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VERMONT

Greener Mountains

Actuary Maigh Wright thrives in Vermont's captive industry. Page A4

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See pages A18-A19 *for* recent Vermont captive formation data

For Actuary Maigh Wright, Vermont Is Captivating

Vermont native Maigh Wright has found a stimulating career in her home state's captive industry. **By Jon McGoran**

Like many lifelong Vermonters, actuary Maigh Wright grew up not knowing what captive insurance was, how important it is to her state, or that she would one day become a vital part of that industry.

"I went to school for statistics, and I didn't really want to be a teacher," she explained.

"I wasn't sure what I wanted to do. I just knew I really liked math. So, I started with the actuarial exams. Actuaries do insurance. I wasn't necessarily going for insurance, but that's where the actuarial career led me."

An actuarial recruiter connected her with a management consultancy active in insurance. Now, she's working as a vice president and actuarial consultant with Marsh in her home state.

"It just happens that the office was here in Vermont because of the captive industry, and they worked a lot with captives," said Wright.

A SENSE OF THE PRACTICAL

While Vermont is known far and wide as a major domicile for captives, the state's residents are largely unaware of the industry.

"I had no idea what [captives] were, [but] I was interviewing for the job, and I had to do my Googling and research on what the company I was interviewing for was, as well as captives," said Wright.

"I think that's common with students or people who aren't in the industry. It's not really an everyday sort of thing that you would necessarily know about. When I tell people that's what I do, I usually have to explain what it is."

The explanations generally don't end there.

"The actuary piece is the same," Wright said. "A lot of people don't know what an actuary is."

Among those who do, however, Wright is a bit of a star.

"Any account that's working with Maigh should consider themselves lucky to be able to work with such a great professional," said Tabitha Prestler, senior director of risk finance & insurance at Wilbur-Ellis.

"Maigh's realistic, and she's practical, and she doesn't just look at the numbers," said Prestler. "She tries to understand your business and how the numbers fit in, which you see happening more with actuaries, but it's not consistent. Maigh is always consistent. She wanted to understand the business before she just jumped into the data, because she wants to understand how the data fits into the business."

Michael Serricchio, managing director and America's sales and advisory leader for Marsh Captive Solutions, agreed.

"Maigh is an absolute pleasure to work with," Serricchio said. "She's articulate, very focused on clients and does a really good job explaining to the clients the complicated subject matter of actuarial science and what our reports say."

He also cited her excellent communication skills.

"One aspect of a recent project that we worked on had to do with some really technical pricing for a certain class of business going into a captive, and she actually did a ton of work to derive the most precise, exact premium dollar amount," said Serricchio.

"When a client questioned something, she had a really good response and was able to articulate exactly what happened, why it happened ... She was forced to step back, a couple hundred-thousand-foot view of things and actually was able to pivot and do that really well. Not a lot of actuaries can do that."

Wright's communication skills have benefited more than just her clients.

Brittany Nevins, captive insurance economic development director for the Vermont Department of Economic Development, said Wright is both good at her core functions and as ambassador for the Vermont captive industry.

The narrative that talent from the largely rural state doesn't have to go to New York or Boston to find work is one that bears repeating, and Wright is a good example of that, Nevins said.

"Someone like Maigh is a great example that you can live in a pretty rural area and be able to make a huge difference to the Vermont economy and the broader captive industry," Nevins added.

According to Wright, of the nearly 400 approved captive actuaries in the Vermont domicile, she is one of less than 10 that lives in the state.

"I really love being able to work in such an exciting industry and role but still have the perks of small-town living. That's my favorite thing about living in Vermont and working in this industry," Wright said.

"One of my other favorite aspects is that I've had the opportunity to travel a fair amount, pre-COVID, and I really love being able to live here in Vermont while experiencing so many different places. And I really like getting to meet clients and colleagues in person, because I think that helps build stronger relationships and learn more about them, both professionally and personally."

She also values the diversity of experience that comes with working

SUMMARY

- ***Like many natives,*** Vermonter Maigh Wright was unaware of the Vermont captive industry coming out of school.
- ***Wright's communication skills*** are an asset.
- ***Traveling far and*** wide for work is a job perk that Wright relishes.

as a consultant.

"I like the consulting world because I like being able to work with all different companies and learn a little bit about so many different industries."

EMERGING RISKS

Working in P&C provides even more variety. "I'm glad that I landed in the P&C field. It's been a good fit with all the variety, so not only do I have exposure to the different types of companies, but I also work with all the different types of coverages and different types of risk financing vehicles," Wright said.

She added, "I've also been working a lot with emerging risks, like cannabis and cryptocurrency. I've been doing that as some of the formation and feasibility companies are writing that sort of risk. It's interesting to be at the forefront of those developing industries."

Wright's enthusiasm for her work has increased since becoming a credentialed actuary.

"When I started out, I was an analyst and doing the leg work. I was working through my actuarial exams, and so now that I've passed them and I'm credentialed, I'm now the one who's relaying the results to the stakeholders and relaying the message directly to them."

Adding to that enthusiasm has been a move to captive formation.

"Since I joined Marsh ... I've been doing a lot more on the formation and feasibility end of captives," said Wright. "I've enjoyed that because it really gives me the chance to see the company grow from the ground up instead of just stepping in once they're established."

Wright values the deep knowledge and understanding that comes from working with a captive from its formation.

"If this is going to be your client, it's nice to know it from the beginning," said Wright. "Some of the bigger companies and bigger captives, there's just so much to know and to learn ...you'll never know what's gone on completely the past 20 years. When you start from the beginning, you feel like you've got a really good understanding of everything."

"Companies are always looking for ways to optimize their captive program. And I see insurance as a timeless commodity." — Maigh Wright, *vice president, actuarial consultant, Marsh*

LONGEVITY AND STABILITY

But while Vermont's captive industry is so dynamic, it offers considerable stability, as well.

"Vermont really benefits from its longevity," said Wright.

"Some things just come with time, and they've really built a strong foundation and a strong domicile here. A big part of it is that the legislators know the importance of the industry to the state's economy. And I think it gets the attention it needs that it might not in other states. There's no lack of knowledgeable service providers."

In ways, the sector's dynamism actually contributes to that stability.

"There's a lot of stability because of the evolving needs and the emerging risk," said Wright.

"Companies are always looking for ways to optimize their captive program. And I see insurance as a timeless commodity. So people and companies are always going to want to protect their assets, and captives give them the opportunity to really be involved in that process and to create incentives to promote effective risk management strategies."

Wright sees captive growth trends continuing for the foreseeable future.

"They've been trending in that direction for many years, and I think they're going to continue to grow," she said. "I think more and more companies recognize they can benefit from their own risk management initiatives, and a captive is a great tool for that."

One of the only limits on that growth is talent. While Vermont's captives have not been particularly impacted by the recent labor shortage, there is a long-term demand for talent.

"While it's natural to have some turnover in staff, the pressing need is in keeping pace with the growing volume of business," Wright said.

In fact, if there is one minor drawback to Vermont, it's that, as a small state, it has a smaller labor pool. "It's not a big state, and we don't have as many options for hiring," said Wright. "Thankfully with the remote work capabilities the last few years, that's changing a lot. So hopefully it will help."

Spreading the word on the benefits of working in Vermont captives should help, including the fact that the average pay in the sector is about $91,000/year plus benefits, in a state that, according to the U.S. Census Bureau, had a median income in 2019 of $31,492.

"I kind of fell into the role, but it's worked out really well," Wright said.

"I really like the industry and the job and the variety of work that I get to see. I like to think this is where I would've ended up even if it's not where I had started," Wright said. &

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Meet Us in Burlington

The Vermont Captive Insurance Association is back in-person for its annual conference this August.

By Autumn Demberger

VCIA's annual conference will be in-person in Burlington, Vt. this August 8-11.

So inundated are we with Zoom calls, web meetings and virtual life that it becomes almost celebratory when we get to meet in person. And it should be a celebration! For two years, society has heeded the guidance of world health organizations, practicing social distance to curb the spread of illness.

But now, with more vaccinated and boosted every day, things are opening up, and the Vermont Captive Insurance Association (VCIA) is thrilled to be back in-person this August.

"Everybody's excited to be able to come back together this year, to pick up the value and the networking opportunities beyond the virtual world we've been in for a couple of years," said Andrew Baillie, program director, global insurance at The AES Corporation, and the recently elected VCIA board chair.

"As a captive owner, my responsibility is to find the best way to do things for my company and the way you do that is by finding new ideas. And VCIA is the conference where I come to do it."

It's a sentiment that rings true for many in the captive space: The VCIA is the place to be for the latest in captive innovation. This Aug. 8-11, captive owners, service providers and Vermont regulators will meet in Burlington, Vt. once again.

"I'm excited about physically seeing and collaborating with my colleagues, industry peers and fellow captive owners," said Gail Newman, VP of risk management, Bright Horizons, and a new VCIA board member. "These professionals who gather each year have some of the deepest knowledge when it comes to navigating captives and are genuinely helpful individuals who want to see everyone find the best solutions."

STEADFAST AND STRONG

The VCIA was formed in 1985 by captive managers and attorneys to promote captive insurance in Vermont as a growing business. In its infancy, the role of the VCIA president wasn't considered a full-time job, in fact operating on a volunteer basis. But as the VCIA grew, so too did the need to have someone oversee its many facets.

Stepping into the role of president in February 2022, Kevin Mead shared insight on what he hopes his presidency will look like.

"After two years of not being together, we've got to be really intentional about going out to the members and saying, 'What drives value for your organization?' And we could go back to doing everything that we did two years ago, but we need to consider if everything we did before still makes sense now, and we already have several innovations in the works," he said.

The pandemic caused a shift for many in the industry, and as Mead relayed, VCIA had its work cut out. But the team behind the organization shined, hosting virtual conference events in 2020 and 2021, showcasing some of the brightest and best in captive solutions.

For Mead, three major themes are shaping the VCIA this year.

SUMMARY

- ***VCIA is back*** in-person this August 8-11.
- ***Board members are*** thrilled to bring new innovations to captive owners.
- ***Vermont, the largest*** onshore domicile, is a solid partner for the VCIA.

"Stability is a big one," he said. "As the organization switched into COVID-ready mode, we are focused on remaining stable through the transition to this next stage of the pandemic. Then innovation, both in terms of what the regulators are doing and in terms of what the VCIA is doing in service to members. And then the third one is professionalism. We're the only state-based association with a full-time staff. Our competitive edge is the expertise of our regulators."

WHAT'S IN STORE THIS AUGUST

The VCIA team is more than excited to share its stability, innovation and professionalism with the captive world at large. This year, the conference boasts several sessions captive managers can sink their teeth into. To kick things off, the Captive Immersion Preconference Workshop starts at 1p.m. Aug. 8, wherein professionals new to the captive industry can familiarize themselves with key services and stakeholders while learning about captive feasibility, formation and management.

"Just prior to COVID, we put on this pre-conference Captive Immersion for the first time," Mead explained, giving participants a look at the responsibilities of each sector of the industry, as well as innovations happening across the board.

A VCIA favorite, "Hot Topics with Dave Provost" is back this year, starting at 8:30 a.m. Aug. 11.

Described as "legendary" by the VCIA team, Provost's talk covers recent hot issues in captives followed by a panel discussion

Provost, Vermont's deputy commissioner of captive insurance, hinted at some of the topics to be discussed: "We had such an extended soft market, and you saw that drop off a little bit, but a refreshed hard market turned right around with a lot of growth [for captives] and no drop off."

"What's happened in the insurance market over the last couple of years has opened such an opportunity and interest [for captives]," added Baillie. "The insurance market wasn't responding to the needs of clients, and captives became a place for them to go."

Baillie and Provost said meeting new captive owners and bringing together captive professionals from around the world is the most exciting part of the in-person event. Owner roundtables at VCIA are ripe with chances to network, share ideas and look at solutions on a granular, in-depth level together.

"The owner roundtables will feel

> ***"After two years of not being together, we've got to be really intentional about going out to the members and saying, 'What drives value for your organization?' "***
>
> **— *Kevin Mead,*** *president, Vermont Captive Insurance Association*

like reunions," Provost said. "And we'll get to talk in person and help answer some of the questions people have had over the last two years" that couldn't happen the same way over virtual meetings.

VCIA will keep the celebration going beyond the conference, with a roadshow in Indianapolis this spring and plans to make it to Mexico City in 2023—a trade mission rescheduled twice due to the pandemic.

HOME IN VERMONT

Vermont is the largest onshore captive domicile, with over 1,200 captives licensed to date, and so it is no wonder the VCIA finds its home in the state.

"We rely on the feedback from the VCIA and its members in everything we do," said Provost. "Having an infrastructure right here in Vermont of expert service providers, the vast majority members of VCIA, is vital to what makes Vermont the 'Gold Standard' of captive insurance regulation."

"There is a uniqueness about the collaborative dynamic that the VCIA and Vermont Captives embody in their long-standing relationship," said Newman. "As a captive owner I always sensed this through the support received from VCIA, but as a newly-minted VCIA board member, I now not only can see the benefits of this partnership as a captive owner, but I also have a far greater insight into all the great work these two teams do together." &

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Sustaining Success

HAI Group, a public housing risk retention group founded in the 1980s, turned to Vermont to shelter its risks and secure coverage.

The State of Vermont is known for its captive knowledge base and its success with for-profit businesses. It's equally adept at offering alternate risk transfer to the nonprofit sector.

By Emma Brenner

P***icture this: it's the*** 1980s. Public housing authorities are having a difficult time securing coverage from insurance carriers. This is due to authorities being unable to afford adequate coverage or insurance carriers being unwilling to even sell coverage in the first place.

"In essence, the insurance industry served an eviction notice on the public housing authorities," said Ed Malaspina, chief executive officer and president, HAI Group.

With their backs against the wall, 25 public housing authorities joined together to try to find a solution. What came from that is the Housing Authority Risk Retention Group, or HAI Group.

Of course, this risk retention group would not be able to function and succeed in its mission, offering risk transfer so that low-income residents have somewhere to live, without the assistance of a partner.

Enter the State of Vermont with which the HAI Group has been collaborating with for the last 35 years.

Malaspina said, "Vermont was a great partner for us early on. They always took a positive attitude toward the group…They've been open to our ideas on a number of products and services that we have to offer."

In its simplest terms, "It's just been a great relationship," Malaspina said.

BREAKING DOWN THE LOGISTICS

HAI Group is a member-owned organization, in which those members, and in this case nonprofits, can "participate in the leadership, governance and direction of the organization," according to Malaspina.

He continued, "Oftentimes, insurance companies follow or chase after what they think they need to do or offer, but if you allow owners/members to be a part of the leadership, they can often tell you what's coming before you see it. [There is an] ability to anticipate and develop a product or service before it's needed."

This perspective allows HAI Group to craft its insurance specifically to its needs.

Dustin Partlow, president of Caitlin Morgan Captive Management, outlined the steps that need to be taken when developing a captive in the nonprofit space.

First and foremost, the captive managers must understand the nonprofit, its mission, and what issues the organization is trying to solve with captive formation.

"The entirety of a nonprofit's business is their mission, serving its members and giving back," Partlow said.

SUMMARY

- ***HAI Group, a*** public housing authority risk retention group, turned to Vermont to help guide its risk transfer needs.
- ***The State of*** Vermont's captive program allowed HAI Group to secure coverage they could not receive from the commercial market.
- ***Captives can benefit*** other nonprofit organizations experiencing similar challenges.

"Listening to [the nonprofit] in regard to that mission plays such a critical role in terms of forming the captive, and everything that's going to go into the captive once it's up and running."

In the early stages of captive formation, it's imperative for the RRG or nonprofit to, as Malaspina put it, "have some upfront capital." This reassures potential insurers that the group is stable and capable of leveraging reinsurance and shifting some of its risk, which is not always feasible at the organization's inception.

"That's an important part of early stages: Negotiating with reinsurers on what kind of investments you need upfront," Malaspina said.

"That's probably the biggest hurdle because that's not necessarily about your want or desire. You have to have funding upfront," he said.

From a regulatory perspective, the State of Vermont also had to ensure that the risk retention group was a good fit.

What types of factors did Vermont examine? For starters, regulators looked at HAI Group's loss experience, stakeholder and management engagement, and their qualified board of directors, which were all deemed credible and strong.

These factors indicated a successful future and "helped [Vermont] recognize a quality program for a captive and one that's setup for success," said Sandy Bigglestone, director of captive insurance for the State of Vermont.

Bigglestone recalled that the HAI Group was a good fit for Vermont regulators at the time.

"When they came to Vermont we were an established domicile, having the right legislation, a number of RRGs already in our portfolio, and the staff resources to regulate the business," she said.

"The market was hard, and there was an obvious market need for the housing authority group to form," she said.

"The company was a good fit for a captive program because of their focus on the needs of the public housing authorities, and their commitment to helping the public housing authorities improve upon risk management."

"Vermont was a great partner for us early on. They always took a positive attitude toward the group … They've been open to our ideas on a number of products and services that we have to offer."

— Ed Malaspina, *chief executive officer, president, HAI Group*

A FLOURISHING RELATIONSHIP

The relationship between HAI Group and the State of Vermont is aided by open communication and candor, which promotes success.

Open communication between the two ranges from brainstorming new solutions or products to discussions on market challenges, and the dialogue has always been fluid. Even when both entities have experienced leadership changes through their 35-year relationship, the collaboration has never wavered.

"Those lines of communication have led to many successful programs, such as [HAI Group]," Partlow said.

WHY CAPTIVES ARE A BENEFICIAL TOOL

For other nonprofits, forming a captive is a credible method to transfer risk and even build surpluses to aid their mission.

"Ultimately, [nonprofits] are going to have to buy insurance, whether it's [through] the commercial market or forming their own captive insurance company," Partlow said.

Because of the security that a captive provides, HAI Group can fund other programs for its residents.

"[The captive] has sustained [us] through the years and in the success, it has allowed us to build other programs," Malaspina said, one being a scholarship program that HAI Group has created for the residents who live within the public housing that the group insures. &

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A Risk Management Safety Net

The Vermont Department of Financial Regulation's collaborative work environment is a boon to its captive examiners.

Vermont's captive examiners pride themselves on being just one part of a competent, veteran financial regulation network. **By Dan Reynolds**

There may be no clearer indication of how well-kept the secret of captive insurance opportunities is than the case of Peter Wernhoff.

He grew up in Vermont and attended the University of Vermont, but it wasn't until he entered the working world, girded with an accounting degree, that he found out about captives. Now, in his job examining captives within the Vermont Department of Financial Regulation, he pinches himself at his good fortune.

Wernhoff enjoys the mental stimulation of conversing with business leaders from all over the economic spectrum, to parse their risk management acumen. But he also benefits from collaborating with the risk management and insurance professionals who ply their trade in Vermont's captive industry.

"What's really nice about working for the department is we have such great service providers in Vermont between auditors, actuaries, legal counsel, investment advisors and management companies," Wernhoff said. "We're able to leverage all the work that they do."

As a trained accountant, of course, Wernhoff wants to make sure all the numbers add up. But it's the sense of confidence he has in his fellow captives professionals that frees him up to zero in on exactly how well a captive is being run in sometimes less tangible, but equally vital, terms.

"We do care about the balance at the end of the day but being able to rely on everything that [his fellow regulatory professionals] do within the industry, we get to focus on the more relevant matters, whether it's the underwriting strategy, claims handling philosophy, corporate governance, looking at meeting minutes, what's being discussed, where's the oversight," he said.

"And besides just looking at the dollar amount, I really enjoy getting to dive in on all those other aspects."

As a newer captive examiner, Wernhoff now finds himself playing a key role, along with his colleagues, on a regulatory team that is not only committed to holding captive owners accountable but is also open-minded when it comes to finding risk management solutions.

THREE FOCUS AREAS

Jonathan Spencer, one of Wernhoff's more veteran captive examination colleagues, draws on decades of experience within the department when describing the role of the captive examiner. In essence, it's acting as a backstop, to make sure that the credentials and financial information a captive or risk retention group management team presented when seeking licensing remain valid and sound going forward.

