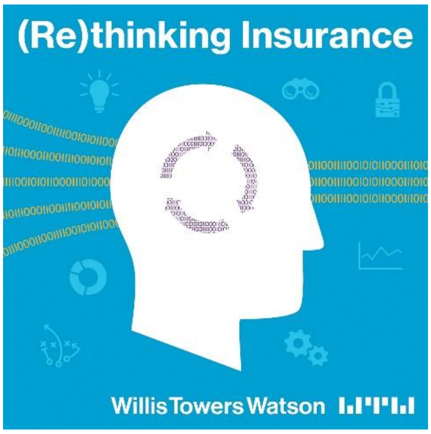

Episode 27: Commercial lines insurance trends

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NARRATOR: You're listening to Rethinking Insurance, a podcast series from Willis Towers Watson where we discuss the issues facing P&C, life and composite insurers around the globe, as well as exploring the latest tools, techniques, and innovations that will help you to rethink insurance.

MICHAEL MCPHAIL: Hello and welcome to our Rethinking Insurance podcast. I'm your host, Michael McPhail. On today's show, we'll be discussing some key issues and trends that are impacting commercial lines insurers. With two wonderful guests today Jeff Van Kley and Nancy Serio.

Jeff is the pricing, product claims and underwriting lead for the Americas and is based in Chicago. Nancy is a director based in Hartford. She's not an actuary. She's an expert in underwriting solutions and she'll be providing that perspective today. Hello to both of you.

JEFF VAN KLEY: Hi, Michael. Glad to be here.

NANCY SERIO: Hi, Michael. Glad to be here. Thank you for having us.

MICHAEL MCPHAIL: Absolutely. So typically in the past we've started these shows by asking our guests, if we were to Google something about, what would you find? But we're going to take a break from that today, try something a little bit different. So I would like to know from each of you, what do you like to do outside of work at Willis Towers Watson? And start with Jeff.

JEFF VAN KLEY: Yeah, I'd like to try to stay in shape, try to travel a little bit as COVID allows and root for the Chicago Cubs when they're playing but they're not playing right now.

MICHAEL MCPHAIL: And Nancy, what do you like to do outside of work?

NANCY SERIO: I love to travel and see sports. I just recently just returned from Acadia National Park, an amazing park locally. Looking forward to traveling a lot more once COVID settles down. And my passion for baseball, especially the Boston Red Sox. What about those Red Sox last night leveraging those analytics, pretty well. By the time you hear this podcast though, we'll see if the analytics worked.

MICHAEL MCPHAIL: Yeah. Right on. I didn't grow up in Massachusetts, I grew up in Texas, huge Houston Astros fan but I've always had a soft spot for the Red Sox. So I won't be too disappointed if they're the ones that make it all the way.

Well, I'm going to head into the rest of the show here and start getting our experts' thoughts on all things commercial lines. So commercial lines insurers they're increasingly adopting AI and analytics. I'd love to hear from each of you and what you think is driving this and how insurers are applying these techniques. I'll start with Jeff.

JEFF VAN KLEY: I think this is being driven by multiple forces. New players from the InsurTech space as well as venture capital funded startups are ramping up the competition at the moment. And at the same time, social inflation and increases and loss costs have prompted insurers to invest more in the identification of the better risks in the commercial space. All of this adds up to increased competition for better risks within commercial classes.
Insurers are applying these techniques by gathering and capturing more data on their insureds as well as searching for external data sources via the internet or otherwise. We've all heard of people web scraping using Python or whatnot to gather more information. This data is then used to create generalized linear models, machine learning models or other advanced predictive models to identify more profitable risk to insure. Nancy, I know you had some thoughts on this topic.

NANCY SERIO: I mean, I think what's important is it's not a free for all. You need to balance the cost of data, the number of data sources, the quality, the predictive power. It needs to be intuitive and accurate and also socially acceptable by regulators.

MICHAEL MCPHAIL: So both of you mentioned data sources. I like to dig in a little bit further on that. So can you describe what new data sources are commercial lines insurers leveraging? Whether that's to improve underwriting or claims outcomes. Can you go a little bit more into what these data sources are?

JEFF VAN KLEY: Yeah, I'll go into that a little bit. I think I'm probably going to only end up scratching the surface here because there's so much going on. Depending on the line of business, many external data sources are accessed.

