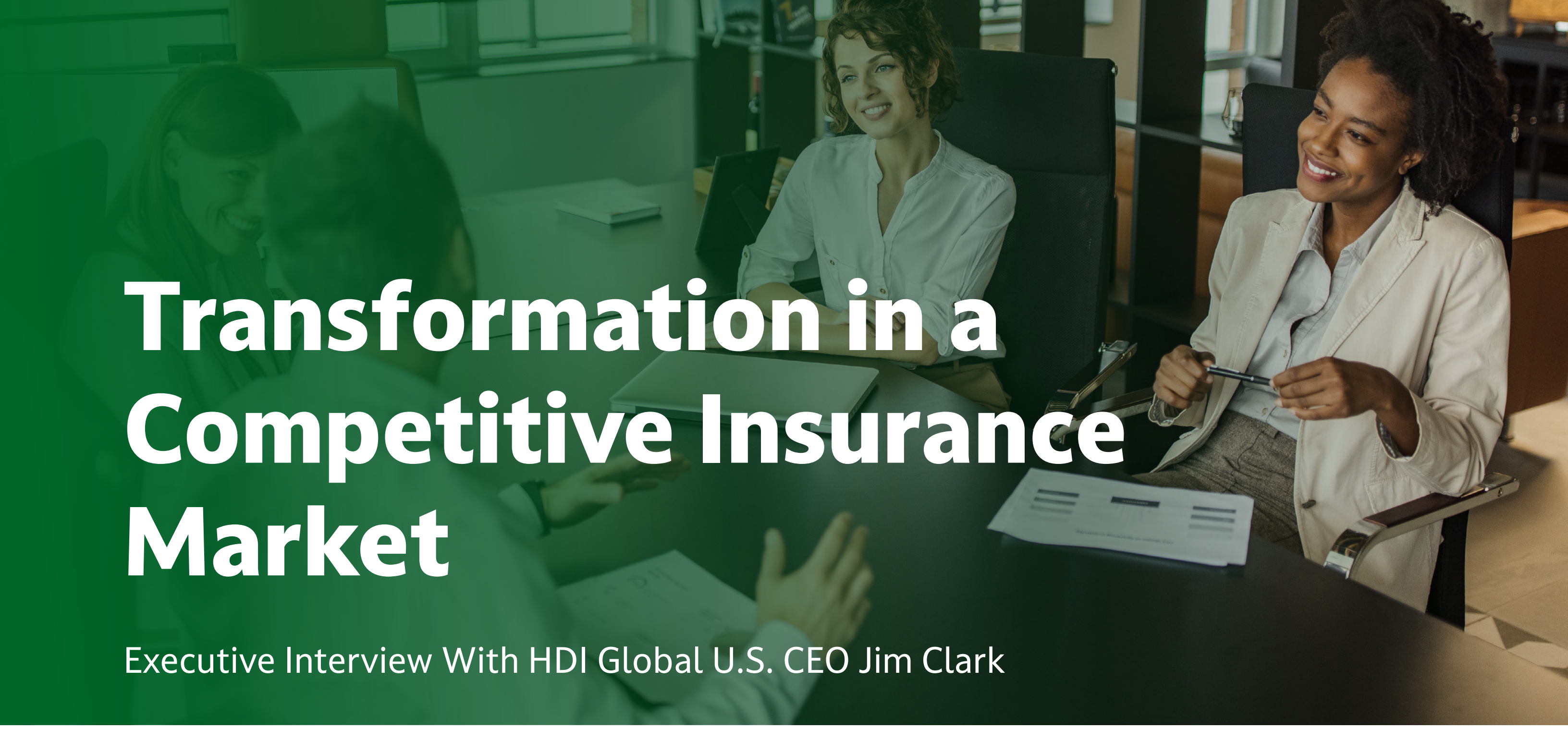


Transformation in a Competitive Insurance Market

Executive Interview With HDI Global U.S. CEO Jim Clark

In today's corporate and specialty insurance market, constant economic shifts, digitalization and new exposures present challenges and opportunities for insurers and insureds alike. With more than 120 years of insurance experience, HDI Global SE (HDI) understands the unique needs of its clients and what it takes to operate and grow in this increasingly complex risk landscape.

