

# NAMIC Insurance Uncovered Podcast

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## Participants:

Catherine Imus – VP Public Affairs NAMIC

Chuck Chamness – President & CEO NAMIC

Frank Harrison – Chairman & CEO Holborn

### **Catherine Imus**

One of the great things about property-casualty insurers is their longevity, and after 100 years in business, Holborn has helped its customers survive a number of natural disasters. On today's unscripted, our Chuck Chamness talks with Holborn Chairman and CEO Frank Harrison about how those long-term relationships have made a difference in the company's success.

### **Chuck Chamness**

Joining me today on Unscripted is Frank Harrison, Chairman and CEO of Holborn, the reinsurance intermediary company celebrating its centennial anniversary this year. Frank is only the third CEO over the one-hundred-year history. Frank, thanks for joining us today.

### **Frank Harrison**

Thanks, Chuck, it's a pleasure to be with you.

### **Chuck Chamness**

Well, first, I want to say congratulations on the 100<sup>th</sup> anniversary. NAMIC has just passed a milestone on our 125<sup>th</sup> anniversary. And we didn't get to celebrate the way we wanted in Boston. And I know you didn't get to celebrate the way you had hoped due to the pandemic, which we're obviously experiencing. So how have you recognized that milestone this year?

### **Frank Harrison**

It is a huge milestone, obviously. One of my new sayings of the year is – “that’s so 2020” – the year where you

expect the unexpected and just deal with adversity seemingly at every turn. As you well know, because you

were one of our invited guests who had accepted our invitation, we had planned, literally years in advance, quite a regal event to be held at Kensington Palace in London.

The reason we chose that site was that we were born out of Lloyds’ and we thought it appropriate to celebrate our roots there.

Kind of devastating for me, quite honestly, personally, because of all the planning that had gone into it. The guest list really read like a “who’s who” of the industry. We had a number of the CEOs and top people from our client companies prepared to join; the CEO and the top Underwriters of Lloyd’s; lots of the CEOs and top Underwriters and managers of the continental European reinsurers. And, actually a little-known fact, one of our outstanding outside board members is Jaclyn Stapp, and in this case, her husband, who was going to join the event as well, happens to be a rock star. His name is Scott Stapp of Creed. We even had a rock star prepared to join the event. So, we didn't get to do that. At least on paper we've rescheduled the event for May of 2021. But as you know, with the virus spiking right now, there's still such great uncertainty that may be in jeopardy.

So, what have we done? Well, I'd like to tell you we've done a lot of really swift things, but the reality is we're sort of winging it as best we can as the year has gone on. The date was May 7<sup>th</sup> of 2020. So on that day, as we quarantined at home, my wife and I stepped onto our back deck and we did a little selfie-video that started with “hear ye, hear ye,” and we sent it to all our clients. And then we proposed a toast for the first 100 years. It was a little

cheesy, a little corny, but it was a way of acknowledging the milestone.

And I guess this is not in lieu of a celebration, but we are working with an outside firm and we've got some really interesting artifacts, and pictures, and stories and history, and we're going to write the history of the 100 years and try to do it justice as best we can. But in all honesty, what we're doing is trying to service our clients in the virtual world that we find ourselves in – and in a much, much firming reinsurance marketplace as we speak. So we've actually got our hands full at present.

### **Chuck Chamness**

Well, and thank you for the invitation. I only go on international business travel maybe once or twice a year and that your celebration, which I was looking forward to, fit in perfectly, unbelievably, it never happens this way, but it was right at the front end of an already scheduled meeting that I had with the European Mutuals in Spain, I think. So anyway, it fit in perfectly and we were looking forward to it. And maybe there will still be an opportunity down the road, but congrats on the celebration, even the impromptu one, and trying to recognize the date anyway, and I'm sure there'll be other ways to recognize that going forward. As we talked about our founding at our convention this year, I mentioned the story about NAMIC's founder W.A. Rutledge of Iowa. I understand Holborn has a connection to him as well. What is it?

### **Frank Harrison**

We do and I sure can fill you in here because I actually had some fun with your colleagues. Earlier this year, in one of your publications, you referenced Mr. Rutledge as the individual who originally organized NAMIC all the way back in 1895, some 125 years ago. But there was one little problem Chuck. You had a typo in the article, and you called him W.R. Rutledge. And, of all things, I'm one of the guys that happens to know its history. And I said, no, no, no, no, it's not W.R., it's W.A. And so I had a little fun with it.

