Tokio Marine Holdings, Inc. - Former Executive Vice President at Tokio Marine HCC

Interview conducted on August 07, 2023

Topics

Insurance Industry, Macroeconomic Conditions, Interest Rates, Investment Strategy, Regulatory Requirements, Cost Management, Compliance

Summary

The Tegus Client is looking for industry context and regulatory information in the insurance vertical. The former Executive Vice President at Tokio Marine HCC explains that insurance executives consider factors like interest rates, investment advisers, and inflation. They also discuss the regulatory requirements insurance companies face, including state licensing and the process for rate and product contract approval. Dealing with 50 regulators in the U.S. is complex, and there are differences between regulated and excess and surplus lines offerings.

Expert Details

Former Executive Vice President at Tokio Marine HCC, leaving in December 2022. The expert was responsible for implementing and conducting technical underwriting controls; improving and aligning business and system processes; M&A diligence.

Former Executive Vice President at Tokio Marine HCC, leaving in December 2022. The expert was responsible for implementing and conducting technical underwriting controls; improving and aligning business and system processes; portfolio management; underwriting referrals; developing new products; M&A diligence.

Tegus Client

Hello, thanks for speaking with me today. I'm looking to get some general industry context. So as an executive within insurance and having a career within the space, what are the primary external factors and macroeconomic conditions that are top of mind for you and other executives? And are there any unique regulatory requirements that you all face from doing business?

And then from there, I'd love to dig into what this background of spend profile looks like, particularly with regards to contracted vendor spend on the indirect side. And then understanding what the purchasing workflow looks like.

So, when someone needs to request to purchase for any type of services or IT or software spend, what the workflow looks like from inception to sourcing to the approval process, all the way downstream to RFP and et cetera. And then finally, maybe just once we cover the workflow and the industry background, just understanding any challenges or pain points that you all have in the existing processes.

Former Executive Vice President at Tokio Marine HCC

Yes. I'll try to be brief on the general and the regulatory topics because even in those areas, we could easily spend an hour on those ones. General industry topics for an insurance company, when it comes to particularly and with a focus on spending is always starting at the very top, it's interest rate, the environment is critical because insurance companies do invest.

So, who are your investment advisers? What's the environment? Where are you invested in? In equity or bonds and of course, as an insurance company, as a carrier, you have some limitations. For MGAs, it's a little easier, but they typically don't invest as much because they don't have the reserves for claims.

So, we have daily conversations or at least weekly and monthly conversations. For an insurance company, just as a little background, an insurance company makes, on the investment side, money from the reserves they're putting to the sides for claims.

That has to do with the fact that claims are typically being paid out a little later or significantly later than the claim is being made and then the premium was actually collected. So that the time period and that is being managed, where you reserve your premium funds for the anticipated payout, that time is used for investment.

Of course, when it comes to then looking at the claims, we are looking at overall cost development, meaning inflation is a big topic because the cost, for instance, on construction, if construction costs are going up, then property insurance, that needs to be reflected.

So, if you have inflation on construction costs, that is going to affect you as a carrier, as an insurance carrier long term significantly, because you are basing your premium of a certain index now.

But by the time you pay out a certain claim, 12, 24, 36 months later, the anticipated premium might not be sufficient for that. So inflation and the indices or any kind of premium adjustment factors, they are needed.

And then of course, it has an impact in insurance companies, big cost factor for insurance companies is staff. Staff is the cost of doing business. So, with inflation, you have pressure on the compensation. And that's another area we're watching closely.

And how you can utilize? And that's to link a little bit to the vendor side, how can you utilize technology to be more efficient, to have bigger scale, to utilize your existing staff with the help of technology in a better way so that you're moving certain tasks to higher levels.

Meaning a lot of the repetitive tasks are being automated so that you can also run the business potentially for longer hours and you increase this way, better cost ratios or even higher profitability.

Tegus Client
That is very helpful. Are there any unique regulatory requirements that you all face? So as an example, within financial services, particularly within the U.S., there's sort of a number of regulatory bodies across the FDIC, the OCC, the Fed. So, compliance is very much top of mind for any bank of any size. Are there any similar regulatory requirements that we should be aware of within the insurance vertical?

Former Executive Vice President at Tokio Marine HCC
When it comes to the insurance companies, we do have and we are facing regulatory requirements, starting number one with the fact that we need to be licensed as an insurance company in the respective state we are doing business in the U.S.

That means we are dealing with 50 regulators in the U.S. as a carrier. If you are providing products in all 50 states, let's assume that for a moment that that's the case. So, you're dealing on two levels with the regulator. A, as a carrier itself; and b, from a product perspective, meaning there are two ways how you can offer your products in a regulated fashion and in a so-called excess and surplus lines way.

Regulated fashion means that your rates and your actual product, meaning the contract, the insurance wording, that needs to be filed and approved by the regulator, the same with your rates that can be dependent on the line of business, that can be a very comprehensive undertaking.

So that's why some parts in the specialty lines insurance area, a lot of the products are offered on an excess and surplus lines basis. Meaning you are, for the most part, free of form and rate, meaning wording and contract and the rates do not have to be filed and approved.

That doesn't mean you can do what you want because certain clauses and certain elements of the contract and the relationship with the insured, they are still regulated when it comes to how can I cancel a policy. Can I cancel a policy if there is a catastrophe that just hit?

We are currently in hurricane season. If we are facing any kind of named windstorm and causing damages in a certain state, the state regulator might order the carriers not to cancel any of those policies because otherwise, the clients might have difficulties finding a replacement. Those are the kind of regulations, and they are very strict, that we are facing, and it's just really times 50 in the U.S.

Tegus Client

Great. Well, thanks again for your time and help today. Take care.
