follow-up, and making new producers a true part of your long-term business plan are the keys to making new hires well worth your investment. IJ

Schenk is regional executive vice president, Mid-Atlantic, for Renaissance.

Logic & Language and Forms & Facts

The Problem(s) With Hail Claims – Part 2

By Bill Wilson

In last month's column, we began our examination of hail and windstorm claims issues by focusing on the pervasive problem of whether delayed discovery and reporting of hail damage meets the conditional requirements of most homeowners policies to report damage promptly or as soon as practicable.

In this issue, we'll examine other hail damage issues such as actual cash value vs. replacement cost policy provisions, percentage deductibles, and special cosmetic damage exclusions, as well as existing "marring" exclusions.

Actual Cash Value vs. Replacement Cost

While this issue appears to be more pervasive in commercial lines, as opposed to personal lines policies, some carriers have introduced actual cash value (ACV) endorsements for roofs or roof coverings because of increasingly poor loss experience with wind and hailstorms, as exacerbated by the vulnerability, in particular, of asphalt shingle roofs. In some cases, these endorsements may be removed, usually for additional premium, but that may not be the case in excess and surplus (E&S) markets or other markets of last resort.

That being said, though, on this issue I'd rather focus on dispelling the all-too-common myth that a roof must be replaced within 180 days of the loss in order to receive replacement cost, rather than ACV, coverage. For example, a commercial insured (multiple condo buildings) experienced a hailstorm in May but was not aware of the damage until February when a claim was filed. The insurer admitted coverage but said only the ACV of the damage was covered because replacement cost coverage was not requested within 180 days of loss.

This is the actual governing language in the policy form [**emphasis** added]:

"You may make a claim for loss or damage covered by this insurance on an actual cash value basis ***instead of a replacement cost basis****. In the event* ***you elect to have loss or damage settled on an actual cash value basis****, you may still make a claim for the additional coverage this [coverage] provides if you notify us of your intent to do so within 180 days after the loss or damage."*

For this policy provision to be correctly applied, one must follow the "RTFP!" principle and read the provision carefully. Yes, there is a 180-day (from the date of the loss) conditional requirement to get replacement cost coverage, BUT only if the insured initially "elects to have loss or damage settled on an actual cash value basis," "instead of a replacement cost basis."

In this case, the insured never elected ACV instead of replacement cost. He requested recovery on a replacement cost basis, as provided by the policy. Therefore, the 180-day condition is never triggered.

In addition, to dispel another myth, nothing in this language, or similar language in other policies, requires that replacement actually take place within 180 days of the loss. In some cases, such timely replacement is not possible, nor do

most policies require it. The insured must simply express, within 180 days of loss, an "intent" to recover on a replacement cost basis.

Percentage Deductibles

A number of carriers have introduced windstorm or hail percentage deductible endorsements, though predominantly so far in commercial lines. These deductibles typically range from 2% to 5%. That doesn't sound like much of a retention, but when a single multi-family apartment or condo building roof costs an average of $250,000 or more to replace following a storm that may impact multiple buildings in a complex, the result may be a very high retention. One of the primary purposes of a deductible is to encourage loss prevention by insureds, but there's not much insureds can do about the weather other than talk about it.

Cosmetic Damage Endorsements and Marring Exclusions

Both ISO and AAIS have introduced endorsements providing an option for recovery on an ACV basis and/or an outright exclusion for "cosmetic" damage. By "cosmetic," these forms essentially mean damage that consists only of marring, pitting or other superficial damage, but not structural damage or damage that inhibits the property from continuing to serve as a weather barrier.

Even without these endorsements, I've come across instances where claims were denied because damage was not structural, even though damage, as traditionally considered, means any reduction in value beyond the policy deductible.

Courts generally do not look favorably on such restrictive interpretations of "damage." A case in point is Welton Enterprises, Inc. v. Cincinnati Ins. Co., 131 F. Supp. 3d 827, 834 (W.D. Wis. 2015) where the court found that cosmetic damage may constitute "direct physical loss" absent any more restrictive language.

In addition, some of these denials erroneously focus on "marring" exclusions but when you examine these exclusions, you typically find them within a series of exclusions that involve damage that occurs over an extended period of time, usually through normal use.

A notable contract interpretation rule is *noscitur a sociis*, a Latin term meaning "it is known by its associates." Applying this principle, the meaning of an unclear or ambiguous term can be determined by considering the other terms in which it is listed. I elaborate on this and other interpretative principles in my book, "When Words Collide: Resolving Insurance Coverage and Claims Disputes."

But, again, it is important to read the policy carefully. For example, one proprietary dwelling policy actually defined "marring" to mean [**emphasis** added]:

> *"… any disfigurement, blemish, discoloration, weathering, or stretching, or the like … including, but not limited to, scratching, denting, creasing, gouging, fading, staining, tearing, oxidizing, blistering, or thinning,* **whether occurring at once or over time**."

Well, while I had originally intended to cover this topic in two articles, we've run out of space in this issue and there are still important considerations such as matching issues, Pair Or Set clauses, suits against the insurer, and potential solutions to all of these issues. So, tune in next month to Part 3 of this series. IJ

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Idea Exchange: The Competitive Advantage

The Balance Sheet Is the Most Important Financial Statement

By Chris Burand

The balance sheet is preeminent in financial audits by its placement at the front of audit reports. The balance sheet is what insurance regulators and raters are supposed to first focus upon, because it is a measure of whether an insurance company can pay claims. Revenue does not pay claims. Surplus pays claims and you find surplus on balance sheets.

Balance sheets tell a reader if an insurance agency has embezzled client funds or otherwise inappropriately spent client trust monies. A balance sheet identifies whether an agency has the money with which to withstand a catastrophe and afford the development of new producers.

A good balance sheet is a good indication of whether a company can withstand a cyber-attack or the abandonment/escape/defection (depends on one's perspective) of key producers and their books of business. A balance sheet is essential to continuing to run the business as normal while paying attorneys gobs of money to fight on your behalf.