Zywave recently spoke to HDI's U.S. CEO Jim Clark, who detailed how the organization plans to not only embrace the greatest insurance market challenges of today but also thrive in the process. As HDI continues to expand in the U.S. market, Clark highlighted the ways the company is leveraging its expertise, sound financial position, technical know-how and winning culture to succeed and grow in the face of market uncertainty.

Jim Clark
HDI Global U.S.
Chief Executive Officer

HDI

The Path to Growth

Zywave: Could you share a bit about your journey into the insurance industry and how you ultimately came to HDI?

Jim Clark: I suppose I'm one of the few people who planned a career in insurance. In college, as I was pursuing accounting and finance, we had a new professor come over from Ford Risk Management, and he eventually started an insurance department and introduced a minor in risk management. I ended up taking one of his classes, and I remember it clearly to this day: He brought in real-world examples from Ford Risk Management about the decisions they were making as a company, particularly around products and insurance recall challenges. It really opened my eyes to how much depth there is in the commercial insurance sector—much more than I initially thought.

I ended up getting that minor in risk management and started my career in insurance in 1991, eventually landing at HDI in 2003. At that time and in terms of our U.S. footprint, HDI was still a small company. I was number 18 on the team, and we were less than $50 million in gross written premiums. Today, our U.S. operations has around 260 employees and a little over $1 billion in premiums. Our plan is to add 40 more people this year, and our five-year growth plan is to nearly double in size. It's been an exciting and rewarding journey, particularly as we've continued to expand beyond servicing international programs of European-based clients in the United States and are now able to do great business domestically in the largest, most competitive insurance market in the world.

Over the last 10 years specifically, we've seen a lot of growth, which has come with its fair share of challenges.

Zywave: Core to that growth is how HDI has expanded significantly in the U.S. market. Can you talk a bit more about that process?

Jim Clark: When I first joined the company, we were primarily handling inbound business—what we refer to as reverse flow business. This typically involved international programs, mostly originating from Europe. We were focused on servicing this inbound business, and I always believed we could do more. We were in the largest insurance market in the world, and there was potential beyond just managing inbound business, so I suggested we could begin focusing on the U.S. domestic market.

At the time, other foreign companies had entered the U.S. market with varying degrees of success. It's a tough casualty market, and there's significant catastrophe exposure on the property side, so we really needed to approach the expansion tactfully. One of the challenges faced by our peers was a lack of local management with deep knowledge of the U.S. market.

As time passed, HDI grew worldwide, especially after acquiring Gerling in 2006, which expanded our footprint. We've continued to grow and are now present in more than 175 countries, offering international programs worldwide. The shift became clear: The organization's strategy was to become a global player. Looking at many of our European peers, we saw that they typically derived 40%-50% of their revenue from the United States. The realization set in that if we wanted to be a true global player, we needed to become more relevant in the U.S. market.

Of course, we've been strategic in our approach. Instead of jumping into new markets too quickly, we've focused on mindful, steady growth. We've always been a niche underwriter in spaces like rail, life science, equine and renewable energy, among others. Now, we're expanding those niches more strategically.

Zywave: Do you see this growth primarily coming from introducing new products and attracting new customers, or do you also foresee merger and acquisition (M&A) activity playing a role in that growth?