### **Chuck Chamness**

Funny because we know W.A. Rutledge. And Ron is on our board now.

### **Frank Harrison**

Well, he's a good guy, and we know Ron well. Actually, we've known the Rutledges for over 40 years. As you well know, they are the patriarch family of Farmers Mutual Hail, which deals with a couple of different reinsurance intermediaries. We're one of those. They've been a client with us since the 1990s. We know a lot about the Rutledges and their family history and it's wonderful – its glorious history quite frankly – both the formation of their company and of NAMIC itself. So that's the connection.

### **Chuck Chamness**

Well, thank you for catching us in that uncharacteristic error, but we do know W.A. and the Rutledge family for about 125 years now. At least institutionally, not personally. So Frank, as we look at this year, it's been so full of catastrophes, natural disasters and we've had records all over the place from California wildfires, where we have a new term coined for wildfires that burn a million acres at a time, to the derecho in the Midwest, which was the most powerful, most expensive convective storm on record. Can you maybe talk about the breadth of the Cat events we've experienced during 2020 and particularly about the derecho in the Midwest?

### **Frank Harrison**

Yes, August 10th is a day that will live in infamy in the upper Midwest, and in Iowa in particular. Thanks for the question. And I think Holborn is actually uniquely positioned to assist our clients. And much of it, quite frankly, comes from our tenure and our experience and the long-term relationships that we've built with the clientele over decades. 2020 is a bellwether year from so many perspectives, but purely from an insurance / reinsurance point of view, when you start adding in the impacts of COVID-19 to the multitude of Cats sustained, it's pretty clear it's going to be probably close to a world record year in terms of just raw losses. And more importantly, it's one of these market disrupting years containing a multitude of events.

From a Holborn perspective and the way we try to assist our clients, it really makes me think about other market disrupting events or periods in time. My own personal background: I entered the industry in the mid-1980s, right at the height of the liability crisis, lived through Hurricane Andrew, which hit in August of '92. And as you well know,

that led to the birth of the commercial Cat models. It led to the birth of the Bermuda Cat market. 9/11, of course, the major event where we just saw such an incredible clash in terms of loss between property and aviation, life, liability, workers' compensation, and the fact that it was a man-made event, not a Mother Nature event. A little later they talk about KRW - Katrina, Rita, Wilma - and the period of 2005 with those major events hitting. And of course they hit and what a lot of people lose sight of was that the very year before there were four major hurricanes that hit Florida in 2004.

And it really altered the way capital requirements were revisited by rating agencies and regulators and models were recalibrated. And importantly, there was a capacity shortfall in the reinsurance end and the rates were driven skyward. So here we are in 2020, and I'm starting to hear lots of comparisons of 2020 equaling or potentially exceeding the volume of Cat losses that we had back in that 2005 period. Aside from the derecho, and I do want to comment on that specifically, this is not new news, but we're tracking the event that hit my own house – and I lost a bunch of shutters and things which we didn't lose in Sandy into 2012 – but we had a loss from something called “Isaias.”

With hurricanes Laura and Sally, Delta, Zeta, and throw in the California wildfires, which have been extreme, its just been an unbelievable year. But of all the events, we are, I think, best positioned to provide insight on the derecho, which hit on August 10th. And, if I can, let me just put some color to this because I think this might be of interest to your listeners. Envision a Cat four hurricane landing smack in the middle of Iowa and moving from west to east at great speed. And it's a bellwether event, a historic event for Holborn and our clientele. I think we'll probably have a record number of clients having some degree of participation in the event overall, give or take, we'll have 15 or 20 clients or so. And many of them are your members as well.

So let me give a few for instances here. We have Wisconsin based clients who do business, in Iowa and the affected states, companies like Acuity and American Family, Wisconsin Reinsurance, Minnesota based companies like Federated Mutual and North Star Mutual. We are brokers for Nationwide. And you may recall Nationwide had merged with a company in Des Moines called Allied Mutual who has a significant presence in the Iowa market,

and also what used to be called the Farmland Mutual, now rebranded Nationwide agribusiness. So Nationwide has a very big presence in the farm market. We also happen to be the brokers for USAA. And then, of course, in Iowa itself, aside from Farmers Mutual Hail, whom I mentioned, we handle IMT and Grinnell Mutual. Grinnell is a leading writer of farm Mutuals in the Upper Midwest and the United Fire and Casualty Group based out of Cedar Rapids, or UFG as they're called today. I mentioned all of this because these companies, when taken together, literally dominate the marketplace where the derecho hit, in terms of personal lines, commercial lines and the farm marketplace overall.

