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Private Flood Insurance Gains Ground; Regulation, Technology Drive Change

The fledgling market for private flood insurance has made gains in both direct premiums written and in the number of insurers offering the coverage, helped by an improving regulatory climate and advances in technology.

Direct premiums written rose 70% to about $702 million from 2016 to 2018, according to AM Best data as of Aug. 7. Prior to 2016, AM Best lacked data on private flood.

The National Association of Insurance Commissioners, meanwhile, tallied more than 120 private flood writers in 2018, compared with about 90 in 2017 and 50 in 2016.

In Florida, 31 entities were approved to write primary flood and six to write in excess of the National Flood Insurance Program, according to a June Best’s Special Report, citing the Florida Office of Insurance Regulation. Direct private flood premium in Florida has increased 67.8% since 2016, to $79.7 million in 2018, according to the report.

This growth comes as new regulation, models, flood maps and tools to measure risk encourage insurers to expand in this market, which has long been dominated by the NFIP.

“There’s been a lot of movement in the past couple of years to help remove some of the impediments to creating a healthy private market,” Matt Nielsen, senior director, global governmental & regulatory affairs at RMS told AMBestTV at an RMS Exceedance conference in May.

Two of the big barriers, he said, have been the subsidized rates charged by the NFIP as well as bank regulations that have restricted acceptance of private policies for mortgage lenders.

Flood losses are excluded under standard homeowners and renters policies. Coverage is available under a separate policy from the NFIP and a few private insurers. The private flood market, however, has begun to grow as these issues are addressed and new initiatives move forward.
“The regulatory community really has embraced the notion that the flood market should look
at privatization,” Fred Karlinsky, an attorney with Greenberg, Traurig, told AM Best TV at the RMS
conference.

Flooding causes billions in economic losses each year, according to the Insurance Information Institute.
Some recent catastrophic flood events include heavy rains and snowmelt in the Midwest earlier this
year that caused widespread damage to homes, livestock, farmland, roads and bridges. Hurricane
Harvey stalled over Texas in 2017, causing unprecedented flooding in Houston while Hurricane
Florence in 2018 caused catastrophic flood damage in the Carolinas.

Regulation

Regulation has been a critical issue for the nascent private flood market.

Stability in the insurance regulatory environment is “the ultimate determining factor in the success or
failure of private flood,” according to Robert Hartwig, director of the Center for Risk and Uncertainty
Management at the University of South Carolina.

Uncertainty at the federal level has long muddied the waters. The NFIP has had $16 billion in debt
forgiven but remains $20.5 billion in debt. It has been propped up by short-term extensions, lapsed
twice since fiscal year 2017 and is now set to expire on Sept. 30.

Some senators are pushing “for a full overhaul of the NFIP system,” said David Blades, associate director
derector of industry research and analytics at AM Best. “If it comes to fruition it would be a huge boon for
insurers. Better information is what’s going to help solve some of these issues,” he said.

“The private flood market has been growing in recent years, as insurers have started to develop a better
understanding of flood patterns, and modelers have developed more sophisticated tools to measure
risk,” according to a June AM Best report. “There is also a growing need for more competitive and widely
available flood products aside from the government-sponsored National Flood Insurance Program, as its
permanence and funding remain in flux.”

The NFIP offers flood coverage to homeowners, but at a subsidized price that makes the private market
less competitive. The government has hesitated to allow rates at the NFIP to rise to actuarially sound
levels as that would result in rate increases that would impact consumers.

Even so, the industry has been making progress on rates.

“The flood insurance product has been rated the same way it has been since it began,” said Patty
Templeton-Jones, president of Wright National Flood Insurance Co. “I think we’re going to start seeing
some innovative things come out of NFIP. In October of 2020, NFIP will be introducing Risk Rating
2.0,” she said.

Risk Rating 2.0 will change the way the Federal Emergency Management Agency rates a property’s
flood risk and prices insurance, according to FEMA. It would base premiums on individual property risk
rather than on whether a home is inside a designated flood plain.

FEMA said its current rating methodology has not changed since the 1970s. “But since then, technology
has evolved and so has FEMA’s understanding of flood risk,” the agency said.

“What they’re hoping that will do is produce actuarially sound rates that will really provide a better
view for what the risk is on a rate base for all of the different locations within the flood zone,” RMS’
Nielsen said, noting the private market would then be able to better compete rate-wise with NFIP.

Banking regulations also have been a factor in holding back the private market.
One key development came July 1, when federal regulatory agencies implemented a final rule on the private flood insurance provisions of the Biggert-Waters Flood Insurance Reform Act of 2012. The rule requires lending institutions to accept private flood insurance policies. Previously, only NFIP policies were accepted for homes with loans in designated flood zones.

The regulatory stamp of approval makes the product more appealing to policyholders, AM Best’s Blades said.

**State Regulation**

At the state level, Florida has the largest and fastest-growing private flood market in the country, according to Florida Property/Casualty Deputy Commissioner Susanne Murphy. The market is supported by a regulatory office that expedites reviews of entrants because it wants to boost the number of flood-insured properties.

“Everyone in Florida is in a flood zone,” Murphy said at a recent conference, noting only about one third of the state’s 6 million properties carry flood protection.

Private carriers in the state wrote 62,000 personal primary flood insurance policies through the end of April, up 169% since June 2017, and at prices similar to or lower than those of the NFIP, according to the Florida OIR.

Florida encourages competition in the line by allowing carriers to file flood rates through 2025 on an informational basis and then react to new information by adjusting prices, according to Carolyn Kousky, executive director of the Wharton Risk Center at the University of Pennsylvania. Roughly 20% of U.S. private residential flood is written in the state.

**Modeling**

New flood models and maps are also helping insurers to better understand and price flood risk, with AIR, Corelogic, RMS, FM Global and the National Council of Insurance Legislators among the organizations that have developed them.

Scientists from seven universities and tech nonprofit First Street Foundation in June said they will calculate the past, current and future flood risk of every U.S. property then distribute the data for free.

A large percentage of FEMA flood maps are outdated — 11% are from the 1970s or 1980s — incomplete, and fail to take into account changing environmental conditions, said Steven McAlpine, the foundation’s head of data science.

First Street plans a probabilistic flood model that accounts for storm surge and tidal, rainfall, and riverine flooding. It plans to adjust the models to account for anticipated changes, such as sea level rise, increased precipitation, and stronger severe storms, layering the information atop 50-year flood histories on individual houses.

Many insureds would “jump at the opportunity to purchase a multiperil property insurance policy that provides seamless protection against flood damage,” Hartwig said. “The demand has always been there. What differentiates it today is the data, the information, the modeling is there to price the risk appropriately.”

“This represents a multibillion-dollar opportunity for property insurers,” Hartwig said.
However, Blades said the models are progressing slowly. “Just when modelers think they have the answers, the questions change.”

Greenberg Traurig’s Karlinsky said he thinks it’s still moving the needle. “Insurers stayed out of the market when it was poorly understood … understanding rates and risks has been transformational. Modeling advances will increase the appetite for people who want to write this.”

**A Growing Market**

Direct premiums written in private flood totaled more than $700 million in 2018 — that’s up from just $413 million in 2016, according to AM Best data as of Aug. 7. The NFIP, however, provided $1.3 billion in coverage in 2017, according to statistics from FEMA. NFIP policies-in-force have declined from a peak of 5.7 million in 2009 to 5.05 million at the end of April.

The No. 1 writer of private flood in 2018 was FM Global with a market share of 42.71%, according to AM Best data. Assurant US, the No. 2 writer, made big gains from 2016 to 2018, with market share rising to 11.83% in 2018 from just 0.38% in 2016. Zurich Financial went from zero market share in 2016 to become No. 3 with 10.99% in 2018.

