SUNZ Insurance Company - Former Chief Underwriting Officer at Vensure Employer Services

Interview conducted on February 22, 2023

Topics
Commercial Insurance, Distribution Landscape, Underwriting, Niche Specialization, Workers' Compensation, Automation, Data Management

Summary
A Tegus Client speaks with a former Chief Underwriting Officer at Vensure Employer Services about the distribution landscape in commercial insurance, with a focus on small and micro businesses. The expert compares traditional and nontraditional distribution methods, recommending that smaller insurance companies work with smaller independent agents. They also discuss carriers going directly to clients, citing workers' compensation as an example. The expert explains how carriers compete on work comp, emphasizing the importance of trust between the carrier, agent, and client in the underwriting process. They also discuss the challenges of underwriting, including the difficulties of canceling policies in workers' comp and the importance of loss ratio. The expert emphasizes the need for accurate data and customer service, and suggests a linked sales system that includes underwriting information and a third-party underwriting rating system in a giant database.

Expert Details
Retired. Former Chief Underwriting Officer at Vensure Employer Services, leaving November, 2022. Expert had worked in insurance for many years before recently retiring. Expert can talk into extensive underwriting experience, small business insurance market knowledge, and other aspects of the business.

Recently Retired.

Former Chief Underwriting Officer at Vensure Employer Services, leaving November, 2022. Vensure is one of the professional employment services (PEOs) that the expert worked with while at SUNZ.

Former Senior Vice President of Underwriting at SUNZ Insurance Company, leaving 2018. The expert is responsible for workers' compensation for professional employment organizations.

Q: Are you responsible for distributing small business insurance products? (ie., acquiring brokerages, wholesalers and
other partners that will distribute your product OR through your company's own digital distribution of these products, including carrier portals and rating/quoting APIs)
A: Yes

Q: Are you responsible for the underwriting of small business insurance products? Please briefly specify.
A: Yes, definitely.

Q: Are you responsible for the technology solutions and vendors that
support the business, including but not specific to launching rating/quoting APIs at the company?
A: Sometimes, I was involved in getting AI platforms at Vensure. In regards to technology, I had conversations, but never the final decisionmaker. We spoke with vendors all the time.

Q: What lines of coverage does your company write (e.g. General Liability, rs Comp, etc.)?

A: Every line except for financial (comp, property, GL, auto, etc.)

Tegus Client

Hello. Thank you for taking the time to speak with me today about the distribution landscape in commercial insurance, specifically in small business and micro business. To start off, can you compare and contrast traditional distribution versus nontraditional distribution?

Former Chief Underwriting Officer at Vensure Employer Services

Sure. There are a lot of insurance companies out there, as I'm sure you know, and there are national insurance companies that you've heard of like the Liberty, the AIGs, Zurichs, the Chubbs are the biggest ones. They have regional offices pretty much in every large city, none of them are direct since they all use agents or brokers.

Now the brokers vary from large and the small, some locals also. The largest are the Marshes, the Aons, and the Willises, even though they like really big accounts, obviously, because they're big companies. Marsh has a big area of Marsh Agency, which is focused on just smaller local type of business, and they've been really active lately in buying a lot of regional, small brokers or agents. The big ones generally will have exclusive deals with certain agents in the area so basically, it's all distributed via agents. In most cases, whole box and all multiline products were all distributed by agents.

The agents can be exclusive and generally are for the big ones, but a lot of the smaller agencies will do business with those big companies as well as small companies. So basically, from the broker side or the agent side, if you're a client and you're looking for coverage, you can call up your local national company, which are the three I mentioned. There are also a bunch of larger distributors called super regional distributors and those are like the Gallaghers, the Locktons, and the Brown & Browns, still very big national agencies, but one step down.

Personally, with the dealings I've done with small business at all, the big guys would disagree, I would say the smaller insurance companies are better off working with the smaller independent agents rather than the big national agents only because $3,000, $4,000 accounts is nothing for them while to a small local independent agent, it's a big deal, and they're really very active in their communities. So that would be what I would recommend those small agents.

The smaller agents generally have a mix of commercial as well as ground focus specifically on commercial. The big agencies basically focus on just commercial. So, a local person who owns a small construction company will generally call up an agent that either is related to them, it happens a lot, or knows somebody who knows an agent who will follow up with local agents and say, “This is what I'm looking for, can you give me this kind of insurance?”

Then those independent agents, which, by the way, there are a lot of activity of buying small agencies from the big guys, they're really gobbling up the smaller little independent agencies, but there are still a lot of them around. Those agents will then have their relationships with they have larger or multiple commercial carriers, and they will go to those commercial carriers with relationships that they have from either big carriers or small regional carriers also with specialty, regional carriers.

