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A.M. BEST'S MONTHLY INSURANCE MAGAZINE

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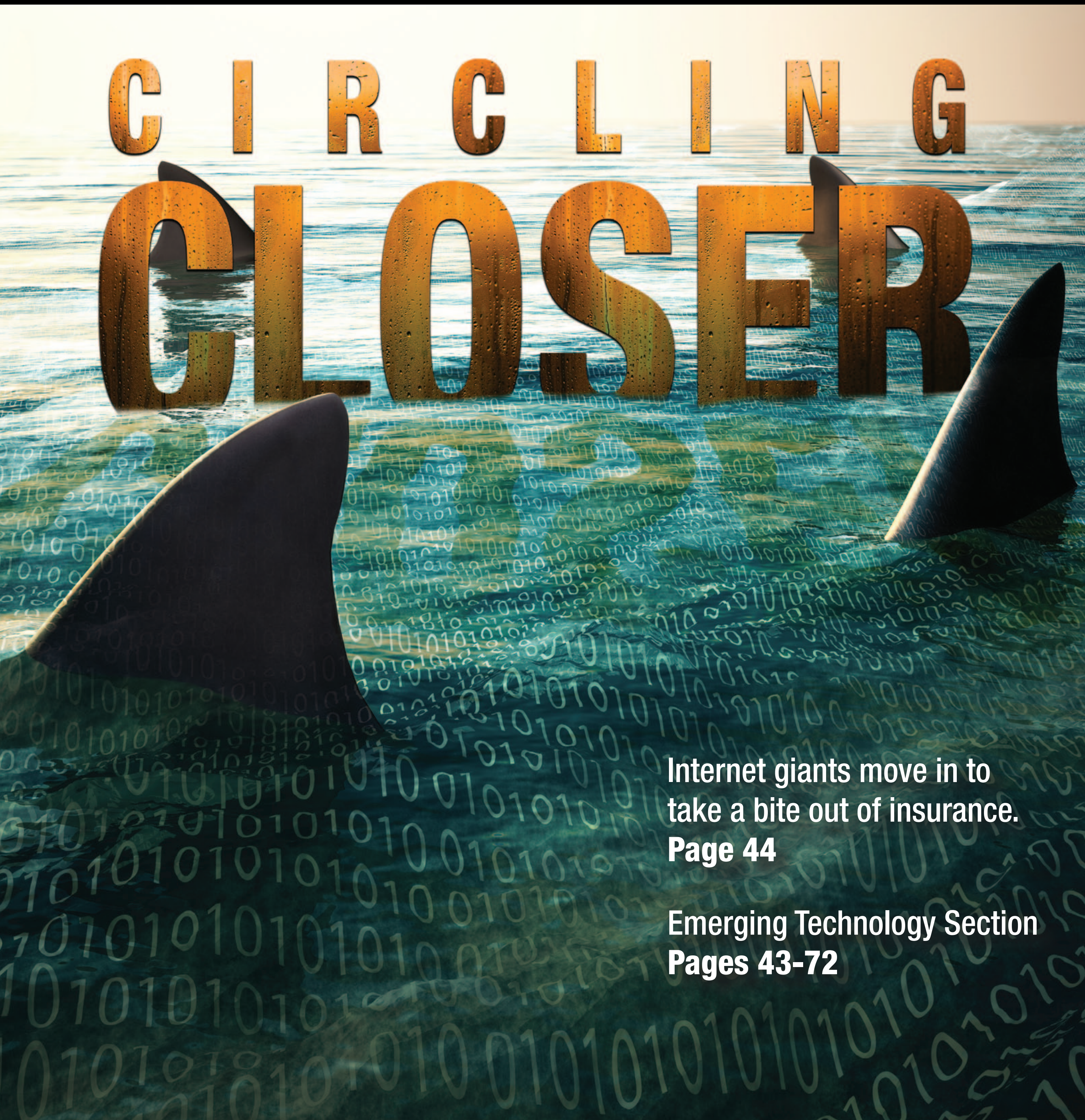

Internet giants move in to take a bite out of insurance.
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From the Editor's Desk

Nibbling at the Edges

Insurers face competitive threats from all sides. It's not just other insurers. Insurtech startups are dreaming up creative ideas about how to use technology more effectively.

Meanwhile, internet giants such as Google, Amazon, Facebook and Apple pose a different, potentially more serious threat. They come to the table with effective platforms, reams of customer data and are well-known to consumers.

Amazon, together with JP Morgan Chase and Berkshire Hathaway, for instance, made headlines when they announced earlier this year they would create an independent health care company for their employees.

Insurers have generally been protected by regulation, including capital requirements. It's also unclear if tech companies want to actually own the risk and worry about paying claims.

Some insurers, nevertheless, are moving to develop partnerships with both internet giants and insurtech startups.

"Circling Closer" looks at the latest insurance developments of GAFA—Google, Amazon, Facebook and Apple—and how insurers are responding. In the U.S., it's GAFA. In Asia, it's BAT or Baidu, Alibaba and Tencent. These companies are making waves in the insurance sector in Asia.

On the one hand, there are the giants. On the other hand, there are the startups. Helping to get these startups off the ground are accelerator programs. In "Accelerating Ahead," *Best's Review* looks at various accelerator programs.

The U.S. has been one of the key focal points for insurtech startups, but that's beginning to change. In "A Global Shift," *Best's Review* looks at some of the new trends with insurtechs.

Speaking of new businesses, Blackstone recently announced that it was starting up an insurance asset management operation. The initiative is being led by former New York Life executive Chris Blunt. In "Building an AUM SWAT Team," *Best's Review* spoke with Blunt about the firm's ambitions.

Phil Waldeck, who is credited as one of the innovators behind the pension risk transfer concept, has been in his job as president of Prudential Retirement for almost a year. In "Pioneering Pension Change," *Best's Review* spoke with Waldeck about the challenges he faced getting the pension risk transfer business off the ground.

May is Disability Insurance Awareness Month. Recent data by the American Council of Life Insurers shows that 51.3 million households in the United States are without disability insurance other than the basic coverage available through Social Security. Yet more than one in four of today's 20-year-olds can expect to be out of work for at least a year because of a disabling condition before they reach age 67, the normal retirement age, according to The Council for Disability Awareness.

Patricia Vowinkel
Executive Editor

The Question:

Which will have a greater impact on the insurance industry? Internet giants such as Google, Amazon, Facebook and Apple or insurtech startups? Why?

Email your answer to *bestreviewcomment@ambest.com*.

Reader responses will be published in a future issue.

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EMERGING TECHNOLOGY

43-72 In this special section, *Best's Review* explores the impact of technology, emerging competitive threats, insurtech accelerator programs and insurtech trends.

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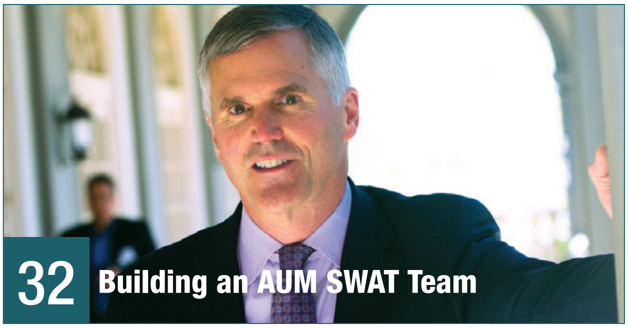

Cover design by Andrew Crespo

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Coming Soon

The Evolving Partnership Of Data Analytics and Claims

A panel of insurance, legal and claims experts will discuss the increasingly data-driven nature of claims management.

Thursday, May 3, 2 p.m. Eastern Time

Rating Mortgage-Related ILS Transactions

A.M. Best analysts will examine how they evaluate mortgage-related insurance-linked securities transactions which are relatively new to the market.

Monday, May 7, 11 a.m. Eastern Time

State of the Medical Professional Liability Market

A.M. Best senior analytic personnel and insurance industry leaders review the state of the U.S. medical professional liability insurance sector. The discussion follows the publication of A.M. Best's annual special report on the state of the medical professional liability market.

Tuesday, May 8, 2 p.m. Eastern Time

Managing Agents Effectively In a Data-Driven World

A look at ways that carriers are using data and analytics to drive profitable production and create stronger relationships with their agents. Sponsored by Optymyze.

Thursday, May 10, 2 p.m. Eastern Time

How to Know Your Customer in This Post-Breach Environment

Thursday, May 10, 2018, 11:00 a.m. ET

Insurance companies needing to take steps to properly identify their customers is not new. But following large-scale breaches over the past year where SSN and other sensitive personal information was exposed, how can a company still be sure that someone is who they say they are? A panel of industry leaders will discuss KYC practices as they relate directly to the insurance industry. Sponsored by Neustar.

http://www3.ambest.com/conferences/events/EventRegister.aspx?event_id=WEB580

How Addressing Data Is Transforming the Insurance Industry

More now than ever, the insurance industry is dependent on addressing and enrichment data to help mitigate risk. A panel of experts will explore the need for better data sets using precise location information to better manage risk and improve decision-making while increasing customer engagement. Sponsored by Pitney-Bowes.

Tuesday, June 19, 2 p.m. Eastern Time

For details or to register for webinars, go to *http://www.ambest.com/conferences/webinars.asp.*

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Letters to the Editor: Letters should not exceed 500 words and must be signed. Include your name, title, company, address and telephone number.

Bylined Articles: Original articles discussing trends and problems affecting insurance agents, brokers and home office personnel are welcome.

Authors include *Best's Review* columnists who write multiple columns per year, and contributors who write a single feature article or an occasional column. Author guidelines are available on the internet at *www.bestreview.com*.

Letters, articles and press releases may be mailed to the Editor, *Best's Review*, Ambest Road, Oldwick, NJ 08858 or faxed to (908) 439-3971. Or, submissions may be emailed to *bestreview@ambest.com*.

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Department

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Reinsurers Wonder How Big a Role They'll Play in Their Own Future
Attendees to the 25th Reinsurance Symposium in Philadelphia said forces outside the insurance industry, including advancing technology and new sources of capital, are pushing the reinsurance sector into exploring new tools and coverages. (March 20, 2018)

Captives Changing With Market Conditions, Risk Needs
Attendees to the Captive Insurance Companies Association's International Conference in Scottsdale, Arizona, said the flexibility of captive insurance organizations helps them respond faster than traditional insurers in accommodating new risks and market dynamics. (March 14, 2018)

California's Dixon: Insurers Slow to Write Coverage for Cannabis Growers
Camille Dixon, director of cannabis insurance policy, California Department of Insurance, said most coverage for cannabis growers is coming from the surplus lines sector. Growers need outdoor crop, key man and product liability coverage, she said. Dixon spoke with A.M. BestTV at the Captive Insurance Companies Association's International Conference in Scottsdale, Arizona. (March 14, 2018)

Oil & Energy Syndicate's Hajjar: As Oil Prices Recede, Other Risk Appetites Grow
Nabil Hajjar, managing director, Federation of Afro Asian Insurers and Reinsurers Oil & Energy Syndicate, said energy insurers are increasingly focusing on other types of energy risks, including nuclear and renewable sources. Hajjar spoke with A.M. BestTV at the Dubai World Insurance Congress. (March 2, 2018)

A.M. Best's Andre: U.S. P/C Insurance Sector Poised for an Improved 2018
John Andre, managing director, A.M. Best, reviews a new report that shows a second year of underwriting losses in 2017 for the U.S. property/casualty insurance segment. Issues include weaker results for personal and commercial auto, and sufficient capital for insurers to maintain competitive pressures. (March 2, 2018)

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Capgemini's Root: Tech Transformation Is the New Normal
Nathan Root, vice president, Capgemini Financial Services, said a host of technology developments are remaking the insurance landscape, but insurers' biggest challenge is moving to a workforce that accepts and anticipates continuous change.

CyberCube Modelers: Digital Risks Often Travel in Waves
Ashwin Kashyap, vice president, and Joshua Pyle, actuarial director, CyberCube, said incidents of electronic intrusion sometimes appear to follow patterns, such as waves of breaches, ransomware and infrastructure attacks.

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Executive Changes

Distribution

• **Peter Mullen** is leaving as chief executive officer of **Aon plc**'s captive solutions business to rejoin **Artex** as CEO-elect in March 2019.

Mullen helped found Artex in 1997 and was a member of its executive team until his departure for Aon in 2011. **David McManus** will continue to lead Artex as president and CEO until July 1, 2019, when Mullen will assume those executive responsibilities while McManus becomes chairman. **Rory Moloney**, CEO of Aon Global Risk Consulting, will oversee the captive business until a new captives CEO is confirmed.

Peter Mullen

Also, Aon UK Ltd. has promoted **Julie Page** to the role of chief executive officer, while **Dominic Christian** was appointed as global chairman of Aon Benfield. Page will also continue in her current position as CEO of Aon Risk Solutions UK. Most recently, Christian was CEO of Aon UK and executive chairman of Aon Benfield International since 2013.

Julie Page

Life/Health

• **The America's Health Insurance Plans** has named **Matt Eyles** as president and chief executive officer to succeed **Marilyn Tavenner**, who is retiring June 1.

Matt Eyles

The move represents a promotion for Eyles, who has been with AHIP since 2015, most recently serving as the association's chief operating officer. Eyles joined AHIP from Avalere Health, where he was executive vice president.

Tavenner, former head of the Centers for Medicare and Medicaid Services, was named CEO in 2015. At the CMS, she oversaw the rollout of the Affordable Care Act.

• **Optum** has named former GlaxoSmithKline CEO **Andrew Witty** as its chief executive officer.

He succeeds **UnitedHealth Group** Vice Chairman **Larry Renfro**, who remains vice chairman. Optum is UnitedHealth's health services unit.

Witty joined UnitedHealth's board of directors in August. He has more than three decades of health care experience. He is stepping down from the UnitedHealth board.

Renfro joined UnitedHealth in 2009 as public and seniors market group CEO. He became Optum CEO in 2011 and group vice chairman in 2014.

• **Aetna Inc.** and health system **Sutter Health**, which created a joint venture last year to offer self-insured commercial products in Northern California, have named **Steve Wigginton** chief executive officer of the health care company.

Steve Wigginton

Wigginton was most recently CEO of Valence Health, where he led the integration of the business after Evolent Health acquired the company in 2016. Before the acquisition, Wigginton was Evolent's chief development officer.

He also served as the founding CEO of Medley Health, president of Health Integrated, and executive vice president of Neoforma.

McRaith Hired by Blackstone Insurance Solutions

Michael McRaith, former director of the U.S. Treasury Department's Federal Insurance Office, has been hired as a managing director for Blackstone Insurance Solutions, a new division of the investment firm dedicated to insurance products.

