Restoring Stability: Re-imagining your Property Insurance during COVID-19 and Afterward

Willis Towers Watson Webcast

June 5, 2020
Today’s agenda

- Re-imagining your property program using analytics
- Negotiating a new program
- Role of risk engineering
- Questions and answers
Today’s speakers

Joe Peiser  
Global Head of Broking

Ben Fidlow  
Global Head of Core Analytics

Nancy Woode  
Head of Property Broking, North America

John Barghout  
Senior Vice President, Regional Risk Control Director
Re-imagine your property program using analytics

Ingredients for empowerment

- Data
- Real time analysis
- Risk tolerance
- Technology and computing power

Reactive Decisions

Proactive Decisions

Strategic Decisions

Descriptive

Predictive

Prescriptive

“Price” purchases of insurance
Subjective risk decisions for retention and limits
Better understanding of insurable risks
Informed (ROI) decisions around retention and limits
Informed (ROI) decisions across insurable P&C Risk
Optimize risk versus return across broader risk space
Embed risk analytics into business processes

Subjective risk decisions for retention and limits
Better understanding of insurable risks
Informed (ROI) decisions around retention and limits
Informed (ROI) decisions across insurable P&C Risk
Optimize risk versus return across broader risk space
Embed risk analytics into business processes
Global peril diagnostic

This geospatial risk tool allows for an assessment of large scale risks across the world specific to your global asset footprint.

Going beyond other static catastrophe risk analytics in the industry, this tool allows for the dynamic evaluation of twelve natural perils, terrorism and pandemic data which put your business at risk. This platform harnesses data from accredited sources across the risk landscape for direct client engagement.

Global Peril Diagnostic’s refined evaluation of your global risk:

- **Concise global evaluation** of natural catastrophe, terrorism, and pandemic risk.
- **Interactive map** available for client access showing risk data by location and overall risk diagnostic scoring.
- **Real time risk data** for proactive risk management including live event tracking and e-mail alerts.
- **Risk adjusted benchmarking** compares your risk portfolio to the universe of Willis Tower Watson clients.
- **Continued innovation** for proactive risk management including future updates for supply chain.

http://willis.com/coreanalytics/global.html
Property Quantified

Property Quantified is a groundbreaking technology platform that quantifies global property loss potential from both catastrophe driven and non-catastrophe perils. It facilitates insurance optimization by evaluating risk transfer strategies and providing data driven decision support in financial terms.

This model supports collaboration among our expert teams of engineers and catastrophe modelers, our brokers and client service teams, and with our clients. With its refined approach to modeling property loss potential, Property Quantified allows for dynamic analytic engagement at a level of sophistication never before seen in the industry.

Our refined evaluation of your property portfolio:

- First model of its kind to explicitly analyze both catastrophic and non-catastrophic risks in a single platform.
- Comprehensive decision support for your risk transfer strategy (not just benchmarking and NatCat model results).
- Leverages Willis Towers Watson’s own proprietary algorithms and direct API connection to the industry’s most trusted vendor models including RMS and Munich Re’s NATHAN.
- Technologically enabled to deliver fully tailored analysis, this tool considers your own statement of values, loss runs, and engineering reports in moments.
- Allows for live interaction — adjust any input or risk transfer structure and see updated results immediately.

http://willis.com/coreanalytics/property.html
Negotiating a new program

Differentiate your risk

Differentiate your account to mitigate the impact of increased rates and minimize coverage restrictions.

First impressions matter – don’t give underwriters an opportunity to view you as an opportunistic write.

Complete and/or additional information and timeliness of receiving the information is critical in order to allow brokers time to analyze and identify areas where improved data may influence results.

Quantify the risk appropriately

Highlight any reductions in exposures (spatial key exhibits, CAT modeling).

Provide a detailed statement of values including primary and secondary characteristics.

Include information on additional security measures for idle or vacation locations.