As an example, we'll go out to an agricultural area where there's plenty of medium-sized carriers that focus on the unique needs of agricultural buyers and there are special needs and special coverages that they need. If you go to someone that's focused specifically on that, you can get better and better deals because they have better relations with those types of carriers that want to do it.

A big example, which has actually blossomed in the last five years, is cannabis, which really didn't exist legally five or seven years ago and now there are a lot of relatively small agencies that will do cannabis, and that's from the agricultural standpoint, the retail standpoint, distribution standpoint, and they're looking for carriers that will place this business for the agents.

Generally speaking, since it is a unique new specialty, mostly our specialty insurance carriers will do that.

Most of the big insurance carriers will do with that stuff too and there's also federal versus state regulations they get involved in, but there are the unique type of agencies and carriers that will do that. So, it's a small business type of thing, normally, and then also a lot of the agencies make a big deal about being very active in their communities.

So they're out there on the Little League games and sponsoring this and sponsoring that and they're really more community-oriented and really are a big deal in their smaller communities rather than a Marsh that has a presence, but does not have the focus that the smaller ones have.

Tegus Client
That's super helpful. Where do you see distribution going? Obviously, it's a very fragmented market and the distribution is expensive. Do you see small commercial, micro commercial going direct to the mom-and-pop stores?

Former Chief Underwriting Officer at Vensure Employer Services
Yes. Recently, probably in the last five years, there have been some carriers, new carriers, start-ups, IPO type carrier or IPO-independent, privately owned carriers that are going directly to the client. I'll give you the biggest example, workers' compensation and I've underwritten most lines of commercial business.

Workers’ compensation is pretty much the most vanilla, commercial insurance you can get because it’s all based on data, which insurance totally is, and there’s more workers’ comp data out there than any other data of any insurance type. This is all public data because there are bureaus that accumulate this and share this information.

So there are companies like Pie Insurance and then a Berkeley company that I just saw that is doing it direct and they are advertising, I’ve seen them on TV, and on radio. They’re advertising “Hey, if you want to come directly to me, put some information in our online system and we’ll give you a quote.” The idea there is that they could be cheaper because you’re cutting out the agency person. The agencies for comp generally get like 5% to 10% of the premium on commission and they can get 15% or more on other lines of businesses.

So theoretically, if you go directly to Pie or Berkeley and there are a few other carriers out there, they will get you a quote directly and since comp is more machine underwritten than a lot of other lines of business, you basically put in the standard codes, which are standard national type of code for business, your payroll and the SIC code or the type of business you’re writing, and they will instantaneously give you a provisional quote.

You're going to look at the pricing and a lot of personal lines were doing this also, and you say, “Okay, this is it.” They tell you $12,000 and you agree on that, press the button and you have your policy. So that's really a big change in comp, it really hasn't gone that far any other lines of business.

The other lines of business are much more analytically driven. So, you really just can't type in a few things and get a number but comp is very vanilla. Each company has their own exposure mod in comp, which is basically the loss history they've had over five years.

So, if I am a company, and I've had a lot of losses, I will have a promulgated through the state or independent agency a mod and that mod will say 120%. What that means is the filed rates, they take that filed rate multiplied by 120, depending on what state you're in, there's a little variability that you could do and that's your price. So, they know what your business historically has done loss-wise, and that's why they can underwrite it that way.

There are also, and we were actually trying to deal with one, some tech companies that are trying to get into quoting multiple carriers. So, it's not just like I got to go in and get a Pie policy or Berkeley policy, I want to see multiple. If you have ever done your own personal businesses, a lot of it's in a personal life and a personal auto, where I could go in, type in my autos and some of the data, and I'll get five quotes from five different carriers and I could choose which one I want.

That's newer because, obviously, the company wants to align themselves directly with the client and not have competition but I know Liberty, which has some commercial business also is one of the carriers that will be party to that group quoting type of thing.

So I think it certainly is a comp, if I was a small business and the comp was really my concern, and I am sort of confident to go work on a computer rather than just call my agent and say, figure this out to me. Why not? I go online, we have to do the type in payroll and payroll codes, and you'll get a number. Why not? Because theoretically, it should be cheaper.

I would say from what I've seen, sometimes it's cheaper, sometimes it's not cheaper because if the agent has a good relationship with a carrier, they could go back and they could say, "hey, this person is a very important customer for me." That agent might be a very important customer for the carrier, and they'll say, "Hey, I really need you to do a deal for me on it" and to the extent of the compliance, they could do that, they might give an agent a better deal than just doing it online.

It's online, really, no one's really touching and there's no back and forth. We'll take this account, take for that account, they just say put your data in, here's a number. So that is for comp, the direction that it's going. They're not doing multi-line so I think there might be some companies trying to get into doing BOPs and things like that with small business. I do not think they are nearly where the workers' comp direct market is at this point for startups.

Tegus Client

Is that because the BOP is just a more complicated underwriting product?