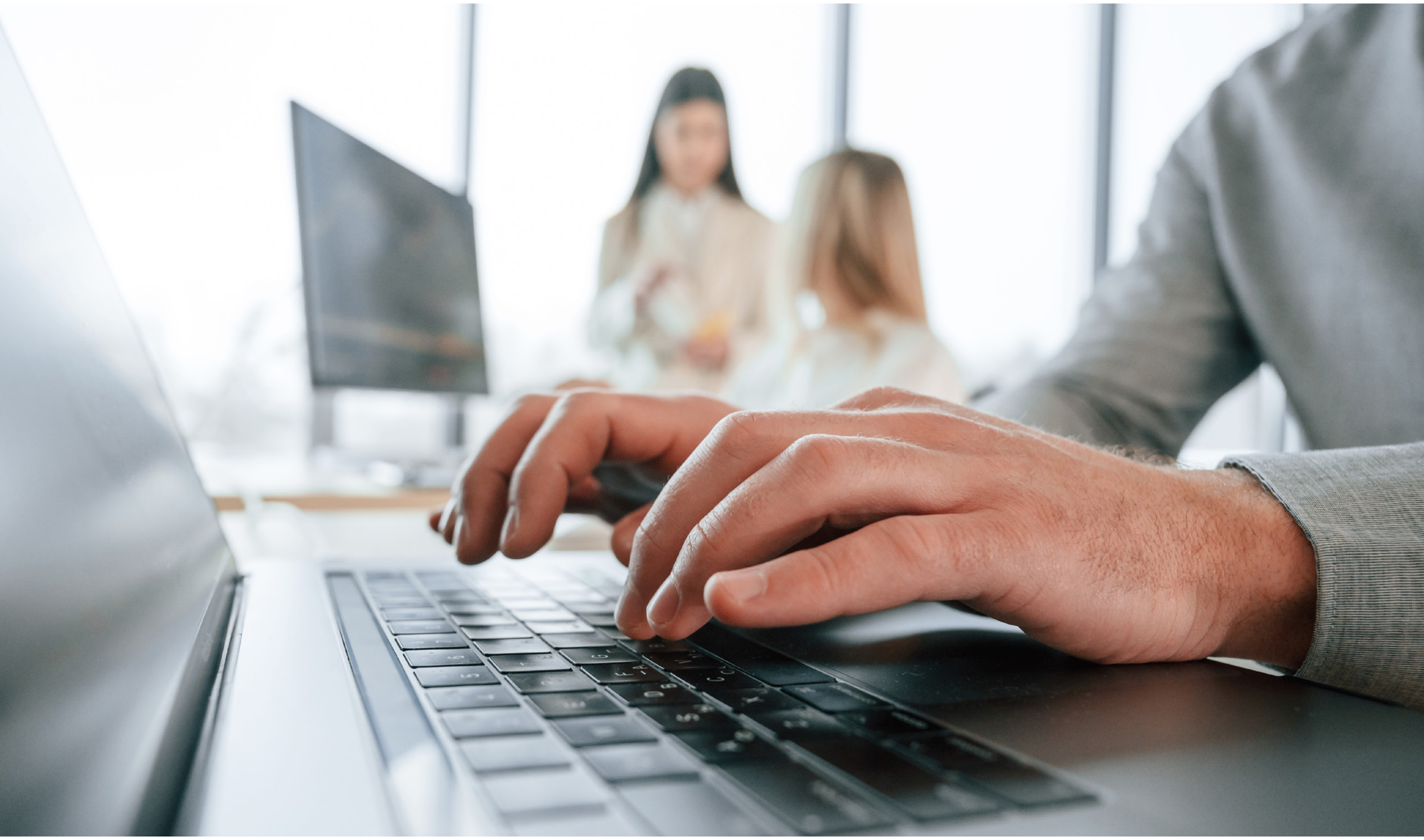
Clark: I think it's a combination of both. Our current focus is on expanding what we already do. From a segment perspective, we're primarily serving large corporate clients. Our property, marine, and casualty lines are mostly concentrated in that large corporate space with some exposure to excess and surplus lines, particularly in the construction and middle-market sectors. So, we're already deeply embedded in the large corporate space, but we are working to expand.

At the same time, we're adding new verticals to drive growth. For instance, we're now offering workers' compensation, commercial auto insurance, captives, environmental liability and marine coverage—verticals that weren't part of our offerings even just a couple of years ago. This diversification helps us tap into additional growth areas. While we'll continue to support our international programs with inbound reverse flow business, we will continue to add more resources (e.g., underwriters, systems and technology) to expand upon what we already do and grow into new verticals.

Specifically, we're prioritizing verticals that offer good cross-selling opportunities. For example, our new workers' compensation, commercial auto, captives, and environmental lines align well with our existing business, creating a win-win situation. Not only do we gain traction in new verticals, but we also enhance the value of our established lines of insurance. Together, this brings more value and expertise to the table for our clients and prospects.

