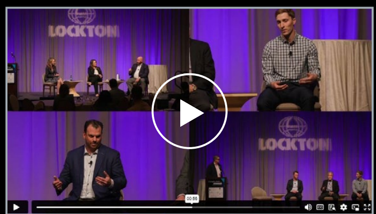
# Complex Risk

SYMPOSIUM · 2023

JUNE 7-8 • ST. LOUIS, MO

HOSTED BY LOCKTON COMPANIES

# Event Summary

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COMPLEXRISKSYMPOSIUM.COM

# Welcome!

On behalf of Lockton Companies, it is my pleasure to welcome you to the 12th annual Complex Risk Symposium. This event promises to be a dynamic platform for the exchange of knowledge, insights, and best practices in the field of risk management and insurance.

In today's rapidly evolving global landscape, organizations face a myriad of complex risks that can have a significant impact on their operations, profitability, and overall sustainability. Effective risk management and robust insurance strategies have become essential tools for businesses to navigate these challenges successfully.

The Complex Risk Symposium has been designed to bring together industry experts, thought leaders, and practitioners to engage in stimulating discussions, share cutting-edge experience, and explore innovative approaches to risk management and insurance. Our goal is to foster collaboration and facilitate the dissemination of ideas that can shape the future of the industry.

Throughout the symposium, you can look forward to an array of insightful keynote speeches, panel discussions, interactive workshops, and networking opportunities. We have carefully curated a diverse range of topics, covering areas such as U.S. Macroeconomic Overview, D&O Litigation, the Cyber Insurance Market, Data-Driven Decision Making, a Risk Manager's Panel Discussion, and more. Whether you are a seasoned professional or just beginning your risk management career, there will be something of interest for everyone.

Moreover, this symposium serves as an ideal platform to connect with fellow attendees, forge valuable partnerships, and strengthen your professional network. The interactive nature of the event encourages active participation, ensuring that you leave with new perspectives, practical takeaways, and a broader understanding of the latest industry trends.

We are truly honored to have such a distinguished group of experts and industry leaders in attendance, and we are confident their contributions will make this symposium an enriching experience for all. We encourage you to actively engage in discussions, ask questions, and share your own insights to make the most of this unique gathering.

Once again, we extend our warmest welcome to the Complex Risk Symposium. Let us come together to explore, learn, and shape the future of risk management and insurance practices.

Best regards,

Ryan W. Brown

**Ryan Brown**
Executive Vice President
rbrown@lockton.com



Complex Risk
SYMPOSIUM·2023
JUNE 7-8 • ST. LOUIS, MO

# Wednesday, June 7, 2023

## RISK MANAGEMENT BOOTCAMP


## Learned Excellence

**ERIC G. POTTERAT, PH.D.**

The retired U.S. Navy Commander who developed and implemented the Mental Toughness Training Program for the U.S. Navy Seals kicked off the Symposium by defining the factors common to the world's best performers: grit, mindset, and consistency.

As Director and High Performance Psychologist for the L.A. Dodgers and a leading expert in organizational excellence, Potterat believes that excellence in any field can be learned by enhancing these three factors.

### 01: Grit

Research indicates that perseverance towards long-term goals is a better predictor of success than talent. The ability to "fail forward" can be learned and sharpened. How?

1. Get more comfortable being uncomfortable
2. Identify your true motivators
3. Determine your passion and purpose
4. Delay gratification
5. View setbacks as opportunities

POTTERAT POINTED OUT THAT DAILY DISCIPLINE PRACTICE IS IMPORTANT TO ENHANCING GRIT, WHICH REQUIRES A COMMITMENT TO PUSHING OUR BOUNDARIES.

### 02: Mindset

Potterat demonstrated how easily our beliefs and assumptions are influenced by playing two pieces of music, but then shared research supporting our ability to choose our mindset. Citing Dr. Carol Dweck's mindset studies, Potterat explained that a fixed mindset is a refusal to embrace new challenges. A growth mindset, on the other hand, is the ability to attempt new learning. While a fixed mindset is safe and comfortable, a growth mindset can be stressful in the short-term because learning is inherently difficult.

However, a growth mindset provides a richer life experience in the long-term as it enhances our understanding and potential.

Potterat pointed out that we choose different mindsets for each different role in life and challenged the audience to not be complacent with each role. He advocated, though, that we be mindful in focusing on those aspects of our lives that are 100% within our control.

### 03: Consistency

Potterat sees time as currency and believes that we each have "16 magic hours" in a typical day. He advocated limiting or eliminating the "white space" in our schedules to be more productive.

Potterat shared that meaningful changes in our grit, mindset, and consistency will only happen incrementally. The process of improving our performance can be aided by valid feedback from trusted sources. He also insisted that the popular perception of two stress responses — fight or flight — is inaccurate. Instead, humans have three responses to stress: fight, flight, or freeze. Fortunately, we can better manage our responses to stress with the following:

1. Pre-/post-performance routines
2. Goal setting and segmentation
3. Arousal control
4. Visualization
5. Positive self-talk
6. Contingency planning
7. Compartmentalization
8. Self-awareness

Potterat suggested that we strive for balance in our work, relationships, health, hobbies, spirituality, and legacy. He shared other recent research of new ways to accelerate our resilience. For example, drinking tart cherry juice at night instead of alcohol promotes deeper sleep. Sensory deprivation tanks to reboot our senses, AI devices to monitor our bodies, and walking in nature for 15 minutes each day may help us be healthier and more productive.

Summarizing why we should enhance our grit, mindset, and consistency, Potterat shared a quote by Roger Federer: "Staying the same is going backwards."

Potterat's book *Learned Excellence* will be available in February 2024.

> *What do you want your audience to do or think or feel as a result of hearing you speak?"*
>
> -Jenni Steck

# Perception and Connection: Communication Tools for Projecting Confidence and Building Connections

JENNI STECK

As a vocal coach for CNN, CBS, and ESPN, Steck has a successful career helping professionals become more engaging speakers. A licensed speech language pathologist with two Master's degrees, she believes that connection is the essential ingredient for effective communication and building relationships.

In her first activity, Steck asked a volunteer to join her on stage and deliver a line in four different ways.

The audience was able to see firsthand that large, confident movement combined with slow, deliberate speech is more captivating than quick movement and fast speech. The audience concluded that when the speaker spoke and moved too quickly, she appeared to lack confidence. When she spoke slowly and took up space in her movement, she appeared more confident.

### Activity

SMALL AND FAST

SMALL AND SLOW

BIG AND FAST

BIG AND SLOW

Steck suggested that being aware and intentional with our voices and bodies can help establish trust and authenticity in communication, which results in more meaningful connections.

Video recording ourselves is a painful, yet effective way to understand our own body language. Steck recommended assessing our posture, gesture, and facial expressions, as well as vocal pitch, pace, and volume.

Steck described how technology both hurts and helps us connect more effectively, including the development of wearable devices that measure movement and animation. She suggested low tech ways of enhancing communication such as leaning forward, moving more, and even standing during Zoom calls.

### Intention

**Who?**

Be specific. What is their current level of understanding?

Is there a range of experience and familiarity with the material?

**Why?**

Why should they care? Why is this important for them to hear?

**What?**

What do you want them to do, think, or feel as a result of hearing this story?

The answer can help you tailor your speaking style.

**CLICK** FOR PRESENTATION & VIDEO

# How Insurance Capital Deployment Drives Retail Pricing


**MARK MOITOSO,** FCAS, MAAA,
EVP, RISK PRACTICES LEADER —
LOCKTON COMPANIES

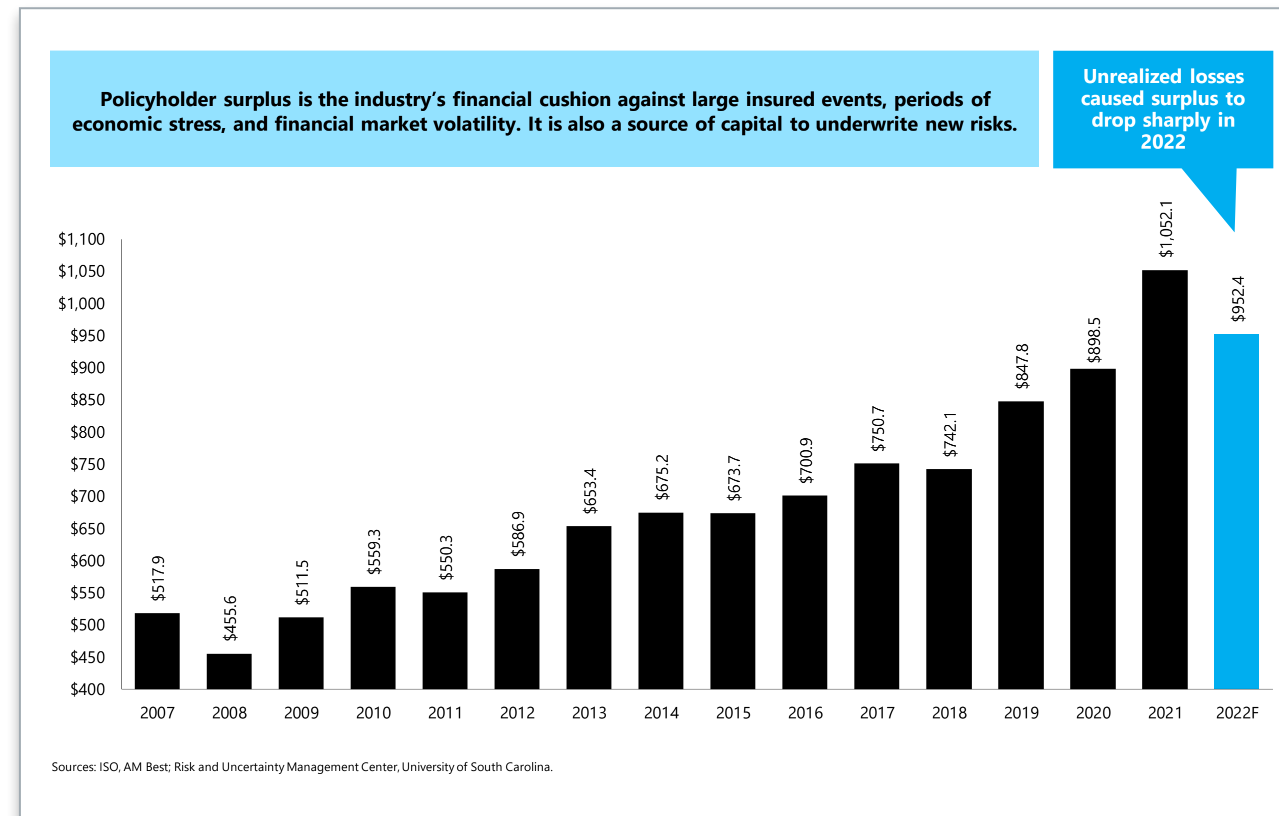
**SANJAY GODHWANI,** FCAS, MAAA
HEAD OF NORTH AMERICA —
BERKSHIRE HATHAWAY SPECIALTY INSURANCE


This session provided an overview of how capital and reinsurance capacity impact retail pricing.

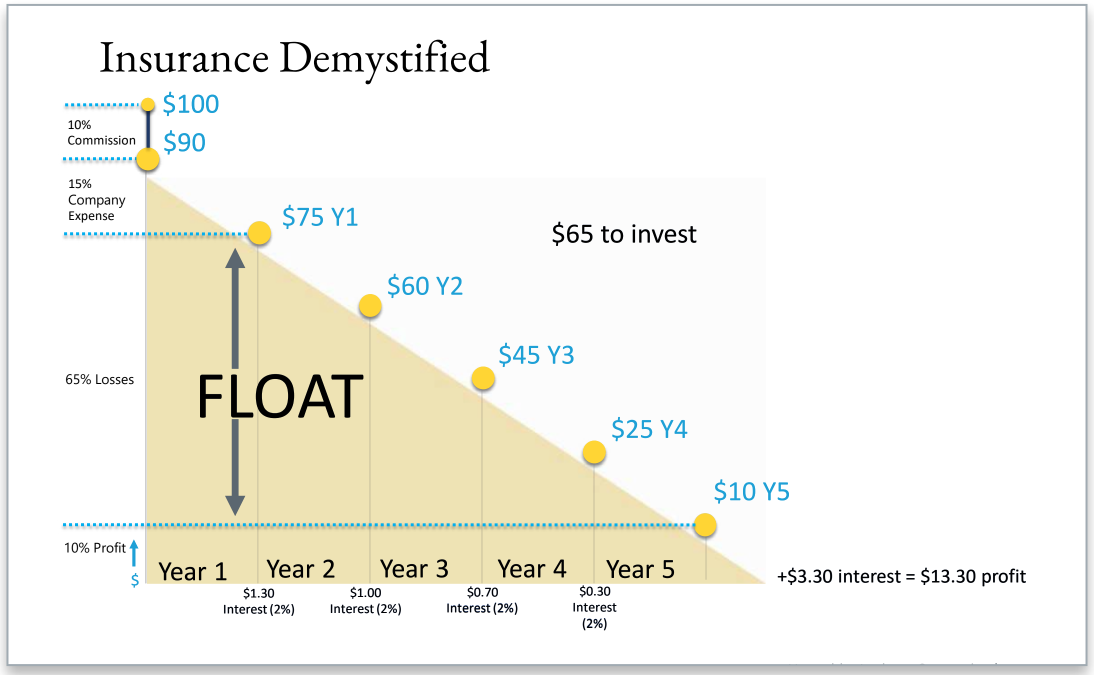
Moitoso and Godhwani, both successful actuaries, explained the current challenges impacting complex risk management and how the world's increasing volatility affects pricing and profits. Their goal for the discussion was to demystify the issue of capital.

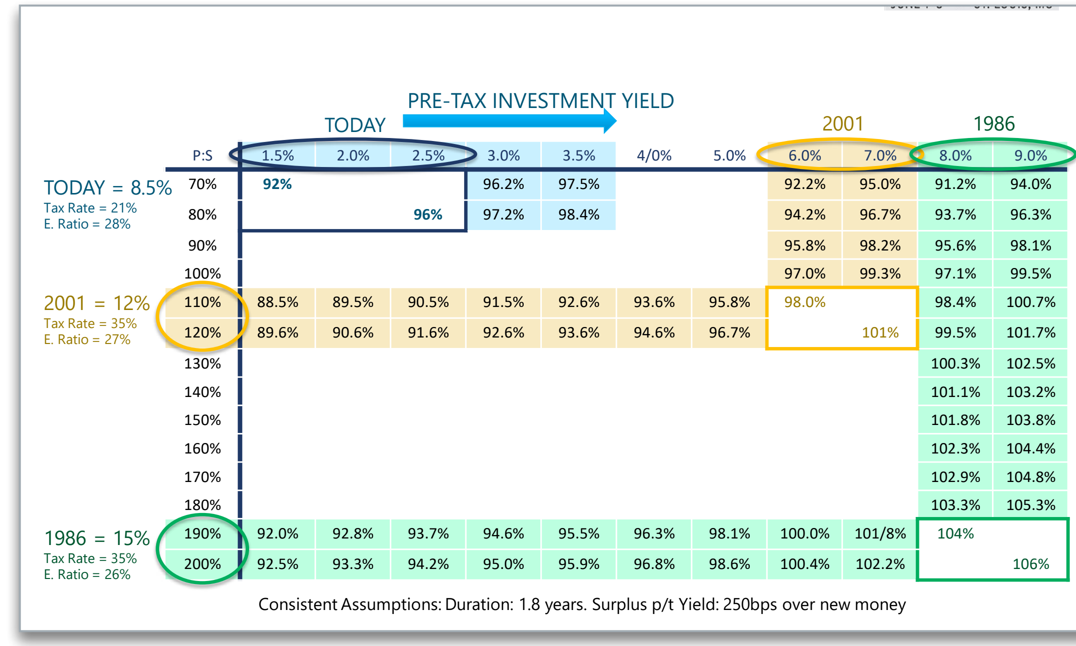
The premise of insurance is that we are all safer if we pool our risk. Capital serves as a buffer to risk, but shareholders want a return on capital. Unfortunately, 2023 is an incredibly complex marketplace for advisors and carriers.