Former Chief Underwriting Officer at Vensure Employer Services

Yes, so let´s say, I'm a small trucker and I have a bunch of trucks but there is some trucking data which is out there also government and trucking data. If my wife has a Cadillac that belongs to the company, and she has cracked the car five times, you don't know that unless you put down everybody's license, which is a way to look at that, and you don't know what they call the moral and morale risks of every policy.

The morale is I just don't care so give me the cheapest policy and lead us on information big deal. The moral is doing fraud and you really can't find that stuff out, unless you talk to the people and from another standpoint, talk to the people who have some more information about it and can really get into the business of what they do and do more analytics.

That's why really comp is the one that's going into this, and it is very basic. There are billions of dollars of losses that get posted every quarter with these bureaus that are public and they are available to every carrier. So that's why it would be a great thing to do, and I think some companies try to do it because it's an all-in-one product, it sounds great to be able to go get your workers' comp insurance that way.

However, if I have to do the same thing with auto and I happen to do the same thing with property, professional liability, products and all of that other stuff, that’s just a lot of going to individual websites if they even existed, which they don’t at this point.

So, if someone can bring it all together, like “Hey, I want a BOP policy, I’ll put in the information, and I’ll get an all-inclusive BOP policy with discounts and stuff that might apply or not, that would be great.” I think maybe that’s going somewhere. However, I think what they’re going to do, which actually the comp companies do it also, is that they pretty much take the more innocuous type of risks.

So, if you're a retail store, it's pretty much standard stuff and you can pretty much think of what losses you're going to have, what operations you have. It's not a real big deal and they usually want you to be in business for a number of years for this history and stuff.

However, if you're a start-up, this is why a lot of mill didn't like the marijuana area, although I'll tell you, it's very profitable from an insurance standpoint because they don't only know about it, they're scared about it and when you went and put those codes in and it say, “Marijuana crop grower,” it would be thrown out of the system.

So, on the workers' comp, they still want to pretty much knock you with retail, light warehousing, very light services, and even construction services, but roofers is a big no as well as contractors because they're too diverse. So the comp, you could do the more innocuous stuff with the auto and the GL especially, you need to have a lot more knowledge, which really can't be gathered through just typing in some data on the website.

Tegus Client

Got it. So how do carriers compete on work comp, if they are all asking more or less the same question?

Former Chief Underwriting Officer at Vensure Employer Services

Underwriting is an interesting thing to one carrier that really might say, “I'm not touching a cannabis risk against the rules,” while other carrier says, “No, we've really been doing a lot of research in cannabis. We have a lot of customers in cannabis and we really understand the nuances of it and are more comfortable doing it.” So, in that type of carrier, if you put your code in and it’s something they’re not comfortable with, not like a terrible type of class like a company that would do dynamite and stuff in ammunition, that’s something which obviously is scary.

Believe it or not, there are companies that actually focus even on agriculture, which certainly has a lot of nuances that might scare people that don’t know and that’s the thing with underwriting. I always told my underwriters, “If you make a mistake pricing, I’m okay with that but if you make a mistake if you don’t know what the exposures are, you don’t ask the questions, I got a problem with that.”

So, a lot of carriers, they compete because we have a specialty niche and this is especially for the more regional carriers. I'm a carrier based in Iowa and I certainly know about all the risks in Iowa and a big in farming and only issues related to farming but if you call up a person that's in New York City, they probably don't have much knowledge about that and are really not interested.

That's one way they compete because they're more comfortable with that. They'll look at that stuff and they might be more impressive because they could say, “Hey, we are a cannabis writer. I know and I used to write cannabis.” When it first came out, no one was going to touch that. Who would want to touch it? You got to be crazy.

In time, it's like, “Well, a lot of other risks are the same as agriculture and they are same as regular retail stores and there are some nuances, of course so they might do something.” The other flip side, if you're working for a big international carrier that has a broader appetite, especially work with agents, the agent could, as I mentioned before, say, “Hey, you really got a writer's account. This is a major company, it's four generations and they are financially in great shape, They're growing tremendously and everyone loves growth. They're in this area, I know the owner very well and I know he's an honorable, honest person. Can you do something?”

With all of the carriers filings, in most cases, except for comp in a couple of states, they can deviate. They file deviations, so the insurance carry up to generally 50%, pricing up to 80%, they can pick the price that comes out of the general standard rating and they could say, “Based on these categories of risk control, safety management or financials, I can deviate it down or up, if it's bad.”

I hate to say it because when I'm in insurance, I like to think that people like me and they want to do business just for me, which there is a lot to do with trust, which is why smaller companies aren't as good if you know the principles and a lot of trust but let's be real, in these days, people are looking for price.

