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Insurers, brokers on the lookout for new coverage needs

By ROBERTO CENICEROS

From maintaining research-and-development teams to gathering retail brokers into focus groups, insurers, managing general agents and wholesalers use several strategies to transform ideas into specialty insurance policies.

GE Commercial Insurance, for example, has a product innovation team referred to as "the pit," said Teri Taylor, new product introduction leader for the Overland Park, Kan.-based insurer. The ad hoc team includes participants from a cross section of company departments, including legal, claims and underwriting.

The team members brainstorm to come up with new ideas and then call on professional contacts within their business departments and outside the company to determine where GE might find the underwriting, claims handling and other expertise necessary to take the product to market, Ms. Taylor said.

Similarly, Lexington Insurance Co., a unit of American International Group Inc., has an innovation council, said Peter Eastwood, senior vp in Boston for Lexington.

The innovation council, made up of about 15 employees from a variety of disciplines, meets regularly in Boston. Five innovation groups of product-line specialists located throughout the country also develop ideas.

Developments such as economic trends, new legislation and even demographic shifts can spark ideas for the in-house



teams charged with creating specialty insurance products, insurers say.

But insurers, wholesalers and managing general agents all agree that the ideas for specialty policies often come from listening to producers, with their direct link to potential purchasers.

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ACE US International*

It's "market intelligence," explained Andy MacKinnon, senior vp in Wilmington, Del., for ACE US International, a division of ACE USA.

"We focus on distribution channels, which is the brokers," said Mr. MacKinnon, who oversees ACE International Advantage Policy. "We talk to them about what kind of products their clients are looking for."

The International Advantage

Policy provides workers compensation, kidnap and extortion, property, general liability and other coverages for middle-market U.S. companies that maintain offices abroad or send employees to work overseas, he explained.

ACE has also relied on focus groups to help flesh out product ideas, Mr. MacKinnon said. Those focus groups might consist of retail brokers, end purchasers and industry associations.

Mr. MacKinnon noted that ACE often poses questions to the groups in layman terms, rather than in technical insurance jargon.

ACE relied on a focus group to create a Storm Tracker policy, which was released within the past year for hotels, offshore oil drillers and other entities in hurricane-prone areas. The policy pays for the revenue loss that can occur when a storm moves within a predetermined number of miles, forcing a business to shut down. The policy does not pay if the storm causes actual damage, Mr. MacKinnon said; that, he said, would trigger a property policy.

If not for specialty insurance coverage, the Port of Oakland in California would not have earthquake protection for 31 cranes with a total insured value exceeding \$200 million, said Jane Keegan, the port's risk manager. "If you don't have a crane, your terminal is shut down," said Ms. Keegan. So she purchases a stand-alone policy for the cranes and the tracks they move on.

The port purchases the "very complex" form because the cranes sit on a fault line. The policy combines property and marine coverages and is underwritten by a consortium "led by London," Ms. Keegan said.

Once a specialty product idea takes root, other concerns must be addressed, such as whether to launch the new product on an admitted or nonadmitted basis.

How quickly to develop and release a product also is a consideration.

The nature of the risk affects that determination, Lexington's Mr. Eastwood said. Creating a specialty policy within perhaps just a few months might be essential, Mr. Eastwood noted, when an event or issue clearly exposes a coverage need.

Such was the case when AIG introduced a product known as the SAFETY Act Homeland Protector, Mr. Eastwood explained. The policy provides professional and product liability coverage limits of up to \$25 million for companies developing and selling anti-terrorism technologies.

SAFETY is an acronym for the

federal Support Anti-Terrorism by Fostering Effective Technologies Act of 2002. The law provides special legal protections for anti-terrorism technology developers, and AIG's new product works in conjunction with the federal act.

AIG became mindful of the law last September, just before federal administration of it began in earnest, Mr. Eastwood said, and announced the availability of its Homeland Protector product on March 15.

In contrast, a product idea that potentially addresses a future impact from a nationwide demographic trend would take much longer to develop, Mr. Eastwood said. The need for such coverage may not be readily apparent and it may be more difficult to properly measure the impact of a risk that has yet to fully emerge, he noted.

"You are going to find yourself in a situation where you have to do a substantial amount of analysis and make some assumptions of where those trends are going," Mr. Eastwood said.

Whether to introduce products on an admitted or nonadmitted basis will depend on several factors, specialty product experts say. They include an underwriter's familiarity with potential customers, the insurance market cycle and the existence of competition.