And just by happenstance, given the make-up of the loss, the geography, the geographical footprint it hit and our clientele, it gives us a pretty unique insight into what happened. And I think all-in those clients added up to more than twenty-five percent of the total marketplace. So we're in knee deep on this one. And even before commenting on maybe how Holborn has assisted, I have to tell you the pride with which we have...we exude pride in being able to work with these companies because the way they have helped their policyholders' in the immediate aftermath of this event, it's mind boggling. And the media completely whiffed on it and missed covering this event.

I'm not talking just about the speed with which companies are settling claims, which has been blinding. It's amazing the way they helped policyholders' financially at the time of their highest duress, if you will. But we have a number of people that work at these companies that right after the event occurred...of course they had no power, it's hot, it's summer, but they got right out and pulled out the chainsaws...they were part of the cleanup crews and going into small towns and clearing debris. And we had employees of our insurance company clients working with the local church and helping with the local colleges to provide meals.

To me, there's an iconic photograph we saw on LinkedIn, I don't know if you guys ever saw this, but you should take a moment to look at it. Jeff Menary is the CEO of Grinnell Mutual. He is now wheelchair stricken because of an affliction with West Nile virus and the day after the derecho hit, he's in the parking lot at Grinnell handing out the lunches to all the people that came by. And it's just this whole notion of the “neighbor helping thy neighbor” in the

spirit that is still alive and well. And we're just proud to be a part of that. And so I have to mention that. It's amazing what these companies have done to help society. And it's gone unnoticed, I think, in the press.

### **Chuck Chamness**

We can't really count on the press to cover these kinds of stories. Our industry is doing a great job, but we know they're there and particularly among that group of great mutual companies who, like all our members, are focused entirely on serving their member policyholders' in times like this. And they do shine. And sometimes it's noted but often it's just noted by those people whose lives they have put back together.

### **Frank Harrison**

They really deserve kudos and get credit. We have tried to help the clients in turn in a multitude of ways, but the most obvious is we collect their reinsurance losses. I don't know if the number ultimately will exceed a billion, but it's certainly well into the hundreds and hundreds of millions of dollars. And I could tell you the performance of the global reinsurance industry has also been superlative. We've collected money from Lloyd's of London, from Bermuda, from the continent in Europe, from the Far East, from the USA. It's amazing how effective the system works. Of course, it's a wholesale system, so nobody sees it in the public eye. But it's worked. It's worked well and it's supported the surplus positions of these Mutuals, so they in turn can serve their policyholders.

We've also done a lot of work, and nobody will see this work, but we assess the models and the risk itself. And, interesting, the models are off. They always seem to be off. We learn from them with the passage of time. Some of the models suggested this event was sort of like a one in a thousand-year event. It's not that, we don't believe. But we do know from the clients we work with it's certainly is a "tail event" in model vernacular. A lot of these clients that I mentioned are 100 plus year-old companies. And in many cases, this was either their largest historical event or if not the number one, it was right up toward the top. I guess the funny thing though is when these tail events occur, they don't seem like tail events, you have to live with them. It looks like the market's kind of settling in, that this is probably in the magnitude of a one in 100-year event, give or take. But in evaluating that risk and looking at how well the models performed, or didn't as the case

may be, it does help our clients ultimately set their pricing, reevaluate coverages and deductibles.

You may have seen a lot of the grain storage bins. They look like crushed cans in many instances. And so now there being rethought in terms of how those should be constructed going forward and fortified to withstand this type of wind field and so on. And then I guess finally, we have to evaluate the performance of the reinsurance program. I'm really, really pleased to say that all of these losses, as big as they are, will be contained within the limits of the overall reinsurance programs purchased by our clients, which is always a good thing.

So what it means is at the end of the day, the reinsurance worked as intended. They always talk about reinsurance almost like a shock absorber on a car - absorbing volatility. And clearly that's what's happened here. The reinsurers have absorbed an awful lot of volatility and the surplus positions of our clients, in the main, have not been terribly impacted. They're in good shape to continue to serve their policyholders' going forward.