So, if you want to carry it, it is going to be thousands of dollars cheaper, big deal. If you want to carry out a couple of hundred bucks more expensive, it´s like “Well, he's a friend, a local and I've heard the company.” Also each carrier has a rating which is independent rating done by independent rating bureaus and a lot of people look at it and they say, “Hey this company is rated A++,” so that's a really financially secure company. Some people like it and some people say, "I don't care what they are because I want to go with the cheapest."

I'll give you an example. The Florida personal market is in upheaval, all these carriers are leaving, it's unbelievably how bad it is. You've to really know what you're doing and know the business and have an agent that will represent you because remember the agents, if you're not going through the website, the agents are the ones that are really funneling you information. So one, got to trust the agent as a carrier and the agent has to trust the client. So, if you convince the carrier that it's really a good risk they could easily deviate there, that's when they compete on price.

Tegus Client

Got it. With respect to underwriting, how much of this type of risk can be automatically underwritten?

Former Chief Underwriting Officer at Vensure Employer Services

This is a big question as an underwriter and when I went to work in my last company it was starting to go into AI underwriting. So that has been a big thing, it started in comp, but it's starting to go in other lines who is using data. Obviously, insurance is one of those businesses that it's hard to really figure out the cost of goods sold until down the road when you know what you're paying at all claims so it's all about having history.

So, comp, as I mentioned before, can be machine underwritten. Now underwriters are always nervous, as a lot of people are and say “Are you going to get rid of me and put a computer in and take over my job and get rid of all the underwriters and do this all electronically?” I've had that question to me a lot of time, people are nervous but I would say with the new techniques they have now with AI and data that's available, comp for sure, can be done.

The other lines as an underwriter, and I'm a conservative underwriter, I think for certain innocuous type of lines that are very familiar with retail a lot of things are not very concerning and are pretty much you know what you have. If I call you up and I say, “Hey, I'm pretty close towards selling when this close,” you pretty much know what it's all about. You might ask what area it's in and all, but you still need someone to ask the questions on a more complex stuff because you'd be blown away if some of the things that these people are involved in they tell you it's a wholesaler and you say, it doesn't sound too bad, and then you find out.

To give you an example, a big electronics operation, well Fry's Electronics, which I don't know if they have any around where you live, but it’s a big retail wholesale type of thing for computers, I looked at that years ago, and we said, “Hey, there are big companies that are making a lot of money and they're growing.” Yes, it's a retail business, it really doesn't concern us, they have big stores, are pretty professional and they have a lot of money so, things will buckle down pretty good.

The buildings are good, you can look at the building class and all, which is how you would underwrite property and you say, “Hey, that looks pretty good.” Well, it did look pretty good, but then guess what? We found that the owner owns an indoor football league, and we have seen those things they’re really murderous and the guys really beat each other over heads and has a ton of claims because it’s pretty violent, as far as football, more than the NFL. So, you never will think that Fry’s Electronics owns a football franchise, and they want that covered.

So electronically, possibly, if you're doing electronically GL and they say what is it as a store that has an SAC code this, they sell home electronics type and the amount of businesses they have, to put it on sale plus GL is usually often rated on sales. So, what are your sales, you got a building, what building do you have? We have the locations of the buildings, when have they been inspected, what construction type? All the stuff you could put down electronically, but I'll bet you nowhere on the input or the screen asks if you own any sports facilities.

I think down the road, you're never going to get rid of an underwriter and you can you focus the underwriter more into just looking at the specifics and asking the right questions because underwriters don't always ask the right questions. I mean it is just people so even if it's less, sometimes they don't ask. Would you ever ask about do you have a football franchise? No, I wouldn't ask about it, who would think of that?

Tegus Client

I've heard similar stories in the past where that insured had exposure to a risk that was otherwise not disclosed or not understood. Is that a claim that you'd have to honor, could you just not say not within coverage?

Former Chief Underwriting Officer at Vensure Employer Services

That's the problem, if it's pure fraud, then yes, you have to get lawyers, go to court and all them expenses. If it's a BOP policy, and it's not a gigantic claim, it might not be worth it. If it's pure fraud, where you go back, and this is part of underwriting also, you look at the owners, and you might ask them, have you ever had a criminal offense?

I wouldn't doubt that would be a question but we've found people. So, if it is a pure unadulterated fraud, yes, I think you could argue it, you could reject the claim and see where it goes legally. However, if I'm a real busy businessman and yes, I forgot, we normally don't do, in my construction business, we normally don't use explosives to blow up things, we never do that.

I had that one really big account that came into us and explosives was really just a small piece of the business, and I just forgot about it. When you write insurance policy, it's the annual policies so it's a very diverse business, which is a problem with underwriting, it's very diverse. If you're a small roofer, it is tough also, and you say, “I'm doing residential roofing,” it's not a big deal thing and then only small roofers normally, if I just focus on residential roofing, someone comes in then and says, “Hey, I got a giant Empire State Building, but with a but roofing type of job and guess what, it's $5 million.”