The internet obviously has a wealth of information that can be scraped and utilized. Additionally, property risks can be evaluated using satellite photos, drone taken pictures, people driving by and taking photos or other digital media to evaluate the condition of the roof and the overall property and the surrounding area.

Also, on the claim side, background data on claimants' vehicles, properties and insurers can be utilized as indicators of potential fraud as well as predicting the ultimate value of claims. Finally, claims analytic data can be used to automatically steer claims to the appropriate area where the claim could be best handled, whether that be fast tracked claims to a litigation specialist area or to high exposure committees for further discussion. Nancy, I know you had some other thoughts on this as well.

NANCY SERIO: Yes. I mean, there's a lot of vendors out there today and a lot of vendors are commenting on how they've got the perfect solution to append. Some are saying, hey, we've got 50 variables in total at the address level related to crime, whether it be crime, weather, climate.

So it's sifting through the different sources of data and as we'd mentioned, is balancing the number of variables that carriers will ultimately use. We are seeing an increased use of external variables by carriers, especially property crime, hail severity. Seeing more use of wind with all the natural disasters we've had and stuff like that.

So increased use of wind, carriers are using zip code mapping for these types of variables. We're seeing that they're using a lot of different variables, but ultimately they are using fewer variables ultimately in their actual models.

For example, working from home is a variable that some carriers are using now in burglary for their demographics versus the 50 variables that are available. So they are using a smaller number of variables that they feel have stronger predictive power.

MICHAEL MCPHAIL: So just as a kind of follow up to that, are you starting to see commercial lines carriers using external data sources to the extent that a personal line carrier would?

NANCY SERIO: Yes. We're seeing use of a looking at a lot of different variables. But ultimately, what variables actually end up potentially in a predictive model ends up being like a handful of variables.

MICHAEL MCPHAIL: OK. I'm going to switch gears a little bit here and talk about what's been happening in the world over the last 18 months, which is the COVID-19 pandemic. Obviously this has had a huge impact on many industries, including the insurance industry.
I'd love for each you to speak on the impact that COVID-19 has had on insurers efforts. And furthermore, what I really mean by that has the pandemic accelerated their initiatives or has it been an obstacle to progress? Jeff, why don't you start it off.

JEFF VAN KLEY: Thanks, Michael. It has had so many impacts. And we talk to a lot of different carriers and you can sense different impacts when you talk to them. It's had several impacts, not limited to disruptions and loss experience, turnover in data science analytics teams or other leadership teams.

Lack of in-person collaboration, possibly contributing to longer development time. And budget room created by a lack of travel expenses, obviously the expense equation has changed as well. Overall, has made budget dollars available for investment.

But between the data disruption and the continual turnover of staff at a lot of companies, progress has proven to be challenging as well as just the change in the general work environment that we're all living and working in.

The Insurtech disruption as well as venture capital startups have contributed to a spike in demand for analytics talent making assembling and maintaining an analytics team very difficult. And as I said before, the lack of in-person collaboration, it's been hard over the last 18 months to gather in rooms and whiteboard and really brainstorm together in the same way we used to. So we've had to adapt via technology to try to collaborate as best we can. My personal opinion is it never quite replaces the getting together in a room and whiteboarding everything. So that's proven to be quite a challenge.

MICHAEL MCPHAIL: And you really hit on a lot of aspects of the environment and how uncertain it has been. Insurance is always uncertain but this is just added a bunch of uncertainty on top of that. Nancy, could you go into some other challenges that insurers are facing in this environment?

NANCY SERIO: Sure. A significant issue is the talent issue. The turnover, the onboarding, the training, especially modelers are being recruited by other industries. So there's significant shortage. The underwriting talent shortage is huge. About half of underwriters are retirement eligible. So there is definitely a significant demand for underwriting talent, in actuarial talent and modeling talent.

And a lot of this talent that was traditionally in the carrier or consulting space is moving to other industries, whether it be retail or technology. So there's been huge disruption.

A significant disruption, both commercial lines and personal lines and ourselves is a supply chain disruption in general inflation. The impact of whether it be the cost of plywood or the cost of getting windows and all that, that impacts both personal lines and commercial lines.
So the cost of claims are increasing in business interruption. All those types of areas are going to be having a significant impact from the supply chain disruption that's happening across the world right now.

