STATE OF INSURANCE

A Roundtable Discussion

MARTIN LEVY, CLU/RHU
Founder
Corporate Strategies, Inc. (CorpStrat)

TOM POLENZANI
California Market Director of Sales
Bolton

DAVID POMS
President
Poms & Associates

DANONE SIMPSON, MBA, GBDS
Founder & CEO
Montage Insurance Solutions

With the unique and uncharted scenarios that we faced over the last few years, business owners, C-suite professionals and investors have realized – perhaps more than ever before – the importance of having the right insurance policies, and the right trusted advisors to help manage them, as they navigate the various forms of insurance they need. Be it healthcare coverage for employees, workers comp policies, or the various business insurance coverages, each business has different needs and they are not simple. In this special section, we turn to the expertise of some of the top business insurance thought leaders in the region to gain insight and perspective on the state of insurance today and what businesses need to know.

Here are a series of questions the Business Journal posed to these experts and the unique responses they provided – offering a glimpse into the state of insurance in 2023 – from the perspectives of those in the trenches of our region today.

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What are the most significant new insurance trends taking effect that could be impactful to businesses?

SIMPSON: Insurance has been impacted in many ways from corporate property & casualty to professional lines (D&O, ELPI, Cyber, E&O) and all lines of employee benefits. New technologies have put great demand on insurance carriers and brokerage firms. While the carriers have a low barrier to entry, the major carriers continue to remain extremely competitive, keeping out the new entrants. In property & casualty, underwriters balance what should be a hardening market, with competitive pricing for retention and growth. Due to global warming, climate change has caused a multitude of disasters, hurricanes, snowpocalypse, and tornadoes in the past ten years, triggering claims escalation from the damage and furthermore producing the aftermath of fire and flooding claims in personal lines and commercial in the billions of dollars. The health of people in the US was greatly impacted by COVID putting pressure on the healthcare industry. The economic toll in the US will reach $14 trillion by the end of 2023. These unpredictable costs impact insurance premiums.

POLENZANI: California businesses looking to reduce benefits costs can explore self-funding or alternative funding options. These options provide businesses more control over costs but also come with associated risks. A broker can help businesses assess their needs to find the best solution for their budget and risk tolerance. We have deep knowledge of the insurance landscape and have increased our expertise in self-funding and alternative funding since joining with IMA. This expansion gives us access to a broader network of resources and expertise, allowing us to help businesses find the best solution for their needs.

What are the most frequent mistakes made by employers when it comes to creating employee insurance benefits packages?

LEVY: Fragmented offerings and poorly communicated programs. Every firm today has to compete for talent and even small firms (under 100 lives) should be able to package their offerings in such a way that they can compete against monoliths and benefit-rich offerings. The key is to package their offerings with all sorts of ancillary programs, and also to make sure they're using digital tools to allow people to use not only their benefits, but things like check PTO and enroll / engage in their company benefits online.

What drives the cost of business insurance coverage?

POMS: After consecutive above-average natural catastrophe years in 2020, 2021, and 2022, reduced reinsurance capacity is leaving some carriers with a narrower field of available options beyond premium increases to offset rising costs. However, reinsurance/capacity is just one factor feeding into the prevailing view that we are in a prolonged "hard market." The reasons for how we've arrived at this moment are complex, but here are just a few: multi-decade high inflation, rising loss costs, economic downturn-reduced returns on carrier investment portfolios, capital impairments, higher cost of risk transfer rapidly shifting cyber risk landscape, and catastrophic losses of more than $600 billion since 2017.

What are some of the unique or progressive employee health benefits you see on the horizon?

LEVY: When it comes to what's unique in employee benefits for 2023, several considerations come to mind. Firstly, ask yourself if your benefit programs stand out as being potentially very advantageous to your employees and prospective employees? Do they sizzle? Do they include wellness and mental health considerations? Better help? Pet insurance? These are the items employees are seeking. Anthem's new offering, "Vitality" may allow employer populations with HMO employees to reduce their expense buys by as much as 20%. That's a lot! Another is a niche program which may allow employers to offer as much as $2 million of personal life insurance to their employees – without any underwriting. Think how many different ways we can use this: professional firms providing protection to fund succession plans, buy/sell agreements, or just as a unique perk.

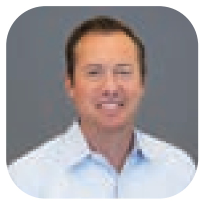
Are there discounts on health insurance for businesses based in the number of employees on the plan?

SIMPSON: Depending on the demographics of your business location, your employees' zip codes, age, sex, etc., the policies are underwritten using actuarial factors. The underwriters can predict costs using these methods. The location of the business and its employees plays a major factor in cost of insurance due to the contracts with providers (doctors, hospitals, clinics) in the area. The size of your group is very important in terms of cost. In California, a small group now is considered from 2-100 people and a large group is over 100 and priced very differently. When a group reaches over 300, self-insurance becomes important to review for cost and wellness initiatives directly resulting from claims data that fully insured plans are unable to share partially due to large HMO networks. Level funding plans are partially self-insured plans that many of our clients are on. MERP, HRA and HSA plans offer tremendous savings and bring forth the need to partner with brokers who are prepared to fully educate employees on how to use these unique offerings.

