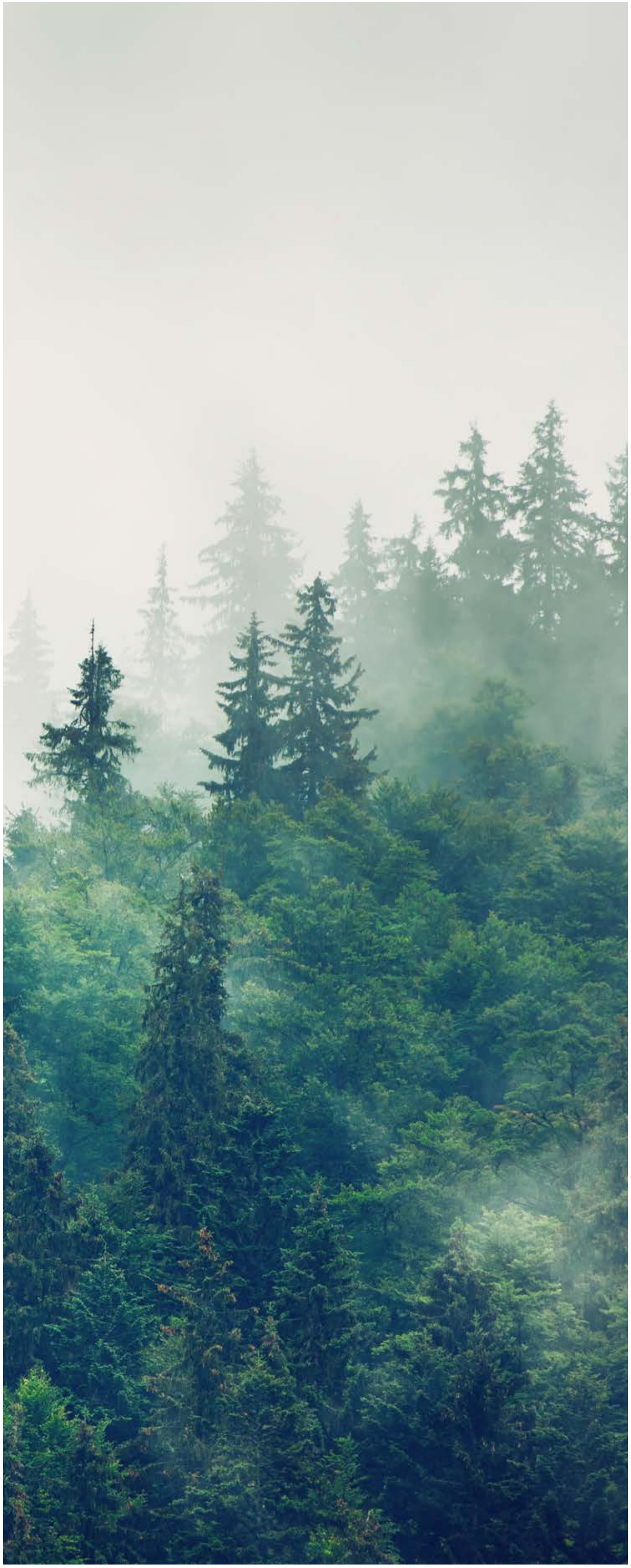
Global Insurance Services

Executive Brief
Q4 2021

EXPERTS WITH IMPACT™

FTI CONSULTING



In This Issue

Expanding Our Expertise

FTI Consulting's Global Insurance Services continues its expansion of U.S. and EMEA teams, adding Jim Wrynn, a leading expert on insurance matters, with more than 35 years of professional experience as an executive, attorney, regulator and advisor.

In The News

In an expert forum with Risk & Compliance magazine, FTI Consulting's Peter Kelly and Nicole Austin discuss driving transformation in the insurance sector through trusted data and technology with Bill Conners (ForMotiv) and Ryan McMahon (Cambridge Mobile Telematics).

Spotlight on ESG

How can insurers build a sustainable world and regain the trust of their customers? We share 5 key tips for a holistic sustainability strategy.