Spencer said he and his fellow examiners are looking at three key areas when working to determine how well a captive or risk retention group (RRG) is being run.

One is financial reporting, the second is overall governance, and the third is general compliance with the state's laws and regulations.

SUMMARY

- ***Captive examiners in*** Vermont see themselves as solution-oriented.
- ***Financial reporting, governance*** and compliance are focal points.
- ***How well a*** sponsor understands a captive is a key indicator of captive viability.

In keeping with Vermont's hands-on approach to regulation, Spencer, an assistant chief examiner within the department, said the process has become more bespoke over time.

"The examination process has evolved over the years to be a little more targeted to the individual company rather than just a blanket exam program," he said.

By statute, captives and RRGs in Vermont need to be examined every five years. The goal for the exam teams is to complete the exams within 180 days between the start of the exam and issuance of a final report.

Like Wernhoff, Spencer said his job is made more straightforward and his conclusions more airtight due to the rigor with which captive license applications are vetted in the department's front office.

Following up on the approval scrutiny of say, Dave Provost, deputy commissioner, captive insurance with the State of Vermont, or Sandy Bigglestone, director of captive insurance, gives Spencer that much more confidence that the captive will be a good fit with the State of Vermont.

"The philosophy is the department really wants to vet these candidates before they come in the door," Spencer said.

That means not only doing the work to determine the would-be captive's financial viability, but also gaining a clear understanding of the parent company's prospects.

Although the majority of captives and RRGs are well-run, Spencer said there are some markers that indicate when a captive is encountering issues.

One is adverse loss development: A determination that the captive sponsor and manager have underestimated the losses that the captive was expected to cover. A second red flag is when the captive examiner gets the impression, through reviewing meeting minutes or in direct interviews, that the managers of the captive aren't conducting proper oversight.

LIFELONG LEARNING

The task of an examiner is a sober one, but the profession, as it is for many of us in insurance, is an opportunity for lifelong learning.

"I constantly hear from coworkers and other individuals that they learn something new every day," Wernhoff said. "I'm working toward the ACI designation right now—Associate in Captive Insurance—and even my instructors say things like, 'Oh, I learned something new today.' They say that every day.

"I think in this industry, and in my

> ***"It's the positive attitude of so many people in the organization, everybody seems to be working towards the same goal."***
>
> **— Jonathan Spencer,** *CPCU, assistant chief examiner, Vermont Department of Financial Regulation*

short career, because you're exposed to different captive formations and structures and different industries, you just have to be open-minded and have a little bit of humility," Wernhoff said.

Like so many, Spencer stumbled into the world of insurance and specifically, captive insurance. And like Wernhoff said, that journey is enriched by the opportunity to talk to so many business leaders, from sectors as diverse as agriculture, health care, higher education, manufacturing and dozens of others.

"I never imagined I would have a career in insurance, but it's challenging and rewarding work," Spencer said.

"The segment of captive insurance touches such a broad area of topics. There is something new to learn every day as the industry continues to evolve."

Sometimes it helps to go beyond the necessary formality of the front office to get a feel for the true heartbeat of an organization. In this case, a chat with members of the department's examination team reveals the warmth and optimism that pervades the group.

Not only has the Vermont Department of Financial Regulations' approach to licensing and examining captives evolved over the years, Spencer said, but so has the work culture within the department.

"It's the positive attitude of so many people in the organization, everybody seems to be working towards the same goal," Spencer said.

"We collaborate really well. I think we're getting better at collaborating with the front office, exchanging information between what we're finding on the exams and making sure it gets back to them."

Wernhoff can't believe that so few people, even in the state of Vermont, know just what kind of opportunity a career in captives is.

"This idea that, 'oh, you can't find a job here, you've got to go to the big city,' doesn't make sense to me. I've done it." **&**

NEW CAPTIVES IN 2021

Company Name	Date Licensed	Type	Manager
ARM INSURANCE, INC.	1/1/21	Pure	AIG
SYMRISE RE, INC.	1/1/21	Pure	Aon
SUSTAINABLE ASSURANCE COMPANY	1/1/21	Pure	Artex
DAVIES INSURANCE MANAGEMENT, LLC	1/6/21	Sponsored	Davies Captive
PINNACLE MUTUAL INSURANCE COMPANY	1/7/21	Pure	Aon
STURNUS INSURANCE COMPANY	1/14/21	Pure	Willis
EDGE INSURANCE COMPANY	1/20/21	Pure	Strategic Risk
ASTRO-II, INC.	2/2/21	Pure	Aon
LTC INSURANCE COMPANY RISK RETENTION GROUP, LLC	2/8/21	RRG	Davies Captive
RIVER'S EDGE INSURANCE COMPANY	2/19/21	Pure	Strategic Risk
PJ ASSURANCE, INC.	2/25/21	Pure	Willis
WRIGHT CAPTIVE MANAGEMENT, LLC	3/1/21	Pure	Beecher Carlson
INTERSTATE INSURANCE COMPANY RISK RETENTION GROUP, INC.	3/5/21	RRG	Risk Services
INVENERGY INSURANCE, LLC	3/30/21	Pure	Aon
EPSILON (US) INSURANCE COMPANY	4/15/21	Pure	Marsh
CLEAR BLUE PCC, INC.	4/29/21	Sponsored	Advantage
CORVUS REINSURANCE COMPANY	5/13/21	Agency	Artex
AMBLER GLAUSER ASSURANCE CORPORATION	5/24/21	Pure	AIG
ADP INDEMNITY II, INC.	5/26/21	Sponsored	Aon
NNC INSURANCE SERVICES, INC.	5/27/21	Pure	Marsh
RHA ALTERNATIVE RISK SOLUTIONS, INC.	5/27/21	Sponsored	Aon
GREENMONT INSURANCE, INC.	6/9/21	Pure	Marsh
NORTH PIER INSURANCE COMPANY	6/24/21	Pure	Willis
STONE ARCH INSURANCE COMPANY	7/1/21	Pure	Marsh
PUBLIC ENERGY INSURANCE COMPANY, LLC	7/2/21	Sponsored	Marsh
LIFECARE ASSOCIATION INSURANCE EXCHANGE	7/12/21	Association	Advantage
ATSG INSURANCE COMPANY, INC.	8/5/21	Pure	Aon
GENESIS LEGACY INSURANCE COMPANY (VERMONT) LIMITED	8/17/21	Sponsored	Risk Services
MOS INSURANCE COMPANY	9/1/21	Pure	Marsh
METROPOLITAN INSURANCE GROUP, INC.	9/1/21	Pure	Marsh
TCIG, INC.	9/9/21	Pure	Strategic Risk
ROCKY MOUNTAIN INSURANCE COMPANY	9/20/21	Pure	Willis
BLOSSOM HILL INSURANCE COMPANY, LLC	9/24/21	Pure	Aon
FLORIAN INSURANCE COMPANY, INC.	9/27/21	Pure	Aon
OP CAPTIVE INSURANCE COMPANY	9/27/21	Pure	Artex
RXPHARMACY ASSURANCE, INC.	9/30/21	Sponsored	Marsh
CODE II INTERNATIONAL ASSURANCE LTD.	10/1/21	Pure	Willis
CAPITAL AVENUE REINSURANCE, LLC	9/30/21	Sponsored SPFI	Marsh
LINCOLN RISK RETENTION GROUP, INC.	10/14/21	RRG	Strategic Risk
PINNACLE COMMERCIAL INSURANCE COMPANY	10/18/21	Pure	Aon
FERM CAPTIVE, LLC	11/10/21	Pure	Beecher Carlson
SARGASSO MUTUAL INSURANCE COMPANY, LTD.	11/10/21	Industrial Insured	Marsh
AEL RE VERMONT, INC.	11/18/21	SPFI	Marsh
FAIRWAY INSURANCE, INC.	11/18/21	Pure	Aon
NLC MUTUAL CAPTIVE SOLUTIONS, INC.	12/8/21	Sponsored	AIG

NUMBER OF CAPTIVES BY INDUSTRY As of 12/31/2021

AGRICULTURE	7
BANKING	15
COMMUNICATIONS	7
CONSTRUCTION	41
EDUCATION	22
ENERGY	21
ENTERTAINMENT	6
FINANCING, LENDING, LEASING	6
HEALTHCARE	109
HOTELS	3
INSURANCE	83
MANUFACTURING	105
MEDIA	1
NONPROFIT OR MUNICIPALITY	16
OTHER	16
PROFESSIONAL SERVICE	29
REAL ESTATE	33
RELIGIOUS INSTITUTIONS	22
RETAIL	27
SECURITIES	9
TECHNOLOGY	7
TRANSPORTATION	31
WASTE MANAGEMENT	4
TOTAL CURRENTLY LICENSED	620

Parent Co.	Industry
AMBULNZ, INC.	Transportation
SYMRISE HOLDINGS, INC.	Manufacturing
LANCASTER COUNTY SOLID WASTE	Waste Management
DAVIES CAPTIVE MANAGEMENT	Insurance
CROWN CONSOLIDATED INDUSTRIES	Manufacturing
STARLING PHYSICIANS, PC	Health Care
EDGEWOOD PROPERTIES, INC.	Real Estate
BOEING COMPANY, THE	Manufacturing
LONG TERM CARE FACILITIES	Health Care
AGERO, INC.	Transportation
HUB CITY TERMINALS, INC.	Transportation
WRIGHT SERVICE CORP.	Agriculture
LONG TERM CARE FACILITIES - PA/NY	Health Care
INVENERGY CLEAN POWER, LLC	Energy
MARSH & MCLENNAN COMPANIES, INC.	Insurance
CLEAR BLUE FINANCIAL HOLDINGS, LLC	Insurance
CORVUS INSURANCE HOLDINGS, INC.	Insurance
BKD, LLP	Professional
ADP ATLANTIC, LLC	Technology
NEWS CORPORATION	Media
RESORT HOTEL ASSOCIATION	Hotels
KAJIMA U.S.A. INC.	Real Estate
STEPAN COMPANY	Manufacturing
MIDWESTERN HIGHER EDUCATION COMPACT	Education
PUBLIC UTILITIES RISK MANAGEMENT ASSOCIATION	Nonprofit
LIFECARE HEALTH LLC & MEMBER OKLAHOMA	Health Care
AIR TRANSPORT SERVICES GROUP, INC.	Transportation
GENESIS LEGACY SOLUTIONS, LLC	Insurance
MOSAIC COMPANY, THE	Agriculture
UNITED MALT GROUP HOLDINGS USA	Manufacturing
CARMELITE SYSTEM, INC., THE	Health Care
FNTG HOLDINGS, LLC	Insurance
WAWA, INC.	Retail
GEO FIC HOLDINGS, LLC	Health Care
OP INSURANCE HOLDINGS, LLC	Real Estate
RXBENEFITS, INC.	Health Care
JACOBS ENGINEERING, INC.	Construction
INVESTORS HERITAGE LIFE INSURANCE COMPANY	Insurance
YANDEX SELF DRIVING GROUP, INC. /YANDEX, INC.	Technology
CROWN CONSOLIDATED INDUSTRIES	Other
BLUE CROSS BLUE SHIELD OF MASSACHUSETTS, INC.	Health Care
GROUP OF MUTUAL LIFE INSURANCE COMPANIES	Insurance
AMERICAN EQUITY INVESTMENT LIFE INSURANCE	Insurance
WAYFAIR, INC.	Retail
NLC MUTUAL INSURANCE COMPANY	Nonprofit

VERMONT CAPTIVE INSURANCE COMPANIES LICENSE SUMMARY

STATUS: ACTIVE	12-31-21	12-31-20	2021
Affiliated Reinsurance Co.	2	2	0
Agency	2	2	1
Association	13	12	1
Branch	3	3	0
Industrial Insured	21	21	0
Pure	368	357	11
RRG	89	87	2
Special Purpose Financial Insurer	39	38	1
Sponsored	52	43	9
TOTAL ACTIVE..................	589	565	25

STATUS: DORMANT	12-31-21	12-31-20	2021
Affiliated Reinsurance Co.	0	0	0
Agency	0	0	0
Association	0	0	0
Branch	2	2	0
Industrial Insured	0	0	0
Pure	24	20	4
RRG	0	0	0
Special Purpose Financial Insurer	2	1	1
Sponsored	3	2	1
TOTAL DORMANT..................	31	25	6
TOTAL ACTIVE and Dormant..	620	590	31

STATUS: DISSOLVED	12-31-21	12-31-20	2021
Affiliated Reinsurance Co.	0	0	0
Agency	0	0	0
Association	22	22	0
Branch	4	4	0
Industrial Insured	28	27	1
Pure	446	434	12
RRG	73	72	1
Special Purpose Financial Insurer	26	26	0
Sponsored	23	23	0
TOTAL DISSOLVED...........	622	608	14
TOTAL LICENSES ISSUED	1242	1198	45

LICENSED IN CURRENT YEAR (as of 12/31/21)

By Industry

Insurance	9	Construction	1
Healthcare	8	Professional	1
Manufacturing	5	Education	1
Transportation	4	Other	1
Real Estate	3	Energy	1
Technology	2	Media	1
Nonprofit/Munic	2	Waste Mangmt	1
Agriculture	2	Hotels	1
Retail	2	TOTAL	45

LICENSED IN CURRENT YEAR (as of 12/31/21)

By type of Captive

Affiliated Reinsurance Co.	0
Agency	1
Association	1
Branch	0
Industrial Insured	1
Pure	29
RRG	3
Special Purpose Financial Insurer	2
Sponsored	8
TOTAL 2021 LICENSES	45

Charts Source: Vermont Department of Banking, Insurance, Securities and Health Care Administration

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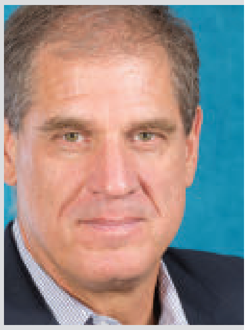

A Marketing Problem

How many marketing professionals does the insurance industry employ? Hundreds? Thousands? And such hard workers they are, designing campaigns, riding herd on the media to make sure the brands they promote come off sparkling. All well and good. And truly, well intentioned or at least on-point professionally. Or are they? More fairly, are we?

A former Risk All Star, Zachary Finn, director of risk management for the Henriott Group, has derided the industry at large, not just the commercial insurance industry, for its approach to advertising: The emus, the geckos, you name it.

Here I stand on his shoulders to deliver another point: Commercial insurance, despite the dedication and professionalism of so many, is still missing the boat when it comes to marketing itself.

I'm not referring to the efforts on behalf of individual companies; I'm talking about how the industry as a whole presents itself to the world. So what's missing, you ask?

What's missing is marketing and advertising that touches on the drama and the humanity of what this industry does. I'm talking about messaging with scope and gravity, presented creatively. Something along the lines of a sober, factual television ad that recounts disasters, be they personal, regional, national or global, and tells the world how insurance raised up and restored the fallen.

Remember those TV ads portraying a Native American weeping at the edge of a polluted lake? Yes, fellow boomers, we sure remember that one. That ad worked because of the gravity of it — it represented something real.

Insurance is real. What insurance does is real. Isn't it time insurance presents a face to the world that says it cares and it means business?

Dan Reynolds
Editor-in-Chief
reynolds@theinstitutes.org

Compiled by staff from news and wire services.

NEWS

Brown & Brown has entered into an agreement to acquire GRP in Q2 of 2022.

P&C INSURERS SEE $5.6B NET UNDERWRITING LOSS BY Q3 2021

Private U.S. P&C insurers saw a $5.6 billion net underwriting loss in the first nine months of 2021, as non-catastrophe losses returned to pre-pandemic levels, according to a report by Verisk and the American Property Casualty Insurance Association.

Despite the underwriting loss, the industry saw an increase in net income after taxes to $42.1 billion in the first nine months of 2021, from $35.2 billion a year earlier. The increase was fueled in part by premium growth and investment gains. Insurers' overall profitability — as measured by annualized rate of return on average policyholders' surplus — rose to 6.0% by Q3 2021 from 5.5% a year earlier.

In the third quarter of 2021, insurers saw net income after taxes decline to $4.7 billion from $10.9 billion the year prior. The industry's operating income was $2.5 billion, down from $7.7 billion in third quarter 2020.

"Insurers are facing an extreme escalation in inflationary pressures that increasingly strained rate adequacy last year," said Robert Gordon, SVP, policy, research, and international, for APCIA, in analyzing the underwriting loss. "While both net written and net earned premiums increased during the third quarter, incurred losses and loss adjustment expenses increased even more (by 17.8%)."

"Going into 2022, the insurance industry continues to face a wide range of challenges, from climate change to evolving cyber threats," said Neil Spector, president of underwriting solutions at Verisk. "Those insurers with access to robust data from across the industry will be the best equipped for the constantly changing risk landscape," he added.

NYSIF ANNOUNCES MINORITY- AND WOMEN-OWNED BUSINESS PARTICIPATION GOAL

NYSIF, New York State's workers' compensation carrier, hosted its 12th Annual Minority- and Women-Owned Business Enterprises (MWBE) Investment Symposium where results of its annual MWBE participation goal were announced.

For state fiscal year 2020-21, NYSIF allocated nearly 44% of dollars paid to asset management firms and financial institutions to MWBE-certified firms. In all, 54% ($1.9 billion) of the $3.6 billion in NYSIF's externally managed assets were under the management of MWBE firms, including 100% of NYSIF's equities portfolio, per a press release. These results exceeded the organization's established annual MWBE participation goal of 35% for state fiscal year 2020-2021.

"NYSIF's commitment to identifying opportunities for diverse MWBE firms is foundational to our strong support for New York businesses," said Gaurav Vasisht, executive director and CEO, NYSIF. "As the state reemerges from the COVID-19 pandemic, NYSIF will redouble its efforts to utilize a variety of outreach programs in order to cultivate relationships with MWBE firms, boosting innovation and benefiting New York State employers."

BROWN & BROWN TO ACQUIRE GLOBAL RISK PARTNERS LIMITED

Brown & Brown, Inc., Searchlight and Global Risk Partners Limited (GRP), entered into an agreement to acquire the assets of the GRP insurance operations. The transaction is expected to close in the second quarter of 2022, according to a press release.

Established in 2013 and headquartered in London, the GRP group includes retail broking, specialist MGA, network and Lloyd's businesses and reports annualized revenue of approximately $335 million. Following the completion of the transaction, GRP will operate within the Brown & Brown retail segment and will continue to be led by Mike Bruce, global CEO of GRP.

"We believe that aligning companies with common values will lead to shared success. Mike Bruce and the team at GRP are like-minded individuals that have a disciplined focus on doing what is best for their customers, teammates and carrier partners," said J. Powell Brown, president and CEO of Brown & Brown. "GRP's position as an industry leader in the U.K., their experience in international markets and insights into new revenue streams will allow us to further expand our international footprint and broaden the scope of our global capabilities," Brown added. &

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150

THEODORE ROOSEVELT WORKERS' COMP

Are you proud of what you've accomplished with your workers' compensation and injury prevention programs? Does your organization have ideas worth stealing? We'd like to learn more.

Every year, Risk & Insurance® honors the best public and private sector workers' compensation and injury prevention programs with a special award: the Teddy Award. The award is named in honor of President Theodore Roosevelt, who in 1908 introduced and promoted the first piece of important workers' compensation legislation in the United States.

WHAT CRITERIA ARE USED TO SELECT WINNERS?

Winners distinguish themselves, not only with their performance data, but through their creativity and resourcefulness in solving problems. We also recognize companies with programs that show strong overall loss prevention results, from both pre-injury and post-injury perspectives.

In the application, each organization is asked to provide data that represents the tangible results of the program, but other factors weigh heavily in the judges' final decision. The application should illustrate how the organization exemplifies these key criteria:

- Performance: Applicants should describe their specific safety, workers' comp and disability management challenges and report documented results in meeting those challenges. We take into account the environment in which the organization operates, the level of difficulty it faces, its degree of success and the credibility of any documentation provided.