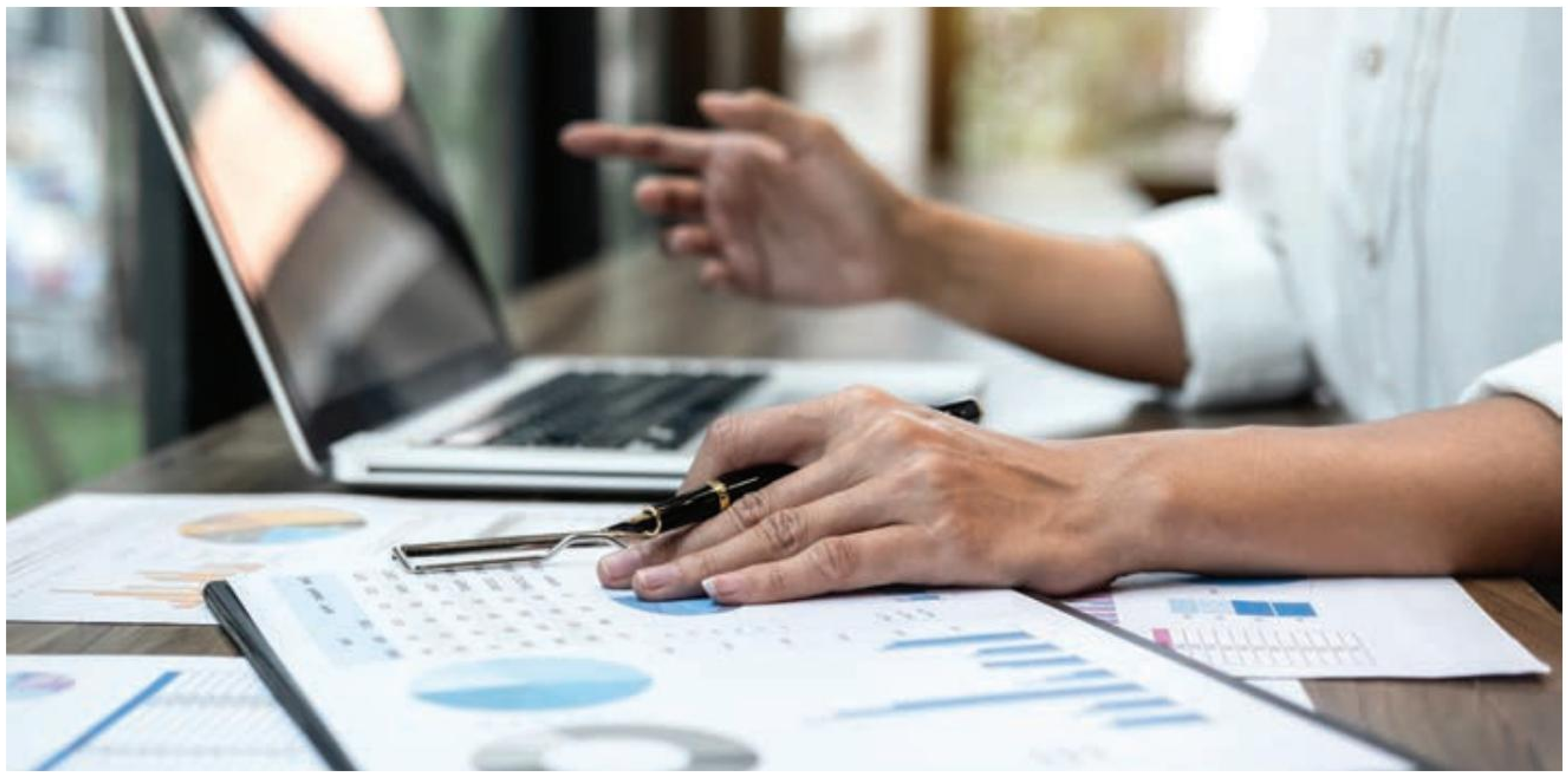
A good balance sheet indicates whether the company can get a loan with which to expand or make an acquisition. A good balance sheet is like a good credit score. We all know that credit scores are highly correlated to a person's probability of default and even getting into an accident.

Well, the balance sheet should be the most important financial statement and it is meant to be the most important financial statement. A critical weakness of the balance sheet is that the human brain generally does not relate constructively to measuring assets versus liabilities. This weakness is especially lacking among people with sales brains and CEO brains. These people focus on top line revenues, not even bottom line revenues much less the balance sheet. This is not a snide remark, but reality.

Many CEOs know they need to focus on the balance sheet. They know it is important. Some even understand it (I'm not being facetious; I'm being literal, based on discussions I've had with CEOs who did not understand their own balance sheet, especially if their balance sheet indicated financial issues). Salespeople generally have no clue about balance sheets — they can only focus on the next sale.

Corporate balance sheet importance has also been diluted by the Federal Reserve's extraordinary money printing press,

enabling weak companies to continue to exist, especially if these companies are too big to fail. So many companies with junk bond level ratings would have otherwise failed by now. Combine this structured de-emphasis on the balance sheet with the reluctance of human brains to engage with the decidedly unsexy balance sheet, and we have a recipe for fraud and incompetency hiding beneath financial engineering and sales hubris.



Loss of Surplus, Pension Funds, Private Equity

Some insurance companies have lost 20%-35% of their surplus in the last two years (2021-2023). And yet their loss of surplus is not in their press releases or descriptions of why they are leaving states. Instead, the headlines focus on losses, but those states' loss ratios really are not materially worse than normal. Poor regulatory environments provide awesome opportunities for carriers to exit hundreds of millions of dollars of premium because they are lacking a good balance sheet, i.e., lacking surplus, under the guise of regulatory incompetency.

I've seen carriers recently subtly blaming rating companies that do consider surplus. Somehow or another their message is, "We have the ability to grow regardless of what the rating company says!" Reality is that the company in these situations can only grow if they grow irresponsibly because an insurance company cannot ever grow responsibly if it does not possess both adequate surplus and surplus of adequate quality. It is in an agent's best interest to know if the carriers with which it is writing are growing responsibly. The balance sheet is a critical data point.

