

"Erik A. Krueger" <Erik@lindsayinsurance.com>

03/14/2019 01:25 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Draft Criteria: Scoring and Assessing Innovation

To Whom it May Concern:

While I found the draft interesting, I think it can be improved upon in the following ways:

-Addressing what innovation is, beyond the definition block you have under Header B. For example, is an insurance company or agency innovative of using an established product like Microsoft BI, or do they have to come up with fresh ideas by themselves? Said another way, if an agency uses software that someone created, does that qualify as innovation or just another adopter of a service available. I don't feel this is clear.

-Most of the examples cited in the paper don't account for the limits of human capital, either positive or negative. Will there be different criteria used for a company with five employees versus five hundred? Also, in the same vein, technology will eventually hit the point of diminishing marginal returns. Therefore, a company won't be innovative because they are constrained by the limits of technology. What happens to the methodology then? Does it get revised to account for this? I don't think these issues are addressed in enough detail.

-Planned obsolescence isn't mentioned and it should be.

-While culture is important, it cannot be measured quantitatively or objectively. Some employees may feel that culture is terrible but they may have other gripes about the firm that are unbeknownst to the staff conducting the analysis. Perhaps a better measure would be the liquidity to demonstrate the buying power a company has to acquire the technology they need to succeed.

-How would you measure ideas that are presented to the innovation team at a firm but aren't heard? This may be a reflection of culture, but again, culture is subjective – it's a vibe someone gets when entering a working environment.

Please let me know if you have any questions. I look forward to hearing from your team and seeing the final version. Thank you.

Sincerely,

Erik

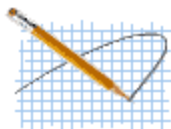
Erik A. Krueger, Assistant Account Manager



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Victor Pascucci III <[victorpascucci3@me.com](mailto:victorpascucci3@me.com)>

03/19/2019 02:46 PM

To methodology.commentary@ambest.com

cc

Subject Methodology

Factors:

- How many innovation effort make it to FULL production release
  - What timeline
  - What revenue impact
  - What efficiency/ combined ratio impact
  - IT/ infrastructure enablement (data analytics, systems, dev ops, security etc) vs new product development
- Was the innovation sourced internally or externally
- How long are your innovation cycles to decision or production
  - Internal and external innovation
- Total number of start ups engaged in innovation program relative to total number of those start ups that entered into revenue generating commercial contracts
  - What timelines
  - With contract value (actual vs paid)

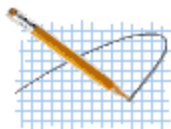
Thanks,

[Vic](#)

Victor Pascucci III

[victorpascucci3@me.com](mailto:victorpascucci3@me.com)

@victorpascucci3



Colin Devine  
<colin.devine@cdevineassociates.com>

03/23/2019 11:47 PM

To methodology.commentary@ambest.com

cc Caron Bruno  
<Bruno.Caron@ambest.com>,  
Boorady Charles  
<Charles@HealthCatalystCapital.com>

Subject Re Comments in Technology Draft Criteria

I think the criteria piece is well thought out.

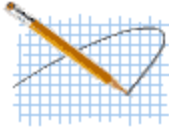
One missing measure of innovation is venture capital invested in innovative technology businesses relevant to success as an insurer.

As you may know several insurers would stand out in this regard such as [REDACTED]

Colin

*Colin Devine*  
*Principal*  
*C. Devine & Associates*  
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Joel Murray <jmurray@NDGroup.com>

03/28/2019 03:53 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject FW: Mission and Values BOD  
020718.pptx

Hello,

I was reviewing the Innovation presentation and just wanted to provide a bit of informal feedback. I am in full agreement that innovation is critical to the future success of all organizations. One concern I had though was the reference to the inclusion in the Mission statement. That seemed quite prescriptive to me. Although I can see including innovation as an objective or even a core value, I would question whether companies should be changing their Mission statement to specifically address innovation. Our Mission statement says:

To provide financial security to our policyholders through an exceptional client experience affording them peace of mind.

Although ours is relatively straightforward, I think it hits the most important points and I would be concerned that adding innovation per Best's guidance would dilute the statement a bit.

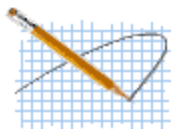
Thank you.

Joel

Joel Murray, CPCU  
President & CEO  
The N&D Group®  
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Nick Khamarji <[nick@ronoco.com](mailto:nick@ronoco.com)>

04/03/2019 01:25 PM

To [methodology.commentary@ambest.com](mailto:methodology.commentary@ambest.com)

cc

Subject Innovation Rating

Hello,

I was pleased to read in this week's article of The Standard that A.M. Best is considering adding an Innovation Rating.

I am emailing in support of this initiative. Please let me know how I can further the efforts.

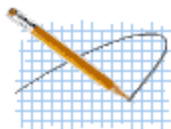
Best,

**Nick Khamarji**

[ronoco](#) - [LinkedIn](#)



203-445-3594 (c)DRAFTScoringInnovation.pdf



[REDACTED]  
04/03/2019 11:58 PM

To <methodology.commentary@ambest.com>  
cc  
Subject comment on Innovation scoring approach

Dear Madame / Sir

Thank you for giving [REDACTED] the opportunity to provide comments. We request anonymity for our comments.

Following points:

1. We applaud the approach to elevate “innovation” in the insurance industry to a much more prominent level
2. By when does AM Best plan to introduce this new methodology? Depending on the schedule, it would be good if companies could have some “grace” period, or would be given a “time-staggered” implementation approach. This would give companies that are being rating shortly after you introduce the new methodology some time to address it appropriately
3. We are somewhat concerned about a possible “double counting” effect. Let us consider an example: if a company innovates key aspects of its ERM-framework (e.g. method or process), then its ERM-maturity level should go up, hence it should get a higher rating in the ERM-block of AM Bests’ rating methodology. In addition, it should then also score higher in the innovation block, which drives the “business profile” block rating up. So we would potentially see a “double positive counting”. And the same would work the other way around of course.

with best regards

[REDACTED]

To "methodology.commentary@ambest.com"  
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18<sup>th</sup> April 2019

A.M.Best  
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
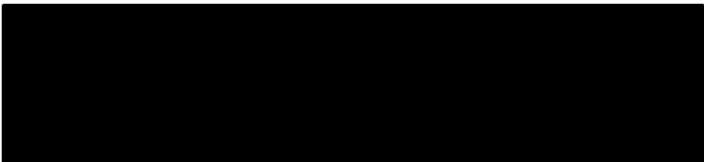
**Response to Request for Comments on Draft Criteria: Scoring and Assessing Innovation**

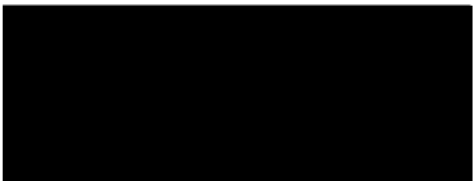
Formal response from   


Thank you for the opportunity to comment on your draft criteria for scoring and assessing insurance company innovation. As an organization focused heavily on innovation, we see this proposal as a positive development. It provides focus for an important issue facing the insurance industry. It has the potential to provide a catalyst for required change in the face of a number of external pressures.

We have the following feedback and observations to offer:

- We believe the breaking of the evaluation of Innovation into sub-components and then scoring these on a four-point scale is a very easy to understand approach and created a Maturity Model framework. Such Maturity Models have a strong track record of being effective in establishing the current state of development of a particular discipline and enabling organizations to plot a path towards a future desired end-state.
- The way the evaluation is presented could in our view be enhanced, learning from how Maturity Models are typically laid out. We provide an example, where the squares in the grid are colored to visually capture the scoring. Companies could be encouraged to self-assessment with supporting evidence.
- The strong emphasis on outcomes as well as process steps is very sensible. Innovation needs to deliver a return on the resources invested and have a demonstrable benefit.
- We would encourage you to make the link between Enterprise Risk Management (ERM) and Innovation. An effective emerging risk process for example can be an integral part of an innovation strategy, identifying opportunities for new products, processes and solutions as well as potential threats on the horizon. It can also help rank the opportunities and help with the prioritizing of limited resources.

- 
- One factor that is not currently fully recognized is the 'change driver' for innovation. In other words: why are companies innovating? Not all segments of the insurance industry are equally exposed to the need to innovate. Where they need to innovate the emphasis on whether the pressure to change products, processes or distribution channels will vary. This might be given greater prominence within the Leadership and/or Culture sections.
  - In terms of how the evaluation is rolled out in practice, we would recommend that pilot exercises are undertaken with a cross-section of insurance companies.   
 would be prepared to participate in such a pilot given our interest in Innovation as a strategic objective.
  - We believe a key challenge will be how credit analysts are able to collect and analyze information from insurance companies in a consistent manner within the existing annual evaluation cycle. Given the number of companies they each follow, there is a danger this could be cursory and inconsistent without a robust and transparent analytical framework.
  - We would further suggest that a data capture survey is created to enable analysts to request and obtain a standard set of documentary evidence from companies as part of the annual data request, in advance of their management meetings, so that both parties are well prepared.
  - Being clear about what documentary evidence is expected would be helpful. Many organizations may have effective innovation processes in place, but may not yet have formalized and fully documented the steps in these processes.
  - Equally there is an expectation that staff are rewarded for successful innovation ideas, but this could be interpreted in a wide range of ways: there could be a specific 'innovation fund', but equally there could be a personal scorecard objective, or alternatively a 'softer' competency and behaviour assessment during annual staff appraisals. It is not sufficiently clear from the guidance currently how the expectations would be interpreted given rewards could be both financial and non-financial in nature.
  - Learning from how the Enterprise Risk Management (ERM) analysis has been implemented and the inability of credit analysts to share their Risk Impact Scorecards, we would recommend an 'open book' approach to how analysts build up the six component scores of their Innovation Score and Innovation Assessment.
  - If A.M. Best's motivation is to encourage the industry to drive innovation, such an approach would enable transparency for companies to understand how they have been evaluated and clarity of what elements they need to develop in order drive themselves up the maturity curve.
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- Finally, we believe that a strong peer review process will be necessary in addition to individual credit analysis evaluations to ensure consistency and hence credibility of scoring. This would also allow benchmarking information to be developed. Publishing this benchmarking information would have the benefit of allowing companies to compare themselves to their peer group and recognize the peer pressure to keep up with the competitors.

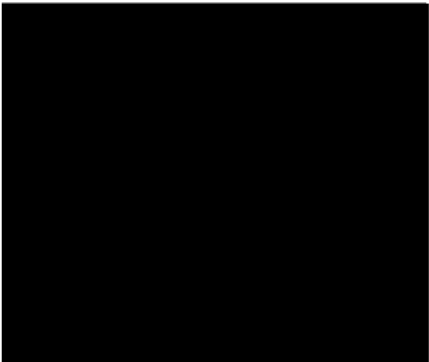
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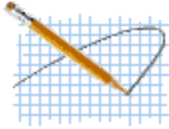
We confirm that we are happy to allow our comments to be made public but only on an anonymous basis.

If you have any further questions, please do not hesitate to contact me at



Yours sincerely,





**Matthew Josefowicz**  
**<mjosefowicz@novarica.com>**

04/18/2019 01:20 PM

To "methodology.commentary@ambest.com"  
 <methodology.commentary@ambest.com>

cc

Subject Innovation Methodology Comment

One of our annuity insurer clients comments:

As a long time Technologist with my first foray into insurance only a few years ago (worked for 9 companies prior to [Company]), may I suggest that Best consider in its framework a dimension I'll call "lateral threat assessment". One of the biggest issues I see in the insurance industry is that it seems highly nepotistic and insular. As such, our lens tends to focus on innovation threats mainly from within the insurance sector. Many innovations yield unlikely collateral damage. For instance, Uber did not start on the premise of displacing Taxis; it started as a way to address resource waste in the form of 1)unused vehicles 2)parking lots needed to house unused vehicles.

My point is, while it's great to have a focus on innovation by investing in it and garnering executive support (as suggested in the Best article below), disruptive innovation resulting from surprise factor creativity will emerge at the most unlikely times in the most unlikely ways. The same can be said of disruption and displacement, emerging at the most unlikely times and places. I think any measure of innovation would be well served to examine "un-probable lateral threats" that do not come from within a given industry.

Thanks,

Matt

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Matthew Josefowicz  
 President/CEO  
 Novarica

280 Summer St, 6<sup>th</sup> Floor

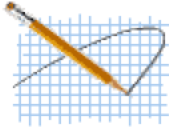
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<https://novarica.com>



04/30/2019 08:43 AM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Scoring and Assessing Innovation - anonymous comments

Good morning,

Thank you for offering us the opportunity to provide anonymous comments on the new criteria procedure, "Scoring and Assessing Innovation". It was very comprehensive and evident that much thoughtful and expert consideration was given in creating it.

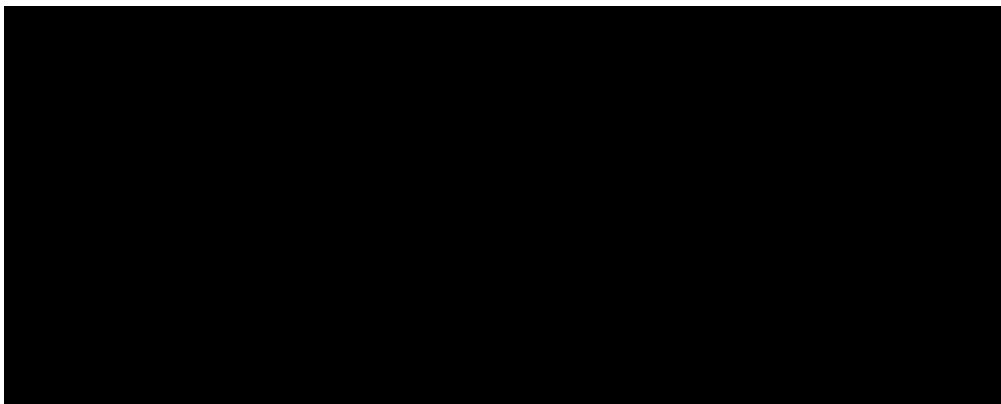
We agree with the importance of innovation in helping our industry stay relevant and successful. With new competitors and disruptors frequently trying to make inroads in our industry it is essential that we continuously innovate.

In addition:

- We agree with the broad, holistic definition of innovation that was outlined which includes products, processes, services and business models instead of mainly focusing on technology.
- You may want to consider adding two items in the Culture section about how the attributes of "agility" and/or "resiliency" can boost the impact of innovation. Regarding agility, sometimes a small to medium-sized company can have an advantage compared with some larger companies due to them having multiple layers of management and sign-offs required. Regarding resilience, how a company has historically "bounced back" or recovering from setbacks has huge implications for innovation success.
- We concur with your comments in the Input section of the white paper that some level of failure needs to be tolerated on the innovation journey. You may want to consider reinforcing that in the Output section with clarification of how that learning curve failure would be assessed. For example, clarifying whether the cost of a failed innovation effort and a gain from a successful one is viewed as a net figure, or whether the failed item is forgiven and a company is viewed as having the full gain of the innovation success.
- In the Output section, you note that a five year measurement period will be used to evaluate innovation success. Given the rapidly accelerating change in products, services, etc., it is possible that an innovation gets updated or replaced within the five year period. In those situations, do you measure the innovation for only the period the original innovation was active or, or do you look at a five year period which could include multiple layers of innovation?

Thank you again for this opportunity to comment and please let me know if there are any follow-up questions to this email.

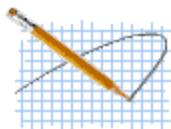




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Tom Duffy <tomduffy@slice.is>

04/30/2019 04:21 PM

To methodology.commentary@ambest.com

cc

Subject Comments on Scoring and Assessing Innovation.

To Whom It May Concern,

We at Slice Labs are excited that AM Best is adding this level of scoring and assessment around Innovation. We have taken the time to thoroughly review your approach and have a few comments that I've documented here below.

1. In our view, Data is bigger than process for Insurers today. It should be Data as the section header instead of Process as the usage of data supported by proper process and structure will allow experimentation with cloud-based products.
2. Results section – data analytics and data-centric product design are one and the same. Data is a key foundational element of everything in today's world which powers innovation in the cloud, AI, ML, and IoT, and this is what customers want and expect in on-demand service models. Therefore, data analytics should fuel the product design. If you have a data-driven product, analytics is already a given.
3. Transformation section – we feel digital storage is underrated; if insurer data is already in the cloud this will enable better experimentation. Using cloud-based Insurtech products if they don't have to go through the process of migrating data to the cloud the cost of experimentation should be much lower. Cloud data storage should be more at the forefront of this report. Overall, this model seems too insurance industry specific which may keep insurers in the same place they are today with some new bells and whistles, and not seen as a partner of other digital service providers transforming customer experiences. Insurance cannot be in a silo by itself and survive disruption from Uber and Amazon. The scoring model needs to take into account two major considerations that are transforming the majority of industries impacting the same customers they are serving - cloud data storage is a must like using the internet is and experimentation is much cheaper than it used to be so financial resources shouldn't be that much of a hindrance. Besides ICS, this doesn't seem to take into account the fact that an insurer's tech department may already know the benefits of cloud computing products and have been experimenting with Azure or AWS. We think these elements need to be up front if this scoring model will be of value to insurers.

We hope you find these comments helpful and look forward to the launch of the new methodology.

Thank you.

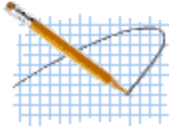
Tom Duffy

**Slice Labs, Inc.**

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.is



**Scott Jean** <Scott.R.Jean@EMCIns.com>

05/02/2019 08:56 AM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Innovation Rating Methodology

First of all I would like to applaud AM Best for tackling this very important topic in the industry. I agree with many of the comments in the opening of the draft indicating how important innovation will be to small and large companies alike. I believe the lack of innovation will be the demise of many small companies as the innovative leaders add market share.

Overall I like the approach to the scoring – having both an input score and an output score. This requires companies to actually demonstrate they are getting something out of there innovative efforts.

On the input side I struggle to see how there will be much difference in the evaluation of leadership and culture. I certainly think they are two separate things, but I also think that it will be difficult for analysts to assess the two of these individually. Culture should follow leadership, but not necessarily if other barriers exist. Perhaps this is just a way to give “double weight” to the leadership/culture piece.

Other than these brief comments, I think this is a great start to holding the industry accountable for innovation.

#### **Scott Jean FCAS MAAA**

Executive Vice President - Finance and Strategy

#### **EMC Insurance Companies**

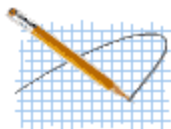
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EMC071856



Laura Drabik <[ldrabik@guidewire.com](mailto:ldrabik@guidewire.com)>

05/02/2019 05:58 PM

To "methodology.commentary@ambest.com"  
<[methodology.commentary@ambest.com](mailto:methodology.commentary@ambest.com)>

cc Shannon Schleppenbach  
<[sschleppenbach@guidewire.com](mailto:sschleppenbach@guidewire.com)>

Subject Formal Comment - Scoring +  
Assessing Innovation

Thank you very much for posting a draft of your scoring innovation. I thoroughly enjoyed reviewing it!

I have been working in the industry for 26 years; 13 of those years working for Guidewire software as the VP of Innovation. I had a few comments, but please understand that my input is only meant to provide support for this great initiative you are pursuing!

1. How do you plan on rating the 'new' breed of insurance carrier like lemonade, metromile, slice, etc. The innovation qualifications appear to focus on the older style of carrier with legacy apps, products and culture. Clearly they are starting at a different place but Metromile is a customer of ours that is constantly innovating for the goal of improving the customer experience.
2. I don't think I saw input from a customer perspective? For eg, NPS rates the customer's likelihood to recommend the company to others. Not certain how you plan on incorporating (if at all) any input from the actual consumers of the carrier. As you know, the largest cohort in US history – millennials prefer peer reviews to any other form of advertisement. Will there be a way to include their evaluation on innovation?
1. I wonder how you are tracking carrier innovation to real life industry innovation and in particular, the top innovation themes? Have you considered aligning with CB insights to monitor the alignment of a carrier's innovation with a consulting firms view of the top innovation themes in our industry?
2. I didn't notice anything on insurance product (ie LOB) innovation. Most insurance products haven't been updated in 30 years! Hard to believe, I know. Many agents, consumers and underwriters would assert product portfolio freshness is an important input into innovation and staying market relevant.

