

The Critical Need for Infrastructure Improvements

**An Interview with Paul Horgan,
Head of North America Commercial Insurance, Zurich North America**

EDITORS' NOTE Paul Horgan was previously head of Global Corporate in North America. He joined Zurich as Chief Underwriting Officer for Global Corporate in North America in 2007. Prior to joining Zurich, he held a number of senior roles at Liberty Mutual Insurance Company. Horgan holds a bachelor's degree in economics from the State University of Maine and an M.B.A. in finance from Saint Joseph's University.



Paul Horgan

COMPANY BRIEF Zurich Insurance Group (Zurich; zurich.com) is a leading multi-line insurer that serves its customers in global and local markets. With about 54,000 employees, it provides a wide range of property and casualty and life insurance products and services in more than 210 countries and territories. Zurich's customers include individuals, small businesses, and mid-size and large companies, as well as multinational corporations. The Group is headquartered in Zurich, Switzerland, where it was founded in 1872. The holding company is Zurich Insurance Group Ltd.

In North America, Zurich is a leading commercial property-casualty insurance provider serving the global corporate, large corporate, middle market, specialties, and programs sectors. Life insurance offered in the United States is issued by Zurich American Life Insurance Company, an Illinois domestic life insurance company.

What are your views on America's infrastructure today?

It's at a critical state. In 2017, the American Society of Civil Engineers gave America's infrastructure an overall rating of D+ based on the condition of our roads, our bridges, and other vital areas.

A D+ means that most of that infrastructure is below standard now with significant deterioration, and many elements are approaching or have surpassed the end of their useful life.

Canada is facing many of the same challenges. About one-third of the municipal infrastructure there is considered to be at risk of rapid deterioration according to a 2016 infrastructure report card. This is not just a U.S. issue, but a North American issue.

The U.S. interstate highway system is, on average, more than 50 years old. The U.S. Department of Transportation estimates it's

going to cost almost \$190 billion to address the needed repairs and improvements to bring the roads back up to code.

The same thing is true of our bridges – we don't have to look much further than the I-35 W highway bridge in Minneapolis, which collapsed and resulted in 13 deaths and 145 injured. There was another collapse on a bridge on Interstate 10 in South Carolina that stranded hundreds of motorists and required urgent replacement, which drove the cost significantly higher.

We have an estimated 1.2 million miles of water main pipes in the U.S. and we're experiencing over 240,000 water main breaks a year. This causes a tremendous amount of disruption to communities, and the cost of repairing those on an emergency basis becomes exorbitant.

The aging infrastructure has resulted in greatly increasing costs. In the energy industry, the aging infrastructure of the power distribution grid is doing two things: one is increasing our vulnerability to having far more power outages in major urban areas, and it's also making us vulnerable to cyberattacks.

Anywhere we look in our infrastructure, there is a critical need for improvements in order to keep the U.S. economy competitive in the world environment.

Is the economic impact from these issues becoming better understood across the country?

There is an increasing understanding of this issue across the country. There is no doubt that our infrastructure is costing the economy countless hours of lost productivity and efficiency, as well as additional costs that get worked through the economy. These costs end up moving on to the customer.

This exposes customers and companies to a number of risks as well. By 2020, it's estimated that the obsolete and outdated infrastructure including roads and bridges are going to cost American businesses about \$1.2 trillion a year. Even today, businesses are spending \$27 billion in additional freight costs due to the poor condition of the roads. It's a real drag on the economy today.

Just a one-hour power outage on the electric grid, on average, costs a commercial business just over \$1,000. There is an impression that these things don't cost a lot, but they cause

a real struggle for so many businesses that are affected.

Even today, people are seeing their car insurance increase, and a good portion of that increase is coming from the deteriorating road conditions that are causing more accidents and damage to people's cars.

These are very tangible examples of how much this is costing the U.S. economy and costing individuals through significant time delays and reduced efficiency, as well as a lot of money out of pocket.

Is the proper conversation taking place to result in action to address this issue?

We would have liked to see more progress by this time, but the good news is that with the new administration and the new Congress in place, both sides of the aisle agree that infrastructure is an issue. The new administration has talked about making it a priority, so the key is to keep that dialogue going and getting people to lead this forward in the very challenging political environment that we have today.

The insurance industry plays a key role in this. We try to highlight the challenges and the costs to the economy and to the companies in the U.S. and encourage the parties to come together.

We consider infrastructure investments to be a real game-changer. We're not just talking about filling potholes; it's also about dealing with the cyber challenges today or dealing with the severe weather that has been occurring today. We need to make sure the infrastructure we put in place is built to face the challenges of the next century, not the last century.