“Increased competition is probably a good thing for a natural cat peril. You do need to spread the risk,” said Gary Love, FM Global staff operations underwriting manager and vice president. Increased flood exposure is pushing insurance rates higher, he added.

Palomar Specialty Insurance Co is a new competitor in private flood. It offers an admitted product with dwelling limits up to $5 million, contents coverage up to $1 million and $50,000 loss-of-use in 11 states: Hawaii, California, Oregon, Arizona, Nevada, Utah, Oklahoma, Illinois, Indiana, Pennsylvania and in South Carolina only on properties more than five miles from the Atlantic Coast.

Improved technology enables risk segmentation and a platform that allows distributors to issue a private flood quote in 30 seconds and bind it in two minutes, said Cameron Conboy, Palomar product development assistant vice president. Love said FM Global has 1,500 engineers complementing its underwriting. “We look at exposures site by site by site. To really know your own exposure you need to know your own site, there are huge differences” in seemingly similar properties.

Private carriers now participate in the NFIP through the FEMA’s Write-Your-Own program in which private carriers administer policies for the NFIP. About 70 WYO companies are listed by FEMA as participating in the program. Under the WYO, carriers are paid to service the policies while the NFIP is responsible for paying out policyholder claims. However, FEMA has been actively exploring ways to grow the private market beyond the WYO program.

Private carriers can also offer more flexibility in coverage limits. The total payout on an NFIP policy typically can’t exceed $250,000 for residential buildings and $500,000 for non-residential buildings, according to the FEMA website. Private flood policies can provide higher coverage limits.

**Challenges**

Conboy said one challenge for the market is that product demand is soft when it’s optional. The National Association of Insurance Commissioners surveyed 1,000 Americans in May about flood insurance and found a major disconnect between intention and action. Forty-one percent of respondents agreed or strongly agreed on the need, but just 17% thought they bought it.
The number likely reflects the common misconception that homeowners insurance covers flooding, said NAIC President and Maine Bureau of Insurance Superintendent Eric Cioppa. FEMA estimates the take-up rate for flood insurance is about 3%.

“The key issue is that most people don’t buy flood insurance, especially in flood-prone areas like we are here in Florida,” Rich Fidei, shareholder at Greenberg Traurig, told AM BestTV, speaking at the RMS conference. “The uptake on it is higher in a place like Florida than it is nationally, but it’s still not that great, nowhere near where it should be.”

The NAIC study compared flood insurance buying habits among three generations and found millennials were not only more than twice as likely to recognize the need, they were nearly three times more likely than older baby boomers to purchase the product.

“As an industry we can do more to raise awareness of the tremendous resiliency gap,” Conboy said. (By Renée Kiriluk-Hill, associate editor, BestWeek: Renee.Kiriluk-Hill@ambest.com)

AIG Chief Touts New Group Strategic Initiative as General Insurance Improves

As its general insurance turnaround gains momentum, American International Group Inc. launched a “critical” strategic program to improve processes and infrastructure, said the group’s chief executive officer.

AIG has seen an “impressive” turnaround in general insurance using disciplined underwriting and reinsurance strategies, with “strong momentum” heading into the second half of 2019, said President and CEO Brian Duperreault in a conference call.

“I can confirm that we expect to achieve underwriting profitability for the entire year,” he said.

Duperreault said rate increases accelerated in the second quarter “and in some cases materially.” He said the current market cycle has more underwriting discipline “and rigor around the deployment of capacity rather than a major decline in capacity.”

“That discipline seems to be playing out through the pricing models and underwriting processes that are recognizing increased loss costs, frequency, the tort environment and other emerging risks,” Duperreault said. “To me that means the turn is based on facts rather than emotion, and is therefore more sustainable.”

According to Duperreault, AIG is seeing strong rate improvement across most of its global portfolio. He noted AIG is instituting its rate increases in accordance with its strategy to reposition its businesses as market leaders by refining its risk appetite, reducing the group’s risk profile, overhauling reinsurance strategy to limit volatility and reducing capacity “in certain areas.”

AIG is instituting a multiyear enterprise-wide program called AIG 200, to be led across all of the group by Peter Zaffino in his capacity as group chief operating officer, said Duperreault. AIG 200 will focus on opportunities to improve core processes and infrastructure, he said. Under the program AIG will need to make “transformative and sustainable improvements that will require investment.”

He said AIG is “not taking shortcuts” with this program, which he dubbed “critical to our long-term success.” The group will report on AIG 200’s progress in future calls, he said.

Duperreault said the “AIG 200” name refers to the group’s celebration of its first 100 years and its looking forward to the next 100.

(AM Best Analysts: Life and Annuity Insurers Better Prepared for Next Downturn)

Ken Johnson, senior director, and Thomas Rosendale, director, both of AM Best, examine how changes in product mix and asset allocation, along with a focus on asset liability management and enterprise risk management, will likely affect life and annuity insurers in the event of an economic slowdown. http://www.ambest.com/v.asp?v=cyberrecut819

ACORD’s Pieroni: Global Insurance Opportunities Are Hiding in Plain Sight

Bill Pieroni, chief executive officer, ACORD, said a new study of economic conditions and insurance penetration levels around the world show that some countries considered mature markets may have surprising appetites for insurance. http://www.ambest.com/v.asp?v=pieroni519

WTW’s Steiner: Underwriting Is Ripe for Insurtech Impact

Kimberly Steiner, senior director, Willis Towers Watson, said customer expectations continue to rise, with many expecting to deal with insurers across the channels of their choice. http://www.ambest.com/v.asp?v=steiner519

Grace Global’s Vandecruze: Innovation Begins With a Multidimensional Workforce

Grace Vandecruze, managing director, Grace Global Capital, said keeping customers at the center of innovation will help overcome internal silos. http://www.ambest.com/v.asp?v=vandecruze519

AM Best Analysts: Cyber Insurance Market Expanding But Racing to Keep Up With Exposures

AM Best analysts and cyber risk experts examine the ongoing growth of the cyber insurance market, including emerging risks and aggregation considerations. http://www.ambest.com/v.asp?v=cyberrecut819
Zaffino, who is also CEO of general insurance, said in the call that AIG is watching the evolving developments in the tort environment, with the expanding impact of “social issues and social inflation.” Noting that these are not new issues, he said AIG has been following legislative and case law developments for some time, including their relationship to proposed and adopted “reviver statutes.”

Noting that AIG is “adept at managing complex claims,” Zaffino said the group is working to understand these developments and to “address these emerging, complicated and sensitive risks as they mature.”

Duperreault added the market is reacting to social inflation, noting that “it’s a society-wide problem and will be reflected in society’s reaction.” He said AIG has been dealing with similar issues for years, adding that “it’s certainly an issue that everybody had at the top of their mind.”

In recent earnings conference calls the CEO’s of Hartford Financial Services Group and Chubb Ltd. said the insurers are watching developments involving social issues and reviver statutes.

Second-quarter net income attributable to AIG common shareholders rose to $1.1 billion from $937 million in the prior-year quarter. General insurance gross premiums written were flat at $8.65 billion.

The general insurance combined ratio was 97.8 compared with 101.3 a year ago.

AIG recorded $174 million of catastrophe losses net of reinsurance in the quarter, up from $150 million a year ago. About $170 million of those losses were in North America and the majority of losses were due to weather events, said Zaffino.