How does the employee health insurance landscape differ in California compared to other states, or is there a difference?

POLENZANI: In California, the majority of groups with 200 to 1,000 employees remain on fully insured medical plans. This is in stark contrast to other states, where groups of this size are more often on self-insured programs. The primary reason for this is that HMOs and Kaiser Permanente are the most common types of employee health insurance in California. Factors that have contributed to this HMO/Kaiser trend include generally competitive rates, simplicity of use, and the fact that many employers are both change- and risk-averse. While this approach may make sense for some employers, there are many who could experience significant financial savings and improved benefits programs if they were willing to explore different options.

SIMPSON: We have been handling employee benefits throughout the US for many years. In California, we brokers can offer services that are not allowed in almost every other state. We offer a customized service program that saves costs



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-TOM POLENZANI

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for employers in other ways than just premiums. Carriers in Southern California have secured the HMO networks like no other state, offering employers lower premium costs. These networks allow carriers to pay capitation to Independent Physician Associations and stop loss for larger claims and amounts over aggregate costs. This allows them to put downward pressure to keep the cost down with contracts that may last five years. In other states, there are fewer HMO networks and most networks are Preferred Provider Organizations. These types of medical plan coverages are provided through a network of doctors who get paid a fee for service. The member may also seek treatment outside of the network at a greater cost share. Pricing differs by zip code and other actuarial factors throughout the US.

How should companies navigate enrollment for out of state employees on health plans?

LEVY: Companies need to recognize that healthcare plans may be state-specific and must design their plans that provide national access to healthcare. This is harder than many companies think. They also need to work closely with their HR and payroll teams to assure they are complying with wage and hour laws, minimum wage (many times by county) and disability or sick leave laws, which vary from state to state.

SIMPSON: In 2020, the world was forced to use technologies that were in deep development and emerging for all employers of various sizes. The larger employers have been using HRIS systems offered by their payroll vendors or independents for years now. Today, most mid-sized to smaller employers have found it impossible to handle benefits without. These benefit enrollment systems have created expansive ways to reach out of state workers, giving them the same experience as the corporate enrollments, along with video conferencing. Zoom exploded in 2020, and many others expanded into the workforce as a way of communicating benefits. Such platforms are here to stay. No matter where your employees live, they can hear the presentations from their brokers, carrier representatives and HR teams, giving them the education needed to make better choices. They can then use the link sent by HR and enroll online.

What kinds of insurance are often overlooked but are needed by businesses?

POLENZANI: I have often witnessed the swift growth and transformation of businesses. What may have initially appeared as an unnecessary expense for insurance in a company's early stages can swiftly become indispensable as it expands and faces greater risks. Insurance plans that are often overlooked as companies grow include:
• *Employment Practice Liability:* This coverage safeguards against lawsuits brought by employees for issues like discrimination, harassment, or wrongful termination.
Directors and Officers Liability: It protects company leaders from personal liability associated with business financial losses.
• *Cyber Liability:* This provides a safety net against the fallout of a data breach, encompassing lost revenue, customer litigation, and regulatory penalties.
• *Umbrella Liability:* This insurance extends coverage for liability claims that surpass the limits of your other policies.
To navigate this landscape effectively, collaborating with an experienced insurance broker is paramount. We tailor solutions precisely to your business needs.

SIMPSON: Errors & Omissions covers risk for many industries in technologies, manufacturing, consulting, financial, doctors, lawyers, insurance agents, wedding planners, etc. It covers the business if they make an error or omit protecting against claims of inadequate work or negligent actions. Directors & Officers' insurance is a very important insurance to protect the assets of the director of officer if they are sued by the organization's employees, vendors, clients, customers, and other parties. Cyber Liability insurance is a must if you have any client data from PHI, credit card information or have any risk of your data being compromised or stolen. This is almost every organization or business that can be at risk of cybercrimes that are rampant today. Schools may want to consider the Active Shooters liability policy. Some restaurants are looking into mass shooting insurance coverage. And any gun-bearing citizen living in San Jose is required to have carrier liability insurance. EPLI offers coverages to employers against claims made by their employees or third parties alleging discrimination based on sex, race, disability or religion, wrongful termination, breech of employment contract, failure to promote or employee, along with other similar claims.

What are the challenges facing business owners regarding employee benefits during this current Open Enrollment period?

LEVY: Employers have had to 'ratchet up' their employee benefits to compete for talent over the past several years. Increases for healthcare plans have been moderately nominal as well.