Thank you,

**Laura Drabik**

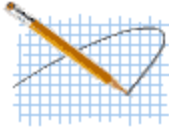
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**Adapt and succeed with Guidewire InsurancePlatform™**



Dan White <dan.white@ninety.com>

05/08/2019 01:38 PM

To methodology.commentary@ambest.com  
cc carlos.wong-fupuy@ambest.com  
Subject Public Comment on Innovation  
Methodology - Ninety Consulting

To whom it may concern,

This email provides our comment on the draft methodology for scoring innovation in insurers.

Some context, first: Ninety are innovation experts for the insurance sector. We take new insurance ideas to market in 60 days, and help insurers become better at innovating. We work across the insurance value chain, but mostly for carriers and re-insurers like Zurich, Allianz, Aetna, Hiscox, Bupa and Swiss Re; and we do it internationally, with offices in London and New York. Over the last 2 yrs, our work with clients has won or been shortlisted over 20 times for major insurance innovation awards. We are trusted by organizations like Travelers to set up their global innovation practice, and are on the cusp of being appointed by both Lloyd's of London and Generali to help do the same.

From that standpoint, I hope that our viewpoint on your draft methodology comes from a position of experience and deep hands-on involvement.

I'm very happy to discuss any of the below in detail - there are nuances that would take us into too much detail for an email like this.

Colleagues and I have spent time looking at the AM Best draft methodology, and note some positive elements, including:

- Outcomes-based, long-term perspective: there is too much innovation theatre in insurance, and AM Best's approach should bypass that and focus on the stuff that matters.
- Emphasis on people involved: it is people that make innovation happen, and AM Best's approach recognizes this and looks for quality and caliber in insurers' innovation staffing.
- Sector-wide view of 'level of transformation' (disruptiveness): this may be the first time that anyone has tried to apply a common scale of 'disruptiveness' to the industry – probably a helpful thing.

In our experience working to help insurers become better at innovating, however, what we think matters is the day-to-day practice. The degree of innovation discipline. And so in some sense, whilst the draft methodology should be helpful in shining a spotlight on this area, what will shift the dial for insurers is actually making the day-to-day practice better.

And that's an area with many nuances, that I don't see the draft methodology being able to cope with in its current form. A few examples:

- Importance of incremental innovation: whilst it is the high-risk, high-profile, high-disruption innovations that get the limelight, experience tells us that it is the multitude of small-scale, incremental innovations that positively impact the bottom line. It is also easier for competitors to copy 'one big idea' than it is for them to keep up with a thousand small innovations: thus, the 'crowd of small ideas' supports competitive advantage. This phenomenon will not be tracked by the draft methodology, as I understand it.
- Emphasis on customer-led innovation: too much innovation is borne out of a level of arrogance ("my idea is the best"), rather than out of the humility of listening to customers before solving their problems. The draft methodology could do, in my view, with greater recognition of this nuance.

- Challenge of calculating ROI on innovation initiatives: one of the four dichotomies in insurance innovation [that we have written about](#) is the tension between ‘learnings’ and ‘commerciality’. Insurers classically seek the bullet-proof business case and proof of ROI, before they will invest in learning. We need to challenge ourselves as a sector to value learning more highly and to engineer innovation processes that allow ideas to be evaluated without the burden of proving ROI. The draft methodology does not allow for this, in my view.

Overall, a possible negative outcome here is that – because the draft methodology is trying to codify what successful innovation looks like – it may enforce that practice, putting in potentially more barriers to innovation as leaders follow ‘good-practice’ blindly, rather than considering what is best for their org.

I am concerned, too, that the draft methodology may return false positives. For instance, the existence of a dedicated, well-funded innovation lab may generate a high score, but experience tells us that such a model carries the seeds of its own demise, and – except for high-specialism, high-risk, horizon 3 ideas – is ultimately unproductive (see [article on the four models for insurance innovation](#)).

All this comment is offered in the spirit of humility, and of support for the overall initiative. It's high time that the value of innovation was understood in insurance, and your work here will help codify that. Thank you, and power to you.

We are happy to talk through any or all of the above.

With thanks,

Dan

Dan White  
Ninety Consulting  
[ninety.com](http://ninety.com)

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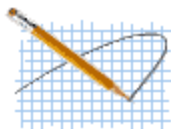
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05/13/2019 11:26 AM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

Subject innovation criteria comments

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Please consider all comments to be anonymous.

#### General feedback:

- The scoring methodology seems very vague, and in essence would push most organizations into the “above average” category
- The draft methodology doesn’t seem to differentiate much between “tools” and “process” – tools are important, but the actual process is necessary to harness the value of those tools and produce innovation.

Comments specific to the descriptions for Level 4 (top) rated innovative organizations in Processes and Structure scoring. Black text represents a part of that score and our comments are in blue.

- The company’s innovation strategy and the processes and structure that support it are clearly aligned with its long-term strategic and business objectives. *Very important, but this is a baseline. A top performer in this arena should demonstrate autonomy amongst teams to independently perform their work, knowing that it’s in alignment with strategic business objectives. There’s a big difference between a top down regime whereby leadership is the limiting factor and has to be a part of every decision within an innovation process, and a bottom up regime, where teams are autonomous and highly efficient, pulling in leadership for advice, direction, and/or prioritization, when necessary, rather than at every decision point. Both are “processes” but we would argue that the latter is a more advanced process for unlocking greater returns on innovation.*
- Facilities are in place to explore emerging issues. This shows very little difference between a top innovator who has a “process” in place for exploring emerging trends and customer “issues,” whereby they *convert those into key insights into action areas*, and a company that simply has a trends/research team but with no power/capability to actually “do” anything with their insights. Exploration is a key component, but having the facilities and process in place to convert that exploration into concepts to test, followed by the support to take those concepts into pilots, and pilots into scaled solutions, is a very different story. This is where the power of a good “process” really holds value.
- Data is used to make better decisions, create solutions, and solve problems, and data governance is well defined and managed at a portfolio level. *Again this is a baseline. “Data as a requirement” for every leadership and team decision is the core value add. It’s not good enough that it’s “used,” organizations need to dig deeper and ensure it’s being used every time, and that it’s a key pillar in the decision making process for leadership and for teams.*
- Recommend adding: The company has a process(es) in place to allow for every employee to contribute to innovation. The company has a process by which they educate employees on how to contribute, how they can gain feedback and iterate their innovation, and how they can seek funding through advocating for new and innovative ideas. (This is more than “culture,” this is actually the nuts and bolts that allow for individuals to find help and to add value in new ways to the company and to be recognized for their contributions.)

Other recommendations around scoring criteria:

- Lack of granularity around subjective questions leads to the clustering we described in the general feedback. Also, the desired outputs of innovation are long-term in nature and are likely to be disassociated from the inputs.
- Some suggested scoring criteria:
  - IP filed and registered
  - Innovation investments made as a % of earnings
  - R&D credits acquired from tax filings
  - Size of staff resource allocated to innovation
  - % of customer growth from innovation
  - Hypothesis abandonment rate
- Generally we suggest finding a few more **objective** measures and scores to supplement the subjective measures and scores they have in place today.

We do feel strongly that this is a great move by AM Best as innovation is certain to be a key component of a company's long-term potential and we definitely support where AM Best is heading. Ultimately, our critique rests on two key issues: 1. Weaving in a few more objective measures to reduce clustering and forcing more self-awareness on the assessments; and 2) Raising the bar for the top rated innovative organizations.

Classification: Internal Use

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**Comments on Draft Criteria: Scoring and Assessing Innovation [Con...**

From: [REDACTED]  
To: 'methodology.commentary@ambest.com'  
Cc:  
Sent: 5/13/2019 6:00:35 PM

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Below are our comments on the draft criteria 'Scoring and Assessing Innovation'. We respectfully request anonymous treatment of our comments.

-  
-

**Innovation Feedback**

Overall, we believe A.M. Best has provided a good framework, structure, and associated guidance on scoring and assessing innovation and we're pleased to see innovation rising to this level of importance in rating long-term financial strength. That said, we believe the overall innovation score lacks depth in its definition and rating for culture, as well as processes and structure. Generally speaking, a number of the innovation rating categories are subjective rather than objective; especially in the scoring of innovation outputs. More specifically, the scoring does not address how an organization inspires, captures, or yields the benefits of widespread engagement of employees in the innovation process to promote a culture of innovation.

**Recommendations:**

**Inputs:** Under innovation inputs, the culture score is framed around the organization's tolerance for risk-taking, but does not incorporate the organization's ability to inspire and engage employees to support the innovation function. Furthermore, the processes and structure score does not consider whether the company's process includes a framework and/or platform for encouraging widespread employee engagement in innovation. We believe the processes and structure scoring should be expanded to encompass this.

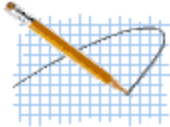
**Outputs:** We believe that an input of an inclusive culture of innovation that includes widespread employee engagement in the innovation process results in an output of improved employee morale and more focused, strategic innovation that delivers stronger returns in the form of processes, products, and services that better align with the needs of employees and customers. We recommend that the output scoring be amended to score companies based on how their engagement in innovation yields better innovation outputs.

Kindest Regards,

[REDACTED]

Classification: Confidential

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[REDACTED]  
05/13/2019 06:14 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

Subject [REDACTED] Response to  
Scoring and Assessing Innovation  
Draft

1 attachment



AM Best Innovation [REDACTED] response.pdf

Good afternoon – please find attached our response to the A.M. Best draft on Scoring and Assessing Innovation. We appreciate the opportunity to provide this feedback.

Please let me know if you have any questions or comments.

Thank you,  
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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**TO:** AM Best  
**FROM:** [REDACTED]  
**DATE:** May 13, 2019  
**SUBJECT:** Request for Comment: Scoring and Assessing Innovation

[REDACTED] welcomes the opportunity to comment on your March 14, 2019 publication of proposed criteria "Scoring and Assessing Innovation." We request that our comments be published anonymously.

Overall, we agree with AM Best about the importance of innovation. We believe this has always been an important element in the insurance industry, and that successful companies today have been innovating for many years. Continuing to innovate is critical to meet changing customer expectations and leverage rapidly changing technology. Focusing on innovation today will pay dividends in the future.

We also agree with the direction of the draft criteria, as it captures many of the important elements of innovation. Per your request for comment on our views of the methodology, we offer the following:

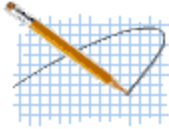
- We appreciate how AM Best has started with a definition, and agree innovation is a very broad term which can apply across the business model. In our view, the end goal of innovation is to add value for our customers. This is not explicit in the definition, but is captured later in the criteria. We also agree with including customer retention as a metric, and are glad to see this named as an example in the results sections.
- Consistent with the definition, we believe that innovation is not, and should not, be confined to one silo of the company. While innovation initiatives are important to drive specific projects forward, we believe innovation as a mindset should be embedded in every part of the business. The inputs you've begun to define around leadership, culture, resources, process and structure will all be important. Together, we believe these inputs demonstrate the depth and breadth of the innovation mindset within a company.
- For this reason, we also would expect that evaluating the output will be challenging. The criteria you have defined provide a helpful framework, however in early years we suggest sharing the results with companies confidentially, while the public reports would provide a more qualitative summary. We believe that the best measures of innovation success continue to be a consistent track record of profitable growth and strong retention of customers.

We believe that overall, AM Best has taken a thoughtful approach to explicitly reviewing and scoring Innovation, and while there will be many questions during the implementation, this will be an important step to reviewing innovation practices across the industry. We look forward to the final draft.

Regards,

[REDACTED]

[REDACTED]



**Andrew Yorke**  
 <[andrew\\_yorke@cooperators.ca](mailto:andrew_yorke@cooperators.ca)>  
 05/13/2019 06:41 PM

To "methodology.commentary@ambest.com"  
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 cc Gordon M McLean  
 <[Gordon.McLean@ambest.com](mailto:Gordon.McLean@ambest.com)>  
 Subject AM Best Request for Comments on  
 Draft Criteria: Scoring and Assessing  
 Innovation

1 attachment



Ltr\_AMBest\_Innovation\_May13\_2019\_Cooperators.pdf

As per feedback from our organization's innovation team, please find attached our comments on the criteria for your consideration.

Regards,

Andrew Yorke CPA, CA  
 Vice President - Corporate Finance Services  
 The Co-operators Group  
 130 Macdonell Street  
 Guelph, Ontario N1H 6P8

Direct: 519-767-3095

Fax: 519-763-5152

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**The Co-operators Group Limited**

May 13, 2019

A.M. Best Company, Inc.  
 Ambest Road  
 Oldwick, NJ 08858  
 United States

**Re: AM Best Request for Comments on Draft Criteria: Scoring and Assessing Innovation**

Thank-you for the opportunity to review and provide comment on A.M. Best's Draft Criteria: Scoring and Assessing Innovation.

We are supportive of A.M. Best's efforts in defining and developing innovation criteria as part of the ratings process. We share your perspective on the importance of a robust innovation strategy to enhance an organization's ability to be successful in meeting its long-term goals and are committed to reflecting these attributes in our own innovation program.

Our feedback relates to the innovation definition, the importance of innovation learnings, and the importance of change management.

The definition currently reads that innovation is *"a multi-stage process whereby an organization transforms ideas into new or significantly improved products, processes, services or business models that have a measurable positive impact over time and enable the organization to remain relevant and successful."* We feel this could be broadened by adding in an innovation learnings aspect, that is, learnings that provide insights which help to guide and inform a company's future direction. Innovation is not just about new products and services; it's also about an organization's process of learning, responding and moving forward.

Innovation is difficult to measure, and we agree that considering both inputs and outputs is important. It is critical that innovation be aligned with a company's mandate and strategy and we highlight for your consideration that an output can be the results of learnings, as demonstrated by an understanding of trends and a pivot in strategy, in addition to more tangible outputs such as reduced expenses or client growth. We call this "Return on Learning" (ROL) and leveraging it successfully is a driving factor in our ability to remain relevant for the long-term.

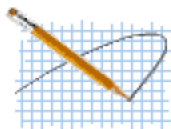
Our last comment refers to change management. We feel it could be called out within the guideline under culture and/or resources as it is a significant factor in our ability to embed and execute innovation processes within the organization. We are now working in a VUCA (volatility, uncertainty, complexity and ambiguity) world and we need to prepare our people to work differently.

We thank you for considering our feedback and would welcome the opportunity to have further discussions with you regarding our comments should you need any clarification.

Sincerely,



Andrew Yorke  
VP, Corporate Finance  
The Co-operators Group Limited



05/13/2019 07:35 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

Subject [REDACTED] feedback on Innovation Score criteria

Good afternoon,

Below is preliminary feedback from [REDACTED] on the new A.M. Best Innovation Score. We have several questions embedded in the feedback, some for your consideration and some for which we need more clarity to provide thoughtful feedback. We welcome the opportunity to discuss these topics further. Please let me know if this opportunity is available.

In the meantime, please treat this submission as anonymous. If we can gain clarity our questions in the short term, we can send final feedback for publication. If not, we would like to modify how the feedback is posed before publication.

Thank you for the opportunity to engage in the process.

Best regards,

[REDACTED]

- All the criteria are very subjective. What metrics are specifically important to each criteria? Can more examples and guidance be provided so companies can improve. Also to this aim, the criteria will be more data centric.
- We need more clarity around the resources topic as related to the innovation process.
- We need more clarity around a company's investment in innovation as compared to the overall company cash flow/revenue. Is this a consideration in the methodology? We propose metrics are created to measure innovation investment and how to separate that from CAPEX and traditional IDS (Internally Developed Software) spend.
- We propose that there are specific measures of innovation through partnership incorporated in the methodology. How often and how effectively does a company partner? How well does a company collaborate externally to bring innovation to market?
- We recommend that companies should first be ranked by their results, i.e. profitability, growth, combined ratio. Then the innovation level should be scored and tied to the results. Right now the methodology does the opposite, scoring the innovation level first. With this change, companies would be evaluated on success, then the innovation score would more accurately explain how much a company's success is tied to innovation.

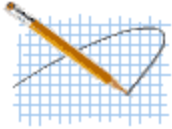
[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]



"Fisher, Justin M"  
<[justin.fisher@nationwide.com](mailto:justin.fisher@nationwide.com)>  
05/13/2019 08:13 PM

To "methodology.commentary@ambest.com"  
<[methodology.commentary@ambest.com](mailto:methodology.commentary@ambest.com)>

cc

Subject Nationwide Insurance - Innovation  
Criteria Response

1 attachment



Nationwide Feedback to A.M. Best Innovation Criteria Final.pdf

Good Evening,

Please find attached Nationwide Insurance's response on the proposed Innovation criteria.

Regards,  
Justin

 <p><b>Nationwide</b> is on your side</p> 	<p><b>Justin M. Fisher</b> AVP, Rating Agency <b>Proud Nationwide Member</b> Office of Treasury   Corporate Development W 614-249-0722   C 614-323-7860 <a href="mailto:Justin.Fisher@nationwide.com">Justin.Fisher@nationwide.com</a></p>
--	--



May 13, 2019

**RE: A.M Best Draft Criteria: Scoring and Assessing Innovation**

Dear A.M. Best Methodology Team:

Nationwide appreciates the opportunity to submit feedback relating to the draft of the new criteria procedure, *Scoring and Assessing Innovation*. Nationwide and its subsidiaries (“Nationwide”) is comprised of two affiliated mutual insurance companies and their subsidiaries under common management, operating both property and casualty and life insurance companies. Nationwide ranks number 66 in the Fortune 100 rankings and is one of the largest diversified insurance and financial services organizations in the world, with assets of over \$200 billion.

We are supportive of A.M. Best’s efforts to specifically assess Innovation as a component of the business risk profile assessment in the financial strength rating as we believe that innovation is key to the long-term success of a company. Specifically, we agree with A.M. Best that innovation is not all about technology and that the criteria explicitly identifies innovation will be important over time as it is not something that can be immediately transformed.

Overall, we appreciate A.M. Best’s initial draft of the criteria assessing Innovation and we respectfully request that A.M. Best consider the following key recommendations relating to the criteria:

- Innovation inputs
  - Expand the criteria to include an iterative component to the scoring as opposed to solely transforming ideas into new or improved products, processes, services, or business models. We believe the iterative approach is critical to take ideas, morph them, recombine them, and iterate them as it assists in driving learnings and integrations in new domains or core businesses. While this iteration is implicit in innovation, we have found it important to make that distinction explicit.
- Resources
  - Include within the scoring, a component that recognizes / rewards the built-in growth & development of talent in relation to resources allocated innovation. Focusing on building “innovators”, as much as “innovations”, allows an organization to be more sustainable in its innovation future.

- Process and structure
  - Include more explicit scoring in relation to a portfolio approach of initiatives that a company may develop for many years to come to align with long-term strategic objectives. The best innovation portfolios have a balance of short, medium, and long-term opportunities, as well as a balance of initiatives that impact that core with others that transform the business.
  - Include more explicit scoring in relation to how the strategy of the organization drives the innovation agenda. As opposed to a “scatter shot” approach, we believe innovation is a key way to activate on the corporate strategy and should be considered as such. Innovation also provides a feedback loop into the corporate strategy, resulting in another iterative approach.
  - We believe that building a repeatable model process is under emphasized in the criteria, as companies need to be able innovate multiple times, not just once or twice.
  
- Results
  - Include within the scoring the measurement of “Activity” metrics (i.e. active initiatives, associate training) to show companies are engaging in innovation as opposed to measuring only “Impact” metrics, as those metrics will typically take time to bear measurable results. Both are critical, but we’ve found metrics move from “activity” to “impact” metrics as the capability matures.
  
- Level of transformation
  - While the focus of the criteria is in relation to the Insurance industry, we believe that A.M. Best needs to add a component or score mechanism for innovation that would typically fall outside insurance and extend the value proposition of the company. The proposed criterion does not identify how efforts that may fall out of the currently viewed areas of insurance would be scored. We believe solving needs beyond traditional insurance is what customers need and what the insurance companies of the future will look like.

While we are supportive of A.M. Best’s effort to assess Innovation in the rating process, we encourage A.M. Best to take into consideration the recommendations listed. If A.M. Best would like further clarification on our positions, please do not hesitate to contact us.