## How do we move forward with this current complexity?

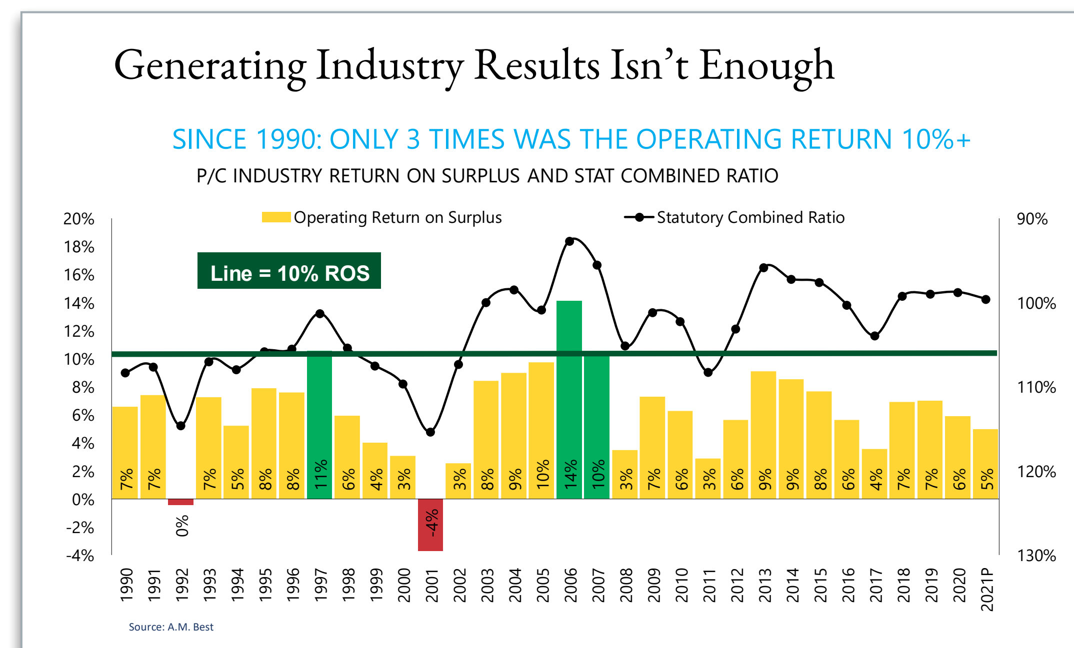



Insurance companies need to make a profit on equity, and that return on equity happens in two ways: underwriting and investment income. Investing in treasury bonds typically yields a safe 4%-5%, so investors often look to insurance with the hope of earning higher yields. According to Moitoso, "insurance has a lot of float" because good returns on wise investments can fluctuate.




| | P:S | 1.5% | 2.0% | 2.5% | 3.0% | 3.5% | 4/0% | 5.0% | 6.0% | 7.0% | 8.0% | 9.0% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TODAY = 8.5% | 70% | 92% | | | 96.2% | 97.5% | | | 92.2% | 95.0% | 91.2% | 94.0% |
| Tax Rate = 21% E. Ratio = 28% | 80% | | | 96% | 97.2% | 98.4% | | | 94.2% | 96.7% | 93.7% | 96.3% |
| | 90% | | | | | | | | 95.8% | 98.2% | 95.6% | 98.1% |
| | 100% | | | | | | | | 97.0% | 99.3% | 97.1% | 99.5% |
| 2001 = 12% | 110% | 88.5% | 89.5% | 90.5% | 91.5% | 92.6% | 93.6% | 95.8% | 98.0% | | 98.4% | 100.7% |
| Tax Rate = 35% E. Ratio = 27% | 120% | 89.6% | 90.6% | 91.6% | 92.6% | 93.6% | 94.6% | 96.7% | | 101% | 99.5% | 101.7% |
| | 130% | | | | | | | | | | 100.3% | 102.5% |
| | 140% | | | | | | | | | | 101.1% | 103.2% |
| | 150% | | | | | | | | | | 101.8% | 103.8% |
| | 160% | | | | | | | | | | 102.3% | 104.4% |
| | 170% | | | | | | | | | | 102.9% | 104.8% |
| | 180% | | | | | | | | | | 103.3% | 105.3% |
| 1986 = 15% | 190% | 92.0% | 92.8% | 93.7% | 94.6% | 95.5% | 96.3% | 98.1% | 100.0% | 101/8% | 104% | |
| Tax Rate = 35% E. Ratio = 26% | 200% | 92.5% | 93.3% | 94.2% | 95.0% | 95.9% | 96.8% | 98.6% | 100.4% | 102.2% | | 106% |



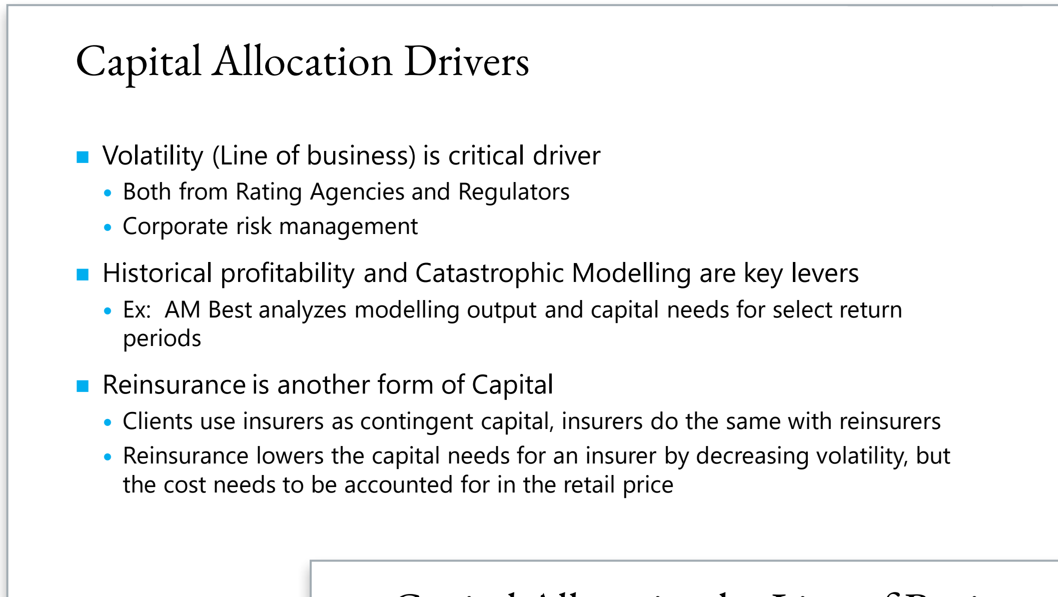

For clarity, Moitoso reminded the audience that capital, capacity, surplus, and equity are all synonymous terms. He then explained why the 2021 trillion-dollar industry surplus did not drive down rates. Such a surplus may have resulted in lower premiums in the past according to the traditional laws of supply and demand, but rates have continued to increase. Why? Global volatility and higher interest rates.

Higher interest rates drive down bond value, which causes investors to worry about the safety of their money. Recent bank failures resulted when Silicon Valley was forced to sell bonds at a loss.

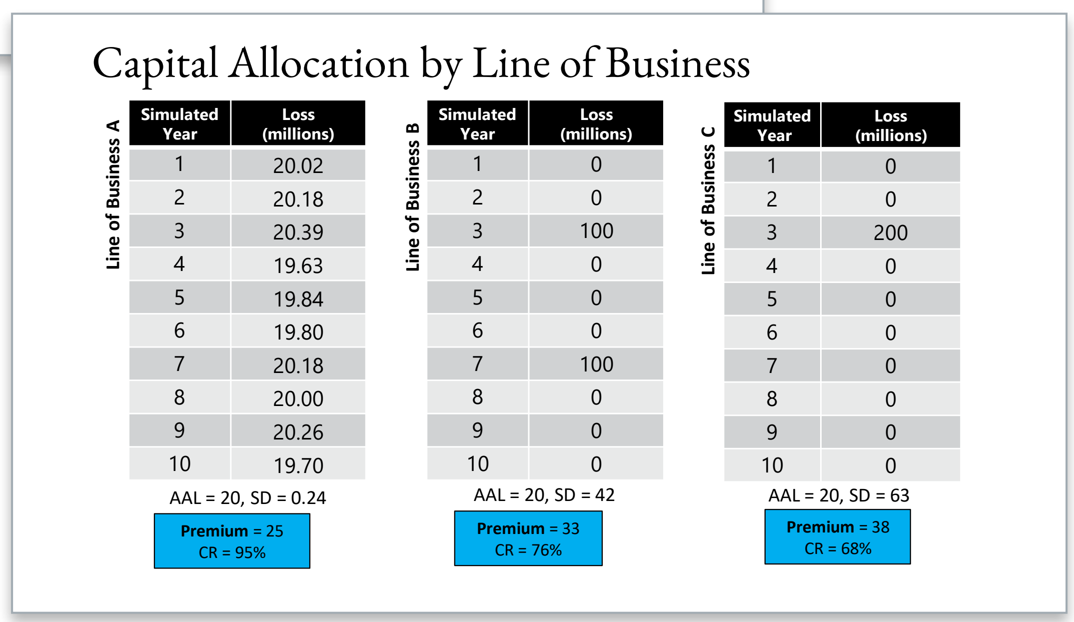
Godhwani explained that insurance premium change had been fairly insignificant, though risk on liability has increased. “Insurance costs are hard to predict, because in the insurance industry, we don’t know the actual cost…unlike manufacturing…” where costs are more predictable. Because of the tremendous risk on the liability side, the insurance industry has been forced to invest with less risk on the asset side.

A series of charts and graphs illustrated how industry profits have changed since 1986. With a hypothetical $100 investment, profits have decreased from a 15% return in 1986 to a current 8%. Similarly, since 1990, only 3 years resulted in operating returns of over 10%. The forces driving these decreases exist both in personal and commercial insurance and are impacted by social inflation.

To address the question of how much capital is needed, one slide described three hypothetical companies with varied patterns of loss. Moitoso and Godhwani asked the audience to choose which of the three companies compared the closest with their own. The chart demonstrated that even a business that sustains more losses can require a lower premium than a business with fewer losses. One major loss can result in higher premiums, which is why increased volatility is so expensive for the industry — and why more capital is needed and why premiums must increase.


Capital Allocation Drivers

- Volatility (Line of business) is critical driver
  - Both from Rating Agencies and Regulators
  - Corporate risk management
- Historical profitability and Catastrophic Modelling are key levers
  - Ex: AM Best analyzes modelling output and capital needs for select return periods
- Reinsurance is another form of Capital
  - Clients use insurers as contingent capital, insurers do the same with reinsurers
  - Reinsurance lowers the capital needs for an insurer by decreasing volatility, but the cost needs to be accounted for in the retail price


Capital Allocation by Line of Business

Line of Business A

| Simulated Year | Loss (millions) |
|---|---|
| 1 | 20.02 |
| 2 | 20.18 |
| 3 | 20.39 |
| 4 | 19.63 |
| 5 | 19.84 |
| 6 | 19.80 |
| 7 | 20.18 |
| 8 | 20.00 |
| 9 | 20.26 |
| 10 | 19.70 |

AAL = 20, SD = 0.24

Premium = 25
CR = 95%

Line of Business B

| Simulated Year | Loss (millions) |
|---|---|
| 1 | 0 |
| 2 | 0 |
| 3 | 100 |
| 4 | 0 |
| 5 | 0 |
| 6 | 0 |
| 7 | 100 |
| 8 | 0 |
| 9 | 0 |
| 10 | 0 |

AAL = 20, SD = 42

Premium = 33
CR = 76%

Line of Business C

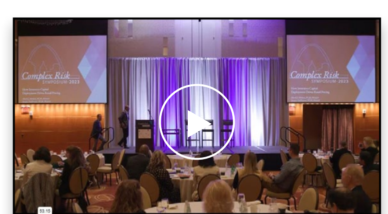
| Simulated Year | Loss (millions) |
|---|---|
| 1 | 0 |
| 2 | 0 |
| 3 | 200 |
| 4 | 0 |
| 5 | 0 |
| 6 | 0 |
| 7 | 0 |
| 8 | 0 |
| 9 | 0 |
| 10 | 0 |

AAL = 20, SD = 63

Premium = 38
CR = 68%

Godhwani believes that consumer confidence will return, but he advocates caution.

The presentation demonstrated why modeling is so important to the industry. The ability to simulate history with potential events allows for the creation of standard deviations, which in turn become the viable predictors of volatility. As a buyer, look at the standard deviation to determine best options.



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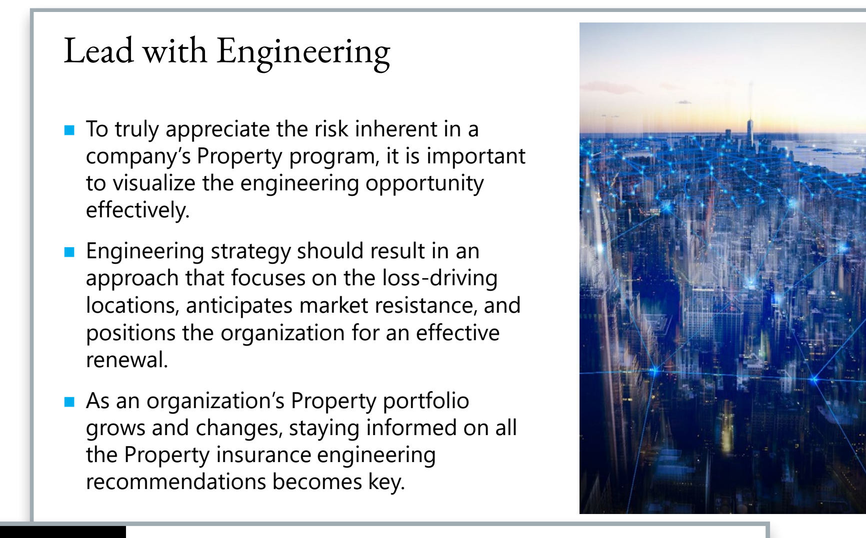
# If Your Property Engineering Could Speak

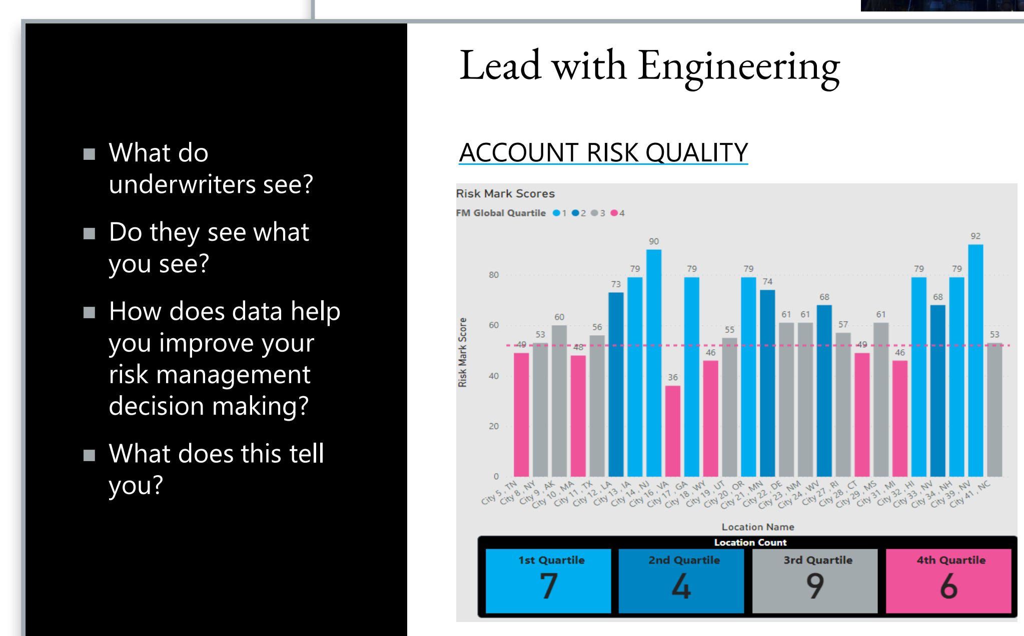
**LUCAS PFANNENSTIEL,** PE, CFPS, LEED AP,
VP, LOSS CONTROL LEAD, PROPERTY & NATIONAL ACCOUNTS — LOCKTON COMPANIES

Risk managers today know more about engineering than ever before, which is a boon for the industry, but is that enough? Are organizations investing adequately in engineering data?

Comparing engineering data to the kid picked last in gym class, Pfannenstiel explained why risk management should lead with engineering. To truly appreciate the risk inherent in a company's property program, it is important to visualize engineering opportunity effectively.


