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CEO Interview

Photo courtesy of Crum & Forster

Crum & Forster Moves Forward as Cyber Insurance, New Technologies Emerge

The 200-year-old company is keeping up its tradition of "looking out there at the horizon and seeing what's new and interesting" as the insurance industry experiences significant changes, said Marc Adee, Crum & Forster's chairman and CEO.

by John Weber

Crum & Forster has been a mainstay in the insurance industry for two centuries. Now the company is coming to grips with some of the industry's most significant changes ever and the multiline insurer has found itself adapting to—and even embracing—the evolution of insurance in technology and society.

Marc Adee, Crum & Forster's chairman and CEO, spoke with AM Best TV about how the 200-year-old company is adapting to the ongoing

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HEADQUARTERS: A view of Crum & Forster's campus in Morristown, New Jersey. The company is celebrating its 200th anniversary this year.

changes in the industry, particularly with cyber insurance, insurtechs and environmental, social and governance becoming more prominent.

Following is an edited transcript of the interview.

Tell us a little bit about Crum & Forster's history and origin.

Crum & Forster, now coming up on our 200th anniversary this year, goes way back to New York and Capt. Richard Whiley setting up The North River Insurance Co. to insure buildings in New York and has had a checkered career since then. We were a publicly traded company. We were owned by Xerox. Ultimately, in the late '90s, Fairfax bought Crum & Forster. Since then we've been developing our diversified book of specialty insurance products up to scale.

At a Glance: Crum & Forster

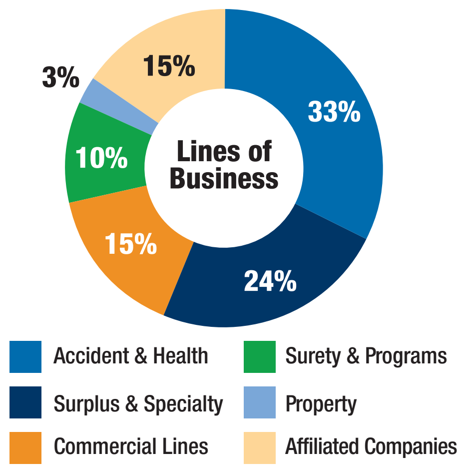
Incorporated: Feb. 6, 1822, as The North River Insurance Co., domiciled in New York

Headquarters: Morristown, New Jersey

Number of Employees: 3,000

Number of Offices: 30-plus nationwide

AM Best Financial Strength Rating: AM BEST A Excellent



Sources: Crum & Forster; New Jersey Department of Banking and Insurance

What are some of the significant coverages Crum & Forster has offered over the years?

We were one of the first to write workers' compensation. We were one of the first to write package policies before that was a thing. We were one of the first in the excess and surplus lines space. If you're around that long you get to see everything up close.

Coming into the modern age, we're one of the first to write pet insurance. We're maybe a little later to the cyber game but this will be considered the early days of cyber. We're trying to keep up that tradition of looking out there at the horizon and seeing what's new and interesting for us.

You mentioned Xerox owning Crum & Forster. How did that happen and how did it work out?

It did not work out that well. If you think about it, Xerox had discovered a lot of the things that are now everyday—the mouse, and the graphical user interface at their Palo Alto Research Center. They basically gave that to Apple for free and, in the meantime, were buying Crum & Forster.

If you think about that era, that was a tough time for insurance companies. A lot of the environmental issues, and some of the long-tail lines, started to show up to the party right after Xerox bought Crum. The first time I was with Crum in the mid-'90s it was part of the Xerox era and they were trying to spin off all the different pieces. The Crum & Forster of today is the piece that held that name and didn't get spun off.

When did Fairfax come into the picture? What's it like being owned by a Canadian company?

Fortunately, Fairfax bought us in the late '90s. The Fairfax guys are great. Prem's [Prem Watsa, CEO of Fairfax Financial Holdings] great. He's built a good company over the last 37 years. The culture is awesome. They've got a very decentralized approach. A lot of his speaking points for all those years are very consistent with today's push for social corporate responsibility. He does a great job, from that standpoint. We like being part of Fairfax at this point and it's been a good run for us.

AM Best has a long and storied history, like Crum & Forster, and we've spent a lot of time and effort bringing our story to our employees. How is C&F doing that with your employees?

What has been interesting over the last few years, with people working from home, we've wrestled with: How do you take your culture to that next level, with 3,000 people working in 3,000 different locations? As I'm sure, a lot of people felt their culture was centralized in their office building. Now, that's not the case. A lot of what we do is a lot more dialing up the communications.

One of the more interesting ones is, I've been sending out a weekly note to all the employees every Friday that tells what's going on at Crum or what's going on with me. It's been pretty interesting because now I get a lot of feedback from people who are in offices or other locations, such as their homes, that I wouldn't normally have had contact with.

Establishing all those connections across the company, it does take a lot more work but it's been very satisfying. It's a fun way to do it. We're looking at how we take that up a notch. We spend a lot of time making Crum a great place to work.

Like I said, a lot of that had been focused on what we do when we're all together and now it's going to be: how do we do that with people in their home offices? Then, putting that externally, how do we make Crum & Forster a great company to partner with over the long term? As we look out at the next 100 or 200 years we want to find partners who want to grow old with us as it were. We'll see how that goes.