Sincerely,

J. Scott Sanchez  
 Senior Vice President  
 Chief Innovation Officer



Credit Rating Criteria Research & Analytics  
Ambest Road, Oldwick, NJ, 08858, USA  
E-mail: [methodology.commentary@ambest.com](mailto:methodology.commentary@ambest.com)

▼ Paul Tetrault ---05/13/2019 04:58:44 PM---Paul Tetrault <[ptetrault@insurancelibrary.org](mailto:ptetrault@insurancelibrary.org)>

Paul Tetrault <[ptetrault@insurancelibrary.org](mailto:ptetrault@insurancelibrary.org)>

05/13/2019 04:58 PM

To: [methodology.commentary@ambest.com](mailto:methodology.commentary@ambest.com)

cc: Paul Tetrault <[ptetrault@insurancelibrary.org](mailto:ptetrault@insurancelibrary.org)>

Subject: The Insurance Library considerations on innovation

Please see attached for a submission on behalf of The Insurance Library regarding the proposed criteria for evaluating innovation.

Please let me know if you have any questions.

Thanks,

Paul Tetrault, JD, CPCU, ARM, AIM  
Executive Director  
The Insurance Library



(See attached file: image001.png)

\*\*\*\*\*  
\*\*\*\*\*

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\*\*\*\*\*



# The Insurance Library

May 13, 2019

A.M. Best Co.  
Ambest Road  
Oldwick, NJ 08858

Re: Scoring and Assessing Innovation Draft Criteria

The following comments are offered from the perspective of The Insurance Library, an institution that has collected and curated information about the risk management and insurance industry for over 130 years.

## **An Innovative Industry**

It would be difficult for one who has spent any appreciable amount of time accessing the Library's collection to avoid being mindful of the fact that the history of risk management and insurance is a story of innovation. Organizational histories, treatises describing complex coverages, and volumes of periodicals recording contemporaneous accounts of industry developments all reflect the history of an industry that was founded in innovation and has never stopped innovating.

Insurance is, at the most fundamental level, an innovative concept. The ubiquity of insurance arrangements in modern society can make it hard to appreciate that the idea that the risk of loss could be managed and made tolerable by spreading risk through a financial mechanism supported by contractual obligations was at one time a novel concept.

Once initiated as a commercial enterprise, insurance has never taken a pause from innovation. The industry has constantly innovated internally, adopting and applying newer and more refined business processes and methodologies to its operations. And it has constantly not merely kept pace with the innovations taking place in society over a remarkable era of human ingenuity but in fact enabled such creativity to occur by providing the security and certainty necessary to allow ventures to move from ideas to reality.

But while the collection at The Insurance Library reflects an industry in a constant state of innovation, certainly recent continuing additions to the body of information stored here demonstrates an intense focus on the concept of innovation itself. The past few years have seen

the development of a new brand of activity, sometimes referred to as an “ecosystem,”<sup>1</sup> characterized by swift exchanges of information and devotion of time and energy to questions regarding the adequacy of the insurance industry collectively as well as individual insurance industry participants when it comes to innovation. Is the industry behind in some way, or can it keep up or catch up with some unspecified level of innovation, are among the queries made.<sup>2</sup>

We have seen such questions asked by insurance regulators, along with the associated question of whether they are able to sufficiently keep abreast of innovative developments to fulfill their mission of protecting consumers. In response, the National Association of Insurance Commissioners, the national policy development and standardization organization consisting of all of the states’ insurance commissioners established an Innovation and Technology Task Force.<sup>3</sup> And there has been discussion regarding the potential need for legislation to promote a “regulatory sandbox” to promote the development of innovation.<sup>4</sup>

### **Explicit Proposal**

In this context it is not surprising to see a proposal to create a new explicit mechanism to assess and evaluate insurers’ strengths, weaknesses, abilities and failings when it comes to innovation.

The March 14 press release seeking comment on the proposal states that “Historically, AM Best has captured innovation indirectly through the various building blocks of its rating process,” and acknowledge that “Innovation always has been important for the success of an insurance company,” but goes on to suggest that, “with the increased pace of change in society, climate and technology, it is becoming increasingly critical to the long-term success of all insurers.”

These statements seem to possess a degree of internal conflict that may be heightened by a broader consideration of the history of the insurance industry. It is worth noting that now is not the first time there has developed a sense of urgency for the industry to accept and adopt change. Just in the past few decades there have been calls for insurance agents to adopt what was often referred to simply as “automation”<sup>5</sup> and sometimes to become a “paperless office.”<sup>6</sup> There was a movement that anticipated the need for insurers to go through a fairly radical procedure of “re-engineering” in order to meet customer demands<sup>7</sup> as well as an expectation that insurance would converge with other financial services to establish a marketplace where “one-stop shopping” for a range of banking, credit and insurance products was the dominant form of delivery.<sup>8</sup>

<sup>1</sup> “The Digital Advantage,” Giuliano Altamura. *The Standard*, Vol. 281, No. 8 (October 22, 2017), pp. 20-21.

<sup>2</sup> See, for example, <http://insurancethoughtleadership.com/era-of-insurance-innovation-is-upon-us/>, and statement that “The insurance industry has largely resisted, but companies that aren’t racing to innovate will soon be left behind.”

<sup>3</sup> See [https://www.naic.org/meetings1704/dn\\_naic\\_leads\\_innovation\\_tech.htm](https://www.naic.org/meetings1704/dn_naic_leads_innovation_tech.htm).

<sup>4</sup> <https://www.dig-in.com/news/aia-proposes-regulatory-sandbox-for-digital-insurance-innovation-to-naic>

<sup>5</sup> “Agency Automation: A Minute Manual,” Barbara Garro, *The Journal of Insurance*, Vol. XLI, No. 2 (March/April 1980), pp. 36-39.

<sup>6</sup> “The Paperless Office: Dream or Reality?” Gina Bellovich, *Supergrowth*, Vol. 4, No. 2 (March/April 1992), pp. 5, 7.

<sup>7</sup> “Reengineering and Insurance: Solving Problems, Seizing Opportunities,” Ronald E. Compton *The Geneva Papers on Risk and Insurance. Issues and Practice*, Vol. 18, No. 69, WORLD INSURANCE STRATEGIC ISSUES (October 1993), pp. 415-422.

<sup>8</sup> See ONE-STOP SHOPPING FOR FINANCIAL SERVICES, Pamela Yip, *The Dallas Morning News*, February 22, 2000, <https://www.chicagotribune.com/news/ct-xpm-2000-02-22-0002220016-story.html>.

## Questions for Consideration

Recalling these points of emphasis and prediction may reasonable prompt questions regarding the sentiments of the current moment regardless of how intensely or broadly emphasized.

Among the questions that might be considered:

- Will the current intense focus on the value of innovation recede at some time in the not-to-distant future, and if so, will it be replaced on other institutional values?
- Is it possible for an excessive focus on innovation to cause an observer to miss larger, perhaps more fundamental, points about an entity's operations?
- Could activities and even results that appear to be innovative and beneficial in the short term turn out when viewed from a longer time horizon to be distractions or even impediments to success?

## A Thought Exercise

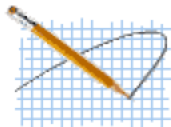
One of the more notable items in the Library's collection, and always a highlight during tours of our premises, is a set of Sanborn Fire Insurance Maps that cover most of the New England region. Such maps, which contain address-specific information regarding the construction, occupancy, exposure and protection of buildings including residences and businesses, would have been found in any fire insurer's offices in the early part of the last century. They are a continual reminder to Library visitors not only that the industry has evolved but also that, prior to the introduction of modern computers that are ever-present in every facet of the modern business world, the industry was able to function well and in a sophisticated manner.

Consideration of the use of such tools (the "insurtech" of their day) can give rise to a thought exercise that while extreme could be enlightening. What if an insurer several decades ago made a strategic decision not to implement any technology but to stick with the processes and methodologies that had served it and its agents and customers well? Could a company that today communicated largely by mail and maintained a typing pool on the one hand but did not have an IT staff or an annual expenditure on IT infrastructure and maintenance on the other still be good at underwriting and paying claims? Perhaps not, but it is possible that foregoing some changes for others to adopt first and work out the problems at a higher cost, and possibly even avoiding cycles of adoption of short-lived technologies could result in net efficiencies that appear backward when others are advancing but prescient in hindsight.

Thank you for considering these comments. The Insurance Library stands ready to assist with the provision of additional information that might be helpful to the matter under consideration.

Sincerely,

Paul Tetrault, JD, CPCU, ARM, AIM  
 Executive Director  
 The Insurance Library  
 156 State Street  
 Boston, MA 02109  
 (617) 227-2087



[REDACTED]  
05/13/2019 11:35 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject New Innovation Criteria: Comment

Hello –

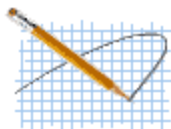
The below comment is being submitted anonymously regarding A.M. Best's proposed innovation rating criteria and process.

*A.M. Best has historically and consistently published a company's assessment as a description rather than a numeric value. If A.M. Best decides to add Innovation as part of the assessment in the Business Profile building block, continuing to solely publish a performance description (i.e. favorable) along with a summary of business profile is more appropriate than assigning and publishing a numeric rating specific to Innovation.*

**Thanks,**

[REDACTED]

[REDACTED]



"Bingham, Kevin" <KBingham@ceiwc.com>

04/05/2019 11:44 AM

To Jacqualene Lentz/US/AMBEST  
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cc "Phelan, Thomas"  
<TPhelan@ceiwc.com>, "Bingham,  
Kevin" <KBingham@ceiwc.com>

Subject Scoring and Assessing Innovation  
Request for Comments

1 attachment



AMBESTInnovationRepsonse\_Final04052019.docx

Jackie,

Good afternoon.

It was a pleasure having you out at Chesapeake for our AM Best meeting. I also enjoyed your Review and Preview meeting in Arizona.

Attached you will find our response to AM Best's request for comments on the new innovation criteria procedure. As someone who co-chaired the Casualty Actuarial Society's innovation council for four years, innovation has a special place in my heart and especially working here at Chesapeake where it is part of our core values. It is great to see AM Best focusing on this through your input and output scoring methodology.

Have a wonderful weekend and I look forward to seeing you at future events.

Best Regards,

Kevin

**Kevin Bingham, ACAS, CSPA, MAAA**

Chief of Results for Subsidiary Initiatives

**Chesapeake Employers' Insurance Company**

*Your workers' compensation specialist*

8722 Loch Raven Blvd. Towson, MD 21286-2235

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April 5, 2019

Jackie Lentz

Director

A.M. Best

[Methodology.commentary@ambest.com](mailto:Methodology.commentary@ambest.com)

Re: Scoring and Assessing Innovation Request for Comments

Dear Jackie,

We are pleased to submit our response to AM Best's request for comments on the draft of a new criteria procedure, "Scoring and Assessing Innovation." Chesapeake Employers' Insurance Company (Chesapeake Employers) has been dedicated to the pursuit of excellence and innovation over our 100 plus years in business. Chesapeake Employers' core values include integrity, teamwork, excellence, accountability and moving forward through innovation. As Larry Keely said in his book **Ten Types of Innovation: The Discipline of Building Breakthroughs**, "Successful innovators analyze the patterns of innovation in their industry. Then they make conscious, considered choices to innovative in different ways." We believe AM Best's choice to shift from indirectly capturing innovation through its various building blocks of its rating process to explicitly capturing innovation through the innovation input score (leadership, culture, resources, processes) and innovation output score (results, level of transformation) is appropriate and reasonable.

#### AM Best Innovation Scoring Formula

At a high level, AM Best's focus on the components of a company's innovation process (input score) and the impact of the company's innovation efforts (output score) makes sense from a scoring formula perspective. The split seems very natural.

The sub-components under the input score, the output score and example sub-component descriptions seem intuitive. For each sub-component score, the transition between each score has a description that clearly delineates the difference from the lower or higher score.

Of the input sub-components, culture and resources may be the most difficult to determine from a "limited", "reactive", "proactive" or truly "forward-looking" / "does not devote", "devotes some", "devotes", "devotes and actively hires" perspective. In the early days of AM Best's roll out, a number of companies may receive scores lower than they believe they deserve in these categories, largely because they have not documented these types of efforts in the past. Companies will need to identify the

innovation pockets across their organization and bring them together in a clear and concise fashion that will help AM Best better score these two sub-categories.

Of the output sub-components, results will require some flexibility early on. AM Best will probably have to accept some company stories that turned out to be innovative, versus those that were truly created by a visionary effort that began with the end in mind. Stated another way, the results of future innovation efforts will be much easier to track from start to finish, versus historical efforts that oftentimes can be told in a more exciting and colorful way.

Regarding translating of the scores into the five assessment categories, the names seem intuitive and appropriate for differentiating between the categories. It is hard to opine on the actual score bands, but we do find it reasonable that achieving the category of “Innovation Leader” should be a high bar to achieve (i.e., Score of 28, 29, 30, 31, 32). There could be some push back on the category of “Non-Innovator” being from 0 to 11, but that will largely depend on how hard AM Best grades each sub-category. There probably isn’t a long line of companies hoping to claim that title.

#### Additional Observations

We believe the following items should be considered by AM Best as they continue to hone their innovation score:

- The importance of a company having a track record of investing in innovation and achieving results must not be undervalued in the determination of the input and output scores. There should be some weight given to companies that have shown a track record of being innovative over time.
- The tone from the top is absolutely critical in the success or failure of innovation efforts. We believe the input score adequately captures this aspect of evaluating a company’s innovative potential. Innovation should be part of a company’s DNA (e.g., included in core values, prominently displayed, included in meeting/companywide events, part of board discussions, etc.). However, AM Best’s input scoring categories may overlap at times and AM Best will need clearly communicate how the scores are calculated in the future.
- The importance of the output score (results) should not be undervalued. A business line leader once said, “Don’t confuse efforts with results”. Devoting a ton of resources and building a plethora of colorful innovation graphics in power point is much different from effectively deploying resources and achieving strategic differentiators in the marketplace and improving a company’s financial results. Based on internal discussions at Chesapeake Employers, AM Best could give more weight to the output score than the input score. Currently, the input score is equally weighted with the output score (i.e., 16 input + 16 output = 32). AM Best could adjust the weight so that the output score could receive greater than 16 points, with the input score receiving less than 16 points (e.g., 12 input + 20 output = 32).
- Innovation is the core intellectual property (IP) of the companies you will be meeting with. AM Best professionals will need to treat all information gathered with the utmost confidentiality and avoid “knowledge nudging” with other companies during the annual ratings review process. This is similar to some of the ERM roll out early days when some rating agencies were in a race to share stories of how to identify, monitor and measure risks. AM Best could state before any

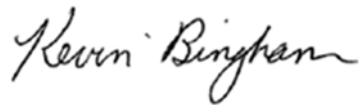
innovation discussion that information shared by the company will be kept in strict confidence. As Chesapeake Employers' executives, this is a concern we believe many companies will have.

- AM Best has four building blocks (Balance Sheet Strength, Operating Performance, Business Profile, and Enterprise Risk Management) in its credit rating process. It is appropriate that innovation will be assessed within the Business Profile building block. There is no need to add a fifth building block since innovation ultimately affects the business profile in a comprehensive manner.
- We like the fact that the innovation score does not automatically translate into a rating positive or negative. Instead, it will be evaluated against a composite of peer insurers in specific sectors or business lines. This is reasonable as it considers differences between business lines as some lines may require more frequent innovation practices than other lines.
- To facilitate the implementation of the Scoring and Assessing Innovation process, AM Best may want to advise insurers to do an initial or annual self-assessment based on these criteria. A standardized form similar to the annual SRQ questionnaire could be provided by AM Best. Please note that this self-assessment could also be timed for midyear, rather than yearend, in order to help avoid the busy schedules at that time of year. The self-assessment would hopefully achieve several objectives:
  - It gives companies the opportunity to formally assess its current innovation status and prepare / take appropriate actions;
  - It helps to further identify areas that may need to be revised in the criteria prior to its formal adoption by AM Best; and
  - It provides the means for note comparison between the insurers' self-assessment and AM Best's formal assessment.
- Innovation comes in many flavors. It will be important for AM Best to understand the different focus areas of companies investing in innovation. Examples include:
  - Investments focused on financial gain (aligned with core purpose) – Insurance companies and owned corporate venture capital subsidiaries may invest in VC funds or insurtech/start-up companies directly that align with their core purpose (e.g., improving the experience of agents, policyholders, injured workers, and employees).
  - Investments focused on financial gain (not aligned with core purpose) – Insurance companies and owned corporate venture capital subsidiaries may invest in VC funds or start-up companies directly that do not align with the insurance mission, but present a tremendous opportunity for creating a significant return on investment (ROI).
  - Investments focused on the betterment of society, the local economy and/or improving relationships with government and regulators. The ROI on these investments can be lower than the previous two categories but should be self-supporting.
  - Investments focused on creating awareness and the opportunity to “try before you buy”. With over 1800 insurtech companies to research, insurance companies will use several resources (e.g., insurtech podcasts, university relationships, reinsurance broker innovation teams, conferences, partnerships, publications, etc.) and investments to better understand the innovation trends in the marketplace.
  - Internal investments focused on creating speed to value with agents, policyholders, injured workers, and employees. This area covers call centers, claims systems, underwriting systems, marketing, advanced analytics, robotics process automation,

Apps, IoT, etc. Given the rapid pace of change in the marketplace, internal investments are becoming more heavily influenced by external trends and insurtech activity.

Chesapeake Employers' appreciates the opportunity to review AM Best's March 14, 2019 **DRAFT: Scoring and Assessing Innovation** document and to provide feedback on the draft criteria. As Gary Hamel and C.K. Prahalad said in **Competing for the Future**: "One doesn't get to the future first by letting someone else blaze the trail." AM Best continues to enhance their methodology and blaze the trail with regards to incorporating innovation in the rating process, and you should be commended on constantly looking for new ways to improve the rating process.

Best Regards,



Kevin Bingham, ACAS, CSPA, MAAA

Chief of Results for Subsidiary Initiatives

**Chesapeake Employers' Insurance Company**

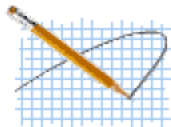
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Subject Scoring and Assessing Innovation -  
[REDACTED]

1 attachment



[REDACTED] Input on AM Best RFC Scoring and Assessing Innovation.pdf

Attached please find [REDACTED] commentary on A.M. Best's RFC on Scoring and Assessing Innovation (March 14, 2019). Please call or email with any questions.

Thanks  
[REDACTED]

A.M. Best Company  
 1 Ambest Road  
 Oldwick, NJ 08858-0700

Dear Sir/Madam:

Thank you for the opportunity to comment on A.M. Best's ("AMB") Methodology and Criteria "DRAFT: Scoring and Assessing Innovation" published March 14, 2019. [REDACTED]

[REDACTED] supports AMB's objective of better understanding innovation in the insurance industry. Our input on your draft criteria follows.

#### Feedback

In our view, for established insurers "disruption" is not an innovation goal and believe the criteria scoring should recognize this. Innovation for established insurers is largely focused on evolving their core businesses which makes it challenging to quantify the hard outputs of innovation.

The subjective and qualitative nature of innovation will make applying a single formulaic innovation score difficult, and towards this end the scoring criteria should provide more quantifiable innovation metrics. As currently constructed, the information gathering process by which the data and other information that will feed into the innovation score will be difficult to replicate consistently across the industry.

Additional "Input Criteria" AMB could consider includes:

- Partnership – as a measurement of strategic partnerships within the tech/start-up communities
- M&A – as a measure of inorganic strategies for effectively integrating technology and talent, and/or divesting legacy businesses

We suggest more clarification on why a five-year timeframe for Output Scores was selected. A five-year look back for a value creation measurement could be unfairly punitive for firms that have implemented innovation efforts more recently.

We suggest AMB articulate the reasoning for equal weighting of inputs and outputs. One could argue that for a pure "innovation" score, inputs are more important given they represent leading indicators.

We also seek insight into the reasoning for AMB's neutral stance on new idea generation (i.e., innovation) taking place internally versus sourced by a consultant. One could argue that effective

internal innovation is more sustainable to an organization given that it is proprietary and ultimately a component of business as usual. Innovation should be aligned with an organization's broader goals.

In the draft document, similar language is used within multiple input scores and may be interpreted as redundant. For example, "long-term strategy and innovation goals" under Leadership Score, and "mission and vision statement" under Culture Score. Also, "innovation strategy" is mentioned within the Process and Structure Score.

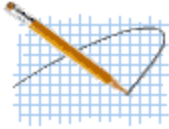
The Resources Score staffing language implies that AMB is biased towards a centralized innovation approach. In our view, the appropriate innovation model for a given organization depends on various factors unique to that organization. One could argue that while some centralization is necessary for certain components, in general innovation should be owned by everyone in the organization and be part of business as usual.