General insurance results reflected a decrease in the adjusted accident year loss ratio reflecting a change in business mix, including the acquisitions of reinsurer Validus and program manager Glattfelder, improved new business and renewal terms and reduced volatility due to the increased use of reinsurance, he said.

Zaffino added that over the past 18 months the segment has filled a number of “critical roles.”

In life and retirement, adjusted pretax income of $1.0 billion reflected strong private equity returns, including income of $138 million from an initial public offering of a holding in the private equity portfolio and favorable market performance impacts which benefited net investment income and deferred acquisition costs amortization, said Kevin Hogan, CEO of life and retirement.

Hogan said the group has seen recent volatility in equity markets and related to interest rates, but is looking to continued growth.

He added AIG is pursuing an opportunistic growth strategy in the pension risk transfer business while noting that AIG 200 also includes the life and retirement business.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

Hartford Financial CEO: Commercial Rates Improve as Navigators Acquisition Closes

HARTFORD, Conn. - The completion of a specialty lines acquisition and improving commercial lines rates brightened the outlook for Hartford Financial Services Group Inc. as the group keeps an eye on industry loss trends, said its chief executive officer.

The group is encouraged by a recent firming in commercial lines pricing, particularly in global specialty, which is better than anticipated when Hartford first announced its $2.1 billion acquisition of
specialty underwriter Navigators Group, said Chairman and CEO Christopher J. Swift in a conference call.

“Loss trends in certain lines needed increased pricing to achieve acceptable returns” as pricing, terms and conditions improve, particularly in international, where “results in recent years have been poor,” he said.

Swift said Hartford is also seeing stronger pricing and growth opportunities in middle and large commercial lines.

The outlook for commercial lines, including Navigators, is strong for the second half of 2019, he added.

Swift said Hartford is watching potential claims trends as states seek to implement “reviver statutes” with their potential effect on bodily injury and mass tort claims, whether on a primary or excess basis. Hartford’s ability to deal with “complex claims” will serve it well, he added.

“All on the social side I understand the effort to allow people to talk about their injuries and present claims,” Swift said, but noted it’s a “slippery slope to open up years of case law and litigation and how contracts are resolved.” Hartford is involved in three related areas – commercial auto injury liability, sexual abuse and reviver claims and head injury.

Swift said Hartford is “well aware and has been on top of these trends for a long time” and will be sensitive, but “equally vigilant in asserting our rights because the rest of our policyholders will expect that, and that’s where social inflation comes into effect.”

In a recent conference call, Chubb plc Chairman and CEO Evan G. Greenberg also mentioned reviver statutes, which he called a “specter” that is “unknowable at the time” (*Best’s News Service, July 24, 2019*).

A Best’s Commentary from July cited a possible increase in claims and litigation that could significantly affect insurers that specialize in providing coverage to academic, religious, daycare and municipal entities, as well as other childcare employers.

This scenario may be elevated in New York state, which enacted legislation to expand the statute of limitations governing the time frame under which victims can seek civil relief for sex abuse allegations. In addition to New York, 16 other states and the District of Columbia have similar laws taking effect in 2019. An additional three states passed legislation in 2019 to broaden the statute of limitations.

Swift said Hartford is implementing Navigators Group as its acquisition was finalized in May, a move he said “brings expanded market and growth opportunities in commercial lines.”

In mid-May, Hartford said it received all the necessary regulatory approvals to close the acquisition of the specialty underwriter as the New York State Department of Financial Services approved the deal.

Second-quarter net income available to common stockholders fell to $372 million from $582 million in the same quarter a year ago. Consolidated earned premiums rose to $4.17 billion from $3.96 billion.

Swift said the commercial lines result was “solid,” while personal lines results “were much better than last year” with a lower loss ratio, including reduced catastrophe losses.

The quarter’s result included charges related to a previously disclosed adverse loss development cover
Health Insurance Market Abound in Hong Kong’s Growth Opportunities

Market Segment Report: Domiciles Poised for Growth
MPL Industry Results Improved in 2018 But Challenges Remain
MPL writers pressured by shrinking demand, prolonged soft market conditions, and diminishing reserve redundancies.

Market Segment Report: Economic Growth and Specialization Bolstering
Inland Marine Expansion
The U.S. inland marine segment — one of the P/C industry’s most profitable — continues to expand, as it benefits from the ongoing growth in both construction and transportation.

Market Segment Report: D&O: Is There Really Light at the End of the Tunnel?
The D&O market is showing strain due to intensifying competition and a number of emerging issues.

Market Segment Report: Asia-Pacific Captive
Domiciles Poised for Growth
Expanding captive insurance legislation in a number of jurisdictions is setting the stage for thriving captive markets in Asia.

Market Segment Report: Growth Opportunities Abound in Hong Kong’s Health Insurance Market
Growth opportunities for Hong Kong’s health insurers are significant, but they will need to overcome profitability challenges to reap the benefits.

for Navigators and an increase in loss reserves from the completion of a review of the 2018 and previous accident loss years, Swift said.

The underlying combined ratio for commercial lines (which does not include a Navigators current accident year loss reserve charge) was 93.2, compared with 90.0 a year ago. The personal lines combined ratio was 97.5, compared with 104.9 a year ago.

Current accident year commercial lines catastrophe losses rose to $90 million from $74 million a year ago, said President Doug Elliot in the call. Personal lines catastrophe losses fell to $48 million from $114 million a year ago.

Hartford’s group benefits segment had an “outstanding” quarter with good persistency and new business levels, along with continued growth in voluntary product sales, Elliot said.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

Berkshire Hathaway Sees Second-Quarter Slide in Insurance Underwriting Income

OMAHA, Neb. - Berkshire Hathaway Inc. posted a sharp decline in underwriting income for its Geico primary insurance business as the reinsurance segment saw an underwriting loss, offset by higher insurance investment income and gains from non-insurance businesses in the second quarter.

Second-quarter net income attributable to Berkshire shareholders rose to $14.07 billion from $12.01 billion a year ago, the group said in a Form 10-Q filing with the U.S. Securities and Exchange Commission. Insurance premiums earned rose to $14.86 billion from $14.15 billion.

After-tax earnings attributable to the insurance businesses fell to $353 million from $943 million a year ago. The combined ratio for the Geico primary insurance segment rose to 95.6 from 91.9. For Berkshire Hathaway Reinsurance Group, the combined ratio rose to 91.4 from 85.3 a year ago.

Insurance losses and loss adjustment expenses rose to $10.67 billion from $9.40 billion.

Berkshire posted pretax underwriting income of $393 million in its Geico primary insurance business for the second quarter, down from $673 million a year ago. The reinsurance group posted an underwriting loss of $104 million for the quarter compared with underwriting income of $297 million a year ago.

Insurance investment income rose to $1.37 billion from $1.14 billion. For Geico, second-quarter premiums written rose 5.7%, according to the filing. The increases reflected voluntary auto policies in-force growth and increased premiums per auto policy over the past year.

The increase in voluntary auto policies in-force resulted from an increase in new business sales, the filing said. The increase in premiums per policy was attributable to rate increases, coverage changes and changes in state and risk mix. Voluntary auto policies in-force increased about 570,000 in the first six months.

“Geico’s combined ratio was significantly above our forecast … including about $29 million of reserve charges and no catastrophe losses, with the (year on year) deterioration likely reflecting rising severity trends and accelerating rate competition, partly offset by favorable frequency trends,” said equity analyst Meyer Shields of Keefe, Bruyette & Woods in a research note.