I only do commercial, not really interested, some of the owners will say, “Yes, I can do that. I can do it because there’s a lot of money in it.” Then at the time of writing a policy, there was no fraud because they told you the explosives they have at the time and you don't normally go back. Insurance clients would like you to go back and some still get this from your reputable people.

I'll give you another example, a supermarket chain, and you know what those chains do. Well, they wanted to do cooking classes with children, which in itself is not horrific, but it's a different type of exposure. Since they were very reputable people, they said, “Are you concerned with this cooking class that we want to do with kids? They're going to be working with the knives in the kitchen themselves, but they're being supervised.”

They actually did the right thing and they came out and they asked the insurance company, “You're aware we're going to be doing this, what do you think?” and the insurance company says, “No, give me some information, that's okay, you're fine.”

So unfortunately, I had it in my own house where roofers are coming around and they're saying, “Hey, you have some hail damage, you wanted to look at the roof, maybe you could get a new roof from the insurance company, no cost to you.” I mean, it happens, happened to me six months ago and I'm not really into insurance fraud, but I'll tell you, plenty of people are like “Hey, it sounds good. I can get a new roof,” and they do.

So, there's a lot of fraud in that, and you have commercial also, and that's why you need a good underwriter and there are all different levels of underwriting to dig into that information. There's something that a lot of agents have which they call it MGA, managing general agents, so managing general underwriters.

What that does is gives them the right within certain constraints to actually underwrite a price on behalf of the carrier. I've managed some very reputable agents and they're going to ask every question. They hear something that concerns them a little more, and they're going to dig deeper into it, and then they'll maybe call the insurance company for a referral.

What they'll say “No, you really can't do that,” but now they call authority, they have the pen to write the policy on behalf of the insurance company and insurance is bound because they are agents. That's another level of distribution, which the agents love because it makes it easier for them because they could spit quote much faster than having to submit stuff back to the insurance company and wait for underwriter to get back to them.

Tegus Client

That makes sense. When I hear you speak to this, it's almost like the agent and the underwriter apply perhaps a layer of discretion or subjectivity to that risk that an underwriting question may not capture. You are in a way making a judgment about that business, the principles, the risk at large that you couldn't otherwise ascertain from an underwriting question. So as much as you want to automate this and use third-party data sources and artificial intelligence, there's a level of subjectivity that humans are good at discerning at the end of the day. Is that correct?

Former Chief Underwriting Officer at Vensure Employer Services

People hate answering questions and the agents hate going back to the insurance and asking them another question, I could tell you tons of stories of that. We find that sometimes we start asking other questions and they are like, “Well, why do you always ask questions?” So, I could go on to a website, and I could type in the payrolls, the codes, my exposure and my SIC code of what operation I do which codes normally will let you know anyway, I could do that. Those are five things.

However, if you give me a questionnaire and if you look at different carriers, sometimes they try to make it short and sweet because it's easy to do short and sweet. If they have a questionnaire or supplemental questionnaire, which are like five to eight or more pages, people are like, “This is too much of effort.” So that's the problem and that's why it's good if you focus on a certain type of business or class because then you know the questions to operate.

When you're dealing with general commercial, that goes from nuclear reactors to retail and everything in between and a guidance doing warehousing could be more than just a person coming in and having women's clothing on racks so, it's very diverse.

However, if you're a specialty person and you say, “Hey, I do cannabis.” I mean, I went from not knowing anything, an underwriter to are you getting standard checking? What growing do you have? Is it outside? Is it inside? Who are you hiring? To find the stuff that is really specific to the industry, then you know how to answer ask the questions and the right questions.

The problem was the general commercial insurance is so broad. if you say, “Hey, we're going to have a really broad application to get all that information.” The application is going to be 12 pages long, and people are going to be really turned off. If you don't know even what is a livestock, what would you even ask? How many horses do you have? You don't really know. However, if you know livestock, you know what questions to have on an application just for that.

A lot of carriers, what they have is a general application, which is maybe three or four pages long, and then they'll have supplements. So, if you're doing trucking, well, do you have any trucking? If yes, fill out this supplement and the supplement could be three pages long, or more. So, if you're really focused on a niche, you really want the underwriters know what questions to ask and what they did for and then two, you could have applications that are much more streamlined and get to the question.

Then you have a risk that it's nearly an odd ball and who would ever think that a warehouse for electronics has a football franchise. No one would ever ask them, but you would know questions related to that industry to ask the front. Sometimes you miss the question, and you keep your fingers crossed that something doesn't blow up, but if you have a loss of the nature of that business, that's why people buy insurance.

So, it's not like you refuse to pay losses, you're going to pay losses for the exposure like if you have a loss related to that business that you contemplated, maybe didn't charge enough for the ones you are scared of, but the ones where you have a losses not related to the business, which is not fraud.