For the Process and Structure Score we believe that too much process and structure can hinder agility and innovation. We suggest AMB consider how to measure this criterion on a firm-by-firm basis. Also, while "innovation strategy" is mentioned here, strategy does not equal process. A characterization like "innovation plan" or "framework" may be more fitting.

In the Results Score, we suggest acknowledging that the ability to pivot can be more important than continuing down the same "sustainable" innovation path.

#### Conclusion

As noted, [REDACTED] supports AMB's objective of better understanding innovation in the insurance industry and believes its draft criteria is an important step in this direction. Thank you for the opportunity to opine on it.



"Fitzgerald, Michael"  
<MFitzgerald@celent.com>

05/07/2019 07:50 PM

To "methodology.commentary@ambest.com"  
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cc #OW Celent Insurance Research  
<#OWCelentInsuranceResearch@celent.com>

Subject Celent Response to AM Best's Call for Comment

1 attachment



Celent response to AM Best 7 May 2019.pdf

Please find Celent's comments attached.

As questions arise, please send them to me at this email address or contact me via the phone number below.

Would you please acknowledge receipt of the document and confirm that it opened successfully?

Thank you,

Mike

Mike Fitzgerald  
Senior Analyst

**Celent**

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# CELENT

## CELENT RESPONSE TO AM BEST CALL FOR COMMENT

SCORING AND ASSESSING INNOVATION

Michael Fitzgerald  
07 May 2019

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## INTRODUCTION

Celent supports the AM Best *Scoring and Assessing Innovation* initiative, and we appreciate the opportunity to provide comments into the draft. We see the potential for this effort to be transformative for our industry and expect that it will help drive the changes necessary to keep incumbent insurers relevant and valuable.

### CELENT'S CREDENTIALS IN INSURANCE INNOVATION

Our comments are based on Celent's research and consulting on insurance innovation. We presume that AM Best is familiar with Celent, as we have been researching insurance technology for twenty years. However, you might not be familiar with our efforts specific to insurance innovation. We think it will be useful to provide a brief background so that you can place our comments on the draft in context of our experience.

Our first insurance innovation survey was published in 2013. (See Related Celent Research at the end of this document for a list of insurance innovation research reports.) Over these six years, a consistent guiding principle of the research has been to analyze insurance innovation from an empirical, survey approach based on primary sources. We have also performed assessments of innovation programs, produced multiple case studies on leading innovative insurers, and researched the impact of emerging technologies.

Our outlook is also shaped by our insurance analysts' experiences. All have worked for carriers in leadership positions. The feedback submitted herein is based on their ability to evaluate alternative innovation methods against the backdrop of their direct experience driving change in the industry.

### HIGH-LEVEL COMMENTS

As we operate in insurance innovation, we find that many of the observations / commonly stated conclusions are not fact-based, are heavily influenced by bias, and suffer from groupthink. In our research, we seek to provide insights to decision-makers based on fact and primary research.

We have found that insurance innovation in most insurers is characterized by:

- A lack of a disciplined approach and little agreement on a common language.
- Inconsistent execution.
- Governance processes that "govern out" experimentation.
- Valuable initiatives that "rebound" year after year — projects which are considered for funding but are passed over repeatedly in favor of operational improvements.

We are encouraged by the potential of *Scoring and Assessing Innovation* to address these patterns. In the spirit of improving the draft approach, we suggest that the following high-level comments be addressed in the final product:

1. The definition of innovation provided in the draft — "a multi-stage process whereby an organization transforms ideas into new or significantly improved products, processes, services, or business models that have a measurable positive impact over time and enable the organization to remain relevant and successful" — does not adequately distinguish among process improvements,

incremental innovation, and disruptive innovation. The definition of innovation should clearly outline these distinctions. We assume that an insurer's process improvement capabilities (which 99% of insurers try to do all the time in their business operations) is currently part of the Business Performance key rating factor. Assessing innovation capabilities should focus on incremental and disruptive innovation, not process improvement.

2. From an innovation capability perspective, scoring for disruptive innovation — meeting unmet needs or addressing underserved populations — should be weighted more heavily than incremental innovation. While breaking established trade-offs is difficult, opening new markets with new products is more challenging. Success with disruptive initiatives should “earn” more than progress with incremental innovation. For example, insurers experimenting to close coverage gaps created by the gig economy or to use microinsurance to more fully cover the uninsured/underinsured should be rewarded for their efforts. We suggest that the assessment of innovation processes and measurement be revised to recognize this difference.
3. Innovation leadership extends beyond the general “good leadership” principles of effective sponsorship and active communication. Assessing the leadership input should include the measurement of behaviors at the most senior level of the organization.
4. Our research demonstrates that there are a variety of different methodologies applied by insurers to a broad range of innovation initiatives. We understand that AM Best wants to assess, not mandate, the effectiveness of the methodologies used. Thus, the evaluation must be descriptive and not prescriptive. For example, the statement on page 5, “The resources critical to a company's innovation strategy can generally be divided into one of three categories...” We contend that there is no evidence that links innovation success to the existence of specific innovation roles. However, there is a clear pattern that successful innovators have modified their HR practices to more effectively recruit, retain, and develop the talent required for innovation. Changes to HR processes should be measured in the assessment; the existence of specific roles should not. We suggest a review of the document to identify prescriptive statements and modify them to be descriptive.
5. In its current form, implementation considerations appear to be beyond the scope of the report. We agree that design should precede detailed implementation planning. However, we think that a few comments about the principles that will drive implementation would be welcomed by insurers. We suggest that two are included in the final product. First, clarification on where innovation scoring will be applied in the current Best's Credit Rating Methodology would help insurers understand the impact of the scoring on their company rating. Will the innovation score be on par with other major components such as Operating Performance and Business Profile, or will it be part of one or more of the existing areas? (For example, will it be a component of Operating Performance?) The second implementation comment we suggest is a statement that it is AM Best's intention to use an agile, “test and learn” implementation approach in the rollout of the new program.

Please reach out to us to discuss any of these high-level comments or any of the detailed comments that follow. We want to support your efforts to improve insurance innovation.

## DETAILED COMMENTS

Our detailed comments follow two formats. First, **Comment** suggests a change or addition related to the draft text. Second, **Supporting Detail** offers perspectives from Celent's insurance innovation research and consulting. Some supporting detail is offered to help shape the design of the scoring approach, and some is more appropriate to include in the eventual assessment methodology.

### SECTION A. THE IMPORTANCE OF INNOVATION

See comments made above in our Introduction section.

### SECTION B. — DEFINING INNOVATION

**Comment B1 (page 2):** The definition of innovation should distinguish innovation from process / continual improvement activities. We suggest a clarification to the definition to exclude improvement initiatives.

**Supporting Detail:** Celent defines innovation as fundamental changes to products, services, or business models that break existing trade-offs and result in value to the customer.<sup>1</sup>

Celent uses a three-tiered model to distinguish between innovation and improvement activities. In our experience, assessing innovation capabilities requires a careful separation of what should be day-to-day improvement activities, which all insurers pursue as part of standard operations, from those initiatives which seek to change the calculus of business in a meaningful way.

Figure 1: Insurance Innovation Defined

1	IMPROVEMENT	➤	Changes that improve speed, efficiency, and/or effectiveness of existing products, services, or business models
2	INNOVATION	➤	Fundamental changes to products, services, or business models that break existing trade-offs and provide value to customers (Schumpeter, Porter)
3	DISRUPTION	➤	<p>A theory of innovation (Christensen), where:</p> <ul style="list-style-type: none"> <li>• Technology changes the “productivity frontier”</li> <li>• Success in fringe markets sets the stage for “up-market march”</li> </ul>

Source: Celent; use restricted — for response to AM Best Draft: *Scoring and Assessing Innovation* only.

<sup>1</sup>Joseph Schumpeter and Michael Porter

We interpret the AM Best assessment initiative to apply only to incremental and disruptive innovation.

**Comment B2 (page 2):** Suggest change in wording from “...a dynamic and ongoing process...” to “...a defined, dynamic, and ongoing process...”.

## SECTION C. — SCORING INNOVATION: INNOVATION INPUTS

**Comment C1 (page 3, Leadership):** We suggest a change in wording from “AM Best expects that industry leaders of innovation will have...” to “AM Best expects that top management at industry leaders of innovation will exhibit innovative behaviors such as the modification of their strategic planning practices to include considerations of innovation and also will publicly express their sponsorship of innovation.”

Support of top leadership is widely recognized as a key success factor in insurance innovation. However, assessing leadership support must be based on what leaders do as well as what they say. Celent observes that senior management in leading innovators perform different tasks than those in other insurers. One example is strategic planning. In leading innovators, strategic planning processes have been modified to more actively and deliberately consider innovation. These changes are visible signs of management buy-in to the rest of the organization.

**Supporting Detail:** Leading insurers alter their business scenario planning to consider potential industry disruptions. An example used in Celent workshops is provided in Figure 2.

Figure 2: Scenario Planning — Includes Potential Disruptive Effects

Example scenario: Semi-automatic driving technology (automatic braking, lane drift avoidance, etc.), results in a reduction in motor accident frequency of 7 to 14%.

### Scenario implications for the Primary Insurance Market

How will the primary insurance market size change?	<input type="checkbox"/> Smaller <input type="checkbox"/> Larger <input type="checkbox"/> Same
How much will the relationship with the customer change?	<input type="checkbox"/> Much the same <input type="checkbox"/> Slightly different <input type="checkbox"/> Very different
How much will the existing business model, including capabilities/skills required for success change?	<input type="checkbox"/> No impact <input type="checkbox"/> Small impact <input type="checkbox"/> Slight impact <input type="checkbox"/> Large impact
What is the predominant threat of competition to primary market?	<input type="checkbox"/> Incumbent primary insurers <input type="checkbox"/> Distribution (e.g. aggregators) <input type="checkbox"/> Reinsurer <input type="checkbox"/> Adjacent industry <input type="checkbox"/> New entrants
What is your view of the urgency to address this scenario?	<input type="checkbox"/> Address immediately <input type="checkbox"/> Address in the mid-term <input type="checkbox"/> Address in the long-term (7+ years) <input type="checkbox"/> No need to address

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7

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Another example of change at the senior level deals with quantifying the impact of disruption on financial results. Innovative insurers use models to quantify the premium loss/gain from disruptive changes.

Figure 3: Automobile Premium at Risk from a Reduction in Loss Frequency and Subsequent Mandated Reduction in Pricing

<b>DWP – Revenue</b> (\$ MM)	\$500							
<b>Cost of Capital</b> (Discount Rate)	4%							
	1	2	3	4	5	6	7	Total
<b>DWP at risk</b> percentage	-0.5%	-1.0%	-2.0%	-2.0%	-3.0%	-3.0%	-4.0%	
<b>Amount</b> <b>of potential loss</b> (\$ MM)	(\$2.50)	(\$5.00)	(\$10.00)	(\$10.00)	(\$15.00)	(\$15.00)	(\$20.00)	(\$77.50)
<b>NPV</b>	(\$63.85)							

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These specific models are offered as descriptive examples of what innovative leaders do differently and are not intended to be specific prescriptions of what must be used. To assess innovation leadership, AM Best rating analysts will need to look for the presence (or absence) of behaviors by top management that support innovation.

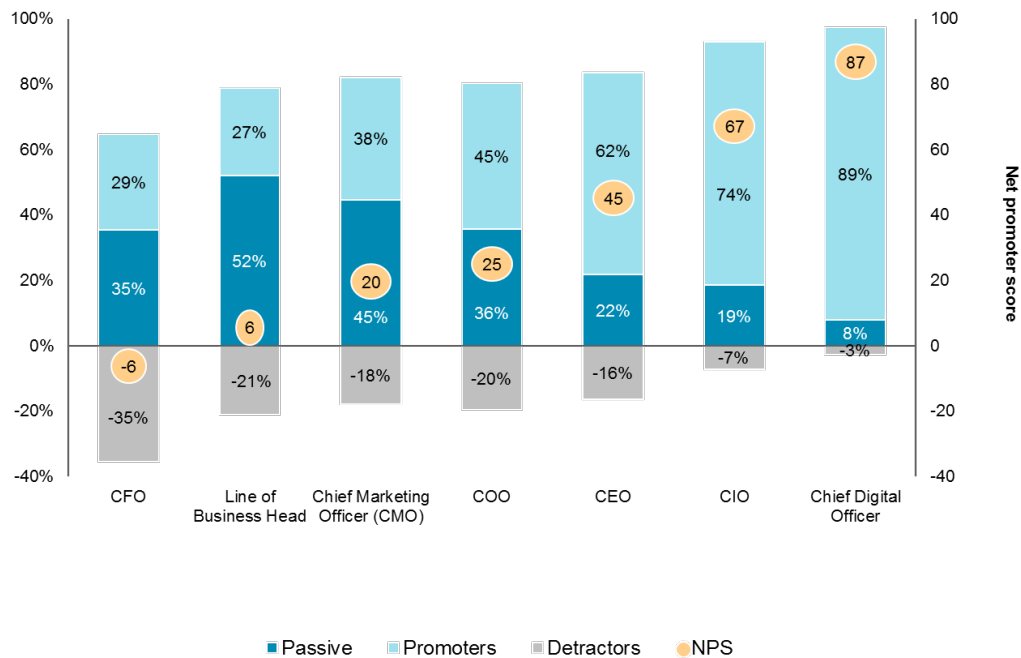
**Comment C2 (page 3, Leadership):** Suggest change from “...sponsorship of top management and support throughout...” to “perceived sponsorship of top management and measurable support throughout...”

**Supporting Detail:** In Celent’s research and consulting engagements, effective measurement of meaningful innovation leadership has been difficult. We have found instances where different leaders on the board / within the firm hold very different opinions on the degree to which leadership supports innovation. To address this complexity, Celent suggests that the assessment uses both indirect and direct measures of leadership support. First, interviews of top leadership should include questions such as “What is your definition of innovation?” and “If innovation efforts developed potential solutions to your business challenges, could you dedicate human and/or fiscal resources to help develop the solutions?” Consistent, specific responses across a leadership team indicates that leaders are engaged in innovation in a meaningful way.

Another technique used in Celent research to clarify the level of leadership support is to survey insurance professionals to quantify their perceived support of top management for innovation. In one research effort, participants were asked to rate support for innovation by specific C-suite titles/roles on a scale of one (low levels of support) to 10 (high levels). Their responses were processed using a modified Net Promoter Score (NPS)<sup>2</sup> approach.

<sup>2</sup>Net Promoter, Net Promoter System, Net Promoter Score, NPS and the NPS-related emoticons are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

Figure 4: “How well do the people in these roles publicly support your company's digital transformation efforts?” (n=74)



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Looking for similar, objective data in the assessment will negate subjectivity and increase consistency of scoring.

**Comment C3 (page 4, Leadership Score Examples):** We suggest that the wording of this section be changed to make it explicit that observed behavior change at the most senior levels will be a component of the assessment. While it would be preferred if all management levels were engaged, in Celent's experience, the most senior level is the one that counts the most toward innovation success. This is implied in the current descriptions of the levels, and we suggest the following changes to make the emphasis on behavior more explicit:

- Score 1: Change “Management does not recognize...” to “Senior management does not exhibit behaviors that communicate that innovation is critical to ....”
- Score 2: Change “Management recognizes that” to “Senior management behavior demonstrates that...”
- Score 3: Change to “Senior management behavior demonstrates that innovation is...and structured and incorporates innovation considerations into activities such as strategic planning and budgeting; however...”

**Comment C4 (page 4, Culture):** We suggest adding wording to the second paragraph under the Culture section that lists specific examples of innovation activities that leading companies undertake to motivate culture change across the enterprise and at all job levels. “Innovation leaders implement a variety of activities such as the communication of the innovation vision, hackathons, crowdsourcing of ideas, involvement of employees in external groups (such as innovation accelerators), etc. Participation in such activities is part of employee performance evaluations.”

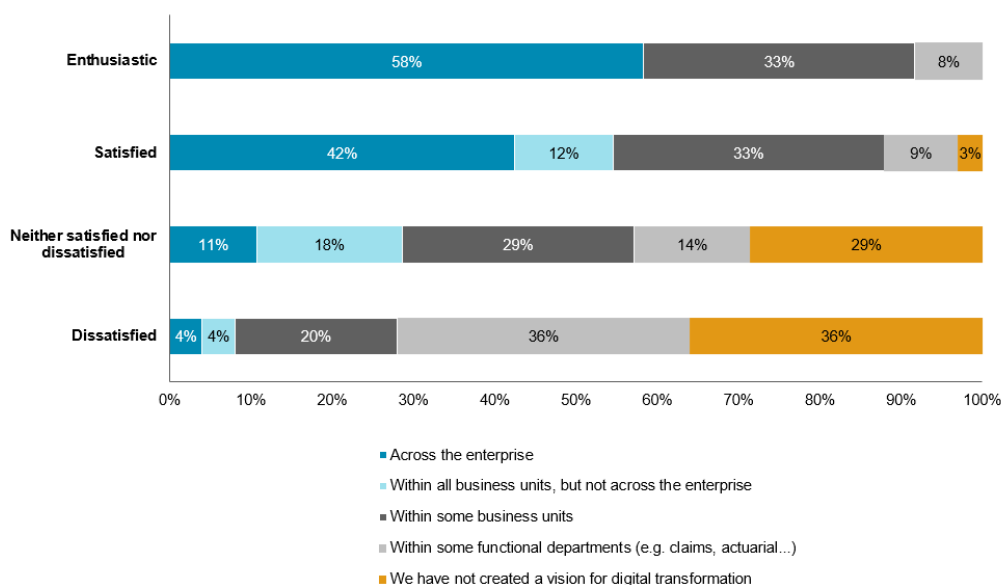
**Comment C5 (page 5, Culture Score Examples):** Celent observes that some insurers have separate innovation strategies throughout their organizations, usually on a business unit basis. At times, these are not actively coordinated across operations. We suggest that the difference between a score of “3” and “4” in this category reflect the value of an enterprisewide innovation strategy. Suggested changes:

- Score 3: Change “mainstream operations and the larger organization” to “...mainstream operations and has not integrated innovation strategies across business units.”
- Score 4: Change “has successfully integrated innovation into mainstream operations across multiple business lines and products.” to “...has successfully integrated an enterprisewide vision into all mainstream operations.”

**Supporting Detail:** A relevant datapoint from Celent research illustrates how an enterprisewide vision for innovation can promote cultural change by improving employee enthusiasm for innovation efforts. In a survey, insurance professionals were asked to identify their satisfaction level with their digital innovation programs. Over half, 58%, of those describing themselves as “Enthusiastic” group also stated that their firm had an enterprisewide vision of how digital innovation creates value for their customers.

Figure 5: Enterprisewide Visions of Innovation Demonstrate Broader Cultural Change

Crosstab analysis: “We have a clear vision of how digital will create value for our customers...” x Satisfaction level (n=99)



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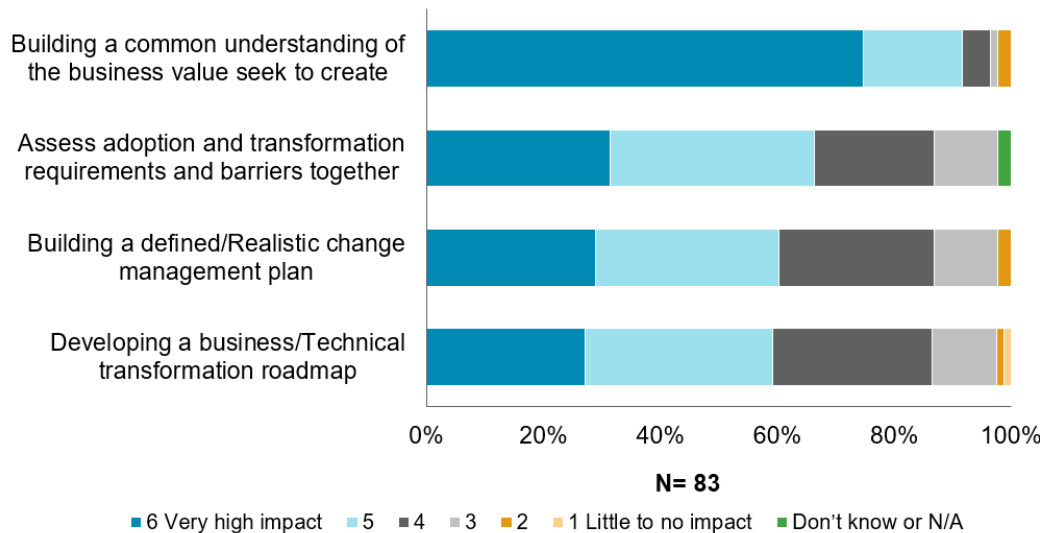
This result suggests that there is a positive relationship between enterprisewide innovation vision and employee enthusiasm for such efforts. The breadth of an insurer’s innovation vision should be considered in the assessment.