From what I am seeing on the broker side, the balance sheet has taken somewhat of a backseat simply because so much money, partially as a courtesy of the Federal Reserve, is chasing agency/broker acquisitions. Pensions, who are funding a huge portion of the private equity acquisitions, need to increase their returns because the Federal Reserve kept interest rates too low for them to meet their future obligations, so they had to look for other investments. The balance sheets of many of these serial acquirers are extremely weak from a traditional perspective. The debt-to-equity ratios, the interest coverage ratios, and so forth are almost off the charts. A regular agency could never get a loan from a regular bank with these ratios.

The bet the pension funds and private equity are making is that someone will always provide some form of additional financing. Historically, that has been someone figuring out that the value is even higher than what the PE firm has valued it and the existing PE firm figuring out that it is such a great investment that it needs to be sold. This is the buyout model or cashout model or what is known as the exit model, but exits have been a little more difficult since interest rates have risen. (A small number of PE firms actually are building real, self-sustaining brokerages that actually cash flow and use additional funding to build out that model, rather than simply buying more agencies.)

The alternative thought process, catching on more now, is that someone will always be available to lend the PE buyer more money, so that while the balance sheet ratios indicate a high degree of risk, no one is going to call the loans, and if lenders do call the loans, someone is going to be willing to offer a replacement loan. So, the amount of debt is immaterial provided interest payments are on time.

Financial engineering is often required in these models. I encourage readers to read "These Are the Plunderers," by Gretchen Morgenson and Joshua Rosner, for more information about how this works. The book focuses on insurance company deals, but the concept largely applies everywhere. The goal with these strategies is to de-emphasize the balance sheet so that cash can be removed leaving the problem to the last buyer to hold the bag, like a game of musical chairs.

When this happens, the firms with the best balance sheets should have a strategy to pounce. A carrier CEO asked me why any carrier should care about an A+ rating or even an A rating from A.M. Best, since agencies don't seem to care? Great question, and agencies should care. The reason to be A+ is so that when other carriers are laying off premium because they don't have surplus, you can pounce. You have the balance sheet to support growth when others must shrink to their surplus.

Agents have the same opportunity because many of buyers cannot afford to support organic sales growth, though that is their focus, because they don't have the balance sheet to support growth. They will, and generally do, grow at the rate of rate inflation, and nothing more. Agents and brokers with better balance sheets, a solid strategy to pounce, and the ability to execute should have a field day over the next three years.

Balance sheets are not sexy, but they are the foundation with which growth is built. Pay attention to your balance sheet. My analytics even suggest Wall Street values brokers and some carriers higher that actually have better balance sheets. IJ

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The Anatomy of Employee Happiness

Key Factors That Drive Workplace Satisfaction

In today's competitive job market, companies are increasingly recognizing the importance of prioritizing employee happiness. It's no secret that happy employees are more productive, engaged, and likely to stay with their employers for the long term. But what exactly makes employees happy, and how can agencies foster a positive work environment that cultivates happiness among their staff?

By Catherine Oak and

Bill Schoeffler

Building upon the findings of the May 2024 Young Agent's annual survey reported by the Insurance Journal, this article delves into those insights alongside our consulting expertise gained from interviewing thousands of agency employees over the years.

The following are key factors that contribute to employee happiness, and the study explores how companies can nurture these elements to create a thriving workplace culture.

A Supportive Work Environment

A supportive, respectful and positive workplace culture is fundamental to employee happiness. Employees who feel valued and appreciated for their contributions are more likely to feel motivated and engaged in their work. Companies can foster a supportive environment by promoting open communication, providing opportunities for collaboration, and actively addressing issues that create dissatisfaction, a lack of trust, and indifference.

There is so much to be said about a great working environment. From good teamwork to management's emphasis on a good work/life balance, all these things are important.

A supportive and flexible environment where people know they are looked after, respected and cared for is very important. Management needs to be positive and encouraging. Good energy should start at the top, and employees will then be enthusiastic and develop healthy relationships among colleagues.

Fair Compensation and Benefits

Fair compensation and comprehensive benefits packages demonstrate that the company values its employees' contributions and cares about their well-being. Competitive salaries, bonuses, health insurance, retirement plans and other perks can significantly impact employees' overall satisfaction and morale.

Often, people will look to change jobs

and if that is not available, especially for key managers and producers, they will get discouraged and look for other firms that do allow that opportunity.

if they do not feel their compensation is fair in relation to the efforts they make in the position. If they are not told how to improve and make more money or move up in the organization in performance reviews, they can often get discouraged.

Management should be aware of what the market rates are for pay in the industry by position. Over the years, The Insurance Women organization has helped agencies recruit new employees to benefit the women in the group, and it would also help agency owners know what the going rate was for different positions with different levels of experience. The compensation surveys out there today, including the Insurance Journal's annual one, can also help owners know.

Some people also feel they want to move into an ownership position someday,

Advancement Opportunities and Purpose

Employees are happiest when they feel challenged and stimulated and have opportunities to grow and advance in their careers. Offering training programs, mentorship opportunities and clear paths for career progression can demonstrate a commitment to employees' professional development and enhance their job satisfaction.

Employees need to know how they can grow in their jobs. Growth will be obvious if the performance review is well done, and people are encouraged to discuss their desires for advancement. If they have the freedom to explore opportunities to help the agency grow in specific industries or are given the incentive to cross-sell accounts, there will also be growth that should benefit everyone.

Employees also need to feel that their work has a purpose and positively impacts others or contributes to something meaningful. Companies can foster a sense of purpose by aligning employees' roles with the organization's mission and values and highlighting the impact of their contributions on the company's success. Most agency employees enjoy helping people, which is why they often enjoy working in the insurance business, with its backdrop of a sense of purpose. Create a work environment that brings meaning to the employee's job.

A Healthy Work-Life Balance

Providing flexibility in work hours, remote work options and manageable workloads can help employees maintain a healthy balance between their professional and personal lives. When employees feel empowered to prioritize their well-being outside of work, they are likely to be more productive and engaged during working hours.