Special Insights & Guidance Advisory

Directors & Officers insurance protects leaders from personal losses and can help cover the legal fees and costs the company may incur in the event of a lawsuit. Knowing how to navigate this process and the ability to craft a compelling story with sound analytics will set you up for success. FTI Consulting's Fred Donner and Andrew Whitman share how to navigate the underwriting process to protect your board of directors from liability.

Expanding Our Expertise

Insurance Expert Jim Wrynn Joins FTI Consulting as Senior Managing Director

FTI Consulting is happy to announce the appointment of Jim Wrynn as a Senior Managing Director. Mr. Wrynn is a leading expert on insurance matters, with more than 35 years of professional experience as an executive, attorney, regulator and advisor. He rejoins FTI Consulting from NAM, where he was Chief Commercial Officer and Hearing Officer.

"I am delighted to welcome Jim back to FTI Consulting as a part of our Global Insurance Services team. He joins during an exciting period as the insurance industry is operating in an increasingly complex and dynamic global environment. His experience and expertise will provide deep insights and perspectives that support our clients' business strategies and objectives."

– Wendy Shapss, Senior Managing Director,
Co-Leader of the Global Insurance Services practice

Based in New York, Mr. Wrynn serves as an expert in various litigation matters and is involved in global insurance regulations, policies and standards. He assists clients in developing strategies and programs dealing with regulatory and compliance issues; capital management and optimization; strategic partner and acquisition identification; new product development; geographic expansion strategies; distribution solutions; risk financing and captive insurance formation and operation; inquiries and investigations; claims analysis; litigation; and a variety of other issues globally.

Mr. Wrynn is a former New York State Superintendent of Insurance, where he was instrumental in the development of national and international regulations that govern the insurance industry. He also helped form the New York State Department of Financial Services, where he served as the first Deputy Superintendent of the new department.

Commenting on his appointment, Mr. Wrynn said, "I am excited to return to FTI Consulting and work alongside my colleagues who share a passion for serving clients across the globe on all matters relating to insurance and litigation. I look forward to leveraging the diverse platform and global network at the firm to offer first-hand experience and practical industry knowledge for our clients across management, financial, operational and technical functions." Read Jim's bio.

In The News

In an expert forum with Risk & Compliance magazine, FTI Consulting's Peter Kelly and Nicole Austin discuss driving transformation in the insurance sector through trusted data and technology with Bill Conners (ForMotiv) and Ryan McMahon (Cambridge Mobile Telematics).

R&C: What do you consider to be the most important new sources of data for insurers? Why does the insurance sector need these data sources now?

Austin: We would define 'new' sources of data as 'non-traditional' data, as opposed to standard economic and demographic data, which insurers and actuaries have been using for a long time. Some of these forms of non-traditional data, from third-party marketing databases, for example, have been available for decades, and it is how we use them that has changed. Data about what we believe – behavioural data – and how we think – psychometric data – are relatively unexplored in the insurance context and so far, are proving to be quite predictive.

How we collect this and the speed with which behavioural data can be operationalised make it an exciting new source. Data sources that allow for better pricing of risk and identification of poor risks are needed for two key reasons. One is because people's behaviour, such as purchasing and driving, has been so different during the pandemic that it has made some data sources, such as credit, less powerful.

The other is that now the pandemic has pushed more purchases online, it is harder for insurers to really know their customers. When are they confused? When do they need help? Would a different product be better for them? Are they sincere? It will also allow insurers to tailor and improve an individual customer's experience to suit them and potentially reduce costs by identifying and focusing on customers most likely to buy. This is all important as the insurance sector rebuilds for a post-pandemic world.

McMahon: First-party data is rapidly growing in importance to the insurance industry. Insurers that utilise first-party data, or data collected from their customers directly, can better understand the way the data was collected, the strengths, weaknesses and biases of the information and better enable transparency to their customers based on how the data is used.

Furthermore, first-party data enables an insurer to build competitive advantage as they can provide improved products and services at better prices than competitors when they apply first-party data effectively. Individual driving risk is an example of first-party data that is growing significantly in usage by insurers to offer competitive products to their customers.