**Comment C6 (page 5, Resources):** The comments about resource-constrained organizations outsourcing innovation activities align with our research. Smaller insurers

do face challenges related to scale. However, even in the very largest insurers with significant resources, innovative initiatives often require skills that are not available internally. Regardless of size, leading insurers establish innovation partnerships with accelerators, insurtech startups, and traditional technology providers. We suggest that this approach be added to the commentary on Resources.

**Supporting Detail:** In assessing this aspect, rating analysts will want to look for evidence of programmatic partnership management. In a survey of 83 insurers and insurtech startups, building a common understanding of the value each seeks in a partnership was identified as having a “very high impact” on success. Accomplishing this requires deliberate action. For example, leading insurers have transferred staff from Affinity Group Marketing into Innovation Relationship Manager roles in order to give these partnerships the necessary attention. The relationship managers ensure that both “sides” of the partnership, insurer and partner, communicate effectively and resolve issues quickly.

Figure 6: Survey Result: “Rate the impact of these partnership strategies on success.”

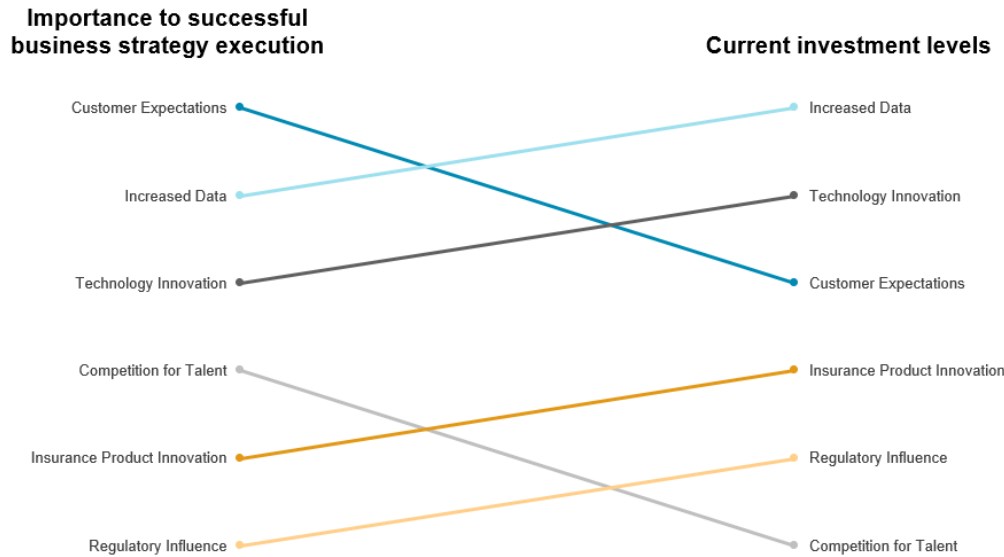


Source: Celent; use restricted — for response to AM Best Draft: *Scoring and Assessing Innovation* only.

**Comment C7 (page 5, Resources):** Suggest addition to second sentence, second paragraph, from “...but without an effective data strategy...” to “...but without an effective business and data strategy, its efforts and capital...”. Data strategy is critical, but it must emanate from business strategy.

**Comment C8 (page 5, Resources):** The discussion regarding recruitment and retention of resources in the final paragraph is an important issue that, according to Celent research, is not yet fully appreciated by insurers. In a recent survey, competition for talent was ranked in the middle of a list of six key strategic drivers and last in terms of investment level, relative to other initiatives. Attention given to this area will serve the industry well.

Figure 7: Comparison of Importance to Strategy Execution and Investment Levels



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**Comment C9 (page 5, Resources):** In research interviews, leading insurance innovators commonly mention that they have modified a number of recruitment/retention tactics. Examples include: launching social media campaigns, internship schemes, and apprentice programs, implementing an active job rotation process, and expanding job levels to give continuing opportunities for advancement. They also mention concerted efforts to hire from outside the insurance industry and diversity initiatives to broaden the types of individuals that they bring into the company. We suggest that the draft include some of these specific actions as examples of what can be done to address the resource issue.

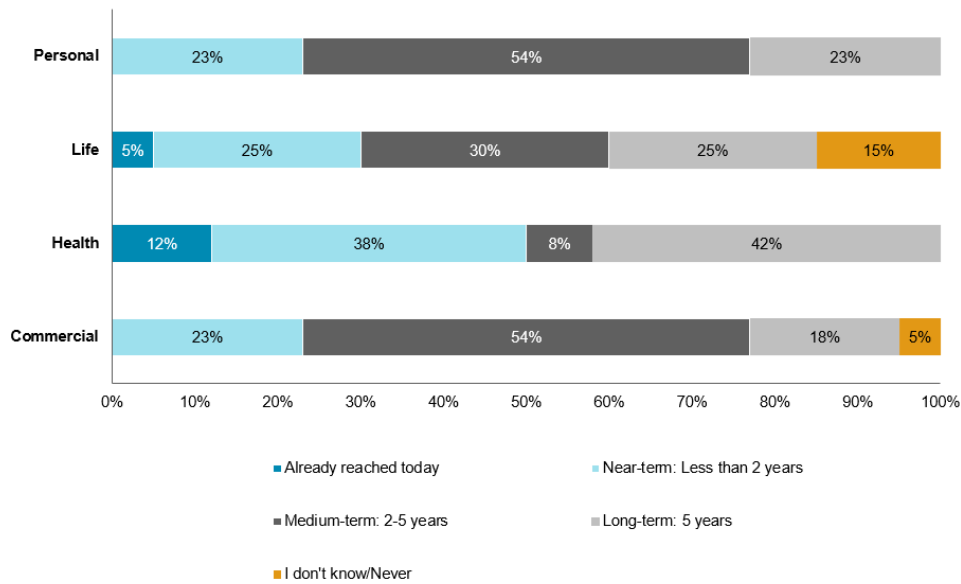
**Comment C10 (page 6, Resources Score Examples):** We suggest the following change to the Example Descriptions:

- Score 4: Add: “Leading insurers will have evidence of the active management of innovation partnerships and will be able to estimate the timing of future innovation resource needs.”

**Supporting Detail:** Effective programs include the ability to estimate the time to value of alternative innovations. Leading insurers establish estimates of when emerging technologies will deliver value. In 2018, Celent surveyed insurers to identify which innovation concepts were likely to deliver value and in what timeframe.

Figure 8: Example – Internet of Things Time-to-Value Estimate

Greater than 10% of revenue generated from IoT-fueled insight and loss avoidance services (such as active risk monitoring)

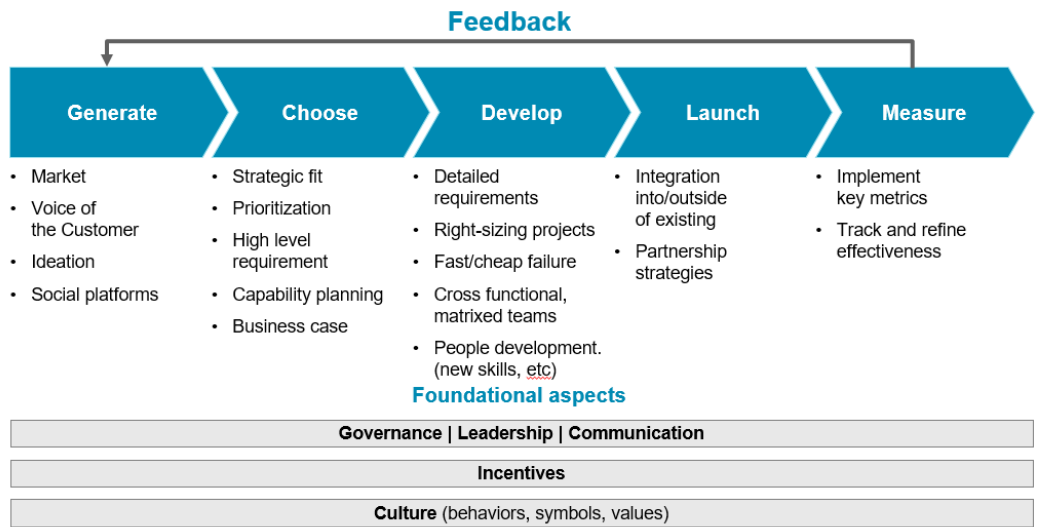


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**Comment C11 (page 6, Processes and Structure):** The title of this section deals with process, but the commentary is about vision. We suggest that this section focus on innovation process. Vision is strategic. Process is tactical.

**Supporting Detail:** Celent research shows that insurers with leading innovation programs follow a clearly defined process. One example is shown below.

Figure 9: Successful Insurance Innovation Usually Follows a Clearly Defined Process



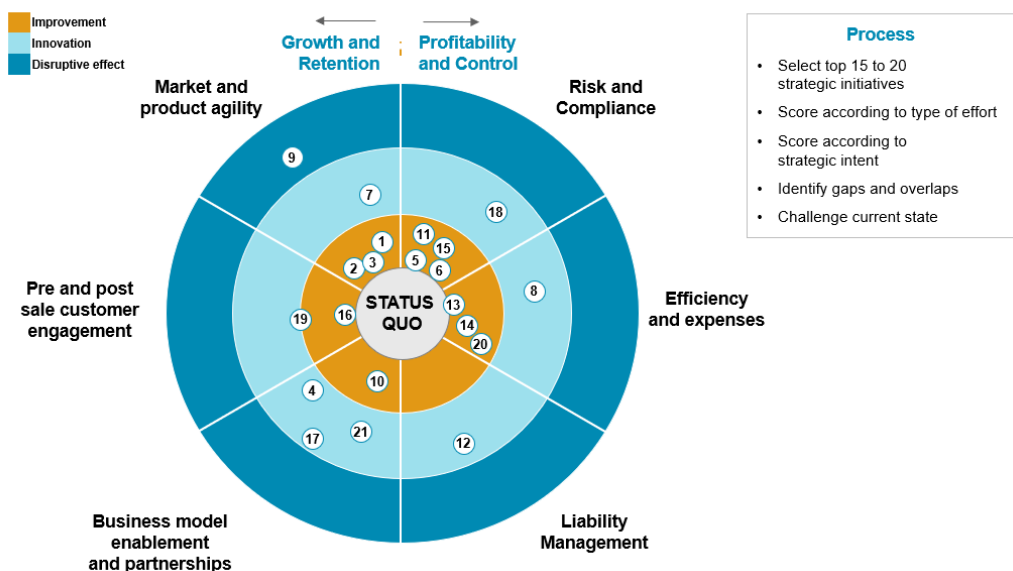
Source: Celent; use restricted — for response to AM Best Draft: *Scoring and Assessing Innovation* only.

Rating analysts will want to look for evidence of a defined innovation process in their assessment.

**Comment C12 (page 6, Processes and Structure):** Suggest a change from “...company’s data management, innovation strategy...” to “...company’s innovation process, data management, and governance...” Changing the order in this list and in the subsequent text emphasizes that data management is an enabler of innovation.

**Supporting Detail (page 6, Processes and Structure):** Regarding governance and linking innovation strategy to specific business objectives, a portfolio approach to innovation planning ties efforts to strategic business objectives and facilitates a deliberate allocation of resources across improvement, innovation, and disruption initiatives. An example of the deliverable from such a planning process is shown in Figure 10.

Figure 10: Plot Strategic Investments Against Strategic Levers and Initiative Type



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Use (or lack of use) of similar tools should be considered in assessing an insurer’s ability to manage different types of innovation against varied strategic goals.

**Comment C13 (page 7, Processes and Structure Score Examples):**

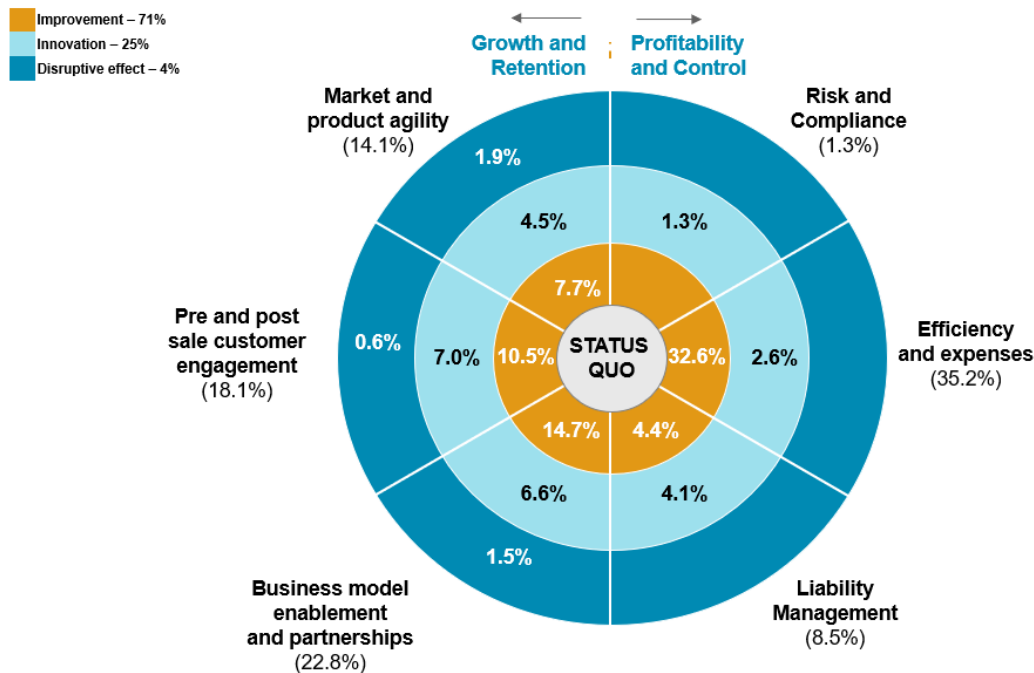
- Score 3: Add “Multiple business units have their own innovation strategies, and there is no indication of alignment/coordination between them.”
- Score 4: Suggest that the score of “4” include a recognition of success with disruptive innovation. “Leading innovators demonstrate the ability to enter new markets with new products and rapidly test disruptive propositions.”

**Supporting Detail:** In Celent’s research, we have noted the increased use of “greenfield” models by established industry incumbents (Pinnacol Assurance/Cake; Employers/Cerity; Berkshire Hathaway/Biberk, etc.). The Process and Structure score should include the assessment of processes that enable new product innovations in new markets.

**Comment C14 (page 8, Results, first bullet point):** It is unclear what benchmark(s) AM Best will use to determine “a well-balanced mix” and “a mixture of incremental and disruptive innovations.” Over time, such data can be assembled as reviews are completed. We suggest that the final report include a statement to this effect.

**Supporting Detail:** In the early assessments, rating analysts will need to identify objective methods which will help them analyze an insurer’s innovation portfolio. Celent has research that will assist in this effort. We analyzed 540 insurance projects submitted for the Celent Model Insurer Awards to provide an empirical reflection of what, why, and how leading insurers have invested in technology. The analysis leverages a unique and valuable database of publicly disclosed details from insurers. Results as shown in Figure 11 could form the basis for a beginning benchmark.

Figure 11: Portfolio Analysis of 540 Insurance Initiatives (2013 to 2018)



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**Comment C15 (page 8, Exhibit C.8: Results Score Examples):** Suggest the following additions:

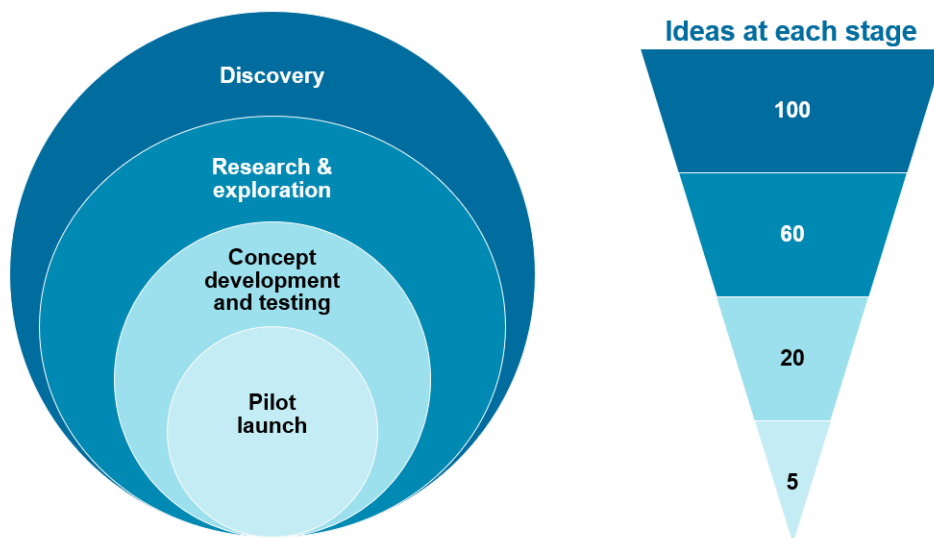
- Score 3: Add the sentence: “Innovation initiatives tend to be incremental in their scope.”
- Score 4: Add the sentence: “Innovation initiatives are a mix of incremental and disruptive in their scope.”
- Score 4: Add the sentence: “Leading insurers include measures such as benefits from learnings from failed projects, number of proofs of concept, partnerships, and/or human-centered design sessions in the calculation of innovation value.”

**Supporting Detail:** The application of return on investment (ROI) calculation is a delicate one, especially in experimental/disruptive innovation efforts. Failed efforts, defined as negative or less-than-planned returns, provide value in gained experience/learnings and may reduce or avoid future expense. Leading innovators include an allowance for this in their quantitative calculation of ROI across all innovation programs. For example, one insurer calculates the subsequent savings in time gained as a benefit when an innovation initiative uses a technology and/or technique that was previously used in a “failed” project.

Innovation programs also adjust their governance and communication to encourage experimentation. In the traditional product / system development world, very few projects are approved. Those that are funded are usually ones that have been successfully implemented before (at the approving insurer or at competitors) and have a high probability of success. Leading innovators recognize that experiments will pass through successive phases and that most will not proceed to the pilot/launch stage. Measurement

of individual initiative ROI is balanced with measurement of overall program activity. Key indicators such as number of proofs of concept, partnerships, human-centered design sessions, etc. also factor into the evaluation.

Figure 12: Experimentation: Adjust Measures to Recognize That Many Begin and Few Finish



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**Comment C16 (page 9, Level of Transformation):** In researching insurance technology over the past 20 years, Celent has confirmed that the concept of “innovation diffusion” (i.e., that what is “innovative” changes every few years) that is observed in other industries also applies to insurance. For example, Celent once considered providing a mobile account lookup feature as leading edge. Now it is table stakes. Our day-to-day involvement in the space allows us to constantly modify our concept of what is innovative.

If there is a process by which AM Best intends to update what it considers to be innovative, we suggest that the draft be updated with a short description of it. If this is not yet determined, we suggest that text be added that recognizes that such a revision process will be necessary and will be developed over time.

**Comment C17 (page 9, Level of Transformation Score Examples):** Suggest the following changes:

- Score 2: Change “emerging technologies” to “emerging technologies which are incremental in nature and implemented in a follower mode.”
- Score 3: Add “Innovations are a mix of incremental and disruptive initiatives.”
- Score 4: Add “The company has a history of pursuing innovations that later became widely adopted throughout the insurance industry.”

## SECTION D. — TRANSLATING THE INNOVATION SCORE INTO AN ASSESSMENT

No Comments

## SECTION E. — INTERPRETING THE INNOVATION ASSESSMENT IN THE CONTEXT OF THE RATING PROCESS

**Comment E1 (page 11, Published Innovation Assessment):** We do not suggest any changes to the draft, but as an input into the assessment process, we offer the following. In our interviews with insurers, some express an approach similar to the one detailed in the draft, that they “are consciously choosing not to be Innovators or Innovation Leaders.” Many follow up with the sentiment that they are taking a “Fast Follower” approach. However, following fast still requires that the company significantly alter traditional processes. For example, rapidly responding to an innovative industry requires that a company have processes/resources in place to constantly scan the market for threats and opportunities. Once it is aware of a need to follow fast, it must have the ability to rapidly implement. It is appropriate for insurers to have a follow fast strategy to innovation, but following fast is not a synonym for doing nothing.