Since COVID, life has been forever altered in the workplace. Because so many people have had to work from home, some

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A Look at Reciprocal Insurers From 30,000 Feet

By Michael Rosefield

and Jacob Grossman

For years, newly organized reciprocal insurers were few and far between and were not the preferred vehicle for new entrants to the insurance space. In fact, at one time, a prominent state insurance regulator refused to license new reciprocals, believing that the structure limited the insurer's options to raise capital. Those views have changed with a renewed interest in reciprocals by both investor and stock insurance groups focused on gaining an ability to earn fee income through the ownership of the reciprocal's attorney-in-fact, while avoiding the attendant underwriting risks associated with an insurer's operations.

This article discusses the history and structure of reciprocals, as well as the pros and cons of operating under the reciprocal construct.

The History and Structure of the Reciprocal Arrangement

As Andrew Verstein noted in his 2017 law review article, reciprocals operate as "vast enterprises – with millions of customers paying trillions of dollars ... without any meaningful use of ... a legal entity." In general, reciprocals provide a system under which parties (subscribers) agree to indemnify each other against specified losses by the mutual exchange of insurance contracts through a common attorney-in-fact appointed by each of the subscribers to manage the reciprocal.

That appointment is affected by means of a "subscription" agreement. Reciprocals are often referred to as an unincorporated association, a "trust for a purpose," a quasi-corporation, and more than a partnership and something less than an insurance corporation. Somewhat circularly, one court stated: "This is what it is: It's an interinsurance exchange defined by the Insurance Code."

Reciprocals were first organized in 1881 by New York dry-goods merchants who were displeased with the rates offered by the insurers covering their facilities. Believing they were being over-charged, the merchants decided to self-insure to lower their insurance costs. As "subscribers," they agreed to indemnify each other when a member suffered a loss.

Historically, therefore, each subscriber was considered to be both an insurer and an insured, which, in turn, gave rise to the term "reciprocal." As the merchants were not in a position to manage the reciprocal's day-to-day operations they appointed an attorney-in-fact to handle those and other functions. This essentially resulted in a tri-party arrangement consisting of the reciprocal, the attorney-in-fact and the subscribers, each addressed below.

The Reciprocal Party

The first party, the reciprocal, is an unincorporated association of individuals or legal entities (i.e., "subscribers") who, as noted above, undertake to indemnify each other against losses through the mutual exchange of insurance contracts issued by the reciprocal. Those contracts are effected by an attorney-in-fact appointed by the subscribers pursuant to

a subscription agreement. The policies are generally non-assessable, which keeps the subscriber (or policyholder) from being charged additional amounts if the reciprocal's operating costs are higher than expected. In other words, the financial liability of subscribers is limited to the cost of the policy. Compare this to a true "inter-indemnity" structure that exists today for certain commercial liability coverages. California, for example, permits inter-indemnity arrangements for medical malpractice coverage that involves actual contract-holder (policyholder equivalent) joint and several liability for losses.

Limited oversight of the reciprocal is provided through its board of governors or directors, and oversight is generally limited to monitoring the reciprocal's finances and the attorney-in-fact's compliance with the Subscription Agreement entered into with subscribers.

The Attorney-In-Fact Party

The second party, the attorney-in-fact, is appointed by subscribers to operate the reciprocal's day-to-day business. The attorney-in-fact is the agent of the subscribers to, among other things, accept or reject risks and make other underwriting decisions, effect contracts of reciprocal insurance or reinsurance, seek new subscribers, collect premiums, pay claims, invest the reciprocal's funds, contract with third parties (e.g., insurance agents or brokers) and commence or defend legal actions. In acting in this capacity, the attorney-in-fact bears no underwriting risk.

As concerns the attorney-in-fact's form, it could be a natural person (or persons) or a legal entity such as a corporation or limited liability company. In situations where the attorney-in-fact is an individual, all the assets required for the reciprocal's operations are owned by and employees are employed by the reciprocal. Although a "natural person" attorney-in-fact may seem like an antiquated arrangement, it's not — one prominent reciprocal operated with individual attorneys-in-fact into the early aughts. That, however, is not a preferred structure due to personal/employee attrition and liability issues.

Thus, maintaining the attorney-in-fact's operations in a legal entity is a preferred and more common structure. Under this scenario, the operational assets may be held by the attorney-in-fact, which performs all of the insurer-related functions for the reciprocal resulting in the reciprocal's having minimal direct operations. As a legal entity, the attorney-in-fact could be owned by the reciprocal, subscribers or one or more third parties independent of the subscribers or the reciprocal.

The attorney-in-fact's compensation is dependent on the fees that it earns from managing the reciprocal. In other words, there is no mechanism for the reciprocal to pay dividends or make other distributions of profits to its attorney-in-fact. Whether the attorney-in-fact is compensated based upon the actual cost of it providing services versus a fee-based structure generally depends upon its ownership. If the attorney-in-fact is owned by the reciprocal, compensating it on anything other than a cost basis is not as prevalent because any payments made to the attorney-in-fact would remain in the holding company system due to the attorney-in-fact's ownership structure. It's a different story when the attorney-in-fact is owned by a third party and not by the reciprocal. Under that structure, the attorney-in-fact is typically held as a fee-generating operation, which fees (and its profits) inure to the benefit of its owners. Thus, a cost-based fee structure would not be optimal.

It is important to remember that the attorney-in-fact is generally considered as the reciprocal's statutory "affiliate." Insurance regulators generally require that the compensation under service agreements between insurers and their affiliates be structured on a cost-basis, which would not be a desired structure for a privately owned attorney-in-fact. Interestingly, under California law, Subscription Agreements in place before 1943 are not subject to the provisions of the Insurance Holding Company Act governing affiliate transactions (e.g., generally requiring actual cost-based compensation). In practice, however, insurance regulators do not necessarily adhere to cost-based compensation for third-party attorneys-in-fact, but it's an issue requiring consideration during the organization and regulatory review process.

The Subscriber Parties

Finally, the third parties to the reciprocal structure are the subscribers (or policyholders). As previously discussed, these are the people or entities that associate with each other for the purpose of exchanging reciprocal contracts of insurance through a common attorney-in-fact. The rights and liabilities of the subscribers are established by the Subscriber Agreement, the insurance policies issued by the reciprocal through the attorney-

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in-fact and applicable law.