Tegus Client

That makes sense. In work comp, I've heard that it's really difficult to rescind the policy once it’s been issued. Is that a nuance in work comp?

Former Chief Underwriting Officer at Vensure Employer Services

Insurance is highly regulated, as you know, and workers' comp is the most regulated of all the lines and the reason is because workers' comp is supporting not necessarily only the business, but it's supporting the employee, and most courts are very sensitive, and I call different jurisdictions, different states, are very sensitive about the employee getting affected.

So, workers' comp has a lot of restrictions on it to the extent that there are all these regulations when you can cancel a policy short term. The only I could think about, which is pretty much standard in every state is nonpayment of premium and as a period, like I missed the day or two, too.

No payment of premium and fraud where you find out that there's fraud during the policy, other than that, you really can't cancel anything midterm. You can non-renew it, but you can't do it without the Department of Insurance agreement, and that's going to be hard to get unless one of those fraud or where your company is going under or something where you lost reinsurance, which is another one that they will let you or sometimes cancel the policy.

Tegus Client
With other lines, for like a BOP or GL, carriers can cancel within a certain period, if they find new information about the business. I've seen carriers go to the insurer's website and realize, something is not classified properly, so they have to cancel the policy. Is my understanding correct?

Former Chief Underwriting Officer at Vensure Employer Services
With the classifications, which are wrong in comp constantly. I'll tell you where comp goes wrong and it happens every day. Someone goes to classify the employees, and salespeople and administration people are the two lowest priced codes out there.

You might have a guy that's working on the line in the foundry of something, but does on a part time some sales for you. Well, they're not going to split that, and some states don't like to split it anyway. They're not going to split that code, they're going to say, “Well, he's more admin” because admin's $0.10 versus $15 for a foundry working person so you can't even necessarily cancel.

Unless there's a fraud where you fraudulently misrepresented your business, you could cancel it even though comp is the most restrictive and it's probably the most subject to fraud because they play with the 600 codes, and you can play with the codes easily. Most of the lines mean admitted market, and there's also a non-admitted market. Most of the lines in the admitted market have descriptions on when you could cancel and mostly that for the same reason, nonpayment, fraud or loss of reinsurance.

Tegus Client
Understood. In work comp are there other surplus markets if it doesn't fit the admitted?

Former Chief Underwriting Officer at Vensure Employer Services
Workers comp? No. Workers comp is very restricted, except in two states and one is Texas. You must buy workers' comp so that happens a lot of times like somebody comes to your house to do roofing and they don't have workers' comp, and that's illegal in every state, so workers' comp is very restricted.

The other lines that are restricted in the admitted market is that there are very strong rules what you could do, what you're going to have in your policy, what you can say and what you can't say and it's pretty much depending on the state, it's written out pretty clear.

On the non-admitted market, it's almost a do what you want type of thing. But I'll tell you, most these small businesses are not going to go to the non-admitted market because it won't be allowed to. If you have a really funky type of risk, then no one will ensure, you can go to the non-admitted market and there's a lot more freedom to do what you want to do in non-admitted market, a lot more flexibility.

Tegus Client
Got it. As a Chief Underwriting Officer, how are you incentivized? How are you assessed based on performance?

Former Chief Underwriting Officer at Vensure Employer Services
The worst possible thing you could do, which some companies do not often is to pay an underwriter a commission. Underwriters should not get commissions because we are just like everyone else. If you have a big account, they are going to pay you a lot of money, not that you are necessarily going to say I'm going to do something wrong, but maybe you're a little more generous without even realizing it. So absolutely even

though I could have made a lot of money if I was getting paid a commission, underwriters should not get commissions.

So basically, most underwriter's goals with us are, if there's new business, how much new business do you write? It doesn't say you have to write this much new business and it's multiple things, not one or the other. So, we are going to give you a goal, you have to write $3 million with this agent of this class business or just general business this year. That is one. The second one is what is your retention? How much do you renew? Why are we only renewing 50% of our book? That is pretty bad because it costs a lot more money to get a new piece of business than to get a renewal.

Then the third one, which is really the quencher, is loss ratio. How has your business in losses wise, both developed and undeveloped? What that does is it doesn't incentivize an underwriter just to write more business I'm going to write bad business, but I'm going to get my bonus and incentivize them well, if that business is not profitable, then you're not going to get your bonus. So, loss ratio will be the key in underwriting.

Tegus Client
Right. So you want to grow the book profitably, is that correct?

Former Chief Underwriting Officer at Vensure Employer Services
And it is tough. Every company I have ever worked for, they would, everyone wants to grow, and everyone wants to make money. So, you got to grow the book profitably and the targets are pretty aggressive. Again, you have a lot of competition as we discussed so, I could easily grow the business. Anybody got a sales guy say, I could grow the business easily and that's why in companies that allow salespeople of underwriting authority and there are some, they all pay the price.