**Comment E2 (page 12, Business Profile Impact):** Celent suggests that the implementation considerations mentioned in the Introduction be added to this section.

## RELATED CELENT RESEARCH

Insurance Innovation Outlook 2019: Practitioners' Predictions  
February 2019

Pace Of Change: Critical Drivers Impacting The Transformation Of Insurance  
March 2019

Innovating from the Outside In  
October 2018

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October 2018

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Making the Most of the Innovation Ecosystem: Adapting to the New Insurtech World  
July 2016

Insurer-Startup Partnerships: How to Maximize Insurtech Investments  
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The Implications of Pay As You Use Insurance: A Scenario-Based Analysis  
November 2016

Financial Services Innovation Laboratories: Collaboration Between Third Party Solution Providers and Their Clients  
October 2016

Redefining Insurance: A Scenario-Based Analysis  
October 2016

Making Innovation Matter  
February 2015

Innovation in Latin American Insurers 2016: A Current Snapshot  
December 2016

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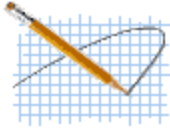
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05/13/2019 02:03 PM

To "methodology.commentary@ambest.com"  
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cc Patrick Matthews  
<patrick.matthews@aon.com>

Subject Scoring and Assessing Innovation  
Requests for Comment

1 attachment



Request for Comment - Scoring and Assessing Innovation Aon Response May 2019.pdf

Attached please find Aon's feedback on the draft Scoring and Assessing Innovation Criteria.

Thanks,  
Derrick

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## Response to AM Best's Request for Comment on Scoring and Assessing Innovation

*May 13, 2019*

## Executive Summary

The following contains Aon's response to AM Best's Request for Comment on "Scoring and Assessing Innovation" ("RfC") published March 14, 2019. Our response is based upon our review and interpretation of the RfC from team members around the world along with discussions with our clients regarding the RfC.

The following pages contain our detailed comments, which are discussed in three sections:

- A) General Comments
- B) Comments regarding the Innovation Input Score
- C) Comments regarding the Innovation Output Score

We welcome an opportunity to discuss our comments with AM Best in person to better understand the proposed criteria.

**Patrick B. Matthews**

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## Section A. General Comments

- The overall criteria paper is clear and consistent and it is good to put spotlight on innovation; especially with emphasis on results. Although historically innovation has always been implicitly captured in rating criteria components, a separate innovation score will incentivize insurers to invest further attention into their innovation initiatives.
- More clarity around what type of evidence or documentation is expected to be provided throughout the assessment process would be helpful.
  - How is AM Best going to gather enough information to get to an informed assessment without reverse engineering based on thoughts on where the final assessment should end up?
  - Is there going to be an annual survey so the analyst can get more information?
- It would be helpful if the five assessment categories included descriptions along with the category names and score ranges. What does it mean to be a Reactor, an Adopter, etc?
- We suggest the innovation score/assessment not be published for the first year (or more) in order to let companies get comfortable with and understand the results.
- The final score assessment names (“Non Innovator,” “Reactor,” and “Adopter”) are not very complimentary labels. These labels could have a potentially negative impact on the industry’s ability to attract and retain talent.

## Section B. Comments regarding the Innovation Input Score

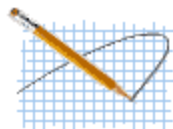
- Most of the subcomponents are hard to define and blend together, such as “Leadership” and “Culture”
- There may be overlap throughout the subcomponents in that “Leadership” is captured as a separate subcomponent although it has direct impact on the remaining three subcomponents.
- In the “Culture” component it states, “innovation is part of the enterprise mission statement and is embraced...”. Innovation should not have direct ties to the corporate mission

statement. Outside of high-tech industry, innovation is a means of fulfilling a mission statement rather than a part of it.

- How does a company that outsources their innovation fit within the “Resources” score examples?
- There seems to be overlap between “Resources” and “Processes & Structure”
  - In the “Resources” component, the criteria links resources to critical operational goals and strategy while the “Processes” component discusses innovation strategy
  - It is unclear how the “data management” building block of the “Processes” component is assessed separately from the “effective data strategy” in the “Resources” component.

## Section C. Comments regarding the Innovation Output Score

- There is some general scepticism around the innovation output score as it is very difficult to measure the output, as results do not always materialize quickly or are measured in the same way. We understand the goal is to avoid a flashy presentation resulting in a high assessment.
- It is unclear if there is a place in the output score to measure the innovation strategy of not pursuing certain opportunities, although they were considered. This may fall more towards strategic risk management, as part of ERM, although there is a strong link between innovation and ERM (emerging risk identification, assessing potential threats, etc.)
- The way the “Transformation” assessment descriptors are currently written, make it hard for companies to score high. A score of 3 states that “the company is viewed as a disrupter in the industry,” which will be hard for many insurance carriers to obtain, even though this is only the second highest score.



Katherine Dvorkin  
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04/29/2019 09:58 AM

To methodology.commentary@ambest.com

cc

Subject On behalf of Rainmaking  
(Startupbootcamp) InsurTech

2 attachments



RMI InsurTech\_AM Best innovation ratings response (1).pdf ii\_ju1cb8va1.png

## RMI InsurTech: AM Best Innovation Ratings

In response to A.M. Best's plans to add an innovation component to its ratings, Rainmaking InsurTech (the corporate innovation consultancy that is home to Startupbootcamp) CEO Sabine VanderLinden comments that:

There is little focus around innovation strategy in the methodology that AM Best has outlined for scoring and assessing innovation.

When looking at innovation criteria, we should assess the following:

- Strategic Foresight. Is your strategy looking at current changes and what is your ability to forecast the impact of future trends on your organisation?
- What is the positive impact of initiatives in place, for example, accelerators, internal projects, Labs etc?
- Internal involvement - is innovation only kept to a small R&D group?
- Culture and mindset - how is this being addressed?

We believe that the input (investment) and output (returns) approach is the correct one to focus on when it comes to innovation methodology, which addresses the points questioned above:

## RMI InsurTech: AM Best Innovation Ratings

In response to A.M. Best's plans to add an innovation component to its ratings, Rainmaking InsurTech (the corporate innovation consultancy that is home to Startupbootcamp) CEO Sabine VanderLinden comments that:

There is little focus around innovation strategy in the methodology that AM Best has outlined for scoring and assessing innovation.

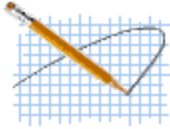
When looking at innovation criteria, we should assess the following:

- Strategic Foresight. Is your strategy looking at current changes and what is your ability to forecast the impact of future trends on your organisation?
- What is the positive impact of initiatives in place, for example, accelerators, internal projects, Labs etc?
- Internal involvement - is innovation only kept to a small R&D group?
- Culture and mindset - how is this being addressed?

We believe that the input (investment) and output (returns) approach is the correct one to focus on when it comes to innovation methodology, which addresses the points questioned above:

### Mapping your innovation KPIs

	Strategy & Leadership	The Business	Innovation Culture	Innovation Structure	Required Capabilities
	The choices you make to win continuously in the marketplace	Criteria that are measured to drive results in term of ROI	The culture and the mindset embedded to drive innovation	Governance Processes Resources	Ability , Skills Know how Tacit knowledge
Inputs -> Investment Outputs -> Returns	<ul style="list-style-type: none"> <li>▪ Percentage time allocated to learning? (%)</li> <li>▪ Members within the leadership team involved with innovation (#)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of new products launched? And for which segments?</li> <li>▪ Patents filed</li> <li>▪ Revenues generated</li> <li>▪ New market entries</li> <li>▪ Product-market fit</li> </ul>	<ul style="list-style-type: none"> <li>▪ Volume of ideas coming from employees rather than management teams</li> <li>▪ Employees' involvement in the innovation process</li> <li>▪ Time allocated to innovation rather than operations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Budget allocated to innovation</li> <li>▪ Velocity to build – learn – measure</li> <li>▪ Cycle time of the ideas in each stage of the innovation processes</li> </ul>	<ul style="list-style-type: none"> <li>▪ New challenges pushed to the "operations" teams to be handled</li> <li>▪ Ability to learn new things</li> </ul>



**Michelle Rogers** <mrogers@namic.org>

05/12/2019 01:23 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc Chuck Chamness  
<cchamness@namic.org>, Jimi Grande  
<jgrande@namic.org>

Subject AM Best Proposed Innovation Assessment

1 attachment



NAMIC Comment Letter - Final 5-12-19 -- A.M. Best Proposed Innovation Assessment.pdf

Attached are NAMIC's comments regarding the AM Best proposed innovation assessment. Thank you as usual for the opportunity to comment and the transparent nature of AM Best rating methodology revisions. If you have questions or would like to discuss these comments with NAMIC we will gladly arrange a teleconference to do so.

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**Michelle M. Rogers, JD**

Assistant Vice President, International and Regulatory Affairs

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May 12, 2019

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VIA EMAIL: [methodology.commentary@ambest.com](mailto:methodology.commentary@ambest.com)

RE: NAMIC formal comments on "Draft: Scoring and Assessing Innovation"

Dear Stephen Irwin, Thomas Mount, and Matt Mosher:

On behalf of the more than 1,400 NAMIC member companies, thank you for the opportunity to review and provide comments on the proposed A.M. Best Draft on Scoring and Assessing Innovation (Innovation Draft). NAMIC represents a diverse spectrum of insurers that rely on insurance credit ratings used for many purposes including reinsurance, regulation, lending and government programs. Consequently, NAMIC has a significant interest in the agency practices for rating member companies and the measurement methodology used by A.M. Best to develop the innovation assessment.

NAMIC is the oldest property/casualty insurance trade association in the country, with more than 1,400-member companies representing 41 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies serve more than 170 million policyholders and write more than \$253 billion in annual premiums. NAMIC members account for 54 percent of homeowners, 43 percent of automobile, and 35 percent of the business insurance markets. Through its advocacy programs the association promotes public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

NAMIC has a diverse membership ranging from the smallest farm mutuals to the largest mutuals, reciprocals, and stock members in the United States. NAMIC members are primarily mutual insurers underwriting the property and casualty lines of insurance. Consequently, NAMIC remarks herein will be

generally confined and focused on the treatment of mutual P&C insurers. In that spirit, NAMIC will endeavor to provide A.M. Best useful information concerning impacts of the Innovation Draft on mutuality.

NAMIC has always supported and fostered innovation within its membership, offering numerous seminars, webinars, and courses providing exposure to new concepts and innovations within the world of insurance marketplaces. NAMIC has instituted a member award for the Innovator of the Year that further illustrates the commitment of NAMIC to recognizing those who treat innovation as paramount.

NAMIC understands the goal of A.M. Best is not dissimilar. The desire to encourage industry participants by focusing on the fast-moving pace of technology and its adoption into the mainstream culture of operations for insurers in the coming decades is clear. NAMIC believes how we respectively incentivize innovation within the insurance industry is the primary question of your Innovation Draft.

NAMIC members companies are known for their longevity in the insurance industry, including companies that have been doing business for more than 260 years. Overall, 83 percent of NAMIC member companies have been in business for more than 100 years, with nearly 10% doing business over 150 years. Timely adoption of market innovation has ultimately enabled the vast majority of NAMIC members to thrive for centuries rather than decades or years. The resilience of NAMIC members has been a hallmark through technical advances in information technology, computing, telecommunications, broadband, wireless, social media, and other electronic disruptors in the expansive information age. Throughout various eras, NAMIC members have developed innovative insurance products, found timely and efficient solutions to impediments arising in the business world, and developed new distribution models, all to the benefit of their mutual policyholders and ultimately the owners of the mutual companies. Longstanding operational mutual insurers are the epitome of innovation, growth, adaptation, and responsible corporate governance. Realization of the need to foresee advances and implement their concepts is a daily operational concern of any ongoing entity in the insurance industry. The industry business models are resilient and dynamic withstanding regulatory challenges and scrutiny on a regular basis. Insurers optimize growth, provide fuel for economies, promote dreams, foster recognition of risk, and assure individuals and businesses that while loss may unfortunately occur; restoration, rebuilding and continuation of objectives do not have to be hopeless.

With the overwhelming success of NAMIC members in mind, the Innovation Draft has been reviewed and NAMIC is pleased to provide comments to help advance our mutual interests of a robust, meaningful, accurate, effective, and transparent credit rating mechanism focused on insurance companies and insurance groups. As previously discussed, NAMIC members agree with the importance of innovation. While the Innovation Draft is no doubt a laudable and detailed undertaking, there are a few issues and suggestions NAMIC posits for A.M. Best to consider before moving its financial credit analysis directly into the “innovation” realm.

- First, NAMIC believes that the addition of an innovation assessment category under the business profile segment of the Best Credit Rating Methodology (BCRM) will result in inefficient redundancies in assessing innovation practices.
- Second, the definition of “innovation” is very complex and difficult to capture in any assessment. Before pursuing the assessment of innovation, more discussion is needed to address this challenge. In addition, the expertise of A.M. Best analysts has traditionally been focused on the financial strength of companies. The introduction of a highly subjective, fluid, and evolving arena like innovation is not within the traditional expertise of a credit rating agency.
- Finally, in the event an innovation assessment in addition to existing practices continues to be pursued, NAMIC offers an approach that may be more well-suited to the common goal of focusing rated companies on appropriate levels of innovation.

### MULTIPLE INDICATORS OF INNOVATION IN BCRM

NAMIC member companies work closely with IT professionals, product/pricing/underwriting experts, marketing/sales teams and other creative advisors to identify the value of numerous types of innovation both from the back-office processes all the way to deliverables to customers. But these innovation efforts are very different from a factor-based financial analysis. They are represented by on-going, day-to-day efforts that are an element found in companies who show resilience over time. The longevity of these companies is the evidence that they have been properly balancing the risk and rewards of new opportunities throughout their companies’ existence to experience on-going success annually.

- Enterprise Risk Management: The new BCRM analysis of enterprise risk management is designed to capture this balance and to identify those companies achieving the right balance between risk and reward. The ERM component of the BCRM already captures and rewards those companies that are making the right choices in the innovation efforts of their companies. NAMIC urges A.M. Best to retain its analysis within the ERM component of the credit analysis and avoid unnecessary duplication and redundancy.
- Operating Performance, BCAR and Growth: A.M. Best analysts are well-trained in the objective universe of financial analysis that is the basis for A.M. Best BCRM and BCAR. The skill set to identify what is innovation and what is not is very unique and is not the same as that used to identify and assess insurance company financial conditions. NAMIC members have concerns that an objective, factor-based approach will be driving insurer behavior toward “innovation” as A.M. Best defines it – not in the manner that is best suited for customers and the companies’ own resilience. This could result in companies taking on “innovation” projects when the best course of action may be to cut unnecessary expenses, clean up internal system flaws or focus on compliance and self-audit practices – in general to improve their core business. The proof for companies who make the correct judgement about where to focus energies is in their operating

performance year-to-year. Consequently, the success with the company innovation is already captured in operating performance, BCAR and a growth over time.

Adding an innovation assessment in the Business Profile component that focuses on the inputs – already captured in the ERM component – and the outputs – already captured in the Operating Performance and BCAR components of the BCRM is superfluous at best.

## **DEFINITION OF INNOVATION AND CHALLENGE OF ASSESSMENT**

The definition of “innovation” is very complex and may involve anything from smoothing out existing IT work-arounds to designing a new product feature or distribution channel. The definition outlined in the Innovation Draft attempts to incorporate a large scope, but still fails to incorporate the numerous potential innovations companies undertake. It is very difficult for an insurance industry AM Best credit analyst to render judgement on such a fast evolving and complicated innovation landscape. Although A.M. Best attempts to quantify the criteria as much as possible – the proposed innovation assessment remains largely a subjective score and one that requires significant expertise to properly measure if there is even a remote possibility of achieving this dynamic goal.

Innovation inputs can include back office innovations that may prevent failures or continuous improvement systems that may save money over the long term. Innovation can be a management training tool to improve employee engagement or change company culture. Innovation can be a better means of utilizing internal audit to create processes that enhance decision-making. It may be a new focus on employee creativity or investigation of external and internal ideas for improvement. It may be a better means of providing service to customers through remote, yet coordinated, service centers, or by empowering employees. It can take the form of a single activity, a continuous improvement philosophy or a visible impact on all products, services, processes, or business models just to name a few.

Innovation outputs are equally evasive. When companies implement overall innovation strategies, isolating the success of those strategies on a financial basis can be impossible, even at the company level. Often companies recognize overall success of a roll-out of a new project without financial data recognizing that impact to the bottom line may take years to materialize and even longer to identify. A.M. Best should not expect to have better information than the companies on the profitability of innovation efforts and will need to keep the longer-term view in mind when considering the outputs of innovation. Short-term thinking and lack of immediate returns on investment is exactly the challenge of implementing innovation in its many forms. Mutual insurance companies have the advantage over stock companies in this manner. The freedom from quarterly analyst reports and immediate return on investment (ROI) demanded by shareholders gives mutual companies the latitude to consider the success of major projects over several years and to make the appropriate long-term decisions. It is this advantage that explains the success of mutual insurers over the centuries.

Without significant innovation expertise at A.M. Best there will be no way to implement a specific factor-based methodology that will accurately capture all forms of innovation in any meaningful manner. The definition of innovation will constantly evolve as technology and ideas evolve. Attempts to capture practices that are truly innovative will require efforts well beyond objective criteria like finding innovation in a mission statement, strategy or leadership speech. The amount of resources contributed to innovation may also fail to reflect the actual commitment to innovation. Innovative companies may well find ways to innovate that fewer resources, and innovation itself is often a matter of finding ways to do more with less. As such, the concept of innovation will be elusive and difficult to capture year after year.

Consequently, the challenge in assessing innovation is that innovation inputs and outputs are difficult to define or pin-point. The forms of innovation within insurance companies can be endless, and each form utilized can be uniquely successful within each company. Importantly, identifying the financial outputs of an innovation strategy may be impossible in the short term. Measuring the operating performance of a company relative to its peers and composite will ultimately shed light on those companies that have established a “competitive advantage.” Whether a business model’s success is due to innovation, exceptional human resources, superior products, impeccable customer relations, strong underwriting focus – or geographical luck due to lack of storm activity, for instance, will not be so easily illuminated and is nevertheless proprietary. A.M. Best as a credit rating organization is not the entity best equipped to make this judgement about what innovation is, or how and when it affects a company’s bottom line, or what innovation each company should employ.

#### **A SUGGESTION FOR A BETTER APPROACH**

If there is an on-going effort to increase the focus on innovation under the BCRM, NAMIC suggests that A.M. Best initially proceed with great caution and a gradual phase-in of an innovation assessment. Since A.M. Best’s maturity level in this arena is also at an early stage, a measured approach is recommended. More specifically, NAMIC suggests the following changes in the Innovation Draft:

- ERM is Appropriate BCRM Component for Innovation: Given the issues raised herein, A.M. Best should consider working on improvements to its assessment of innovation within the existing components of the BCRM instead of adding a scored category under the Business Profile. The proper assessment of risks and opportunities unique to each insurer as addressed in the ERM section is more appropriate than an objective score under the Business Profile component. Companies balancing the risks and rewards considering their risk tolerance and appetite will be incorporating innovation in areas within their companies that are uniquely suited to their company needs.
- Mission Statement: An insurance company’s mission is to serve and protect its policyholders, and while innovation may have a role in that effort it should not be considered equal to it. The idea that a company should add an innovation component to its mission statement should be

removed, lest it become a distraction from the company's true mission, or an empty gesture made solely for the benefit of AM Best and other credit rating agencies.

- Scoring Internal Improvement Not Comparison to Competitors: Instead of considering innovation on a competitive basis providing for higher credit rating for a more innovative company, each company should be engaging in more innovative efforts than they did the previous year and evaluated in relation to their own performance in previous years. A.M. Best should be seeking information about each company's efforts and improvement plans which could be weighed against that company's resources to determine if it can and should participate in innovations not widely adopted within the industry. Over-emphasis on innovation for a company without the resources or the risk tolerance could mean its demise. The scoring should be against the clock, improvement from past performance and not against all competitors.
- Maturity Scale: Similar to the prior point, there should be a consideration of each company's performance in relation to the innovation maturity level of the company. Most companies will not be and should not be first level innovators. They should either be fast followers or followers once the precedence is established. This type of concept is used in ERM/ORSA analysis of companies. The A.M. Best innovation assessment should be similarly focused on whether the company is performing as it should be considering its size, resources, customer demands and other needs within the organization. NAMIC proposes that A.M. Best identify an appropriate maturity scale for companies at different resource levels instead of encouraging innovation at all costs. Innovation should be viewed as an evolution rather than a prescriptive and rigid requirement in a vacuum, and many companies should focus on incremental rather than transformative innovation as a more cost-effective and prudent way to improve business performance and to change company culture for the better.
- Proxies for Innovation: Initially A.M. Best could utilize proxies for innovation that would provide a base, especially for those companies without an active innovation portfolio. As stated earlier, evidence of innovation can be derived from the longevity of a company combined with its operating performance, growth and customer satisfaction. If all of these factors continue to trend positive, A.M. Best may be able to infer an appropriately innovative company.
- Innovation Score Not Public: Finally, any innovation scoring by A.M. Best should be considered consultative and not subject to public dissemination. The innovation information provided by a company to the rating agency can be highly proprietary and information each company would want it kept confidential. Rated companies should understand their innovation score and discuss it with their analyst, but the actual score and the labels proposed for the assessment categories should be kept confidential. NAMIC strongly urges confidentiality be included in the next Innovation Draft.