Capitalizing the Reciprocal

Reciprocals generally do not have access to traditional equity markets for their capital needs. They are generally capitalized through a sponsor such as an association (e.g., industry-specific groups), an existing insurance group (e.g., an established holding company with stock insurer subsidiaries) or investors (e.g., private equity). The sponsor can capitalize a reciprocal through the reciprocal's issuance of surplus notes or through subscriber contributions. These instruments do not permit interest or principal payments or redemption without insurance regulatory approval, are treated as equity on the reciprocal's financial statements, and are unsecured and subordinated to the reciprocal's other liabilities. As the reciprocal becomes profitable, those instruments can be repaid allowing the sponsor to recoup its initial investment.

As Compared to Stock Insurers

There are challenges to the reciprocal structure that do not exist with stock insurers. For example: (1) The sponsor has no rights to the reciprocal's underwriting profits, although it is possible to participate in the reciprocal's underwriting performance via the sponsor's organizing a reinsurer to reinsure the reciprocal's business; (2) There is also a potential for diminished control and/or operational influence of the reciprocal as a consequence of subscriber voting, although this can be addressed in structuring the reciprocal's governing documents and subscription agreement; and (3) Similar to the limitations that exist in initially capitalizing the reciprocal previously discussed, those issues generally remain throughout the reciprocal's life.

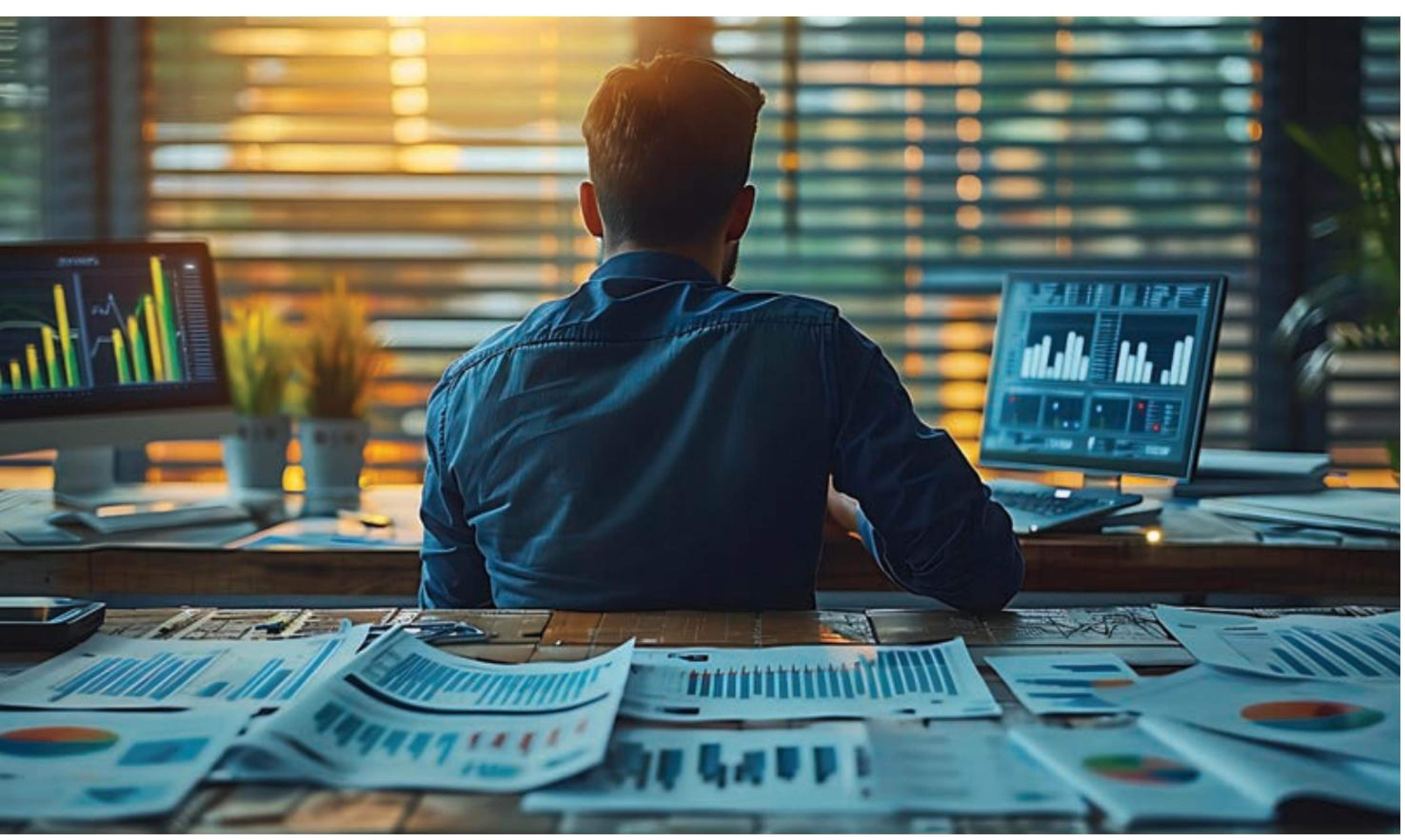
The Acquisition of Control of a Reciprocal

Changes in control of a reciprocal (somewhat akin to an acquisition that occurs with stock insurers) are unique and present challenges depending upon how the reciprocal is organized — we'll cover three scenarios.

The first involves a reciprocal and its third-party, independently owned attorney-in-fact. In this scenario (as well as the others to be discussed), the reciprocal itself cannot be acquired as there are no shares, other equity interests or, as we noted earlier, an actual entity to acquire. Thus, the change in, or acquisition of, control of the reciprocal occurs in one of two ways — either through a third-party's acquisition of the reciprocal's attorney-in-fact from its current owner or by replacing the attorney-in-fact with a new one. The latter approach could be more cumbersome as, in addition to obtaining regulatory approval, the need to obtain subscriber approval could be triggered — although it is not uncommon for the subscription agreement to permit the attorney-in-fact's substitution by the reciprocal's board or its then current attorney-in-fact.