And seriously, some of the price of the company goes back. Salespeople can have influence and talk to the underwriters, they should never be able to price something because they are incented on some premium growth. So, people could easily say, “Well, we have to grow $10 million this year. It's easy I have a new business and on the wage and we have growth.”

However, you got to be profitable and then it is like a because I got to be cheaper than the next guy, and there's a lot of competition, and I can't write that $1 million account at the same price as somebody has come in with a really cheap price for some reason, as you don't understand. So you need that loss ratio, it's very difficult.

It's easier to grow and get profitable. I used to say that I can be the most profitable underwriter in the world, but I'm probably only going to have like three accounts because with some accounts you make a fortune on, and with some you lose fortune. The goal is the law of larger numbers, what they call the goal is you win more than you lose, and then you net get a profit overall that is acceptable or sustainable. And obviously, you got to make money because it can be a growing concern if you don't make money.

Tegus Client
Absolutely, yes. What's the opportunity on the carrier side, on the underwriting side? How can technology potentially help from your vantage point?

Former Chief Underwriting Officer at Vensure Employer Services
Well, there is a lot of manual stuff being done. Normally, in the older world, you get a manual application, someone then has to key it into a rating system. The rating system will give you a raw number of what you've been filed for the price. Then an underwriter has to go through the application, which is generally not filled out completely. Even if it's accurate, it's usually not filled out completely and make sense of what that is. Then you have to issue the policy into that claim all pretty quickly.

Where most carriers fail is that whole manual task, because usually as an underwriter, you might have an assistant underwriter, a rater, and a data person. So, some companies try to have a reinsurance and try to make us do this into, so we complain about it. They said “Do not submit your submission to us on paper.

We're going to give you our portal, and you go into portal and you type everything into the portal."

That is great because it takes away some of the work that the underwriters had to do, which could be more automated. There now are some systems that will actually read documents and smart systems that will read the document and import that data into your system directly. Also a lot of the older companies that have older systems, the comp system is different than the GL and the system is different than the auto system. So how do you bring all those three together to do a nice quote because insured wants to have multiple lines of business, the insurer wants a nice professional looking quote. They don't want a handwritten quote, they don't want it done next best, and they want it fast.

So if you have a system which is a newer system and there's plenty of companies out there, third-party companies that are hawking their underwriting systems that will do a lot of automation, input for you, spitting updated numbers in data, that underwriter could review it more carefully than having to go through a giant file and I've seen some giant files that they have to go through and it also measures where is the loss run, where is the exposure mod run, where is the part of labor certificate, where is the vehicle inspection reports, all that stuff.

If you can get that all automated, that will really speed up the thing not just from an underwriter standpoint, but from a customer service standpoint. The customer service is everything, as far as the customer is concerned, they want to get there. This is why the online portals are popular, I put my code on and in five minutes, I can have a bindable quote, not a quote subject to give us the information. If you can get a system and there are systems out there that will do all of that stuff for you and then issue the quote what matter electronically, and then once they bind the policy, they issue the policy, and that would be really fast.

What it helps the insurance carrier is one, all of the data with an insurance companies you're alive on, loads all its stuff into databases and you could use that database to run a whole bunch of aggregate as well as drill down type reports where an underwriter, a salesperson or a senior manager could go in, type in stuff like "Let's see how much he wrote with his agency yesterday."

I mean a lot of that exists, but you'd be surprised with companies I've been with, which some of them were bigger companies that had made a lot of acquisitions over time, and every company has their own system. Those systems are all band-aided together and a lot the data you'd be surprised, is inaccurate.

When I was with Liberty, it is a gigantic company, and we have losses all over the place, someone produced the idea, a good idea and there are a lot of different groups of business running big, large, medium and small business, it's really different and they said, "Okay, we're going to centralize everything. It's a giant new database that we're going to build, and we're going to have everything all done, the rating, the pricing, the underwriting to some extent, and the policy issuance is all going to be done in this great system."

Then I was there a couple of years on it, millions and for some reason, after like two years, they decided not to do it. So, it is complex, not as bad for a start-up company. As a start-up company, we're a newer company, we're not a very complex company, can buy third-party systems and then have them altered to their preferences.

Tegus Client
How many millions were squandered in that project?

Former Chief Underwriting Officer at Vensure Employer Services
The Liberty thing, I'm not an IT guy, but it must have been at least $5 million before they decided to keep the loss and go. Believe me, $5 million for Liberty is nothing, but still, a lot of people including me put a lot of energy into getting to that point because we were going to reorganize that to optimize it.

Tegus Client
And where do you think that fell down? Was it just because they were trying to chew off more than they can swallow?

Former Chief Underwriting Officer at Vensure Employer Services

Their problem was they had made a bunch of acquisitions over time, even when I was at Vensure, instead of saying, we're just going to load in all of the data from the beginning of time because the old data is necessary in insurance, I just want to know the sale you did today, I want to know what you did five years ago, also you need that data to make predictive analysis.