Lead with Engineering

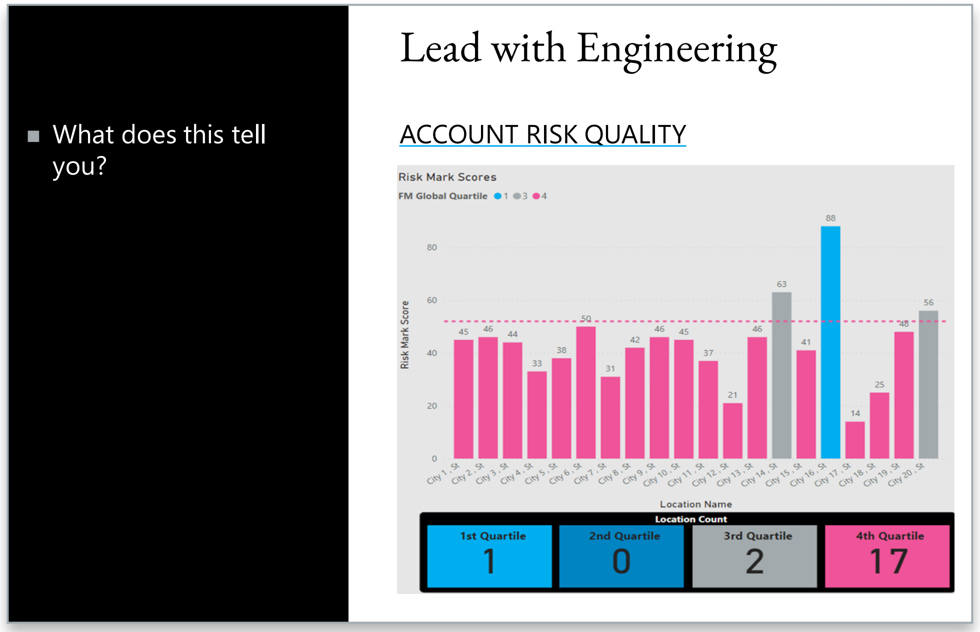
- To truly appreciate the risk inherent in a company's Property program, it is important to visualize the engineering opportunity effectively.
- Engineering strategy should result in an approach that focuses on the loss-driving locations, anticipates market resistance, and positions the organization for an effective renewal.
- As an organization's Property portfolio grows and changes, staying informed on all the Property insurance engineering recommendations becomes key.


Lead with Engineering

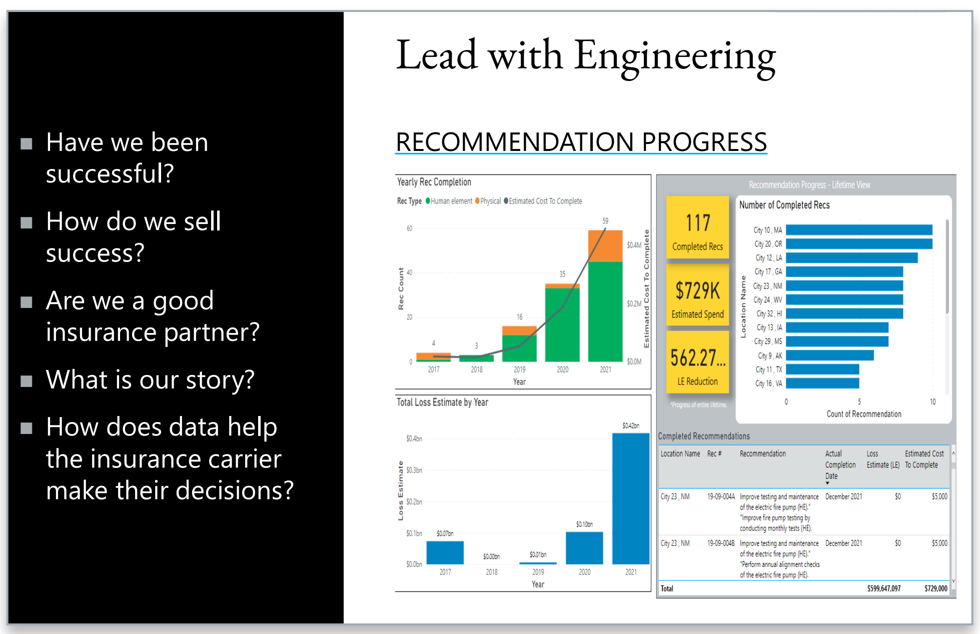
- What do underwriters see?
- Do they see what you see?
- How does data help you improve your risk management decision making?
- What does this tell you?

ACCOUNT RISK QUALITY

Pfannenstiel demonstrated fictitious data samples generated by Lockton's Property Visualization Tool, which analyzes a carrier's engineering data via a Power BI software program. Color coded by risk, the chart serves as a rating system that offers a quick visual for potential threat.

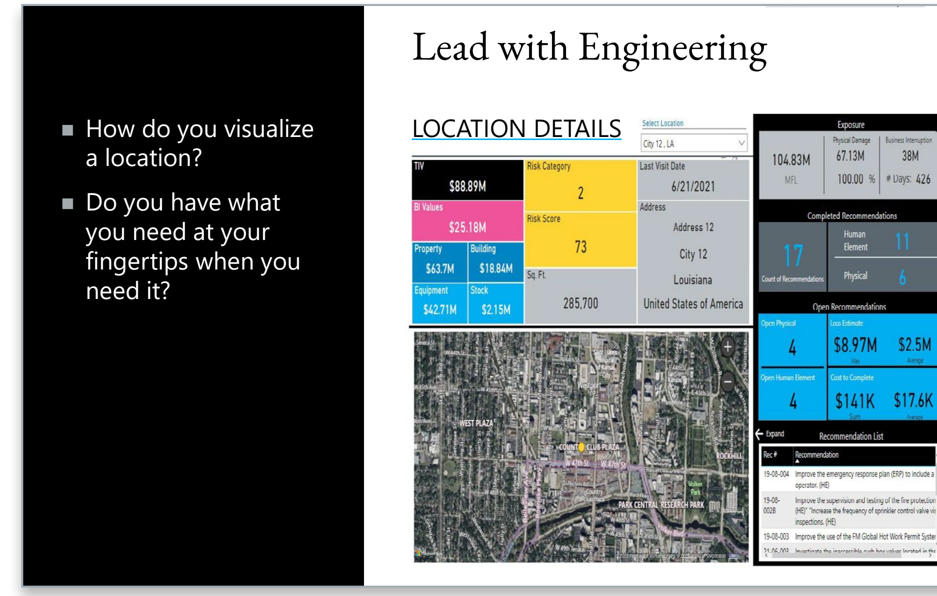



Such a system allows for risk recommendations, best ROI, location assessment, and a wide array of recommendations, all available instantaneously.




Pfannenstiel urged the audience to "use data to tell your story" and returned to the analogy of gym class. He asked the audience to consider a more holistic property risk management strategy. "In a world where clients are picking teams, where do you fall?" Organizations with the most sophisticated engineering data get chosen first.

He advocated that all data be aggregated in one place.

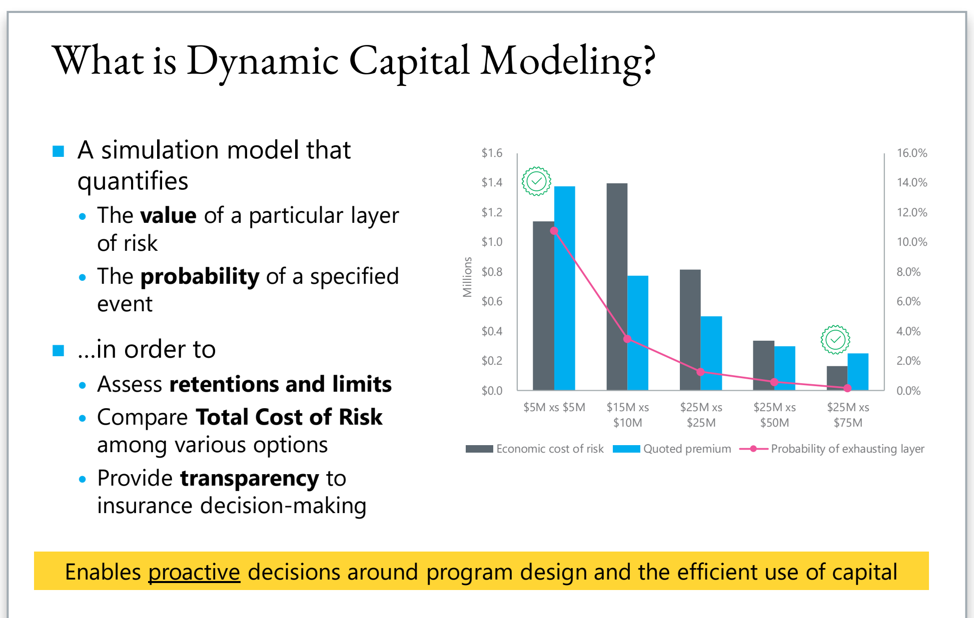



*"You are putting in the work — let us show your hard work and help you tell your story."*

**SCOTT JOHNSON, FCAS,**
VP, P&C ANALYTICS MANAGER —
LOCKTON COMPANIES

# Dynamic Capital Modeling (DCM)

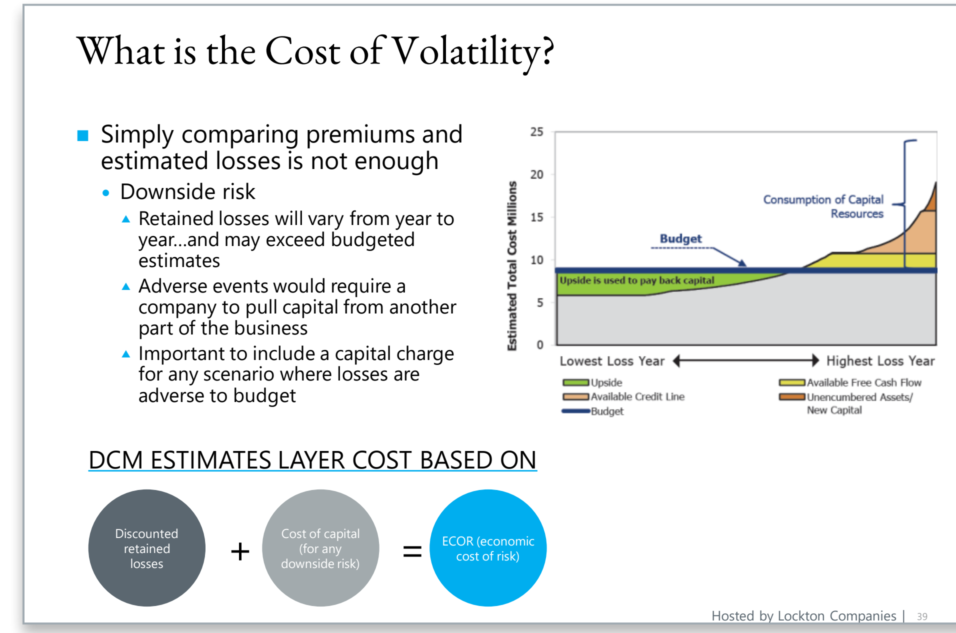
DCM allows us to think about retentions and limits more effectively via simulation models with tens of thousands of scenarios. Providing rich insight into value and probability makes DCM vital to sound decision making.



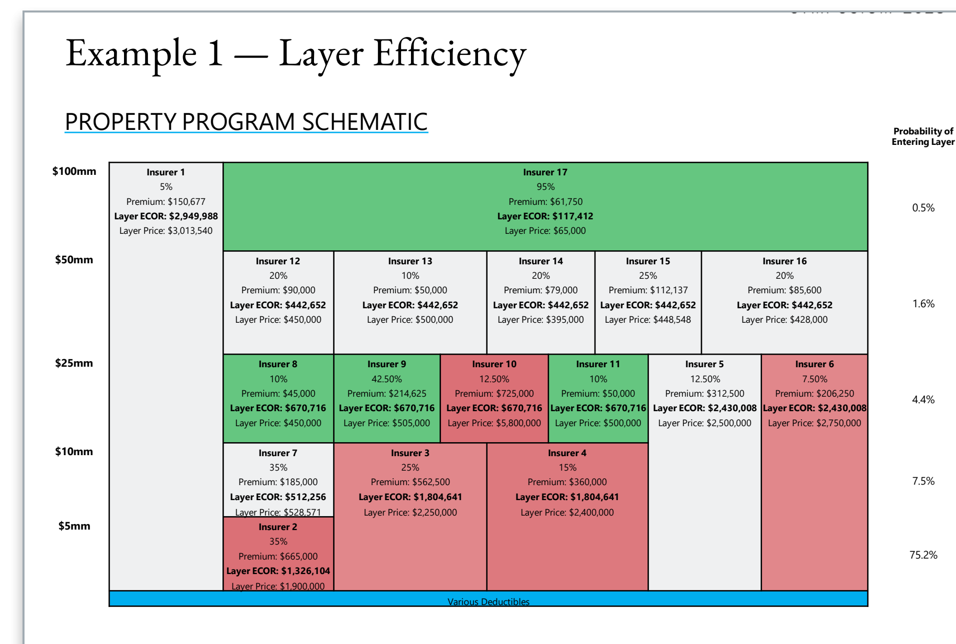

Simply comparing premiums and estimates is not enough to determine the cost of volatility.

Johnson showed slides of hypothetical layer efficiency in a Property program schematic, color coded to indicate risk value. Retention assessment via DCM allows for more proactive decision-making to minimize cost and to help establish the level of risk comfort.

What data drives DCM? Statement of values, CAT models, AOP models, and client-specific inputs. The ability to see data points for various options enables efficacy in program design and use of capital.




Looking back at history doesn't provide enough information. Dynamic Capital Modeling does.