It is in the best interests of all parties and stakeholders that rating analysis is done in a manner that is effective and transparent and is properly focused on differing insurance companies and insurance groups. NAMIC would encourage A.M. Best, if the intent is to move forward with this project, to review its criteria

with these comments in mind and reconstruct a proper methodology to achieve stated goals without causing exceptional unintended consequences.

Reasonable revisions to the innovation methodology that will enhance the U.S. insurance industry is our common goal. NAMIC encourages additional collaboration on these stated concerns and remains open for further dialogue and consultation with A.M. Best. NAMIC thanks A.M. Best for the opportunity to provide comment and for the transparent nature of the review process.

Sincerely,

A handwritten signature in black ink that reads "Michelle Rogers". The signature is fluid and cursive, with a long horizontal line extending to the right from the end of the name.

Michelle M. Rogers  
Assistant Vice President International and Regulatory Affairs  
National Association of Mutual Insurance Companies

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May 13, 2019

To: [methodology.commentary@ambest.com](mailto:methodology.commentary@ambest.com)

Re: AM Best Scoring and Assessment Innovation

Thank you for the opportunity to offer our views on the AM Best Draft: Scoring and Assessment Innovation. Technological advancement and innovation are key issues impacting the insurance industry. Keeping up with advancements and innovation are part of insurance and those firms that struggle in this area are traditionally punished in the market. While the pace of change may be quicker today, the impact on a company remains. Insurance carriers, like every other business, must rise to meet the needs of the customer. Insurance carriers have responded to these challenges for decades and will continue to do so in the future. We believe a qualitative review of a carrier's innovation approach and an evaluation of where a carrier is at in their particular innovation journey is important, but the assessment should be used for this purpose and should not be included in assessing financial strength.

Insurance is a unique industry given the nature of the business and the high degree of regulation. Additionally, insurance is a wide ranging industry and each company may have unique and distinct attributes and very different business profiles. The differences between lines of insurance and different risks covered varies greatly and how a company responds to change and innovation can vary based on the type of insurance they underwrite, distribution system they use to go to market and size of the carrier.

Defining innovation is quite difficult. If one does a Google search on "innovation" over 440,000 hits will be received. This clearly points out the difficulty in defining innovation and that not one single approach works. Innovation is also quite subjective and what is innovative for one firm may not be for another and innovation may vary even within the walls of a carrier.

Looking at innovation by inputs and outputs makes sense for a framework and a beginning assessment. Focusing on leadership, culture, resources and processes is a good place to begin for inputs. For an innovative culture to exist these factors are important. However, scoring outputs can be more difficult. For instance, scoring an outcome for not taking an action is difficult but yet could be equally meaningful in a company's innovation journey. Maybe the "decision to not act" is incorporated into the input scoring framework, as part of culture and resources and process, but in a strong innovation framework doing nothing may be the best outcome or output. Recognizing this more clearly is important in our view.

We also believe scoring innovation is difficult and subjective and the methodology and criteria needs to clearly articulate that. In addition, the differences between sectors of the insurance industry and lines of coverage are very broad and the framework needs to flexibly reflect the large variance in insurance carriers. Incorporating all of this in the business profile is likely the best way to accomplish the needed flexibility and large variances from carrier to carrier.

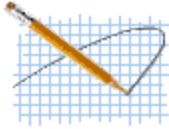


## FBL Financial Group, Inc.

We believe this effort as a relative assessment tool is appropriate. Having a framework available and being able to spot where a carrier stands vis-à-vis other carriers through benchmarking is equally useful. However, it is equally important that as this process evolves and changes that carriers have the ability to clearly outline how their innovation framework and processes work for the specific market and clients they service. The industry has endured change for decades and will continue to adapt and meet the needs of our clients for decades to come. An assessment tool and scoring criteria can be a useful tool if used in the context of the proposed scoring framework, but this framework needs to be equally flexible and able to evolve to meet the changing industry.

Sincerely,

Nick Gerhart  
Chief Administrative Officer



"Kodama, David" <david.kodama@apci.org>

05/14/2019 11:55 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject AM Best Draft Criteria: Scoring and  
Assessing Innovation

If still acceptable, the American Property Casualty Insurance Association submits the following comment for your consideration.

The APCIA supports the concept of adding innovation criteria to AM Best's rating methodology, but, for the following reasons, we raise concern about the proposed criteria as currently drafted.

AM Best's proposed innovation criteria include innovation input and output criteria. The innovation input criteria are not objectively measurable. For example, it is not clear how one fairly and consistently measures the culture for innovation or leadership sponsorship of innovation across multiple insurers. Instead, the focus of input criteria should be whether the insurer has developed and implemented well-defined processes to (1) identify industry, societal, and technological opportunities and threats to the insurer; (2) develop strategies to prioritize and proactively respond to these opportunities and threats; and (3) allocate appropriate resources to these strategies.

AM Best's proposed output criteria does not adequately capture the results of commitment to innovation. It will not always be possible to tie commitment directly to a lower loss ratio or higher revenue growth. In addition, an insurer's commitment to and investment in innovation may not be realized financially for a significant period of time after the investment occurs. AM Best's existing rating methodologies for assessing insurers' financial health work well. It has yielded consistent and predictable results. Adding new rating criteria in this manner introduces new uncertainty that may dissuade innovation.

AM Best's proposed criteria may also create unintended incentives. The new scoring criteria may incentivize insurers to invest too much capital in projects tied to innovation. If these projects are unsuccessful or fail to provide tangible results, it may impair the solvency of the insurer. A more principles based approach to innovation scoring, focused on process implementation, would yield better results.

Your consideration of these comments is greatly appreciated.

David Kodama  
Assistant Vice President, Research & Policy Analysis  
American Property Casualty Insurance Association (APCIA)  
8700 W Bryn Mawr Ave, Ste 1200S  
Chicago IL 60631-3512  
847-553-3611





**Labuan Re**

**30**

May 16<sup>th</sup>, 2019

Carlos Wong-Fupuy  
Senior Director  
A.M. Best  
6<sup>th</sup> Floor, 12 Arthur Street  
London EC4R 9AB  
United Kingdom

### **LABUAN RE'S COMMENTS ON DRAFT CRITERIA: SCORING AND ASSESSING INNOVATION**

We would like to seek clarification on the scoring weightage for the innovation assessment, as well as the effective date of its implementation. Nevertheless, we feel that the inclusion of the innovation assessment as one of the main rating criteria seems to favour bigger organisations, where they have bigger R&D investments and resources to drive innovation initiatives as compared to the small and medium sized companies. As such, we are of the opinion that this assessment is unfair to the small and medium sized companies as it does not project the credit risk of a Company.

Thank you.

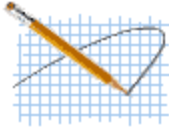
**Johana Era Zainudin**  
Chief Executive Officer

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**<asilberhorn@munichre.com>**

05/10/2019 03:00 AM

To "methodology.commentary@ambest.com"  
 <methodology.commentary@ambest.com>

cc Victoria Ohorodnyk  
 <Victoria.Ohorodnyk@ambest.com>

Subject Munich Re's comments on A.M. Best's  
 draft "Scoring and Assessing  
 Innovation"

1 attachment



**Munich Re AM Best Innovation May 2019.pdf**

Dear all,

Please find attached Munich Re's comments on A.M. Best's draft "Scoring and Assessing Innovation".

Best regards,

**Andreas Silberhorn**  
 Group Rating Manager

IR1

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 Vorstand: Dr. Joachim Wenning, Vorsitzender;  
 Dr. Thomas Blunck, Nicholas Gartside, Dr. Doris Höpke, Dr. Torsten Jeworrek,  
 Dr. Christoph Jurecka, Hermann Pohlchristoph, Dr. Markus Rieß, Dr. Peter Röder

Information zum Datenschutz: <https://www.munichre.com/de/service/information-gdpr/index.html>

Information on Data Protection: <https://www.munichre.com/en/service/information-gdpr/index.html>

## **Munich Re's comments on A.M. Best's draft "Scoring and Assessing Innovation"**

Overall, we believe that the A.M. Best's draft "Scoring and Assessing Innovation" paper is an initiative that could help to further emphasize the strategic priority of innovation. It might encourage insurance industry stakeholders to align their efforts even more with opportunities around innovation and may support incentivizing innovation on all levels.

A.M. Best's rating approach and its methodology reflect a good understanding of the levers and principles of innovation in the insurance industry. We agree with A.M. Best's proposed approach to develop an innovation score that does not yet impact the ratings scores. This is similar to the approach that was used when ERM was introduced into the A.M. Best rating methodology.

While we support A.M. Best's draft, we offer the following recommendations:

- **Organic vs. adoptive**  
Innovation either can be organic or can involve adopting external innovations. Purely external adoptive innovation should be considered differently than organic. Organic innovation must be cultivated within an existing organization, while adoptive innovation can be acquired. Both have different paths to be successfully integrated into an innovation-oriented organization.
- **Failure**  
Failures are inevitable and present opportunities and challenges. Initial failures might strongly contribute to learnings and inform future innovation. As a result, the timeframe for measuring failure might be essential. Attempts to score innovation should recognize that organizations that focus on organic innovation will fail more often (and learn more) than organizations that focus on adoptive innovation. Still, the mechanics of the draft scoring paper seem assign a lower rank to organizations that focus on organic innovation than to organizations that 'buy' short-term innovation solutions.
- **Measuring timeframe**  
The return period that is measured should align with the period that is required to achieve returns on innovation projects. This should be at least 3-5 years.
- **Purpose**  
Industry stakeholders would benefit from A.M. Best's articulation regarding why it is developing this methodology and the estimated timeframe for impact on BCAR. How exactly will A.M. Best incorporate the innovation score in the business risk profile of the company?
- **Data collection**  
How and how often will A.M. Best collect information to accomplish the innovation score? Will A.M. Best collect information on a legal entity or Group basis? Surveys might not be an appropriate tool to assess innovation as data entries are difficult to compare objectively. In addition, the relevant data points might be sensitive information which can't always be share with stakeholders.
- **Differentiation between innovation and traditional results**  
How will A.M. Best differentiate between innovation-driven results vs. traditional results? There might be cases where it is hard to set them apart.

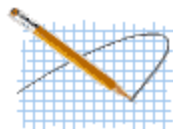
- **Taking the insurance segment into account**

The score should differentiate between the respective insurance industry segment (primary insurance vs. reinsurance). In particular, reinsurance companies tend to have longer innovation cycles, focus more on new business models (especially to improve the risk assessment and risk selection aspect) than on efficient processes or superior customer service and, last but not least, harness the strategically significant business potential of new technologies to get closer to the client.

- **Short-term expenses vs. long-term results**

Many innovations require a short-term increase in expenses, especially when a core process is transformed (e.g. upgrade policy administration systems or a new data analytics system), which garners long-term results. Under the draft score, this could result in increased input score prior to any impact on the output score. How will this impact the overall score?

Andreas Silberhorn,  
Group Rating Manager  
Munich Re



Mariya Messerli  
 <Mariya\_Messerli@swissre.com>  
 05/24/2019 01:32 AM

To "methodology.commentary@ambest.com"  
 <methodology.commentary@ambest.com>  
 cc Valeria Ermakova  
 <Valeria.Ermakova@ambest.com>, "Christian A. Herzog"  
 <ChristianA\_Herzog@swissre.com>  
 Subject Draft Criteria: Scoring and Assessing Innovation - Swiss Re's comment

Dear A.M. Best Team,

On behalf of Swiss Re, we would like to share some comments on the draft A.M. Best methodology 'Scoring and Assessing Innovation' published on March 14, 2019.

We appreciate that A.M. Best recognises the fact that innovation is becoming increasingly important in the (re-)insurance industry. The procedure document outlines the criteria with a concise description of underlying factors. However, we'd appreciate more clarity and transparency around the following items:

1. **Rating impact:** How exactly do you plan to incorporate the Innovation score into the 'Business profile' building block? At which point is it credit positive/negative to a company's profile assessment? How will it be differentiated between Group and subsidiaries?
2. **Quantification of innovation results:** We noted that the 'Output' factors (i.e. Results and Level of Transformation) have a relatively high weighting in the overall Innovation Score assessment. Also we understand that when calculating an organization's innovation output score, A.M. Best will use the previous five years as its timeframe for the analysis. This seems to be a rather backward-looking approach and does not necessary capture the company's status quo position towards innovation. Very often it may take years until innovation results in a tangible benefit. How would that be considered in the score?
3. **Publication of assessment score:** What is the level of published information, only the score or a detailed analysis with the underlying factors assessment?
4. **Transparency:** The current procedure seems to involve substantial analyst judgement when assessing the Innovation score. We'd appreciate to get more elaborate definition of the scores description.
5. **Collection of data:** Please elaborate, how the relevant information will be gathered (separate questionnaires, interviews, etc.?). Would this mean more operational work for the company?
6. **Review process:** What is the frequency of the review?

Best Regards,  
 Rating Agencies & Group Supervision Team

Mariya Messerli | Senior Treasury Officer | Vice President | Rating Agencies & Group Supervision  
 Swiss Re Management Ltd | Mythenquai 50/60, 8022 ZURICH, Switzerland  
 Direct: +41 43 285 73 10 Fax: +41 43 282 73 10 Mobile: +41 79 558 21 36 E-mail: Mariya\_Messerli@swissre.com

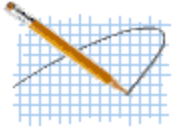
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**Maria Ferrante-Schepis**  
<maria.fs@maddockdouglas.com>

05/23/2019 08:47 PM

To methodology.commentary@ambest.co  
m  
cc  
Subject Maddock Douglas comments on  
Methodology

1 attachment



Maddock Douglas Comments to AM Best.docx

Hello!

Apologies for submitting past the deadline. Hopefully this is still useful to you.

Best,  
Maria

**Maria Ferrante-Schepis**  
President  
516.551.4503  
[maddockdouglas.com](http://maddockdouglas.com)

AM Best

# Scoring & Assessing Innovation

May 2019

Input from MD's Insurance innovation Practice

## AM Best Scoring & Assessing Innovation

The comments below are intended to compare and contrast AM Best's proposed approach against the best practices learned by Maddock Douglas (MD) over the course of about 10 years of honing and applying emerging innovation practices in the insurance industry.

Overall, MD's opinion is that AM Best's approach is generally in alignment with our thinking. There are two areas, noted in **red**, where there are either differences, or 'watch outs' where we have learned lessons in practice that may be useful to note.

### AM Best:

Using 2 major buckets to determine total score

1. Innovation Inputs =
  - + Leadership
  - + Culture
  - + Process & Structure
  - + Resources
2. Innovation Outputs = 2 x
  - + Results
  - + Level of Transformation

The input components align almost 1-1 with Maddock Douglas's Innovation Program Pillars

### MD's Program Pillars:

- + Objectives
- + Structure
- + Process
- + Culture
- + Resources

The outlier of "Leadership" isn't necessarily surprising since it (like many of the other potential components) is critical in realizing success across all other components. For example, Leadership is one of the drivers of a Culture of Innovation (COI) as identified in our COI Survey because it is one of the critical elements toward realizing success in the "culture" component.

### COI Survey Components:

- + Leadership
- + Infrastructure
- + Creativity
- + Risk-taking
- + Customer Focus
- + Engagement

That being said, the way AM Best is talking about Leadership: mindsets that support cross-functional collaboration, encouraging new ideas, fostering productive organizational evolution, generating a high level of interest/buy-in, so that all employees are empowered to be change agents—and the related comment at the close of the Culture section “Because leadership often drives culture, an enterprise is unlikely to have a high culture assessment if it does not have strong leadership.”—means this linkage is likely understood already. **So why assess two different things separately that are so highly correlated?**

That’s why we use the pillar of Objectives instead of Leadership, allowing Leadership to cross all and be considered a critical driver of a Culture of Innovation. Objectives, then, are left to include the things that are included in both AM Best’s Leadership section that aren’t also specifically overlapping in the Culture section:

- “Companies that successfully innovate typically benefit from buy-in at the senior management level, evidence of which can be found when the concept of innovation dovetails with the corporate mission statement”
- “The clear enumeration of goals by leadership is essential, so that all parts of the organization understand what the results should be.”

Without such a clarification, it would seem that that there isn’t much that organizations could do to affect the Output scores (they could primarily affect the Inputs, which would in turn result in the ability to get higher Output scores). But with that clarification, then;

- Results and Level of Transformation could be correlated to objectives, and therefore the company could impact both based on how objectives are set.
- Better understanding the role innovation plays, the types best for them, then balancing appropriately across a portfolio in advance as part of the Objectives will lead to the ability to realize far better outcomes that are in alignment with the organization.

Along those same lines of Outputs, we know that measurement of innovation results is not well understood or entrenched in the insurance industry. **Too often, results for further reaching innovation is measured with the same metrics that are used in the core, and AM Best seems to be falling into the same basic misunderstanding trap of doing so using only in-market returns (or “measurable results”, if that’s what that means.) In addition, the value of learning impacts the core, but these measurement techniques don’t account for that.** Which leads to the natural impossibility that companies will have in understanding how they will be assessed in this bucket, amplifying the already uncertain state of their own measurement of their own innovation efforts.

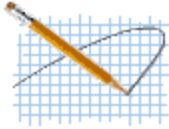
**In summary**, our opinion is that AM Best is on the right track with the assessment criteria, however we feel that Leadership should cross all components, and also not be overly influenced by the existence of certain roles such as a Chief Innovation Officer or an innovation team. It needs to be assessed by how leadership across the organization is behaving relative to innovation. In addition, AM Best must be clear with companies about the Outputs, specifically results. There should be more emphasis on hitting the metrics that align with the specific objectives of the company’s innovation efforts, and not just metrics that are visible in market.

**Note:** Maddock Douglas is happy to have another conversation with AM Best if we can be of help in efforts to bring innovation criteria into the ratings process.

*For Reference, Maddock Douglas offers these types of services and tools to clients seeking to build and/or grow their innovation competency:*

- + **Culture Of Innovation Survey** (benchmarking)
- + **Innovation Program Design**, (including development of a customized Playbook)
- + **Training, workshops** (to build design thinking and innovation skillsets)
- + **Growth Strategy** (including portfolio prioritization)
- + **Internal Communications** (to convey organizational intent, create engagement, continual reinforcement to foster successful change, etc.)
- + **Customized Innovation Measurement** (there are no “best practices” in this area, so our approach is to create measurements that are meaningful to the culture)

**Contact:** Gino Chirio, Executive Vice President, [gino.c@maddockdouglas.com](mailto:gino.c@maddockdouglas.com)



**Prafull Jhavar/US/AMBEST**

06/05/2019 08:31 AM

To methodology.commentary@ambest.com  
cc  
Subject Fw: Innovation methodology comments from [REDACTED]



**Prafull Jhavar**

Sr. Financial Analyst - North American & Caribbean Life Health  
Ambest Road, Oldwick, NJ, 08858, USA  
Tel: +1 (908) 439-2200 ext.5214 | Fax: +1 (908) 439-xxxx | Mobile: (908) 809-3547  
E-mail: [Prafull.Jhavar@ambest.com](mailto:Prafull.Jhavar@ambest.com)

Date: 06/04/2019 07:36 AM  
Subject: Innovation methodology comments from [REDACTED]

While I realize that the posted deadline for methodology questions and comments has passed, if AM Best is still open to including such, here are comments and questions from [REDACTED] We request that our input to be anonymous when you publish them.

How does AM Best expect the innovation framework to impact companies' results?

How will AM Best adjust scores for different industry segments? – e.g. Life vs P&C –

Will AM Best score a firm against its peers in the same industry segment? If so, how will they determine the appropriate peer group?