On the M&A front, we are always exploring opportunities. As I mentioned earlier, our growth will occur even without M&A, but it's important to keep an open mind. If we find the right opportunity, it could accelerate our growth. That said, we are first and foremost committed to and focused on existing large corporate businesses.

I think when it comes to transforming and expanding, it's critical to remember your roots so you don't lose sight of the larger vision. HDI was founded in 1903 as an industrial insurer by German industrialists who were seeking more capacity. That's been in our DNA from the beginning, and we've never wavered from it. We've always specialized in large industrial risks, and that remains our sweet spot. That said, we're not exclusively limited to corporate and specialty lines in the industrial area. We are also a great fit for other sectors, such as real estate for example. While corporate and specialty lines remain at the heart of our operations, we are always open to exploring other areas that complement our industrial focus and offer profitable opportunities.



Challenges on the Path to Growth

Zywave: You mentioned earlier that, with expansion and transformation, there are challenges, particularly in the property and casualty markets. How have you seen those areas evolve in recent years, and how do you navigate such a varied casualty market?

Clark: The U.S. casualty market has always been difficult. You have to have good underwriting, a careful approach and deep expertise. It's not easy, and you need the best people with a strong underwriting approach—one that is broad enough to remain relevant in the market but also specialized enough to handle complex risks.

As a corporate and specialty insurer, HDI has a strong presence in sectors like chemical manufacturing and pharmaceutical. In fact, we are a world leader in pharmaceuticals, and we've recently established a life sciences practice to target the general liability and products liability segments for leading pharma, medtech and life sciences companies. However, one of the major challenges in the casualty space right now is the rise of nuclear verdicts. The industry as a whole has seen a number of nuclear verdicts, and they can be extreme. In some cases, they can seem unwarranted, given the evidence.

I think something needs to be done beyond the usual tort reform. The impact of these nuclear verdicts is starting to cause some of our large global clients, even those with substantial operations in the United States, to reconsider their approach. They are taking on higher retentions or even considering captives, but they're nearing the point of saying it's no longer worth it. Verdicts over $10 million, even as high as $70 million, are becoming more common, and it's putting a strain on insurers and policyholders alike. This trend has a knock-on effect: Clients can't afford their insurance or the retention risks they have to take on, and it may force them to reduce their exposure or even retreat from certain markets.

Zywave: What are some of the challenges on the property side?

Clark: Natural catastrophe risks have always been a factor in the United States, but I feel we've taken the right steps to protect ourselves and our clients. We went through a de-risking process a few years ago to improve our position, and the last few hurricane seasons have shown that it worked. Notably, we've had moderate losses, including from Hurricanes Helene and Milton.

What's really changing with natural catastrophes is wildfires—they're far more prevalent now than they used to be, just look at the severity of the recent wildfires in California. In the past, wildfires were a rare event, but now they happen every year, often in multiple locations. This is partly due to global warming, drier conditions and less rainfall. However, we're adapting to these risks by using existing data and aerial mapping to assess the locations of our risks and ensuring we don't have too much value exposed in high-risk areas.

Beyond wildfires, we've also seen changes with severe convective storms—hail, tornadoes and the like. While the United States, particularly in states like Oklahoma, has always had the highest risk for severe convective storms, we've seen that risk expand. Areas like the Carolinas, which don't typically experience such extreme weather, are now being hit by more severe storms. As a result, we've had to reevaluate how we deploy limits, taking into account this new risk footprint.

Loss control is key here, too. We're paying close attention to the buildings we insure, particularly those exposed to wind risks, ensuring they meet codes and have adequate roofing systems for their location. But at the end of the day, if a Category 5 storm hits, there's only so much that can be done to mitigate the damage. Some losses are inevitable.