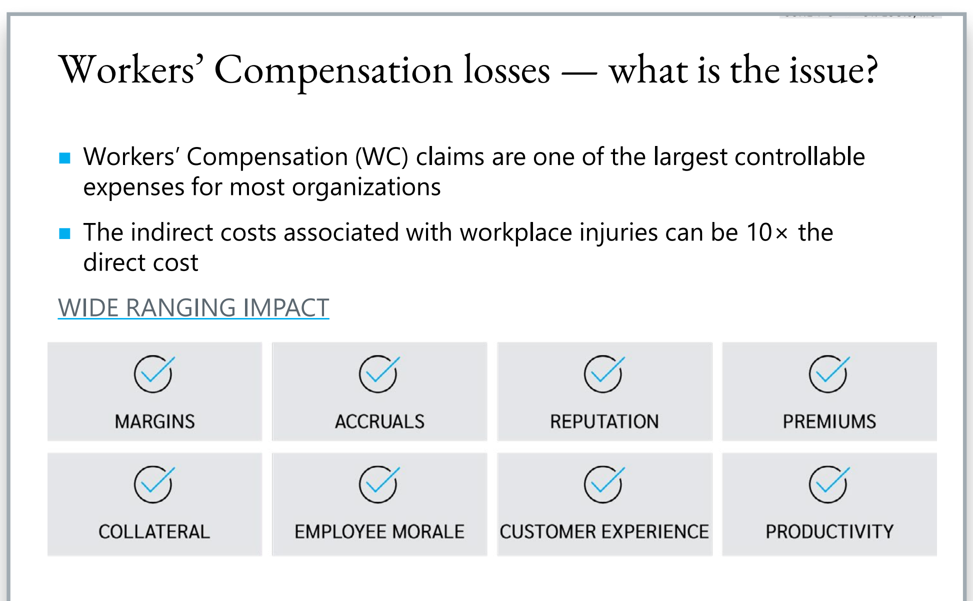


**VINCE GAFFIGAN**
EVP, DIRECTOR, RISK CONSULTING — LOCKTON COMPANIES

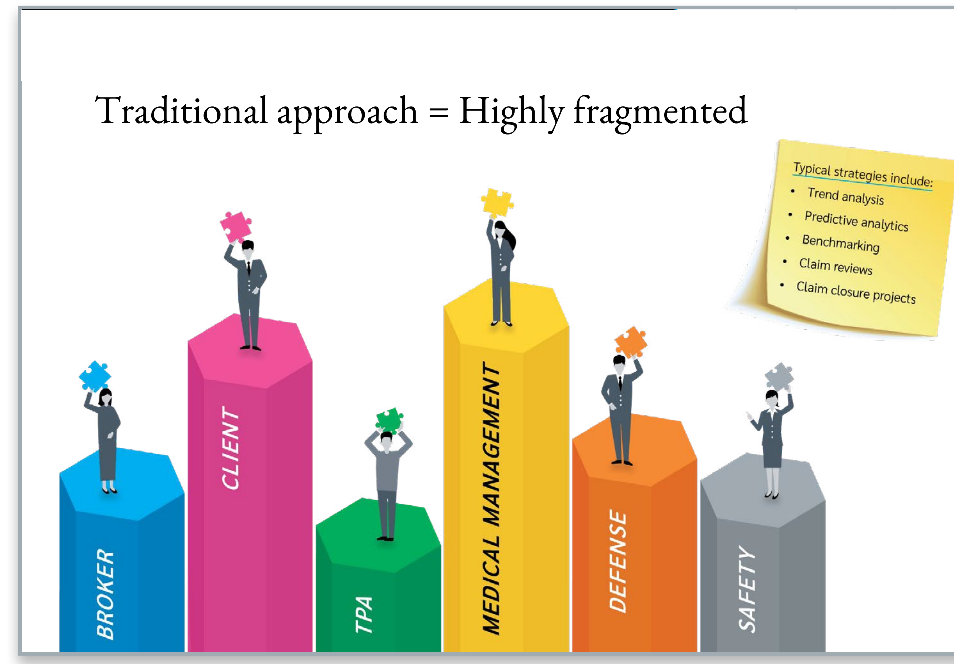
# Lockton 360

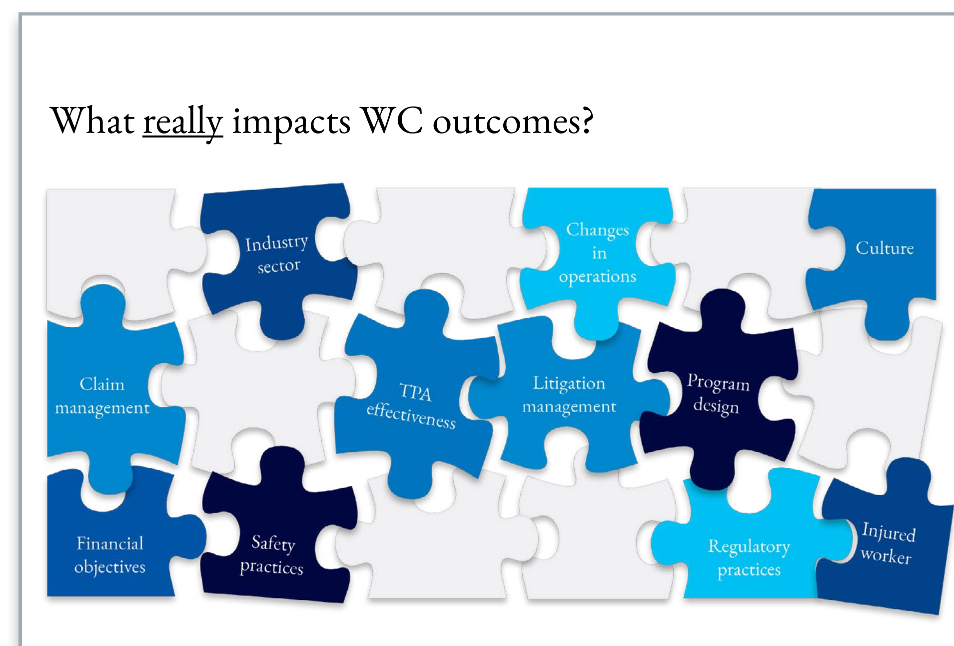
## Property, inflation, social inflation, and recession are worrisome issues for everyone. Yet Workers' Compensation claims are one of the largest controllable expenses for most organizations.

Having a well-defined process for Workers' Compensation cases is critical. Gaffigan wondered, though, that if these processes are effective, why do organizations continue to be surprised and frustrated when injured workers file claims?




Gaffigan explained that "everyone is trying to do what's best, but the coordination and communication is sometimes lacking." The traditional approach to managing Workers' Compensation is highly fragmented, and data is just one piece of a larger solution.



Lockton 360 was created to achieve sustainable Workers' Compensation reductions. It relies on qualitative analysis, qualitative assessment, and client partnership to sustainably reduce costs.

Gaffigan explained that most claim review strategies either attempt to examine every claim or simply focus on high-dollar claims. Both are ineffective, because 70% of advanced development claims are valued at less than $50,000.

Lockton's Advanced Claims Target (ACT) offers a solution to ineffective claim review strategies because successful loss reduction starts with knowing where to focus resources. ACT is a proprietary algorithm that measures an individual claim's potential for adverse development at any time in the claim's life cycle. It identifies and targets claims that are likely to drive future costs.

ACT is not a standalone product, however, because it relies on the process of Lockton 360. It is one tool in a comprehensive approach to "really target resources and impact overall outcomes."

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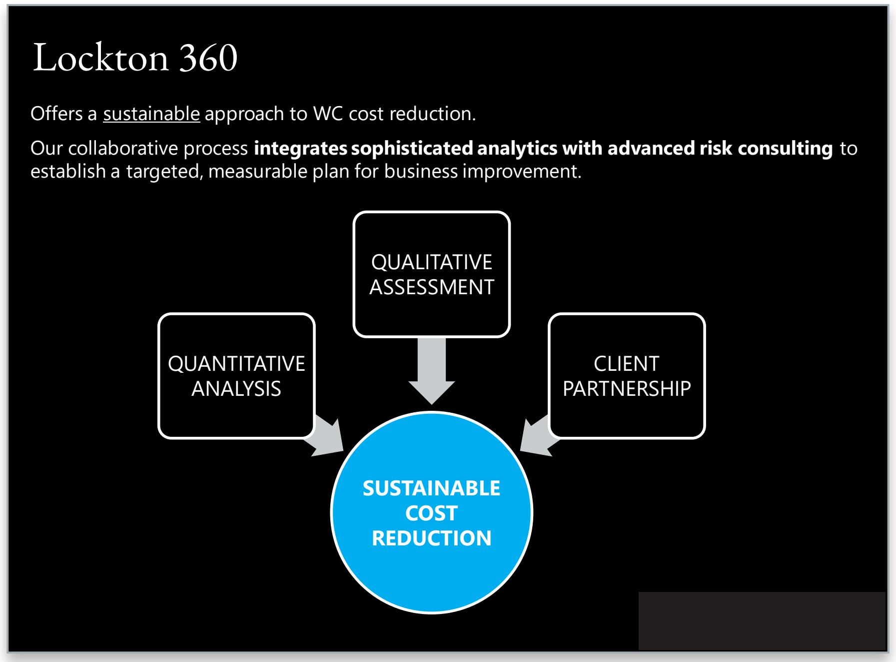
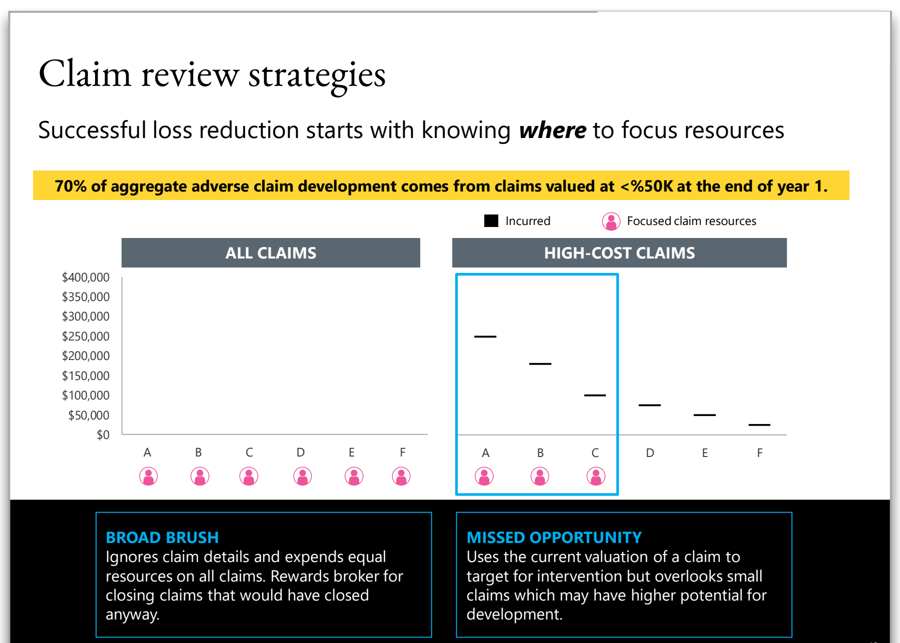




Complex Risk
SYMPOSIUM·2023
JUNE 7-8 • ST. LOUIS, MO

# Thursday, June 8, 2023

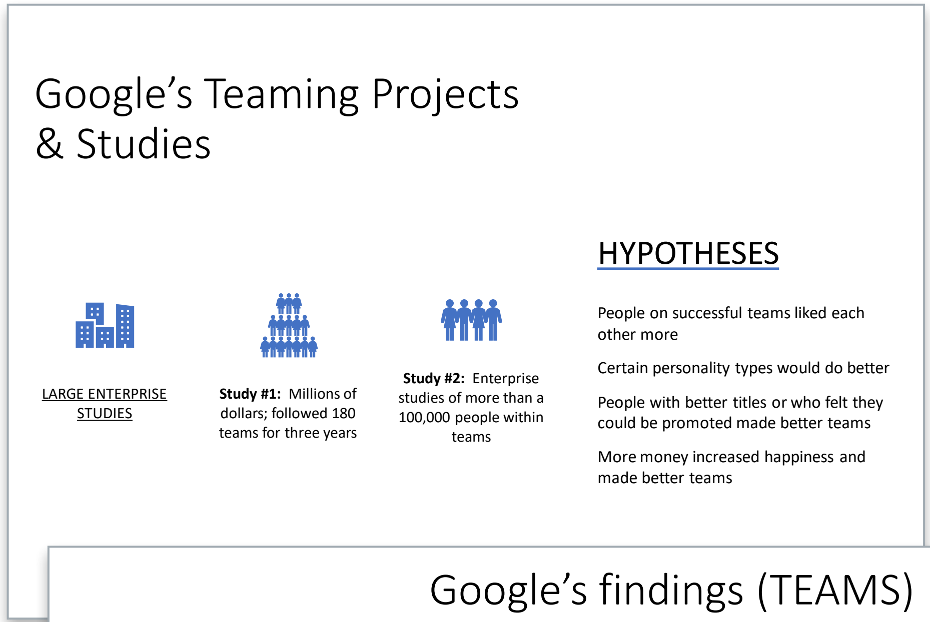


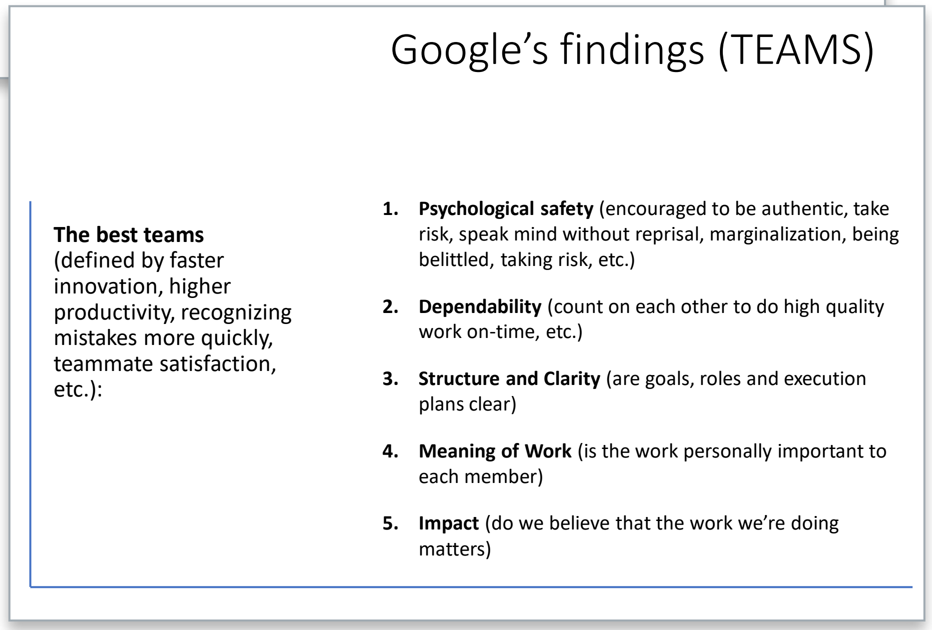
## Characteristics of High Performing Teams

**ERIC G. POTTERAT, PH.D.**

Recent research by organizations such as Google, SpaceX, Microsoft, and many others offers surprising insight into what teams need to function well.

“We know that culture is the fundamental compass of every organization.” Potterat described how the highest performing companies spend significant time establishing a culture with care and intention. Being able to draw on the strengths of every team member within that culture is critically important. IN THE WORDS OF LEADERSHIP GURU KEN BLANCHARD: “NONE OF US IS AS SMART AS ALL OF US.”





DR. ERIC POTTERAT

POTTERAT SHARED FIVE ELEMENTS NECESSARY FOR CREATING HIGH PERFORMING TEAMS:

**01** Psychological safety: Team members must have a sense of shared contribution, be open to risk, and have emotional intelligence to manage difficulties with trust and empathy

**02** Dependability

**03** Structure and clarity

**04** Meaning of work

**05** Impact


Potterat suggested that we can enhance the feeling of community by creating weekly team rituals which increase psychological safety. Asking each team member to share risks they've taken weekly and making sure that all team members contribute equally can also help team members feel safe.

### Weekly Team Rituals to Increase Psychological Safety

Research has found the following rituals lead to enhanced psychological safety within teams:

1. **Each member shares a risk they have taken within last week**
2. **Each member contributes equally to all group conversations**
3. **Each member shares and welcomes ideas**

### Psychological Safety

This factor, by far, predicted the 'best' teams.

1. **Shared Contribution** (each person on the team speaks equal time; everyone is included)
2. **Social Sensitivity** (Empathy and EQ; sensing how others are feeling based on tone of voice, body language, etc.)
3. **Open to Risk Taking** (felt every member cared about them, so they could take risk, offer different ideas, etc.)

### The best leaders focus on these to create the best teams

| | | | |
|---|---|---|---|
| Collaboration | Compromise | Clear goals | Diversity of thought |
| Communication | Growth mindset | Accountability | Teammate encouragement |
| Trust | Kindness | Defined roles | Impact and Value |
| Respect | Shared vision | Measurable objectives | |

Having a growth mindset also helps teams perform better. He advised the audience to "be thirsty for feedback both in victory and defeat."

Diversity is necessary for high-performance teams because we need different perspectives to find different solutions.

### Unique value of highlighting 'Impact' and 'Value'

-Less talent loss (attrition)

-Higher loyalty

-Higher engagement in projects

-Increased innovation

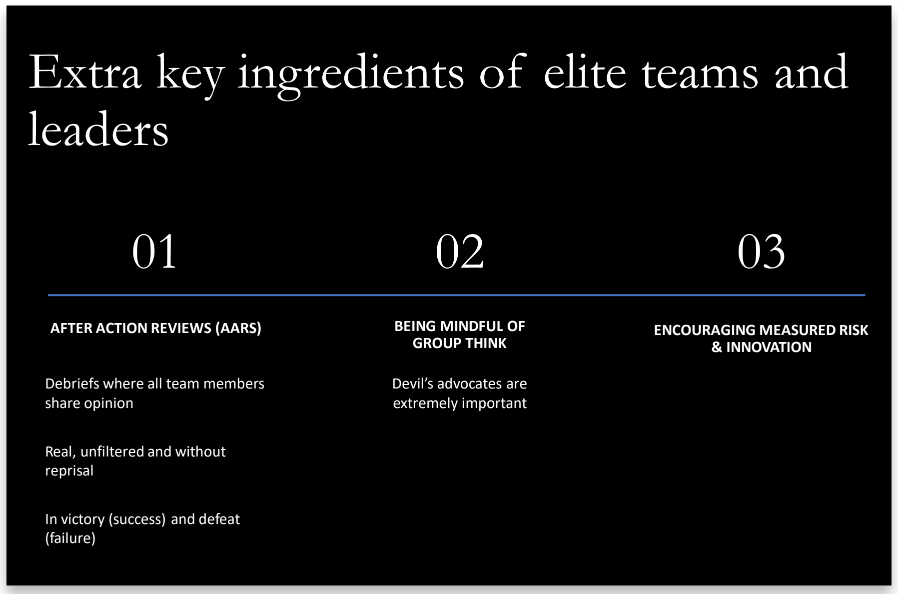
-Less absenteeism (sick days, etc.)

