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The Insurer TV

ESG Insurer

Published: Thu 29 Feb 2024

Nationwide's Johnston: Casualty fears warranted amid legal system abuse

Successful insurers will be those that focus on specialisation and can help mitigate losses for insureds in an evolving risk environment that includes pervasive threats such as legal system abuse, according to Nationwide's Russ Johnston.



Speaking to *E&S Insurer*, Johnston – who is president of P&C commercial lines for E&S and specialty at mutual giant Nationwide – said that the idea of being a generalist in the P&C sector “is a bit of a dinosaur”.

Under the executive’s leadership, Nationwide’s E&S and specialty business has had a strong focus on specialisation with the ongoing roll-out of a series of industry verticals.

“Customers need partners who understand their risks, meaning that they have a specialist orientation,” said Johnston.

And he added that Nationwide also has a focus on value protection, working with insureds to help mitigate losses.

“We’ve all been through this inflationary period and obviously that impacts the cost of risk. The frequency of severe weather events is not going away and things like litigation funding – which we call legal system abuse – are not abating.

“If you’re a customer and you’re partnering with someone who is not trying to help you protect your business more, even to the extent of protecting them from actually experiencing the loss ... I think you’re playing a game where you’re signing up for an ever-increasing cost of insurance,” Johnston suggested.



“We don’t think this environment is going to abate, so focusing on this protection piece, coupled with a greater focus on specialisation, is not only a winning strategy for us, but it actually helps our customers”

Russ Johnston of Nationwide E&S/Specialty on the carrier’s strategy in an evolving risk environment

The executive said that buyers finding carriers that can help minimise or eliminate loss potential is in the interest of both parties, across all commercial insurance lines.

“We don’t think this environment is going to abate, so focusing on this protection piece, coupled with a greater focus on specialisation, is not only a winning strategy for us, but it actually helps our customers,” Johnston continued.

Nationwide has identified around a dozen industries for its specialty verticals approach and is in the process of rolling them out, including loss control capabilities and claims functions oriented around customer segments.

Johnston said that the insurer views its verticals approach as a longer-term strategy.

“This comes back to us as a mutual. I think public companies struggle to build this effectively because they’ve got more constituents to worry about than we do.

“Our customer is effectively our shareholder and so we can think about things over a longer-term horizon and make the investments required to do it exceptionally well, and I think others in the industry don’t have that capability,” he explained.



Key Points

- Nationwide E&S/Specialty is now the fifth-largest E&S insurer in the US
- Carrier has been rolling out industry verticals structure
- Division’s president Russ Johnston highlights focus on specialisation and value protection for insureds
- Executive warns that without reforms legal system abuse will lead to carrier retrenchment

Casualty concerns

Commenting on growing industry concerns around deteriorating casualty loss cost trends, Johnston said he shared the sentiment.

“I think the fear is warranted. When you’re a casualty underwriter you’ve got two things you’ve got to manage to: you’ve got what I’ll call traditional inflation, and then there’s the legal system abuse,” said the executive.

He said that underwriters can get their arms around traditional inflation and have dealt with the threat “reasonably well” over the long term.

“The wild card is legal system abuse. There’s no way to model that a claim three years ago cost \$5mn and today it costs \$25mn. There’s no way to model how juries are reacting to severe claims today versus what their behavioural outputs would tell you over the last few years,” Johnston suggested.

He added: “I think the reason why we’re all being so cautious is because you could walk into a litigation and have the policy language and the facts on your side, and you think you’ve got a \$10mn claim, yet you walk out and it’s \$70mn.”

The Nationwide executive warned that in the absence of real change, insureds are going to face some “really challenging times” in the near future.



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Nationwide’s Russ Johnston on the impact of legal system abuse

“If the industry can’t figure it out, then they retract and that doesn’t help anybody. It doesn’t help our regulators, it doesn’t help the customer, and it’s certainly not what we want to do as an industry,” he continued.

Commenting specifically on the litigation funding industry that has emerged in recent years, Johnston argued that the approach is no longer about making a plaintiff whole, but about a return on investment for third-party capital.

“You go into a courtroom, and you’re not actually negotiating with the plaintiff, you’re negotiating with a faceless third party who nobody even knows exists. At a minimum that has to change,” he opined.

Nationwide has been actively recruiting to support its specialist strategy, significantly increasing its headcount in the segment over the last two years.

Johnston said the carrier has more than 500 loss control engineers, some that already have an industry focus.

“I think some of the best risk professionals you actually hire out of the industries that you’re focused on. I think we’ve got some great people but I’d be lying if I said we can do this only with the talent we have.

“We’ve got to continue to invest in the talent that we have and supplement that with people we bring in from the outside,” he added.

Specialist focus and distribution

Nationwide's emphasis on specialisation is enabling it to become more of a strategic partner for its brokers, according to Johnston.

"I think we bring to the table what very few – if any – can, which is the recognised brand around a customer-centric orientation," he said.

"When a customer is interacting with us, from an underwriting [perspective] and policy coverage, terms and conditions – they've been written with the customer's industry segment in mind. And then when we send loss control engineers out – it benefits us both if we can minimise or eliminate the loss – the teams we send out are experts in those industries," the executive continued.

When claims come in, the customer is able to talk to somebody within Nationwide's claims organisation with a focus on their industry segment.

Asked about Nationwide's distribution strategy in relation to its industry verticals, Johnston was adamant that the carrier would not move to a dual distribution model.

"Our appetite will be very much industry-centric ... we're very respectful of the fact that the wholesale market is a meaningful part of our business and operates very differently to the retail market, and we're not about to go down the path of a dual distribution model.

We think they both bring value, but we're going to approach them differently," he said.

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