The Roles Evolving Risk Management Techniques and Technology Play in Expansion

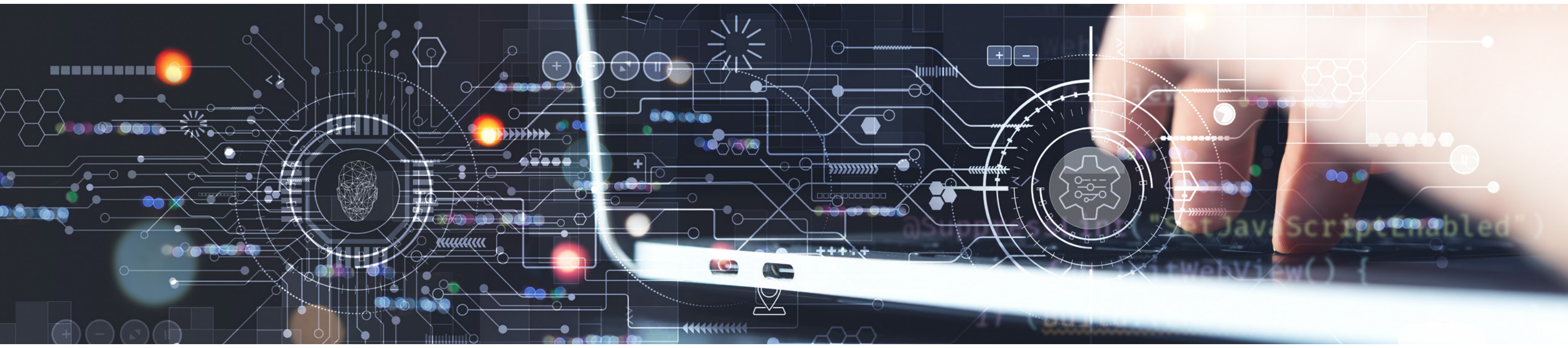
Zywave: How have you seen enterprise risk management and loss control evolve over the years? Do you see more deployment of technology, especially focusing on insured values?

Clark: On the loss control side, we're definitely innovating. We're using artificial intelligence (AI) and recommending technology products like water monitoring devices, which alert clients to unexpected water flow or leaks and help prevent water damage claims.

Additionally, we've piloted systems that allow for remote loss control inspections. A plant manager, for instance, can use a tablet to conduct a survey while our loss control experts direct the process from a different location, instructing them to pause or focus on specific or potentially problematic areas. This was particularly helpful during the COVID-19 pandemic when physical visits were restricted, but we still needed photographs and documentation of an inspection. HDI Risk Consulting, an internal division within the company that brings together over 200 engineers and risk specialists from many different disciplines is always exploring ways to go beyond traditional risk management methods.

Zywave: More broadly, sticking with risk management, how have you seen risk management approaches evolve over the years? Are there any notable developments that you think are setting the industry on the right path for the future?

Clark: Rather than something groundbreaking, it's been more about gaining deeper knowledge on the risk management side and a better understanding of what insurers can offer. The pandemic has changed the way risk managers interact with underwriters, particularly with tools like Teams and Zoom. It's replaced some of the traditional in-person meetings, which has led to more meaningful interactions. This virtual shift makes it easier, and often faster, for risk managers to get more information about their carrier partners' offerings.



There's also been a broader awareness in the industry. Risk managers are becoming more knowledgeable and understanding of available mitigation strategies. In particular, we've seen a significant uptick in the use of captives. At major captive conferences, we often get questions from risk managers who are just starting to explore captives. They'll admit they don't know much about the space but want to learn more to determine if it's right for their company. So, it's a combination of increasing awareness and a broader view of the tools available to risk managers.

Zywave: Where do advancements in technology fit into all this?

Clark: I'm a big believer in technology, and I'm heavily involved in our IT landscape and vision. Recently, I've been very excited about leveraging AI wherever we can to streamline our processes, make us more efficient, help with our cost ratios, and provide the best service possible to our brokers and clients.

Beyond AI, one thing I can see coming down the road is the ability to bring in submission information into our CRM system, supplementing it with both external and internal data, which will ultimately give us a risk score. This can help the underwriters prioritize, which is important because some of our areas of focus, like our excess and surplus lines, get thousands of submissions. The volume makes triaging difficult. You might be missing out on opportunities you should have pursued. Conversely, you may end up pursuing opportunities that aren't a good fit.

Technology is really going to play a major part in the industry in general, as well as at HDI, especially as we move forward with implementing a new system and leveraging all the data and AI we can.

A Winning Approach

Zywave: You mentioned that risk managers are becoming more knowledgeable about what their carriers can offer. In your view, what should a carrier be offering to their clients?