-Faster promotion trajectory

-Increased intrinsic motivation

POTTERAT DESCRIBED THE FOLLOWING KEY INGREDIENTS OF ELITE TEAMS AND LEADERS:

- After action reviews: circling back to get real, unfiltered opinions from all members
- Being mindful of groupthink: devil's advocates are extremely important because people start to think like the leader, but the devil's advocate can't always be the same person because teams often ostracize the lone dissenter; it must be a shared role
- Encouraging measured risk and innovation



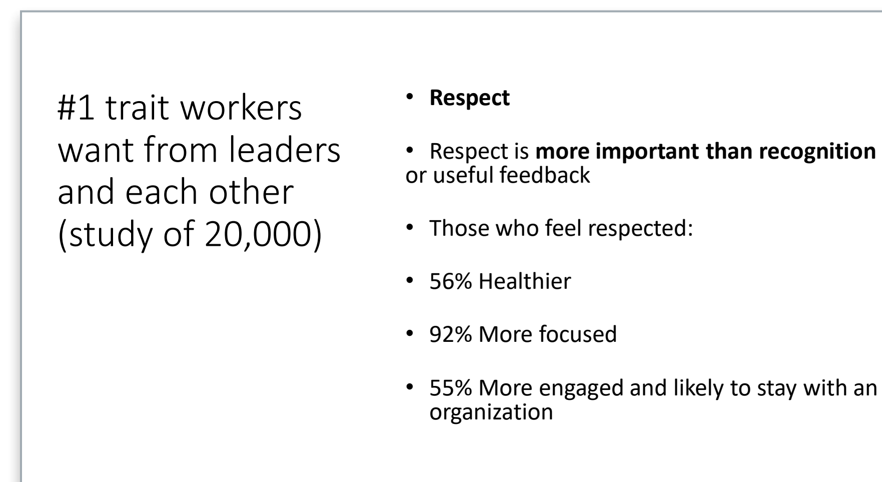

Potterat referred to Google's research regarding the biggest threat to successful teams — the Brilliant jerk. "Our most dangerous obstacle to collaboration and innovation is the team member who is disrespectful or rude."

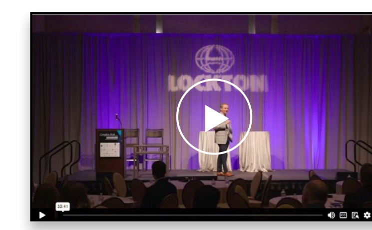
Christine Porath's incivility research details the specific threat of poor behavior towards others: Incivility is the number one reason for poor collaboration and ineffective work. Even just witnessing rude, demeaning behavior may have a profound impact on our health and wellness.

As he learned early in his military career, Potterat urged the audience to "praise in public; criticize in private."

According to research, the number one trait workers want from their leaders is respect. Potterat suggested that little things done with consistency can greatly enhance feelings of respect: thanking, listening, acknowledging.

"Ask yourself: Are people happier when you enter a room or happier when you leave a room?"



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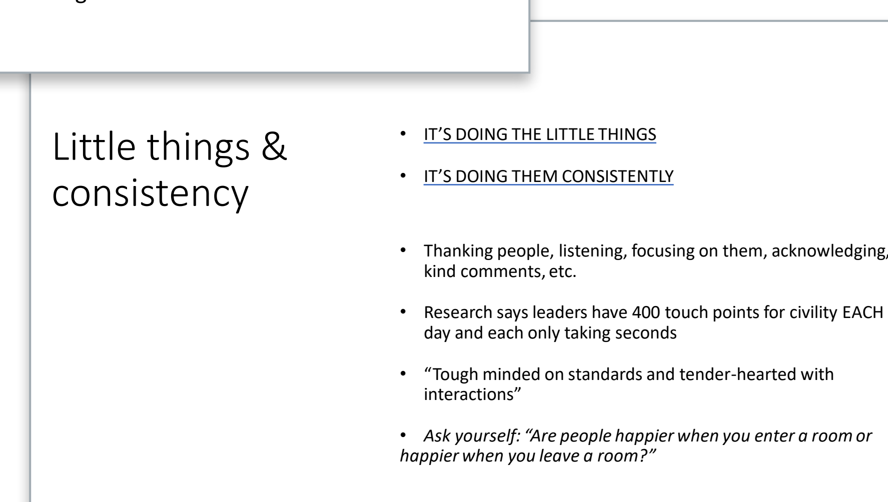


# US. Macroeconomic Overview: Past and Present Indicators

**CHRIS HAGEDORN**
SENIOR PARTER AT MCKINSEY & COMPANY

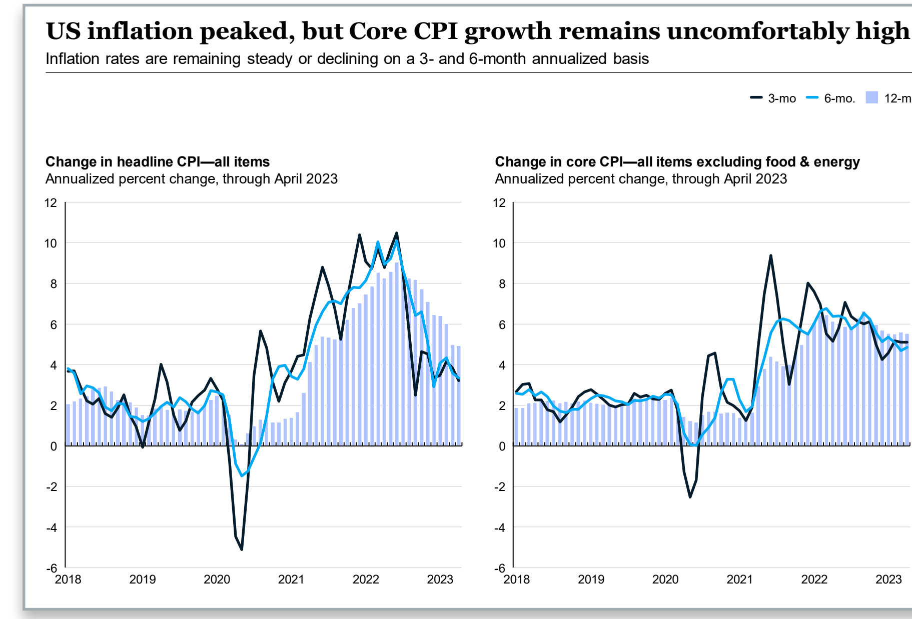
Hagedorn, a leader in McKinsey's Transformation practice, dissected the current economic indicators of the U.S. economy.

Upward inflation and interest rates, combined with excessive pricing and wage growth, have resulted in a 20-year low in consumer confidence. And while "some of the numbers are buoyant, others are not." The current labor market is a key economic focus.

**US macro in eight numbers**
Current expectation is flat to negative GDP growth for 2023

| | | | |
|---|---|---|---|
| **5.5%**<br>April 2023 Core CPI. Momentum has shifted from headline to core. Fed will not cut | **+3.2M**<br>Excess job openings in March with near 50-year low unemployment rate of 3.5% | **+4.3T**<br>Additional cash put in the bank by US consumers from 2019Q4 to 2022Q4 | **>7%**<br>Fed funds rate risk if Fed struggles to slow momentum in the labor market and inflation |
| **~1/2 CPI**<br>Excess price increases passed to consumers because of cyclical demand and wage pressures | **2X**<br>Increase in wage rate growth vs. pre-COVID-19 | **63.5**<br>Consumer confidence remains near lowest levels seen since GFC, but improving | **-1.7%**<br>2024 downside GDP growth in scenario with entrenched inflation and aggressive tightening vs. 0.4% and 2.0% upsides |

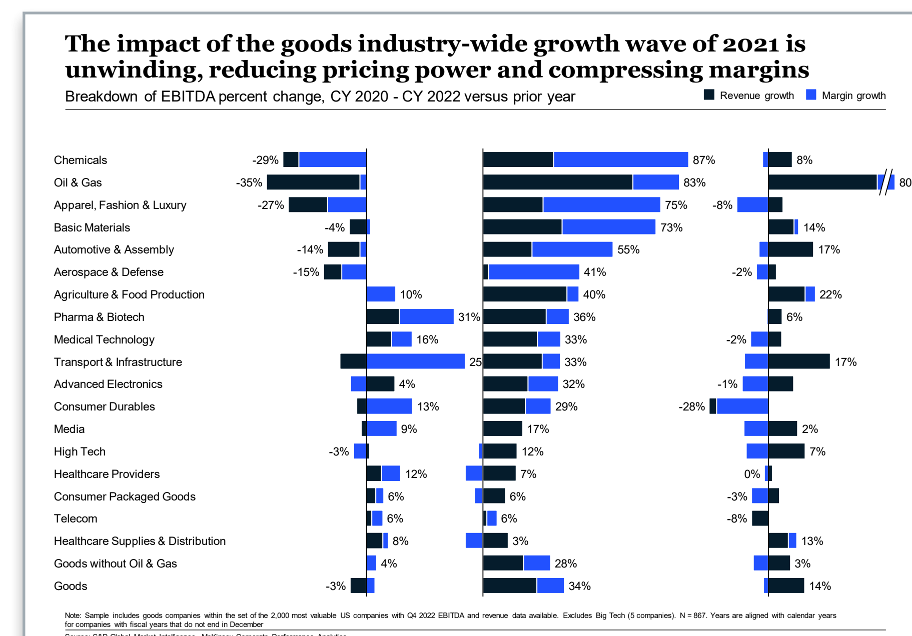
Hagedorn's slides showed that inflation peaked about a year ago, which is good news for the economy, yet we have not returned to low pre-pandemic interest rates. Unfortunately, "no one sees that happening anytime soon." Inflation, though lowering, is still a real concern and is now being driven by wage pressures. That pressure is creating a seesaw effect on balance sheets.



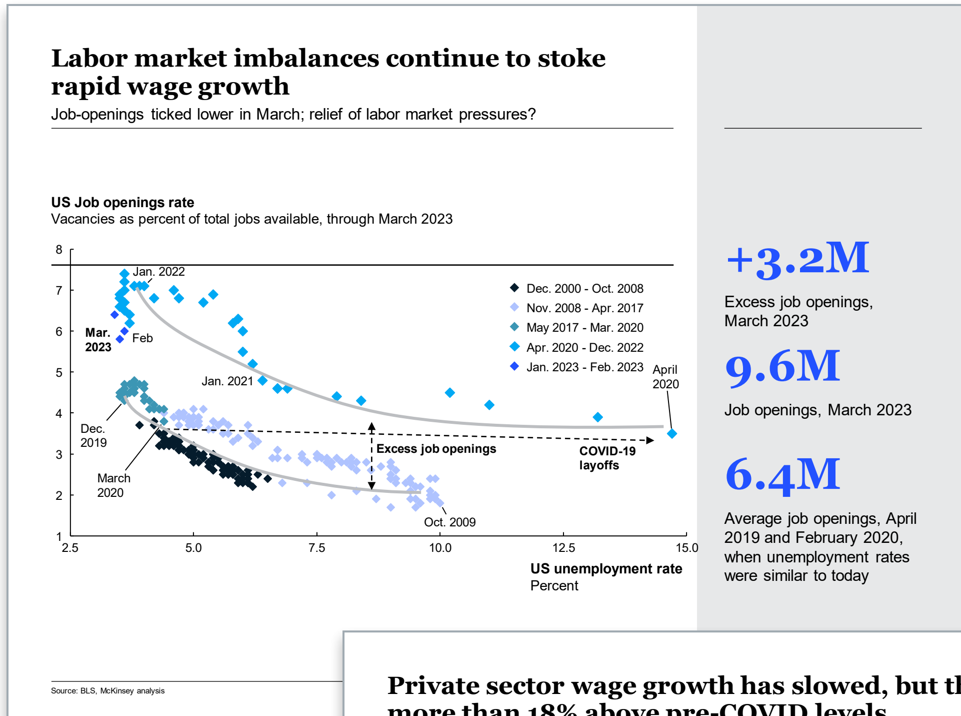

CLIENTS ARE ASKING TWO QUESTIONS:

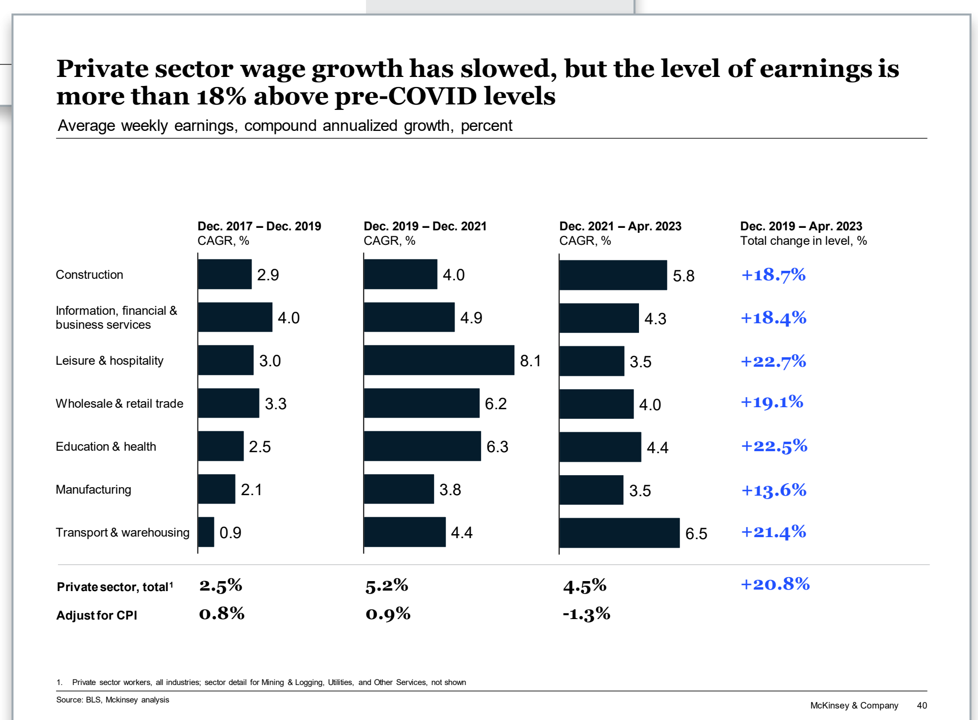
*What can I do on procurement to reduce costs? How can I transfer costs?*

Massive revenue and margin growth occurred in 2021, yet shrinking profit margins took place in 2022. Air travel, for example, rebounded dramatically when the pandemic waned, but costs skyrocketed.




While the economy is expected to return to reasonable inflation rates, the labor market continues to fluctuate. Despite a dramatic 20% wage increase in the U.S. and continued job growth, consumer confidence is still down. COVID sparked a sharp drop in consumer confidence, and though we're seeing a slight upward trajectory, consumer sentiment is still significantly depressed. Labor market imbalances continue to stoke rapid wage growth.