- Sustainability: Without exception, all past winners have developed what could be termed "living" programs — those with unlimited adaptability, and with the potential to sustain continued forward progress and results, even as the organization grows and changes.

We recognize that "low-hanging fruit" is easy to pick. Continuous improvement over time is a less glamorous, but far more important measure of success.

- Team and Teamwork: By team we mean the ability of the employer to forge and maintain a team involving employees and possibly outside vendors. Evaluation of the team ranking considers breadth of knowledge and skills, stability and skill shown in overcoming special obstacles in recruiting the team. The degree of communication throughout the team is also key.

- Innovation: Applicants should be able to demonstrate a proven commitment to innovation and to implementing ideas that go beyond traditional or boilerplate solutions.

Sponsor: PMA COMPANIES

APPLICATION/NOMINATION PROCESS

All applicants are required to complete the online application and have the option to include attachments that support the information in the application. Judges will rely primarily on the application data throughout the initial phase of the judging process. To apply please visit www.riskandinsurance.com for application instructions and additional information.

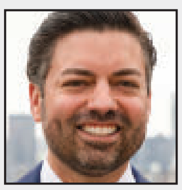
Teddy Award winners and finalists are selected by a panel of expert judges consisting of industry thought leaders and top risk management and workers' compensation professionals, including executives representing past Teddy Award winners.

Teddy Award winners will be profiled in the pages of Risk & Insurance and on the R&I website, and will be recognized during the 2022 National Comp conference event in October, with a special in-person Q&A panel highlighting their achievements.

SUBMISSION DEADLINE: APRIL 15, 2022

PAST WINNERS

JetBlue Airways Corporation



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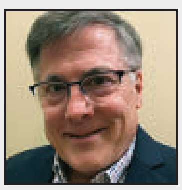

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Manager, Workers Compensation - Global Safety and Environment

Saint Peter's Healthcare

Linda Vance
Manager Employee Health

City of Philadelphia

Barry Scott
Deputy Director of Finance/ Risk Manager

UPFRONT

***Anthony Habayeb**, founder and CEO, Monitaur*

KEEPING A CLOSE EYE ON AI

BY RAQUEL MORENO

AI is becoming an increasingly important tool for commercial insurers, but ethical concerns remain.

Artificial intelligence has become an integral part of the day-to-day operations across most industries. And in great part, AI can be credited with condensing vast amounts of data into something more usable.

But as companies come under greater public scrutiny for how algorithms are influencing corporate behavior, the question of how to ethically apply artificial intelligence is top of mind for commercial insurance leaders.

Ethical use of technology is "not a problem that's exclusive to AI," Anthony Habayeb, founding CEO of Monitaur, an AI governance company, said. "Corporations have their corporate governance and need to have their opinion of what sort of ethics and practices they bring into the market as a company. And those principles should be implemented in their AI, software and practices overall," he explained.

WHAT DETERMINES THE ETHICAL USE OF AI?

The volume, selection and ownership of available data is causing the wider business community to reflect on the decision-making capacity of algorithms. "These AI systems are making decisions of great consequence," Habayeb said.

"As a result, they feel like more addressable and governable 'decision makers' than just nebulous software. And that's causing our use of the word 'ethical,' because we're humanizing AI in a way we have not approached with other software."

But concerns around AI's autonomy need to be measured against the actual amount of data available in the insurance space, according to Tom Warden, chief science and insurance officer for CLARA Analytics.

Unlike the massive pipeline of data that companies like Google have access to, the insurance industry is still dealing with static data, to some degree, Warden said. "We don't have a continuous stream of information on a claim or even a policy, so there's just not enough data to really rely on the models themselves."

Even as the data capacity of the insurance industry continues to expand, and companies rely more heavily upon models to automate decisions, "it's important to remember that AI doesn't really reason; algorithms have no ethics; they are just simply algorithms," Warden said.

"You can't really program a model to be ethical, but you can make sure that as it's applied to the decisions that it's being asked to influence, that the outcomes maintain the ethical standards of the various constituents," Warden said.

> ***"I think that we have a tolerance for mistakes … We don't have a tolerance for negligence."***
>
> — ***Anthony Habayeb**, founder and CEO, Monitaur*

Questions of ethical AI and digital privacy may feel weighty and philosophical, but Habayeb encouraged companies developing these new technologies to consider what their products are trying to accomplish and allow that to guide their practices. "What is the brand promise that you're making to the market, to the companies and the small business owners that you're providing commercial coverage to?" Habayeb asked. "And then how do you effect those brand promises in your AI system?"

QUALITY CONTROL

As more carriers, especially those with legacy systems, team up with Insurtechs to sharpen the story their data tells with machine learning and AI, regulators will have a greater role to play to encourage greater accountability. Carriers will have to think through their entire data ecosystem to achieve comprehensive AI governance, including the Insurtech vendors with whom they partner.

"Whether or not a carrier is the ultimate developer of some algorithm or AI system, they will be accountable for the results of that system. It's important carriers develop strategies and processes to achieve assurances that extend into their vendor ecosystem as well," Habayeb added.

To support state regulators in the formation of their frameworks for AI, in 2020 the National Association of Insurance Commissioners (NAIC) released guiding principles on artificial intelligence "emphasizing the importance of accountability, compliance, transparency and safe, secure and robust outputs." Since then, calls have been made to establish national standards in the U.S. for "acceptable design and behavior of AI-enabled systems," as well as a certification system to verify that AI-enabled systems are developed in accordance with said standards, according to a 2021 publication of the Journal of Insurance Regulation.

And at the close of 2021, the NAIC voted to form a new high-priority H Committee on innovation, cyber security and technology to address the insurance implications of emerging technologies, such as AI, and cyber security—with this being only the eighth committee of this level in the history of the NAIC.

External validation is not just for the sake of regulatory compliance. For Warden, AI and data science teams must be willing to be looked at by internal audit teams as well as external verifiers: "I've gone through that process in the past and it's painful. But it's necessary because you can uncover things that [are] slipping through the cracks."

TAKE THE TIME TO BE THOROUGH

Carriers and Insurtechs need not wait for AI regulations to dictate their accountability practices. For both Habayeb and Warden, continuously monitoring the output of algorithms should be standard protocol.

"There's such a rush to develop and deploy in this space that many companies potentially are not paying as much attention to the ongoing monitoring of the of the model output that they need to," Warden said. "Companies need well-documented processes for developing, testing and deploying AI."

Documentation about how models are developed, and the checks and balances implemented throughout development, are essential to make sure they're being built properly. "And that goes beyond just the ethical use of data," Warden added.

Checks and balances provide a sense of assurance for insurers and insured alike.

"As you think about the impact on people and insured parties, these models are going to have great impact. Those stakeholders would like to know that, when a model has made a decision about them, someone has checked it, someone's tested it," Habayeb said.

NO NEED TO OVERCOMPLICATE THINGS

There is no need to reinvent the wheel when it comes to AI risk management. Carriers have corporate governance and risk principles in place.

"We should not overly complicate what AI is [so] that it feels unapproachable to humans," Habayeb said.

"Instead, a connecting thread can be maintained, recognizing humans built this, humans should be testing this, and humans should be able to establish confidence in the applications' safety, transparency, trustworthiness," Habayeb added.

Giving too much credit to AI alone is risky. "Then we're disconnecting the accountability from the people who built it," Habayeb said. And people make mistakes in the products that they build all the time.

"I think that we have a tolerance for mistakes," Habayeb said. "We don't have a tolerance for negligence." &

BROKERS

Julie Martin, managing director, Marsh

A BROKER ON A GLOBAL STAGE

BY EMMA BRENNER

From government underwriter to 2022 Nonprofit Power Broker®, Marsh's Julie Martin has quite the story.

LIKE MANY SEASONED insurance brokers, Julie Martin did not begin her career in the industry. Rather, her interests in both international relations and economic development led her to a State Department internship after she completed her undergraduate work.

Following her internship, Martin began working for the Overseas Private Investment Corporation (OPIC), which she explained as a "U.S. government agency that provides political risk insurance and finance for companies investing in emerging markets."

"I worked for the U.S. government for 20 years for this agency, [underwriting] political risk insurance, which is not really like other insurances," Martin said. "It was fascinating."

Eventually, Marsh recruited Martin to come on as a broker, and she's been navigating the brokerage landscape ever since.

Her experience as an underwriter has provided Martin with a unique perspective, to the benefit of her clients.

"I like to think of myself as more of a technical broker because [of my] 20 years as an underwriter, so I bring a deep understanding of policy wording to negotiations," Martin said.

"That technical background hopefully is an advantage to my clients."

Without the steadfast perseverance of broker Julie Martin and her team at Marsh, COVID-19 vaccinations wouldn't have as far a reach as they do today.

> ***"We have template policies, but they didn't fit this particular circumstance, so there was a lot of modification involved to try and fit what the issues GAVI [and COVAX were] facing."***
>
> **— *Julie Martin***, managing director, Marsh

COVAX AND THE GAVI ALLIANCE: A POWER BROKER-WORTHY SOLUTION

While Martin works with a range of clients, from mining to manufacturing, it was a solution she helped craft for a nonprofit client that awarded her 2022 Power Broker® recognition.

The client, GAVI, the Vaccine Alliance, is a nonprofit organization that works to "save lives and protect people's health by increasing equitable and sustainable use of vaccines," per its mission statement.

GAVI has worked to co-lead the COVAX Facility, which was founded to vaccinate the worldwide population against COVID-19, ensuring that 92 low- and middle-income countries receive access to COVID-19 vaccines. This is a crucial initiative as the globe races against the clock to vaccinate people against a still raging and mutating virus.

For COVAX to achieve its mission, GAVI had to be able to secure insurance coverage to mitigate any risks or issues that could arise throughout the mass vaccination effort.

That's where Martin and her team at Marsh came in and got to work.

"GAVI had an issue that they weren't sure how to resolve, and so they turned to insurance," Martin said. The first step was identifying the issue GAVI expressed and then drafting an insurance policy.

Martin marketed the coverage to the carriers and updated policy wording to alleviate underwriting concerns. Additionally, operational controls had to be implemented because of "reporting requirements related to the policy about the exposures," Martin explained.

A premium payment system also had to be created, because the coverage was needed in advance but payment was going to occur in arrears.

"It was going to be very volatile, fluid and fluctuating, so [making sure] the premium correctly reflected exposure [was crucial]," Martin said. Martin also worked to explain and dissect insurance terminology, which "would make no sense to somebody outside of this realm," to the scientists at GAVI.

Along with these challenges, the coverage needed to be created faster than a usual policy as global vaccination efforts needed to begin as quickly as possible.

"GAVI needed to roll out [this program] to get vaccines in arms, so we really did almost work 24 hours a day, along with our London colleagues," Martin said.

In the end, GAVI and COVAX received the necessary coverage and have provided 1 billion COVID-19 vaccine doses across the world to date, with 85% of doses being delivered to 86 low- and middle-income countries.

None of this would have been possible without the work of Martin and her team at Marsh.

In addition to successfully insuring GAVI and COVAX, Martin did this under a tight timeline in a completely unprecedented situation: "We have template policies, but they didn't fit this particular circumstance, so there was a lot of modification involved to try and fit what the issues GAVI [and COVAX were] facing," Martin said.

"To be a part of that initiative was very rewarding."

A PHILOSOPHY BUILT ON EDUCATING

Though insurance professionals work to sell coverage and policies to their clients, Martin views her role as a broker as much more than that.

"I think of myself less as a salesperson of insurance and more of an educator and problem solver," she said. "I've always loved [those aspects] about my job."

She continued, "When [clients] come with an issue, we try and help them peel apart what that issue is and understand what portions of it we might be able to mitigate."

Because no two issues are the same, Martin helps the client find which solution provides optimal results, whether it be working directly with Martin or looking to the market for guidance.

Martin only wants her clients to find solutions to their problems, an admirable quality to have in a broker.

Another quality she possesses is her humility, especially when discussing Marsh's success with GAVI and COVAX.

Throughout discussing the solution that won her a 2022 Power Broker® award, Martin kept reiterating one important sentiment: "It really was a team effort." &

RESILIENCE

10 Top Emerging Threats That Can Be Addressed with Resilience

HIGH IMPACT

POWER GRID VULNERABILITY •

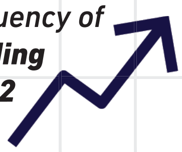
Winter Storm Uri, California wildfires, the Colonial Pipeline hack. The ***U.S. power grid has major vulnerabilities****, and as the last year has shown, they stem from various sources and can cost millions to repair or replace.*

CLIMATE CHANGE •

Climate change threatens the long-term viability of many companies*. Investors want clarity on businesses' plans and the SEC is demanding it, too, with mandatory climate disclosures on the horizon.*

SOCIAL INFLATION •

Anti-corporate jury sentiment and litigation funding is driving up the likelihood and frequency of shock verdicts. ***The litigation funding market is estimated to reach $22 million*** *by 2027.*



LABOR SHORTAGE •

The pandemic has exacerbated a growing labor shortage, with reports from December 2021 showing there were ***4.6 million more job openings than unemployed workers*** *in the United States.*

POLITICAL UNREST •

From the Canadian trucker protests and Russia's invasion of Ukraine, to global threats to democracy and social unrest, ***geopolitical tensions the world over are high****, posing several multinational risks for businesses operating across borders.*

INFLATION •

The U.S. inflation rate ***has accelerated to 7.5%****, the highest it has been since 1982, according to Trading Economics. Interest rates are set to rise to offset inflation as we get further into 2022.*

LOW FREQUENCY

HIGH FREQUENCY

CYBER •

Since March 2020, ***ransomware attacks have risen by nearly 500%****. According to CyberSecurity Ventures, the cost of cyber crime will reach $10.5 trillion annually by 2025. Now is the time to plan ahead.*

SUPPLY CHAIN DISRUPTION •

According to a recent survey, ***94% of the Fortune 1000 companies saw COVID-related supply chain disruptions****. Manufacturing, construction and similar industries are feeling the pull as material shortages com.*

PRIVACY •

Consumers are becoming more and more aware of protecting their information, Deloitte reports only ***22% of retailers have optimally integrated their data privacy plan*** *with corporate and business unit strategy planning.*

ENVIRONMENTAL, SOCIAL & GOVERNANCE •

ESG demands have ***grown exponentially among activist groups and the general public in the last few years****. Prioritizing ESG can have a beneficial impact on workplace culture, business performance and public sentiment.*

LOW IMPACT

Note: The Risk Matrix is produced by the Risk and Insurance® editorial team. Liberty Mutual Insurance is the presenting sponsor and has no responsibility for the content.

LEGAL SPOTLIGHT

NHL SUES INSURERS OVER COVID LOSSES

TWENTY OUT OF THE 32 National Hockey League teams and the league itself are suing five insurance companies as a result of the COVID-19 pandemic and its impact.

The teams are hoping to recoup an alleged $1 billion worth of losses due to the pandemic. These losses, they say, were in the form of ticket sales, concessions, parking and in-arena merchandise sales.

Due to the pandemic, especially during the 2020 season, teams were forced to play without cheering fans and subsequently without the added revenue stream.

The 2019-20 season was placed on pause in March 2020, finishing out later in the year once the teams were placed in quarantine bubbles.

The 2020-21 season further suffered, the teams allege, due to minimal attendance.

The insurers included in the lawsuit include Factory Mutual and the Cincinnati Insurance Company.

All 20 teams purchased all-risks policies, which "promise to protect the hockey plaintiffs against loss of revenue and certain expenses if one or more of them cannot use their arenas or other insured properties due to the impact of some external physical peril."

The NHL teams state that COVID-19 is an external peril that triggered the policy.

However, the insurers have countered that no physical loss has occurred. The virus, it argues, did not cause physical damage to the property or the venues, and therefore would not trigger the policy.

The NHL had a policy with Factory Mutual "in which the company would provide coverage for the financial losses the teams face because of the coronavirus. That would include losses incurred when a communicable disease makes clubs' arenas unfit for their intended use," the Toronto Sun reported.

The original suit was filed in June 2021. In November, Factory Mutual filed a court motion asking a judge to dismiss the NHL's claim, citing a lack of "physical loss or damage" to the plaintiffs' property.

In December, the NHL teams filed an objection.

SCORECARD: No decision is yet in on these claims. Further litigation is likely to follow.

TAKEAWAY: COVID business interruption claims continue to trickle in from both big and small organizations. Insurers should expect this sort of litigation to be ongoing.

131 INSURERS SUE ERCOT

WINTER STORM URI ROLLED INTO TEXAS like nothing the state had ever seen before.

Unprepared for such a freeze, the power grid shutdown. Millions were plagued in darkness. Heat was a luxury. Water pipes burst. Homes and businesses flooded.

Insurance companies faced claim after claim after claim.

The February 2021 storm quickly showed flaws in the power grid, and its operator, Electric Reliability Council of Texas or ERCOT, is now feeling the strain as more than 130 insurers in the state are filing suit against the company.

The suit alleges gross negligence, that ERCOT and 37 additional power generating entities "failed to plan and prepare for the winter storm event, and the energy failure caused significant property damage to the policyholders of plaintiffs."

The Texas Department of Insurance reported that of the 500,196 insurance claims that stemmed from the event, more than 85% came from residential property owners and homeowners.

The remainder of the claims came from commercial properties.

Estimates of insured losses reached as high as $10.3 billion as of July 2021, according to the Texas Department of Insurance.

The suit further calls into play ERCOT's alleged failure to heed the Federal Energy Regulatory Commission's warning that the power grid needed to fully winterize its equipment long before Uri rolled in.

The insurance companies are demanding a jury trial and have asked the court to consider subrogation, which would allow the insurers to recoup costs, even their customers' deductibles.

Rich Johnson, a spokesperson from the Insurance Council of Texas, noted "it took months for insurers to evaluate each claim, and so far, around 90% of the claims [have] been closed — 53% were closed with a payment to the policyholder, and 37% were closed without a payment to the policyholder," one Texas news outlet reported.

ERCOT has not made a public statement yet.

It has, however, stated that in addition to the lawsuit filed from the insurers, "there are dozens of personal injury lawsuits against ERCOT that are part of the Multi-District Litigation (MDL) process in Houston."

SCORECARD: Litigation is set to begin in March 2022.

TAKEAWAY: Who's responsible when a natural disaster rolls in? Not only is Texas seeing such a lawsuit, but states like California and Nevada are also seeing litigation from insurance companies due to wildfire devastation. The debate of culpability will be one to watch as climate change continues to compound these events.

ART HOUSE FACES CLASS ACTION

FINE ARTS COMPANY SOTHEBY'S IS currently facing a class action lawsuit from its workers.

The workers have alleged that they were misclassified as independent contractors instead of full-time employees.

The workers said they were denied benefits, such as workers' compensation, sick days, health insurance, paid vacation and a retirement plan.

This, the class action noted, has violated the New York City Freelance Isn't Free Act.

Altogether, more than 40 workers joined the suit.

Spearheading the class action is New Jersey-based Francis Fenwick, a former accountant with the auction house.

Fenwick started on at Sotheby's as an independent contractor, working two years under this employee type. Following his contract, Fenwick stayed on, continuing his work.

According to his lawyers, Sotheby's is trying to "dismiss the misclassification claims by arguing [he] was an independent contractor, then dismiss the Freelance Isn't Free Act claims by arguing that the complaint alleges [Fenwick] was an employee."

Sotheby's filed a motion to dismiss the case in November 2021, claiming that it was "so devoid of factual allegations … it was difficult (if not impossible) to discern."

No conclusion has been reached yet, and more legal action is likely to follow.

SCORECARD: Further court action will determine if Sotheby's has misclassified its workers or not.

TAKEAWAY: Though taken a backseat to the pandemic, the question of whether gig workers and/or independent contractors should be considered for benefits is still important. Employers are best served by reviewing their state laws and fully defining and documenting their workers' employment.

WORKERS' COMP

Group Health Offers a Lesson

BY MICHELLE KERR

Within the past several months, I spent quite a bit of time as a caregiver for a trauma patient, who also happens to be my father. Six broken ribs, a lumbar spine fracture, a broken wrist and a torn rotator cuff, with a co-morbid heart condition and diabetes. Good times, good times.