Zurich absolutely supports the idea of establishing a national infrastructure rebuilding program that involves direct federal funding of the projects as well as incentives to encourage private investment. It's going to take all parts of the economy, including the government and the private sector, to fund this massive investment that will have to occur to get our infrastructure back up to world standards.

Will public/private partnership be the key format that will make things work?

I believe it's one of the solutions. Up to 20 percent of the necessary infrastructure changes can be funded through public/private partnerships. Today, those partnerships only represent about 2 percent of the funding, so there is a big upswing that needs to occur to fill the funding that will be required for this part of the solution.

At Zurich, we have a key insight into this because we're one of the leading providers of surety products in the marketplace. We have significant exposure and experience working on public/private partnerships across the globe.

We know that it's important for us to continue to play that role. We can make sure the government is secure in its investment and, by providing surety backing to make sure that the project is completed, we can encourage and attract private funding and capital for these projects.

Our surety bond works hand in hand with the contractor to make the projects financially viable and ones that people think are attractive investments.

Are you finding similar type solutions in Canada as well?

We have. Canada is probably more comfortable with the public/private partnership concept and has already used it on a number of bridges and roads in Canada.

In the U.S., we're trying to help get communities and the government comfortable with the concept of the public/private partnership and showing that this is a viable solution.

We do have some great examples in the U.S. where public/private partnerships have been successful, and Zurich has been a part of many of those projects. We need to highlight these and spread the word so more people and institutions become comfortable with public/private partnerships.

A recent study showed that when a government agency has had experience with public/private partnerships, there is a 90 percent chance of them considering a public/private partnership when a new project comes up. When they don't have any exposure to public/private partnerships, the willingness to look at

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that alternative drops over 50 percent. Getting that word out is very important for the success of these types of projects.

How important is a focus on long-term investment since there are no short-term solutions?

That is an opportunity and challenge. These are big infrastructure projects, and many of them are interstate in nature. Getting a consistent format out there where all states are encouraged to legally enter into public/private partnerships across the country is an important variable.

We believe the insurance industry can help by bringing our expertise in safety to the project and sharing how to do it in a smart and effective way. We can also supply insurance products to make sure it's built safely and that the environment is protected. We can put surety products in place to make sure that all of the parties involved – the civil parties and contractors – all have financial backing ensuring that, if something goes wrong, the projects will still be completed and will generate the benefits that everyone expects. This is the area where we think we can really support this overall concept – we can bring the high level of certainty that a surety product provides to these types of projects.

Is that type of thought leadership a key strength and differentiator for Zurich with regard to these kinds of issues?

We want to continue to be thought leaders in this space. We're one of the largest construction insurance underwriters in the country, and we have been doing this for a long time. We have worked on everything from the Hoover Dam when it was constructed years ago to current day major infrastructure projects, like The Miami Port Tunnel, the Pennsylvania Bridges Project, and the Indiana Toll Road.

We see ourselves as having long, deep, and established roots within the construction industry and, therefore, valuable experience across many types of complex projects.

Bringing our expertise, our thought leadership, and our financial backing to those projects provides a vote of confidence that these are viable projects worthy of being funded. Our provision of this backstop puts a positive seal of approval on the process.

We feel it's only right to support this conversation as a good citizen of the country and to be strong supporters of the many contracting customers and companies for which this infrastructure development is their everyday business.

Are the elements in place to be able to address the challenges that will come to fulfill such a large and quick building boom?

According to a Bloomberg analysis, to spend \$100 billion a year for the next 10 years to redo this infrastructure, we're going to need more than 500,000 additional construction workers and skilled labor professionals, and those are not available in the economy today. The construction industry faces the challenge of how to attract the next generation of talent into the construction field and how to retrain their workforce in the U.S. to undertake these skilled labor jobs.

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There is a great deal of creativity being applied now in the public/private area on trying to retrain the workforce. There is good work being done right now through apprenticeship programs.

Two years ago, Zurich established the first white-collar apprenticeship program because we faced a very similar issue to the construction industry in trying to attract the next generation into the insurance industry.

We work with Harper Community College in Illinois and have committed to bringing 100 students to them. Zurich pays them to go to school two days a week and to come to Zurich three days a week. At the end of two years, they come out with an Associate's Degree in business with no debt and a job with Zurich if they so choose.

Does the talent pool today adequately understand the innovation taking place within the insurance industry and how dynamic this industry is?

This is a message we have been working hard to get out to the next generation to attract diverse talent into the work environment. This is something the apprenticeship program tries to address in attracting a different set of skilled labor that historically might not have come into the insurance industry.

We're talking to the next generation about the career paths that are available in the field. This is a challenge, but it's one on which we're spending a great deal of effort via internships and other methods to tell our story that we are a part of the fabric of the American economy and an industry that allows people to take the interests they have and work in that space. ●