Agree as stated on page 4 that it is difficult to score high on culture without scoring high on leadership, and that leadership has a direct influence on all the other sub assessments. So, it seems like the leadership sub assessment implicitly carries more weight. Why not make it explicitly carry more weight in the scoring?

As written, the processes and structure sub assessment reads like it has a size bias toward larger companies.

In the input scoring expectation, AM Best expects most companies to score in the lower range of inputs due in part to the recent acceptance of innovation.

Does that imply that scores will migrate up over time?

In the results sub assessment, are the tangible results in comparison to peers, or in comparison to a trend of company performance?

In the transformation sub assessment, challenges in the insurance industry relative to other industries might hold down scores. This implies that scores might rise over time.

Why are input and output given equal overall weighting? A company scoring high on input and low on output is looked at the same way as a company scoring high on output but low on input. Can a company score low on input and still score high on output? What other methods have you considered to combine / weight the impact and correlations of the sub assessments?

Is there an expected benchmark or distribution percentage for each of the 5 assessments?

For the published innovation assessment, what level of information will be published? Will it be simply the overall assessment? Will it provide the scores for each sub assessment? Will the assessment be published as part of the credit report?

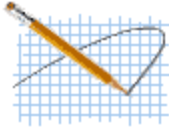
Thanks,

[Redacted]

[Redacted]

[Redacted]

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[REDACTED]  
09/24/2019 03:47 AM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Re: AM Best Releases Updated Draft  
Criteria: Scoring and Assessing  
Innovation; Proposes Best's Credit  
Rating Methodology Revisions

Dear Sir/Madam,

After reviewing the two updated drafts, I would like to contribute some of my opinions.

I think that the original goal of credit rating focuses on the risk management of an insurer. Regarding innovation, specifically, I would like to view it as a kind of speculative risk and manage it. Innovation does need some costs, but it could bring great net return, or zero net return, or in the worst case huge emerging losses. There are some cases, successful or huge failures, occurring in China's market during the past few years.

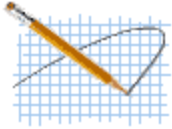
Many insurers are talking about their innovation, but in fact, sometimes, those are just the technical/product development, just keeping up with the pace of the times. To be honest, from the definition of innovation in the draft, I cannot clearly make the difference line between the "true" innovation and the technical advancement. I think that it is a very critical question in the risk management. "True" innovation could bring insurers more benefits or huge losses/risks, but technical/managerial advancement usually takes us more benefits than risks/losses. So I feel that the methodology in the draft seems to be accessing the technical/managerial advancement rather than the "true" innovation.

In summary, my opinion is that from the perspective of risk management, we should regard innovation as a kind of speculative risk and manage it properly, not only a kind of positive score-up in the process of credit rating.

That is my opinion, only for your reference. Thanks.

Best regards,  
[REDACTED]

[REDACTED]



09/30/2019 06:34 AM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

Subject Draft innovation - comments

Dear Sir or Madam,

I am writing from [REDACTED] to send our commentaries about the drafts' Scoring and Assessing Innovation' and 'Best's Credit Rating Methodology'.

There are some areas that are unclear and should be clarified in the final draft:

- At the end, what are you going to publish about the new innovation scoring? We have received an AM Best's email that says "The innovation score and assessment descriptor will not be published at the time the criteria procedure is implemented, as was indicated in the initial draft". What does this mean? We thought AM Best is going to publish only the assessment descriptor and not the score but now we have some doubts. Are not you going to public anything the first year?
- We are going to get an innovation score by entity? how the process will be should be clarified because for example in [REDACTED] there is a particular structure with a lot of entities inside and different rating units.
- We attached a part of the draft that from our point of view it doesn't make sense in spanish:

### ***Puntuación de las expectativas***

En función de los resultados de las encuestas y las observaciones de la industria, se podría esperar que la mayoría de las compañías tengan generalmente un puntaje más bajos para los componentes del puntaje de aportes, con el máximo en los rangos más altos. Esto refleja los desafíos en el proceso y la estructura relativamente reciente aceptación de la innovación por parte de muchos sectores, como parte de una cultura corporativa de toda la compañía.

## Scoring Expectations

Based on survey results and observations of the insurance industry, AM companies would generally score in the lower range in the components the very strongest scoring at the higher ranges. This reflects challenges well as the relatively recent acceptance of innovation by many industry company-wide corporate culture.

We understand the first part (AM Best expect companies are going to obtain a low punctuation, as 1 or 2, in the components of the input score) but the following sentence “con el máximo puntaje en los rangos más altos” make no sense in spanish. You should check this part in the spanish report to a better understanding. This is not a comment about the methodology but we thought this feedback is also useful to you to avoid translation mistakes and misunderstands.

**Please, we want this comment submission be kept anonymous and AM Best do not make public reference to the author / sender company.**

Thank you in advance.

Kind regards,

[Redacted signature]

[Redacted contact information]

[Redacted address]

[Redacted footer information]

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

[illegible]

[REDACTED]



[REDACTED]

[REDACTED]

8<sup>th</sup> October 2019

A.M.Best  
1 AM Best Road.  
Oldwick, NJ 08858



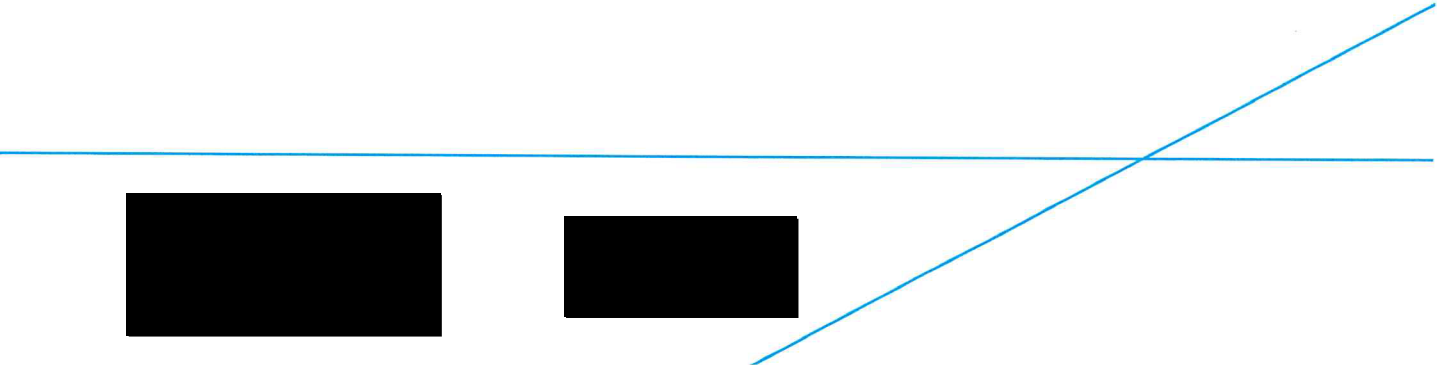
**Response to Request for Comments on Draft Criteria: Scoring and Assessing Innovation**


Formal response from [REDACTED]

Thank you for the opportunity to comment on your revised draft criteria for scoring and assessing insurance company innovation. As an organization focused heavily on innovation, we continue to see this proposal as a positive development. It provides focus for an important issue facing the insurance industry. It has the potential to provide a catalyst for required change in the face of a number of external pressures.

We have the following feedback and observations to offer, a number of which were made during your first cycle of consultation in March 2019:

- We continue to believe this is a worthwhile initiative.
  - The breaking of the evaluation of Innovation into sub-components and then scoring these on a four-point scale is a very easy to understand approach and created a Maturity Model framework. Such Maturity Models have a strong track record of being effective in establishing the current state of development of a particular discipline and enabling organizations to plot a path towards a future desired end-state.
  - We welcome the additional clarity brought to the Leadership and Culture elements within the framework, where there was some potential for confusion or 'double counting' between these factors.
  - The Leadership criteria is more closely aligned to Mission and Vision. We previously felt there was not enough focus on the 'change driver', in other words; why were companies innovating? Making this clear link to Mission and Vision is therefore in our view helpful.
- [REDACTED] [REDACTED]

- 
- The Culture criteria is now more focused on risk appetite, agility and incentivization. Both criteria seem to be clearer in terms of the requirement for the evaluation to be evidence-based.
  - We also welcome the change to the Resource criteria which focused on the level of prioritized and appropriate resources brought to bear by the organization.
  - In terms of how the evaluation is rolled out in practice, we would still recommend that pilot exercises are undertaken with a cross-section of insurance companies. Argo Group would be delighted to participate in such a pilot given our interest in Innovation as a strategic objective.
  - We believe a key challenge will be how credit analysts are able to collect and analyze information from insurance companies in a consistent manner within the existing annual evaluation cycle. Given the number of companies they each follow, there is a danger this could be cursory and inconsistent without a robust and transparent analytical framework.
  - We would further suggest that a data capture survey or questionnaire is created to enable analysts to request and obtain a standard set of documentary evidence from companies as part of the annual data request, in advance of their management meetings, so that both parties are well prepared.
  - Being clear about what documentary evidence is expected would be helpful. Many organizations may have effective innovation processes in place, but may not yet have formalized and fully documented the steps in these processes.
  - If A.M. Best's motivation is to encourage the industry to drive innovation, such an approach would enable transparency for companies to understand how they have been evaluated and clarity of what elements they need to develop in order drive themselves up the maturity curve.
  - Finally, we continue to believe that a strong peer review process will be necessary in addition to individual credit analysis evaluations to ensure consistency and hence credibility of scoring. Although we do understand that A.M. Best's view is that the innovations score is an absolutely evaluation, we believe that publishing benchmark data is critical to ensuring credibility and buy-in to the approach and also allows companies to compare themselves to their peer group and recognize the peer pressure to keep up with the competitors.
- 
- 

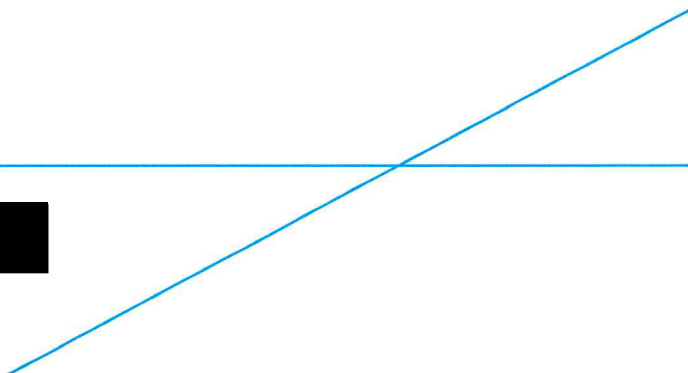
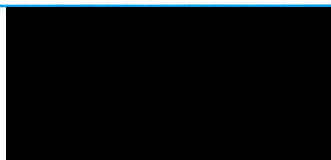
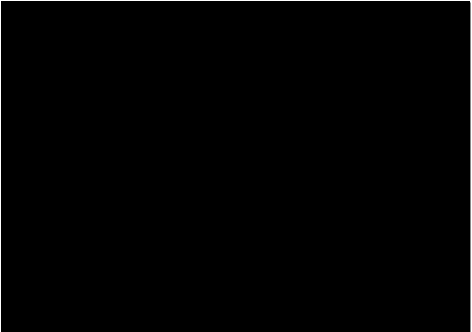


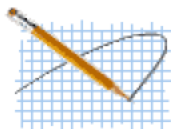
We confirm that we are happy to allow our comments to be made public but only on an anonymous basis.

If you have any further questions, please do not hesitate to contact me at



Yours sincerely,





[REDACTED]  
10/16/2019 05:51 AM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc  
Subject [REDACTED] comments of the updated draft  
criteria for scoring and assessing  
Innovation

Dear All,

**We request that the below comments remain anonymous.**

Our comments to the updated criteria is as below.

- We welcome the changes to the methodology which is now stretching but achievable.
- Appreciate the clarification that the score is not directly correlated with the credit rating.
- Page 2 - we have taken the term "legacy operations" to mean processes rather than systems. In some cases companies will not want to try to integrate innovations with legacy IT systems even though they do wish to incorporate the innovation in to Business As Usual processes.

Many thanks,

[REDACTED]

[REDACTED]

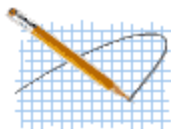
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



**Amira AbuTeen**  
 <Amira.AbuTeen@iginsure.com>

10/23/2019 09:14 AM

To "methodology.commentary@ambest.com"  
 <methodology.commentary@ambest.com>

cc Michael Farah  
 <Michael.Farah@iginsure.com>,  
 Haneen Al Fares  
 <Haneen.AlFares@iginsure.com>

Subject RE: AM Best Releases Updated Draft  
 Criteria: Scoring and Assessing  
 Innovation; Proposes Best's Credit  
 Rating Methodology Revisions

Dear AM Best Team,

Hope this e-mail finds you well.

On behalf of Michael Farah, kindly find below our comments on the updated draft criteria in relation to innovation:

Innovation is an element for success for all industries and specifically (re) insurance industry. Currently, companies are standing at a cross-road they either be part of the revolution or follow the revolution. Choosing to be part of the revolution gives companies an advantage to leverage the benefits of innovation, and even become leaders in it whereas when taking the chance to follow after others have experienced the benefits of innovation on all levels would not allow them to fully experience the hype of it, and the actual maturity stages of innovation as it is a continuously evolving and growth process.

While innovation is crucial for development, we should not fail to mention that the rating process tends to be minimally bureaucratic, as one of the main pillars of innovation is to ease processes and facilitate growth and development. Also, it is worth mentioning that when assessing insurance industry agencies need to differentiate between retail and commercial insurance as the level of maturity in innovation and its business impact will highly differ, considering the complexity, types of data, nature of clients and the DNA of the classic industry. Also, when assessing a reinsurance company versus an insurance industry the criteria should have separate indicators again, as the nature of business and acceptance for innovation would not be as mature as in retail and direct insurance.

Putting it in a nutshell, having innovation as a rating criteria is a step forward for enhancing cultural cornerstones for a company, and an operational pressure to enhance financial strength enabling companies to differentiate themselves in the industry, yet points mentioned above in respect to difficulties or pushbacks to innovation should be taken into account to enhance the process.

Thank you,

**Amira AbuTeen, CBMA**  
**Senior Consultant**

74 Abdel Hamid Sharaf St.  
 P.O. Box 941428 Amman 11194 Jordan

**T** +96265662082 Ext. 433

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\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

I've made a few tracked (in red) changes directly into the attached text and i set out below the rationale (from the innovation literature and our MIT approach) for the key word suggestions:

- I trust these quick comments are of some use, and let me know what you (and others) think

Dr Phil Budden  
Senior Lecturer  
MIT Management

Apologies for the short email: my new New Year's resolution is to send shorter emails.

*(See attached file: Scoring Innovation\_100119\_redline.docx)*

\*\*\*\*\*  
\*\*\*\*\*

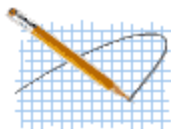
NOTE: Due to regulatory restrictions, Analytical Staff are prohibited from any involvement in commercial discussions.

For all commercial matters including rating fee related inquiries, please contact Daniel Jimenez at +1 908 439 2200, ext. 5177.

The information transmitted is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this in error, please contact the sender and delete the material from any computer.

A.M. Best Company Inc., Oldwick NJ, USA and its subsidiaries.

\*\*\*\*\*  
\*\*\*\*\*



"Kodama, David" <david.kodama@apci.org>

10/30/2019 07:33 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc

Subject Updated Draft Criteria on Scoring and Assessing Innovation

The American Property Casualty Insurance Association submits the following comment for your consideration.

The APCIA appreciates the importance of innovation that AM Best is placing in the updated draft criteria of its rating methodology. We agree that now more than ever the insurer's ability to be innovative, respond to innovation, and stay abreast of innovation in the marketplace is necessary for the company's ability to remain competitive, sustainable and financially strong.

The APCIA however maintains our concern that the scoring of innovation for the rated entity is not based on objective measures and therefore results in a more subjective analysis versus one with quantitative metrics. We are concerned that there are not enough guardrails in place to ensure fair and consistent assessment of the culture for innovation or leader sponsorship of innovation across multiple insurers. We believe this inconsistency could weaken the robustness of the Best Rating Methodology. Overall, we question the need and relevance of a separate innovation score within the business profile module, when innovation is already an element considered within the business profile segment and for the overall credit rating analysis.

Innovation, understood in line with your definition, cannot be consistently measured and audited. There currently are no metrics of this kind in the public domain. In some situations, it is not possible to provide concrete and measurable KPIs for the innovation input and output scores. For example, how does one measure the encouragement of new ideas, the leadership mind set, and openness to new ideas? The proposal also states that the innovation measurement results "can include results such as a lower expense ratio; higher revenue growth; more robust, customer-centric, data-driven product design; better customer retention; greater brand recognition; or stronger data analytics". The above-mentioned outputs are the result of the overall value-chain and not one of innovation alone. It is not clear how AM Best will isolate the innovation component and its impact on these results.

Consequently, the APCIA is concerned that the rating analyst will not be able to measure and verify the process and results of the innovation and transformation. The assessment will then be based on an appreciation that could differ from individual to individual and a company to company basis.

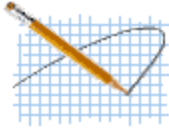
As the AM Best commentary itself acknowledges, the current rating methodology does capture innovation indirectly through the various building blocks of its rating process. The APCIA believes that it would be appropriate that AM Best build upon that process to provide more definition around how innovation may impact the strength of each critical module component for the rated entity rather than creating a duplicative and separately scored sub-module.

The APCIA extends our appreciation for the opportunity to comment and welcomes your contact for any follow up discussion.

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**Derrick Brach** <derrick.brach@aon.com>

10/31/2019 02:23 PM

To "methodology.commentary@ambest.com"  
<methodology.commentary@ambest.com>

cc Patrick Matthews  
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Subject Scoring and Assessing Innovation  
Requests for Comment

1 attachment



Request for Comment - Scoring and Assessing Innovation Aon Response Oct 2019.pdf

Attached please find Aon's feedback on the draft Scoring and Assessing Innovation Criteria.

Thanks,  
Derrick

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*I'm in. I pledge to support inclusion at Aon every day.*

## Response to AM Best's Request for Comment on Scoring and Assessing Innovation

*October 31, 2019*

## Executive Summary

The following contains Aon's response to AM Best's second Request for Comment on "Scoring and Assessing Innovation" ("RfC") published September 13, 2019. The second draft of the criteria has incorporated industry feedback in multiple areas and has done well improving upon the first draft. Our response is based on our review and interpretation of the RfC from team members around the world along with discussions with our clients regarding the RfC.

The following pages contain our detailed comments, which are discussed in three sections:

- A) General Comments
- B) Comments regarding the Innovation Input Score
- C) Comments regarding the Innovation Output Score

We welcome an opportunity to discuss our comments with AM Best in person to better understand the proposed criteria.

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## Section A. General Comments

- The overall criteria paper is clear and consistent and it is good to put spotlight on innovation; especially with emphasis on results. Although historically innovation has always been implicitly captured in rating criteria components, a separate innovation score will incentivize insurers to invest further attention into their innovation initiatives.
- More clarity around what type of evidence or documentation is expected to be provided throughout the assessment process would be helpful.
  - How is AM Best going to gather enough information to get to an informed assessment without reverse engineering based on thoughts on where the final assessment should end up.
  - Is there going to be an annual survey so the analyst can get more information?
- It would be helpful if the five assessment categories included descriptions along with the category names and score ranges. What does it mean to be assessed Moderate, Significant, etc?

## Section B. Comments regarding the Innovation Input Score

- How does a company that outsources their innovation fit within the “Resources” score examples?
- There seems to be overlap between “Resources” and “Processes & Structure”
  - In the “Resources” component, the criteria links resources to critical operational goals and strategy while the “Processes” component discusses innovation strategy
  - It is unclear how the “data management” building block of the “Processes” component is assessed separately from the “effective data strategy” in the “Resources” component.

## Section C. Comments regarding the Innovation Output Score

- There is some general scepticism around the innovation output score as it is very difficult to measure the output, as results do not always materialize quickly or are measured in the same way. We understand the goal is to avoid a flashy presentation resulting in a high assessment.
- It is unclear if there is a place in the output score to measure the innovation strategy of not pursuing certain opportunities, although they were considered. This may fall more towards strategic risk management, as part of ERM, although there is a strong link between innovation and ERM (emerging risk identification, assessing potential threats, etc.)