"I am excited to join Blackstone as it builds BIS to help insurers meet the essential promises those firms have made to personal and commercial consumers," McRaith said in a statement. "Blackstone has long been recognized as a global investment leader, and BIS offers insurers around the world access to tailored investment products aligned with the best interests of policyholders."

Michael McRaith

McRaith will report to Chris Blunt, former president of New York Life's Investments Group and BIS senior managing director and chief executive officer.

The announcement by Blackstone ends speculation about where McRaith would land after leaving the FIO in 2017 with the inauguration of President Donald Trump. Appointed by President Barack Obama, McRaith served as FIO director from 2011 and is the only person appointed to head the office. Trump has made no nomination to head the agency; the vacancy is being filled on an acting basis by Steven Seitz, the FIO's longtime deputy director.

Prior to his appointment as FIO director, McRaith served more than six years as director of the Illinois Department of Insurance.

—Frank Klimko


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Property/Casualty

• **Progressive Corp.** has appointed **Dave Pratt** as general manager of subsidiary **American Strategic Insurance**. He succeeds ASI Founder, President and Chief Executive **John Auer,** who remains ASI board chairman after his April 1 retirement.

Dave Pratt

Pratt joined Progressive in 1991 as a product manager and most recently led the company's usage-based-insurance program Snapshot. He has also held several other leadership roles.

• **American International Group Inc.** has appointed **Ed Dandridge** to the newly created position of head of marketing and communications for general insurance.

Ed Dandridge

Previously, he was global chief marketing and communications officer at Marsh & McLennan Cos. Inc. Earlier, he was president and chief executive officer at the National Association of Investment Cos.

Also, AIG recently named **Donna DeMaio** global chief operating officer, general insurance, and **Naohiro Mouri** executive vice president and chief auditor, subject to regulatory approval.

Donna DeMaio

Mouri was previously senior managing director of Asia Pacific Internal Audit and DeMaio was chief auditor at AIG. Both appointments are based in New York.

Naohiro Mouri

DeMaio has more than 30 years of experience working in the financial services sector. Prior to her role as chief auditor, DeMaio was president and CEO of United Guaranty Corp. while it was a subsidiary of AIG. She was previously CEO of MetLife Bank following her tenure as the bank's chief financial officer. Last year, DeMaio rejoined AIG as executive vice president and chief auditor after United Guaranty was acquired by Arch Capital Group.

Mouri joined AIG in 2015 and is currently a member of the internal audit group leadership team. He is also senior vice chairman of the Institute of Internal Auditors global board of directors, and will become chairman in May 2018. He was previously statutory executive officer, senior vice president and chief auditor for MetLife Japan.

• **Norfolk and Dedham Group** has appointed **Victor Pepin** to its newly created chief operating officer position.

Victor Pepin

Pepin has more than 25 years of experience in property/casualty insurance. He recently served as vice president northeast regional general manager for Safeco Insurance.

Norfolk and Dedham has three affiliated property/casualty carriers — Norfolk and Dedham Mutual Fire Insurance Co.; Fitchburg Mutual Insurance Co. and Dorchester Mutual Insurance Co.

Regulatory/Law

• The state senate has confirmed **Jessica Altman** as **Pennsylvania** insurance commissioner.

Jessica Altman

Altman had been serving as interim commissioner since August 2017, when **Gov. Tom Wolf** named former Insurance Commissioner **Teresa Miller** to head the state's Department of Human Services.

Altman initially was hired as Miller's chief of staff. For three years, she worked for the U.S. Department of Health and Human Services' Center for Consumer Information and Insurance Oversight to implement the Affordable Care Act. Altman also served as a policy analyst for the health division of the White House Office of Management and Budget.

Altman has been appointed as vice chairwoman of the National Association of Insurance Commissioners' Health Insurance and Managed Care Committee.

• **New Hampshire** Insurance Commissioner **Roger Sevigny** will retire from the post after 16 years on June 11, when his current term ends.

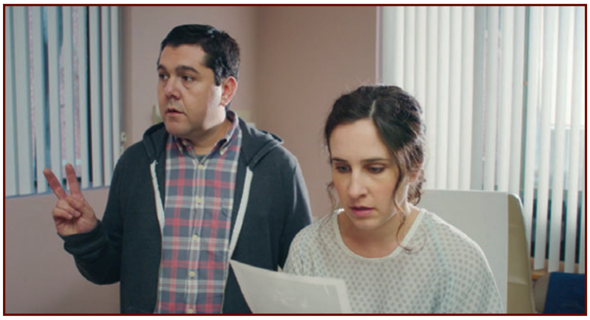
Roger Sevigny

Sevigny was appointed in 2003 by then-Gov. Craig Benson, a Republican, and went on to serve for two additional five-year terms as commissioner under two Democratic governors and current Gov. Chris Sununu.

During his term as National Association of Insurance Commissioners president in 2009, Sevigny served during the financial crisis and later helped develop the health insurance exchange in New Hampshire that operates in partnership with the federal government.

Sevigny had been deputy commissioner before being appointed to the commissioner's post. Prior to that, he had worked in technical and management positions for Travelers Insurance. BR

Life Changes



NEW YORK LIFE launched a national advertising campaign that demonstrates how its solutions flex with consumers' ever-changing needs.

"Start a Plan That Flexes With Yours" is an extension of New York Life's brand campaign, "Be Good at Life," which is aimed at inspiring people to live better lives by assisting and encouraging them to take control of their finances.

The campaign is grounded in consumer research conducted by the insurer, which found that although consumers know they need life insurance, they're often unsure how to learn more about it. As a result, individuals often delay taking necessary action until the occurrence of a future life event, such as having children or buying a house. The new ads highlight that New York Life and its agents can meet consumers' financial needs now and as they change.

The campaign debuted nationally in March with a series of 15-second and 30-second TV commercials, digital media and content on Facebook, Instagram, YouTube and Pinterest. New York Life also launched an online engagement tool that allows website visitors to create their own personalized plan and offers educational material to help them get started with their plan.

Photo Credit The Century Club of San Diego

On Par

FARMERS INSURANCE has renewed its title sponsorship of the Farmers Insurance Open for seven more years, carrying its commitment through 2026. This year's Farmers Insurance Open—the 67th playing of the event—was once again held at the Torrey Pines Golf Course in January. Farmers and the Century Club of San Diego, the tournament's host organization, have contributed more than $20 million to organizations serving at-risk youth. Since 1961, the annual Open has helped the Century Club of San Diego, which is comprised of more than 50 local business leaders, garner support for local charities, schools and military families through funding and in-kind programs. Pictured from left to right in the photo: Rickie Fowler, Farmers Insurance ambassador and PGA Tour player; Jay Monahan, commissioner, PGA Tour; Mike Linton, chief marketing officer, Farmers Insurance; and Peter Ripa, CEO, The Century Club of San Diego.

Score!

Wholesale insurance broker and underwriting manager **BURNS & WILCOX** is the official sponsor of Justin Abdelkader, alternate captain and left wing of the Detroit Red Wings.

Abdelkader and Burns & Wilcox share similar traits, said Alan Jay Kaufman, chairman, president and CEO of H.W. Kaufman Group, Burns & Wilcox's parent company. They both originate from Michigan and Abdelkader's leadership "on and off the ice matches the distinctive, competitive qualities" of Burns & Wilcox's 2,000 associates, he said.

The Farmington Hills, Michigan-based broker was founded in 1969. In 2017, it cemented an official partnership with the 11-time Stanley Cup champion Detroit Red Wings. The broker's logo is visible at center ice in the Red Wings' home, Little Caesars Arena.

Abdelkader is the third professional sports ambassador for Burns & Wilcox, alongside golf's 2012 U.S. Open winner Webb Simpson and 2016 PGA champion Jimmy Walker.

Lori Chordas is a senior associate editor. She can be reached at *lori.chordas@ambest.com.*

Best's Calendar: Trade Shows/Conferences

May 2: FAIR Foundation's 2018 Annual Industry Conference, "Private Market Solutions for Closing the Property Protection Gap," Tampa, Fla.

May 6 – 9: 29th East Asian Insurance Congress, Manila, Philippines. ✓

May 14 – 17: RMS Exceedance, Risk Management Solutions, Miami.

May 15 – 16: Canadian Insurance Financial Forum (CIFF), Niagara-on-the-Lake, Ontario.

May 16 – 18: PIAA Medical Liability Conference, Physician Insurers Association of America, Orlando, Fla. ✓

May. 17 – 19: NetVu Conference, Network of Vertafore Users Inc., Atlanta. ✓

May 20 – 23: IMUA 88th Annual Meeting, Inland Marine Underwriters Association, Scottsdale, Ariz. ✓

May 22 – 24: 32nd Annual Windy City Summit, Treasury Management Association of Chicago, Chicago.

June 3 – 5: AMICE Congress 2018, Association of Mutual Insurers and Insurance Cooperatives in Europe, Stockholm, Sweden. ✓

June 3 – 6: IASA Educational Conference and Business Show, Insurance Accounting & Systems Association, Nashville, Tenn. ✓

June 7 – 9: 77th Annual Convention, International Association of Insurance Professionals, St. Louis, Mo.

June 9 – 13: SLA Annual Conference, Special Libraries Association, Baltimore. ✓

June 10 – 13: Bermuda Captive Conference, Southampton, Bermuda. ✓

June 11 – 15: 81st Annual NAIIA National Conference, National Association of Independent Insurance Adjusters, Incline Village, Nev. ✓

June 18 – 22: Insurance Summit, National Association of Insurance Commissioners and National Insurance Producer Registry, Kansas City, Mo.

June 20 – 22: AHIP Annual Institute & Expo, America's Health Insurance Plans, San Diego.

June 24 – 27: NAMIC Management Conference, National Association of Mutual Insurance Companies, Coronado, Calif.

June 24 – 26: IMCA Annual Conference & Showcase Gala, Insurance Marketing & Communications Association, Atlanta. ✓

June 25 – 27: ACE, America's Claims Event, Austin, Texas.

July 8 – 11: Global Insurance Forum, International Insurance Society, "The Innovation Transformation," Berlin. ✓

July 16 – 17: 2nd World Congress on Radiology and Oncology, Radiology and Oncology, Dubai, United Arab Emirates

July 22 – 25: AASCIF Annual Conference, American Association of State Compensation Insurance Funds, Minneapolis.

July 24 – 26: MCIA's 13th Annual Conference, Montana Captive Insurance Information, Whitefish, Mont.

Aug. 5 – 8: ARIA Annual Meeting, American Risk and Insurance Association, Chicago.

Aug. 7 – 9: VCIA Annual Conference, Vermont Captive Insurance Association, Burlington, Vt. ✓

Aug. 15 – 17: ICMIF/Americas Conference, International Cooperative and Mutual Insurance Federation, Antigua, Guatemala.

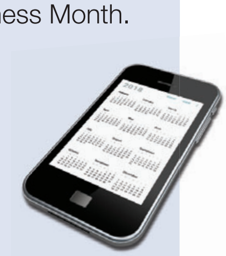
Aug. 20 – 22: NCCIA Annual Conference, North Carolina Captive Insurance Association, Charlotte, N.C.

For a full list of conferences and events, visit *www.ambest.com/conferences/index.html*

✓ A.M. Best participating

May: Disability Insurance Month

May is Disability Insurance Awareness Month. Life and health insurers sharpen their focus on protection for loss of income. For many people, the likelihood of becoming unable to work or produce income is higher than that of encountering a catastrophic health event.



A Global Conversation

Tech Talk

Experts discuss with A.M. BestTV how technology is impacting the insurance industry.

"Cost could affect larger companies as well as medium and small size companies too. Larger companies likely have older [technology] systems that would be more expensive to update to talk to newer systems that they're investing in.

Small-and-medium size companies might not have the capability to advance those systems, but at the same time, they could partner either with insurtech companies or other third parties that have that type of expertise. In any regard, if insurers are not investing in their technological capabilities, they're likely going to fall behind their competitors. We believe that the industry leaders in technological advancements are going to receive a large, more fruits of the benefit, if you will, later down the line.

There are varying ways that insurers, regardless of size and things like that, that insurers can do to invest in technology to improve their operations."

Jason Hopper
Associate Director
A.M. Best

"Technology has never been the strong suit of the life industry. There are still many companies running these old legacy systems. They have lots of data. They just can't get at it. Certainly I've seen some firms, companies like New York Life, Nationwide, Mutual of Omaha, who have gotten very active in the insurtech space. Some of the technologies that are out there are greatly going to accelerate underwriting.

We're going to deliver that, hopefully, something like an Amazon experience where people will able to get a policy faster, will be able to underwrite it better. I've certainly seen some technology involving wearables.

There's a product, Cardiogram. Who knew that off your heart rate you can not only identify hypertension, atrial fibrillation, but you can also identify diabetes, particularly Type 2 diabetes? Which matters a lot when you're underwriting a policy because there are certain people who have it who don't know they have it. If you relied on a medical statement, it's not there. You're going to miss it.

Insurtech can be good for consumers. Everybody wants you to live a long, happy life. Through some of the insurtechs, you can not only make the process of selling the life policy faster, we can actually make it better."

Colin Devine
Principal
C. Devine and Associates

"We see quite a bit of gray area in the U.S. in particular in regards to how liability is going to be assessed, especially when you talk about autonomy, where you're using artificial intelligence, you're using robotics. The question is: Is it a products failure or is it a design professional failure? If you are the one creating or using autonomy and you're the buyer of insurance, you're wondering if something happens, if there's a third-party loss, how will it be covered? Have I purchased enough insurance on either side of this house?

Quite frankly, if you're not buying it from the same insurance company you have two different companies who might have a vested interest in saying, 'Not my policy, your policy.' There is a lot of gray area on how coverage will respond when it comes to utilizing this advancing technology."

Nancy Bewlay
Global Chief Underwriting Officer of Casualty
XL Catlin

"As we see data and technology changing things, we have this wealth of information out there. We have information that we typically would ask on an insurance application. We don't need to do that anymore. We have publicly available information. We have secondary and tertiary information that is out there that we can use at our fingertips to the extent that it's legal, of course, to underwrite policies more efficiently and use information that we hadn't thought of before."

Mike Angelina
Executive Director
Maguire Academy of Insurance,
Saint Joseph's University

"Technology is having a very large impact across all sectors. Property/casualty, both on the personal and commercial side. First of all, it continues down the path that it's been going down for quite a while, which is closer to the customer. New types of products. Product development on the personal line side is very significant.

Commercial is getting into high scale use of analytics, as well as connected devices for manufacturing, for medical, for hospitals. How to think about connected devices and changing that.