Conners: With credit and traditional data becoming less predictive, alternative datasets are becoming more useful for insurance carriers. For example, telematics and spatial data in property and casualty (P&C) and electronic health records (EHR) and pharmacy data in life insurance are becoming the norm. As carriers shift to digital, behavioural data will become increasingly important to properly measure the intent and risk of a prospective policyholder, and to allocate carrier resources accordingly. For example, there is behavioural intent data.

As the world increasingly moves from the 'Blockbuster' model to the 'Netflix' model, understanding user intent has never been more important. Netflix won because it captured an immense amount of behavioural data on its customers and used that data to predict end-user intent and provide dynamic, personalised experiences tailored to the individual user. Insurance is heading in the same direction.

Kelly: The number of InsurTech companies is growing quickly; even faster than the overall FinTech growth rate. Many of these companies are providing new types of data, including expanded use data in tracking technologies, such as telematics, internet of things (IoT) and wearable data, and behavioural and sentiment data. These latter types offer insurers the opportunity to use information about individual behaviours and preferences and the resulting impact in predictive models is in some cases dramatic.

Almost every type of predictive model, from loss cost to fraud to conversion propensity, is seeing major improvements with the incorporation of one or more of these new data types right now. A challenging phenomenon that the insurance industry has been dealing with over the last 15 years is the weakening of predictive power in predictive models. Most of this weakening has been from the use of non-exposure proxy data like credit.

The reasons for this are only partly understood, but the effect is very real on a relative basis, where you have comparative predictive strength vis-à-vis competitors, as well as on an absolute basis, where you have pure predictive lift. As a result, insurers need data sources which can help them differentiate customers so that lower prices can be offered to the best risks. Behavioural and sentiment data is stepping into this gap and in some cases more than making up the difference from the weakening power of the established data sources.

R&C: What can insurers do with that data? What is allowed and what is possible?

McMahon: Insurers that use first-party data are better able to match rate to risk, as the information collected can be directly linked to claims data, with the highest fidelity. Third-party data is subject to several restrictions on how it can be collected, when and where it can be used and by whom. For example, insurers that can collect telematics data are able to identify ongoing changes in a customer's risk, transparently share that data back with a customer and build incentives that ultimately reduce risk.

When asking customers to contribute their own data to help set rates, they must offer enough value to the customer for that individual to opt in; insurers with robust first-party data collection end up with strong consumer propositions that lead to increased customer satisfaction and higher resulting retention.

Conners: On the agent and customer experience side, carriers can provide dynamic experiences to drive optimal outcomes. On the risk and fraud side, carriers can mitigate risk with additional data checks and step-up underwriting for a proposed insured.

Kelly: Technically, insurers can do whatever they want with the data within the confines of applicable laws and regulations. Most insurers that acquire the data are testing every possible use case. The challenge comes with operationalising the new data because some of it has no historical basis and must be collected, for example digital behavioural data collected during applications, and some of the use cases in some countries would require regulatory approval.

In these cases, insurers are reluctant to disclose the use of the new data until they have a higher level of comfort with the performance, such as pricing applications based on predictive models using sentiment.

Read the rest of the discussion here.

**Originally published in Risk & Compliance magazine.*

Spotlight on ESG

ESG: Threat or Opportunity? How Can the Insurance Sector Tackle ESG Effectively?

By: Graham Handy, Darko Popovic, Marc Loh

Research suggests that insurance companies are keenly aware of both the threats and the opportunities arising from today's ESG trends. However, a new approach is needed if they are to tackle ESG effectively for the long term and avoid their efforts being perceived as mere "greenwashing". We offer some pointers for a more holistic sustainability strategy.

Opportunities beckon…

Recent research for the FTI Consulting Resilience Barometer™ 2021 found that almost 90% of asset management and insurance companies see ESG as an opportunity – and there is good reason for their positivity. Insurers can offer cover for new and potentially profitable types of business, such as renewables. They can also invest assets in new areas that offer major long-term growth opportunities: sustainable infrastructure, for example.

More broadly, there are opportunities to ensure that the industry makes a worthwhile contribution to society's aims. Insurers can play an active role in bringing about a more sustainable and fairer economy, for example by investing in social housing. They can take part in social initiatives to improve financial inclusion and financial literacy amongst the public. And they can collectively re-establish the industry's relevance for customers and regain their trust: introducing parametric products to make the claims process more transparent and predictable is just one option here.