- Discuss current or potential changes in occupancy.
- Review valuations – Substantiate reduction in valuation.
- Include key customers and suppliers list to mitigate reduction in contingent business interruption coverages.
- Address open risk control recommendations.
  - Discuss future capital expenditures.
  - Provide updated information on pending losses.

Control the messaging to the market. “Tell your story” through renewal underwriting meetings (video conferencing) and provide off cycle updates.

Insurers will not have positive assumptions on missing information.
Negotiating a new program
Influence premium drivers – Exposure audit

Values
- Increased scrutiny on valuations.
- Insurers may rate off a higher exposure base than what is reported if they believe the values are under reported.
- Discuss valuation discrepancies with insurers.
- Provide data to support valuations – i.e. appraisals, business interruption worksheets, business continuity plans.

Loss frequency
- Review loss drivers; opportunities to improve risk quality.
- Explore premium credit for increased retentions.

Challenging occupancy
- Discuss risk control programs currently in place.
- Ensure outstanding loss control recommendations are updated.
- Provide detail around future capital expenditures.
- Incorporate the risk control team into renewal underwriting meeting discussions.

Limits
- Address missing information that may impact analytical results.
- COPE information has a major impact on RMS results.
### Negotiating a new program

**Impact premium drivers**

- Identify and capture missing information that may influence CAT modeling results.
- At a minimum, primary characteristic information should be provided for CAT exposed locations (construction, occupancy, year built, number of stories).
- Capture secondary information of key location drivers.
- **Model accuracy = Informed Decisions**

#### Primary characteristics:

- Occurrence exceedance probability losses.

<table>
<thead>
<tr>
<th>Critical prob.</th>
<th>Return period</th>
<th>Ground up</th>
<th>Insurer loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.01%</td>
<td>10,000</td>
<td>258,994,454</td>
<td>256,680,033</td>
</tr>
<tr>
<td>0.02%</td>
<td>5,000</td>
<td>232,737,605</td>
<td>230,540,235</td>
</tr>
<tr>
<td>0.10%</td>
<td>1,000</td>
<td>166,669,335</td>
<td>163,096,653</td>
</tr>
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<td>0.20%</td>
<td>500</td>
<td>136,841,091</td>
<td>133,326,168</td>
</tr>
<tr>
<td>0.21%</td>
<td>475</td>
<td>134,240,693</td>
<td>130,608,815</td>
</tr>
<tr>
<td>0.40%</td>
<td>250</td>
<td>99,881,943</td>
<td>95,619,711</td>
</tr>
<tr>
<td>0.50%</td>
<td>200</td>
<td>87,858,084</td>
<td>83,164,834</td>
</tr>
<tr>
<td>1.00%</td>
<td>100</td>
<td>56,033,032</td>
<td>50,833,228</td>
</tr>
<tr>
<td>2.00%</td>
<td>50</td>
<td>30,663,952</td>
<td>26,066,045</td>
</tr>
<tr>
<td>5.00%</td>
<td>20</td>
<td>9,475,299</td>
<td>6,836,427</td>
</tr>
<tr>
<td>10.00%</td>
<td>10</td>
<td>1,946,804</td>
<td>909,438</td>
</tr>
<tr>
<td>20.00%</td>
<td>5</td>
<td>51,056</td>
<td>1,886</td>
</tr>
</tbody>
</table>

- **Average annual loss**
  - Standard deviation: 12,589,117
  - Coefficient of variation: 5.44

- **Estimated reduction in insurer losses**
  - **37% reduction**
  - **40% reduction**
  - **22% reduction**

#### Secondary characteristics

- Occurrence exceedance probability losses.