They said it's going to be too expensive to load everything in historically for like 10 years ago so we're going to do the two years. Well, two years in insurance does not give you much history and I think the problem that Liberty probably had is that they made all these acquisitions, they had vast data. I mean every system from rating, underwriting, claims, issuance, looking on mod, issuing numbers, the bureaus and stuff, they're all separate, separate programs.

Then what they've done over years is the internal process would come in and they would try to interface them together, but no program will tell you it's an easy job. So also, Liberty's issue is they weren't just writing loss, they're writing umbrellas which is a whole different department. They write construction, which is a whole different department. They are writing small business which was a whole different department.

They are writing national accounts, which is a whole different department and then other ones also. Each one of those operations, which are all big on their own, were doing their own thing with their own proprietary system at the top and bringing that all together, I can just imagine it was a massive undertaking.

Tegus Client

If you could have one tool built for you as an underwriter that solved one specific problem, what would that be?

Former Chief Underwriting Officer at Vensure Employer Services

It would be forgetting about going back and feeding old information and this is actually what we're doing at Vensure. We're going to have a new system, and it's going to be a linked sales system, not that the sales guys are using the underwriting system, but salespeople go in, they would put their notes and stuff in it, the underwriting goes in, and they would put our underwriting information in it. We wanted to have a linking to the third-party underwriting rating system and then that was all in a giant database.

So when we start extracting data, you say, “Hey, I'd like to see what you're doing in California on these zip codes.” Zip codes are important for comps. The comp and properties, I don't know, whole lines actually, and we want to run this by ZIP code. All the data would be one giant data warehouse and then you could pull out whatever you want from the data warehouse and I could go in and I can look at the history, and I could say this is a problem with Liberty.

They have multiple offices bringing in the same submissions so something would come in and say, “Wait a minute, I got that from the Northeast office brought it in and in the same time, the Midwest department. Who is it that you are going to put against yourselves which we have done previously. So, I would like to have a system that's all inclusive that you could have someone to look in to see from sales to policy issuance, the dates, who you communicated with, the contacts, and all done electronically.

If I want to send you a quote, I have the phone number, e-mail, press a button, e-mail, which changes over time, which is another problem of updating the system and then you get everything and then I can go into data. Then over time, if you're not going to load in the old data, which we really need to do, it's not the history. So, I'll give you an example, when a client comes to you and says, "Well, you are making a fortune off of me. You guys are making a fortune off of me."

My answer would be that I do not know because I don't know every single account of the hand. So what's your account, I go and look at your account and says, well, we've had the account for five years, thanks for being a five-year customer. But you know when you add up all the premiums you paid and all the losses we paid, our combined ratio is 150%, which means you basically paid out $0.50 more than every dollar you collect today.

How are we making money and ripping you off? Now it would be nice if we had all at that data from all the carriers, which we do not have but you do on comp. On comp, you know what everyone did, if they have fifteen different comp carriers over 15 years, you have all that data, which is why comp is so beautiful in our asset. In auto and other stuff, auto a little more than GL, you don't have that data. So they don't tell you, you hear the loss run, there are also loss run you get from previous carrier.

How do loss runs come in? Well, some of them come electronically from other carriers, you need all the previous losses. Some are electronic so there is no format, which is standardized. The industry is trying to some extent to have standardized applications, but there is relatively little standardization out there. So, a company doesn't want to fill up so normally, we'll accept their application that usually says same type of stuff. But when they say what losses you had, well, I know all these small business, I know we really haven't had a loss for a couple of years.

Who are you with? Well, I was with Travelers for that, and Berkeley for this year and Zurich for this year. Can you get me the loss runs, which is basically the loss data from the other carriers, which generally they will cooperate and give it to you because they want ours also as well. The problem is if loss runs are not standardized, some come in on paper. I have seen loss runs that are like 20 pages long or longer, 100 pages long. They come in on paper generally where they come in on except PDF which you can't do much unless you convert them or they come in on Excel spreadsheets, which are not standardized.

So back to your previous question, you can't believe how much time on a more complex account, how much time you go through sorting out the past. If you had an account for 10 years, you are lucky because then you have in your own databases a 10-year history, and you can look at it again to see some, and I've seen systems that do this so I know they exist.

We didn’t have one, that you go in and you say, “Okay, ABC company, we've had over 10 years, what's their lost history?” It breaks that in a lot of detail what claims they were, locations of the claims, the date of the claims, description on a claim, what it is, some claims are little tiny, $100, some are $100,000 and have it all together. That would be the greatest to have all that data because that will really make the decision making much faster and easier.

Tegus Client

Okay. Well, thank you again for taking the time to speak with us today. This was very helpful. Enjoy the rest of your day.