The second scenario involves the situation where the reciprocal owns its attorney-in-fact. Like the first scenario, the change in control occurs by a third party's acquisition of the attorney-in-fact. In this situation, being a subsidiary of the reciprocal, it is possible that the attorney-in-fact is compensated on an actual cost basis as discussed above. It is unlikely that the acquiror would want to maintain a cost-based fee structure post-acquisition. The challenge, therefore, would be to convince the regulators that a fee increase (i.e., a structure that's not cost-based) benefits the reciprocal and its subscribers/policyholders. This is not necessarily insurmountable issue — it just requires a well-established plan.

The third and final change in control scenario involves the acquisition of one reciprocal by another by means of merger. In this case, the attorney-in-fact of the surviving reciprocal would remain the attorney-in-fact of the combined enterprise, which would then include the disappearing (or merged-out) reciprocal. Likewise, subscribers of the disappearing reciprocal would become subscribers of the surviving entity.



Benefits to Policyholders and Investors

The reciprocal structure presents an interesting insurance vehicle for both policyholders and investors. On the one hand, policyholders could, conceivably, have more influence in the insurer's operation as compared to a stock insurer's policyholders. On the other hand, from the investor perspective, the division of management fee income and underwriting results may present a more attractive opportunity. IJ

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The Untapped Potential of Press Releases in Insurance Strategies

The role of press releases often is underappreciated in the insurance industry.

By Erin Dwyer

While digital marketing and social media strategies can dominate the conversation, the traditional press release remains a powerful tool that holds immense untapped potential. From shaping public perception to launching new products and navigating crises, the strategic deployment of press releases can significantly bolster an insurance company's brand presence and market influence.

Here are six ways that press releases can unlock new opportunities for growth and differentiation in the insurance space.

1. Shaping Public Perception

In an era where reputation is everything, press releases serve as a vital mechanism for shaping public perception. These succinct documents provide insurance organizations with a platform to convey their values, achievements and commitments to the broader community.

Whether announcing a new product, highlighting philanthropic efforts or sharing insights on industry trends, press releases enable insurance entities to proactively manage their image and set themselves apart from competitors.

By consistently delivering compelling narratives through press releases, insurance organiztions can cultivate a positive brand identity that resonates with consumers and stakeholders alike.

2. Building Trust

Trust is the cornerstone of the insurance industry. In an environment characterized by risk and uncertainty, policyholders rely on insurance organizations to fulfill their promises and provide financial security when it matters most.

Press releases play a crucial role in building and maintaining this trust by keeping stakeholders informed and engaged.

Communicating key information (such as financial performance, regulatory updates, and corporate initiatives) demonstrates a commitment to accountability and integrity. Moreover, by promptly addressing issues and concerns through well-crafted press releases, insurance entities can mitigate reputational damage and reinforce their credibility in the eyes of the public.

3. Influencing Market Dynamics

With shifting consumer preferences, emerging risks and regulatory developments — the insurance market is always changing!

Press releases are a strategic tool for influencing market dynamics and positioning insurance organizations for success.

Whether announcing new partnerships, unveiling innovative products, or sharing thought leadership insights, press releases can help shape market perceptions and drive demand. By timing and tailoring a press release to align with market trends and competitive pressures, insurance entities can assert their relevance and capture the attention of consumers and industry stakeholders.

4. Communicating Key Information

Effective communication is essential in the insurance industry, where complex products and regulations often require clarification and guidance. Press releases serve as a reliable channel for disseminating key information to a wide audience in a timely manner.

Press releases enable insurance organizations to communicate directly with policyholders, agents, regulators and other relevant stakeholders — whether announcing changes to coverage options, providing updates on claims processing procedures, or sharing insights on risk mitigation strategies.

Ensuring clarity and transparency in communications can foster trust, enhance customer satisfaction, and facilitate informed decision-making.

5. Navigating Crises

In times of crisis, effective communication is paramount to maintaining stakeholder confidence and preserving brand reputation. Press releases offer a proactive means of managing crises and controlling the narrative.

Transparent press releases can help companies respond to adverse events, address customer concerns, or clarify misinformation.

By swiftly acknowledging challenges and articulating their strategies for resolution, insurance entities can instill confidence in their ability to weather storms and emerge stronger on the other side.

6. Enhancing Brand Presence

In an increasingly crowded marketplace, establishing a distinct brand presence is essential for insurance organizations seeking to stand out and attract customers. Press releases provide a versatile platform for showcasing a unique value proposition, expertise and achievements.

Whether announcing accolades, sharing success stories, or highlighting corporate social responsibility initiatives, press releases can help cultivate a compelling brand narrative that resonates with an insurance entity's target audience.

Consistently reinforcing brand messaging and values through press releases can foster brand loyalty and affinity among consumers and stakeholders, ultimately driving business growth and market success.

As retail insurance agents, wholesalers, carriers, and other insurance professionals embrace the untapped potential of press releases, they stand poised to drive meaningful impact and achieve sustained success in the insurance industry landscape. IJ

Dwyer is a senior account manager at Direct Connection Advertising & Marketing. Website: directconnectionusa.com.