In health, we've seen just recently, changes in that sector from the announcements from Amazon and Berkshire Hathaway on something that they're trying to put forth that could really disrupt the health insurance side.

On life, the use of analytics to both target new customers, as well as manage the existing customer base are very significant."

Nathan Root
Vice President
Capgemini Financial Services

Visit *www.ambest.tv* for complete video interviews with these executives. BR

Department

Next Wave

Focus on the Consumer

I've often written and spoken about how I believe that one of the most rewarding parts of being an insurance professional is seeing the good we do for the world. From being there financially for insureds when they need it most, to enabling individuals and businesses to take on new risk by transferring some portion to us, to advocating pro-social changes, the insurance ecosystem has been essential to a functioning and thriving society.

We should embrace these characteristics of our history as we consider the rapidly changing face of technological advancements. We often get focused on the impact these technologies may have on our portfolios and processes. Will autonomous vehicles dry up auto premiums? How about workers' compensation premiums as more jobs become automated? Will blockchain make underwriting easier? These are important questions, and they will guide many of our strategic decisions over the coming years. But we also ought to consider how we can support technologies that improve the safety and the lives of our insureds. Three opportunities quickly come to mind:

Carly Burnham

Technology is giving consumers the ability to individualize and **control their experiences**, and we ought to use these trends to our advantage.

Telematics: The use of telematics in rating insurance can no longer be considered new. But, it seems that companies have been slow to adopt sharing of information with drivers in useful ways. I had the chance to use two different versions recently: One would beep at me audibly if I came to a hard stop, while the other sent me a weekly update of my driving behavior. Feedback is more effective at driving behavioral change, so we ought to design these programs in a manner that leverages this type of information.

Smart Homes: As companies begin to partner with tech firms who create monitoring systems, we should consider what we've learned from telematics. Can we set up a system that rewards insureds who not only install the devices but who use them consistently? Those who lock their doors when they leave or perform maintenance when reminded? We should think creatively about what these rewards might be and how we can implement more regular feedback. We can thereby provide a service that helps to prevent or mitigate claims and also improves the quality of life for these homeowners.

Medical Technology: Property/casualty insurers have a vested interest in solving the opioid crisis. Working with medical technologists and sharing information about the financial cost and lost labor are some ways we can drive pro-social outcomes. We ought to look for every opportunity to help medical professionals combat pain with new and better forms of treatment. Doing so will help us to reduce the severity of workers' compensation claims and get individuals back to feeling healthy again.

These are only three examples of where we could partner with technologists. There are more to explore, and even in the three listed above, there are other ways we could use these partnerships to benefit our insureds. We often tout our influence in the adoption of seat belts and airbags, and I know many agents still do defensive driving programs for young drivers and help new parents understand their options when buying car seats. We must recognize that young people are choosing not to drive and that auto is no longer the only sphere in which we can encourage our insureds in safe behaviors. Technology is giving consumers the ability to individualize and control their experiences, and we ought to use these trends to our advantage. Embracing technological advances and improving our ability to react quickly will not only help us inside our organizations, it will keep us relevant in the market. Consumers will expect us to understand the way that these new technologies impact their individual level of risk. Partnering with insurtech firms and becoming committed to driving innovation within our organizations will benefit us and the communities we serve. BR

Carly Burnham, CPCU, MBA, has been in the insurance industry since 2004. She blogs at *InsNerds.com* and can be reached at *bestreviewcomment@ambest.com*.

Spotlight on Flood Insurance

FEMA Tests Cat Bond Waters For Flood Insurance Program

by David Pilla

The Federal Emergency Management Agency said it is going to the capital markets to get additional reinsurance for the National Flood Insurance Program through a midyear placement. "This will continue to expand the role of the private markets in managing the nation's flood risk," FEMA said in a statement.

FEMA said April 2 that it plans to transfer additional risk "by engaging the capital markets for the first time through an insurance-linked securities transaction on or about July 1, 2018." The agency said what it describes as a "new building block" in the NFIP will allow it to transfer risk through both the traditional reinsurance markets and the capital markets.

"Engaging both markets will create more competition and reduce the NFIP's risk transfer costs," FEMA said. "It will also enable FEMA to access greater market capacity and spread its risk across a more diverse pool of companies and investors."

FEMA said it published a public notice of its intent to pursue the midyear ILS transaction. The agency said it advises potential reinsurer partners to contact it "to indicate interest in participating and receive additional information." But FEMA added it can't guarantee it will complete an ILS transaction in 2018. FEMA said it will "complete any placement only if it is beneficial to the NFIP."

"The NFIP requires a stronger financial framework built on expanding our portfolio of actuarially-priced policies," Roy Wright, director of the NFIP, said in a statement. "Transferring more of the risk burden to the private capital markets continues to be part of that strategy." Wright announced on April 6 that he was leaving government service.

"During the second-largest loss year in the program's history, the reinsurance marketplace came through and supported the NFIP," Wright said. "We expanded the traditional reinsurance cover earlier this year. Now we will continue that risk transfer by tapping the capital markets."

FEMA said under the Biggert-Waters Flood Insurance Reform Act of 2012 and Homeowner Flood Insurance Affordability Act of 2014, Congress authorized FEMA to secure reinsurance from the private reinsurance and capital markets to strengthen the financial framework of the NFIP. BR

> "We expanded the traditional reinsurance cover earlier this year. Now we will continue that risk transfer by tapping the capital markets."
>
> **Roy Wright**
> National Flood Insurance Program

David Pilla, is the news editor for *BestWeek*. He can be reached at *David.Pilla@ambest.com*.

Regulatory Update

Homeowners Insurance: Insurance groups oppose legislation pending in the Connecticut legislature that would force homeowners insurers to provide coverage for crumbling foundations that are decaying due to faulty concrete. Senate Bill 518 is intended to help eastern Connecticut homeowners whose foundations became defective because they improperly contain pyrrhotite—an iron sulfide mineral that accelerates foundation decay. The governor's office has estimated 30,000 or more homes and condominiums built in eastern and central Connecticut from the mid-1980s to 2016 could have failing foundations.

The bill would place a $20 surcharge on all homeowners, renters and condo insurance policies and would require that all homeowners policies in Connecticut provide coverage for the peril of collapse. The bill would unfairly shift construction liabilities onto insurance carriers, according to testimony by the National Association of Mutual Insurance Companies.

Credit Scoring: Alaska Gov. Bill Walker has signed legislation to expand the use of credit scoring to renewals of automobile, homeowners and other personal lines insurance policyholders. Credit scoring previously had been allowed only on new business for personal lines, but HB 195 allows credit scoring to be used as a rate factor for renewal business also. The Property Casualty Insurers Association of America said the new law gives consumers the full benefit of credit-based insurance scoring and creates a fair credit-resolution process.

Department

Risk Adviser

Get Smart

Brokers play an important role for both underwriters and their clients by understanding and reporting on the benefits of smart home technology.

By
Jim Kane

As the main driver of home automation and smart home technology, the internet of things has turned common household products—such as air conditioners, garage doors, thermostats, alarm systems and refrigerators—into high-tech devices that can communicate, provide security and even assist with daily chores.

Meanwhile, insurance underwriters and brokers are eager to keep up with the rapidly changing technology, to understand its vulnerabilities and benefits and develop solutions that can mitigate any potential risks.

With the number of smart homes in North America expected to reach 73 million by 2021, from 31 million in 2016, according to market research firm Berg Insight, the insurance industry must be prepared to help homeowners and tenants address the expected rise in property and liability exposures.

In recent years, underwriters have generally embraced smart home security products like security alarms, IP security cameras and locks, offering varying degrees of premium discount—as much as 15% in some cases—to homeowners.

Meanwhile, homeowners, too, are saving money with energy management devices like smart thermostats and lighting systems, and benefiting from a reduction in risk by having the ability to control and communicate better with the devices.

Despite the progress made, underwriters and homeowners often find themselves on different wavelengths when it comes to fully recognizing the benefits of smart home technology. There is still suspicion over whether the technology actually reduces risks.

Part of the problem has to do with limited data on the effectiveness of certain devices, which prevents underwriters from offering full premium and underwriting credits. In many cases, underwriters view smart devices as high-value articles that are susceptible to theft, loss or damage, and require additional coverage.

> Brokers can help bridge the information gap by providing critical data on the benefits of certain smart home devices, and the different ways homeowners can address cyber and privacy risks.

The growing concern over cyber and privacy risks has also forced some homeowners to resist smart home technology. Many homeowners worry about hackers discovering vulnerabilities within systems and gaining unlawful access to security and data.

Recent reports of successful hacks of smart garages and front door locks, televisions, baby monitors and smoke detectors, have only increased such concerns.

In addition, many homeowners are uncomfortable with providing third parties access to private information.

A good example of this occurred last year, when the Amazon Key service was unveiled. The service allows delivery couriers to drop packages inside homes even when the homeowner is not physically present. It uses smart lock technology and raises a host of issues for both home security and insurance experts.

Going forward, brokers are in a unique position to help insurers and homeowners leverage smart home technology by providing critical data on the benefits of devices and how best to address cyber and privacy risks. Brokers can also advise on the hidden dangers of specific smart appliances and recommend qualified vendors for servicing devices.

Brokers will play a critical role in improving underwriters' understanding of how homeowners are reducing their exposure with smart home devices and some may even create new insurance products, linked directly to smart devices, which are capable of providing real-time reports on claims and losses. BR

Best's Review contributor **Jim Kane** is senior vice president, personal risk, at USI Insurance Services. He can be reached at *jim.kane@usi.com.*

On Schedule

New changes to the Schedule F reinsurance disclosure form will pose fresh challenges for insurers.

By

Grégory Moliner

Schedule F, which discloses an insurer's reinsurance transactions for both ceded and assumed reinsurance, has become one of the most complex and burdensome schedules in the annual statement.

It requires extensive information about claims, recoverables, amounts in dispute, and other data. It also requires breakdowns by reinsurer classification and by account. When insurers have operating companies domiciled in multiple states, they must cope with states' different rules about reinsurance recoverables.

Regulators review the schedule closely to monitor an insurer's financial strength as demonstrated by its reinsurance arrangements. Any mistakes or omissions in Schedule F can cause real problems.

To make matters even more challenging, extensive changes in the form will be implemented this year. For instance, ceded reinsurance information that was previously reported in parts 3 through 8 will now be gathered in a new Part 3 within the schedule.

> To make matters even more challenging, extensive changes in the form will be implemented this year.

The reinsurance credit risk charge calculation will be moved from the risk-based capital report into the new Part 3 and will include the reinsurer designation equivalent rating for each company which was previously only disclosed in the electronic file. Because of these changes, the number of columns in Part 3 will increase to 78.

New changes to Schedule F will require insurers to remap their ceded reinsurance information from the underlying reinsurance systems to the new layout for 2018 year-end reporting, said Marwan Zabaneh, a reinsurance accounting expert at Booke Seminars, which provides insurance-specific accounting and reporting education, software and handbooks. "Depending on their systems, this could entail a lot of work," he said.

The new format also requires disclosure of collateral information for certain authorized reinsurers—a requirement not previously captured in Schedule F.

Reinsurance managers say filing the schedule is a time-consuming process with a fair amount of complexity. Automating Schedule F is often their top priority.

Legacy systems and manual solutions are laborious and inefficient. A reinsurance management system with modern architecture is needed to handle the complexities of current reinsurance programs and regulatory filings.

In theory, you could program a legacy system to generate Schedule F. In practice, it's very difficult. Legacy systems are so inflexible that porting the data from the policy and claims systems to Schedule F takes an enormous amount of work, and you still probably will not get everything you need.

Spreadsheets are still used by many insurers to track reinsurance, can be used to gather the data needed for Schedule F. But that is a clunky, labor-intensive solution that doesn't meet contemporary needs, especially as insurers adopt more complex reinsurance programs.

A modern dedicated system, however, will capture all required data for Schedule F. The biggest challenge is building the output to the schedule, which requires commitment and an investment in time and money. It's not a very difficult task because of the underlying modern architecture, but outdated legacy system architecture makes it nearly impossible. BR

Best's Review contributor **Grégory Moliner** is CEO of Effisoft USA Inc., an international reinsurance software vendor based in Coral Gables, Florida. He can be reached at *gmoliner@effisoft-group.com*.

Insight

Regulatory/Law

A Cresting Wave

State cybersecurity requirements for insurers and producers will follow the lead of the NAIC and the N.Y. Department of Financial Services.

By
Theodore P. Augustinos

Compliance with the New York [model] is deemed to be in compliance with the NAIC model.

The NAIC adopted its Insurance Data Security Model Law in October 2017, establishing insurance industry standards for information and systems security. Rhode Island and South Carolina recently proposed legislation tracking the model. Other states will follow, contributing to a wave of cybersecurity requirements affecting the insurance industry.

The model's terminology, concepts and technical requirements track the New York DFS Cybersecurity Regulation. Despite differences, licensees subject to both laws based on the model and the DFS regulation can look to a drafter's note in the model stating compliance with the DFS regulation is deemed to be compliance with the model.

Licensees include individuals and nongovernmental entities licensed, authorized or registered (or required to be) under state insurance laws. Therefore, the model applies to virtually any insurance industry participant, except purchasing groups and risk retention groups chartered in another state, and foreign assuming insurers.

The model exempts from the requirement for a Written Information Security Program (WISP) licensees with under 10 employees, agents, representatives and designees covered by another licensee's WISP, and licensees compliant with HIPAA requirements. They must, however, comply with requirements for cybersecurity events.

As further relief for small businesses, WISP requirements consider the licensee's size and complexity, the nature and scope of its activities, and the sensitivity of its information.

The WISP must protect information systems, defined to include operating and control systems beyond most businesses' current cybersecurity focus. WISPs pursue objectives for security and confidentiality of nonpublic information and security of information systems; protection against threats and hazards to security and integrity of, and unauthorized access to or use of, information and systems; and record retention and destruction.

WISPs must address the following elements.

- **Risk assessment** to identify threats, and assess potential damage and sufficiency of safeguards.
- **Risk management** to mitigate identified risks, determine which of 11 security measures are appropriate, and implement such measures. Cybersecurity is included in enterprise risk management. The board of directors must exercise oversight of cybersecurity, and receive annual reporting.
- **Third-party service providers** are subject to due diligence, and cybersecurity requirements must be imposed, where vendors have access to information and systems.
- **Program adjustments** are made to keep up with, and adjust to, changes in technology, information, threats, business relationships and systems.
- **Incident response plan** in writing, addressing seven specified areas.
- **Certification** by domestic insurers to the commissioner annually on compliance with WISP requirements.