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<td>1,886</td>
</tr>
</tbody>
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- **Average annual loss**
  - Standard deviation: 12,589,117
  - Coefficient of variation: 5.44

- **Expected insurer losses**
  - **248,271,435**
  - **206,579,678**
  - **117,598,853**
  - **86,032,631**
  - **83,961,204**
  - **69,315,250**
  - **62,958,174**
  - **57,194,960**
  - **50,833,228**
  - **47,142,244**
  - **41,963,052**
  - **39,652,233**
  - **32,976,045**
  - **22,678,458**
  - **20,979,550**
  - **16,772,300**
  - **15,500,000**
  - **13,968,805**
  - **10,669,700**
  - **9,660,800**
  - **8,562,000**
  - **7,463,200**
  - **6,364,400**

- **Secondary characteristics**
  - Structural upgrade (Non-URM)
  - Engineered foundation
  - Exterior walls/cladding
  - Setbacks and overhangs (vertical irregularity)
  - Soft story

- **Model accuracy = Informed Decisions**

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## Negotiating a new program

### Impact premium drivers

- **Cost of capital for insurers to deploy catastrophe capacity.**
- **Contemplate the results of both models when reviewing limit purchasing.**
- **Utilize results to assist in re-negotiating lender requirements on purchasing to a specific event.**

### RMS CAT Modeling – Named storm

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<td>200,199,743</td>
<td>194,438,144</td>
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<tr>
<td>0.02%</td>
<td>5,000</td>
<td>184,710,755</td>
<td>179,620,034</td>
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<td>0.10%</td>
<td>1,000</td>
<td>137,289,934</td>
<td>134,056,837</td>
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<tr>
<td>0.20%</td>
<td>500</td>
<td>111,433,576</td>
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<td>0.21%</td>
<td>475</td>
<td>109,415,668</td>
<td>104,102,161</td>
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<td>0.40%</td>
<td>250</td>
<td>83,575,157</td>
<td>79,679,937</td>
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<td>200</td>
<td>74,585,095</td>
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<td>47,904,514</td>
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<td>24,905,324</td>
<td>19,297,409</td>
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<td>5.00%</td>
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<td>4,715,033</td>
<td>1,937,489</td>
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<tr>
<td>10.00%</td>
<td>10</td>
<td>204,124</td>
<td>4,628</td>
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<tr>
<td>20.00%</td>
<td>5</td>
<td>25</td>
<td>16</td>
</tr>
</tbody>
</table>

- **Average annual loss**
  - 1,669,729
  - 10,219,742
  - 6.12

- **standard deviation**
  - 1,373,643
  - 9,532,629
  - 6.94

- **coefficient of variation**
  - 629,447
  - 7.50

### AIR CAT Modeling – Named storm

<table>
<thead>
<tr>
<th>Critical prob.</th>
<th>Return period</th>
<th>Ground up</th>
<th>Insurer loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.01%</td>
<td>10,000</td>
<td>147,466,591</td>
<td>140,299,608</td>
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<tr>
<td>0.02%</td>
<td>5,000</td>
<td>137,115,989</td>
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<td>0.10%</td>
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<td>85,944,691</td>
<td>79,147,622</td>
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<tr>
<td>0.20%</td>
<td>500</td>
<td>56,507,101</td>
<td>48,997,857</td>
</tr>
<tr>
<td>0.21%</td>
<td>475</td>
<td>56,100,837</td>
<td>49,319,330</td>
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<tr>
<td>0.40%</td>
<td>250</td>
<td>41,479,150</td>
<td>49,713,528</td>
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<tr>
<td>0.50%</td>
<td>200</td>
<td>37,227,788</td>
<td>30,483,097</td>
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<tr>
<td>1.00%</td>
<td>100</td>
<td>24,144,429</td>
<td>17,866,516</td>
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<tr>
<td>2.00%</td>
<td>100</td>
<td>10,641,433</td>
<td>5,931,207</td>
</tr>
<tr>
<td>5.00%</td>
<td>20</td>
<td>3,031,856</td>
<td>1,160,340</td>
</tr>
<tr>
<td>10.00%</td>
<td>10</td>
<td>768,977</td>
<td>542,705</td>
</tr>
<tr>
<td>20.00%</td>
<td>5</td>
<td>94,454</td>
<td>60,316</td>
</tr>
</tbody>
</table>

- **Average annual loss**
  - 888,927
  - 5,465,683
  - 6.15

- **standard deviation**
  - 628,447
  - 4,716,382
  - 7.50

- **coefficient of variation**
  - 628,447
  - 7.50

In the example above the lender accepted the 5,000 year event AIR CAT modeling results. There was a premium savings derived by sublimiting named storm from $180M to $130M.

