



2015 AAIS MAIN EVENT CONFERENCE REPORT



Stephen Bushnell

Transformative Product Development Has Benefits Beyond the Bottom Line

Insurance product development usually happens in an incremental fashion, Stephen Bushnell told attendees at the 2015 AAIS Main Event conference. According to the former product director for Fireman's Fund, now an independent consultant, product development often entails adding an exclusion or a supplemental coverage within the confines of existing underwriting and pricing strategies.

"A transformative product," he said, "addresses a new, unrecognized, or under-served market. At the same time, it's evolutionary, not revolutionary. It plays on established insurance principles."

Beyond meeting the carrier's business objectives, said Bushnell, a transformative product will gain widespread attention from within and outside of the insurance industry, thus enhancing the insurer's reputation.

As an example of transformative product development, Bushnell described the process he and his Fireman's Fund team followed to develop the company's well-known "green" commercial property coverages.

Among other things, the company's "green upgrade" coverage would restore damaged property to a condition required to retain a designation of environmental quality awarded by a "green building" organization.

Benefits

Bushnell emphasized that he did not come to green coverage out of environmental sensibilities or conviction. Rather, he discovered the risk-related benefits of green construction as an insurance product manager charged with developing products for real estate owners and managers.

By attending meetings of trade associations in that sector, he learned how property owners and managers were intensely interested in energy efficiency, and that the energy efficiency provided by emerging green construction techniques could reduce utility bills by 30%.

"This struck me as interesting, because I knew that most real estate accounts paid much more for their utility bills than they did for insurance," Bushnell said. "I thought, there may be something here, so I made myself into a subject matter expert on green buildings." ►

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Contrasts

What he learned showed Bushnell just how challenging it would be to insure green construction separately from other commercial property.

For one thing, green construction involved some new types of exposures—including rooftop solar panels, vegetated roofs, and a range of relatively untested materials and building techniques—for which there was no appreciable underwriting experience.

Furthermore, green insurance, particularly coverage for an upgrade to a higher level of green certification, raised some fundamental questions about the nature of insurance coverage.

“Most property policies replace what’s destroyed with like kind and equality,” he said. “With green upgrade coverage, you have to make insureds better off than they were before the loss. There were real questions about the principle of indemnity; real questions about moral hazard.”

Work proceeded, however, largely due to a determination that green buildings posed less of a risk for loss than conventional structures.

“We concluded that a green-certified building was less risky, and we created a rate credit to reflect that,” he said. “For the upgrade coverage, we determined that the premium would best come from setting the total insured value higher than what we would normally use.”

Well-received

The concept was well-received among regulators, and the product was approved in all states within six months of its initial filing in 2006. Fortunately for Bushnell and Fireman’s Fund, the launch came at a

time of intense interest in green construction, and he was sought out for numerous media interviews and appearances.

According to Bushnell, more than half of Fireman’s Fund’s commercial accounts had green coverage endorsement in two years, and those accounts outperformed the overall book in both retention and loss ratio.

In the course of that, Bushnell and his team learned something else: owners of green properties were more careful stewards of their properties than property owners on average.

“Our conclusion was that insureds who bought this form were more concerned with the basic principles of risk management,” he said. “We [in effect,] have a very good selection process that gave us this good book.”

Despite its success, green coverage is often a tough sell to agents, Bushnell added.

“Agents were very slow to adapt to it, particularly the smaller independent agents” he said. “When we launched the program, a lot of agents thought [environmental consciousness] was our major emphasis. We had to continue to emphasize that this is a risk management approach.”

Today, he added, “many commercial insureds are asking their agents for the green coverage, rather than having their agents recommending it to them.”

The ultimate measure of the “transformative” nature of green property coverage, said Bushnell, was the number of carriers who copied the concept—even down to a typographical error in one of the Fireman’s Fund forms. ▶