Clark: That's a great question. One of our key value propositions is that, although we're not the largest player in the market, we're agile, and that's our advantage. Our size allows us to offer bespoke solutions.

Within our underwriting team, we have a phrase: "Let's find what 'yes' looks like." It sounds simple, but it's powerful. We can't solve every problem, but we're quick to assess if we can. From there, we seek innovative insurance and risk management solutions to fit the insured's needs.

Brokers and clients appreciate this because they know we won't just tell them no. If we can't provide exactly what they want, we offer something tailored to their requirements. It's about being agile and finding solutions rather than just offering generic off-the-shelf policies.

Being a large company can sometimes make it harder to change course, like a big cruise ship. But as a smaller, more agile company—think of it like a motorboat—we can adapt and offer tailored solutions. That's really where we differentiate ourselves. For our large industrial clients, they typically don't want off-the-shelf policies. They want something more customized, something that fits their unique needs. It's not just about offering a solution; it's about offering a tailored, customized solution for each client.

Zywave: In keeping with that, when you're offering a solution that works for clients, do they always know what they want? Is that an area where you help guide brokers and clients, suggesting a better fit than what they initially asked for?

Clark: Definitely—that's really part of the bespoke process. When we work with large corporate clients, they usually have a pretty good understanding of what they need, especially since they typically have a full-time risk manager. Their broker is also selected based on their industry expertise, so there's a lot of know-how already on the client and broker sides.

But we also bring our expertise to the table. Whether it's in sectors like oil and gas, chemicals or pharmaceuticals, we can suggest improvements or changes based on our experience. We've been in the business for over 120 years and still have some founding members as clients, which not many companies can say. So, we certainly have a wealth of experience to draw from. We're not going to force our ideas on anyone, but when we think we can offer valuable suggestions, we always do. Given our history and the evolution we have undertaken as a company, our vision is to be a Partner in Transformation to our clients.

Zywave: It sounds like HDI is really hands-on with their partners, and a lot of decisions the organization makes may be at least partly motivated by your customer relationships. When it comes to expanding into new verticals, is that client-driven or based on market research?

Clark: It's a combination of both. Our head of sales and distribution is constantly meeting with brokers to understand their pain points and identify their needs. We also try to organically identify new products or verticals that complement what we're already doing.

For example, when we brought in workers' compensation and commercial auto, that allowed us to offer a more complete casualty solution, benefiting not just that vertical but others, too. It's about finding opportunities where our capacity can fill a gap in the market—something that's needed but not already over-saturated.

A good example is our captives initiative, which has been a successful area of growth for our team. Brokers, captive managers and others in the space were eager for another carrier to provide not just fronting but also risk-taking and servicing. So, we learned that there was a real demand for our solution.

We take a multipronged approach. We're constantly benchmarking ourselves against competitors to identify what we're not doing yet. We also look for opportunities where new verticals can be a good cross-sell to existing ones. For example, environmental insurance is a great fit with our construction segment. And when we acquired a company last year focused on surety coverage, that was also a perfect cross-sell for our construction book.

So, we're always looking for new areas to expand into, but we prefer to make sure they can stand on their own and also provide synergy with our existing segments.

Zywave: What's an area you see expanding or something you're particularly excited about as an opportunity in the U.S. market?

Clark: I'm really excited about our environmental initiative. It's part of a broader global push at HDI to dive deeper into the whole environmental, social and governance (ESG) space. The environmental part of ESG has been around for decades in forms like contractor pollution or site pollution insurance, but now we're really focused on building out our environmental vertical.

This initiative also aligns with a broader global focus at HDI, where we're looking to grow our presence in environmental coverage, especially in markets like the United States, where we haven't done as much so far.

Zywave: Having a global parent company must offer some advantages. Can you leverage that global experience to assist in the United States?

Clark: In some ways, Europe is ahead of us with ESG initiatives, particularly from a regulatory standpoint. The German regulators are more involved, and that has a spillover effect. If it's important for them, it will ultimately become important for us, too. It's better to get a head start before U.S. regulators begin to ask questions like, "How are you supporting ESG?" and "What kind of products do you have?" So, it's really helpful to have a global parent that's a bit ahead of the curve on some of these matters.