With the post-COVID return to work (the new normal), there has been an increase in consumption and utilization of healthcare, so we are seeing significant premium increases affecting employers this year for the first time in many years. Companies need to perform a top-down review of their offerings and make sure they are benchmarking their benefits against their competitors, and utilizing every possible way to reduce their expense yet maintain healthy benefits portfolios to compete for talent. There continues to be 'diamonds in the rough' for companies to exploit as they design their offerings. Clients who have sharp insurance brokers will continue to exploit efficiencies in the market.

What are the latest trends in workers' compensation insurance?

POLENZANI: From a rating standpoint, the rates have remained relatively flat over the past 5+ years. This is good news, given that many other lines of insurance have seen significant increases. However, we do expect this to change as both medical costs continue to grow, and hourly wages and salaries increase, all of which have impact on workers' compensation claims costs. The safest companies with the best loss prevention programs will consistently experience the benefits and pay less than their competitors. This will become even more crucial when rates begin to increase, as underwriters become more selective in who they choose to insure.

What's the biggest cause of concern for employers that is seldom recognized?

LEVY: Most companies have some type of disability program, perhaps blanket GROUP LTD, that covers all their employees, but seldom do they recognize the income concerns of their VIPs (higher wage earners). Employers need to be cognizant of the fact that their disability products are skewed towards the masses – what we call 'reverse discrimination.' Employers who have VIPs and highly compensated individuals can buy discriminatory, guaranteed supplemental disability coverage, that will then adequately protect the employees in the event they have a desire to extend wages to a disabled owner or shareholder.

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How are unpredictable incidents and natural disasters affecting the insurance landscape?

SIMPSON: The recent fire in Hawaii is estimated to cost $5.52 billion to rebuild from the Maui fires. 86% are residential, 9% classified as commercial according to some estimates. The fire in Paradise, Butte County, California, caused by a campfire, cost $16.65 billion in 2018, naming it as one of the costliest worldwide, along with the Dixie Fire in 2021 and the list goes on. In 2021 alone, wildfires, drought, and heatwaves accounted for $20.36 billion in economic losses and $8.69 billion in insurance losses. COVID put great pressure on the healthcare industry with hospitals suffering major losses with surgeries put off and COVID needs wreaking havoc on the medical workers' lives and healthcare costs. These are only some of the factors that are making their way to employers' increased premiums. The cost of coverage in many areas is increasing and competition is critical in maintaining cost. Predicting renewals is an important factor for CFOs to work with their brokers on – to be realistic and plan accordingly, depending on the claims in every line of insurance, from workers compensation and benefits to EPLI claims that are rising.

When is it a good idea for a business to purchase umbrella coverage?

POLENZANI: Anytime. Meaning that we always recommend businesses to carry this coverage. Now, if it is a relatively low-risk business with a couple employees and minimal assets, the need might not be as high. However, if your business has customers on your premises, manufacturing, or distribution of products, or have company vehicles, your exposure to third-party liability increases significantly. With this, the coverage limit on your general liability policy or automobile policy of $1,000,000 may not be sufficient to fully protect you and your company from a serious bodily injury claim by a third party. The cost of an umbrella policy which provides you additional limits comes at a fraction of the cost of the premiums of the underlying general liability and/or automobile policies. It can certainly help you sleep better at night, especially in a world where million-dollar-plus judgements are becoming more the norm.

What can employers do to remain current on the ever-evolving insurance landscape and trends?

POMS: A critical element of successfully navigating this unprecedented hard market for business owners, CEOs, or financial officers is to have realistic expectations. Namely, expect the price you pay for insurance to go up, expect more exhaustive underwriting and fewer options when purchasing new insurance or renewing existing policies, and lastly, expect support from your broker. To deal with these increases, higher resolve in other risk management elements such as risk control, risk mitigation, and risk transfer may be required. This could include transferring risk to vendors, retaining more risk through higher deductibles and co-insurance, and strong risk reduction practices such as training, and site inspections. Another avenue may be to consider alternative risk financing options such as captive insurance, or other partial self-funding vehicles like group captives or risk retention groups.

What factors are on the rise that might change the landscape for healthcare and insurance?

LEVY: Not a lot! The House has a passed a set of proposed changes to the Affordable Care Act (ACA), which could allow for associations to bypass some of the regulations that have been mandated by the ACA. Primary care is being disrupted by Amazon and some pharmacies. Prescription drugs are in-flux as multiple distribution channels try and disrupt PBMs. In addition, we are seeing many healthcare insurers design efficient sub-networks which include providers like UCLA and Cedars, helping to potentially save employers and employees thousands of dollars.

What should a business look for in a broker?

SIMPSON: When selecting your broker, it is important to partner with a firm that specializes in the lines of coverage you have. There are 29.8% of brokerages that handle commercial property and casualty, 27.1% that handle personal lines, 13.7% health and medical, and 9.4% life and accident. Many brokerage firms have been acquired in recent years, causing great debt due to acquisitions. Creating systems, policies and procedures are challenging, with brokerage firms changing the way they administrate and service clients. Many brokerage firms have been acquired by clusters owned by banks. Growth without sacrificing profitability can be challenging.