Geico reduced ultimate claim loss estimates for prior years’ loss events in the first six months of 2019, the filing said.
“The comparative reduction in gains in the first six months pertained to both physical damage and liability claims,” said Berkshire Hathaway. “Claims frequencies in the first six months of 2019 for property damage and collision coverages and personal injury protection coverage were down (2% to 4% range) compared to 2018 and were flat for bodily injury coverage. Average claims severities in the first six months of 2019 were higher for property damage and collision coverages (4% to 6% range) and bodily injury coverage (6% to 8% range).”

Geico’s underwriting expense increased in the first six months, attributable mainly to increases in advertising expenses, insurance premium taxes and employee-related costs, reflecting wage and staffing increases, the filing said.

In June, Geico said it plans to hire 700 employees in Tucson after moving 1,500 current staff members to new regional offices in July (Best’s News Service, June 27, 2019). Positions will be filled over several years in sales, customer service and claims handling, Geico said at the time.

The reinsurance group’s property/casualty premiums written rose 11.4% in the second quarter while a rise in year-to-date premiums earned was due mainly to new business, net of nonrenewals, and increased participations for renewal business.

Losses and loss adjustment expenses in the second quarter rose $45 million, or 3.2%. “There were no significant catastrophe loss events affecting our reinsurance operations during the first six months of 2019 or 2018,” the filing said.

“Pretax underwriting losses in 2019 and 2018 derived from deferred charge amortization and changes in the estimated timing and amount of future claim payments, as well as from foreign currency gains and losses arising from the periodic re-measurement of liabilities related to contracts written by our U.S. subsidiaries that are denominated in foreign currencies,” the filing said.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

MetLife CEO: Asia Markets Remain Important Despite Hong Kong Sale

NEW YORK - MetLife Inc. remains committed to its Asian markets despite a recent decision to sell its Hong Kong business as the group progresses on a strategic review, said its chief executive officer.

“Market conditions were mixed overall” in the second quarter, said President and CEO Michel Khalaf in a conference call. “Strong equity markets fueled a rebound in variable investment income,” gains that were offset by the impact of falling interest rates on recurring investment margins and by the strengthening of the U.S. dollar, he said.

“Although the interest rate environment remains challenging, our results demonstrate that we have become a less market-sensitive company,” said Khalaf.

Second-quarter net income rose to $1.68 billion from $845 million a year ago. Premiums fell to $10.13 billion from $15.15 billion. Total revenue fell 17% to $17.50 billion. Khalaf said one of his top priorities for 2019 is to compete a strategic review of the group’s businesses. He said business leaders across the company “are engaged in this process” and the group will provide an update at a Dec. 12 investor conference.

“Our strategic changes are more likely to be evolutionary than revolutionary,” said Khalaf. “We are
taking steps to optimize our portfolio so that we can maximize the value of our highest potential businesses.”

He said an example of that portfolio optimization is the recently announced sale of MetLife’s Hong Kong business. In late June, FWD Group agreed to acquire MetLife’s insurance business in Hong Kong for an undisclosed amount, the companies said in a joint statement (Best’s News Service, June 28, 2019).

The Hong Kong registered business of FWD Group will buy MetLife Ltd. and Metropolitan Life Insurance Company of Hong Kong Ltd. from the U.S.-based insurer. The parties did not disclose the terms of the deal, which is subject to regulatory approvals.

“MetLife has strong franchises throughout Asia, and we are committed to the region,” Khalaf said. “However, after a thorough review of the Hong Kong business we did not see a path to scale or risk-adjusted returns above our cost of capital. By selling this business, we will free up additional resources to enhance value creation.”

When MetLife announced first-quarter results in May, Khalaf noted progress in building his management team as the group saw growth in U.S. and international markets (Best’s News Service, May 2, 2019).

Ninety days into his tenure as CEO, Khalaf said the group “worked to reinforce the connection between our purpose and our strategy.”

MetLife’s “flagship” group benefits business reported strong earnings results due to volume growth and expense margins, said Khalaf. He said the business is seeing growth across all markets.

The retirement and income solutions business saw higher variable investment income and favorable underwriting that offset recurring investment margins, said Khalaf. For the property/casualty segment, adjusted earnings benefited from favorable underwriting — mainly lower incurred catastrophe losses — “reflecting the re-underwriting of our homeowners business,” he said. The property/casualty segment reported pretax catastrophe losses of $78 million for the quarter, $30 million lower than the same quarter a year ago, said Chief Financial Officer John McCallion in the call.

McCallion said favorable mortality in group life was mostly offset by less favorable non-medical health results compared with the prior year. In the Asia business, adjusted earnings were relatively flat from a year ago, in part due to the negative impact of the U.S. dollar relative to most Asian currencies, offset by strong volume growth, said Khalaf.

“Competition in the Japanese foreign currency-denominated product market pressured (foreign exchange) sales from a year ago,” he said, adding that effect was partly offset by higher accident and health sales in Japan and continued strong sales in China.

The Latin America business reported an 18% rise in adjusted earnings, due mainly to strong returns in Chile and Mexico and good volume growth, said Khalaf. Earnings were down in Europe, Middle East and Africa compared with a strong second quarter a year earlier but were in line with expectations, Khalaf said. He noted sales were strong in U.K. group benefits and credit life in Turkey.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)
Prudential CEO: Interest Rates, Costs Shadow Results as Strategy ‘Accelerates’

NEWARK, N.J. - Interest rate movements and costs related to an accelerated growth strategy are among a number of factors shadowing results for Prudential Financial Inc., said the group’s chief executive officer.

Despite what management sees as a “mixed quarter,” the group is confident it can achieve its financial goals as outlined at an investor day in June, said Chairman and CEO Charles F. Lowrey in a conference call.

At the investor day Prudential increased its return on equity goal while outlining an earnings per share growth in the high single digits in the medium term with potential for low double-digit growth over the long term, he said. A “significant decline in long-term interest rates” over the past six months is affecting Prudential’s spread income and the reinvestment rates of its general account, said Lowrey.

“Our U.S. financial wellness businesses, PGIM and our international businesses offer unique scale and growth opportunities that cannot be easily replicated,” said Lowrey. But he said that in the near term several factors are impacting the group’s performance.

Along with the impact on long-term interest rates, Lowrey said Prudential’s effort to “accelerate” its growth strategy, outlined at the June investor day, will incur “implementation costs.”

Lowrey added the second quarter’s assumption update in individual life reduces future earnings. Prudential expects lower earnings in Gibraltar Life within its international business, he said. Second-quarter net income attributable to Prudential Financial rose to $708 million from $197 million a year ago.

Premiums rose to $7.44 billion from $6.71 billion.

“We have ways to mitigate some of these effects,” said Lowrey. “We believe the actions to accelerate our strategy will lead to $500 million of margin improvement, of which we expect to realize a run rate level of $50 million by the end of this year.”

Lowrey said Prudential can also adjust pricing, streamline distribution and optimize its in-force book, “all of which we are seriously pursuing.” Prudential is looking to reduce the “variability” of its quarterly earnings “which is and has been an ongoing effort,” he said.

The group’s sales and net flows “varied by business and were mixed” in the second quarter, said Lowrey, adding “we continue to see a robust pipeline of opportunities.”

In the quarter he said PGIM, the group’s global investment management business, had net outflows driven by a large client withdrawal. The retirement business achieved strong results driven by what Lowrey called a “robust” pension risk transfer pipeline.

Individual annuities sales rose 29% and individual life sales rose 27% in the quarter, he said. In the international segment, Life Planner headcount “reached an all-time high,” said Lowrey.