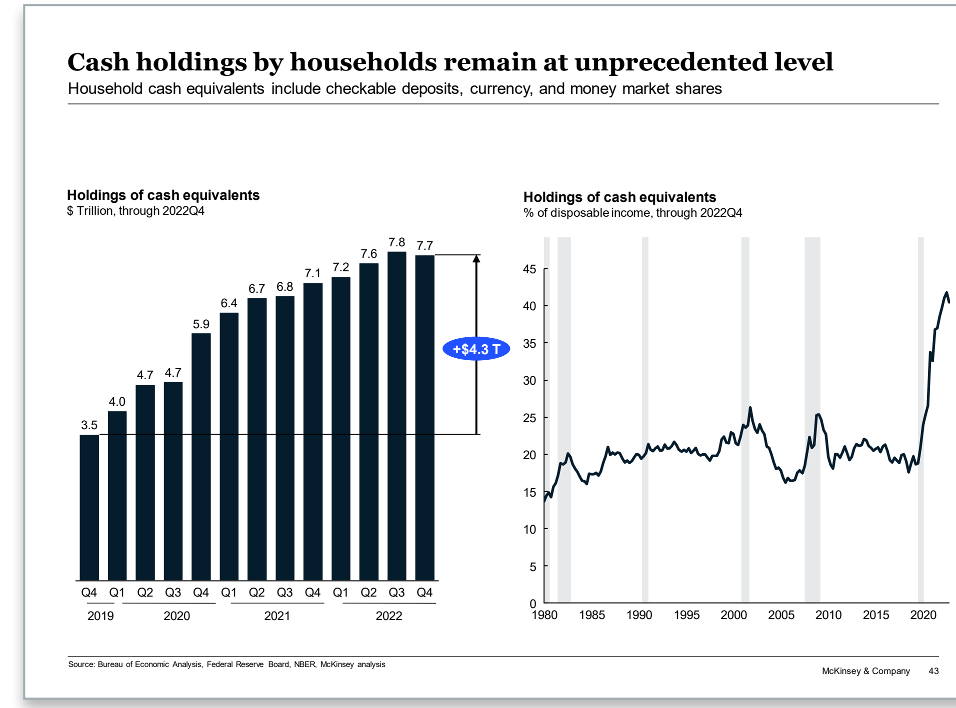



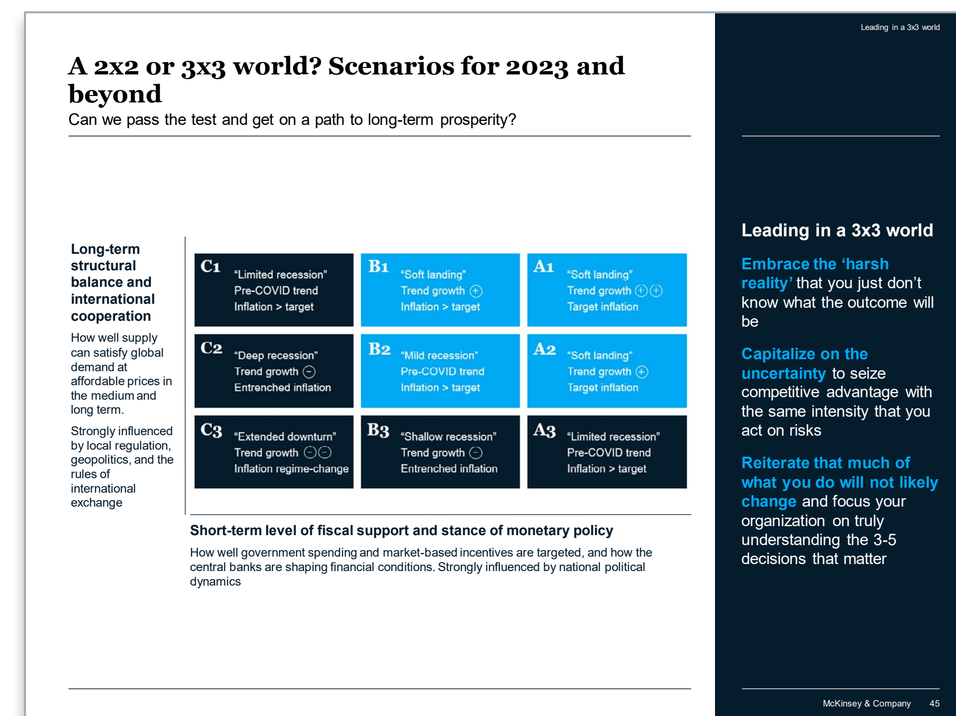

Cash holdings in households have doubled, yet confidence is low.

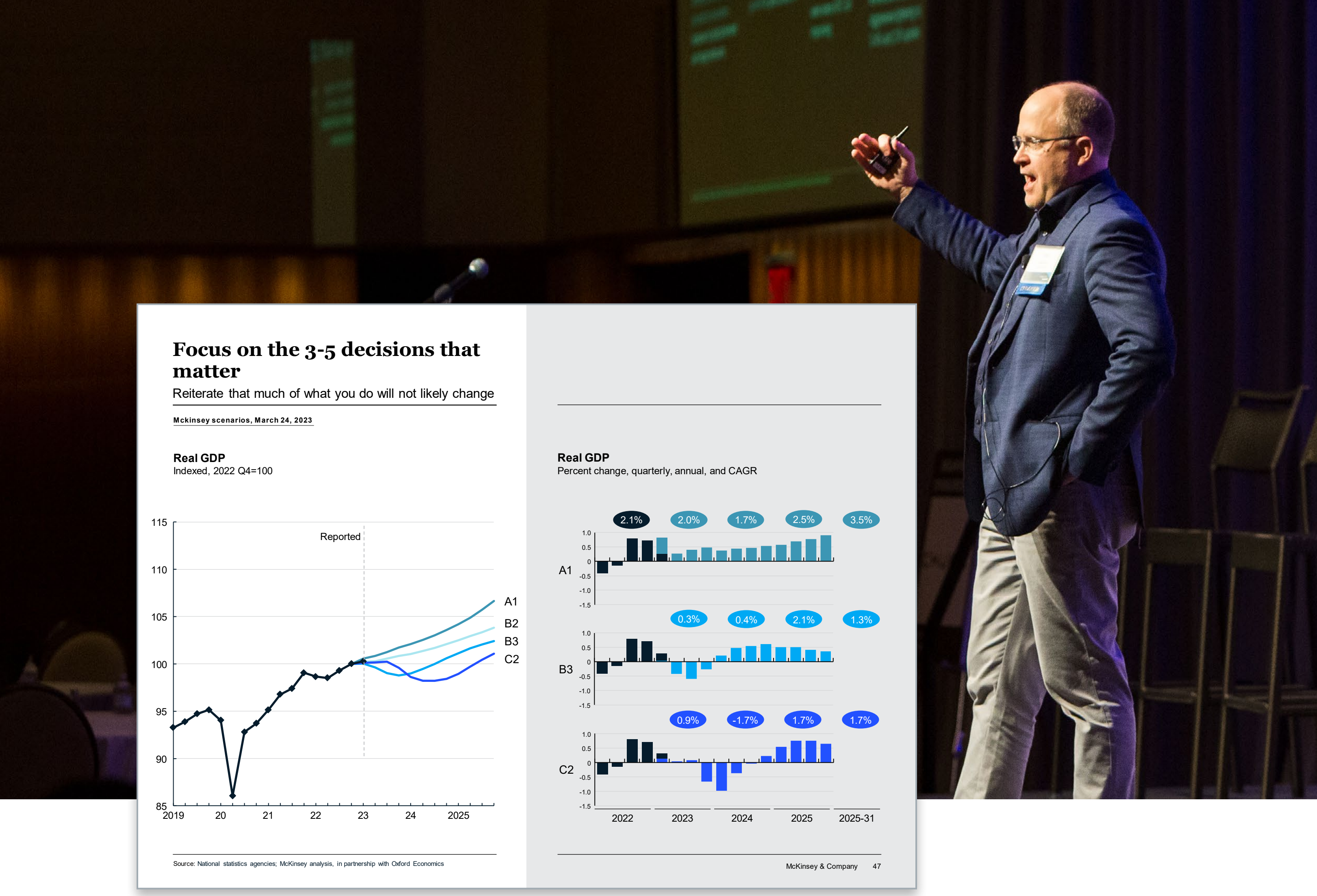
*"We are paying a lot more for goods and services since COVID…but cash holdings by households remain at unprecedented levels."*

Hagedorn shared nine economic scenarios: First, a best-case scenario soft landing with GDP at 2% and growth at 3%-3.5% where inflation is higher but manageable. The worst-case scenario envisioned massive market contraction with a deep recession, limited global cooperation, less growth, and ongoing inflation.

Hagedorn described the current "incredibly tight labor market relaxing a bit, but everyone is still looking for talent." Because of the structural shortage of talent, if upward wage pressure continues, the Fed will continue to increase rates. He suggested that organizations should focus on retaining talent and cost structures, as well as finding ways to invest ahead.






In the Q&A portion of the session, audience members asked Hagedorn about AI, which "is impossible to predict, but a huge concern." Hagedorn foresees AI resulting in efficiency gains that will create more balance in the labor market.

The risk of anti-global behavior also worries Hagedorn, "because we can't predict what countries will do." Russia's invasion of Ukraine caused much more volatility than anyone expected. What happens with Ukraine/Russia and China/Taiwan will be critical to markets.

When asked for his economic prediction, Hagedorn believes we will experience a light recession before consumer confidence increases — somewhere in the middle of the best- and worst-case scenarios.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# D&O Litigation: An Insider's View

**DEVIN BERESHEIM**, EVP, SPECIALTY PRACTICES AND FINANCIAL SERVICES PRACTICE LEADER AT LOCKTON COMPANIES, MODERATED THE PANEL THAT INCLUDED:

- **STEVE GOLDMAN**, SVP, FINANCIAL LINES AND HEALTHCARE — CNA
- **FRANCIS P. MCCONVILLE**, PARTNER — LABATON SUCHAROW LLP
- **ANTHONY TATULLI**, HEAD OF EXECUTIVE AND PROFESSIONAL LINES — NORTH AMERICA BERKSHIRE HATHAWAY SPECIALTY INSURANCE

The panel explored the current state of the Directors and Officers Liability (D&O) market — including litigation and regulatory trends and what to expect going forward, as well as insights on what insurance buyers can do to maximize their success during upcoming renewals.

D&O insurance reimburses the defense cost incurred by board members, managers, and employees in defending against claims made by shareholders and third parties for alleged wrongdoing. It also covers settlements, monetary damages, and awards resulting from those claims.

Beresheim asked the panel about litigation trends. McConville responded that recent volatility in regional banking will likely continue. The panelists discussed whether higher interest rates may drive more litigation. Commercial real estate exposure may also continue as a trend.

Regarding the banking crisis, Tatulli explained that stock drops "make you fertile for a securities transaction." Whether the bank failures will lead to a class action suit remains to be seen.

While McConville described bank failures as a possible "contagion," he believes those failures and D&O exposure will be contained.

Goldman explained that building long-term relationships is the best defense against sector-driven concerns, but in this environment of high interest rates, repricing debt will squeeze margins. He also has concerns about the availability of capital. This year, over 250 bankruptcies have occurred, the highest number since 2010, creating a risk of D&O exposure.

Tatulli explained that insolvency and financial distress will cause both public and private D&O claims. "On the private side, it's the largest loss driver." He foresees tightening credit in both regional banks and the Fed. Goldman described "the tentacles" of the banking crisis on both private and public companies and the dire potential consequences of more bankruptcies.

Tatulli described the fiduciary responsibility to both creditors and debtors: "If poor decisions are made, there will be litigation." Two areas of concern are insolvency and employment claims.

Beresheim asked the panel about portfolio balance. "If you could create a portfolio, what is the mix of private to public?" Goldman explained that his job is to serve as a portfolio manager. He advocated for a balanced, well-diversified portfolio with no concentration of any given class or sector, and balance between public and private. Tatulli agreed.

McConville explained that Cyber and catastrophic events will continue to happen, but that proving knowledge is key to D&O claims.

Tatulli pointed to derivatives and warned that "boards may be found innocent while management may be found liable, which impacts risk management."

Goldman summarized that having a trustworthy, experienced, reputable carrier and partner is vital. The panel agreed that while proving intentional bad behavior at the board level is difficult, organizations need to be mindful about making statements and promises regarding performance.

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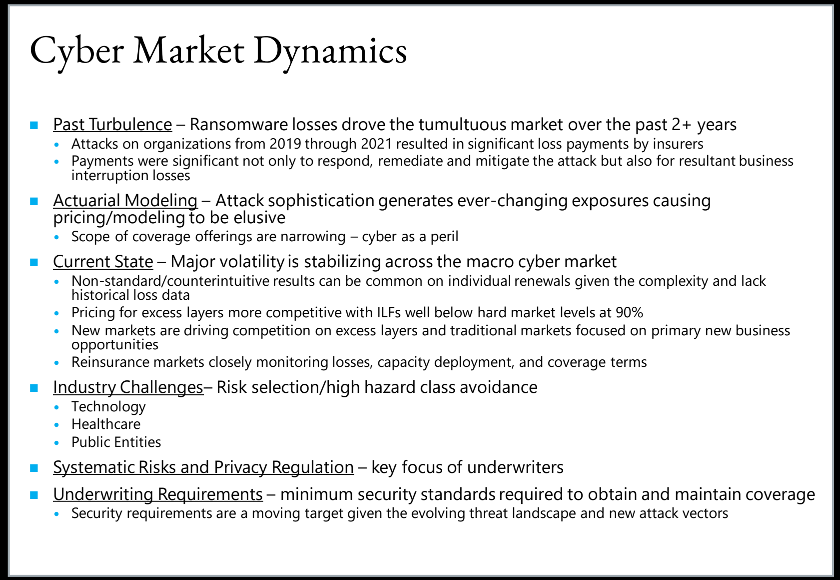
## What to Expect from the Cyber Market

**DEBORAH HIRSCHORN,**
MANAGING DIRECTOR, U.S. CYBER & TECHNOLOGY CLAIMS LEADER — LOCKTON COMPANIES

**TIMOTHY SMIT,** CIPP/C/E/US, CISSP, FIP,
GLOBAL PRIVACY & CYBER RISK CONSULTING PRACTICE LEADER — LOCKTON COMPANIES

The panel discussed the evolving Cyber market with regards to capacity, rate, direction of the underwriting process, controls, and capacity availability.

Hirschorn explained that markets are stabilizing and prices for Excess layers are more competitive, in part because companies have better controls and because the Ukraine war forced some bad actors underground.



Evolving technology has helped, but healthcare continues to be a big target because of its abundance of data. Manufacturing also continues to be perceived as an easy target, but Hirschorn explained that personal data is her primary focus: "Privacy keeps me up at night, not so much ransomware." The fines following breaches are often based on organizational behavior. Meta and LinkedIn, for example, have paid huge fines because of privacy issues. New local and national laws result in new protocols that are not yet clearly understood.

## Key Impacts

- Underwriting capacity
  - Insurers continue monitoring capacity deployment – aggregation events driving this focus
  - New market entrants enable new/additional market capacity
- Rate
  - Compounding rates and inflationary pressures are impacting the markets
  - Rate fluidity will continue throughout 2023
- Coverage
  - Insurers are scrutinizing privacy related coverage offerings
  - Sublimits on Dependent Business Interruption given aggregation concerns
  - War and infrastructure terms are under scrutiny
- Retentions
  - Levels are being adjusted to reflect severe cyber event losses

Smit advised that we consider the impacts. What will be your business backup plan for interruptions? "What does no business for 16 weeks cost?" And what's your financial impact if you can't deliver to your supporting organizations? BUSINESS INTERRUPTION CAN BE MUCH MORE COSTLY THAN RANSOMWARE.

Bad actors know that your weakest link are third parties. What can you control? What can your third parties control? Asking tough questions is the key to preparedness.

The current regulatory landscape includes huge fines, but final numbers are unclear because of appeals. The British Airways and Marriott cases from years ago still haven't been resolved. Fines may be in the multiple millions. Also worth noting is that China has its own privacy statutes. Every organization must understand what OFAC requires.

"If you've gone on any website and then ads related to your search appear, that's the result of meta pixels." It's the tracking your data for targeted advertising. Medical conditions are an especially sensitive issue and may be actionable depending on whether you consented.

## Regulatory Landscape

**International, federal, state and local regulators continue to expand privacy protections around the globe. Significant regulatory activity includes:**

- European Union's General Data Protection Regulation
- China's Personal Information Protection Law and Data Security Law
- U.S. Treasury's Office of Foreign Assets control's updated advisory on ransomware payments
- State legislation, including:
  - California Consumer Privacy Act and California Privacy Rights Act
  - Virginia Consumer Data Protection Act
  - Colorado Privacy Act
  - Utah Consumer Privacy Act

**Some laws have been around for some time but have recently seen an increase in litigation and/or enforcement activity. Examples include:**

- Health Information Portability and Accountability Act (HIPAA)
- Health Information Technology for Economic and Clinical Health Act (HITECH)
- Illinois Biometric Information Privacy Act (BIPA)
- Children's Online Privacy Protection Act (COPPA)
- Fair and Accurate Credit Transactions Act
- Regulation S-P
- Video Privacy Protection Act (VPPA)
- Federal and state wiretap laws

Hirschorn explained that the actionability of meta pixels emerged from last year's Supreme Court ruling on abortion, which created concerns about the legal ramifications of searching for abortion data online. More lawsuits are settling and being dismissed because consumers have the ability to control cookies that share data. Courts have ruled that because consumers can turn off/choose sharing, companies aren't liable.

Ransomware claims are on the rise again. Ransomware organizations are on the move, trying to stay off the OFAC list, or they won't get paid. The emergence of small new subgroups makes it difficult to know who the current threats are.

If your organization suffers a Cyber incident:

- IDENTIFY abnormal activity
- CONTAIN abnormal activity
- RESPOND appropriately and quickly

Smit advised that virtually every organization has been compromised. According to Smit, if we think our organization hasn't been hit, we're just not aware that is has.

Bad actors exploit vulnerability by blocking response efforts. Smit suggested that every organization needs to ask questions about its data: What information is regulatory? What are the classifications? Where does that data go? What external organizations have access to our data? How do you contractually indemnify your organization and third parties?

Smit cited 23 recent Cyber claims where organizations were compromised because they had no data map. Having a data map is critical to protecting your organization.

Smit then explained the importance of having a Breach Coach (external law firm on your insurance). The first phone call after an incident should not be to a third-party advisor. The first call after an incident should be to your Breach Coach/Counsel. The Breach Coach then contacts forensics and authorities.