…but threats remain

The industry is already shaping up to realise these significant opportunities. However, insurers also appreciate that it is too early to shift the focus entirely away from the accompanying threats.

Our recent survey found that 31% of participants feel that they are falling short on ESG performance and reporting. With around a quarter expecting to be investigated over their sustainability or ESG practices by regulatory or government bodies over the next 12 months, this threat needs to be dealt with promptly to avoid penalties and reputational damage.

However, an even more significant threat lies around the corner. Companies that don't measure up in ESG terms may find themselves in an unforgiving environment.

A wide range of stakeholders (staff, customers, media, regulators, state, investors) are ready to vote with their feet if a company is seen as ineffective or – perhaps even worse – inauthentic in ESG terms.

Limitations of current approaches

Companies are keenly aware of reputational risk, as their concerns about reporting and investigations show. However, our client experience suggests that there is less awareness of the need for strategic adaptation to a radically changing world. Rather than paper over cracks, companies need to position themselves for a sustainable future, creating appropriate products and market positioning. This way, they can demonstrate that they are part of the solution to ESG issues, rather than part of the problem.

Currently, the steps that insurance companies are taking to improve their ESG positioning are often somewhat piecemeal. For example, many view divestments, exclusions or mergers & acquisitions (M&A) as a solution, with 36% of survey participants mentioning improving ESG credentials/ capabilities as a reason to conduct M&A over the next 12 months. This approach could easily backfire.

Reactivity is another acknowledged drawback of some current approaches. For instance, around 39% of asset management and insurance business leaders admit they are mainly reactive at managing operational disruption from climate change issues, and 31% are mainly reactive at managing ESG and sustainability developments.

To sum up, though they are keenly aware of ESG threats and opportunities, many companies have yet to formulate a clear, holistic and proactive strategy for addressing them. Once again, they often know that they have more work to do: our survey found 29% of participants are concerned about their firm's inconsistent or uncoordinated approach to tackling climate change.

The Perils of M&A as an ESG Tactic

Companies sometimes acquire others with a "green" image in the hope of improving their own reputation. The risk is that the acquired company's reputation will instead be tarnished – or that the whole transaction will be seen by stakeholders as "greenwashing".

Disposing of a less sustainable operation can also be counterproductive if it is perceived as just offloading the issue or moving it out of sight. Disposal only works if the new owner of the issue quickly demonstrates the ability and the will to deal with it more effectively.

Towards a holistic ESG strategy

So what can companies do to strengthen their overall ESG positioning? We recommend the following steps.

1. **Proactively embed ESG at all levels of the organisation,** combining centralised and decentralised approaches. This gives early warning of threats as well as identifying opportunities for improvement.
2. **Make sustainability everyone's responsibility,** and enforce accountability by aligning with objectives, remuneration and performance metrics.
3. **Collaborate and engage across the industry,** and with stakeholders such as regulators and customers, to formulate strategy and push for consistent, well-defined and practical regulations and standards.
4. **Commit to measurable actions** and full transparency of disclosures.
5. **Work on collecting the data** and designing the metrics needed to steer the ESG journey.

Above all, the strategy must recognise that realignment with ESG goals represents a major transformation for the business. This transformation requires strong leadership and must be reflected in plans and budgets.

Special Insights & Guidance Advisory

The Art (and Science) of Insuring Your Board of Directors Against Liability

By: Fred Donner and Andrew Whitman

Directors & Officers insurance protects leaders from personal losses and can also cover the legal fees and costs the company may incur in the event of a lawsuit. Choosing the right underwriter requires a storyteller's talent.

Every company has a story to tell. The ability to craft yours well, and back it up with sound analytics, has proven to be beneficial when negotiating with underwriters for directors and officers (D&O) insurance.

As seen in the chart below, D&O insurance provides indemnified and non-indemnified coverage to insured people's managers from personal losses stemming from actions they take in the performance of their contractual duties. A D&O policy also covers losses associated with lawsuits, including defense fees, while typically excluding fraudulent or other criminal acts.