MICHAEL MCPHAIL: One thing I was curious about, you talked about claims inflation and you talked about the talent issue which absolutely you can see that impact on the insurance industry. But one thing that's very unique that's happened over this last 18 months is obviously all these people working from home. How does that impact cyber coverage? Are insurers changing how they approach cyber coverage?

NANCY SERIO: Yes. We're seeing carriers putting clarity on coverage. So they're either explicitly excluding it or affirming coverage versus some carriers in the past would be silent on it.

So we're definitely seeing that in the cyber market the terms and conditions, the pricing, whether it be VPN connections and all the requirements to ensure the authentication, there's a lot more questioning of that by the underwriters at the carriers and restrictions in terms and coverages. So we're definitely seeing that impact of cyber.

The other area that is very uncertain today for all of us, both in the commercial and personal lines space is climate change also. The impact of fire, water, wind, flood, it's very unpredictable right now. So it makes it challenging to price for it.

So that's a big challenge that everyone is facing today. And as we all know the uncertainty of COVID and mental health, that hits multiple lines of coverage, whether it be workers compensation, general liability, employment practices, D&O. What's the long-term impact of COVID and mental health?

MICHAEL MCPHAIL: Yeah, that makes sense. Thanks, Nancy. So along the lines of long term impact of COVID and how insurers prepare for the future, in terms of comparing and contrasting commercial lines and personal lines, what are the main differences that you're still seeing in the industry today?

JEFF VAN KLEY: I think over the last several years there's been a pretty large gap between predictive analytics use and personalized and commercial lines. And that has to do with volume of data, homogeneity and other factors.

So when we're talking to clients, there's been a bigger push towards using analytics in the commercial lines space to catch up for lack of a better term to the personal lines space. And Nancy, I know you had some thoughts on that as well.

NANCY SERIO: Yes. Our 2021 advanced analytics survey really saw a significant uptick in commercial lines, especially in the specialty lines such as travel, excess property and employment practices. Those were areas where we saw significant uptick in use of advanced analytics.

We are seeing an increased use in traditional commercial lines, small commercial auto, general liability bop and also commercial property. That seems to be a significant increase in number of carriers that are looking at advanced analytics.

The results of our survey are consistent what we're seeing in recent filings of carriers trying to get approval in the commercial lines space, including middle market and small commercial.

MICHAEL MCPHAIL: To close us out here what should business leaders be tracking and preparing for the rest of this year and into 2022?

JEFF VAN KLEY: That's a fantastic question because obviously when we led into 2020, we were planning for a 2020 and a 2021 that were entirely different than what turned out to be. As we move forward, we've got to think about the new normal and what things are going to be like moving into 2022 and beyond.

As we look back, we have to kind of take 2020 data, throw it out as kind of anomalous. Evaluate 2021 is a gradual move back to normal. And then hopefully 2022, we achieve normalcy around the world.

Two major focuses for management to focus on is probably data capture utilization and then technology and automation. The companies that invest heavily in really understanding the risks and have more data will win competitively.

And I think we touched on that a few times today about the gathering of data and the real effort to utilize that data. And this is especially true in a time of claims cost escalation. We talked about climate change, we talked a little bit about social inflation.

New entrants into the business are thirsting for data and information about potential risks as it has incredible value. Carriers have been in the space for a while have to leverage their experience and fend off the new competitors as best they can as new competitors don't have the history on the risks.

And then technology and automation, that becomes really important in this area of increasing costs. It'll lead to speed to market, which is extremely important when trends unexpectedly increase.

Leveraging data quickly to enable the approval of rate increases can save millions of dollars on the loss ratio side as well as saving hundreds of thousands on the expense side if you're more efficient in process. So that's kind of what we see going forward, at least as it relates to analytics and commercial lines and the actuarial world.

MICHAEL MCPHAIL: Thank you for that, Jeff. Well, that's going to close this out today. I really appreciate both Jeff and Nancy joining us and I just thought I'd give you each a chance to have a few parting words. Jeff?

JEFF VAN KLEY: I just want to thank everybody for joining today. I think it was a fantastic discussion and help people find value in it. And as I said a little bit earlier, I'm hoping for quite a bit more normal 2022 and beyond.

NANCY SERIO: Absolutely, Jeff. We're all hoping and praying for a normal 2022 so we can all get back to the way it was and better predict the future.

MICHAEL MCPHAIL: All right. Thanks Nancy, Jeff again. And thanks for our audience for tuning in and we'll see you next time on the Rethinking Insurance podcast.

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