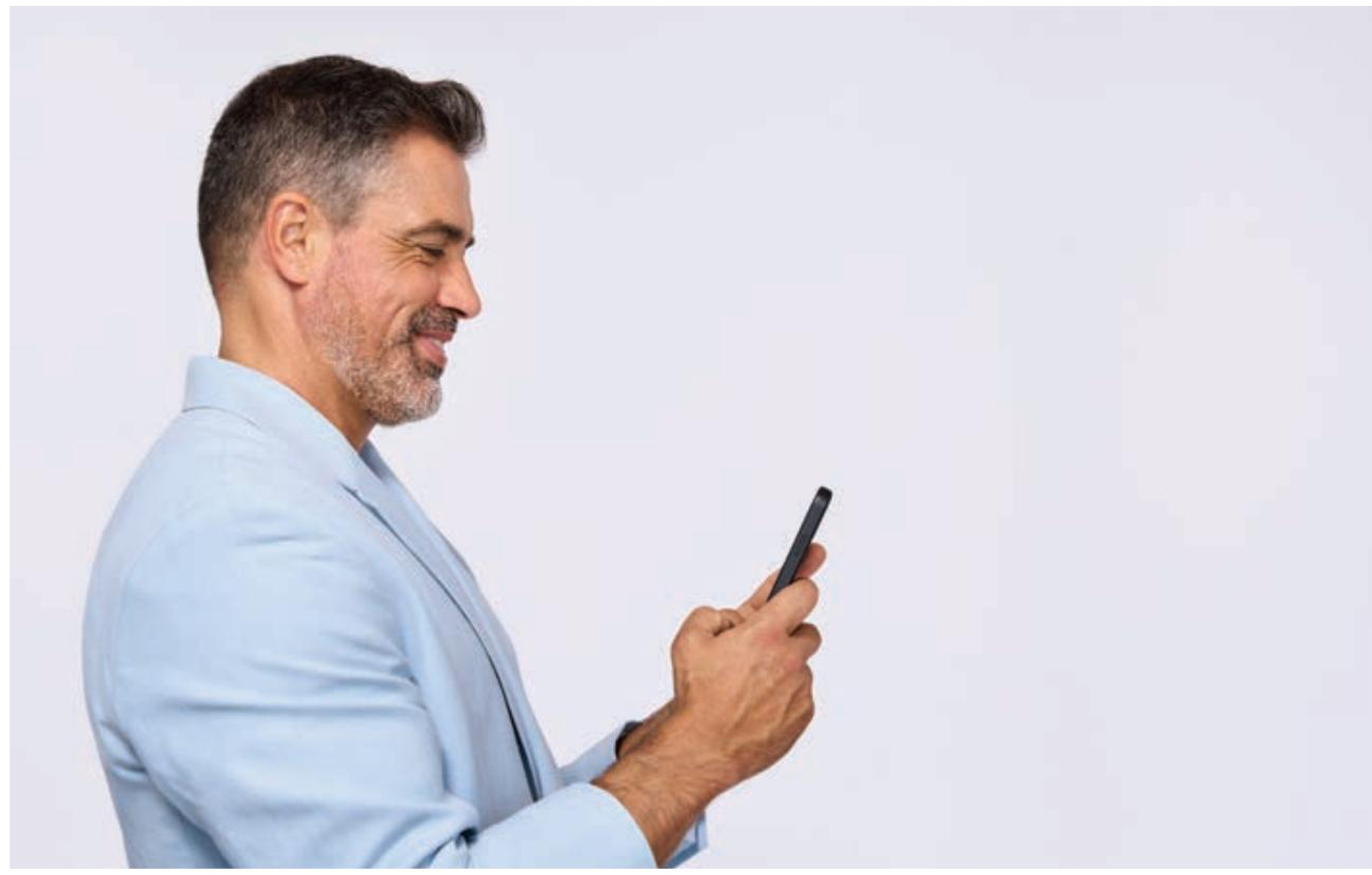
Recruiting Hacks That Instantly Boost Candidate Engagement

"Why don't candidates I reach out to respond?"

It is frustrating when people apply for your jobs only to never respond to an interview request, or in the case of LinkedIn, you send an InMail about a job opening that yield zero responses.

By Mary Newgard

When candidate engagement is low you may start to question your recruiting methods. Don't upend your process. Instead, refine it by putting yourself in the candidate's chair. Here are techniques my team has seen do wonders for boosting job applicant engagement.



Personalized Messages That Get to the Point

Meaningful content is crucial. Staying within the 500-character suggested limit for InMail is less important than loading the message with an intro about who you are, a statement as to why you've specifically contacted them, a link to the job posting (so you're not mistaken for a spammer), and your contact info including a link to your company's website.

Reply to Qualified Applicants Within 24-Hours and 48-Hours for All Other Communication

Not hearing back from companies is the most common complaint from job seekers. Commit to timely communication to ensure candidates remain invested in your process. Notice I say "qualified" applicants because there's going to be a lot of resumes in your inbox after a long weekend that are worthless. Get comfortable using the delete button so your time is dedicated to contacting the right people. If a 24-hour turnaround isn't feasible then it might be time to add someone to your hiring team.

Be mindful that each positive interaction increases the candidate's excitement, which makes long delays in communication devastating. A week feels like a lifetime, so feedback within 48 hours of each juncture (i.e., scheduling interviews, providing interview feedback, discussing compensation, preparing/receiving offers, and status updates on background checks) is crucial.

Profile Assessments Shouldn't Be Your First Step

My motto is simple. Talk First. Test Second. Imagine how it feels to an insurance professional solicited about a new career opportunity. You create excitement about the job and your company. They want to learn more, but you don't want to schedule an interview unless they complete an assessment. Some people will be immediately turned off. Those who take the test still want personal interaction. Should you not do that based on their results, you destroy any chance to engage them in the future.

Invite Everyone to Connect on LinkedIn

This is super easy. Click of a button. Now candidates see your posts — everything you like and what's happening within your company. Take it a step further; invite them to follow your company's social media. Have this invitation as a part of every template you use to correspond with candidates. You'll connect with more job seekers than you hire, and these followers will be the first to see new job posts and other career opportunities you advertise in the future.

Pick Up the Phone

Be careful not to assume how you prefer to communicate is the same for candidates. Email isn't always the best way to get reach a job seeker. Call people who send their resumes to you. Even a voice message stands out from the auto-generated email responses they receive from other companies. Text to schedule an introductory call. Candidates may not send personal emails during the workday, but they will respond to text messages. IJ

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have become much more comfortable with that flexibility, especially if they are good workers and figure out how to maximize their work/life situation. It has been hard, however, for employers and managers to manage the work-from-home situation, and many have put their foot down and will no longer accept 100% remote workers.

If management has flexibility in this regard, it is much easier to find new employees and keep existing employees. At least a hybrid environment should be offered if employees do perform, which is often a split of three days at home and two in the agency. It also fosters better communication when employees can work together face to face, especially with producers and customer service representatives.