Was it a work injury? Well, no. It was a stubborn octogenarian fall risk injury, in this case. But throughout the experience, I thought often of the obvious parallels of a work injury to any other injury.

Given what I do, it gave me a unique look at how very easily a claim can skid off the rails.

There were five consecutive hospital stays in total. We didn't have an easy go of things.

We struggled to get answers, again and again. We faced a lack of communication, a failure of care coordination, diagnostic delays, treatment delays, missed diagnoses, medication confusion, inadequate staffing and even patient safety concerns.

The problems were severe enough that we abruptly pulled him out of one hospital due to inadequate care and transferred him to another.

As the family of the injured, we were infuriated, no surprise. And what happens when you add anger to injury?

We all know it well. It didn't take long for one litigious-minded relative to make grumblings about lawsuits.

That talk eventually quieted, thank goodness. But I tried to imagine the family of an injured worker having those same conversations.

I can see how easily employers can find themselves in the crosshairs when people are lashing out in frustration.

A family member is suffering, not getting the care they need and they're looking for someone to blame.

I thought about the costs as well – two months of hospital and rehab facility care, treatment delays and lack of care coordination playing no small part in that duration.

And of course, I thought about the patient, a man with a cheery disposition, quick with a joke, and sharp as a tack for his years. Instead, he was depressed, forgetful and cloudy, thanks to a combination of pain, opioid medication and a trauma experience.

His frustration with his care made him irritable and mistrustful of providers. Lack of progress made him avoid his prescribed exercises, presuming them futile.

I'd like to think that if this had been a workers' comp injury, things would have been different. It would have been a smoother, faster recovery.

We would have had a nurse case manager helping us. They could have addressed our concerns, answered his questions and ours, managing expectations and connecting him to the right providers and services in a timely manner.

He would have felt confident in his providers and in his treatment plan.

This particular patient is finally on the mend, and I am grateful. But patient care in group health, I've learned, is not always the easiest place for a patient or their caregivers to inhabit.

Workers' compensation patient care can be, and should always be, better than that.

Injured workers and their families deserve it. &

MICHELLE KERR is workers' comp editor and National Comp conference chair with Risk & Insurance. She can be reached at kerr@theinstitutes.org.

RISK MANAGEMENT

Check the Temperature

BY BEVERLY SIMMS

The Great Resignation, in which roughly 33 million Americans left their jobs in the past year, caused employers to change how they structure the work environment to improve employee satisfaction in their work and life.

In part, employers are instituting greater flexibility and autonomy with employee work schedules and work locations. Since the onset of the pandemic, employees are no longer entering the office setting, but instead entering the "WFH" (work-from-home) arena.

As this has become the norm, an even newer phenomenon has emerged. Some employees are evolving into global nomads. According to GoExpat.com, a global nomad (or "glomad") is someone living an international lifestyle while working in their home country.

Glomads live abroad independently and are not anchored to one location. With traditional workspaces fading, how can employers support this paradigm shift while maintaining service and productivity standards?

For organizations to compete, company leaders must strive to foster employee empowerment. Culture, work environments, benefits, and wellness are all keys to this.

Monetary incentives are simply not enough. Employers should monitor benefits packages, including reward programs, to ensure employees' needs are supported.

A good start to empowerment is to conduct "stay interviews" as a mid-year workforce temperature check. It's of no help to wait for employees to resign before conducting exit interviews.

A more proactive approach is vital to the retention of good talent. Adding stay interviews ahead of performance reviews can enable meaningful dialogue that encourages employers to improve their training and development programs, address career advancement opportunities, and create a more cohesive and inspired work force.

According to a 2021 LumApps survey, trained and nurtured workers are 6-12% more productive, resulting in a very positive ROI. And any costs associated with upskilling an existing employee are minimal compared to recruiting, onboarding, and training new talent.

The CDC reports mental illnesses are associated with higher rates of disability and unemployment.

Only 57% of employees who report moderate depression and 40% of those who report severe depression receive treatment to control symptoms.

Companies should develop methods to promote employees' wellness and mental health, perhaps by designing a comparative analysis aimed at helping employees navigate their benefits and provide guidance in overcoming common barriers that employees may encounter, such as:

Does the insurance program charge a copay? Is there a deductible?

Is there an Employee Assistance Program that pays first-dollar coverage? What kind of services are offered?

Does the benefit package allow for virtual visits?

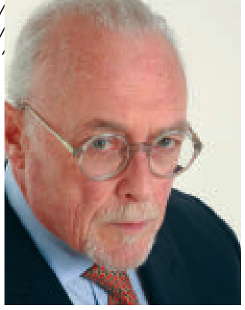
Answering these types of questions can allow employees to make wiser decisions about mental wellbeing.

A one-size-fits-all approach is not an attitude companies can afford, and name recognition is no longer enough to recruit and keep talent.

Allowing employees more independence will encourage the best outcome for the company and the longevity of the employee relationship. &

BEVERLY SIMMS is an account manager at the Risk Cooperative. She can be reached at riskletters@theinstitutes.org.

ROGER'S SOAPBOX



Insurance in the Blood

BY ROGER CROMBIE

Make your own destiny, the Greeks used to say, but it doesn't often work like that. I wanted to be Sherlock Holmes; instead I am the Dr. Watson type.

I wanted to be Robin Hood; instead I am Friar Tuck. Batman; the butler Alfred. I wanted, more than anything, to be James Tiberius Kirk, captain of the USS Enterprise; instead I am some doofus in engineering.

The one thing I didn't want to be—then or now—is an adult. I became one irrevocably the day I answered the phone at the life insurance company where I worked.

I was new to the business world in a very junior role. Everyone called me "Woodgate," which was my predecessor's name.

As part of my duties, I filled in on the switchboard when the regular operator had to go out. (Younger readers: Telephones once required cables, which were routed through a switchboard, which required a manual operator. "Here's your Florida call, Mr. Whitmore," that sort of thing.)

Mostly, I plugged in wires connecting incoming or outgoing calls to relevant parties when the receptionist was at lunch. It was undemanding work. I used to read while waiting to be needed.

One day, I answered an outside line. A voice said: "There's a bomb in your building," and hung up. It was possible: A number of financial institutions in the London financial district had recently been bombed.

I was just a kid. I'd been reading a cowboy story and suddenly lives depended on what I did next.

It's odds-on that I was fighting a fierce hangover at the time. I should have panicked. Run screaming into the street and never worked in insurance again—or reinsurance, just to be on the safe side.

Or, perhaps more logically, I might have thought: "Who would want to plant a bomb in an insurance company?" and gone back to the adventures of the outlaw Jesse James. Now that I've learned a little about insurance, I know many people who would like to blow up an insurance company, but I digress.

People's worth can only be determined by their reaction under pressure. To my amazement, then as now, I retained my composure. I plugged in the wire that went to the managing director and told him who I was and that a bomb threat had been received.

Occasionally, they don't put dimwits in charge, and luckily this was one of those times.

"I'll clear the top three floors," he said, "you do the bottom three."

Up I went to the third floor and calmly worked my way through the offices, chasing everyone out. I told two guys to pass through the second floor on their way out and inform everyone there. I then went to the first floor and emptied it out.

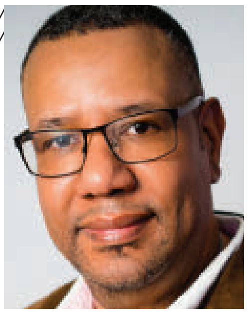
It was as if I knew what I was doing.

There was no bomb, and after the police gave us the OK, we all went back to work assuming other people's risks. Come to think of it, that's exactly what I'd done by not fleeing the building at the first opportunity.

Insurance, it seems, runs deep in my adult blood. &

ROGER CROMBIE is a UK-based columnist. He can be reached at riskletters@theinstitutes.org.

RISK INSIDER



Rising Above the Insanity

BY JAMES CURBEAM

Insanity is doing the same thing over and over and expecting different results, is usually attributed to Albert Einstein.

Stupid refers to someone who does not understand things, has not learned from past experiences, and generally is not using his or her brain.

How does this quote represent our present-day world? Society continues to do the same things repeatedly, expecting different results while not learning from past experiences.

For example, let's start with politics. The country is politically divided, and each party criticizes the other party for doing the exact same thing.

Regarding diversity, equity and inclusion, the same decisions made 30 years ago are still being made today in a lot of cases and as a society we are not learning from past experiences.

We must rise above this insanity and stupidity to meet the challenges of today's world if we want to successfully navigate our organizations through these difficult times.

The modern risk manager must learn from past experiences. For instance, as the insurance market continues to harden, those who continue the insanity of just blindly renewing policies without investigating other options will always be a prisoner to the whims of the market.

In some cases, you may find yourself unable to purchase coverage at all. So, what can we do as risk managers?

Investigate the captive insurance alternative as an option for financial risk transfer.

This is not just an option for the private sector but can be extremely effective for public entities as well.

A captive is a legal entity informed to insure the risk of a parent company.

It is a formalized way of allowing businesses to take on more of their own risk. It still is a type of self-insurance but transfers the risk of loss from the parent to the newly formed insurance entity.

Examples of reasons of why to form a captive include the following:

- Gain better control over insurance and risk financing cost
- Increased negotiating power with the commercial market
- Risk management and claims control
- Insure risk the current market is overpricing
- Access to the reinsurance market
- Ability to loan back surplus cash to parent
- Opportunity to profit from your own underwriting experience
- Cover risk not being covered by commercial market
- Ability to access federal programs offered to insurance carriers

To get started, the process is relatively simple.

This process includes evaluating your risk tolerance, determining a structure, what insurance coverages you initially want to offer in the captive, where the captive would be domiciled, a financial analysis based on your loss experience and concludes with a recommendation.

Today, risk managers continue to struggle with trying to maintain the appropriate coverage we need to protect our organizations from loss at a reasonable price. Analyzing the benefits of a captive is a great option for risk managers who want to rise above today's insanity relative to dealing with today's insurance market. &

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Navigating a Complex Financial Lines Market

Risks and opportunities abound in the financial lines insurance space as threats grow more complex and new capacity enters the market. While rate increases in some lines have slowed, brokers and insurers are keeping a close watch on claims trends as courts reopen following the pandemic lull.

The financial lines insurance market is growing increasingly intricate and complex to navigate due to a range of factors, including heightened cyber risk, event-driven litigation, derivative litigation, regulatory expansion, and many other factors. Rate increases over the last few years have helped address long-term price inadequacies, but many established insurers in this $40 billion to $50 billion market remain cautious.

"Insurers that previously offered $20 million to $50 million limits are now putting up $5 million," said Tom Fitzgerald, President, Specialty and Commercial at QBE North America.

"As a result, building large towers has become much more complicated. You need many more insurers to complete a tower. Ensuring language consistency is important for all constituents. This trend, along with an increasing rate environment, has created opportunities for other markets."

The market for directors and officers (D&O) risk provides a good example. Three years of rising rates have attracted new market entrants, principally from Bermuda, that aren't burdened by under-reserved legacy claims. Additionally, it appears frequency trends have muted as Covid 19 has caused litigation to be deferred.

These new market entrants, mainly in the upper layers of towers, have caused rate increases to begin tapering. As courts reopen and tackle the case backlog from the pandemic, the industry may need to push for further rate adequacy. By the end of 2022, we should start to get a clearer idea of how the reopening of the courts will impact the market, Fitzgerald said.

"D&O claim frequency will likely remain flat in 2022," said Fitzgerald. "As accident years 2015 to 2019 come into sharper focus, underwriting performance will likely be challenged, causing markets to reconsider the current rate environment. Covid will only make these decisions more complicated.

Special purpose acquisition companies (SPACs) present one of the biggest challenges, but also opportunities for technical underwriters, particularly in the public sector. Pricing and risk selection is difficult, since a SPAC's business model is to raise money publicly prior to identifying a target acquisition. Additionally, SPAC investors rely on future looking statements that may or may not come to fruition. Consequently, few insurers are willing to write coverage despite a sizable business opportunity.

"As financial lines risks have grown more complex, the need for specialization has also grown."

— *Tom Fitzgerald*, President, Specialty and Commercial, QBE North America

"When we evaluate a SPAC opportunity, we focus heavily on the experience of sponsors and other key players, the transparency and due diligence of the process, and the predictability of the earnings stream, among many other factors," said Fitzgerald.

Perhaps no coverage area in the financial lines market has drawn more attention than cyber. The rise in ransomware and resulting claims has driven many insurers to drastically reduce capacity and limits or leave the market altogether.

"Insurers are now writing exclusions into their policies to limit ransomware coverage since it has become such a big problem," said Fitzgerald. "Some simply won't write the coverage anymore."

With growing demand and shrinking supply, it's no surprise that rates continue to rise. They're up between 20% to 50%, particularly in excess layers.

"To secure coverage in today's threat environment, companies must make cyber security a top priority and employ all the latest techniques to thwart attacks," said Fitzgerald.

"Insurers are becoming increasingly vigilant in evaluating preventative measures to assess and price cyber risk and incorporate it as part of an overall risk management program."

Another area that has come to the fore is environmental, social and corporate governance (ESG). As firms are increasingly held accountable for their environmental and social impact and corporate governance practices, claims frequency is expected to increase.

"ESG is mentioned in almost every 10-K filing and is top of mind for all companies," said Fitzgerald.

"Activist investors are becoming more aggressive in looking for discrepancies between companies' ESG promises and actions, raising the potential for claims. Therefore, underwriters must pay more attention to these company declarations and stay alert to claims trends as they develop."

Other emerging growth lines are employment practices liability (EPL), fiduciary, crime and contingent liability. Fiduciary liability rates have risen by high single digits because of increased claims alleging excessive retirement plan fees and investment manager imprudence. Premiums for crime have increased too.

Given the complex and multi-dimensional nature of the financial lines insurance market, it has become essential for insurers to mine and analyze data to improve risk selection and pricing. This capability benefits insureds, too, as they press insurers for better rationales for their decisions in a volatile rate environment.

"We've invested heavily in technology to improve our data and analytics capabilities, and even more importantly, we've invested in the expertise of our team," said Fitzgerald. "As financial lines risks have grown more complex, the need for specialization has also grown. Our broker partners and customers want to know they're working with highly experienced professionals who have the tools and skills to make data-based decisions specific to their situation."

As a global insurance leader and a premier choice for financial lines solutions, QBE boldly expanded its team in 2021 to further strengthen its position in the market. The expansion supported QBE's strategy to write more primary and low excess layers of coverage instead of mid and high excess layers.

"QBE wants to become a more relevant partner to our brokers and customers," said Fitzgerald. "That means having a broader risk appetite that's aligned with our underwriting expertise, experience and data. It also means devoting our capacity and expertise to a relatively small number of brokers who are the top professionals in the market. We call it a 'limited and preferred' distribution strategy.

This distribution strategy makes it easy for broker partners and customers to access all levels of the QBE organization, including senior management. In addition to underwriting, the claims team will often work with brokers and customers at the outset of a program to discuss emerging risks and how the policy will respond. The product development team is also readily available to discuss and craft customized policy endorsements when needed. This responsiveness adds to QBE's competitive edge.

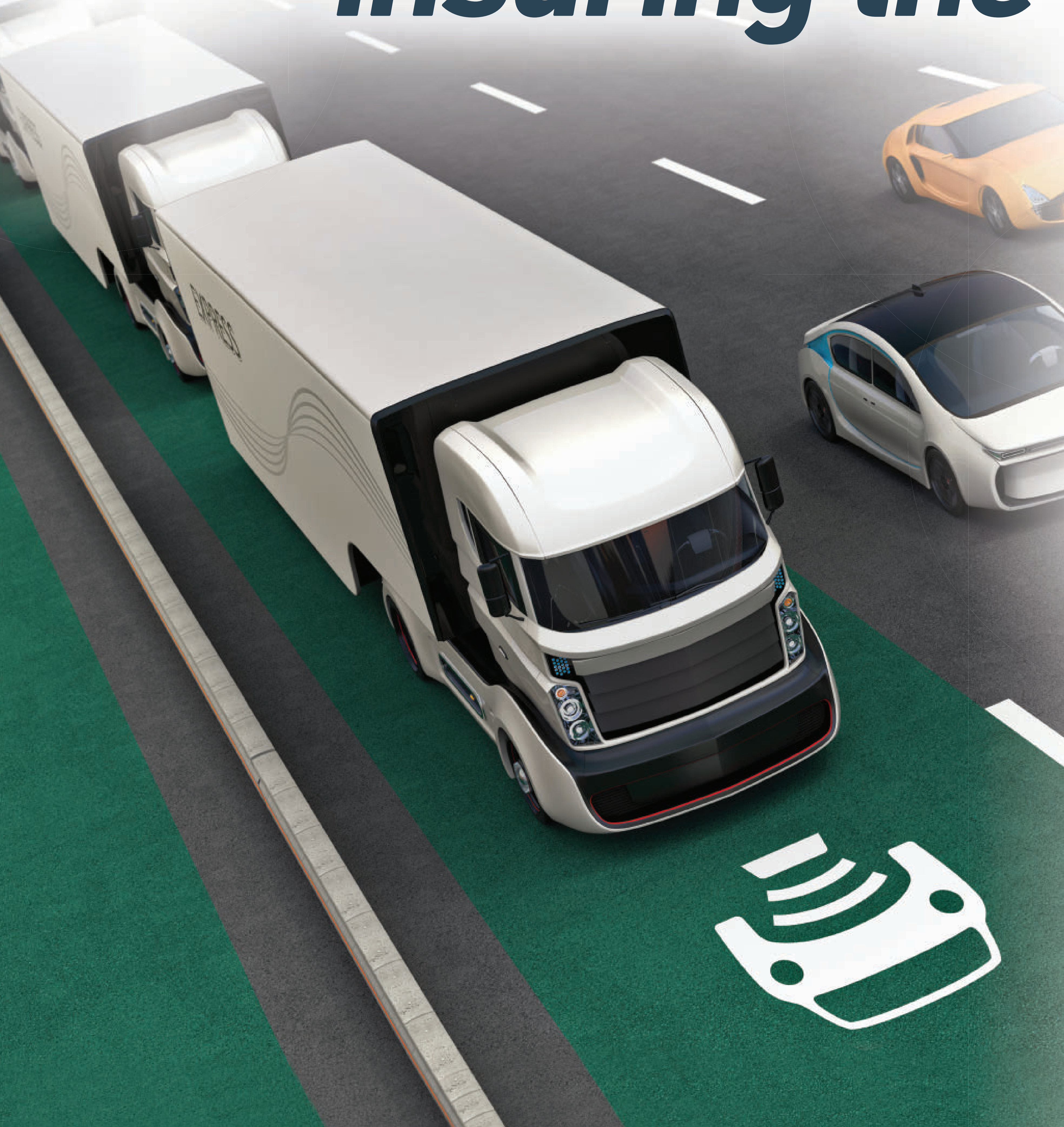
Looking ahead, Fitzgerald believes the financial lines insurance market will continue to address an expanding array of risks and demand increasing levels of partnership between insurer, broker, and customer.

"As the pace of change always seems to accelerate, you can't overestimate the aspects of a strong partnership – such as planning together, transparency and good communication – to identify and mitigate emerging risks. That's especially true in financial lines insurance."

QBE

To learn more about QBE's financial lines proposition, visit qbefinancial.com

Insuring the



Technology Leap

Is adequate risk transfer in the face of rapid technological change even possible?

By Courtney DuChene

It's 2050 and an executive at a commercial insurance carrier starts her day by calling an Uber to take her to work. The autonomous vehicle shows up promptly at 8:30 a.m. She checks her email while being whisked to her San Francisco-based office.

Once there, she opens her laptop, connects to an augmented reality platform and has a meeting with an insured in New York. Both the executive and the insured interact with holograms of themselves that mirror their real-life movements, so it feels like they're speaking in-person even though they're thousands of miles apart.