Licensees must investigate and report cybersecurity events, providing required information. These requirements differ from the DFS regulation and existing state breach notification requirements. Also, reinsurers must notify insurers, and insurers must notify producers, of certain cybersecurity events. BR

Best's Review contributor **Theodore P. Augustinos** is a partner of Locke Lord LLP, where he serves on the steering committee of the firm's Privacy & Cybersecurity Practice Group and leads its New York Department of Financial Services Cybersecurity Initiative. He can be reached at *ted.augustinos@lockelord.com.*

Special Advertising Section

BEST'S REVIEW®

ISSUES & ANSWERS: PROGRAMS & WHOLESALE BUSINESS

Carriers and wholesalers explain how they develop and support today's expanding range of specialized program insurance offerings.

Interviewed Inside:

Jon Peeples
Tokio Marine Specialty

Tom Jurgens
Nationwide

John Lopes
Nationwide

Jacque Schaendorf
WSIA

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TMS Leads the Way In Environmental Coverage

Jon Peeples, vice president environmental, Tokio Marine Specialty (TMS) said the thing that sets TMS apart from the competition is its team of 20 underwriters spread out across five regional offices. "That, coupled with being partnered with Philadelphia Insurance Companies and their sales force, gets us access to quite a few contacts and quite a few opportunities." The following are excerpts of an interview.

TOKIO MARINE SPECIALTY

- Key underwriting staff that averages more than 20 years of E&S experience
- Best's Financial Strength Rating A++ (Superior) and approved in 50 states
- Division of Philadelphia Insurance Companies

We have the ability to match up with the larger carriers, as well as offer more than the smaller carriers. It puts us in a really good, enviable place as it relates to the middle market.

Jon Peeples,
Vice President, Environmental
Tokio Marine Specialty

Recent changes in the environmental market:
New players have entered into the marketplace, including a couple from China. That's caused an increase in capacity and an increase in competition. Beyond that, a number of mergers and acquisitions have occurred over the last year and a half in the environmental field. Not only did they impact the P&C markets, but they also greatly impacted the environmental market. It's created a chaotic atmosphere.

How the economy is impacting the environmental insurance market:
Generally speaking, we're seeing that there's more premium to be had because there's more revenues for the contractors. For example, more construction projects, more renovation, more redevelopments mean there's more opportunity for environmental policies to be bought for those particular transactions. We've also seen more acquisitions and divestitures of property. Usually, environmental liability is purchased to backstop the potential indemnities between buyer and seller. However, as always, environmental coverage is a discretionary purchase and revolves around either the regulatory or contractual requirements.

Where is the environmental market headed over the next couple of years?
The environmental marketplace has maintained a soft habitat now for the last several years. I don't see that changing anytime soon. We've seen numerous entrants over the last year, which has kept the market fairly competitive, both from the standpoint of terms and conditions, as well as pricing. Because the pricing is somewhat aggressive, we may see some additional attrition. However, I am optimistic that the environmental marketplace will continue to grow since we are only skimming the surface in reference to the amount of companies that actually buy the coverage.


88
MOOG
MAHLE

Focus on Programs

Senior leaders at Nationwide see many opportunities in the programs market.

Nationwide®

- Fortune 100 company
- A.M. Best rated A+ (Superior) FSC XV
- 2nd largest domestic specialty (Excess and Surplus) commercial lines insurer

Tom Jurgens,
Senior VP, Property and Casualty Programs

John Lopes,
Senior VP, Professional and Management Liability Programs

John Lopes, senior VP, Professional and Management Liability Programs for Nationwide, said that being a strong supporter of programs allows the company to partner with the best and the brightest. "We're growing our business and expanding our relationships." Tom Jurgens, senior VP, Property and Casualty Programs for Nationwide, said the programs market is a very exciting space to be in right now. "We are seeing an expanding degree of subject matter experts and entrepreneurship in many niche classes." The following are excerpts from a recent interview.

What trends does Nationwide see regarding M&A in the programs market?

The merger and acquisition trend of the past few years is probably going to continue. Capital in the market is still at record highs, and established programs are an easy way for companies to grow their topline quickly. Some program managers are retiring with no succession plan and are looking to sell. Finally, distribution channels are looking for ways to increase fee income through underwriting commissions. All of these reasons are fueling a robust mergers and acquisitions market.

Does Nationwide see a growing need for cyber coverages in the programs space?

The cyber breaches that have made headlines in recent years have all been big businesses. Most businesses in the U.S. depend on technology that exposes them to cyberliability, and they may not be aware of the ramifications. Data breaches are becoming more frequent and are not necessarily financially motivated. Most program managers could offer cyber coverage to their insureds, but they should recommend stand-alone coverage if they don't.

How is Nationwide serving the unique needs of program managers?

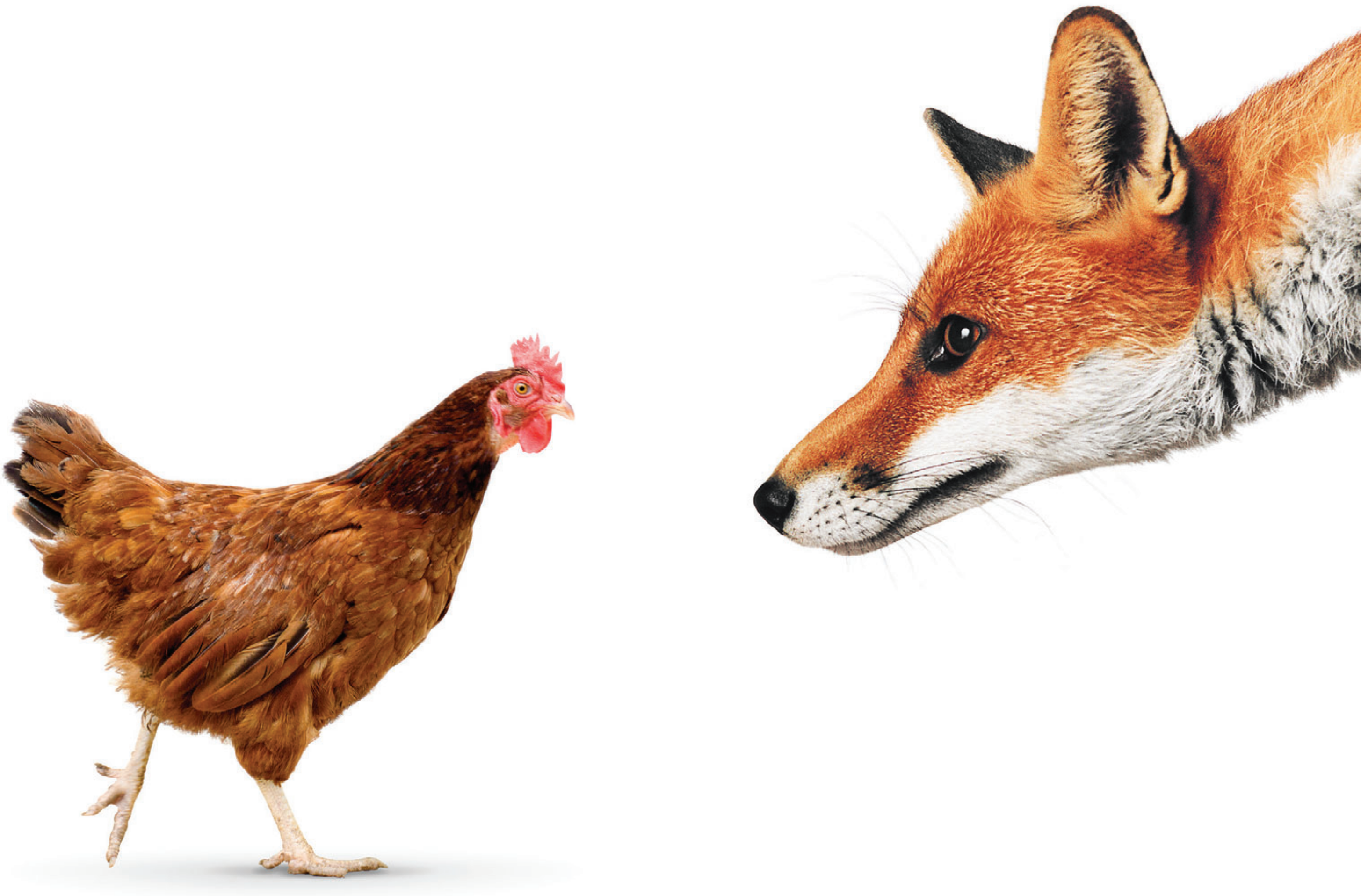
We work with program managers to build in-house claims talent tailored for their highly specialized risks. In some instances, we will consider a third-party administrator due to their expertise or efficiencies. We also offer support in marketing, actuarial and loss control. Advancements in technology allow for greater transparency and information sharing in real time that promotes trust and collaboration amongst Nationwide and our partners.

How have startup program opportunities changed?

Several technology trends have matured over the last five years and are beginning to have substantial impact on the programs space. Technology and innovation are constantly transforming our lives and the economy. New exposures and the elements of risk that are unaccounted for by historical products are coming to the forefront. The program format is an attractive vehicle for us to partner with experts and create new products to address the unique needs that may present themselves. Disruptive innovation is changing the normal order of things. This includes both coverages and the ways in which we provide them. We are constantly approached by potential partners inside and outside the program space who want to approach risk in new and different ways.

For more information about Nationwide programs, visit *Nationwide.com/programs*.

Share this edition at ***www.bestreview.com/issuesanswersarchive.asp***.



WSIA Sees Opportunity Knocking

Jacque Schaendorf, president for WSIA, said the wholesale distribution system delivers tremendous value to retail agents and buyers, their policyholders. "WSIA member firms, wholesale brokers, and underwriters are specialists in creating value and innovative solutions for the most complex risks in the industry," she said. The following are excerpts of an interview.

- The Wholesale & Specialty Insurance Association was formed in August 2017 as a result of the merger of the AAMGA and NAPSLO.
- Serves more than 800 member firms, representing approximately 1,700 offices and tens of thousands of industry professionals.
- Provides world-class member services serving the entirety of the wholesale, specialty and surplus lines industry.

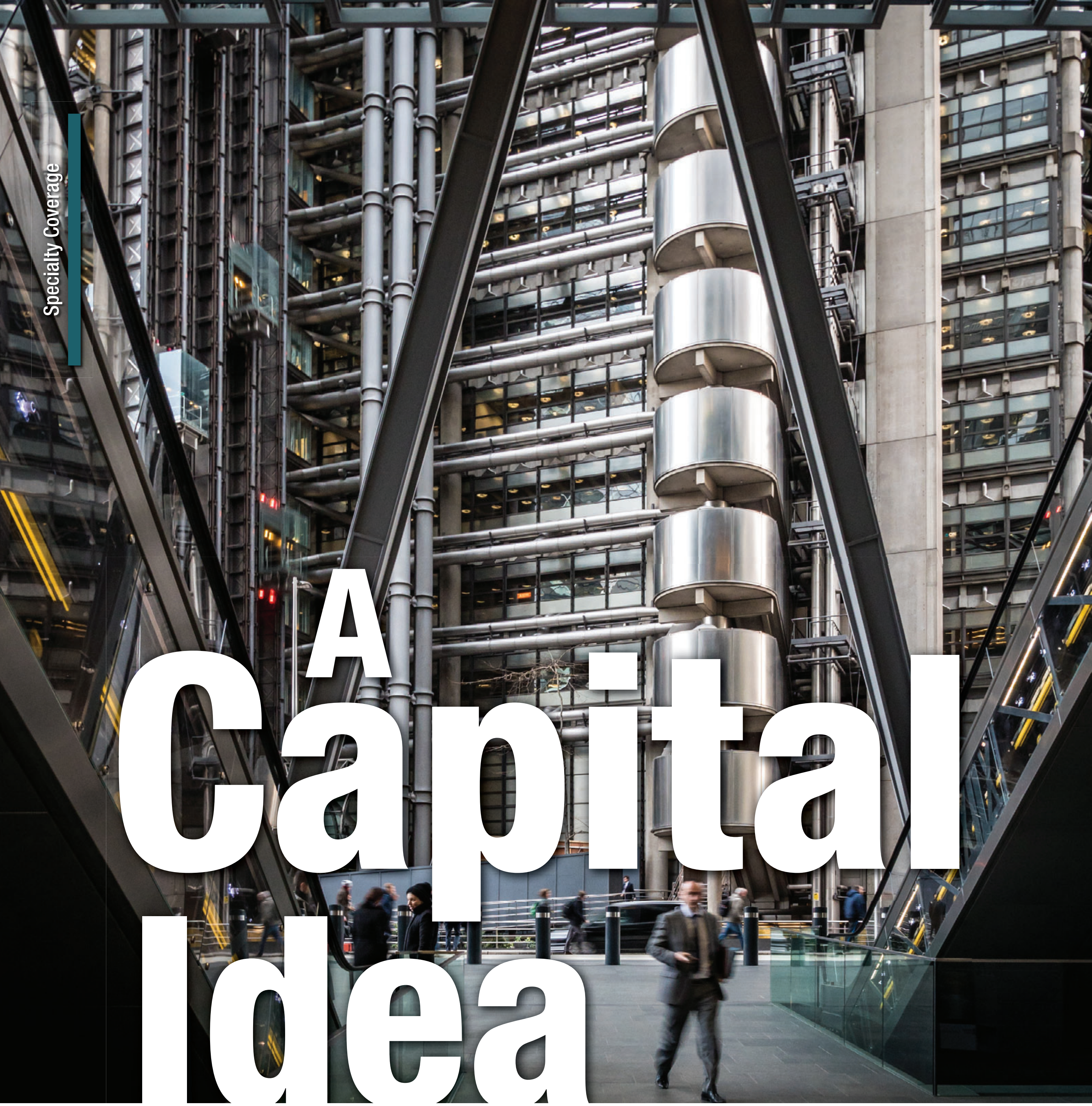
"According to A.M. Best, the annual surplus lines report that is produced in conjunction with the WSIA Education Foundation, the E&S market reached a record level of premium in 2016 and we maintained strong financial ratings overall in the sector as a composite."

Jacque Schaendorf,
President
WSIA

WSIA's key initiatives for the coming year:
Our fundamentals are networking for transactional brokers and underwriters and networking in discussion forums for binding authority and MGA operations. Education is always one of the pillars of what we do here with our initiatives at WSIA. We offer a wide range of educational opportunities from introductory to executive level programs, including technical training and strategic leadership training. Legislative and regulatory advocacy will always be a focal point for WSIA and for the wholesale, specialty, and surplus lines industry. There's state-based regulation and protection of the freedom of rate and form, and rounding that out will be talent development and recruitment to the industry with a number of career outreach initiatives including campus visits, internships, presentations and scholarship programs.