Lowrey was recently one of four high-level executives elected to the Geneva Association’s board.
at its 46th General Assembly in Buenos Aires (Best’s News Service, June 14, 2019). Geneva Association describes itself as a “forward-looking thought leader on global trends impacting the insurance industry.” It focuses on financial stability and regulation, extreme events and climate risk, global aging, cyber, digitalization, and the protection gap.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

Cigna CEO: Company Positioned To Take Advantage of Changes in Medicare

BLOOMFIELD, Conn. - Cigna Corp. would capitalize on changes proposed to the Medicare program in a drug-pricing bill pending in the U.S. Senate that includes better incentives for carriers to negotiate prices, according to Cigna President and Chief Executive Officer David M. Cordani.

“We are highly engaged and aligned with improving the role of affordability and the structure of our technology and innovative solutions puts us in a position not to just react to but to actually be in a leadership position in a program change,” Cordani said during an earnings call with investors.

The Senate Finance Committee recently passed a drug-pricing bill that would cap patients’ out-of-pocket costs in Medicare Part D, redesign the benefit structure and provide carriers with an increased motivation to negotiate against high-price drugs (Best’s News Service, July 26, 2019).

“Once the final terms of a bill, if a bill is to be passed, are determined, we would have to see to react and engage from that standpoint,” Cordani said.

“Think about the capabilities the corporation has to make sure we are able to deliver the best possible value. In this case for any individual Medicare PDP (Part D Program) customers.”

“Everything we can do, in terms of leveraging the best of our company is that seeking to improve affordability off of a basis of trends,” Cordani said.

Cigna posted positive second-quarter results, aided by higher revenue from its pharmacy benefits unit and its commercial health plans.

And, the integration of pharmacy benefits manager Express Scripts is progressing well, Cordani said.

Cigna reported a 74% jump in second-quarter net income attributable to shareholders to $1.41 billion. Cigna total revenues more than tripled to $38.8 billion.

The total medical customer base showed almost no growth, at about 17 million, roughly the same as the second quarter from last year.

Growth in the select and middle market segments was partially offset by a decline in national accounts, said Eric Palmer, Cigna chief financial officer.
Cigna’s integrated medical business — which manages health plans for large and medium-sized companies and Medicare plans — posted adjusted revenue of $8.97 billion, an increase of about 10%. Cigna’s Health Services projected a 2020 retention rate for the 2019 selling season for pharmacy services in the range of 97% to 98%, the company said.

The post-deal integration of Cigna with Express Scripts continues to reap benefits, Cordani said. Cigna closed on its $67 billion acquisition of Express Scripts in late December.

Earlier this year, Cordani said Cigna anticipated the deal would further strengthen the affordability of Cigna’s programs and expand choice for plan members.

(By Frank Klimko, Washington correspondent, BestWeek: Frank.Klimko@ambest.com)

Axa XL’s CEO: Revenues Rise On Acceptance of Higher Risk Costs

PARIS - Revenues are rising as brokers and clients accept the reality that the price of risk has risen, Axa XL Chief Executive Officer Greg Hendrick said.

“I’m not ready to call this a hard market but it is definitely firming,” he said during an Axa S.A. earnings conference call.

As an example, he said Axa XL pushed hard for 7% rate increases at the start of the year for property/casualty catastrophe reinsurance but had to settle for 1%. Midyear rates rose 6%, which wasn’t enough to warrant growth in the line, he added.

“This is not a one-year-and-done,” he said of rate hikes. “Anything long-tail is under pressure.” Capital hasn’t eroded, but market conditions are putting pressure on industry earnings and results, Hendrick said.

Axa’s chief executive officer Thomas Buberl said XL improved its business mix, landed new accounts and delivered targeted savings while integration of the September 2018 acquisition continues.

Property/casualty segment revenues increased 9% in the first half. New XL business development countered post-acquisition norms in the industry, Buberl noted.

France-based Axa S.A.’s first-half net income declined 19% to €2.33 billion. It attributed the decline to ongoing deconsolidation of U.S. financial services company Axa Equitable Holding Inc. and a change in the fair value of derivatives.

Buberl said Axa wants to divest its remaining interest in Equitable, but didn’t set a timetable.

Axa received $2.5 billion cash in the first half by lowering its stake in Equitable to 30%, said Gérald Harlin, deputy CEO and group chief financial officer.

It last sold Equitable common stock shares in June to underwriters of a March public offering (Best’s News Service, June 5, 2019).

Revenues increased 4% and across geographies to €57.9 billion. Property/casualty commercial revenues rose 6%, health 5% and protection 3% on good pricing momentum and new business, Buberl said.

The property/casualty combined ratio excluding Axa XL improved 1.2 points to
93.3. The protection combined ratio improved by 2.8 points to 93.2 and health improved by 0.7 point to
93.9. XL contributed €502 million of underlying earnings in the half and is on track to add €1.4 billion
by 2020, said Buberl. It has held back on “real hiring” while consolidating operations, he added.

(By Renée Kiriluk-Hill, associate editor, BestWeek: Renee.Kiriluk-Hill@ambest.com)

Munich Re CEO: Second-Quarter Profit
Strong as Rates Continue to Improve

MUNICH - Munich Reinsurance Co. saw double-digit profit growth in the second quarter as the group
posted lower catastrophe losses and reinsurance premium growth in an improving rate environment,
said its chief executive officer.

The reinsurance business has mostly contributed to an “extraordinarily positive first half,” said CEO
Joachim Wenning in a conference call.

Munich Re is in the midst of a three-year strategic program and is “fully on track” to meet expectations
as the group’s businesses are “growing profitably,” said Wenning. This “transformation program” targets
growth in traditional business with fewer resources, which allows Munich Re to increase funding for
what he called new business models.

July renewals saw a continuation of the recent market recovery, said Chief Financial Officer Christoph
Jurecka in the call. He noted a “significant improvement in prices for reinsurance cover in markets
affected by natural catastrophes.”

The calculation of price changes for the renewal takes into consideration increases in loss expectations
worldwide where Munich Re does expect higher future losses as well as better rates in loss-unaffected
markets.

Jurecka said prices at July renewals rose 0.5% overall as premium volume rose 9%. “We are very happy
that we continue to grow into this hardening market,” he said.

The group’s second-quarter consolidated result rose 36.4% to €993 million (US$1.11 billion) from
the same period a year ago. Reinsurance gross premiums written rose 9.4% to €7.58 billion. Gross
premiums written for the Ergo primary insurance segment fell 0.9% to €4.22 billion.

The reinsurance combined ratio was 87.7 compared with 102.0 a year ago.

Consolidated profit for both the reinsurance and Ergo primary insurance segments rose by double digits
in the second quarter, said Wenning.

Wenning said the results were in line with an ad hoc estimated result the group released in late July,
anticipating consolidated result of about €1 billion (US$1.12 billion) for the second quarter (Best’s
News Service, July 18, 2019). “Since then, not too much really new has happened,” he said.

According to Wenning, Munich Re anticipates about €2.5 billion of profit for the year, about €2.1 billion
of that from reinsurance. While noting those anticipated numbers remain unchanged, he said the
group’s level of confidence in attaining that is now higher.

Wenning said the result is mainly attributable to low major-loss expenditures and high reserve releases
for basic losses in reinsurance from prior years. Reinsurance claims costs from natural catastrophes
were €350 million in the first six months compared with €55 million a year ago, Munich Re said in its
financial report for the period. Natural catastrophe reinsurance costs for the second quarter rose to
€155 million from €104 million. The costs were attributable mainly to additional loss expenditure from Typhoon Jebi between April and June of around €80 million, according to the report. Costs for man-made losses fell to €330 million from €613 million in the first half.