### **Chuck Chamness**

It's a great story. And you're right, the wholesale nature of reinsurance and reinsurance brokerage is just not apparent to really anyone except those who pay a lot of attention to insurance, an increasing number of companies who know it's absolutely essential that their business. So thank you for that valuable role. Last question was, we are running out of time, but I have to ask it because it is, I think, close to our mutual model that we know works so well for NAMIC member companies and their policyholders'. You led the effort to convert Holborn into an employee owned ESOP organization. Can you explain the benefits? I think I have a sense of what the benefits are but maybe from your own perspective, what the benefits are for your firm and for your clients?

### **Frank Harrison**

Thank you. It's a great question, and the short answer is this: prior to us becoming employee owned in 1998, we were a family owned business. The gentleman who owned the firm was getting up in years and did not have heirs to come into the business. So he had an estate planning issue to deal with. We had plenty of opportunity to merge with other firms. But we polled our clients and our clients told us emphatically they wanted us to stay independent and

to find a way to trade forward and not roll in with another company.

Our clients, I think, have a lot of trust in our capabilities and they like choice. We have this mantra and again, it's a little cheesy, but it works that the "client is king," or if you're a client of Holborn, you almost by definition want to be a "big fish in a small pond." But behind that, what it really means to our people is we don't focus on ourselves; we don't focus on outside shareholders or private equity ownership or whatever that may be. We focus purely on serving the needs of our clients, and it works well. So we came up with this ESOP structure because by definition it disperses the ownership, everybody in the company owns a share of the company. On a non-contributory basis you're awarded shares and these become the basis of your retirement account. So everybody's got an interest and stake. And if we don't do well at our jobs, we could be replaced in a nanosecond. Poof, there goes your retirement account.

We have a lot of talented people with a common focus and it's all about the team. It creates a natural teamwork environment and it allows importantly for perpetuation. We won't have this single employee ownership, succession planning problem. We have an ability now to have a mechanism to perpetuate the company forward, remain independent and continue to serve our clients. And so in many ways the ethos of Holborn is very similar to the mutual philosophy owned by the policyholder's and servicing those policyholders.

I feel really good about our ESOP. I'll tell you what it's really done in particular in the 20 or so years we've been employee owned, it's taken a family owned operation and created a full-fledged professional institution. And it's no surprise, really, that with the engagement and the ownership engagement of all the employees, we've massively improved our capabilities and we've had our most significant growth in recent years. And I got to tell you Chuck, in many ways we feel like we're just getting started. We feel like a startup company in lots of respects.

So it's working very, very well. I did an article recently and said "we're not for sale." We get hit on a lot by people, our competitors want to acquire us. There's money managers on Wall Street want to give us money and the like. And we don't need it. We don't want it. We love what we're doing. And we're just blessed to have an unbelievably faithful

clientele, high-class individuals and it's working incredibly well and long may it continue. You're right. I'm only the third CEO; in the not too distant future there will be a fourth. But we believe in long-term relationships and we really believe in the benefits of long-term relationships, like NAMIC, in the way you approach your membership.

### **Chuck Chamness**

Well, Frank, it's a good time to say thank you, thank you for your work with us, the trade association of so many of your clients and of course with your clients who support their policyholders' because of the support you're able to give them through reinsurance, which is essential to their business. And congratulations on 100 years. I'm sure we'll be celebrating down the road.

### **Frank Harrison**

We will. Can I say one last thing before I sign off? Because I know for me personally, it's an incredible honor to be the captain of the ship as we hit our centennial and I know the same is true for you as you hit 125. I just want you to know that I personally attended every NAMIC annual meeting since 1986. I think the one after 9/11 was canceled and this year was virtual. Those were the only exceptions. But Holborn has really enjoyed a very warm and I'd say mutually rewarding and even mutually dependent relationship with NAMIC. Long may that continue. But to you Chuck, I have to say this: You have led NAMIC with class and with grace, and I just want you to know that that has not gone unnoticed. Congratulations to you. We will miss you. I hope we continue to work together in some capacity going forward. But you've done a hell of a job for the industry that you serve, and I didn't want to sign off without saying "congratulations on a job very well done."

### **Chuck Chamness**

Well, thank you, Frank, I appreciate it and thanks for the time today on insurance unscripted this week.