## Security Controls

- Enable multifactor authentication
- Establish principle of least privilege
- Utilize scanning and filtering solutions
- Use antivirus software
- Ensure firewall protections are in place
- Implement endpoint detection and response (EDR) tools
- Educate employees not to click on links and open attachments
- Create an information governance plan and build a culture that supports the plan
- Implement security monitoring solutions, such as security incident event management system and security operations center
- Keep current backups off site, encrypted and regularly tested
- Update hardware and software regularly, including implementing critical patches within two days
- Segment the network
- Create and test incident response and business continuity plans
- Audit third-party vendors' cybersecurity practices
- Conduct periodic testing of workforces' susceptibility to phishing attempts
- Establish and promote good cyber hygiene

Hirschorn described the Breach Coach as the quarterback of your response team. She also recommended that all stakeholders should have hard copies for response information. Do not put info on a computer.

Smit built on Hirschorn's quarterback analogy with 911. A Breach Coach is the emergency response contact that will contact all necessary players.

Smit believes tabletop exercises are useful to prepare for the day that a breach happens. Such exercises can help identify areas of weakness and vulnerability but must be updated regularly. HR, PR, and Marketing also need to be involved because Cyber threat is a far larger issue than just IT. Hirschorn advocated that a forensic accountant should be part of your First Response Team, as well as a financial decision-maker.

Consider the business risks. For example, Target is made up of 13 different departments. What are the risks to each? And what is the root cause of the risk? Often, it's human error. Also consider your third party risks. Organizations and vendors need to make sure their data is mutually protected. Ensure that the data you are focused on is within the scope of protection.

Hirschorn warned of allowing IT to take over Cyber issues. "Just as you shouldn't let people grade their own homework, it's probably not wise to let IT make all the decisions about cybersecurity."

Hirschorn described the concern with AI in that organizations are collecting, sorting, and storing data that you may not have given consent for. Think of using AI as giving your information to a third-party vendor. Do you trust how it's being used? "Just something to think about."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## Luncheon Panel: Risk Manager's Panel Discussion

**MELISSA KLAUS,** SVP, MANAGING DIRECTOR — RISK MANAGEMENT, COMPLEX PROPERTY AND MARINE AT LOCKTON COMPANIES, FACILITATED THE DISCUSSION THAT INCLUDED:

- **DENISE JOHNSTON**, CIC, CRM, ABCP, RISK & INSURANCE MANAGER — HELENA AGRI ENTERPRISES
- **JEFF NOVORITA,** SENIOR LEADER, CASUALTY INSURANCE — CLEVELAND CLIFFS, INC.
- **JEANIE WESCOTT,** CPA, CPU, SENIOR DIRECTOR OF RISK MANAGEMENT — POST HOLDINGS, INC.
- **AMY TEMPLETON,** MBA, CPCU, CLCS, VP OF GLOBAL RISK MANAGEMENT & INSURANCE AT TRAVEL + LEISURE CO.

The Risk Manager's Panel Discussion offered an opportunity to understand issues on the forefront of managers' minds. The comprehensive risk management discussion included ideas for better renewals, strategic priorities, and building/managing relationships.

Klaus began the discussion by summarizing the recent "tough years for risk managers" and asked the panel about the pressures facing them. The four panelists described the need to be "a jack of all trades" by understanding engineering, law, business, and virtually every element of an organization.

Pressures regarding contract review, quick turnaround, due diligence, new construction, data management, and communication were discussed as well.

Johnston suggested that preplanning meetings and being aggressive with allocation processes are two ways to help risk managers. Templeton agreed and advised risk managers to “make sure you are connecting and establishing rapport” because trust is critical.

When asked about renewals, Wescott described Property as “a year-round issue because it’s our largest spend on insurance premiums.”

Novorita defined communication as the key element, especially post-acquisition, in consolidating many different players into one functioning unit. He advocated for explaining the why, the need for the data, and the claim process to all stakeholders to get everyone’s buy in.

Johnston explained that with specialty lines such as Aviation and Marine, as well as large Environmental exposure, it’s helpful “to have all risk owners in the room.” Being part of the discussion helps underwriters understand exposures. Preplan meetings should include risk managers.

When asked about Cyber, Templeton suggested connecting with experts in the business for their expertise.

Westcott warned that “benchmarking is okay, but needs to be handled carefully.” Consider industry norms and trends. Have C-suite weigh in and ask Cyber experts to “gut check” along with objective data. She also discussed allocation of premiums: “Once you get started, you don’t want to change your allocation methodology.”

Johnston explained Helena Agri Enterprises’ allocation allotment which changed to a risk-owner concept. “It took a lot of work to accomplish…but resulted in a trickle-down effect on management that created more ownership.”

Novorita described Cleveland Cliff’s approach where every 2 weeks, a team unit call with risk management takes place. Discussing accomplishments, next steps, and tools creates transparency in working toward the common goal.

Templeton explained that her “complete vulnerability” has helped. Being transparent about what issues are red, yellow, and green within the team on an ongoing basis helps everyone visualize threats and priorities. Wescott added that quarterly calls with safety and engineering are essential. “We no longer ignore Property recommendations…and we celebrate successes at the plant.”

Novorita believes that strong relationships with senior executives and underwriters are vital. “Personal meetings and conversations create trust…and the same with third-party administrators.”

Johnston explained the importance of having underwriters “out seeing actual buildings and property, as well as training materials” for all players to understand risk, risk transfer, and how it impacts everyone.

The panel agreed that contracts are a challenge, and that diversification and mitigation are emerging risks. Trust, but verify, and get experts to analyze and advise. The panel also agreed that networking is a useful tool. Novorita urged the audience to reach out to others for questions and advice. “I feel honored when people call me. Don’t be scared.”


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# Captives: Update and Current Trends in Utilization

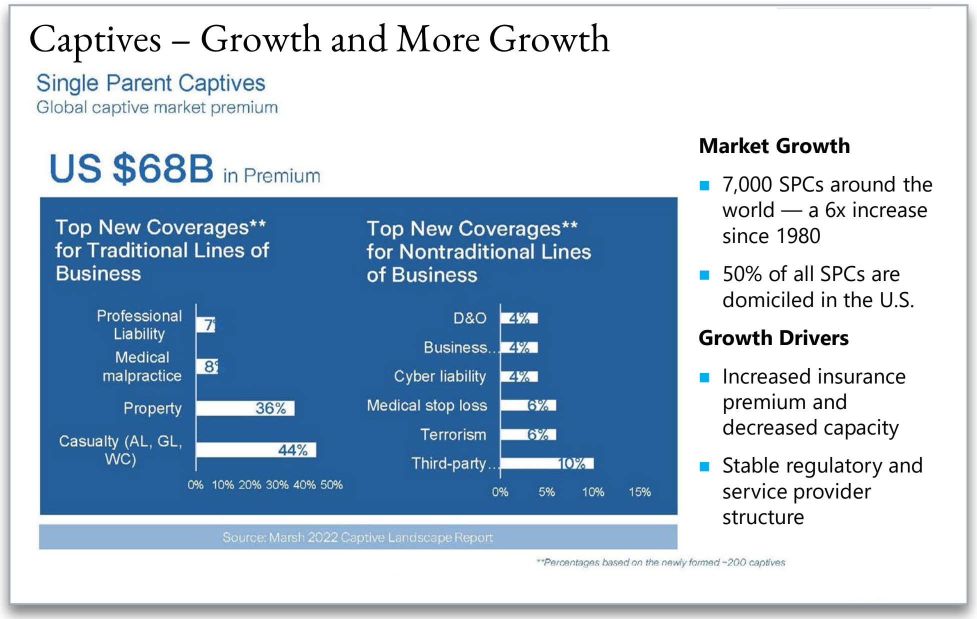
**LISA WALL,** CPA, CPCU, ARM, EVP RISK FINANCE PRACTICE LEADER, PRIVATE EQUITY AND CORPORATE ACQUISITIONS PRACTICE LEADER — LOCKTON COMPANIES, MODERATED A DISCUSSION WITH:

- **STEVEN BAUMAN,** GLOBAL PROGRAMS AND CAPTIVE REGIONAL DIRECTOR, AMERICAS — AXA XL
- **ADRIANA SCHERZINGER,** U.S. NATIONAL ACCOUNTS HEAD OF CAPTIVES AND ALTERNATIVE RISK SOLUTIONS — ZURICH NORTH AMERICA

Industry captive leaders addressed current trends in the insurance market and how insureds are utilizing captives to respond to market conditions.

Captive insurance represents an option for many organizations by underwriting their own insurance rather than paying premiums to third-party insurers. Captive coverage can be tailored to specific needs and is responsive to market conditions.

Wall explained that captive growth is everywhere, and that continued growth and adaptation require innovative thought leadership. Scherzinger agreed and described remarkable growth in the last few years in both single-parent captives and group captives. That growth extends beyond Casualty and Property, in captives such as employee benefits and third party. “It’s an exciting time…how important strategic role captives are playing and filling in gaps.”



Bauman explained that captives fall into two categories: single parent and group. While various names of both types have caused some confusion, growth has been tremendous in both. Bauman cited an exception in captive growth, which is executive aircraft because of volatility. He believes that captives are coming to D&O and "are taking over everywhere."

Thirty-five years ago, there were only eight domiciles. Today, over 70 captive domiciles exist around the world, though that number is "kind of squishy because domiciles report in different ways." Virtually every location shows growth except Bermuda and Cayman. Why? Because captives are now moving onshore to the U.S.

States now can be captive domiciles, and each state has its own nuances and regulations. When Hawaii became a domicile, it referenced Vermont's capital city because it simply copied Vermont's documents. The domicile situation is evolving quickly, and we no longer have to go to Bermuda or Cayman for this type of innovation.


Captives – Growth and More Growth

Captive formation activity in 2022

Domicile rank by number of captives

| Rank | Domicile | 2022 | 2021 |
|---|---|---|---|
| 1 | Bermuda | 660[1] | 670[1] |
| 2 | Cayman Islands | 650[2] | 661 |
| 3 | Vermont | 639 | 620 |
| 4 | Utah | 419 | 386[3] |
| 5 | Delaware | 330 | 313 |
| 6 | Barbados | 315 | 308[3] |
| 7 | North Carolina | 294 | 257 |
| 8 | Hawaii | 255 | 250[3] |
| 9 | South Carolina | 205 | 183 |
| 10 | Guernsey | 201 | 192 |
| 11 | Luxembourg | 195[2] | 192 |
| 12 | Arizona | 162 | 149 |
| 13 | Nevada | 155 | 161 |
| 14 | Tennessee | 150 | 148[3] |
| 15 | District of Columbia | 113 | 112 |
| 16 | Nevis | 102 | 122 |
| 17 | Montana | 101 | 102 |
| 18 | Isle of Man | 98 | 99 |
| 19 | Singapore | 82 | 84 |
| 20 | Texas | 73 | 54 |
| 21 | Turks & Caicos Islands | 71 | 71 |
| 22 | Labuan | 67 | 63 |
| 23 | Dublin | 66 | 68 |
| 24 | Anguilla | 62 | 78[3] |
| 25 | Connecticut | 57 | 44 |
| 26 | Georgia | 56 | 57 |
| 27 | Missouri | 54 | 52 |
| 28 | Alabama | 51 | 57 |
| 29 | Oklahoma | 47 | 45[3] |
| 30 | British Virgin Islands | 46 | 49 |
| 31 | New York | 38[2] | 40[2] |
| 32 | Kentucky | 32 | 34 |
| 33 | Sweden | 29[2] | 31 |
| 34 | Federated States of Micronesia | 25 | 23 |
| 35 | Switzerland | 24[2] | 25[2] |
| 35 | Michigan | 24 | 24 |
| 37 | St. Lucia | 20 | 23 |
| 37 | New Jersey | 20[1] | 20 |
| 39 | British Columbia | 18 | 19 |
| 39 | Puerto Rico | 18[1] | 18[1] |
| 41 | Arkansas | 15 | 14 |
| 42 | South Dakota | 14 | 16 |
| 42 | Bahamas | 14 | 14[3] |
| 44 | Malta | 11 | 10[3] |
| 45 | Gibraltar | 10 | 10 |
| 46 | New Zealand | 9[1] | 9[1] |
| 46 | Germany | 9 | 9 |
| 48 | Liechtenstein | 8 | 8 |
| 49 | Denmark | 7 | 8 |
| 49 | Egypt | 7[1] | 7[1] |
| 49 | Ohio | 7 | 6 |
| 52 | Colorado | 6 | 6 |
| 52 | Panama | 6[2] | 6[2] |
| 52 | Norway | 6 | 6 |
| 55 | Curaçao | 5 | 7 |
| 55 | Vanuatu | 5 | 5 |
| 57 | Hong Kong | 4 | 4 |
| 57 | Nebraska | 4 | 4 |
| 57 | Dubai | 4 | 4[3] |
| 60 | Maine | 3 | 3 |
| 60 | Guam | 3 | 3 |
| 62 | U.S. Virgin Islands | 2 | 3[3] |
| 62 | Illinois | 2 | 2 |
| 62 | Mauritius | 2 | 2 |
| 62 | Jersey | 2[1] | 2[1] |
| 66 | Kansas | 1 | 1 |
| 66 | West Virginia | 1 | 1 |
| | TOTAL | 6,191 | 6,074[3] |

[1] BI estimate [2] From website [3] Restated

Source: BI survey


Captives – Growth and More Growth

Domestic domicile rank by premium volume

| Rank | | Premium Vol | 2022 | 2021 |
|---|---|---|---|---|
| 1 | Vermont | $29,976,641,132 | 639 | 620 |
| 2 | Texas | $20,725,441,860 | 73 | 54 |
| 3 | Hawaii | $12,300,000,000 | 255 | 250 |
| 4 | Arizona | $9,000,000,000 | 162 | 149 |
| 5 | Delaware | $5,400,000,000 | 330 | 313 |
| 6 | Missouri | $3,200,000,000 | 54 | 52 |
| 7 | South Carolina | $3,000,000,000 | 205 | 183 |
| 8 | Georgia | $2,781,989,846 | 56 | 57 |
| 9 | Michigan | $2,400,000,000 | 24 | 24 |
| 10 | Utah | $2,141,990,076 | 419 | 386 |
| 11 | Tennessee | $2,127,612,870 | 150 | 148 |
| 12 | District of Columbia | $2,089,194,624 | 113 | 112 |
| 13 | Ohio | $1,930,000,000 | 7 | 6 |
| 14 | North Carolina | $1,300,000,000 | 294 | 257 |
| 15 | Connecticut | $703,459,847 | 57 | 44 |
| 16 | Nevada | $402,444,094 | 155 | 161 |
| 17 | Arkansas | $267,486,430 | 15 | 14 |
| 18 | Montana | $259,564,468 | 101 | 102 |
| 19 | Oklahoma | $214,464,076 | 47 | 45 |
| 20 | Nebraska | $186,767,699 | 4 | 4 |
| 21 | Alabama | $125,000,000 | 51 | 57 |
| 22 | Colorado | $96,011,108 | 6 | 6 |
| 23 | Kentucky | $65,000,000 | 32 | 34 |
| 24 | South Dakota | $29,663,636 | 14 | 16 |
| 25 | Illinois | $5,000,000 | 2 | 2 |
| 26 | Kansas | - | 1 | 1 |
| 27 | Maine | - | 3 | 3 |
| 28 | New York | - | 38 | 40 |

[1] BI estimate [2] From website [3] Restated

Source: BI survey

When Wall asked how a captive can support parent company ESG efforts, Bauman explained that over time, captives can fund greener build-back-better initiatives. "Captives are always for long term" in expansive initiatives like environment.

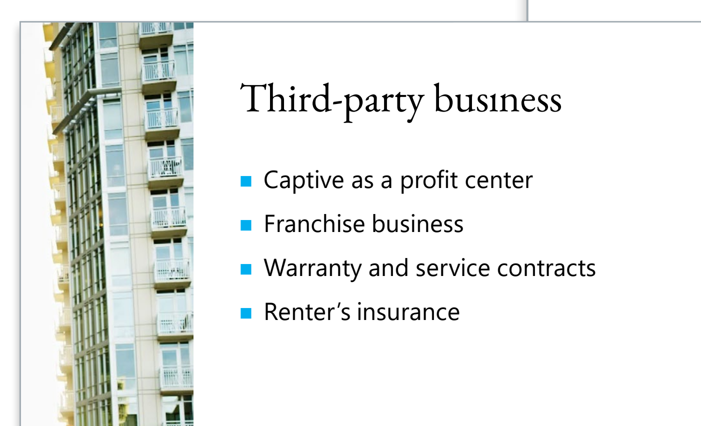
Scherzinger explained that captives may also address long-term ESG issues such as fertility treatment. Bauman added that other employee benefits such as pet insurance, though "not a huge money maker," allow employers to make their businesses more attractive in the current highly competitive workplace.