These technologies may seem straight out of an episode of "The Jetsons," but many of them exist—even if only in nascent forms—today. Tesla debuted its first autopilot features in 2015 and Ford more than doubled its investment in autonomous vehicles in 2021, per reporting from Wired and Reuters respectively. Meta and Microsoft CEOs Mark Zuckerberg and Satya Nadella are calling the metaverse—a digital world that mirrors our own—the future of the internet.

These tools are revolutionizing the ways we live and work—and they're coming sooner than you think. Globally, the growth of digital wallets, paperless lending and digital currencies pushed the FinTech segment of the market to a $7.3 trillion in value in 2020, according to reporting from Yahoo Finance. The pandemic led to explosive growth for virtual communication platforms like Zoom, Slack and Microsoft Teams, and other tools will likely follow.

"Tech companies are moving," said Tom Quigley, U.S. technology practice leader, Marsh. "They're getting into a lot of businesses, and the more and more technology becomes ubiquitous, the more we're getting into a whole range of exposures."

Carriers are already scrutinizing cyber, technology errors and omissions (E&O) and directors and officers (D&O) risk in these fast-growing companies. Hardening markets have tech companies looking for alternative risk transfer solutions or, in some cases, disrupting the insurance industry as we know it.

WE'RE LIVING IN A DIGITAL WORLD

Many of the technologies being developed today can be divided into two groups: Those with physical products and those with digital products.

Autonomous vehicles are the predominant example of emerging physical technology. They range from self-driving cars to autonomous trucking fleets to AI-operated forklifts. "I've worked since about 2015 with every mode of autonomy that you can think of: sidewalk delivery bots, robotaxis, self-driving trucks, industrial automation, teleoperation of forklifts or mining," said Steve Miller, broker and innovation lead, Insurance Office of America.

On the digital end, cryptocurrencies, non-fungible tokens (NFTs), blockchain technologies and—of course—the budding metaverse are set to change life and work as we know it. "I think what we're going to see is the foundations of the metaverse and the opportunities that produces," said Michael Brunero, CFC Underwriting's head of tech, media and IP.

Though the metaverse is a few years away from practical application, other forms of technology and AI are already disrupting long-established industries.

Take the uses of blockchain technology in the insurance industry. Blockchains can store smart contracts, which are automatically executed when a certain set of predetermined conditions are met. These automatically executing insurance policies could make property and casualty insurance companies more efficient by reducing the time between when a claim is filed and when it is paid.

GETTING UNDERWRITERS COMFORTABLE WITH DISRUPTIVE TECH

New technologies may be popping up in every sector — even insurance — but that doesn't mean carriers are comfortable underwriting the risks.

Marsh's Global Technology Industry Risk Study found that over the past few years, tech companies have seen price increases for cyber, tech E&O, D&O and casualty coverages (with the exception of workers' compensation). "The challenge is really getting a legacy financial industry, like insurance, to keep pace with the innovation of disruptive technology," Miller said.

Part of the reason underwriters are uncomfortable with the new exposures presented by tech companies is a lack of historical data. When Miller first pitched coverage for autonomous vehicles in 2015, he remembers underwriters balking at the request.

"They laughed, because they didn't have any basis for understanding it," he said. "The insurance industry now has a hundred years of the metrics on how humans drive vehicles, and they're very comfortable with that data, because it's billions and billions of miles. And they don't have that for autonomy."

Another factor causing hesitancy amongst carriers is a lack of familiarity with how these digital tools work. Sticking with self-driving cars, many underwriters feared that autonomous vehicles could be hacked and taken over by cyber criminals who would then cause crashes. But Miller said the technology has been programmed to avoid such a risk.

"The way that the systems are designed is there's a very specific route for input for vehicle actuation, and if there's a failure or a command that's not recognized as coming from the right source, the vehicles go into limp mode; they stop. Worst-case scenario, you're stopping on a roadway. You're not turning it into a remote-controlled car," he explained.

"Underwriters need to hear that from engineers, and engineers need to say, 'Yeah, trust me, step one is to make sure these don't have that exposure.' "

These issues extend to tech tools that make up the virtual world as well. Quigley pointed to social media companies that have pivoted to focusing on the metaverse (Facebook rebranded to Meta last year) as one area where business models have shifted in a way that could make underwriters uncomfortable because of a lack of historic data.

A company that once focused on social media may have a new cyber risk exposure if they start implementing the sale of digital objects using NFTs, or non-fungible tokens, which function like a deed for a virtual product, or if they allow for the trading of cryptocurrencies.

"They're moving from commerce to e-commerce to social commerce. What does meta commerce mean? What do these online environments mean in terms of new risk issues?" Quigley said.

"If you have an underwriter who is very comfortable with a prior business model, and now we're stepping into something new, there's often pushback."

CYBER: A NEW CATASTROPHIC RISK

Some lines are facing more scrutiny and pushback from underwriters than others, and cyber is probably

SUMMARY

- ***Futuristic technologies like*** autonomous vehicles and the metaverse may only be a few years away.
- ***Cyber, tech E&O*** and D&O are all challenging lines.
- ***Hardening markets have*** tech companies looking for alternative risk transfer and Insurtech solutions.

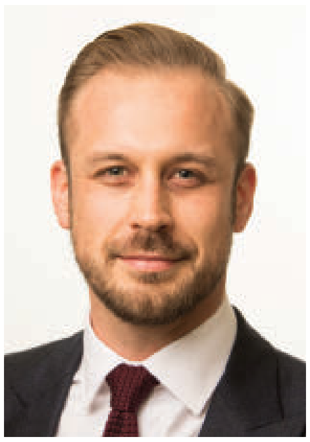
the most difficult of all for technology companies.

A spate of ransomware attacks last year has caused cyber insurance rates for all sectors to jump 80 to 100% year-over-year, *Risk & Insurance*® reported in February. For tech companies, this figure is especially concerning since so many aspects of their business are exposed to cyber risk.

Seventy-two percent of respondents in Marsh's 2021 Global Technology Industry Risk Study named data security and privacy as their most pressing risk, and 71% said it will be more of a concern within the next three to five years. Another 54% expressed concerns about digital business interruption and an additional 53% named IT resilience as a top-of-mind risk.

The cyber exposures for many tech companies are so great, Quigley likened that to the types of catastrophic loss caused by natural disasters.

"We have a lot of large tech clients where, yes, it's bad if there's a fire," Quigley said, "but the thing that winds up being a very existential risk is their digital infrastructure."



"Underwriters need to become more innovative in the way that they're providing products and solutions, and brokers need to be open minded to selling those solutions ... The world moves on and so do the solutions we need to provide."

— Michael Brunero, *head of tech, media and IP, CFC Underwriting*

Beyond the typical cyber liabilities, many tech companies have additional digital risk in the form of tech E&O exposures. Tech E&O policies cover the costs of a lawsuit if a tech company is sued after their software malfunctions for a client or if a mistake is made during their service.

A mid-year market outlook from 2021 published by USI Insurance Services found that tech E&O rates were up 25-50% for typical exposures and 50-100% for optimal risks.

From an underwriter's perspective, tech companies should be proactively thinking about potential ways their product could malfunction and cause a loss for their clients. That way, they can better present their exposures to carriers on the tech E&O side.

"I think there's a need for a technology company that's making a nuanced product to understand that the security controls they are putting in place need to be best practices rather than checking a box," said CJ Pruzinsky, chief underwriting officer for North America, Resilience Cyber Insurance Solutions.

"That would help me from an underwriting perspective to say, this is a company that knows their obligations within the cyber ecosystem."

AS GROWTH SOARS, SO DOES D&O RISK

Despite the numerous risks new technologies present, tech companies continue to grow at a rapid pace, putting them at increased risk of D&O claims.

Claims emerge when a tech company promises massive growth then fails to meet those targets. Members of the board of directors may then sue, and a company's D&O policy would kick in to cover those expenses.

Emerging tech companies have a higher D&O risk than more established companies because their business models are influx.

"Public tech companies are probably more at risk of a claim just because the business models aren't yet proven out," said Alex Shklyarevsky, VP, North American public D&O division, Allied World.

This risk is especially acute for tech companies that go public using a Special Purpose Acquisition Company, or SPAC. SPACs are pools of money gathered with the intention of acquiring a company and taking it public.

Unlike a traditional IPO, which only allows for one year of pro forma financial projections, a business taken public through a SPAC can provide pro forma projections of up to five years. If a tech firm fails to reach these broader earnings projections, it could attract litigation. "Nascent businesses are attempting to go public without producing either revenues, or certainly, profits. And we're seeing that with these potential de-SPAC transactions," said Raymond Ash, SVP of Westfield Specialty. "You can look at the failure to meet expectations as the genesis of a lawsuit."

"A lot of the claims come from these companies missing revenue expectations," Shklyarevsky added. "Be transparent. Be realistic about the business model. Don't hide anything."

THE INSURANCE SOLUTIONS OF TOMORROW

Given these challenges, many tech companies report being unhappy with their insurers, and some are looking for alternative solutions to manage their exposures.

"Tech companies' satisfaction with nearly every form of insurance has fallen in recent years," Quigley said.

For cyber and tech E&O lines, Quigley said he has seen insureds turn to captives to manage their exposures.

"There's a trend towards more clients looking at captives because of the pricing in the market," he said.

But familiar alternative risk transfer solutions like captives aren't the only places tech companies are eyeing to manage exposures. Tech companies by nature are disruptive, so many are turning to Insurtech and safety engineering companies to help solve these problems.

"What we're seeing is a growth of interested parties in the space that are autonomy-focused but are not necessarily the traditional legacy insurance players," Miller said. "Some of that's Insurtech, some of that's safety engineering companies working within insurance, and there's a lot more of that on the horizon."

But legacy carriers can still keep up — usually in the form of acquiring companies designed specifically to insure tech risks.

In 2018, The Hartford acquired Y-Risk, a managing general underwriter specializing in the sharing and on-demand economy. Y-Risk currently uses usage-based pricing, so an insured's rate is developed based on its month-to-month exposures. "Y-Risk is definitely working with unique companies from an insurance perspective. We see this as an opportunity to think different about exposure base for not only the sharing economy, but also for other companies that might benefit from a usage based type of insurance model," said Andrew Zarkowsky, head of the technology practice at The Hartford.

Ziad Kubursi, head of financial, executive and transactional liability at The Hartford, noted the company has also adapted to cover new exposures for tech companies. He cited tech E&O policies as a prime example.

"You go back 20 years and Cyber & tech E&O were in their infancy stages and continuing to develop to address the growing concerns in the industry and larger commercial segment. As the risks continued to grow and more focus around the exposures in these areas, tech E&O & Cyber are now a large and growing line of business under our division," Kubursi said.

"Everything has a technology component to it, but we designed and customize our policy form around the evolving professional services that technology companies do. So whether it be consulting, whether it be manufacturing chips, or providing tech consulting services, or running an application, or managing a cloud, these are contemplated and embedded into this tech group."

PRESENTING YOUR STORY TO CARRIERS

The good news for tech companies? The way they present their exposures and risk management strategies to carriers can go a long way in helping secure coverages they need.

"We're in the highest of high-tech, but relationships have never been more important in my brokerage career," Miller said.

Tech companies should be prepared to detail what their risks are and what they're doing to address them, especially in lines like cyber, tech E&O and D&O, where they may be facing rate increases. Working with an actuary to get an understanding of your exposures and presenting that data to carriers can be a critical first step.

"What we're doing is trying to get a firm understanding through actuarial studies of the risk internally and then go with a story to the carriers," Miller said.

Both insurers and insureds should also be open to new ways of managing risk. Since tech is such a disruptive industry, insurance solutions that break with conventional policy forms may be one of the best solutions to ensure risk transfer options exist in the market.

"Brokers and underwriters need to work better together," Brunero said.

"Underwriters need to become more innovative in the way that they're providing products and solutions and brokers need to be open minded to selling those solutions," he added.

"They might not be what they're familiar with, but there's a reason for that. The world moves on and so do the solutions we need to provide." &

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Managing Risk on a Global Scale

Global risk management programs are never one-size-fits-all. They're tailor-made through unrelenting collaboration between partners.

By Raquel Moreno

As risk becomes increasingly interconnected, global risk managers step onto center stage.

By now, every person on the planet has realized that a crisis in one region can destabilize other areas of life globally, leaving us all exposed in ways we might not have imagined. Thankfully, those in global risk management already have an eagle-eye for potential threats and are primed to expect the unexpected.

"It only takes one significant disruption to undermine some of the fundamentals of our society — peace, economic security and health security, to name a few," said Amy Bowman, vice president of multinational business at BHSI.

Whether it's supply chain issues, cyber attacks, political instability or natural disasters, global risk managers along with their brokerage and carrier partners are charged with keeping a steady pulse on what's going on around the globe.

"We're making the business case for it right now by living through this," Jim Bowen, global risk manager for Griffith Foods, said. "With COVID-19 occurring, and the ripple effects along supply chains, that has [had a] real impact on our business continuity efforts."

BEING PROACTIVE MATTERS

Finding a way to structure risk management programs that meet the needs of international organizations, especially as the volume and volatility of threats seem to be accelerating, requires a proactive stance from the risk management community.

"Historically, risk managers and insurers have learned and made decisions by analyzing past data and loss trends," said Carlos Dezayas, head of risk management at Kraft Heinz Company. "And while I think that's an invaluable resource for situations that are predictable, more and more companies are moving towards areas [where] those predictive models don't necessarily provide the right view on what the risk future really is."

"How do you focus on the correct innovation path for your future?" is a question Robert Lockery, global insurance lead for UCB, often considers.

"We need to make sure to continue our innovation for things to come 5-10 years down the road that we don't fully understand the risk," he said.

FORGING RESILIENT RELATIONSHIPS

Working on behalf of an enterprise with a large international footprint, Dezayas has built a risk management program anchored in the importance of mutual understanding. "Whenever you're building a global program, there is that initial challenge in terms of understanding the connectivity and policies, such as

"It's about understanding the business needs on not only a global level but also the local level as well."

— Carlos Dezayas, *head of risk management, Kraft Heinz Company*

having a global master policy with local tie-ins, to have fronting arrangements, reinsurance arrangements," Dezayas said. "It's about understanding the business needs on not only a global level but also the local level as well ... When you're discussing the businesses on a local level," it's important to understand "why is a local policy necessary or not, and where is the local team coming from whenever they have certain challenges."

Lockery aims to listen and be flexible to the needs of the in-country groups for which he provides corporate insurance servicing. "They know all the local customs, so it's best for me to learn when we're starting the discussion on the challenge they might have and then apply how best it fits into our overall global corporate strategy," he said.

Working to understand the local financials and the ability of local entities to take on risk is something Dezayas strives for as he designs programs to be resilient. "Sometimes, the decisions that are best for the company, as a whole, raise challenges at the local level," he said. At times, deploying other risk financing tools like captives are

SUMMARY

- ***Global risk managers*** offer a steady hand amid an increasingly interconnected and complex risk landscape.
- ***Proactive risk management*** is key to managing ever-evolving exposures.
- ***Brokers and carriers*** are invaluable partners.

needed "to give the [local] business the certainty that they need."

Often Dezayas is called upon to determine the best way to use insurance as a risk management tool: "It's really having that better understanding and explanation of the risk financing on a basic level to [understand] the trade-offs with limited pools."

For Dezayas, insurance is really a tool for higher-level events. "We don't necessarily want insurance to be paying claims on our behalf on an ongoing basis," he said.

WHO ARE YOU GOING TO CALL?

Finding the right insurance product to meet a company's needs is also a challenge.

"As a buyer of insurance products, sometimes you're looking at what is available in the marketplace to address your risks. But sometimes, there really isn't that suitable match to what your needs truly are," Dezayas said.

This is where having strategic brokerage and carrier partnerships is vital. Recognizing the significant amount of coordination involved in mapping coverage that spans 30 countries, Lockery looks to his brokerage partnership with Aon to streamline things.

"We do our best to run the most efficient program, where we're issuing a majority of everything on a global policy and then issuing local paper," Lockery said. And by having a comprehensive brokerage partner that services local requirements and policies, Lockery avoids "having to be the conduit between different brokers."

Having a strong broker partner is the most important external relationship for Bowen, and he has carefully chosen his partners for more than their knowledge of insurance.

"I very much rely on those partners for their risk management expertise [and] acumen," he said. "That's usually my first call for anything risk related."

> ***"It only takes one significant disruption to undermine some of the fundamentals of our society — peace, economic security and health security, to name a few."***
>
> **— *Amy Bowman,*** *vice president of multinational business, BHSI*

MEETING UNIQUE COVERAGE NEEDS

While plenty of insurance markets and carriers claim to have an international footprint, Bowen has found that only a handful of markets really have the capability to provide the level of support needed for global business.

"It's a fairly narrow group," he said, making the carrier partnerships he has with FM Global and Chubb critical. "[We've] found them to be entirely capable at all of the markets we serve and even the ones that we could potentially serve in the future," Bowen said.

Carriers that Dezayas works with offer solutions "that work outside of monoline product offering approach," he said.

"They really are there to help either reduce risk or think about risk cross functionally for us across the organization and not just how it impacts them from a short-term perspective," Dezayas said. "Helping us get a grasp on our risk and better manage our risk … ultimately helps them as well."

"The nature of a global program is that they're not one-size-fits-all," Stefan Homberger, head of multinational casualty in the global risk management business in the U.S. for AXA XL, explained.

"Each program is different depending on the client's operations—what they do, where they operate, in which countries. So, it really needs to be tailored to the specific needs."

The ability to craft unique participation structures, either around fronting or reinsurance to facilitate the deployment of alternative capital, has been important to Dezayas when choosing carrier partners.

"Whether it's our own captives or some of the market entrants that aren't traditional insurance avenues … being able to work with a carrier that's able to facilitate that capital [is] extremely helpful," Dezayas said.

For carriers to craft the best possible program that will deliver peace of mind for all parties, the more transparently and thoroughly a risk manager can communicate their needs and objectives, the better.

When a risk manager has a strong understanding of their business across all geographies they operate in, and they can establish a clear vision and strategy to address their organization's unique risk profile, this makes things much easier for underwriters like Christian Andrews, senior vice president, executive and professional underwriting officer for BHSI.

"This encompasses everything from understanding their property values in a specific country, to knowing where their directors and officers are located, to determining which risks will be retained by the organization versus which risks will be transferred through insurance," Andrews said.

CAN TECH HELP WITH VETTING ACROSS BORDERS?

The insurance industry's movement toward greater integration of technology is something Bowen sees as having great potential to support the international risk management community, especially risk managers.

"It's such a challenge to accommodate all regulatory compliance globally and international taxes and responsibilities," Bowen said.

Vetting also presents an opportunity for third-party or technological support.

"That is definitely an area for risk managers that we're going to have to rely upon outside, either external service partners [or] technology platforms, to assist better because it really is an administrative hurdle as well as [an] awareness and understanding that I think technology can help with," Bowen added.

Proper vetting cannot be underestimated, as Andrews noted: "Understanding who you're doing business with is critical when building relationships in other countries, whether you're hiring your own team locally or using subcontractors.

"We've seen firsthand how a failure to properly vet and screen business partners in other countries can lead to liability claims," he said.

CONSTANT, CONSISTENT COLLABORATION

Forging resiliency in the face of the constant threat of business interruptions on a global scale requires more than strategic financial investments.

"Relationship building takes time and attention," Bowen said.

"The biggest challenge is finding the time and being efficient … in order to spend that time and really connect on a professional and personal level with people."

From those relationships, better collaboration is possible.

"Delivering a uniform risk management solution effectively and efficiently is dependent on uncompromising collaboration between all of the stakeholders," BHSI's Bowman said. "Without constant, consistent collaboration, the execution of global insurance programs can be hampered," Bowman said.

It's beneficial for all parties to bring a collaborative mindset to the table.

"Often, especially with international organizations, there's no one-size-fits-all solution," Andrews said. "So, risk managers, brokers and carriers need to collaborate together to identify the best possible solutions based on the specific needs of each customer."

Transparency among all parties makes finding optimal solutions possible, "particularly when it comes to expectations, capabilities and timelines," Andrews said. "This helps to build trust and demonstrate accountability."