Ergo has completed a divestment strategy through which it shed noncore businesses, including an operation in Turkey, said Wenning. Ergo International in May agreed to sell its Turkish nonlife unit — Ergo Sigorta A.S. — to Talanx. Jurecka said the sale in Turkey had a negative impact of €39 million for the group.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

Allianz CFO: Second-Quarter Net Boosted By Improvements in P/C and Life/Health

MUNICH - As Allianz SE’s second-quarter net income attributable to shareholders increased 13.1%, Chief Financial Officer Giulio Terzariol said the company saw revenue growth driven by improvement in both the property/casualty and life/health businesses.

Net income rose to €2.1 billion ($2.33 billion) and total revenue rose slightly to €33.2 billion.

While realized gains were lower during the second quarter, Terzariol said during a webcast, there were no one-off burdens. Also, he said, the effective tax rate was lower. "All the parameters point into the right direction," Terzariol said.

The improved property/casualty performance was driven equally by price change and volume, he added. “The tendency was especially positive in our corporate and industrial insurance, where we see a much better dynamism compared to what we saw a year ago, for example,” Terzariol said. Allianz narrowed its “Corporate and other” sector operating loss in the second quarter to €131 million, from a loss of €196 million.

Allianz S.E. posted a 5% decrease in property/casualty operating profit to €1.5 billion on weaker investment returns against the backdrop of “stable” underwriting, it said in a statement.

Life/health saw a 14.5% increase in operating profit to €1.2 billion.

Allianz said its “main growth drivers” were Euler Hermes, its credit insurer subsidiary, and the German domestic market. The group said its property/casualty combined ratio was “broadly flat” at 94.3.

Property/casualty first-half operating profit was up by 4% to €2.8 billion. Allianz said its first half growth was largely sparked by Euler Hermes and Allianz Global Corporate & Specialty AGCS in Germany. Not only was the first half underwriting result stronger, Allianz said, but claims from natural catastrophes and the expense ratio were lower. The combined ratio for the first half was 94, an improvement of 0.4 percentage points.

“Growth dynamism was extremely positive in Germany and the U.S. above all. In Germany you can see a growth rate of close to 30%, and 16% for Alliance Life in the U.S.”

Giulio Terzariol
Chief Financial Officer
Allianz S.A.

(By Robert O’Connor, London editor: Robert.OConnor@ambest.com)
CNA Chief Executive Touts Specialization

CHICAGO - CNA Financial Corp. is touting increased specialization in all its commercial and specialty lines as the group sees increased rate improvement, said its chief executive officer.

The commercial lines underwriter is seeing continued strong underwriting performance and improving pricing, said Chairman and CEO Dino E. Robusto in a conference call. The group is also seeing continued stable performance in its run-off long-term care business, he noted.

“Pricing continues to migrate from being a headwind to now a tailwind, and that change is appropriate given that the headwind lasted several years when prices fell below long-run loss cost trends,” said Robusto.

“It is encouraging that this tailwind is beginning to include improvements to terms and conditions beyond price in areas where it is needed most.”

Robusto noted that for larger property business there is “a broader adoption of higher deductibles, in particular for catastrophe perils.”

Higher deductibles are also seen in medical professional liability, he said. “Higher deductibles are more readily adopted to mitigate frequency exposures, and we are successfully tightening coverage language in tougher judicial jurisdictions,” he added.

Robusto emphasized CNA’s specialized approach to underwriting as, he said, “we are not interested in being all things to all businesses as a generalist commercial insurer.” He noted the group’s approach to customized specialty business, which is seeing success in areas including affinity, surety, warranty and health care, “creates a meaningful competitive advantage.”

In commercial lines, the drive toward specialization includes construction, middle-market business including technology and professional services, recently added cultural institutions, marine, small business operations and property/casualty national accounts, he said.

The Lloyd’s unit is also “migrating” to a more specialized focus in tandem with CNA’s effort to re-underwrite its business for greater underwriting performance, said Robusto.

Commenting on New York state’s passage early this year of the Child Victims Act and similar moves by other states that may weaken liability limitations, Chief Financial Officer James Anderson said in the call CNA has been following the issue “for quite some time” and has been considering the potential impact to its reserves. New York Gov. Andrew Cuomo signed the bill into law in mid-February. The law allows victims of abuse more time to pursue both civil and criminal actions against alleged abusers.

“That consideration continues to be part of how we think about our overall reserve position,” said Anderson. Noting that CNA has been handling these kinds of claims for years, he said the company is positioned to deal with what may come. “We’re going to have to wait and see how much new claim activity is generated from New York and from any of the other states as a result of these statutes,” said Anderson.

The CEOs of Hartford and Chubb both commented in recent earnings conference calls on possible
insurer liability related to so-called “reviver statutes” adopted by a number of states in cases of abuse where victims may take years to come forward (Best’s News Service, Aug. 2, 2019).

Second-quarter net income for CNA rose to $278 million from $270 million a year ago. Net written premiums rose to $1.87 billion from $1.77 billion. The combined ratio for the quarter was 95.7 compared with 93.8 a year ago. In business where CNA had adverse reserve development – health care and umbrella – the group continues to see “aggressive plaintiff attorney actions leading to higher severity outcome,” said Anderson. “We’ve been taking more aggressive underwriting actions with regard to pricing and terms and conditions to improve the margins on those businesses,” he said.

Growth in the U.S. segment was “robust” with premiums up 10% for the quarter, said Robusto. The commercial segment was “particularly strong,” he said.

Premiums fell in the international segment as the Lloyd’s operation saw a 23% decline, said Robusto.

He said this decline was due to re-underwriting efforts, which “will continue throughout the year.” Robusto said the re-underwriting effort at the Lloyd’s business has been ongoing as he reiterated the commitment mentioned in previous quarters.

CNA is achieving higher rate increases in each unit with steady retention ratios in the U.S. business, said Robusto. Rates overall in the second quarter rose 4% as Robusto said rate increases are an “essential priority.”

Commercial rates rose 5% excluding workers’ compensation, and 3% inclusive, said Robusto. Umbrella, commercial auto and property rates were each up 7%, he said.

For the specialty segment, Robusto said rates rose 4% and were up 8% outside CNA’s professional errors and omissions program business. The health care business, which has seen higher severity trends, saw further rate increases compared with the first quarter.

Rate increases for public company directors and officers liability rose 15% in the second quarter. Rates rose 7% for the international business while retention rates were at 57%, reflecting CNA’s re-underwriting efforts, said Robusto.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

Lloyd’s Insurer Brit’s First-Half After-Tax Profit Soars Amid Strong Investments

LONDON - Pointing to an improved investment performance, Lloyd’s insurer and reinsurer Brit Ltd. reported an after-tax profit of US$120.3 million in the first half of 2019, up from $12.9 million.

Investment return rose to $94.7 million, or 2.4%, from $5.1 million, or 0.1%. As part of its established strategy, Brit said it increased its third-party managed capacity in Sussex, Versutus II and Syndicate 2988 to more than $440 million.

The group also completed its acquisition of New York- and Frankfurt-based managing general underwriter Ambridge Partners LLP, and made a “significant strategic investment” in Toronto-based accident and health managing general underwriter Sutton Special Risk Inc.

Brit, which is owned by Fairfax Financial Holdings Ltd., has described Versutus as a vehicle that
provides access to both the international property/catastrophe market and North American property. Sussex provides collateralized capacity and third-party cover for Brit. *(Best’s News Service, Feb. 25, 2019)*.

“I am pleased to report a positive first half of 2019 for Brit, with underwriting performance and investment return delivering a strong result,” Matthew Wilson, group chief executive officer, said in a statement. “We also continued to successfully execute against our clear, progressive strategy, further building on our underwriting discipline, leadership positions and international distribution footprint.”