How WSIA advocates for the value of the wholesale distribution system:
WSIA's advocacy includes advertising to targeted retail agents that remind those readers of the value of using a wholesale broker for solutions-oriented, skillfully tailored solutions, specifically when it comes to innovative products and exposures that typically are not covered, at least at the initial stages, by the standard market. A recent Conning analysis of distribution costs concluded that a wholesale distribution system absolutely does not increase the cost to the insured. There's never been a cost for seeking a quote from a wholesale broker, as we know. The Conning analysis concluded that the total median non-loss ratio cost, that's non-loss ratio cost for the wholesale composite, was actually lower than the retail composite by about 1% there.

Opportunities for the wholesale specialty and surplus lines industry in the coming year:
The surplus lines segment has grown by more than 35% since 2011 despite a very highly competitive landscape and continued downward pressure on rates. That's a testament of a lot of innovation going on, a lot of new products and new exposures leading our industry. That is a pretty robust growth since 2011. Our strength is the ability to always respond to changing needs through innovation, which is a forte for us and is happening at lightning speed. There are great opportunities. We've been known to be the market of last resort, but also we're actually significantly a market for innovation and new products and exposure development. Those are opportunities that we see for the coming year.



A Capital Idea

Cultivating ideas for new specialty and program business takes creativity, marketing skill and a keen ear for the changing needs of customers.

by Robert O'Connor

Robert O'Connor is London news editor. He can be reached at *robert.oconnor@ambest.com*.

Key Points

Getting Started: Ideas for specialty and program business are often developed by insurers and brokers who speak with customers about their concerns.

Moving Forward: Developing an idea involves working with specialists on policy language, underwriters and brokers who can help to generate interest in the new product.

The London Advantage: Lloyd's successful history of bringing in new products is due to the effectiveness of the brokers as a sales force for the underwriters, as well as the culture, which fosters informal contacts.

Several years ago, Brit Insurance executive Russell Kennedy received what might be regarded as an unusual request from the chief executive officer of a U.S.-based power generating company. The CEO asked him to remove a cyber exclusion from a policy written to cover physical damage in the event of a terrorist attack.

Kennedy, who is divisional director for property and political cyberrisk, war and terrorism for Brit in London, received a similar request from the CEO of the power generating company's broker. Clearly, he reasoned, something was taking shape. Kennedy supported the requests, and the result was the further development of a nascent product and more evidence of the adaptability of the London market.

Ideas for new specialty and program business can arise from simple conversations or an observation of trends. The emergence of cyber cover is just one example of how the thoughts of brokers, clients, underwriters and outside experts combine to support a complex process that can meet the evolving needs of insurance buyers.

Other coverages got their start in the London market.

In the 1980s, for instance, an increase in mergers and acquisitions activity led to underwriting opportunities in warranties and indemnities. "Lloyd's now probably writes the greater part of the market in this sort of coverage even though the U.S. is the world's largest capital market for M&A," said Nick Line, chief actuary and director of underwriting operations for Markel International in London.

A common pattern, Line suggested, is for innovation to occur around an existing cover, and then respond to the evolving demands of the market.

Kidnap and ransom goes back to the early 1970s, according to Bernie de Haldevang, head of specialty for Canopius Managing Agents Ltd. in London. The idea, he said, came from a broker, who saw strong potential among high net worth individuals and senior executives in large companies.

Kennedy said this experience with cyber followed an established process: generating the idea, researching it and educating the market. When the issue of the cyber exclusion first arose, about five years ago, he said, cyber was not a hot topic in the insurance market.

"It was the strength of the reaction from the client that got me really thinking," he said.

Developing an Idea

Kennedy's researching of the idea led him to talk to technology companies, colleagues, brokers, other underwriters, and outside experts. He sought to get a sense of "how the global industrial economy was changing and how the digital revolution was affecting the global industrial economy." His probing moved on to wordings and the evolving nature of the risk.

"It took about 18 months of hard slog," Kennedy recalled. "We had to corral a huge number of different specialisms together to be able to cater for this new emergent risk."

These specialists, Kennedy said, included experts on wordings, external cybersecurity experts and class-specific underwriters whose work had cyber dimensions.

"I then became much more certain about the idea and much more certain about what we were trying to do," Kennedy said.

After doing the research on the cyber idea, Kennedy said, the next step was to generate interest in the product.

"We've done a lot of work with speaking at conferences, speaking at seminars, creating our own seminars, creating our own marketing material, and trying to disseminate that to as many brokers and clients as we possibly can," Kennedy said. The final stage for Brit, he added, was to continue efforts to raise the profile of both the product and Brit.

Brit's growing attention to the cyber market, Kennedy said, came along with the realization that "we couldn't be a solution on our own."

Kennedy said that contributed to Brit's push to organize and lead a cyber consortium within Lloyd's. Kennedy now wields the pen on behalf of the other members of the group, which can write broad-based cyber insurance of up to $200 million on an individual risk.

At specialty lines insurer Beazley, cyber also was a focus.

Adrian Cox, head of specialty lines at Beazley in London, said Beazley saw an early opportunity in cyber, or data breach, insurance. Cyber insurance, he suggested, goes naturally alongside Beazley's existing professional and management liability covers.

The spur for Beazley, he said, was a claim that pointed to the regulatory obligations facing businesses in relation to the safeguarding of client data. This case, Cox said, involved very short, simultaneous compliance deadlines in a number of U.S. states.

> "It took about 18 months of hard slog. We had to corral a huge number of different specialisms together to be able to cater for this new emergent risk."

Russell Kennedy
Brit Insurance

As a result of this incident, Cox said, Beazley launched its data breach response product in 2009. "We focused on a specific aspect of that exposure, which is that if something goes wrong, you have to react to it very fast and very accurately, and do everything right."

The policy, Cox said, "struck a chord" with clients that were satisfied they were safeguarding their customer data but did not know what to do if something bad happened. "They were reassured that we would help them do that," he said.

In the case of Brit's policy, the radical nature of the cyber cover made the process a rare event. Much more common, Kennedy added, are the minor innovative changes that happen on a regular basis within products. These tweaks, he said, can involve the addition of new coverages or risks.

"Each of the insurance classes is quite good at doing that," Kennedy said. "But wholesale change, understanding new emergent risk, I think the insurance market is particularly bad at catering for that."

A History of Innovation

Noting the importance of innovation in cyber insurance, Canopius' de Haldevang, said a broker or an underwriter would need to be agile to succeed in this environment.

"One has to be prepared to challenge any previously held preconception about risk," he said. "One has to look at things objectively and stand back. I think we'd have to be prepared to say no."

Lloyd's has been able to profit in the past as a result of an opening created by a market trend, Markel's Line said. "Lloyd's has a long history of innovation and is seen as a place where you can place unusual and hard-to-place risks," Line said.

"The London market has the flexibility to do this, which many other markets don't," Line said. "As insureds' businesses develop and change, they will have needs for new types of protection and their brokers will bring those to the market to see how they can be met."

Line said the overall Lloyd's market is better suited than an individual insurer would be to engage in this exercise. An example, he said, would be the crafting of a shifting response to the changing tactics of terrorists—from, say, large-scale, complex operations to lone-wolf attacks. "It's a process of continuous improvement and development," Line said.

De Haldevang links this method of creative thinking to the development of such classes within Lloyd's as kidnap and ransom and the "large and very profitable" nuclear line. The measure of kidnap and ransom cover, de Haldevang said, is not in paying out the claims but in negotiating for the release of the victim.

Cyber, he added, "is not very different from that. It's not just insurance. It's more of a service provision to get the company functioning again."

De Haldevang also sees parallels in piracy and credit and risk. Each, he said, can involve the need to negotiate through a loss that might not immediately be clear.

The Role of the Broker

De Haldevang regards the Lloyd's consortium structure itself as a valuable innovation. Under a lead underwriter, he said, a consortium is "particularly useful for sweeping up smaller amounts of capacity in different pockets."

In developing a new product, it is useful to include a broker in the creative process, in order to make sure the idea is "grounded in what the market actually wants."

Bernie de Haldevang
Canopius Managing Agents Ltd.

The current tendency among insurers and brokers to form managing general agencies is a continuation of innovation in the market, he said. He also cited a move by brokers to commoditize some global business by putting it into a single package for placement.

In developing a new product, de Haldevang said, it is useful to include a broker in the creative process, in order to make sure the idea is "grounded in what the market actually wants."

Lloyd's successful history of bringing in new products de Haldevang said, is due to the effectiveness of the brokers as a sales force for the underwriters. He also mentioned the Lloyd's culture, which fosters informal contacts.

"Typically a senior broker will cook up an idea and put something on paper and start talking to a few leading underwriters," de Haldevang said. "And things will evolve from there."

Brit's Kennedy said his exchange of views with broker and client over the power plant policy "led us quite quickly to producing a policy which could cater for that risk. And that has evolved over the course of the last few years where it was probably a little bit ahead of the curve."

London Perspective

De Haldevang sees a certain logic in the drift of U.K. specialty lines business to London, and into Lloyd's. Clients, he said, "know what our appetites are, and they know they will get a decent hearing on a new concept or proposal. It is key for the broker to understand what the underwriting companies' attitude will be."

How quickly policies adapt to changing needs, de Haldevang said, will depend on the extent of the adjustment that will be needed. "I think the process can be quite quick, but it can take time," he said.

One way to develop in-house talent in specialist lines, de Haldevang suggested, would be to build on skills that are already in place. This might mean ensuring that an underwriting team focused on engineering risk includes an engineer. Similarly, he added, a political risk team would benefit from the presence of an expert in international political and economic relationships.

It can also be a good idea, de Haldevang said, to look outside the organization for specific knowledge. Law firms, for instance, might be able to read through a policy before its release, or even help construct one. But de Haldevang warns: "It can be expensive to contract out everything to a third-party lawyer."

De Haldevang believes that the growth of insurance hubs in the world's emerging economies mirrors a development that occurred in the U.K. in the 17th century when insurance capacity sprung up in London to meet the needs of an industrializing nation. The need for insurance coverage continued.

"Back in the 1800s," de Haldevang said, "a large part of the shipping industry in terms of construction was done in the U.K. It was logical that insurance for shipping was done in the same country."

The spread of the insurance business to new locations in today's environment, de Haldevang said, can be followed by an even more dramatic transfer of technology. De Haldevang does not believe the success Lloyd's has had in attracting business to its operations in emerging markets represents a threat to London. Ultimately, he reasons, that business will find its way to London. BR

Building an AUM SWAT Team

Former New York Life executive Chris Blunt leads Blackstone's new insurance asset management business with an emphasis on alternative investment vehicles.

by Jeff Roberts

The first concession his wife made was just giving her blessing.

Chris Blunt had retired in May 2017. He had left the insurance industry behind.

But then Blackstone came calling, having launched a new insurance solutions division in late 2017 solely focused on insurer assets. And the investment giant wanted the former head of New York Life's asset management unit to run it.

Blunt's retirement lasted all of seven months.

"This just came along, and it seemed too perfect to pass up," he said.

But then came Gretchen Nickel's second concession, what Blunt calls his wife's "great concession."

Photo by Kim Bjorheim

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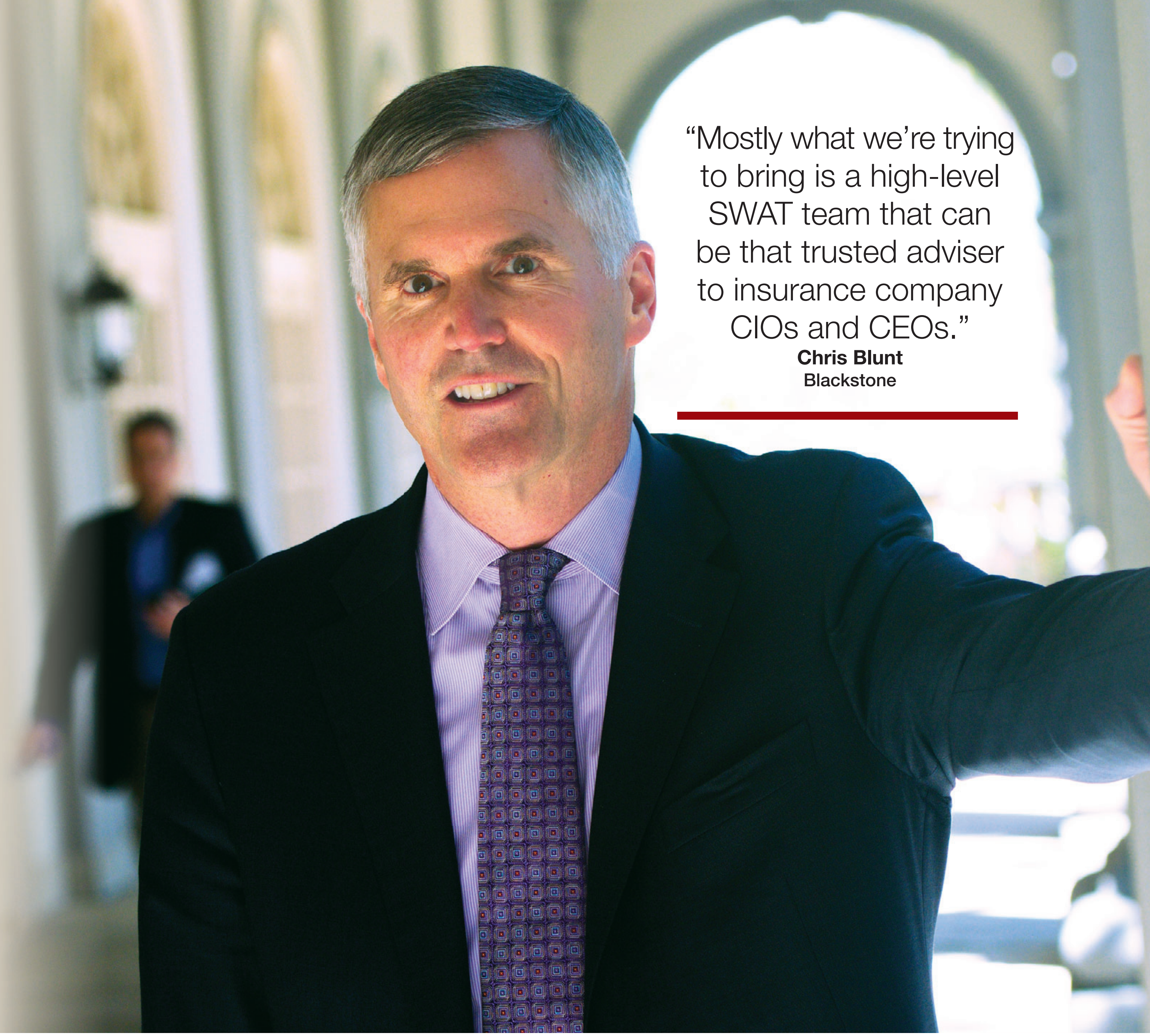
"She agreed that we can live five blocks from the office," he said of Blackstone's headquarters on Park Avenue in Manhattan.