"A critical part of this for us is really knowing who we're doing business with, including understanding if our partners have well-constructed business continuity plans and knowing if there are alternatives in local markets in the event that one is needed," Bowman added.

FACING THE BUMPS IN THE ROAD

Though no risk manager wants to be reactive to bumps in the road, there are times when there's no way around them.

And for Bowen, trying times have been the circumstances from which trust is born: "Where we have faced challenges, whether it be through claims activities or disaster-type events, those were the times I had an ability to really dig in and meet people, work with them face-to-face every day, because there was a need," he said.

And there is value to be found in facing obstacles with business affiliates; the connections are deeper and a level of professional trust is developed.

"I guess [it's] good and bad that we had to go through some difficulties with those individuals. But through those challenges, a lot of relationships are really made," Bowen said.

Having to engage in difficult conversations, sometimes comes down to timing, especially around rate changes at renewal. For AXA XL's Homberger, the earlier the communication can happen, the better for all parties.

"Nobody likes surprises. So, to communicate early enough is key as well to maintain that trust," he said. "The most successful programs are the ones where we have a true triangular relationship.

"Someone used to say, if you walk into a room and you see a broker, a carrier and the client discuss an issue that needs to be solved, if you can't tell who is the client, who is the broker, and who is the carrier—that's a perfect relationship, when everybody just focuses on solving the problem," Homberger said. **&**

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Painful Legal Lessons

Professional firms face surging litigation trends, but experts say risk-transfer capital access is fluid.

By Alex Wright

Nuclear verdicts and social inflation are changing the game for professional liability.

The professional liability market has come under increasing pressure from the double whammy of eye-watering nuclear verdicts awarded by courts and rising social inflation.

Fueling this is a growth in claims pursued by aggressive, litigation-financed plaintiffs' bars, stemming from the rise in cyber attacks, principally ransomware; environmental, social and corporate governance; and the likes of the #MeToo movement coming to the fore.

Among those caught in the crosshairs are law, architecture, accounting and engineering firms, with some court verdicts 50% higher in value than just five years ago.

"Certainly, these professional firms have been, and perhaps always will be, targets of ire from some corporate clients looking to transfer responsibility for economic losses and failed strategies," said Tim Rowan, Marsh's U.S. professions practice leader. "Suits against these professionals are often difficult cases to defend, involving a battle of experts that can lose the attention of the jury."

The problem will be exacerbated by a backlog of pending lawsuits caused by the courts being forced to shut due to the COVID-19 pandemic.

As a result of all this, more than three-quarters of insurers providing professional liability coverage for architects and engineers are seeking rate increases this year, according to specialty broker Ames & Gough, in line with overall premium growth in professional liability over the last two to three years. Almost half of them are targeting rises for companies in states that have been historically considered higher risk or have an adverse loss experience, such as California, Florida, New Jersey and Texas.

Yet, there's a silver lining, with adequate capital still available for these firms to build out the towers in their insurance programs.

NUCLEAR VERDICTS RISING

The number of awards of more than $1 million has increased over time, reaching 12% of verdicts between 2016 and 2018, the MPL Association Data Sharing Project found. Additional data shows that the average verdict severity climbed by 50% between 2016 and 2019 to $23 million.

It's not just nuclear verdicts that are on the rise either. There were 77 court-approved class action settlements in the U.S. totalling $4.2 billion in 2020, doubling in value from 74 settlements worth $2.1 billion in 2019, according to Allianz. The average settlement amount was also up 15% over the prior nine-year average at $54.5 million.

"It may be a bit early to make any definitive statements about frequency trends over the past year, but severity is definitely trending adversely."
— David Blades, *associate director, A.M. Best.*

"These nuclear verdicts tend to be against the larger profile firms," said Tom Monaghan, executive vice president of Ironpro, Liberty Mutual. "In the case of Fortune 500 law firms, that may quite easily be an eight- or even nine-figure value."

Many of these cases center on contractual disputes with the client or owner, based on performance issues and negligence, or fraud allegations, often on the part of the clients. For law firms, the more severe cases involve allegations of conflicts of interest in securities or mergers and acquisitions.

With accounting firms it's mainly financial problems around audits, and for engineering firms the focus is on big highway projects. All of these cases have had the effect of financially impacting investors and incurring the wrath of many juries, with the blame being laid squarely on professional firms.

"When something catastrophic happens, standard of care as a guiding principle tends to break down when it comes to adjudicated outcomes," said Mike Takigawa, head of commercial E&O Americas at AXA XL. "As we know, when working with jurors the emotional experience can very easily trump fact patterns and what we would

SUMMARY

- ***Professional liability is*** under increased pressure from litigation trends.
- ***Law, architecture, engineering*** and accounting firms are frequent targets.
- ***Still, ample risk-transfer*** capital remains in play.

deem as logical verdicts."

All of this has resulted in increased claims frequency and severity. Worst affected are law firms, with severity up 25% to 50%, despite the current year's frequency being down.

"The full effect of courts re-opening and the backlog being cleared still remains to be seen, but it could result in a greater frequency of nuclear verdicts, while severity may also likely increase," said David Blades, associate director at A.M. Best.

"It may be a bit early to make any definitive statements about frequency trends over the past year, but severity is definitely trending adversely."

INCREASING CLAIMS COSTS

One area where claims costs have lessened, however, is in construction projects, with fewer opportunities for lawsuits as projects were sidelined until pandemic shutdowns were lifted last year. Claims costs continue to rise in other engineering segments, however.

"Within engineering lines of professional liability, civil engineers have become subject to more personal injury litigation due to claims regarding auto accidents allegedly resulting from faulty road and highway design," said Larry Moonan, executive vice president, chief operating officer of Berkley Design Professional.

"There seems to be an uptick in both claim frequency and severity. Likewise, mechanical engineers that have not been a risky line traditionally are seeing more claims that are related to allegedly deficient designs of heating/ventilation/air conditioning systems."

Social inflation is on the rise too, driven by creative strategies employed by lawyers, a changing jury demographic, tort reform rollbacks, and the public's growing dislike and mistrust of big business.

"Further magnifying the size of verdicts, litigation and inflation are growing the size of project values, which creates situations where project delays compound the complexity and size of claims," said Doug Hamilton, vice president, Allied World, North America architects and engineers division.

"The use of the P3 design-build and alternative project delivery structure, where design is not completed prior to award, creates inherent conflicts, driving up frequency, severity and disputes with multiple parties."

Among those areas with the most potential to be affected by nuclear verdicts and social inflation are project-specific policies for architecture and engineering firms. This is because it's a more vulnerable risk and the policy terms tend to be much longer.

ECONOMIC INFLATION PRESSURES

Economic inflation has added further pressure on architects and engineers pricing over the last two years.

"The effect is that insurance buyers are seeing a compound impact of that hardening," said Moonan. "The arithmetic means that as long as claims costs accelerate, pricing will follow."

Yet, despite several insurers pulling out of the market, there remains an abundance of capital available. This is being provided by those that have realized the current pricing environment as an opportunity to expand their existing offering or start new entities to capitalize on these higher rates.

"There's an abundance of capital and capacity in all lines," said Monaghan. "However, the providers are being more judicious about how they deploy that capital, watching the limits they offer, in reaction to firms' loss histories."

For law and accounting firms willing to pay the premium, limits of $500 million to $600 million are achievable. However, in terms of architects and engineers, limits have decreased to $5 million, $10 million — down from $20 million previously.

In response, some firms are choosing to retain risk rather than transfer it. About 75% carry less than $1 million in professional liability limits in their annual programs, while larger firms will typically take on $350 million-plus in limits. Most insurers are willing to provide an incentive of a reduced deductible if they participate in alternative dispute resolution early on to settle a dispute, however.

Captives and other alternative risk transfer vehicles are also being used to provide higher limits.

In addition, sophisticated mid- and large-sized policyholders are retaining 25% to 75% more risk than in previous renewals to offset the premium increase.

"In most areas, we are seeing an increase in limits purchased and higher self-retention or more reliance on private captives to cover the first layer of exposure," said John Hall, founding partner of Hall Booth Smith, P.C. &

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An Industry That Gives

Insurance industry financial resources and human capital are stalwart contributors to social wellbeing.

By Abi Potter Clough

Planting trees to combat climate change is one way insurance charitable giving can align with risk management.

"We've been partnering with the Arbor Day Foundation to plant 80,000 trees each year in forests and communities in need since 2015. Since the beginning of the partnership, we've been able to fund the planting of 480,000 trees."

— Laura Crossin, *SVP of HR, Philadelphia Insurance*

A***t its heart, insurance*** is a system designed to help people in need. When the worst possible things have happened in history, people have come together to survive and help each other thrive. This very basic human value is entrenched in what insurance does every day—whether it's responding to a catastrophe or providing coverage for more day-to-day exposures.

"The insurance industry designs products and services to assist people in a time of need, and philanthropy is a natural extension of this work," said Bill Ross, CEO, Insurance Industry Charitable Foundation (IICF). "On an even larger scale, our industry provides the backbone for innovation, growth and creativity that drives growing and successful economies. When you're confident that your risk is managed, greater creativity results and fuels innovation."

"The U.S.'s insurers provide financial security and peace of mind to millions of Americans while also being one of the U.S. economy's most significant employers, investors, and taxpayers. On top of everything else, insurers allocate more than half a billion dollars annually to charitable causes," said Sean Kevelighan, CEO of the Insurance Information Institute.

During this pandemic, that included premium refunds to drivers who drove less, and food insecurity drives that netted millions for hungry children around the world. As of June, 2020, the Triple-I estimated that insurers donated $280 million to the fight against Covid. That number has surely grown in the interim.

PHILANTHROPY AS A CORE VALUE

Most major carriers have established a charitable foundation to channel their efforts. In many companies, employees are encouraged to volunteer time and talent through paid volunteer days and matching donation programs.

"At Amwins, we raised more than $6 million and donated more than 71,000 volunteer hours for charitable causes through our 2021 Summer of Service program, an initiative encouraging staff from across the nation to give back through volunteering projects and fundraisers," said Barbara Bufkin, a senior advisor with Amwins.

Bufkin, a former IICF International Board of Governors Chair, provided a thumbnail sketch of its philanthropic work: "With philanthropy as a north star guiding our industry, we have been able to make a real difference and improve lives through volunteerism, scholarships and charitable donations."

Sometimes corporate charitable giving programs even align with risk management strategies, like using natural ecology to reduce the impact of floods.

Laura Crossin, senior vice president of human resources at Philadelphia Insurance Companies, said: "We've been partnering with the Arbor Day Foundation to plant 80,000 trees each year in forests and communities in need since 2015. Since the beginning of the partnership, we've been able to fund the planting of 480,000 trees."

The IICF was established in 1994. By combining the efforts of various organizations into one large collective, the IICF has contributed $42 million in community grants and over 300,000 in volunteer hours to charitable causes. With year-round volunteer opportunities and its annual Week of Giving, the IICF presents unique and valuable ways for insurance professionals to give back.

Ross said, "IICF provides a broad platform for the insurance industry to unite to make an even greater collective impact on societal issues and amplify our work in the community. We want everyone in the industry to become IICF supporters, making the greatest impact possible through the strength of so many companies and individuals contributing together."

PHILANTHROPY IN A PANDEMIC

The pandemic changed everything in our world, including the way we volunteer and give back. Lockdowns and public health restrictions made it impractical to volunteer in person.

SUMMARY

- ***A younger generation*** of workers wants proof that their employers commit to social causes.
- ***Most major carriers*** have a philanthropic arm.
- ***Amwins alone raised*** more than $6 million for charitable causes in 2021.

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"In the early stages of the pandemic, nonprofit organizations were not hosting volunteers as they had in the past and many companies had a work-from-home policy. As a result, companies developed virtual volunteering activities," said Melissa MacDonnell, president, Liberty Mutual Foundation.

"In fact, in an effort to further these efforts, the IICF compiled a list of resources to volunteer from afar."

In addition to going virtual with volunteer opportunities, some organizations turned their lens to local communities during the pandemic.

"Along with a greater emphasis on virtual activities, we also worked to build awareness of the persistent issues in our communities, such as food insecurity and homelessness," said Jim Shevlin, chair, IICF Atlanta Chapter and EVP and regional executive officer for Chubb's Southeast Region.

Shevlin continued, "Part of this effort has been focused on directing the IICF giving initiatives toward nonprofit partners based in our local communities, where IICF grants make a significant and positive impact to them, and help these organizations serve a greater number of community members in need."

While some parts of the world have returned to in-person events, charitable giving and volunteer opportunities may remain a hybrid mix of live and virtual opportunities. The local focus many organizations adopted during lockdown may continue as the benefits of helping communities where employees live and work are numerous.

PHILANTHROPY'S TALENT ANGLE

New college graduates and younger workers have more job options and opportunities than ever. And one thing they are looking for is meaningful experiences at work.

To be an employer of choice means providing more than a competitive salary and benefits package. Employers need to commit to advancing important social issues.

MacDonnell said, "We live in an environment where employees care deeply about a company's commitment to social issues, with younger generations wanting more from their employers. According to the 2022 Edelman Trust Barometer, 60% of all employees choose a place to work based on their beliefs and 64% invest based on their beliefs and values."

Philanthropy isn't just good for our communities; it's a good business investment. Most companies have diversity, equity, and inclusion (DEI) goals and initiatives—and philanthropy is one way to support DEI goals. By supporting charities with time and money, companies show commitment to advancing DEI initiatives.

"So many of our industry's philanthropic initiatives play an instrumental role in advancing DEI. The apprenticeship programs are just one example where companies are looking outside traditional sources for talent, introducing new individuals to a career in insurance and offering resources to develop the skills needed to advance," said Ross.

Other ways to grow DEI initiatives through philanthropy include Lloyd's global Dive In Festival, INROADS internships, and affiliation groups like NAAIA. Giving back and helping others are core values of every insurance organization. Philanthropy is one way insurance takes these values to heart through donations of time, talent and treasure.

The insurance industry's commitment to philanthropy is something to be proud of and it can only expand in years to come. &

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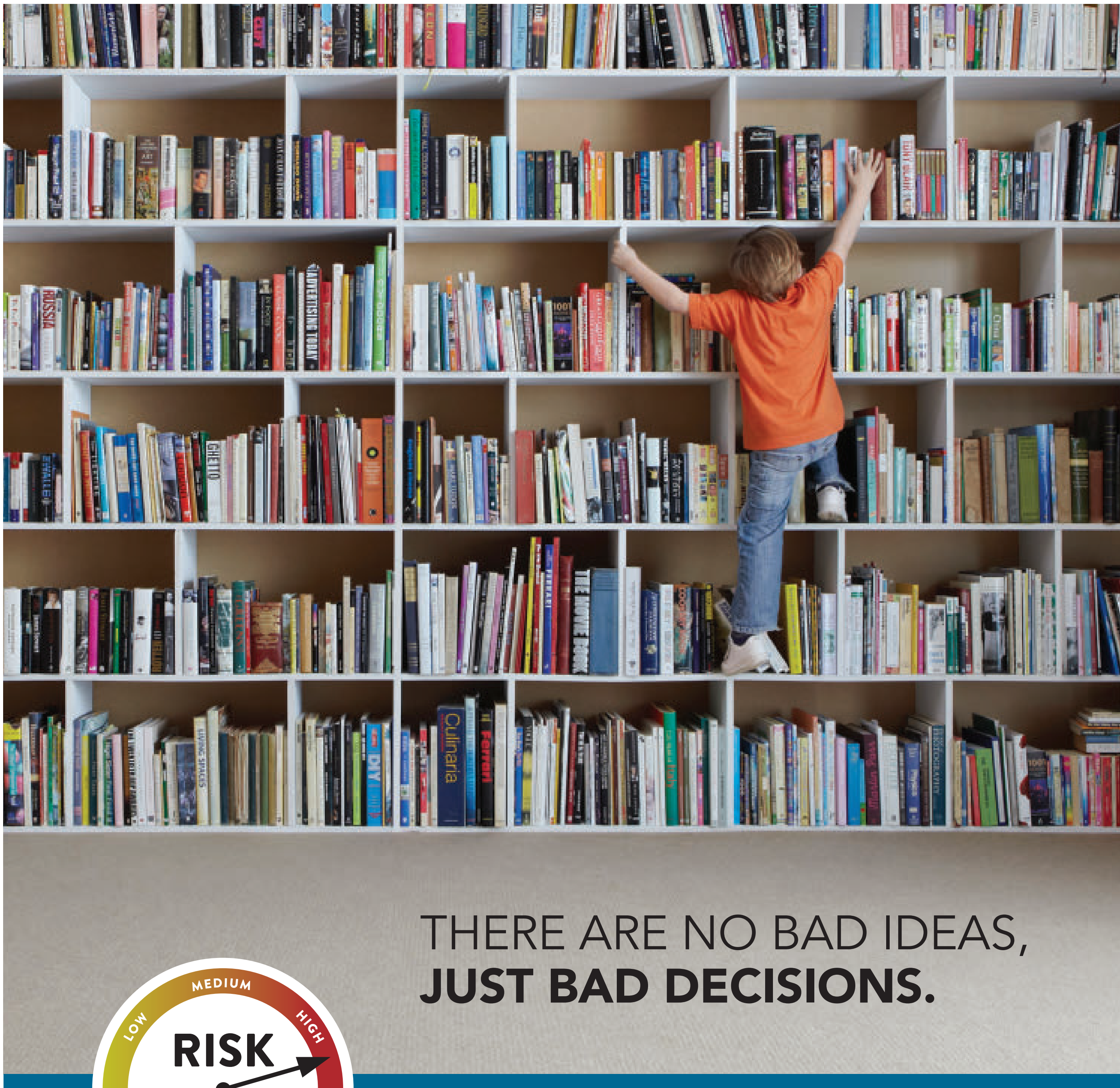

Discerning Drug Data

Each year will bring a new class of medications onto the radar of pharmacy benefit managers.

By Nina Luckman

Pharmacy benefit managers are confident they have the tools to flag oncoming, and potentially damaging, drug use trends.

Pharmacy benefit managers (PBMs) were heralded as some of the most active advocates for additional controls across the health system, and within workers' compensation, during the height of the opioid epidemic in the 2010s.

But as with all aspects of health care, the landscape shifts constantly, leaving claims managers to find their footing.

NON-NARCOTIC BUT STILL ACTIVE

Among the new classes of drugs to treat pain are common prescriptions that are used off label and become ripe for combined therapy. And although opioid scrutiny remains a point of focus for PBMs, non-steroidal anti-inflammatory drugs, known in the industry as NSAIDs, are increasingly a concern.

That being said, the industry believes it has built the analytics structure to battle upcoming threats to injured worker safety.

"PBM data, because of the way the technical architecture is built out from an IT standpoint, it's hyper efficient, it's one language, so it really does become, in my opinion, the source of truth for health care interactions," said Gerry Stanley, chief medical officer for Harvard MedTech.

"I think it's easy to identify a couple of classes as potentially dangerous because of their addictive nature, but I think it's also important to look at it not just in terms of class but in terms of prescribing habits."

Stanley also advised watching out for polypharmacy, in which patients are prescribed low doses of a wide variety of drugs, especially when one drug is treating the side effect of another — like stimulants to treat lethargy from muscle relaxers.

Other leaders in the space agree.

"The use of a diverse set of drug classes that are not narcotic, but do have effects on the brain, is something we're watching closely," said Liberty Mutual national medical director, Mary Capelli-Schellpfeffer.

"These are the drug classes that include anticonvulsants, anti-inflammatories, the musculoskeletal agents that create a relaxation effect, as well as antidepressant drugs. These are increasing in their impact on claims."

A 2021 study from the California Workers' Compensation Institute (CWCI), a private research organization which analyzes trends in the largest workers' comp market in the country, revealed NSAIDs surpassed opioids as the top drug group back in 2015.

"One of the most important shifts is that treatment has been evolving fairly quickly as the regulation of opioids has become more deeply and widely felt."

— Mary Capelli-Schellpfeffer, *national medical director, Liberty Mutual*

In both 2019 and the first half of 2020, they accounted for more than a third of all prescriptions dispensed to injured workers. CWCI noted that this is twice the prevalence of 2010 prescriptions.