Has that work-from-home environment been a major disruptor and what are some of the major disruptors in the industry as you see it?

It's been eye-opening. It's been good for everybody. People are fighting it a little bit now, or everybody's in that middle of trying to figure it all out. We've embraced it.

It makes it more interesting for us, in terms of hiring people. It gives people a working arrangement that they can continue longer than they might have otherwise. There are a lot of benefits from the work-from-home. We still have the office option, obviously.

Work-from-home and the hybrid, the way people have embraced it, has been good. As far as other disruptors, when people talk about insurtechs, I'm not as worried about that. I think that is good for everybody. That keeps everybody on their toes. Somebody will come up with something interesting and then all of us will copy it.

For big disruptions, we're more about keeping our eyes on some of the big incumbent players that are more likely to come up with something interesting than some of the insurtechs who might be more innovating on the marketing side.

Probably, the other big one, COVID itself, was interesting. We all know it could have been a lot worse than it was. As we look at our enterprise risk management models and what went wrong, we had COVID on the list of things that could cause trouble but we totally got wrong how it was going to impact and the second-order effects.

I would say there, we're looking hard at aggregations of things like cyber, silent cyber, catastrophes, the next pandemic. Things like that could be really disruptive and so trying to crystallize: What did we learn from COVID? As an industry we dodged what could have been a much worse situation.

Social inflation is probably another one that could be pretty disruptive. Definitely it's not a pro business or pro insurance world out there right now.

That's been manifesting in some, I would say, lawsuit abuse. That's one that needs to get reformed. I don't think it's good for the business but it's definitely not good for the country either. That's one that, hopefully, people will give some attention to so that it doesn't disrupt us too much down the road.

Let's go back to the insurtechs that you were just talking about. What are the insurtechs and/or technologies that you're keeping an eye on in the insurance industry?

I would say the biggest one, the most interesting one for us right now, is the machine-learning tools that maybe two or three years ago were very esoteric. The people we had thinking about them, it was like they were talking about science fiction. Now it's bread and butter.

A lot of our secret sauce, in terms of how we think about the business and how we decide what we're going to do and not do, is driven by these machine-learning algorithms. That's a huge difference from where we were a few years back, where the people who could build the machine learning or AI were going to disrupt everyone. Now most people are incorporating that into how they look at the business.

There's definitely a societal mistrust of AI, or machine learning, or algorithms, however you want to think about that. To the extent that people are using those in their rate filings, that's going to make for an interesting discussion on the regulatory front. You've got AI algorithms that are inherently hard to explain and now you're trying to explain them in a filing to the states.

Ultimately we're going to have to resolve how that all works out. Some of those technologies are super interesting and evolving quickly. It's almost like magic when you look at what some of the people can do with those tools.

How much of an impact is ESG having, particularly on a diversified portfolio?

Fairfax has been big on giving back to the local communities. For as long as I can remember we've been doing that at Crum.

On the social front, you've got a lot of people who are in that next generation who are excited to engage and take that to the next level. That's been fun to watch. That's evolved. That dovetails into what I think is a huge opportunity for the industry, with looking for maybe a more diverse employee base.

The way I look at that is not many of us came to the insurance business fully prepared for what an insurance company does. Because of that, the industry has built up all these self-study mechanisms. Whether it's the Institutes, or the actuarial society in my case, you've got these ways to get people up to speed.

If we can get that message out there that, "Hey, this is the kind of business where you can walk in the door cold and we'll get you where you need to go," if we can get that message out there with groups of people who otherwise might not be thinking that insurance is something for them, that's a huge win for the business.

That's the social aspect. Governance is something that everybody's had on their mind for a long time, so I don't think that's a big difference. The environmental part is where it gets a little harder to predict. What does that mean? Where do you stop, in terms of who's socially unacceptable

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Crum & Forster

insured? Who gets to make that determination?

I've seen recently pressure on people to not insure certain groups. That doesn't seem like the right angle to stop somebody from doing something objectionable. That's a slippery slope. For us the nice thing about diversification is if something isn't working out we've got other things in the hopper that'll take up the slack.

Any regulatory concerns on your mind?

Yes, I would say other than the general idea that the regulatory framework reflects a lagged opinion of society. Right now being anti-corporate isn't going to make it easy for us to operate.

In some sense, how do we get the message out that we're doing good work and greasing those skids of progress? That's a message that we probably have to hit more often.

Where do you see Crum & Forster headed, near term and long term? You mentioned employees being around 100 years from now.

With us, our longevity is about the culture. How do we build that culture? Like I said earlier, the world's changing. The work-from-home world is going to make things interesting.

When we think about longevity, we've got the platform and the product capabilities. Getting people excited about working for us over a long period of time and be able to build their career, we spend a lot of time focusing on that, learning and development and career paths and trying to get that embedded in the culture.

Then there is a huge people aspect to this business still. I'm not sure we'll ever mechanize that or automate that away. I'm not looking forward to the day when they do that.

We are looking for partners who want to have a long-term relationship with us and we want to make sure that we can honor our side of that.

For us, we're looking at continuing to grow and fine-tune our underwriting model and make life interesting for employees and partners. If we can do that over time we should be in good shape. BR