The long hours inevitably followed. But there is much to do when you're trying to meet the insurance industry's desperate need for yield through bespoke alternative vehicles and origination capability.

That challenge lured Blunt out of retirement in January to become the senior managing director and chief executive officer of Blackstone Insurance Solutions.

His first six weeks were spent recruiting a staff. Engaging carriers. Devising alternative investment solutions it believes provide exposure to high yield with little risk and less onerous capital treatment.

"There's good tired and bad tired. Right now, it's



all good tired," said Blunt, 55. "If I was a better skier or golfer, maybe I would have stayed retired."

Blackstone is betting Blunt is the right man—and it's the right time to launch the business. Insurers face "a perfect storm of significant policyholder obligations and declining investment returns in the public markets," said Tony James, Blackstone's executive vice chairman.

The objective is to penetrate the largely untapped $23 trillion industry—only about $2 trillion is outsourced to external managers—by luring yield-starved insurers to trust them with their investment portfolios, whether in part or fully.

The world's largest private equity firm will offer investment management expertise. It plans to create customized and diversified long-duration alternative vehicles. And it intends to originate debt for some clients amid an emerging shortage of high-yield, low-risk private assets in liquid markets, especially investment-grade corporate bonds.

"But mostly what we're trying to bring is a high-level SWAT team that can be that trusted adviser to insurance company CIOs and CEOs,"

Key Points

$23T Opportunity: Blackstone plans to lure yield-starved insurers in the largely untapped $23 trillion industry to trust their investment portfolios to them.

Room for More: Only about $2 trillion of the industry's investible assets are outsourced to external managers.

The Goal: Blackstone's insurance business could generate $500 million annually in management fees once it reaches its stated goal of $100 billion AUM.

Blunt said. "We want to be that first call when people are wrestling with things."

Most insurance companies have only small allocations to alternatives. But low rates and the scarcity of high-quality fixed income, especially corporate debt, are driving insurers to alternative investments, Blunt said. They require specific expertise, so insurers are turning to external asset managers.

Blackstone enters a field led by BlackRock ($272.8 billion in insurer assets), Deutsche Asset Management ($190 billion) and Goldman Sachs Asset Management ($170.4 billion). The landscape has grown more competitive as externally managed assets grew 8.1% globally in 2016, according to Insurance Asset Outsourcing Exchange.

Blackstone's strategic vision is simple, if ambitious.

"This is a $23 trillion market and opportunity," Blunt said. "And we want to be the most trusted investment adviser to insurers globally."

Blackstone's stated target is to attract at least $100 billion in global insurance assets. It already holds about $23 billion thanks to a partnership with Axis Capital Holdings that created Harrington Reinsurance and its role in an investor group that acquired Fidelity & Guaranty Life for $1.8 billion.

The insurance business could generate $500 million annually in management fees once it reaches that $100 billion milestone, Bennett Goodman, chairman of the insurance solutions business, told Bloomberg Television in March.

Filling a Need

The genesis came three years ago.

Blackstone recognized a need in the marketplace through those partnerships with Harrington and Fidelity & Guaranty.

In response, it plans to create bespoke investment vehicles that produce higher returns and meet long-term policyholder obligations without altering insurers' risk profiles. It also aims to offer more capital-efficient structures.

"The No. 1 issue that any insurer is dealing with—and it's a global phenomenon—is they're having a really difficult time gaining access to high-quality credit," Blunt said. "There is a dearth in the market place, whether it's long-duration corporates or private bonds or mortgages.

"There's almost no insurance company in the world that doesn't have an interest in finding high-quality pieces of paper and an attractive yield. And it just so happens that we're in a really great position to help solve those unique needs as one of the largest alternative managers in the world and one of the largest originators of debt on the planet."

Blackstone offers private credit, infrastructure, acquisition finance and real estate debt—investment vehicles in demand among insurers.

The reaction from carriers has been enthusiastic and discussions are ongoing, according to Blunt.

"We've had a number of insurers who have raised their hands and expressed interest in being one of our initial strategic clients," he said.

For some insurers, outsourcing at least some of their asset management operations is an increasingly attractive option. Interest rates remain historically low despite recent increases. Spreads are tight. And there is a shortage of long-duration, investment-grade bonds, which traditionally account for more than 80% of life insurers' investment allocations.

Meanwhile, insurers' liabilities are growing across the life, property/casualty and health spaces.

"That's a bad combination: when your assets grow slowly and your liabilities grow fast. It doesn't take long to completely change the dynamic of an industry," Blackstone's James said. "That's created a yawning gap, and they need a way to fill it."

But Blackstone needed to find someone to run the business.

Hard Guy to Find

James had his doubts.

He was skeptical Blackstone could find all the traits required in its new insurance solutions chief executive.

It needed someone with credibility in the insurance industry. Someone who understands insurers' capital, duration, liability, liquidity, return and risk needs. Someone who could navigate the complex web of regulatory bodies and ratings firms.

And someone entrepreneurial because Blackstone views the new unit as a "startup" of sorts.

"Frankly, one of the reasons we were a bit slow to start the search is because I thought, 'Wow, this is going to be a hard guy to find,'" James said.

Then a search firm found Blunt.

The Detroit native, a self-described long-suffering sports fan, worked for New York Life for 13 years, serving as president of its investments group for two. He also was co-president of its insurance and agency group

“That’s a bad combination: when your assets grow slowly and your liabilities grow fast. …That’s created a yawning gap, and they need a way to fill it.”

Tony James
Blackstone

and a manager in its retirement income security and life and annuity divisions.

Blunt, who chairs the board of the New York City YMCA, previously worked for Merrill Lynch Investment Managers and Goldman Sachs Asset Management. He also ran GivingCapital, a wealth management solutions provider supporting charitable giving.

“He could speak to all of the needs,” James said. “He has that entrepreneurial streak. And he’s a nice guy. He’s perfect for us.”

Blunt describes his early tenure as gratifyingly challenging. His days begin by 5 a.m. and often send him to bed late.

“It’s exhilarating, and it’s a little scary at times,” Blunt said. “Given the choice, you always want to have the ball.

“I feel like I boarded a train going 300 mph. My wife says I enjoy chaos. We like to think it’s controlled chaos, but it’s definitely dynamic.”

Blunt’s staff of 25 will grow to 40 to 45 within 18 months, with an eventual ceiling of 50 to 60 employees, he said.

He made one of his first big additions in March, hiring Michael McRaith as managing director. McRaith was the first director of the U.S. Treasury’s Federal Insurance Office, serving from 2011 to 2017, and was the director of the Illinois Department of Insurance.

Blunt’s staff aims to satisfy different needs, depending on the insurer.

Maybe it’s optimizing a carrier’s alternative support portfolio with products like real estate debt or infrastructure. Maybe it’s sourcing unique private credit opportunities that it might not see directly from Wall Street. Or maybe it’s advising an insurer on its balance sheet through Blackstone’s private equity capabilities.

Blackstone, which manages $434 billion in assets overall, also plans to use risk analytics to help insurers monitor and stress test their portfolios, Goodman told Bloomberg Television.

“Insurers are the ultimate long-term investors,” Blunt said. “They’re one of the last sources of long-term capital formation left globally. We think it plays really well into our strengths.”

Blunt believes fate led him here. He views his divergent career paths—investment management, running a startup, insurance—as preparation for Blackstone.

“I described the job to my wife, and she said it sounded tailor-made for me,” he said.

His former boss, New York Life CEO Ted Mathas, captured the essence of the opportunity in a conversation with Blunt late last year as he mulled the offer.

“What he said last was interesting: ‘This is really good for the industry.’ Meaning the industry needs to find ways to get better returns but done in a prudent way,” Blunt said. “That just really hammered home the idea that maybe it’s all for a reason.”

New York Life declined an interview request, allowing “the focus to be on Chris and his new role,” said Jason Weinzimer, head of external communications for the insurer, in an email.

Blunt already has made his presence felt in just a few months.

“We had a vision, but it was a vision by a bunch of less informed people,” James said. “Chris embraced the potential. Now he’s filling in the picture.

“All the meat on the bones are his. And he’s changed a few of the bones too.”

Origination

Blackstone did have quite a head start.

Managing the Harrington Reinsurance and Fidelity & Guaranty portfolios taught at least two lessons.

Namely, Blackstone believes it can add value without changing risk profiles. And it found it can leverage resources already in place to originate credit and access high-returning alternative strategies.

Blackstone conducted extensive live testing before hiring Blunt, James said.

"For three years we've had a test tube using our own insurance companies, finding ways to mix them and match them so that they deliver higher returns with very low risk," he said. "When it's been tested in actual use in an insurance company, and then we can go to the rating agencies and the regulators and get them to sign off on it and give us better capital treatment, now we have something that no one else has.

"And no one else can really replicate it because no one else has a broad enough mix of products to create those structures."

The ability to originate debt may be Blackstone's trump card.

U.S. tax cuts have contributed to a drop in the issuance of long-duration, high-grade corporate bonds, exacerbating an already short supply.

"So insurers really have to scramble," Blunt said. "Deals are widely oversubscribed. Often they don't fit exactly the way you need them to fit within your general account portfolio."

Blackstone originated $170 billion in debt in 2017. And it plans to leverage that capability.

It will manufacture investment-grade, non-investment grade and real estate credit opportunities directly for "our best insurance clients," Blunt said. It formed a committee representing its various businesses to discuss ways to create products for insurers.

The largest carriers have their own private credit origination units, but there are only a handful, according to James.

"The needle in the haystack for insurers is higher-returning products, products that you can't buy and sell in the public markets," he said. "We were already originating a lot of this for other purposes or as a byproduct for other business. Now, we have demand.

"We can give them the higher return they want, with lower capital requirements. And that is nirvana, the magic bullet."

The Recruiting Game

The first step is recruiting clients.

Before Blackstone can manage insurers' portfolios, it has to win their trust.

That is where Blunt's connections and expertise comes in. He sees five "avenues" to attracting insurers' assets.

Blackstone will tout its standing as a leading alternative asset manager, offer more capital-efficient structures and the origination capability, Blunt said. It also will provide outsource management, taking on insurers' alternatives allocations or even their entire general accounts.

And it will seek more "Fidelity & Guaranty opportunities, where not only are we bringing investment expertise, but we're bringing some equity capital to the table," Blunt said.

Blackstone views its potential client base as running the global insurance spectrum, including life, property/casualty and reinsurance companies. But three markets stand out as obvious targets.

The first is the U.S. life and annuity space, especially midsize carriers hungry for yield. Insurers in the United Kingdom are a good fit due to the "matching adjustment" rule in Solvency II. And infrastructure and real estate products might be especially attractive in Asia.

Insurers have pushed out on the yield curve and dropped down in credit quality. The exhaustion "of the obvious low-hanging fruit" investments such as commercial mortgage-backed securities have left few options, according to Blunt.

"I would argue there's only a couple of paths from here," he said. "Insurers, particularly life insurers, are becoming much more interested in private credit.

"Their issue is finding managers that have legitimate expertise. That's the burden on us—to get out and have enough conversations with the right insurers to partner with."

Private debt exposure accounts for about 30% of the life insurance industry's bond allocation, according to Barclays. And that percentage is expected to rise.

More liquidity risk is one option, with most insurers holding long duration liabilities.

And infrastructure in particular has piqued the interest of insurers, Blunt said. Of course, Blackstone announced in May 2017 that it will form a new infrastructure business with a $40 billion fund.

For Blunt, meeting a vital industry need lured him back from retirement.

"Candidly, what drew me back is the mission driven aspect of this," he said. "Yes, it's a great opportunity to build a business and a really fun entrepreneurial opportunity.

"But equally important, I just love the idea that we might be able to move the needle a little for the whole industry, not just a single company." BR

"We felt there was a need for corporations to stop being mini-insurance companies."
Phil Waldeck
Prudential

Pioneering Pension Change

Phil Waldeck, credited as one of the pioneers in pension risk transfers, is helping to lead Prudential's strategic shift to protection and retirement services from traditional life insurance.

by Jeff Roberts

The bitter reminder is often tucked away in his black leather portfolio.

Phil Waldeck carries the four-page document with him, even a decade later. It is a memento of failure, of unrealized promise that harbors its own hard-won lessons.

Revenue ruling 2008-45 by the U.S. Treasury is a vestige of two years of wasted effort by Prudential Financial on a large pension risk transfer (PRT) deal that fell through. Federal regulators effectively killed the negotiations with the Aug. 6, 2008 ruling, barring the transfer of tax-qualified pension plans from an employer to another company without moving significant business assets or employees.

Photo courtesy of Prudential

Jeff Roberts is a senior associate editor. He can be reached at *jeff.roberts@ambest.com*.

Key Points

New Boss: Phil Waldeck took over as president of Prudential Retirement in June 2017.

Vital Unit: Prudential's retirement-related business accounts for about 75% of its domestic earnings.

Growing Industry: Prudential manages about $100 billion of the nearly $300 billion in pension transactions made since 2007.

A deal would have represented the first significant victory for Prudential's then-fledgling PRT initiative. Instead the setback could have threatened the business with the financial crisis looming—had Waldeck and the insurer allowed it.

"This was our baby. My team had committed and worked their tails off," Waldeck said of the failed deal. He declined to identify the company involved. "So that was difficult.

"I received a call from our then chief operating officer Bernard Winograd and he said, 'This is a devastating setback. We had this trophy breakthrough client. Pick yourself and your team up off the floor. While this door has just been shut by regulation, the market need hasn't changed. Go figure it out.'"

Waldeck did figure it out, building a market leader in pension risk transfers with Prudential's support. He not only is a pioneer in the business, but the growing industry was his invention, according to Steve Pelletier, executive vice president and chief operating officer of Prudential's U.S. businesses.

As another crisis looms—the impending retirement crisis—Prudential has entrusted its entire retirement business to him. It is a cornerstone in the company's transformation from a traditional life insurer to an investing giant focused on financial wellness.

Prudential, the largest U.S. life insurer by assets according to A.M. Best data, promoted Waldeck to president of its retirement division in May 2017, recognizing the resilience and innovation he showed in building the PRT business.