Anticonvulsants, dermatologicals, and antidepressants were the remainder of the top five drug groups.

This data tracks with what PBMs themselves are observing.

"We're looking at a lot of the topicals, including topical pain creams, that are available in the marketplace today," said Tron Emptage, chief clinical officer for Optum Workers' Comp and Auto No-Fault.

"We're also looking at nonsteroidals. We've found that some of the nonsteroidal anti-inflammatory drugs have come into the market and caused an increase in the economics, so pricing, for a variety of reasons.

"We're also interested in monitoring some of the adjunctive

SUMMARY

- ***NSAID's have long*** surpassed opioids as the most frequently used drug class.
- ***Trends include cannabis*** use and constant technological advances.
- ***Despite these changes,*** claims managers should depend on their PBM service providers to respond appropriately.

therapies, which include benzodiazepines, anticonvulsants and antidepressants."

Pain creams, everything from the standard camphor/menthol-based OTC lotions to bespoke compound medications sold only via mail order, were raised repeatedly as trends to watch from a cost perspective.

"Topical medications are a great alternative to oral opioids, but many have the same price variance with little advantage for higher-cost versions," said Jill Falb, CorVel's vice president of pharmacy services.

"Diclofenac 3% gel is intended for skin inflammation issues but is often prescribed off label for pain. It can run up to $3,000 for a 30-day supply. Diclofenac 1%, intended for pain, is $40," Falb added.

"As we have seen a move away from opioids, we are now seeing additional problematic drug classes that are still not preventing the development of chronic pain," said Melissa Burke, a vice president with AmTrust Financial Services.

"As more and more restrictions have been placed on opioid prescribing, providers are increasingly prescribing drugs such as topical branded medications, physician dispensed doses of traditional medications and medical marijuana."

This is the case with dermatologics in workers' comp, Burke explained.

"We have seen dermatologics climb to the top of the therapeutic class by spend, outpacing analgesics and anticonvulsants. Topical diclofenac is prescribed off label and many times with oral anti-inflammatories, which can create a duplicate therapy issue," she said.

"Overall, we see an overprescribing of medications that are not effective for pain control and not paired with non-pharmacologic treatment. We still continue to see injections and DME products that are not impacting outcomes. It was anticipated we would see an increase in biologics, but that has not occurred in workers' compensation yet."

PBMs' other major role aside from cost management is safety.

Topicals are considered safer, but additional rising classes of drugs identified as substitutes for opioids are not without risk.

"While evidence-based use of non-opioid analgesics is definitely a positive thing, we have remained vigilant of impending risks with other pharmaceutical categories that have their own potential for abuse and/or have very little therapeutic advantages," said Nikki Wilson, director, clinical product pharmacy solutions at Mitchell.

"We have seen more and more creative pricing options with the mergers and acquisitions and the introduction of smaller PBMs."

— Melissa Burke, *vice president, AmTrust Financial Services*

CANNABIS EMERGES FROM THE SHADOWS

The workers' comp system remains in a holding pattern in regards to cannabis, which despite a legal medical market in many states, remains a Schedule I drug.

"The growing popularity of various forms of cannabis, including CBD products, increases the likelihood that their use will become a bigger consideration within workers' comp in the coming years," said Wilson.

She pointed to astounding growth in the form of recent statistics publicized by the medical marijuana industry itself, and the exponential growth of product types and their requisite online advertising campaigns as a driving force.

Analysis released by Verified Market Research in late 2021 found that the legal cannabis market was valued at $20.73 billion in 2020 and is projected to reach $111.31 billion by 2028.

The sector may be taking off like a rocket in terms of consumption volume, but many in the workers' compensation claims management business remain steadfast in casting a critical eye at this reefer madness, especially as it relates to its potential use or misuse on worksites.

"As much as we don't want to see it, the country continues to permit medical marijuana despite the lack of science to support its impact on injured employee pain management," Burke said.

"As a workers' compensation carrier, I think our goal remains the same; to ensure a medically appropriate and safe return to work. Marijuana on the job site does not support a safe environment and it prevents return to work in many situations," she added.

"Our goal is to address each individual injured employee's needs and provide them the support they need to return to work. If the use of medical marijuana is court ordered, we look to ensure there is evidence of pain improvement and the injured employee has increasing functional capabilities. Ultimately, we want to improve the quality of their life," she said.

MORE TRENDS TO WATCH

Aside from specific areas of concern, PBMs and the leaders they serve in the workers' compensation industry say that the sheer speed at which prescribing behavior and technology is changing is a trend in and of itself.

"One of the most important shifts is that treatment has been evolving fairly quickly as the regulation of opioids has become more deeply and widely felt," said Liberty Mutual's Capelli-Schellpfeffer.

She continued, "We're seeing this across the board, both from medication prescribed in a regional pharmacy to medication that's delivered via surgical or interventional procedure.

"We're seeing new and emerging techniques to get medication to patients that avoid the risk of opioids and yet deliver relief for their pain. That trend means that there's a lot of shifting where pharmacy spend actually is happening between facility-based reimbursements for pharmaceuticals versus the retail pharmacy setting."

Wilson and Falb expressed similar observations, encouraging claims managers to think about high impact pharmaceuticals and dispensing channels, as well as the tech front.

Data will continue to rule the day, which in some cases, is positive.

"I think claims managers should be tracking navigating prescription digital therapeutics," said Wilson.

"Medical and health apps and technology that may support or enhance a patient's experience with pharmaceutical treatment or be used in conjunction with a broader treatment program."

One such product is Stanley's virtual reality platform designed to address pain, anxiety, depression, PTSD, and sleep (namely, those conditions for which the drug classes of concern are geared) by providing injured workers with a VR headset that is used at their will.

Stanley noted that this method restores the "locus of control" that can be stripped from an injured worker bogged down in the workers' comp system.

The platform utilizes basic concepts of neuroplasticity, in which the body will privilege certain types of stimuli over others, to reduce pain over time using a goal setting care plan.

Yet another trend that will have a say in how pharmacy benefit managers interact with their clients is the ongoing reality of mergers and acquisitions.

AmTrust's Burke said this could have the counterintuitive impact of leading to innovations, as smaller PBMs attempt to carve out space and make their mark in the market.

"We have seen more and more creative pricing options with the mergers and acquisitions and the introduction of smaller PBMs," Burke said.

"I think the market is also responding to the need for the use of data and analytics as well as pharmacy management with a holistic approach.

"Although there are fewer large PBMs, the generation of new ideas and how to stand out has been fueled by the new generation of PBMs," she said.

Experts in the pharmacy space give claims managers the same advice they'd give a treating physician, emphasizing the ever present social determinants of health conversation, which can be revealed by PBM data.

"It's really important for the claims professional to continue to look at pharmacy, to utilize whatever PBM program you're using to the fullest, monitor alerts presented to you, review educational or informational pieces and act on the information coming your way," said Emptage.

As the PBM market continues to grow and consolidate, that factor allows the humans administering and approving care to balance cost, safety and best practices. &

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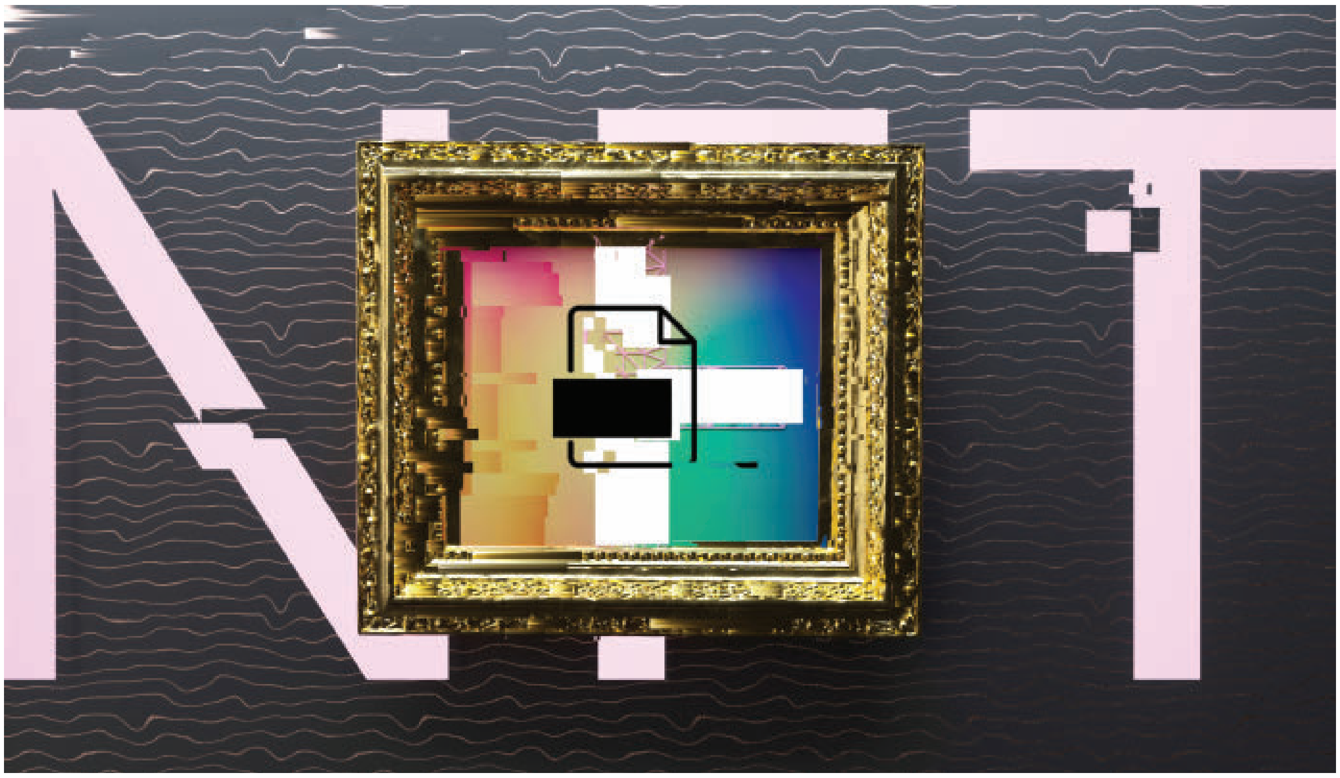
NFTs Disrupting Fine Art

The nascent technology is transforming how people buy and trade digital art. But does this trend have staying power in the industry or is it just too risky?

By Courtney DuChene



NFTs, or non-fungible tokens, are making their way into the fine arts sector, providing both new opportunities and novel risks.

When Adrienne Reid heard that Mike Winkelmann, the digital artist known as Beeple, sold a piece of his work at the art auction house Christie's for $69 million, she didn't think much of it.

Reid, a fine arts insurance broker and vice president with Aon/Huntington T. Block Insurance Agency, has witnessed many high-dollar art sales. It seemed like it was just par for the course for the industry.

The sale, which made Beeple among the top three most valuable living artists, wasn't for any old digital piece. It was for an NFT, an electronic record of ownership for a digital item.

"When I first heard about NFTs, I thought it was just another word for digital artwork," she said. "I had no idea how wrong I was on that."

Reid was intrigued. She knew this technology had the potential to change how people buy and trade digital artworks. Given that the technology exists entirely within the digital realm, it would also bring new risks to the sector.

Her journey to understanding NFTs took her through YouTube lectures from NFT traders to conversations with industry experts, eventually buying and minting her own NFTs.

But like many, she started with one question: What exactly is an NFT?

WHAT THE HECK IS AN NFT?

NFTs, or non-fungible tokens, are a record, stored on a blockchain, that allow for ownership of a digital asset. With an NFT, a digital image is assigned a unique string of numbers, allowing for collectors to distinguish between the "original" and any copies.

Most NFTs are hosted on the Ethereum blockchain, but others have already implemented their own systems for storing these assets.

Like cryptocurrencies and other digital assets stored on blockchain, people keep their NFTs in e-wallets accessed using keys — a unique string of alphanumeric digits.

It's important to note that an NFT is just a record of ownership for the digital object — not the object itself.

"Users that are holding the NFTs, or that are trading the NFTs, know exactly where these items are from and know exactly how many of them are there in the world [and] on the blockchain," said Hsuan Lee, CEO of Portto, a company that provides tools such as digital wallets and keys to blockchain users.

"They're utilizing the blockchain's immutability and traceability."

Though NFTs have existed since 2014, they first gained popularity in 2017 with CryptoKitties. CryptoKitties is a blockchain game created by the Canadian company Dapper Labs that allows people to breed and trade digital cats. Per reporting from Wired, CryptoKitties was so popular, transactions related to the game slowed the Ethereum blockchain where it was hosted.

It will be exciting to see in the coming years in what ways NFTs and the blockchain technology will penetrate the art market for the long-term."

— Adrienne Reid, *vice president, Aon/Huntington T. Block Insurance Agency*

Now, NFT sales are booming. Last year, the volume of NFTs totaled $24.9 billion, Reuters reported, up from $94.9 million in 2020.

They can be used to allow people to own profile pictures, trade assets within video games or to buy and sell digital creations ranging from memes and tweets to videos and artwork. This year, NFTs may remain popular as investors shift funds into alternative assets as some speculate high inflation in the U.S. may lead to a recession.

"Alternative assets are going to be very, very, very big this year, especially with the talks of inflation," said Alex Lemberg, CEO of the Nimbus Platform, a blockchain-based company that specializes in decentralized finance solutions.

"With physical or digital alternative

SUMMARY

- ***NFTs (non-fungible tokens)*** serve as a record and proof of ownership for digital works.
- ***The sales of*** NFTs have boomed over the years, with last year raking in $24.9 billion.
- ***NFTs are now*** being used in the fine arts sector to distinguish between the "original" digital art piece and its copies.

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assets, you may buy into an asset with the U.S. dollar, but once you buy that physical asset, whatever happens with the dollar doesn't truly affect you as much … [because] two, three years from now, you can always sell that physical object into another currency."

Celebrities, including Grimes and Twitter CEO Jack Dorsey, have made millions creating and selling NFTs. They've become such a fixture of pop culture that in March 2021 SNL made a video parodying these new assets called "What the Hell is an NFT?"

WHAT DOES THIS HAVE TO DO WITH FINE ART?

In the fine art sector, NFTs are being used to determine ownership of original digital artworks in a world where digital images can be copied simply by taking a screenshot or downloading a file.

To put it in a more familiar context, anyone can buy a print of the Mona Lisa; only one person can own the real thing. NFT owners are purchasing proof that they own the real thing.

"Before NFTs, people have been creating digital art — it could be video, it could be [an] image — but the problem is that it's so easily copy-able. So, my copy of this image and your copy of this image look exactly the same. There's no way to prove I'm owning the original copy," Lee said.

"With the NFT, you can actually prove it — that you actually own the original piece."

Though the technology is still nascent, some artists and collectors are embracing it. The Seattle NFT Museum in Washington and the Art Blocks gallery in Marfa, Texas are some of the first to put solely NFTs on display.

Digital artists appreciate that the technology enables them to verify their works' authenticity when they put them up for sale. Platforms are simple and easy to use, enabling artists to "mint" NFTs and just wait for offers to come in. NFTs can be programmed to pay artists a fee every time the work is resold, giving creators access to receive royalties — a rarity in the fine arts space.

"The biggest thing about NFTs that's really exciting for artists is that they can receive a royalty stream," Reid said. "That's something that historically has always been a challenge for artists; they don't get any compensation from the future uptick in the value of their art when it's resold."

And they're enabling more people to participate in collecting and trading art. Though prices of NFTs seem high — in April 2021 estimates for the average cost ranged from $2,400 to $3,500 — these numbers are skewed by multi-million-dollar sales, Art Net reports. Fifty percent of sales are less than $200.

"That allows somebody who doesn't have a significant amount of wealth to actually build an art collection that they can enjoy and share with friends, no matter where they are in the world," Reid said.

RISKY OR REVOLUTIONARY?

One of the most obvious risks that those who buy and sell NFTs face is cyber threats. Hackers could try to seize an NFT owner's key and hold their assets for a ransom or delete them entirely.

"It's a very real concern that your wallet could be hacked and your NFTs could be stolen," Reid said. "So that's definitely an exposure."

Beyond cyberattacks, collectors need to understand an NFT is merely a record of ownership, like the deed to a house. It isn't the physical asset, which is often stored at a separate URL. If a collector doesn't own the website where the work whose NFT they purchased is stored, the site owner could delete their asset.

"If you don't have a reliable backup of the digital asset or complete confidence in the hosting site itself, you could have an NFT that points to nothing or a 404," Reid said.

If you're seeking to insure NFTs as part of an art collection, Reid said that underwriters will likely want to know where the real asset is being stored and whether or not you have any backups in case the original file is lost.

Better yet, you can host the original file yourself on your own server. That way, you won't be relying on a third party to keep your asset secure.

It would be prudent for collectors and creators to consider the ecological costs of creating, storing and trading NFTs.

The blockchain technology where NFT sales are recorded are responsible for tons of carbon emissions. French artist Joanie Lemercier's first sale of six NFTs consumed 8.7 megawatt-hours of energy — the same amount used by his entire studio over a two-year period, Wired reports.

> ***"Alternative assets are going to be very, very big this year, especially with the talks of inflation,"***
> **— *Alex Lemberg,*** *CEO of the Nimbus Platform*

"They take up a ton of energy," Reid said. "The art community overall is very environmentally conscious, and so that has been problematic."

WHEN A BROKER BUYS AN NFT

The risks that come with owning an NFT are something Reid understands firsthand. Last year, she purchased one of 10,000 NFTs released by the contemporary artist Damien Hirst as part of his project "The Currency."

In "The Currency," each NFT corresponds to a physical object. In this case, a unique hand-painted, dot-covered works on paper. Hirst sold each painting/NFT duo for $2,000 with the condition that after a year, buyers would have to decide whether to keep the real painting or the digital token. If they choose the token, the real paintings will be ceremoniously burned.

"I just thought that was a really fascinating premise, sort of testing the art market to see which will you keep, the tangible or the intangible?" Reid said.

So far, only 550 NFTs have been exchanged for the physical works of art thus far into the project, according to Reid.

Only two months after the project launched in July, sales generated by "The Currency" reached $25 million, and there were 1,571 sales on secondary markets, Art Net reported.

Reid's NFT reached around $70,000 in value at comparable resale peak last September but has since dropped down to around $12,000. "I'm trying not to look at it," she confessed.

"NFTs are moving up and down in value quite dramatically," Reid said. "There's a lot of volatility as the market adjusts to mainstream adoption. It will be exciting to see in the coming years in what ways NFTs and the blockchain technology will penetrate the art market for the long-term."

After purchasing an NFT, Reid had to set up an e-wallet to store her token and joined a Discord server, an internet messaging and gaming platform, for other owners of Hirst NFTs. Later in the year, she minted her own NFT — a gif of a gingerbread house rotating on a pedestal.

"Being a fine arts insurance professional, I felt duty bound to really pull up the sleeves and figure it out," Reid said.

"I have art in my house hanging on the walls. I understand my clients when they talk to me about the concerns and risks of their physical artworks. I know that; I understand that. I wanted to be able to speak to [NFTs] from a firsthand experience as well."

When asked whether she plans to keep the NFT or the original painting, Reid demurs: "Originally, we were definitely going to take the physical painting," she said. "But as I have learned more about NFTs over the past year and watched the market specifically with The Currency NFTs, now I am not so sure." &

COURTNEY DUCHENE is an associate editor at Risk & Insurance. She can be reached at duchene@theinstitutes.org.