Gross written premiums increased by 5.2% to US$1.21 billion in the first half of the year. Brit said it achieved premium rate increases of 4.3%, compared with increases of 3.5% in the first half of last year. The combined ratio improved to 94.4 from 95.9.

*(By Robert O’Connor, London editor: Robert.OConnor@ambest.com)*

## Willis Touts Health Care Broker Deal; Revenue Rises Across All Segments

ARLINGTON, VA: - The recent acquisition of a health care broker and higher revenue across all segments led Willis Towers Watson to more than double second-quarter earnings and raise its 2019 earnings guidance.

Willis Towers Watson is raising its 2019 earnings guidance mainly to reflect its recent acquisition of health care broker Tranzact, the group said in a statement. For 2019 and with Tranzact the group said it expects constant currency revenue growth of 7% to 8%. On an organic constant currency growth basis the group expects 4% to 5% revenue growth.

Second-quarter net income attributable to Willis Towers Watson rose to $138 million from $58 million a year ago. Revenue rose 3% to $2.05 billion.

“Each of our business segments demonstrated healthy growth in revenue and operating income margin, contributing to a double-digit increase in adjusted operating income growth for the overall company,” said Chief Executive Officer John Haley in a statement.

“We are also excited to announce the successful completion of the Tranzact acquisition, which will rapidly accelerate Willis Towers Watson’s direct-to-consumer U.S. health care strategy and significantly strengthen Willis Towers Watson’s growth profile in the health care space,” said Haley. “This acquisition coupled with our highly differentiated capabilities and disciplined management of the business, leaves us confident in our ability to continue to drive sustainable, profitable growth and deliver value for our clients and shareholders.”

Willis Towers Watson earlier agreed to a potential $1.4 billion deal to acquire direct-to-consumer health care broker Tranzact *(Best’s News Service, April 1, 2019)*.

For the human capital and benefits segment, revenue rose 2% as health and benefits saw increased consulting and brokerage services, growth in specialty products and expansion of the client portfolio for both local and global appointments, the group said.

Revenue rose for the talent and rewards business on increased product revenue and advisory work in Great Britain and North America, the group said. Technology and administration solutions reported greater project demand, mainly in Western Europe. Retirement revenue fell slightly on non-recurring project work in the year-ago period.
The corporate risk and broking segment saw revenue rise 2% on growth across all geographies, Willis Towers Watson said.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

**Everest Re Taps Chubb Exec as Next CEO**

ZURICH - Juan C. Andrade has left Chubb Ltd. to become chief operating officer of Everest Re Ltd. effective Sept. 1. Andrade will then succeed Dominic J. Addesso as president and chief executive officer of the reinsurance group on Jan. 1, 2020.

With more than 25 years of experience, Andrade has led large and complex domestic and international businesses, Everest Re said in a statement. He held executive roles in underwriting, product development and innovation, claims, sales and distribution, strategy development and general management, where he was responsible for leading all aspects of the businesses.

Everest Re said Andrade has extensive experience in the United States and across Europe, Asia Pacific, Japan, Latin America and Africa, as well as in the London wholesale market and Lloyd’s. Prior to beginning his insurance career, Andrade worked in national security and international affairs within the U.S. federal government’s executive branch and the executive office of the president.

Addesso announced in January that he intends to retire as Everest Re’s president and CEO at the end of his contract term on Dec. 31 (Best’s News Service, Jan. 8, 2019). Everest Re’s board “is incredibly excited to have an executive with Juan’s strength, skill set and experience to chart our plan for success into the future,” said Chairman Joe Taranto in a statement.

Chubb appointed Juan Luis Ortega as executive vice president, Chubb Group and president, overseas general insurance, succeeding Andrade, Chubb said in a separate statement.

He will have executive operating responsibility for Chubb’s general insurance business in 51 countries outside of North America, including commercial property/casualty, traditional and specialty personal lines and accident and health insurance, Chubb said in a statement.

Having recently served as senior vice president of Chubb Group and regional president of Latin America, Ortega will report to John Keogh, executive vice chairman and chief operating officer, the group said. The North America region includes the United States, Canada and Bermuda, Chubb said in an email to BestWeek.

“In order to be successful, you need to reinvent yourself constantly.”
– Thomas Buberl, CEO, Axa

Visit www.bestreview.com/axa to find out how Buberl has reinvented Axa, as well as himself, in The Next Chapter.
Ortega's appointment is effective immediately. Ortega was named regional president of Latin America in 2016 and was regional president of Asia Pacific from 2013 to 2016, a position he retained after Ace’s acquisition of Chubb, the group said. Before that, he was senior vice president, accident and health, for the company’s Asia Pacific region.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

**THIS WEEK IN INSURANCE REGULATION**

**NAIC President: A Workable International Capital Standard Requires Flexibility**

NEW YORK - Eric Cioppa, president of the National Association of Insurance Commissioners and Maine’s insurance commissioner, said ongoing work on the international capital standard is “sucking up all the oxygen at the moment” for regulators. “It would be very nice to move past that, get that resolved” to focus on other issues, he told BestWeek at the NAIC summer meeting in New York City. The NAIC’s work on the capital calculation stems from the International Association of Insurance Supervisors’ attempt to implement a global insurance capital standard intended to bridge differences between jurisdictions in valuation regimes (Best’s News Service, March 15, 2018).

Q: You mentioned that developing an international capital standard was one of your frustrations. Why?
A: That’s a tough one because… we’ve got a system that works for our country… I have a market, and with the notable exception of health insurance — and that’s really about health care, not insurance — it’s competitive. That to me is part of what my job is as a regulator. And to expect us to change from a market-based evaluation approach and come up with a system that could inhibit the companies that are offering a long-term longevity process… there needs to be flexibility.

We have so much more in common (climate change and cyber crime, among others) we all are trying to get our arms around. The international capital standard is sucking up all the oxygen at the moment. It would be very nice to move past that, get that resolved so that we can use our energies to (say) OK what do we have in common? Let’s work together.

Q: Aside from the struggle with health insurance and affordability, how are things in Maine?
A: Our auto market is, I think we’re third-lowest in the country and we have the highest limits of liability. It reflects the underlying costs. In homeowners, we are in the top 10 in terms of lowest cost. We have an older stock of housing in Maine. We have strong consumer protections as well. So we have strong consumer protections, lower rates and high limits, which is a trifecta.

Q: What are your thoughts on being NAIC president?
A: It’s like anything else. You think you know what you’re getting into when you start running for office and by the time you’re president, you realize you really didn’t know. But that’s not a bad thing. It’s been very interesting and challenging. The NAIC officers, we try and develop strategic priorities with the entire membership and that’s how we came up with the eight priorities you’ve seen.

We tried to be very inclusive and as a result I think we’ve got really good buy-in and we’re making progress.
on those issues. The year’s not done, and certainly these issues aren’t going to be solved in a year, but we seem to be making progress and that’s a tribute to the membership.

Q: Speaking of priorities, the Long-Term Care Task Force had its first open meeting at the NAIC summer meeting. How did you come to decide that would be the top priority for 2019?
A: The membership did. The executive committee came up with a list and we went over them with the membership and said let’s prioritize them, so it’s really consensus.

Q: What about the task force?
A: I think (Virginia Commissioner) Scott White and Mike (Conway) from Colorado are doing tremendous jobs. I think the work groups they’ve split into are spot-on… And if you noticed, there were a lot of commissioners around the table.

