

### A closer look at the scenarios

## The future holds uncertainty for commercial and specialty-line insurers

- The length and severity of the pandemic will increase pressure on carrier solvency** with falling asset values, lower investment returns, and low interest rates requiring insurers to adjust premiums and accelerate flexible cash flow.
- The relative risk profile and attractiveness of sectors and industries** has continued and will continue to shift as the search and competition intensifies for the "shrinking profitable customer base." Commercial insurers must reconsider industry sectors that will be attractive in terms of **growth, profitability, and risk appetite** and adjust their business mix accordingly. Claims cost trends will vary by line of business, though many commercial lines are expected to experience significant rate increases.
- There is a potential for shifting underwriting capacity** in commercial and specialty as carriers evaluate risk positions and aggregators; with a hardening rate environment, new capital may enter the market to exploit relatively higher returns on investment.
- The global regulatory environment and emerging court decisions** will significantly affect coverage (including retroactively) and shape the future of commercial insurance policy language. The reactions of lawmakers and regulatory authorities to proposed government-backed insurance programs will be critical.
- Growing power of quality brokers, changing risk profiles, and a growing underwriting discipline** may serve to strengthen the relative value and power of brokers in the eyes of insureds, with broker advice increasingly sought by commercial clients.
- The impact on pricing and reserving** could be felt across large number of classes, however the **magnitude will be higher** for certain classes (for example, D&O, medical malpractice, and business interruption).
- The pace of adoption of digital capabilities** may distinguish the winners.

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### A closer look at the scenarios

## Commercial and specialty-line providers must assess three main dimensions

1 / Customer implications	2 / Business model implications	3 / Competitive implications
<p><b>Customers and channels</b></p> <ul style="list-style-type: none"> <li><b>Premium volumes:</b> How are premium volumes affected for commercial and specialty lines?</li> <li><b>Client and broker expectations:</b> How will expectations change based on business and industry impact? How are customer expectations affected? How will the underwriting process be affected?</li> <li><b>Digital adoption:</b> How is digital adoption and automation changing risk in general?</li> <li><b>Impact on brokers (including white-label brokers):</b> How will their role evolve? Will there be consolidation?</li> </ul>	<p><b>Products and underwriting</b></p> <ul style="list-style-type: none"> <li><b>Pricing:</b> How will the rate environment evolve over time?</li> <li><b>Underwriting and exposure management:</b> How do underwriting strategies and operations evolve?</li> <li><b>New products and coverage:</b> What are emerging opportunities commercial insurers are pursuing?</li> <li><b>Regulatory landscape:</b> How will regulatory developments affect commercial insurers (such as business interruption, D&amp;O coverage or reinstatement coverage)?</li> </ul>	<p><b>Claims</b></p> <ul style="list-style-type: none"> <li><b>Loss costs:</b> How will claims (type, frequency, and severity) of claims change?</li> <li><b>Coverage:</b> How will insurers identify and mitigate potential coverage issues?</li> <li><b>Legal actions:</b> What actions should insurers take to understand litigation trends and adjust legal strategy?</li> <li><b>Fraud:</b> What is the expected level and frequency of fraudulent activities (for example, commercial bribery, or increased instances of fraud)?</li> </ul>
		<p><b>Incumbents</b></p> <ul style="list-style-type: none"> <li><b>Market consolidation:</b> What level of consolidation do you expect to see? How will shifting markets affect individual participants?</li> <li><b>Product evolution:</b> How will the nature of product offerings change?</li> <li><b>Investment income:</b> How will investment income be affected?</li> <li><b>Tech investments:</b> How will advanced tech investments affect underwriting and pricing?</li> <li><b>Workforce and displacement of work:</b> How will the workforce need to adapt?</li> </ul> <p><b>New entrants</b></p> <ul style="list-style-type: none"> <li><b>Type of new competitors:</b> How do you see competitors that emerge from tech firms and governments?</li> <li><b>Value chain plays:</b> Which new players will emerge across the value chain?</li> </ul>

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### P&C commercial and specialty industry response

## P&C commercial and specialty leaders should prioritize retention, growth, and profitability levers . . .

<p><b>Enhance digital capabilities</b></p> <ul style="list-style-type: none"> <li><b>Advance remote claims capabilities:</b> By extending towards remote adjusting and increased drone usage.</li> <li><b>Take to virtual work and update terms and conditions of product:</b> portfolios to accommodate needs of new workforce—insurers and their clients.</li> <li><b>Advance capabilities:</b> to enable efficient information exchange, streamlined workflows, quicker turnaround, tailored responses, and reduction of manual entries.</li> </ul>	<p><b>Innovate for new normal</b></p> <ul style="list-style-type: none"> <li><b>Proactively reach out:</b> to legislators to shape regulatory guidelines and closely monitor proposed legislative changes and pricing controls.</li> <li><b>Invest in capabilities:</b> to build flexible products (telematics, parametric, pay-as-you-go) and develop products specialty needed during pandemics.</li> <li><b>Prioritize client retention:</b> and avoid negative experiences.</li> <li><b>Track client demand:</b> closely to tailor coverage offerings and appropriate pricing.</li> </ul>	<p><b>Drive operational efficiency</b></p> <ul style="list-style-type: none"> <li>Identify opportunities for <b>process automation</b>.</li> <li>Enable increased use of <b>AI and automation technologies</b> to drive end-to-end efficiencies.</li> <li><b>“Variable” fixed costs</b> and drive down billing, general and administrative expenses (SG&amp;A) and discretionary spending.</li> <li><b>Open to M&amp;A and partnership opportunities</b> (particularly as it aligns to existing strategies).</li> <li>Look for opportunities to leverage partnerships.</li> </ul>	<p><b>Leverage data analytics and AI</b></p> <ul style="list-style-type: none"> <li>Invest in <b>advanced analytics to improve underwriting models</b> (such as new data partnership and updated risk or pricing models).</li> <li>Invest in <b>Internet of Things (IoT) capabilities and sensor technologies</b> (such as asset tracking, loss prevention, risk assessment, telematics, and smart properties to offer usage-based policies and limit property, transit, and BI-related claims).</li> <li>Use ecosystem partners to improve <b>fraud detection capabilities to account for greater frequency and new types of fraud</b>.</li> </ul>
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Questions?

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