According to Scherzinger, captives allow for great global reach and stability, but necessitate a long-term relationship. Trust and open exchange of information are critical.

Bauman explained that being noncompliant is a big risk. Captives create a sharing of risk and can build a better relationship between clients and front-end carriers. In times of hard markets, partnerships are important. To exclude something on a policy is a failure. "Clients have more skin in the game when captives are involved." Wall explained how captives bring flexibility of measured risk that leverage capital and create a more effective program.

An emerging trend in captives is third-party business, which has existed for a long time, but is increasing. Captives can operate as a profit center to build funds, such as warranties. Franchise business is also increasing, as is renters' insurance.

Captive owners tend to think more creatively. With over $100 billion in premiums, captives are an alternative risk vehicle that has great potential to be married with other alternative ways to work with a commercial insurer.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# Workers' Compensation Panel Discussion

- **VINCE GAFFIGAN**, EVP, DIRECTOR, RISK CONSULTING — LOCKTON COMPANIES
- **JOHN BOETTCHER**, CPCU, AIC, AIM, CLAIM UNIT MANAGER — OLD REPUBLIC RISK MANAGEMENT
- **MARK WALLS**, VP, CLIENT ENGAGEMENT — SAFETY NATIONAL
- **JOE ZINGA** — SVP RISK MANAGEMENT — GALLAGHER BASSETT

Despite a stable pricing environment, macroeconomic forces are challenging the outlook for Workers' Compensation. Vince Gaffigan led a panel discussion of insurers and third-party administrators to examine these headwinds and highlight how clients can improve outcomes.

Gaffigan began the discussion by citing that 2022 was the ninth straight year of Workers' Compensation profitability. Medical inflation has stayed oddly below regular inflation, and premiums at the end of 2022 were up by about 11%. Given that, Gaffigan wondered whether we should be worried.

Walls, however, noted that NCCI data only reflects about one third of Workers' Compensation industry data, so the positive numbers are not an accurate reflection. And because NCCI only collects data for 10 years, "nasty claims continue to develop over time." There currently is no one place to go for accurate Workers' Compensation data.

New increases in large claims are happening in part because of the tremendous advances in healthcare. For example, medical helicopter transportation claims have increased. Newer technologies also allow patients such as young quadriplegics to live longer. Who pays in those situations?

Walls warned that as staffing costs increase, medical inflation will increase. Boettcher believes that we need to start thinking about medical inflation now. "Work on controlling costs now and focus on issues such as home healthcare. Don't ignore the question of severity."

Walls noted the spike in claims when organizations have big layoffs. "We should focus on the accident combined ratio, which reflects more accurate data than accounting."

Zinga described the need to look at adjuster workload versus caseload. How can we better monitor workload as the number of new files is increasing? The concept of a "weekly standard" needs more scrutiny because quality metrics are important. What used to be a benchmark no longer applies, and we need to innovate to help our frontline people make better, smarter decisions every day.

The issue of attracting and retaining talent is real, according to Zinga. The industry's worry of a retirement hill has actually been more a "retirement cliff." Cultural changes have also resulted in a fundamental difference between the adjusters of today versus those of the past. Cost and salaries have increased, but so have the skills required for the job. The old "shut up and do your job" paradigm doesn't exist anymore. Zinger described how in the past few years, 200 employees from his organization left to take higher paying jobs, but then came back. Workplace culture is important.

Boettcher agreed that the industry is competing for talent, and Walls described the added challenge of working from home, which makes creating and maintaining culture more difficult.

Gaffigan asked the panelists to what degree politics influences the Workers' Compensation landscape. Walls believes that the issue isn't a "red state versus blue state" situation. His concern is when one party takes over an entire state. That "legislative trifecta" can result in new laws that greatly increase Workers' Compensation costs. Colorado and Michigan, for example, have been a concern, but fiscal committees have the ability to kill bills that cost too much. Louisiana is a state to watch in the next election that may result in a legislative trifecta.

Boettcher has seen the opposite. Some states have initiated positive reform, but fiscal committees have killed those potentially helpful pieces of legislation.

Wall described that Washington state is also worth watching, because its new PTSD presumption bill applies to the private sector. He assumes similar legislation will be introduced around the country.

In terms of strengthening partnerships, Zinga advocated for better communication about goals. Collaborative dialogue is essential, but overly complicated communication can kill flexibility.

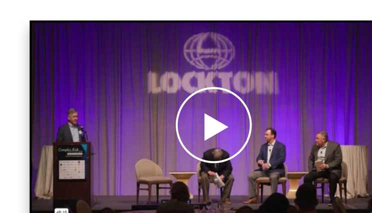
Boettcher agreed and described the need to better manage statutory requirements. Risk managers need to educate each other and celebrate success as a team. Responsiveness may have more to do with personal relationships. Walls explained that some adjuster turnover happens because of partnership or lack thereof. "The number one thing people want is respect." Zinga agreed that employees stay in jobs where they feel appreciated.

Gaffigan asked how well predictive models are working and Zinga explained that though models are working fairly well, they won't save us. Data helps in decision making, but the adjuster needs to have the autonomy to interpret and make informed decisions. The industry is still trying to understand the impact of AI.

Walls explained that models don't solve problems; "it's what we do with the model." Analytics allows people to focus on the things that matter instead of the minutia.

In the Q&A portion, Gaffigan discussed the complexity of medical claims. Zinga explained that industry perception and the way claimants are treated has also changed significantly. He described that 20 years ago, claimants were viewed as potentially trying to scam the system. "We now understand that most people really just want to get back to work."

The panelists also agreed that more states are recognizing mental health issues and trying to be proactive because those claims will continue to increase.

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## How Reinsurance Works and Impacts Retail Underwriting and Our Clients

**MIKE ANDLER,** EVP, GLOBAL PROPERTY PRACTICE LEADER — LOCKTON COMPANIES, MODERATED A DISCUSSION WITH:

- **RORY CLINE,** PRESIDENT — ASCOT RE U.S.
- **STEVE PENWRIGHT,** PROPERTY UNDERWRITING TECHNICAL DIRECTOR — ZURICH NORTH AMERICA
- **ADAM TROYER,** FCAS, CFA, ARE, SENIOR REINSURANCE ACTUARY — LOCKTON COMPANIES

This session discussed the present state of the market in the reinsurance sector, including alternative and retro capacity. How do treaty and facultative interact with the retail maker and how it influences deployment of retail capacity.

Panel Moderator Mike Andler described 22 straight quarters of rate increases, which is typically led by reinsurance. This cycle, however, has been led by retail.

Troyer explained that multiple hurricanes and fires since 2017 have resulted in $100 billion insured catastrophic losses in the last 3-5 years. Prices have increased by 50%. We are living in uncertain times. Cline explained the term retro, which is reinsurance on reinsurance, and described how climate change is forcing us to readjust pricing.

Cline explained the pro-risk market is currently “in disarray not because of pricing, but because of terms and conditions." He believes that there has been an overreaction in the industry but sees signs of calming. The reinsurance industry, though the smallest subset, “is the tail wagging the dog.”

Cline described the difference between treaty and facultative: Treaty insurance is purchased by an insurer from another company — “underwriter to underwriter, so one set of eyes.” Penwright explained that the treaty marketplace is trying to make up for a few years of relative inactivity, which is driving price corrections. Facultative is individual risk and has existed for 350 years. It’s highly customizable and cost effective and serves as a second set of eyes.



Troyer told the audience that the surplus of money that flowed through the market in 2012 doesn’t exist now because increased volatility means less returns. Penwright then explained that there hasn’t been great return on capital in the property space. Andler summarized that we now have three options: increase retentions, increase price, or modify terms and conditions.

Cline shared that in 2023 alone, we have seen $28-$31 billion in catastrophic losses in the U.S. This is 15% above the 10-year trend. And the year is only half over, with hurricane season approaching. “The volatility is scary.”

Penwright discussed both rate fatigue and option fatigue as real factors today. Cline predicted that in the not-too-distant future, we will see a $100 billion event, and we need to have capital ready. “The fear factor” of continued environmental catastrophes year to year prevent the industry from restocking capital.

Cline explained that modeling and valuations are helping, but Andler wondered if perhaps models can be improved. Penwright insists that we have to stay relevant. Does that mean increasing deductibles to 10%? This very challenging environment means reexamining all facets of the industry.

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# 5 Lessons from Chasing Failure

**RYAN LEAK**

Executive coach and motivational speaker Ryan Leak asked the audience to guess what percentage of their thoughts are negative.

According to the National Science Foundation, negative thoughts account for a full 80% of our thinking. Leak explained that negative thinking prevents many people from pursuing their passions. We have been taught to pursue success, but Leak believes failure is a much better teacher. As a result, he has spent most of his adult life happily attempting to fail and published his book, Chasing Failure, in 2021.

**#1:**
There's no version of our life that **isn't risky**.

**#2:**
Failure loses its punch **in community**.

Leak became a viral sensation with his 2013 surprise wedding. After overhearing his girlfriend, Amanda, say that getting engaged and married on the same day would be her dream come true, Leak spent the next 2 years planning the event.

On June 7, 2013, he proposed to Amanda. Moments after the proposal, an army of family and friends surprised her to help make the dream a reality. The two wed later that evening. From that experience, Leak learned that nothing is impossible if you decide that *it is* possible.

Leak believes negativity isn't a conscious choice: "You didn't plan to be negative today — but you can plan to be positive. His inspiring story garnered much media attention, including an appearance on The Queen Latifah Show, where Amanda then surprised Leak with a video of Kobe Bryant inviting him to meet the Lakers.

Leak, an amateur basketball player, decided that simply meeting his hero Bryant wasn't enough. He wanted to make the experience meaningful. Leak had been thinking about failure and its ability to inspire growth, leading him to a bold decision. When the two met, Leak told Bryant that he was making a documentary film called Chasing Failure. Leak had been thinking about it, but in reality, there was no documentary actually being made.

**#3:**
Failure loses its grip when you **keep moving forward**.

**#4:**
Your only failing if you're **failing to learn**.

And so began Leak's journey into chasing basketball failure. He was invited to try out for the Phoenix Suns, and of course, did not make the team. But the experience changed Leak's perception of failure: "What was almost the most embarrassing moment in my life turned into one of the greatest moments I've ever had." And he realized something transformative about fear: He was no longer afraid of failure.

Leak has spent his professional career coaching and training professionals in how to chase failure. As he puts it, "Chasing failure took me further than chasing success ever did."

> **#5:**
> Chasing failure **can take you further** than chasing success ever could.

Leak shared some interesting facts about fear. "We are really only born with two fears: loud noises and falling. Over the course of our lives, we learn to fear. And those learned fears can be unlearned."

HOW DO WE MANAGE FEAR AND BE SUCCESSFUL AT FAILURE? LEAK SUGGESTED THE FOLLOWING:

- Include others in our quests to fail. Circle the wagons of your closest allies as you attempt to fail at something new. Why? "Failure loses its punch in community."
- Take a chance on people. Leak listed all the individuals who helped him get where he is today and marveled at how each one gave him a chance in some way. "You can't be a failure-friendly person unless you are friendly first." Is there someone in your life you might take a chance on?
- Keep moving forward. It's the only way failure loses its power. "Don't wait until Monday to start something." Leak shared his favorite quote by author Glennon Doyle: "If you can't beat the fear, do it scared."

According to Leak, failing may enhance your life in ways you could never imagine. Leak ended his presentation with a powerful question:

*"What would you do if you couldn't fail?"*


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# About the Host


Ryan is widely recognized in the risk management community as both a business professional and problem solver.

Having been a risk manager, Ryan retains the client perspective. He has developed a strong foundation in corporate finance and operations and uses this to better understand and advance his clients objectives.

Ryan models the concept of “servant leadership,” with a strong focus on meeting the needs of his clients, community, and team. He remains curious, solution-oriented, and takes a hands-on approach to client engagement.

Since 2012, Ryan has created and hosted the Complex Risk Symposium, an industry event tailored for risk management decision-makers. The symposium focuses on topics, trends, and issues that pertain specifically to risk management professionals, as well as personal and professional development. The CRS addresses topics key stakeholders face daily through workshops and discussions led by industry experts and inspirational speakers. The symposium attracts Fortune 500 risk management professionals, as well as top insurance executives.

# About Lockton

$3.1B
2023 GLOBAL REVENUE

10,750+
ASSOCIATES WORLDWIDE

65,000+
CLIENTS WORLDWIDE

135+
OFFICES WORLDWIDE

97%
CLIENT RETENTION

16%
ORGANIC
GLOBAL GROWTH

15
CONSECUTIVE YEARS AS
BEST PLACES TO WORK

What makes Lockton stand apart is also what makes us better: independence. Unconstrained by the rigidness commonly associated with our industry, we challenge the norms of what a brokerage can be. We are Uncommonly Independent.

How does independence make Lockton different? In short:

- Our clients come first.
- Our Associates feel like part of the family.
- Our leadership continues to stand the test of time.

As the world's largest privately held, independent insurance broker, Lockton Companies serves more than 65,000 clients across six continents with risk management, insurance, employee benefits consulting, and retirement services. Lockton's 10,750+ Associates are committed to helping clients achieve the goals that make their businesses safer, smarter, and more profitable.


Despite our size, an exceptional level of service remains Lockton's crowning achievement. We embrace our clients' challenges as our own and protect their interests at every turn.

That dedication helps us retain 97% of our clients annually, the best record in the business. Your company is one of a kind; don't settle for off-the-shelf solutions.



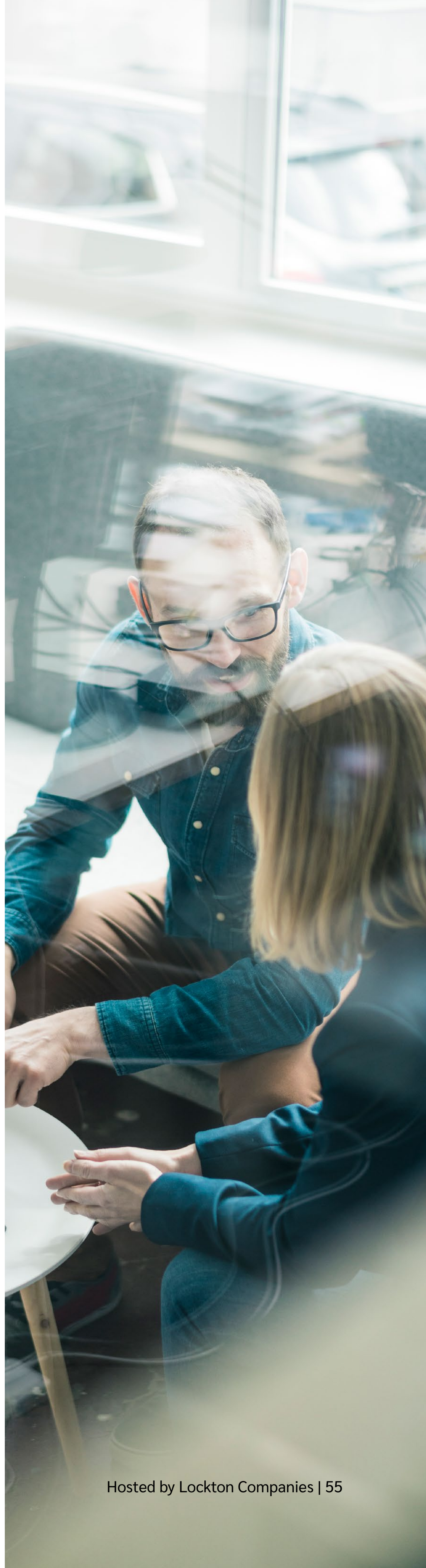
# Strategic Risk Consulting

Our clients count on us to deliver exceptional results that drive success today and into the future. Strategic risk consulting fosters a deep understanding of your business and industry. We look at your business goals and then connect those goals with a clear set of risk management and employee benefits strategies.

We know that business is evolving at an accelerated pace. Given this, the ongoing assessment of insurance, risk finance, and risk management strategies is a business imperative that delivers results for your business. As a strategic advisor, Lockton develops risk management strategies that will help you achieve your larger business goals and objectives.

## CONNECTING YOUR BUSINESS OBJECTIVES AND GOALS WITH RISK MANAGEMENT STRATEGIES

Our strategic risk consulting approach creates strong alignment between your business strategy and your risk management strategies. The result is a multiyear strategic plan focused on delivering results, with key metrics that drive results that are most important to you. We develop the plan using a robust set of business intelligence tools and analytics.



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