At the end of the day we all realized we’re all facing the same issues and that was the same for every priority. I may be the president, but I’ve just tried to coordinate a consensus-based organization.

My problems in Maine may be different than the ones in New York and California, but at the end of the day, health insurance, long-term care, climate risk and resiliency, we’re all dealing with them with some variant.

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com)

NY Insurance Commissioner Urges States To Incorporate More Consumer Advocates

NEW YORK - Linda Lacewell, the superintendent of the New York state Department of Financial Services, urged the National Association of Insurance Commissioners to follow the state in incorporating consumer advocates in more of its work, just as the DFS is appointing a consumer advocate to work across divisions and “put the consumer at the center of everything we do.”

Speaking at the opening ceremony of the NAIC's summer meeting, she said the New York DFS became the first insurance regulator to implement a regulation requiring sellers of life insurance and annuities to act in the best interest of consumers when advising them.

NAIC has been working for some time on the same issue, seeking to find a middle ground between a suitability standard and the stricter best interest standard. It met hours before Lacewell spoke on Aug. 3 and moved ideas forward, with no firm decisions.

“I am still trying to figure out why that was apparently a matter of controversy,” Lacewell said to a hushed audience.

Then she noted that just two days earlier, a New York State Supreme Court ruled the best interest regulation “is exactly what we need” and upheld it in a lawsuit filed by the National Association of Insurance and Financial Advisors.

“So I say to you yes it’s possible and please join us in making the best interest standard a nationwide standard to protect everyone,” Lacewell said.

She also noted New York already has issued another prohibition not favored by the insurance industry — barring the use of education and occupation as factors in setting drivers’ insurance rates, practices she said penalize those without college degrees or work in low-wage professions “for no good reason.”

Finally, Lacewell moved onto the lack of women in executive positions in the insurance industry and as regulators. She said she was “astounded” to learn that 12 of 56 commissioners or supervisors across the country...
are women. Lacewell cited a McKinsey report from last year that said women represent 56% of entry-level positions, but less than 20% of the C-suite positions in financial services. “These things are all related,” she said to applause. “We need more women leaders in the insurance industry.”

Recapping what NAIC has accomplished recently, President Eric Cioppa said the organization was making good progress on its State Ahead program, with 32 of 94 projects completed — 41 “well on their way” and 21 to go.

An executive level task force on long-term care insurance, discussed at the Spring meeting in Orlando, has formed and has been meeting in closed sessions with actuaries, he said.

The NAIC also was instrumental in bringing attention to the issue of surprise medical bills for air ambulance transport, a topic that has been on many minds on Capitol Hill, he said.

“We will continue to advocate for consumers on this important issue and to seek opportunities for common ground on market stabilization,” Cioppa said. The association and industry have a host of technology issues to contend with, including the use of artificial intelligence in insurance, cybercrime and its own switch to a cloud-based data storage system, Cioppa said.

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com)

New Connecticut Commissioner Sees Reinsurance, Flood as Looming Issues

NEW YORK - It’s been a little over five months since Andrew Mais answered the call from Connecticut Gov. Ned Lamont, who asked Mais to be the state’s new insurance commissioner. Speaking to Best’s News Service while attending the National Association of Insurance Commissioners’ 2019 summer meeting in New York City, Mais discussed what’s on the regulatory agenda.

Q: What are you focusing on in the immediate future?
A: In terms of legislation and in terms of what we can do for the industry, there’s the credit for reinsurance model. We’re working to adopt that to ensure uniform standards and to avoid federal preemption of state regulatory authority.

So that’s one thing that we are doing that we hope to have happen in the next legislative session. Flood insurance is a concern… We are looking at what FEMA (the Federal Emergency Management Agency) is doing and we understand the need to transition to an actuarially sound premium basis. However, we want to make sure that consumers, especially those consumers least able to afford it are not unduly burdened and have the ability both to retain flood insurance and to have a competitive environment for that insurance… At this point we don’t have an idea of how (FEMA’s redesigned) Risk Rating 2.0 will be implemented, which does lead to some concerns. The take-up rate for flood insurance is not where it should be, that’s always been a concern. And we know if prices increase, it will be even more of a concern.

The other big thing that I will be focused on is my work on the G committee, the international committee. This is a critical time for international insurance regulation as we move towards a possible adoption of the insurance capital standards in November in Abu Dhabi.

We have to make sure that U.S. consumers are protected and by that I mean that the capital standards are not so onerous that they will deny consumers access to the retirement products especially that U.S. consumers need.

Q: How would you characterize your first few months as commissioner?
A: It’s been a rewarding experience. I’ve had a chance to go around the state and meet with various stakeholders… and work with legislators. And we’ve gotten I think a tremendous amount done in a short time. And we look forward to doing a lot more during the rest of the current administration.

Q: Such as?
A: One of the things we did was we worked with the governor… to make it clear to insurers that they need to cover mental health the same way that they cover physical health, that there is no difference between a disease of the body and a disease of the mind (Best’s News Service, July 9, 2019).

We extended that to life insurance. There were concerns in other states that life insurers who were denying coverage to people because they had items like Narcan (the substance used to revive those who overdosed on opioids).

We had to make sure that would not happen in Connecticut. Opioid abuse is a serious concern. We will ensure that people have the ability to be properly treated and those Good Samaritans aren’t hurt because they’re trying to help.

On the other side, you can look at the adoption of the insurance data security model law, which is particularly timely right now. We managed to get that through the legislature and they’re working on implementation as we speak. It’s based on the NAIC model. This sets standards for data security, data management, third-party risk management and Connecticut is one of the first states to adopt it.

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com)

Colorado Regulator Discusses Move To Expand Health Care Cost Negotiations

NEW YORK - Just before Michael Conway left for New York for the summer 2019 National Association of Insurance Commissioners meeting, the Colorado insurance commissioner got some welcome news from the federal government. After less than two-and-a-half months of consideration, the U.S. Centers for Medicare and Medicaid Services signed off on Colorado’s waiver request to create a reinsurance program that will slash health care premiums for consumers on the individual market by an average of 18.2%. Conway talked to Best’s News Service about the waiver and other developments in health care initiatives.

Q: You must be thrilled with the approval of the waiver for a statewide reinsurance program.
A: The waiver was approved (July 31), 72 days from the date we applied, which was awesome that they got it turned around that quickly. It’s going to provide very substantial relief to the folks in Colorado next year in a meaningful way for the folks that really got hit hard by the rate increases over the last three to four years. So we’re excited about it. This is why we get in the business, to help people.

Q: Explain what will be happening.
A: Our waiver is different than any other waiver they’ve approved so far because we built three different tiers of premium relief. The first tier is Boulder, Denver and Colorado Springs, which will see… a 13%-25% decrease. The second tier, which is some of our rural and some of our smaller municipalities, was a 15%-20% target, and that was about where the rates came in. The highest tier, essentially the western half of the state, the legislation called for a 20-25% premium decrease. And what we saw was the carriers filed for up to a 30% premium decrease.
Q: What happens if the federal courts strike down the Affordable Care Act and the premium subsidies on which the plan depends?
A: One, I don’t think that’s going to happen. But if it were successful, it depends on what the court does. I don’t think it will be a flip of the switch where they issue a ruling and the next day the subsidies all go away and the Medicaid expansion goes away. We’ll start to think about it after the circuit court comes out with their decision… So nothing is going to happen for next year.

Q: It helps to have one-party rule, doesn’t it?
A: You still got to do the work. The reinsurance bill had a lot of bipartisan support. There isn’t a huge majority in the senate. It’s three votes. This doesn’t have to be as politically toxic as it’s become.

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