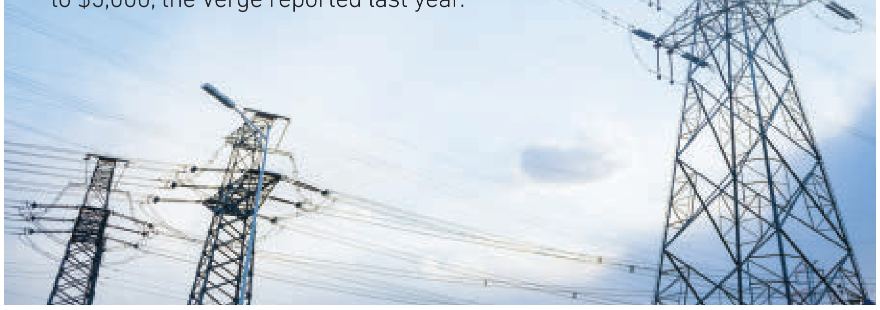
NFTs and the Environment

Though NFTs are gaining in popularity, there's plenty of reasons to be concerned about their environmental impact.

Since they're minted on blockchains, NFTs can use quite a bit of energy, producing high amounts of greenhouse gas emissions. The Ethereum blockchain, where NFTs originated, uses about as much electricity as the entire country of Libya.

The average NFT uses more energy per month than the average person living in the European Union, according to an analysis of 18,000 NFTs by the digital artist Memo Akten.

Some artists, including Beeple, have committed to making their work carbon-negative or neutral, but that promise comes with a high price tag. The costs to offset just one of Beeple's collections amount to $5,000, the Verge reported last year.



Coverage Excluded

A telemedicine visit in another state leads to legal action for this fictive health care system.

By Dan Reynolds

PART ONE: TROUBLED TIMES

Rose Crawford is the risk manager for the St. Bernadette Health System, and she has never seen anything like this. The ongoing pandemic has strained the six-hospital system to the breaking point.

Things have gotten so bad that on any given day, she doesn't know which fire to put out next. Grief-stricken and burned-out nurses and doctors are resigning at a pace the system has never seen before. Daily deaths from the coronavirus are ongoing.

Ten of the Connecticut-based system's nurses have filed a class action, saying an administrative vaccine mandate violated their civil rights. Shortages, of oxygen, masks and other crucial health care supplies, make every day a game of operational whack-a-mole. And that's on top of the stresses and strains that come with administering good health care—and those existed well before the pandemic.

The one person keeping Rose sane is her good friend Mollie Walsh. A divorced mother of three teenagers, Mollie worked her way through school, garnering a master's degree in health care administration on her rise to become the system's chief operational officer.

They laugh together, they cry together, but they remain steadfast friends.

The technology that gives them hope is telemedicine. They saw its use skyrocket in 2020 and 2021. But they were building the airplane as it thundered down the runway, which leaves them with lots of unanswered questions.

At a meeting in the spring of 2021, Rose, Mollie and the system's CFO, Brad Thayer, are on a Zoom call trying to wrap their heads around the liabilities the surge in telehealth may have spawned.

"I'm not sure I even know where to begin," says Rose, in a response to a question from Brad about what the extent of those liabilities might be.

"Well we better get it figured out," is his terse and not that sympathetic response.

PART TWO: THE DEMISE OF PETER GUTMAN

Phase one in trying to determine where surging telemedicine use might create liability exposures involves the exhaustive [and exhausting] process of tracking and cataloguing in which states patients are receiving telehealth treatment from.

As we've learned, different states have different regulations on which physicians are licensed to provide health care treatment and advice. If a physician provides telephonic health care service to a patient in a state where they're not licensed, what are the ramifications?

Adding complexity to the question is the "snowbird" dynamic, i.e., patients with second homes in Florida, Arizona or other sunshine states receiving treatment from the Connecticut-based hospital system's physicians via teleconference. Adding even more complexity is what we'll call the "pandemic diaspora," with students, professionals—all walks of life, really—shifting into different housing patterns due to shutdowns, quarantines and other pandemic-related lifestyle changes.

That's where the liabilities involved in the use of telemedicine came home to roost for the St. Bernadette Health System. They initially present in the form of the unfortunate Peter Gutman, a graduate student in comparative literature at Columbia University.

Gutman established a patient/doctor relationship with a St. Bernadette-affiliated psychiatrist based on his residence in his parent's home in Bridgeport, Conn. He was diagnosed with depression in high school and remained under the care of the St. Bernadette psychiatrist throughout his undergraduate studies and into his graduate student career.

A break up with a fellow student just as the pandemic struck in the spring of 2020 placed Peter Gutman at even greater risk. He became erratic, ditching his studies and being out of touch with his parents for weeks, then months on end.

"Where are you now?" the St. Bernadette psychiatrist said to Peter during a video and voice call in February of 2021. "I don't know where I am. I don't know who I am," Gutman said mysteriously before hanging up.

In fact, Gutman was in Colorado, living in a youth hostel in Winter Park, and working with a local construction crew, acting as a carpenter's assistant on a job building a home above the Frazier Valley.

Within 24 hours of that conversation Gutman was dead. Another resident of the youth hostel found him unresponsive in mid-morning on a lower bunkbed, an empty bottle of prescription medication on the floor beneath him.

Where St. Bernadette's ran into legal trouble was that Gutman died in Colorado, a state where the St. Bernadette's psychiatrist was not licensed. Standard, or traditional medical malpractice polices exclude coverage for unlicensed treatment. It didn't take plaintiffs' attorneys for Gutman's parents too long to figure that part out.

Now they were on the hunt, stringing together similar cases within the St. Bernadette's system and others. Not all of the cases involved psychiatric care, but all of them shared the same blemish, unlicensed care that resulted in negative, sometimes catastrophic outcomes.

PART THREE: CRESTFALLEN PROFESSIONALS

It's a typical Monday morning for Rose Crawford. By that we mean she's so busy, feeling overwhelmed really, that she's contemplating quitting and going to work in a flower shop.

When she gets an instant message from Mollie Walsh, saying "Gotta second?" a smile creases her face. Rose's brief hope is that she's about to get a humorous Monday morning update on one of Mollie's forays into the world of online dating.

If only….

Instead of humor, Rose gets more fuel for anxiety.

"I just got a call from the general counsel's office," Mollie tells Rose.

"And?" Rose says, feeling her stomach sink.

"It looks like we have no fewer than seven plaintiffs alleging unlicensed treatment of patients via telemedicine in the past year," she says.

"The attorneys want to hold a meeting with you and our insurance broker as soon as possible."

"Got it. Okay I'll set it up," Rose says, her own feelings getting darker by the minute.

The conversation with the broker makes matters worse. Cast blame where we might, but the health care system's traditional carriers have not updated their medical malpractice policies to allow for endorsements to cover telephonic treatment in the case of interstate travel on the part of existing hospital clients.

With the lingering threat of uncovered medical malpractice filings on the horizon, staff legal uprisings and the ongoing, grinding threat of COVID-related security concerns, Rose Crawford, Mollie Walsh, Brad Thayer and the rest of the health care system administration gird themselves for the quarterly Board meeting.

It doesn't go well.

During the expected back and forth between the members of the Board and the administration on COVID-related liabilities and concerns, hospital administration has to admit that the system is facing legal actions due to unlicensed telephonic treatment. Rose Crawford also has to admit that there is a very good chance there is no insurance coverage should these legal actions break the wrong way.

When Rose Crawford brings up the sad case of Peter Gutman, her narrative is received with shocked silence from the Board.

After the meeting, there is further uncomfortable silence as Rose and the rest of the hospital administration file out of the boardroom, clutching their folders and binders like inadequate security blankets.

As she heads back to her office, feeling numb, it feels to Rose like unfriendly eyes are burrowing into her back.

…

"I guess I should have seen this one coming," Rose says to Mollie, as the two commiserate over cranberry-orange vodkatinis at their favorite watering hole later that night.

"Maybe," says Mollie. "We don't know how this is going to work out legally," she adds hopefully.

"Oh this is not going to be good. Ever heard of social inflation?" Rose asks with an edge in her voice.

"Not … really," Mollie says.

Rose stares stoically at the slice of orange affixed to the rim of her glass. She slides the orange slice back and forth over rim meditatively.

"It refers to the fact that jury verdicts in recent years are exploding in size. Tens of million sometimes when something like $500,000 would have been handed down six or seven years ago. In a sense, it's viewed as payback from the little guy back to deep-pocketed corporations. They call them nuclear verdicts."

"Nuclear verdicts…" Mollie says.

Rose nods. Her eyes welling up.

"Nuclear." &

DISCLAIMER: The events depicted in this scenario are fictitious. Any similarity to any corporation or person, living or dead, is merely coincidental.

Berkshire Hathaway Specialty Insurance

LESSONS LEARNED: PARTNERS CONTENT

Risk & Insurance® produced this scenario in conjunction with Berkshire Hathaway Specialty Insurance. This scenario is provided for general educational and informational purposes only as an example of the type of claim(s) that may be submitted under a liability policy. Applicability of coverage terms depends on the actual facts of each individual claim and the terms, conditions and exclusions of the applicable insurance policy. The information contained herein is for informational purposes only and may not be relied upon as legal, financial, regulatory, compliance, or any other type of professional advice. Not all products and services are available in every jurisdiction, and insurance coverage is governed by actual policy language.

PART ONE: Telehealth can be a great tool for reaching patients outside the hospital setting, but it does raise a series of potential issues:

- It is important to have a strong triage protocol in place to make sure that patients are getting the level of care they need. While many patients can be safely treated through telemedicine, some will need care that can best be found in a hospital setting. Making sure that patients are directed to the care that they need is key to minimizing the risk of injury or death.
- Documentation of the patient's telehealth visit needs to be integrated into that patient's medical record. Just as with an in-person visit to a medical provider, poor documentation can lead to inappropriate care or a poor outcome in a medical malpractice case.
- Patient follow-up is also important. Procedures must be in place that allow for a medical provider or their staff to follow up with a patient, determine if treatment is working and schedule additional appointments as needed.

PART TWO: As noted in the scenario above, the availability of telemedicine presents a series of potential licensing issues. Each state and licensing board has its own set of rules around the use of telemedicine, what specialties are allowed to practice telemedicine and under what circumstances it is considered acceptable.

- It is important to know where your patient is physically located before you start a telehealth visit.
- It is also important to know what the rules and laws are in that state around telemedicine – keeping in mind that these rules and laws may change frequently.

Ideally, your Telemedicine IT infrastructure will incorporate measures that address these concerns and stay up to date with the appropriate rules and regulations.

The right knowledge on the front end should allow you to direct the patient to an appropriately licensed practitioner within your organization, or if that isn't possible, direct that patient to a provider in their area that can provide the needed care.

PART THREE:

- A failure to create protocols for handling out of state patients can lead to an unexpected aggregation of risk in an area where insurance coverage may be questionable.
- Even where policies don't have exclusions around unlicensed care providers, they will often times have criminal acts exclusions which may apply.

RISK ALL STARS

ALL STARS

Risk & Insurance® strives to identify emerging risks and mitigation strategies, while covering the fascinating people who drive the industry forward. Our goal is to inform and help our readers succeed in their careers as well as to inspire and motivate them.

Risk & Insurance® All Stars embody this credo. They stand out from their peers by overcoming challenges through exceptional problem-solving, creativity, perseverance and/or passion. By presenting their stories, we recognize outstanding accomplishments while also providing our readers with ideas, solutions and motivation to overcome similar challenges.

WHO IS ELIGIBLE FOR THE AWARD?

Eligible nominees include any individual with responsibility for managing risk or claims for their employer. For example:

- Risk Manager
- Claims Manager
- Workers' Comp Professional
- COO
- CFO
- Owner/CEO/President
- Any other professional responsible for risk management or claims

PUBLICATION

Winners will be announced in the July/August issue of Risk & Insurance®. The information will also be featured on the Risk & Insurance® website, and via eNewsletter, magazine digital edition and App platforms. A profile highlights each Risk All Star, along with a photo.

WHAT CRITERIA ARE USED TO SELECT WINNERS?

Winning applicants are selected based on the compelling nature of their story and accomplishments. The central question is, "Does the applicant's story inform and/or motivate others?" While a compelling story is most important, winners also will exhibit success in any of the below:

- Problem-solving
- Creativity
- Perseverance
- Passion

NOMINATION PROCESS

Applicants can apply directly or be nominated by a colleague, broker, insurer or service provider.

Risk & Insurance® editors review all applicants and narrow the pool down to finalists based on the application. Each finalist is then interviewed by a staff member. A summary of the interview along with an evaluation form is completed by the editor performing the interview.

Important Note Regarding Confidentiality: We are conscious of the sensitive nature of the information provided. Client references listed on applications and contacted by judges may choose to be on or off-the-record. This includes the client name, company name and additional identifying information. All other information on the application will be considered on-the-record unless specified otherwise.

2022 ALL STARS RISK & INSURANCE®
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WHO SELECTS THE WINNERS?

Risk All Stars are selected by the editors of Risk & Insurance® magazine.

JUDGING PROCESS

Once all interviews are complete, the judging team meets to review the interviews and evaluations. Winners are then selected.

There is no limit on the number of winners. Each Risk & Insurance® All Star is chosen based on the compelling nature of their story.

AWARD BOXES

A few weeks after the winners are announced, each Risk & Insurance® All Star receives a copy of the print issue, an award plaque and additional items.

HOW TO APPLY OR NOMINATE

To apply directly for the Risk All Stars award or nominate a colleague, please visit www.riskandinsurance.com for an application and full program details.

SUBMISSION DEADLINE: JUNE 3, 2022

WINNERS ARE ANNOUNCED IN THE JULY/AUGUST ISSUE WHICH PUBLISHES IN LATE JULY

Risk Central

Access these white papers or find others by searching the extensive database at RiskCentral.com

How Connected Devices Are Changing the Future of Risk — and What that Means for an Insured's Claims Mitigation Process

Connected devices are upping the risk mitigation game. For insureds who partner with the right experts, that means a more proactive and faster response to a potential claim.

Defining Meaningful Patient Engagement

Having a patient be active in their recovery after a work injury engages them in the process and bolsters workers' compensation results.

Why the Program Business Thrives in Challenging Conditions

With the help of collaborative carrier partners, Program Administrators are perfectly positioned to help clients address challenging risks.

Matching Predictive Analytics with Human Intelligence

Models can identify potential severity early in the life of a claim, ensuring appropriate assignment, collaboration with managed care, and execution of key claim management activities.

3 Risks Becoming More Prevalent for K-12 Schools Now that COVID-19 Is in the Mix

Risks abound for every industry, but schools servicing students K-12 must be certain to review these exposures now that the novel coronavirus has disrupted learning across the country.

A Letter From a WC Provider: Why I Hate Workers' Comp

EK Health on reducing payer-provider friction through provider advocacy.

When It Comes to Creating Effective Partnerships with Your TPA, These Are the Top Qualities to Keep in Mind

Successful partnership starts with a team that is open to communication, understands the client partner's goals and understands the value data and analytics have in creating solutions.

How Data and Technology Can Drive Better Underwriting Decisions

Innovations in technology and higher quality data have helped financial institution underwriters more accurately assess risk and, in turn, provide better solutions for their brokers and clients.

This PBM Shows How a Central Platform Keeps Service Streamlined Amid Consolidation

Frequent mergers create a confusing experience for workers' comp carriers and claimants. By rolling all of its services into a single platform, Optum is proving the IT investment can pay off.

3 Ways the Construction Industry Can Build Resiliency into Risk Management

As risks in the construction industry continue to expand, the need to have a long-lasting, resilient plan in place has become even more crucial.

THE PROFESSION

"The biggest challenge I've faced in my career happened at the start of the pandemic. The travel industry came to a screeching halt."

Avis Budget Group risk manager Suzanne Panicoe details the risks she expects the travel industry will face in 2022.

R&I *What was your first job?*
My first job out of college was as a staff accountant with Alliance Capital, which was actually owned by AXA. I accounted for the investments of the insurance products, and by background, I'm a CPA.

R&I *How did you come to your current position?*
I actually came to Avis back in 2003 as a staff accountant. At the time, Avis had its own property and casualty insurance company. I was hired to work on the NAIC filings, the statutory filings.

While I was in that role, someone from the risk management department reached out to me, because the person who did their budgeting and forecasting was leaving, and asked if I would be interested in that position.

In my insurance accounting position, I worked closely with the risk management department. So I made the move over to risk management in 2005.

R&I *What's been the biggest change in risk management and the insurance industry since you've been in it?*
I would say cyber—cyber attacks weren't really happening when I first joined risk management—and cyber insurance wasn't a coverage many other organizations were purchasing, us included.

However, it's become such a critical line of insurance and an area of focus for organizations of any size and industry.

SUZANNE PANICOE

Senior Director, Global Risk Management & Claims

Company: Avis Budget Group

Years in Risk Management: 16

Alma Mater: St. Peter's University

Degrees and Certifications: BS Accounting, CPA, Life & Health Producer

R&I *What's the biggest challenge you've faced in your career?*
There have been many challenges over the years, but the biggest challenge I've faced in my career happened at the start of the pandemic.

The travel industry came to a screeching halt, and we were faced with a large concentration of fleet sitting idle.

We then suffered multiple property losses as we were in the midst of negotiating renewal terms.

As a result, I was forced to look at different structures while leveraging relationships with insurers that had been developed over many, many years.

R&I *Who has been your mentor(s) and why?*
I've had the privilege of reporting directly to female bosses since 2007—Barbara Vitale, Rochelle Tarlowe, Lynn Finkel and Izzy Martins.

All of these women are smart, strong business women and amazing mothers. As a working mom, I've learned that you can have a fulfilling career while still being a mom. I consider them all to be mentors.

I'd like to highlight one in particular though—Barbara Vitale, Avis's previous risk manager.

Barbara taught me so much about risk management by sharing her own knowledge and experiences with me and inviting me to attend nearly all meetings with her, enabling me to learn all aspects of risk management rather than only seeing the finance side of the role.

R&I *What is the risk management community doing right?*
I would say the risk management community is focusing on the next generations so that this industry can continue to have really talented workers. We're bringing more awareness to the industry as a whole.

I would say a decade ago, there was no such thing as a risk management major. And now several universities have that, and we're cultivating new talent right out of college.

R&I *What could the risk management community be doing a better job of?*
I struggle with this question, because in some ways, we have gotten better.

But I think alternative options for traditional insurance are continuing to be a challenge as premiums continue to increase. Losses are getting worse.

But presenting alternative structures to risk managers rather than just the traditional market, buying insurance, paying a flat premium is something that could improve.

R&I *How would you say technology has impacted the risk management profession?*
Well, certainly, it's provided way better analytics. I think people got stuck in what insurances they were buying and benchmarking to a broader range of industries.

Now, you can get so granular in the data and really benchmark your company to similar businesses, and see where your exposures are—whether that's geographically or in a particular line of insurance.

R&I *As the pandemic transitions to an endemic phase and people begin traveling more, what risks do you think the travel sector will face?*
I think that something that the travel industry is already starting to face is more demand than supply.

So whether it's the airlines or rental cars, we've seen this resurgence of pent-up demand for travel. It's great to have the demand, but it's driving prices up.

R&I *What's your favorite book or movie?*
This is a tough one in the sense that it's hard to pinpoint one. I was thinking, 'Well, how do you define favorite?' Because to me, favorite is a positive word.

And so my choice is a little bit odd in that sense, but it's really more about what book moved me the most when I read it or disturbed me, or had the biggest impact on me. And I would say it's *Before We Were Yours* by Lisa Wingate.

R&I *What is your favorite drink?*
So my favorite nonalcoholic drink would be tea—and that's hot or iced, black or green. I love tea. In terms of alcoholic drinks, I would have to say a nice, well-chilled glass of Sauvignon Blanc.

R&I *What have you accomplished that you are proudest of?*
Moving up to the role of global risk manager. I took on that role during the pandemic, possibly the most challenging time for our business. I also run the liability claims team. So really, my proudest accomplishment is where I am today.

R&I *What is the riskiest activity you've ever engaged in?*
I'm not a very risky person. I can't think of anything. I don't even have a tattoo. I've never driven on a motorcycle. And I certainly haven't skydived!


Lower risk.
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Better solutions don't come from accepting tired methods of risk management. At CorVel, we push what's possible through new kinds of thinking and advanced technology to improve outcomes and reduce risk in workers' compensation, liability, health and disability. Let CorVel take your claims management to a higher level.
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