RIMS — and Risk — Come to Boston

Concerns about general liability losses and the shifting cost of risk are top of mind for insurance executives and risk managers as they head to Boston.

By Dan Reynolds

As RIMS sets up in Boston, insurance leaders have a lot on their minds.

Part of what makes insurance so interesting is that the drivers of risk and the markets to insure it are constantly shifting. This is not a business where you can be a passive observer; it's a business for doers.

Yesterday's risk du jour may still be on the menu, but today's special could either rake in more dollars or send your balance sheet into a painful place. Vigilance is mandatory.

As RIMS prepares for its annual meeting, to be held at the Boston Convention & Exhibition Center on April 28 through May 1, *Risk & Insurance*® tapped the brains of leaders of national insurance operations to get their take on what topics will be front-and-center for risk managers, brokers and insurance underwriters.

The well-known and ongoing drumbeats of cyber risk and losses in auto lines aren't going to diminish any time soon. But here's a high-level take on some complex risk and insurance topics that might not be as well documented in some circles.

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— Lori Goltermann, *CEO, Aon Risk Solutions*

PAIN IN GENERAL LIABILITY

Mike Fallon, president of national insurance for Liberty Mutual, pointed to the general liability line when asked what topics might be on the table when he and his team meet with insureds and brokers in Boston.

Keep in mind that Fallon's comments are meant to describe the overall environment and not Liberty Mutual's business in particular.

"Everyone is familiar with the auto story," Fallon said. "Auto combined ratios have been at 110 percent or more for a couple of years or so. What's not being discussed as much is the general liability line, which is going to end the year at 105 and is forecast to go up," he said.

"That's something that we have been talking with our distribution partners about and our customers are certainly seeing it," Fallon said.

So what's driving these losses? Fallon reports that in 2017, there were 21 jury verdicts with awards for the plaintiffs in excess of $100 million.

"And if you go back even a handful of years previously, that was not the norm," Fallon said. "You are seeing a lot more motivation from a plaintiff to take that claim to trial."

"It has the prospect of inflating the total value of your claim inventory and it certainly changes how you think about your posture around claim settlement," said Matt Dolan, Fallon's colleague and the president of North American Specialty & Ironshore U.S., Liberty Mutual.

Both executives said the industry of legal financing, in which investors seek to create outsized returns by pushing money into the hiring of expert witnesses, has ballooned in recent years. That in turn has forced the insurance companies that have to defend these claims into investing a lot of their own capital to build an adequate defense.

Fallon estimates that as recently as five years ago, 5 to 10 percent of law firms used legal financing. He said that percentage is now around 36 to 38 percent.

"For both insurers and consumers of insurance... there is a lot more discussion around litigation strategies," Fallon said.

THE TECHNOLOGY DRIVER

Lori Goltermann, the CEO of Aon Risk Solutions, said the changing use of technology on the part of insureds and the building emphasis on the part of

SUMMARY

- ***Losses in general*** liability lines are a continued source of concern for insurers.
- ***The pace of*** mergers and acquisitions is building a robust market in reps and warranties insurance.
- ***Risk managers are*** hot on the trail of solutions to their data questions.

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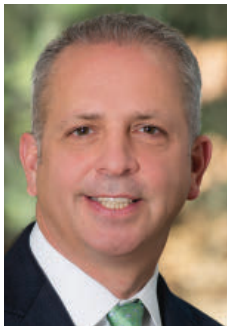

insurers in using predictive analytics is top of mind for her as she looks ahead to Boston.

As she has met with clients over the past 18 months, she’s heard one thing consistently:

“The technology they are embracing, how they are interacting with their customers, how they ship their product and their thoughts about their workforce, the shift to a gig economy, that for me is at the forefront of the conversation and it is shifting the conversation from traditional to emerging risks even further,” she said.

M&A; AND D

“If I had to name another, it would be M&A; *and* D,” added Goltermann. Mergers and acquisitions being one part of that extended acronym, and divestiture risk providing the “D.”

The raging rate of mergers and acquisitions, Goltermann said, is creating a booming business in commercial insurance products that can indemnify both buyer and seller in the case of unforeseen risks that have the potential to gut a business deal.

“We have evidence of how these transactional liability tools are helping with indemnity caps,” Goltermann said.

The divestiture piece of the business relates to political risks like Brexit and the Sino/U.S. trade wars that are putting more focus on assets in company supply chains they may need to divest themselves of to better position their businesses.

THE SHIFTING COST OF RISK

Ironshore’s Dolan brought up yet another broad industry topic sure to be discussed across coffee and cocktail tables at RIMS: the shifting cost of risk.

“What we have heard that is top of mind for the risk managers and the CEOs and CFOs is the cost of risk,” Dolan said.

Over the past 10 years, there has been an expectation on the part of insurance buyers that rates would be flat or decrease.

Dolan said striking storm losses and social inflation (higher jury awards being one example) are now changing the picture and changing pricing.

“What we worry about and what I think risk managers and CFOs and the like worry about is there has been an underinvestment in internal risk management, because the examples of cheap risk transfer have been pretty abundant,” Dolan said.

Dolan said the amplifying effect of technology has created more complex risk profiles for companies; which spurs even more concern. &

DAN REYNOLDS is editor-in-chief of *Risk & Insurance®*. He can be reached at dreynolds@lrp.com