He now oversees not only its investment and pension solutions, which includes its U.S. PRT business, international longevity reinsurance, stable value and structured settlements, but also its full-service solutions, including its 401k and record-keeping units.

In his first full year, Waldeck has guided the effort to transform the retirement landscape for public, private and nonprofit organizations. All the while, he has carried that revenue ruling with him as a reminder to expect obstacles and regard failure as merely a beginning, not an end.

"We see him as so important to the future of the company," Pelletier said. "Phil is very much an exemplar for the values that we seek to encourage at Prudential.

"It's not just that we see Phil as a trusted, effective leader in the retirement space. We see him as a very key and powerful member of the leadership team."

J.P. Morgan maintained its overweight rating on Prudential stock in February in a research note, specifically citing the retirement business.

It called the insurer "a leader in the pension closeout market, which presents attractive growth potential… Overall, we believe that its strong position in both the pension closeout and stable value markets bodes well for growth."

A.M. Best affirmed Prudential's Financial Strength Rating of A+ (Superior) in January.

"The retirement segment has been the biggest area of growth, primarily due to the successful closing of several large PRT deals," the rating review said.

A Real Asset

The evolution of Prudential was driven by changing consumer needs.

Waldeck is part of the executive team guiding the strategic shift to protection and retirement services—especially through the workplace—and asset management.

Prudential reorganized itself in 2017, aligning the company into three groups: workplace solutions (where retirement resides), individual solutions and investment management.

Waldeck, 56, leads a 2,500-employee unit that provides retirement services for more than 4.3 million participants and annuitants.

The business "is absolutely vital in that greater construct" of Prudential, with retirement-related business, including retirement, annuities and investment management serving retirement needs (managing money from pension funds) accounting for about 75% of its domestic earnings, Pelletier said. And Waldeck has earned a reputation for working across silos with asset management, actuary and other units to close complex transactions for the Newark, New Jersey-based company.

"He really brings out the best in people and is a real role model when it comes to collaboration," Pelletier said. "That makes him a force multiplier. That collaboration is a real asset to us and a value proposition we're able to offer our clients."

Prudential reported record-high retirement account values of $429.1 billion through the fourth quarter of 2017, up 11% from a year earlier. Net flows of $4.5 billion included new pension risk transfer sales totaling $7.3 billion.

Overall, Prudential reported a 7.6% rise in operating profit in the quarter.

Retirement services have emerged as an in-demand business for life insurers in challenging times.

Like others in the space, Prudential faces the prolonged low interest rate environment, regulatory volatility and changing customer tastes. It also is the last insurer still designated too big to fail under Dodd–Frank, although it hopes its status will change in the coming months.

And while industry analysts predict long-term growth for pension risk transfers, the industry has been in the spotlight since MetLife's disclosure in December that it lost track of more than 13,000 retirees owed monthly benefits.

"It's a story of innovation, collaboration and perseverance. The pension risk transfer business, which Phil created and made Prudential the global leader in, is really a successful collaborative model."

Steve Pelletier
Prudential

It had to delay its fourth-quarter earnings announcement, admitting "material weakness" in its financial reporting and boosting its reserves by $510 million pretax.

Insurers take on employers' pension plan obligations in pension risk transfers. In exchange, plan sponsors who want to close their pension programs transfer their liabilities through the purchase of a group annuity.

The insurer then provides the benefits to those retirees. It earns revenue through selling the annuities and investing the proceeds.

Prudential declined to discuss the MetLife disclosure. However, Prudential vice chairman Mark Grier addressed the issue in a January earnings call.

"Given the size and the age of our block of business, there are inevitably some customers we can't locate for a number of reasons, but that number is small…" he said. "The issue is certainly getting a lot of attention in the market, and ultimately we could see greater standardization of what may currently be divergent practices across the industry."

From Small Seeds

Waldeck carries more than just that revenue ruling around with him.

A pine cone from the giant sequoia tree was tucked away in the right pocket of his suit jacket one morning in March.

The small seedcase is a symbol for his team, gracing the desks of many Prudential Retirement staffers.

Sitting in the new TV studio in the Prudential Plaza building, Waldeck pulled out the dense, two-inch pine cone and told the story behind it.

It all started when a team member visited Yosemite National Park's Mariposa Grove about a decade ago and brought back four of the pine cones.

"The sequoias last for centuries, 3,000 years. They are super resilient," said Waldeck, sitting in front of the panoramic image of Newark's skyline stretching along the studio wall. "They persist despite forest fires, disease, insects. And we use these trees as a symbol because we have to deliver on our obligations over decades. Wars. Recessions. Depressions. Whatever the environment, we've got to produce for the retiree.

"And its pine cone is tiny but hard as a rock."

Resiliency. Persistence. Rock metaphors. They resonate around Prudential Retirement.

The seeds of the PRT business were sown in 2006.

Waldeck recognized that new defined benefit plans weren't being created, while the Pension Protection Act of 2006 was being debated and accounting reform involving balance sheet measurement liabilities was occurring.

He formed a team to investigate potential opportunities. Pension risk transfers emerged as most promising.

Although PRTs have existed for decades, the deals were on a much smaller scale. Prudential began approaching jumbo plan sponsors, some of whom were already clients of its asset management arm.

"We felt there was a need for corporations to stop being mini-insurance companies," said Waldeck, who is based in Hartford, Connecticut. "We're a natural owner of that risk."

But the next few years were defined by the financial crisis and no deals. Despite the struggles, Prudential adopted a long-term, patient approach, devoting even more resources to the endeavor, he said.

"We didn't make our first sale until 2011," Waldeck said. "We didn't have our breakouts until 2012."

Then the crisis helped fuel demand, as pension plan sponsors went from an average of 100% funded status to 70% through the recession, he said. They were looking for help.

Prudential manages about $100 billion of the nearly $300 billion in pension transactions made since 2007. Among its successes are the $25 billion deal with General Motors that closed in 2012, the $28 billion reinsurance transaction with British Telecom in 2014 covering longevity risk—the largest on record—and the $8 billion deal with Verizon in 2012.

"It's a story of innovation, collaboration and perseverance," Pelletier said. "The pension risk transfer business, which Phil created and made Prudential the global leader in, is really a successful collaborative model.

"He saw a need in the marketplace, a need for large plan sponsors to be able to transfer to a trusted counterparty the risk embedded in their defined benefit pension plans. And Phil and his team identified that need very early on and started to engage in a real pioneering effort."

Vulnerable Retirees

Prudential did not hire Waldeck. It acquired him.

His tenure began in 2004 when the insurer bought Cigna's retirement business, where he served as a senior vice president.

A runner with Midwestern roots, he was born in Cleveland, Ohio and earned his MBA from Michigan after his bachelor's at Tufts. His wife also is a Michigan alum. Waldeck previously led Prudential's products and advisory services group, then ran its investment and pension solutions business before succeeding Christine Marcks as retirement head.

The demands can be grueling.

A three-day snippet of Waldeck's itinerary in March included a cross-country flight, an endless series of meetings and tireless stamina.

He flew to Las Vegas on a Sunday morning for an industry gathering with insurance and reinsurance CEOs. There he spoke on a panel and attended meetings.

Waldeck then flew into Newark on Monday night, landing at 11:30 p.m. He attended an 8 a.m. meeting Tuesday with CEO John Strangfeld and Lucien Alziari, the chief human resources officer.

Lunch with an IBM official and a series of internal meetings filled the rest of the day's business hours. Then that night, he attended a recognition event at the Prudential Center honoring the insurer's stable value team during the New Jersey Devils' 6-4 victory over the Montreal Canadiens in an NHL regular-season game.

After the game, he took a car home to Hartford.

"It's people stuff. It's market stuff. It's recognition," Waldeck said.

"Job One," as he calls it, is to keep the promises that Prudential has made. That means ensuring proper management of risk and long-term obligations and guarantees. He sets the priorities and finds the right people to deliver on them.

And while he's not involved in the day-to-day tactical execution, he has to make sure his staff meets the nation's growing need for retirement solutions.

One in five Americans who are 65 or older live in poverty in terms of income, Waldeck says. And the mass retirement of the baby boomers will further strain the government's overtaxed safety net.

"There's a dire need," he said. "That's going to put pressure on the government's ability to deliver with Social Security and Medicare."

The range of factors preventing Americans from saving for retirement stretches from crippling student loan debt to job security concerns to a lack of emergency savings.

"A lot of America is really vulnerable, even though the economy is improving," Waldeck said. "The level of readiness for retirement and financial security broadly are not good. We're in the business of making it better. That's the mission."

They aim to help families build assets through the workplace.

It begins with offering a simpler experience, a digital engagement tailored to the individual through its financial wellness platform and saving strategies.

"We need to not only get them into retirement plans earlier," Waldeck said. "We need to get them to save more, get them to invest it well, get them to have protections in terms of longevity risks, disability or premature death and deal with issues of debt and student loans and budget problems."

That growing need offers opportunities for Prudential Retirement.

It is expected to be "a source of long-term growth going forward," Strangfeld said in the insurer's 2017 fourth-quarter earnings call.

And Prudential is expected to soon shed its label as a systemically important financial institution, which would release it from more stringent oversight and higher capital requirements. The company declined to discuss its status.

In the meantime, Waldeck will carry more than the pine cone of the giant sequoia and that fateful 2008 revenue ruling.

He also keeps with him copies of the agreements GM and Verizon signed to commit to their multibillion-dollar PRT deals with Prudential.

They are reminders of what can happen when you bounce back, just as Waldeck did after his "growth experience" a decade ago.

"Then I have the revenue ruling that reminds me that there will be road blocks and that's to be expected. It's like Michigan [football] hasn't been doing so well against Ohio State in recent years," Waldeck said. "But that's going to change … hopefully sooner rather than later." BR

EMERGING TECHNOLOGY

New technology has opened the door to new ways of reaching customers, gathering data, reducing costs and simplifying processes. It also is the driving force behind new competitive threats. Insurers have to contend with both insurtech startups and internet giants and that is forcing them to consider new partnerships and to think outside the box.

In the following special section, *Best's Review* explores the impact of internet giants such as Google, Amazon, Facebook and Apple. The section also takes a closer look at accelerator programs and how they are helping startups get off the ground and connect with incumbent insurers.

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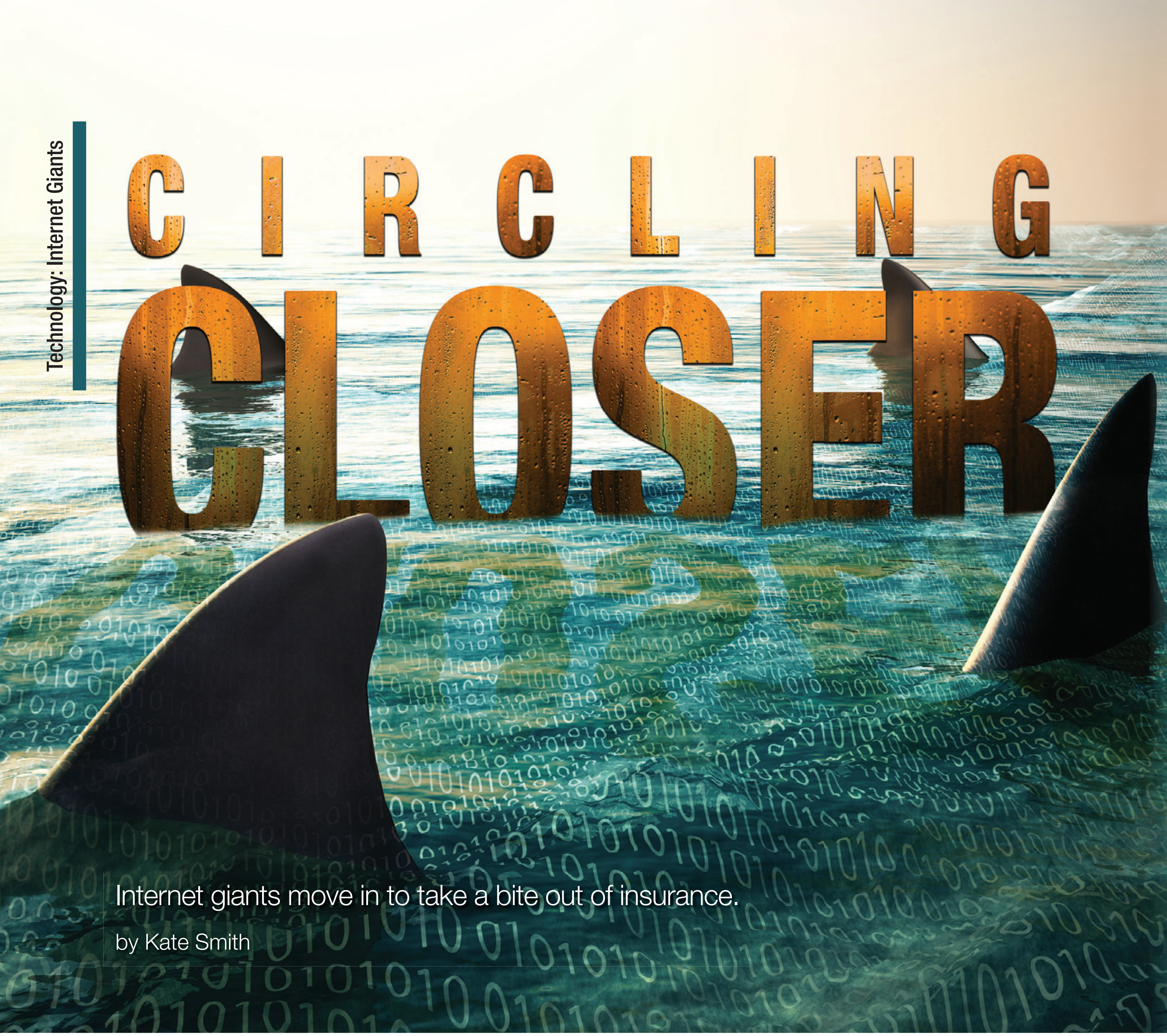

CIRCLING CLOSER

Internet giants move in to take a bite out of insurance.

by Kate Smith

When Warren Buffett, Jeff Bezos and Jamie Dimon team up on a project, it is bound to draw attention. But when the CEOs of Berkshire Hathaway, Amazon and JP Morgan Chase announced in January they would together create an independent health care company for their employees, it also drew concern.

Some see the venture, which spawned from their frustration over mounting medical costs, as being similar to a captive insurance company. Others say the thought of these behemoths leading a revolution against the health care industry, which represents roughly 17% of the country's GDP according to the World Bank, is worth a watchful eye.