D&O Insurance Coverage

COVER	DESCRIPTION	INSURED	COVERAGE
Side A	Non-idemnifiable loss	Individual directors & officers	Personal assets
Side B	Idemnifiable loss	Company	Corporate assets
Side C	Security Claims	Company	Corporate assets

In this era of increasing event-driven litigation (e.g., lawsuits stemming from cyberbreaches, product recalls, social justice movements, etc.), effective D&O policies and appropriate limits can provide needed peace of mind to your board members. Coverage varies by organization: Publicly traded companies typically procure larger limits than do closely held firms. Financial profile, industry, operations and myriad other factors can impact the type and amount of D&O coverage that a firm sources.

Private equity firms also covet effective and efficient D&O insurance. Among other advantages, a policy can protect the firm and individuals against claims of breach of fiduciary duty. That's a major selling point for investors as more PE firms access public markets via initial public offerings (IPO) or engage in special-purpose acquisition company (SPAC) markets.

But acquiring or renewing a D&O policy that best fits your company's needs these days is not a simple task. Driven by the above scenarios and others, the cost for D&O insurance has risen dramatically since 2018. **According to S&P Global Ratings**,[1] direct premiums in the D&O commercial line rose by 40.9 percent year over year in 2020. Among the top 20 underwriters, written premiums jumped by 41.4 percent.

Underwriters are feeling the squeeze of years of mounting losses. In addition to raising premiums and retention points, they are reducing limits, or potential payouts, in the layers of excess protective coverage that typically make up a tower and provide savings for both carriers and insured. There is little to no pricing differential among excess layers today. Additionally, program layers are now built in $2.5 million or $5 million compared to the historic layer participation of $10 million or $15 million.

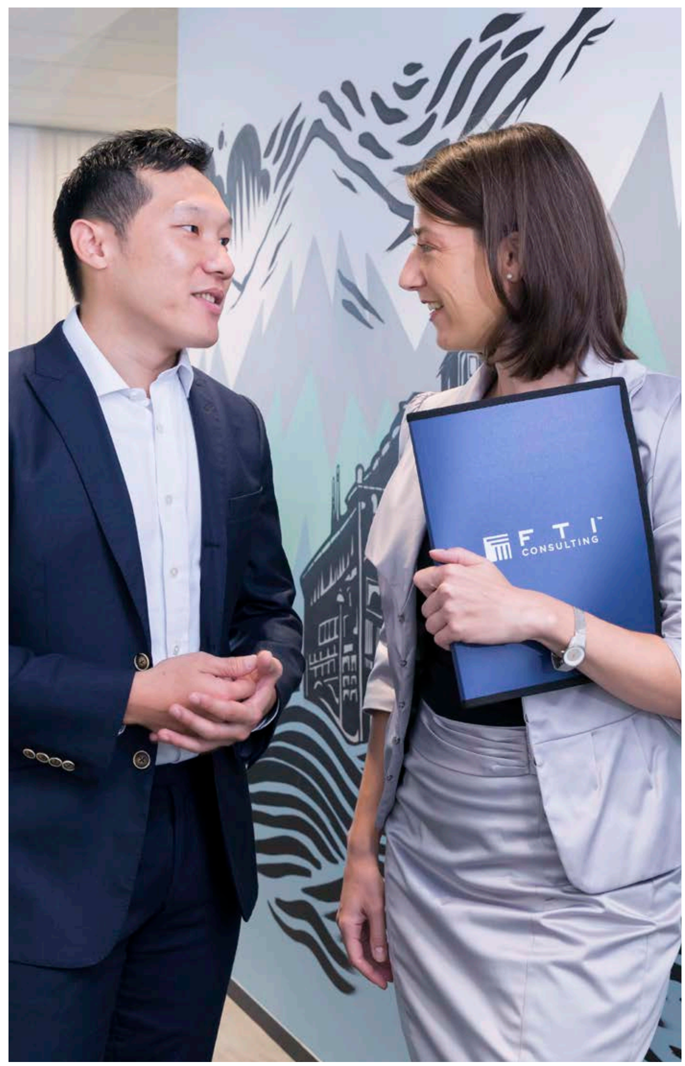
Make no mistake, underwriters want your business, but given the current pricing environment, they are being inundated with submissions from insured individuals. To compete, you must press your broker to do some serious shopping around. And to stand out from the crowd, you need to be ready to make your case directly to prospective underwriters by crafting a unique story about your company's financial and compliance position with key differentiators relative to your competitors.