Individual Recognition and Appreciation

Acknowledging employees' efforts and achievements through praise, rewards and opportunities for advancement is essential for boosting morale and job satisfaction. Simple gestures of recognition, such as a thank you note or public acknowledgment of a job well done, can make employees feel valued and appreciated.

Most employees don't appreciate a group fixed raise or feel like their efforts don't make a difference. Those who work the hardest are often rewarded with more work because they are good, don't often complain, and get it done. When they sit in a department with others that don't pull their weight and don't see a difference in how they are treated, it does not encourage exemplary performance. Annual performance reviews are very important so people aren't just guessing about how they are viewed and appreciated and what they can do to move up in the organization.

Open and Honest Communication

Transparent communication about company goals, expectations and changes fosters trust and helps employees feel more engaged and connected to their work. When employees feel informed and involved in decision-making processes, they are more likely to be invested in the company's success.

It is important that management let their team know the agency's goals. That communication should include how management wants to grow, what the firm's goals are for the coming year, and how people will be able to move up in the organization and be incentivized. An annual planning meeting with the appropriate attendees can be helpful, and when the plan is committed to writing, it should be shared with all staff. Annual employee reviews are also important, so people know where they stand with their superiors, including producers.

Measured Workloads

Employees will dread going to work if they are constantly overwhelmed with their workload and feel unsupported. This is often the result of managers and owners who don't monitor workloads. Without a clear understanding of each employee's workload, managers may underestimate the amount of work being assigned and fail to provide necessary assistance. When we ask owners about the amount of commissions and customers they have and they have trouble running those types of reports, we know they also can't possibly know what is on each person's desk.

When employees understand what is expected of them and owners are aware of their employees' productivity compared to industry standards, adjustments can be made, such as redistributing work or hiring new staff. Management can also offer more money to employees to handle more work. This leads to a greater sense of fairness among staff and mitigates feelings of inequity.

Summary

Employee happiness is influenced by a combination of factors. Each agency and employee mix is different, and no single formula exists for success. Find the best blend of the factors described above for the agency and staff. Discuss them with the staff and revise the approach as needed. Owners can create a workplace where employees feel fulfilled, motivated and happy, ultimately leading to increased productivity, retention and overall success. IJ

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Closing Quote

Insurance M&A – a 2024 Outlook

By Alicia Chandler

Experts are calling it: 2024 looks like a good year for merger and acquisition (M&A) activity for the insurance industry. To make the most of this positive environment, buyers and sellers will be focusing on getting appropriate valuations, exploring a variety of financing options, and showing flexibility in creating purchase agreements. If you're in the market to buy or sell, here's what you should expect when working with a lender.

What's the Agency Worth?

The sale price of an agency depends on many factors, primarily the calculated value of the business. Price and value, however, are not the same thing, as buyers may be willing to go above market value to gain specialty assets or technical expertise in the target agency. Conversely, the buyer may demand a discounted amount if the market is soft, and they face little competition.

Calculating value starts with looking at EBITDA (earnings before interest, taxes, depreciation, and amortization). To come up with a true market value, however, expenses that will not continue after the sale – such as for an owner's vehicle or one-time costs for software – must be added back to the baseline EBITDA. Additionally, owner's compensation must be adjusted to reflect the true market rate for the owner's salary and benefits, i.e., what an employee at a comparable agency with similar responsibilities and seniority would be paid. This is necessary because owners often either overpay themselves or take zero compensation. The revised figure, used for valuation purposes, is the pro forma EBITDA.

A starting price is calculated by multiplying the pro forma EBITDA by a multiple. According to Merger & Acquisition Services, common multiples range from eight to 10x for agencies with EBITDA below $2 million to 12.5 to 14.5x for those with EBITDAs over $5 million.

How Can the Purchase Be Financed?

There are probably as many ways to finance an insurance agency purchase as there are agencies. The most basic is an all cash purchase, where the buyer pays the agreed upon price, often with the help of a business loan. While this is the simplest arrangement for the seller, it has notable drawbacks for the buyer. First, it doesn't offer any guarantees regarding future performance of the business. In addition, if the buyer takes out an SBA loan, they may have to put their home up as collateral. Some specialty, non-SBA lenders, however, do not have this requirement.

Purchase arrangements that keep some of the seller's skin in the game provide a level of protection to the buyer. A deal with an earnout provision

rewards the seller with additional payments if the agency reaches established targets, giving them an incentive to sell the agency in a strong growth position. Earnouts can help get around different views on the value of the business.

Rolling over equity is another way to retain seller interest in the continuing success of the business. In this arrangement, the seller accepts a purchase price, but reinvests a portion of it back into the business. They may also retain a management or advisory role in addition to their equity stake.

Can Financing Be Flexible?

Absolutely. Some of the best deals – those that satisfy sellers and buyer alike – use a combination of financing tools. If the buyer is a publicly traded company, they may include stock as part of their offer, along with cash. Current M&A deals almost always contain an earnout component. In the past, earnouts were structured as a way to reach the base purchase price after the sale, but more recently they have been formatted as growth earnouts to produce additional value beyond the purchase price.

Many deals also contain some form of seller equity. The seller may hold a minority stake in the acquired company, with or without continuing managerial involvement. In addition, owners may be willing to provide a subordinated seller's note, in which they receive a portion of the sales price up front, but accept continuing payments from the buyer for the balance. By accepting a portion of the risk, the seller has an incentive for the business to succeed. Oftentimes in these arrangements, the seller continues on in a managerial or advisory role. Lenders for the buyer like these deals because they spread out the risk, and they have a protective effect on the agency's cash flow, which is the collateral for the loan.

Potential agency buyers and sellers have a lot of options when it comes to financing an M&A deal. Working with lenders and valuation companies that understand the industry and its cash flows can make the process go more smoothly. IJ

Chandler is president of Indianapolis-based First Franchise Capital, a First Financial Bank company.

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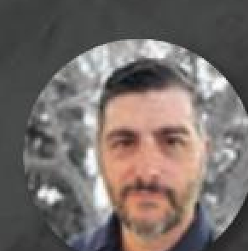
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