When insurers lack experience with a specific customer segment or line of business, they first look at competitors' forms and learn what they can about the industry's claims experience within that line, GE's Ms. Taylor said.

Then they are more likely to introduce their product on a nonadmitted basis, perhaps even launching a pilot program in only a few states, Ms. Taylor said. If necessary, the nonadmitted market allows insurers to change terms and conditions quickly, because changes to nonadmitted policies do not require regulator approval.

"Once you have started developing your own experience and you start understanding your customer more, then you can change it to an admitted market product, which gives you a little more competitive advantage," Ms. Taylor said.

Admitted products are more competitive because brokers don't have to pay surplus lines premium taxes for the business they place. Additionally, they are more motivated to sell admitted policies because they are not required to first obtain letters showing admitted insurers refused to write the risk.

Consequently, when insurers have experience with a risk or know the potential customer base well, they prefer to issue admitted paper, Ms. Taylor said.

In 2003, for example, GE launched an admitted property casualty program specifically for funeral directors with property coverage limits of \$3 million per location, general liability limits of \$1 million per occurrence and a \$2 million aggregate.

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The program also includes morticians' professional liability coverage with \$1 million per claim and auto liability with a \$1 million combined single limit.

GE was comfortable introducing the coverage on admitted paper because the insurer had a familiarity with that customer base from its experience writing business owners policies, Ms. Taylor said.

Existing competition is also a factor in determining whether to launch in the admitted market.

"If the product you are trying to market has competition from the standard market, you have to be in the standard market," said Scott Reynolds, chief actuary for Charlotte, N.C.-based American Wholesale Insurance Group Inc. "If the competition from the standard market is not there, you can go nonadmitted."

Within the past two months or so, American Wholesale has launched two product groups. The first is for the distributors of gases and other goods used by welders. It is provided on a non-admitted basis, and American Wholesale has underwriting authority to provide \$5 million in limits for liability and \$5 million for property coverage.

The second product, launched April 15, includes general liability, media professional liability, property and tower coverage for radio and television broadcasting entities. American Wholesale underwrites the standard market product on AIG paper with authority to provide property limits of up to \$75 million and liability limits of \$5 million, although American Wholesale says it can arrange higher limits for its coverages.

Products at American Wholesale often move into development after retail brokers approach the wholesaler with an idea or the wholesaler spots market potential, said Mr. Reynolds, who specializes in developing new products and analyzing their profit potential.

The opportunity to underwrite the broadcasters' coverage arose when an insurer, for strategic reasons, stopped writing that business even though it has a history of performing well.

Discussions between American Wholesale and underwriters at the insurer that stopped writing the broadcasters' coverage led American Wholesale to hire the underwriters.

After pitching the product to several insurers, America Wholesale found two willing to provide their paper. "We were put in the unique situation of having to select which carrier we wanted to go forward with," Mr. Reynolds said.

Currently, the insurance industry is in the midst of a hard-market turnaround, said Dave Obenauer, managing director for managing general agent Victor O. Shinnerer & Co. Inc. in Chevy Chase, Md.

During a soft market, insurers and other participants are more inclined to launch products in the admitted market, regardless of their familiarity with the risk and customer base, observers say.

While Mr. Obenauer acknowledged that the market is not that soft, he noted that more insurers are looking for profitable program business niches to commit capital to.

"The conversation a year ago, when you talked to an insurance company was, 'We are busy enough dealing with the business we have on the books today,'" Mr. Obenauer said. "This year it is, 'What can we do to work together and build a new program?' That is a dynamic that we are just now beginning to see shift."

To build new programs, Shinnerer & Co. has a research and development group that often gleans ideas from surveys it conducts of retail broker customers. Mr. Obenauer said that while the surveys are conducted for several reasons, including to gauge customer satisfaction, they also provide insight for the research and development team.

A current book of business can often provide fertile ground for finding niches needing filling, specialty market observers add. Shinnerer, for example, has a long history of providing coverage for construction projects. From that, the company found a few years ago that many types of construction project consultants were in need of liability protection. So Shinnerer filled that need with a broad program that provided coverage for a variety of construction consultants, including interior and graphic designers.

Just last year, though, Shinnerer went a step further by introducing an errors and omission policy solely for graphic designers, Mr. Obenauer said. The product largely protects designers from design liability claims from construction project owners.

Over the past few years, finding niches to fill has been a growing trend in the specialty market, Mr. Obenauer said. That can lend a competitive edge when announcing a new product, he said.

"Usually, there is some competition there," Mr. Obenauer said. "So there we tend to find ourselves trying to find niches we believe we can serve better."