Same methodology may apply in the event the insured did not have lender driven wind limit requirements. There is a 54% difference between the RMS and AIR 250 year and 500 year event results. Depending on the insured’s risk appetite, they may elect to purchase a lower named storm limits in order to achieve premium savings.
Negotiating a new program
Understand premium drivers & coverage restrictions

Premium drivers
- Understand each insurers premium drivers
- Develop a solution to reduce their exposure
  - i.e. bifurcated program, difference in conditions / difference in limits for specific CAT perils, increase retentions
- Assess self insuring a portion of your risk
- **Challenge** your underwriters by asking for program options and how to alleviate program restrictions

Program structure will be fluid in order to create premium saving opportunities

Coverage restrictions
- Be prepared for changes in coverage
- Insurers are providing detailed coverage reviews with required revisions on renewals
- Broker manuscript forms may limit the capacity an insurer is willing to deploy
- Increase in company specific endorsements
- Additional lead time required for fronted programs
- Less flexibility on amendments to reinsurance agreements
- Understand the impact of policy form changes
- Number of non-concurrences between insurers will increase
- Understand the key benefits between various insurer forms especially on single insurer accounts
## Property risk control - Differentiate Your Risk!

### Renewal strategies

<table>
<thead>
<tr>
<th>Property Risk Profile</th>
<th>Physical protection risk improvement strategy</th>
<th>Human element programs can still be Improved</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Inform underwriters on the positive aspects of managing your facilities through COVID-19</td>
<td>- CAPEX funding for many businesses impacted – what can be the best 2020-21 vision on investment in risk mitigation?</td>
<td>- Loss prevention management programs – low cost safety solutions</td>
</tr>
<tr>
<td>- Status of leased and idle/vacant facilities for renewal</td>
<td>- Natural Hazard (NATCAT) exposures are still a major underwriting focus – how can you be better protected?</td>
<td>- Many property losses can be traced to a human error creating the event</td>
</tr>
<tr>
<td>- Need to temporary leased space to support start-up (i.e. increase in inventory)</td>
<td>- Review COPE (Construction, Occupancy, Protection &amp; Exposure) Data in your SOV</td>
<td>- Emergency Response Planning – Now is the time to update procedures based on post-COVID-19 review</td>
</tr>
<tr>
<td>- Changes to your “Schedule of Values” (SOV) especially Business Interruption (BI) Values</td>
<td>- Promote “teamwork” and “partnership”!</td>
<td></td>
</tr>
</tbody>
</table>
## Five key elements of restarting facilities – Tell your story

### Renewal strategies

1. **Fire protection and alarm systems; inspection/test/maintenance**
   - When was our last servicing to maintain integrity and Fire Code Compliance?
   - Using a vendor/contractor to conduct servicing

2. **Restarting utilities and equipment**
   - Preventive maintenance program status
   - Testing system interlocks

3. **Supply chain resiliency**
   - Are your key suppliers back in business?
   - Location of “buffer” inventory

4. **Influx of new inventory**
   - Proper storage practices
   - Avoid temporary aisle storage in warehouse
   - Security for yard storage

5. **Business continuity planning – debrief**
   - Lessons learned/update plans.
   - Become a more resilient company
Questions

Upcoming events:

June 16: Re-imagining your Casualty Insurance
June 24: Re-imagining your FINEX Insurance
June 26: Safeguarding Capital
June 30: Distressed Organizations
July 9: Dealing with a Difficult Umbrella Market

Register for future events and access past recordings on willistowerswatson.com