The same goes for green initiatives. As I mentioned earlier, we want to be a Partner in Transformation, meaning we want to support our energy partners and clients as they move to green. This could involve underwriting, loss control and other resources to support that journey.

Being part of the Talanx Group, a nearly $50 billion global organization, which is parent to not only HDI but Hannover Re – certainly lends us credibility with U.S. brokers. Having that large parent behind us provides financial security and credibility. We also carry the very strong S&P and AM Best group ratings, so we benefit from the strong presence of the larger organization, which helps us day to day.

A Winning Culture

Zywave: And where does workplace culture fit into all this? How does it play into your growth initiatives and value proposition for your clients?

Clark: I'm really proud of HDI's culture, not just worldwide but locally as well. As I mentioned earlier, in the U.S., I was number 18 in the company back in 2003, and now we're up to 260 people, with another 40 joining this year. Through it all, we've always maintained that close-knit, family feel.

One of the main reasons strategies fail is because they aren't aligned with company culture, so it's critical that we align both our culture and strategy. If there's a gap, we'll make the necessary adjustments. We also have a cultural orientation during onboarding to ensure new hires understand what our culture is about.

We also emphasize hiring people who fit our culture, especially entrepreneurs and trailblazers. We look for people who are willing to roll up their sleeves and get things done rather than just tweaking existing systems. Innovation thrives in our environment because we don't have layers of management to go through. However, hiring the right people is key, as well as fostering a culture that encourages growth and innovation.

Zywave: Attracting talent must be challenging, especially with the shift in how people view work since the pandemic.

Clark: It's definitely more difficult now. People reevaluated their priorities during the pandemic, and now flexible work arrangements and a better work-life balance are more important to them than ever.

But we've also made a strong push to attract young talent. We attend career fairs at colleges and offer internships, with many interns eventually being offered full-time positions. We've even started outreach in high schools, where we've found a lot of success. Most students don't think much about insurance, often associating it with companies like GEICO or Progressive. But when I tell them about some of our major clients, whose brands are known globally, it sparks their interest.

We also have a robust onboarding process, and we're building a better career development program with training opportunities not just for new hires but also for managers who want to continue developing leadership skills. All of that contributes to building a better culture. And I can't stress how important culture is for a company on a path to growth.

HDI is becoming a trusted partner in the market more and more. Ten years ago, save for the few brokers who dealt with us on the inbound business, nobody knew who we were. Our brand is growing. We're becoming more important to more people in the market, and I think we're just scratching the surface.

I enjoy the position that we're in. I enjoy the fact that we are becoming more relevant to the market. We're not yet a household name, but we're getting close.

About HDI Global SE

Corporate and Specialty insurer HDI Global SE (HDI) meets the needs of SMEs, larger companies, middle market and corporate clients with insurance solutions that are specifically tailored to their requirements. In addition to HDI's prominent position in the German and broader European market, the company has access to its own worldwide HDI Global Network, which covers more than 175 countries through its own HDI foreign branch offices, subsidiaries, affiliated companies, and network partners.

In the United States, HDI operates through its three (3) wholly owned subsidiaries, HDI Global Insurance Company, a commercial property and casualty insurer headquartered in Chicago, IL and licensed in all 50 states, Washington D.C., Puerto Rico, and the U.S. Virgin Islands, HDI Global Select Insurance Company, a commercial property and casualty insurer licensed in Washington D.C., and in all US states, and HDI Specialty Insurance Company, an Illinois domestic surplus lines insurer which provides both primary and excess coverage to specialized industries and is also authorized to write business nationwide.

Acting as a Partner in Transformation, HDI leads more than 5,100 International Programmes and offers its multinational customers compliant coverage worldwide. HDI is the Corporate & Specialty Division of the Talanx Group and has been a leading insurer for several decades. Approximately 5,000 employees in this division generated insurance revenue (gross) of approx. EUR 9.1 billion in the year 2023 (according to IFRS 17).

The rating agency Standard & Poor's has given the Talanx Primary Group a financial strength rating of AA-/stable (very strong) and AM Best has assigned an A+ rating.