Your Broker's Role in the Story

How is your relationship with your broker? That's important to consider early in the renewal process. You want to be able to have a frank conversation and push them at times if needed. Brokers are feeling the squeeze and the fatigue of a hardening D&O market, too. They may be tempted to simply suggest renewing an existing policy to avoid the effort — yet again — of going through another D&O marketing process that yields little impact.

Get a head start on the renewal process by at least 120 days with a renewal strategy meeting. Sit down with your broker to review your purchase limits relative to your industry and your loss profile — they will have this benchmarking material. It's important to take a deep dive into these analytics to position your company accurately and not simply rely on a general market update. Historical loss models, particularly in the face of rising prices, may be outdated. So carefully review limit and retention points to ensure they meet your current risk appetite.

Set a timeline for the entire renewal process and execution — you want to be able to review and complete submissions with your broker before scheduling meetings with respective underwriters. Your mutual goal is to have all options for policy renewal ready at least two weeks prior to expiration.



[1] "D&O Premiums rise 41% YOY in 2020; loss ratios hold steady." S&P Global Market Intelligence. May 5, 2021. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/d-o-premiums-rise-41-yoy-in-2020-loss-ratios-hold-steady-63997938

Casting Your Underwriter

Underwriters are asking more questions early in the process about performance, and their expectation of transparency is high. In fact, the more transparent and complete your submission is, the greater the likelihood an underwriter will take the time to fully vet your submission and the associate pricing.

The key here is creating a "best-in-class" underwriting story. You'll need to have a clear message about the following emerging topics:

- COVID response and performance/ execution post-lockdowns
- Financial condition and debt maturity table
- Claim and litigation history
- Harassment and awareness training and compliance, especially for senior managers in the wake of #metoo and social justice trends
- Cyber posture, including annual IT investment and preparedness for ransomware losses, together with protection and procedures
- Retirement plan fiduciary responsibilities

Strong, overt messages about all of the above are critical; anything perceived as missing or insufficient will lead underwriters to assume your firm lacks structure around them. The outcomes can be costly: As the old axiom goes, "underwriters plug holes in submissions with premium dollars."

For soon-to-be-public companies, board composition and public company experience are also major components of your story. If your firm or private equity sponsor is recruiting a public company board, be sure there is sufficient coverage of the members themselves, as well as the respective representation on key committees, including audit, compensation, governance and finance.

The Final Chapter

Pricing for D&O insurance is not expected to decline in the near future. Potential fallout stemming from the COVID-19 pandemic is expected to affect costs and squeeze underwriters further. Lawsuits against firms in hard-hit industries such as airlines, healthcare and hotels may increase — particularly so given the debt burdens required as they navigate the effects of the lockdowns last year. **Shareholders may sue companies over financial performance**.[2]

On the positive side, the pandemic normalized the use of videoconferencing across industries, allowing more opportunities to present your story directly to underwriters with all bodies present, including your broker. A virtual meeting offers the moment to speak from the heart with the knowledge (and data) that only a company can bring.

Finding and renewing a D&O policy that fits right is truly challenging today. But it can be done. Knowing how to navigate the process and craft a thorough and compelling story with sound analytics that will impress underwriters will set you apart. It may be a long story to write, but with the right expertise the final chapter can end on a satisfying note.

[2] "Once coronavirus fades, global businesses are set to face new danger: a wave of lawsuits." Fortune. Mar. 4, 2020. https://fortune.com/2020/03/04/coronavirus-global-businesses-wave-lawsuits/

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Happy Holidays

from FTI's Global Insurance
Services Team!

We wish you a joyous and safe
holiday season with your loved
ones and look forward
to a happy 2022!

FTI CONSULTING

As a leading independent advisor and consultancy to the insurance industry, Global Insurance Services helps clients identify opportunities and define strategies to manage risk, improve operational and financial performance, and drive growth.

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