"When you look at Berkshire and Amazon going after the health care industry, that's one-sixth of the economy they could be targeting," said Michael Costonis, senior managing director at Accenture. "Look at the track record of the industries Amazon has moved into. As an insurance company, I'd be concerned by that."

Insurers are concerned, and have been for years, about tech companies like Amazon inching toward financial services and insurance.

"The fear of tech companies entering our industry has built up since about 2014," said Arun Prasad, a global insurance technology leader at Deloitte.

For good reason. Internet giants around the globe—from Google, Amazon and Apple in the United States to Alibaba, Tencent and Baidu in China—have been circling the industry, investing in insurtech, dabbling in warranties and launching online insurance platforms.

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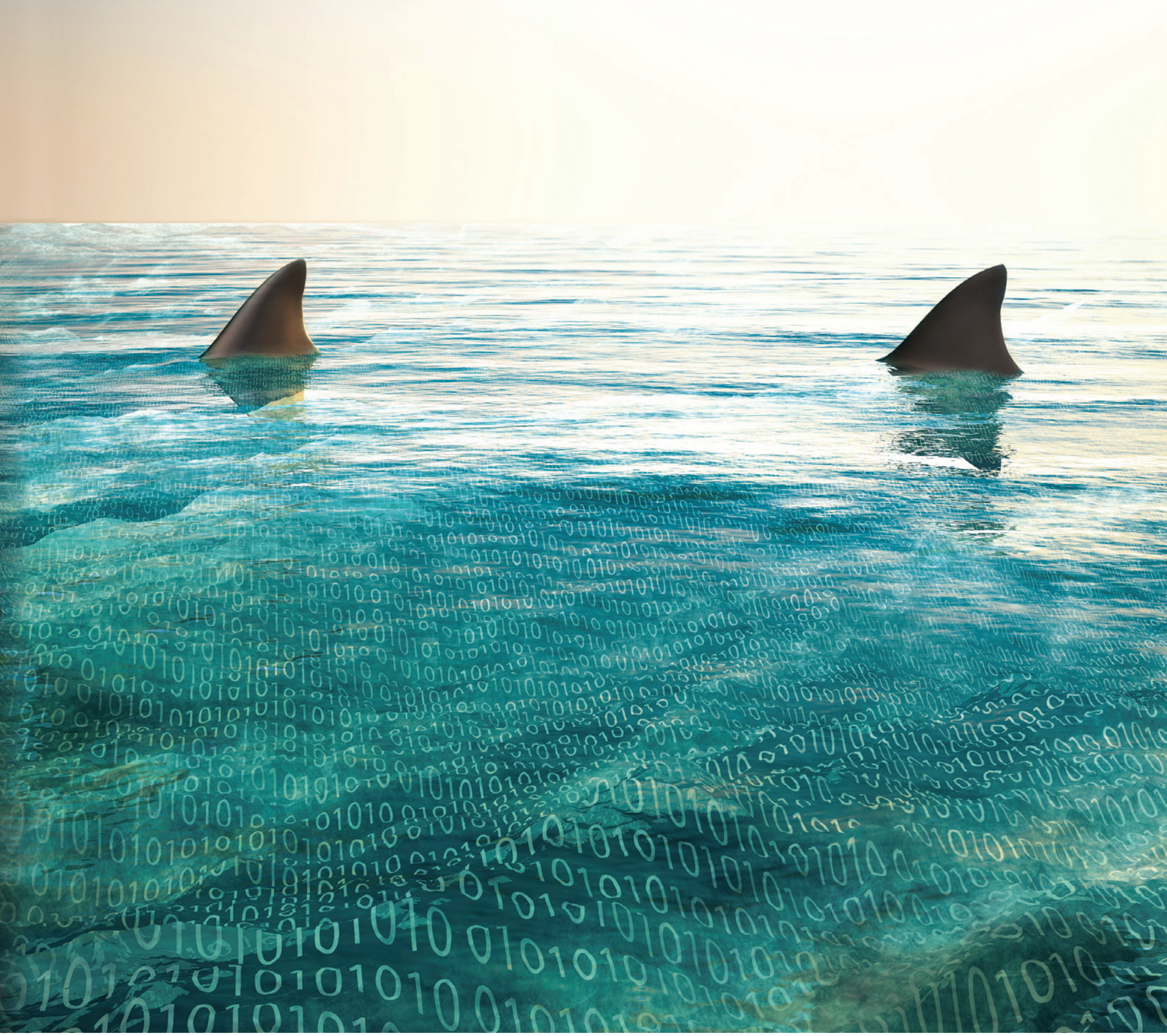

"That's both frightening and enthralling," Costonis said. "Look at the space we're in and the business that we're operating. We have a chance to take advantage of technology to create new products and services that we couldn't imagine before. The flip side of that is, so can other people.

"When you look at the large online marketplaces that are touching consumers on a very frequent basis and gathering information about behavior, for certain segments of insurance that's a very scary proposition. It's scary that these companies could pivot into our own marketplace."

Rather than try to fend off the tech giants, some insurers are drawing them closer. The venture between Amazon, Berkshire Hathaway and JP Morgan may have earned mainstream media headlines because of the marquee names involved, but it was by no means the first blockbuster tech-insurer partnership.

On the heels of the Amazon, Berkshire Hathaway, JP Morgan Chase announcement, Allianz in February announced it was teaming with Apple, Aon and Cisco on a cyber insurance solution. In 2017, Aviva announced a joint venture with Tencent. AXA

Key Points

Sharks Circling: Tech companies have been eyeing insurance for several years and are venturing into the space at an increasing pace.

Keep Your Friends Close: Proactive insurance companies are partnering with these internet giants, hoping to capitalize on their broad consumer reach and their vast customer data.

Brand Name: Whether insurance brands will be diluted or enhanced by partnering with tech companies remains to be seen.

"These partnerships are great examples of skating where the puck will be. You can be disrupted or you can go along with these companies for the ride."

Michael Costonis
Accenture

has partnered with both Facebook and Alibaba. Google has invested in both Lemonade and Oscar Health, and it has partnered with multiple insurers (including Liberty Mutual and American Family) on homeowners initiatives. Baidu has joint ventures with Allianz and China Pacific. And Alibaba has a partnership with China Taiping.

The list goes on. And it will continue to grow.

"These partnerships are great examples of skating where the puck will be," Costonis said. "You can be disrupted or you can go along with these companies for the ride. And by going along, you can also pick up the brand halo."

Insurance Widgets

These partnerships take different forms. Allianz and Apple, for example, are working together to offer enhanced cyber coverage for their mutual customers. U.K. insurer Aviva, meanwhile, sold 60% of its Hong Kong business to Tencent, a social media platform, and private equity fund Hillhouse Capital as part of an agreement to build a digital insurance company in Hong Kong. That joint venture received regulatory approval in February.

Ellen Carney, a principal analyst with Forrester, sees such partnerships largely as sales and distribution plays right now. It's a logical step, she said, for internet giants to incorporate insurance into their platforms.

"There will be an insurance widget that will drop into the experience you get from Amazon or Facebook or Google," Carney said. "You'll have an insurance component to your experience. When you don't need it, it disappears. When you do need it, it shows up."

In India, Google offers an Android app called Areo, which links users with food delivery and home improvement services. "Why couldn't you have insurance services too?" Carney said. "You could easily drop that into the experience."

It's easy to see why insurers would be attracted to such ideas. The GAFAs and the BATs—acronyms adopted for companies like Google, Amazon, Facebook and Apple, as well as Baidu, Alibaba and Tencent—are ingrained in the daily lives of consumers and can reach untapped market segments.

Tech companies have more touchpoints than insurers could imagine, they are the creators of today's online user experience expectations, have strong customer allegiance and are trusted brands. And to top it off, they have the fuel on which insurance runs—data.

"It's not that insurers weren't good at customer experience in the past. But the demands of customer experience have changed rapidly," said Deloitte's Prasad. "These tech companies not only are harnessing that but are also driving the expectations of the consumer base.

"Also they have access to data. Ultimately, insurance is a contract insuring a risk that's based on some data. If the underlying insurer who is holding that capital is more effective at underwriting and pricing that risk, based upon the data, it is equally valuable on the consumer side to have these partnerships."

Tjun Tang, senior partner and managing director at the Boston Consulting Group in Hong Kong, said he sees three key areas in which insurers benefit from partnering with tech firms.

"First, on the sales side, they can tap into customer networks," Tang said. "They can leverage tools that help in targeted marketing. Alibaba and Tencent are very good at providing targeted marketing so you can basically sign up for partnership with them, and they target certain types of customers based on the data that they have.

"Second, if you have better information about a customer you can manage risk better. The third layer is around operating costs. Operating costs are quite expensive in insurance. Working with systems that are cloud-based and are smart systems can also

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Case Study: The Apple-Allianz Alliance

Allianz has forged a partnership with Apple, Cisco and Aon, in an effort it hopes will lead to better cyberrisk selection and management.

The companies, which announced their venture in February, have collaborated on a cyberrisk management solution for businesses. Through the partnership, companies that use Apple hardware and Cisco software can receive a Cyber Resilience Evaluation from Aon and enhanced cyber insurance coverage from Allianz.

Best's Review spoke with Jenny Soubra, U.S. head of cyber at Allianz Global Corporate & Specialty, about the benefits of partnering with a tech company such as Apple.

Did this partnership give you greater access to Apple's technology?

We got a much deeper dive than we would normally get. When you look at the overall way that cyber and cyber services have evolved, a real cottage industry has popped up around cybersecurity services. So trying to find a reputable firm—who's vetted, who's not—finding people who are true experts in the space can be a difficult task for companies. So when we looked at building this partnership, we looked at a couple of different problems that we were looking to solve for.


Jenny Soubra

The first is, it can be very difficult for organizations to develop a quantified understanding of their own cybersecurity posture and the risks associated with it, as well as the potential impacts of cybercrime to the organization. Through the Cyber Resilience Evaluation being offered through the partnership, we're helping companies have a basic understanding of their own cybersecurity posture, where their vulnerabilities lie and ways they can mitigate that risk.

The other thing we were trying to solve for is that it can be difficult for companies to understand the effectiveness of whatever cybersecurity tools they're currently using in defending themselves.

Without being able to adequately quantify either their risk or whatever defense they're using, it's hard for businesses to make an informed choice in selecting an insurance policy that would then deliver sufficient coverage for the industry vertical they're operating in and for companies of their size.

Who is eligible for this cyber solution?

The universe of accounts is Apple and Cisco clients. On the Cisco side, they are companies that use the Cisco Ransomware Defense product. On the Apple side, they would use Apple hardware that is managed by the enterprise. It wouldn't have to be all Apple hardware. We set thresholds on the Apple side. If they have starting at 25% hardware—that could be a desktop computer, iPhone, iPad, any endpoint device that is made by Apple and deployed by the enterprise—it would qualify them for the program. On the Cisco side, the requirement is just to use the Cisco Ransomware Defense. It's not required that Aon be their broker. Actually, Aon's involvement is around Stroz Friedberg, their subsidiary that provides incident response services and pre-breach mitigation services around the Cyber Resilience Evaluation. So it's open to all brokers and all Apple and Cisco clients.

Apple is considered a trusted brand. Is there a trust-by-association factor that you're anticipating?

Absolutely. I think it's mutual. We are vouching for each other. We are saying we have done the research, done the comprehensive vetting mutually, and we feel that these organizations working together have the best holistic solution for our customers. When we looked at the Cisco software and the Apple hardware, it was a very deep, comprehensive review. And on their end, they looked at the Allianz brand, the capital and innovation we can bring to the table.

Why Apple and Cisco?

Just by being clients of Cisco and Apple and using their software and hardware, businesses are already a better risk. Just by default. That's what we're looking to reward. And the coverage offerings are tied specifically to the technology deployment and tailored based on our in-depth understanding of the technology they're offering and the protections that come along with it. I would expect other carriers would be looking to replicate this sort of thing.

What are the growth estimates?

The sky is the limit. It's not just existing Apple and Cisco clients, but any of their potential clients down the road. We've had a lot of buzz around what's available and who can get access to it. There's been a very high level of interest. We're looking forward to bringing as many mutual clients into the fold as possible.

"The insurer's brand may become less important in this widget model. We could recede into the background as just a factor of production in an experience that is being delivered by Amazon or Facebook."

Ellen Carney
Forrester

(Continued from page 46)

dramatically reduce the cost of running the business."

There's also a cachet to being affiliated with these big-name tech firms.

"It absolutely helps an insurer's brand—not only in terms of consumer brand but also in terms of attracting internal talent," Prasad said. "If I am engaging with one of these large tech companies as a partnership—not outsourcing this, but building a partnership—I become a more attractive organization to join for someone who isn't already in the industry. The talent impacts are equally valuable to the consumer impacts."

Brand Value

While the upsides are clear, these partnerships aren't without risk to insurers. The marketing implications are massive, Carney said, and the "brand halo" may not be as bright as expected.

"If you think about the experience the consumer will have, it will be an experience with Amazon or Google," Carney said. "The insurer's brand may become less important in this widget model. We could recede into the background as just a factor of production in an experience that is being delivered by Amazon or Facebook. People would say, 'I got my insurance from Amazon' or 'I got it from Facebook.'

"The insurance company could be a sub-brand to that. I can't imagine Amazon would let the insurer be on equal footing with them. At that point in time, you become a commodity. You have no unique value proposition. That, to me, is the real threat."

Costonis said insurers could be in a weakened negotiating stance when dealing with the GAFAs, whose scale and reach give them leverage.

"The GAFA companies would be in a very strong position with how they allocate business to the insurance companies," Costonis said. "They would be able to dictate a lot of the terms and pricing. So a lot of insurance companies could be boxed out pretty easily."

Still, Costonis said, insurers are better off trying to forge a win-win play that would rely on an Amazon for customer touchpoints but could still produce profits, even if those profit dimensions change.

"My fundamental belief is that if we didn't have the capital volatility associated with insurance, and if we didn't have regulation that protected products, insurance would migrate very quickly to the world of GAFA," said Costonis, noting that Accenture research shows nearly one-third of Gen Y and Gen Z shoppers reported they would buy insurance from a GAFA company.

"This is a fight for relevancy for insurance companies," Costonis added. "It's better to partner first than to perish second."

Tech companies aren't necessarily looking to replace insurers. However, they undoubtedly are looking to play in the financial services space, which means these partnerships are by no means a one-way street.

One of the key metrics for internet companies is how much time users spend on their sites. By offering financial services, they gain stickiness.

"Fundamentally they are looking to create greater stickiness with their end consumers," Prasad said. "By providing consumers with financial services when they're on their platform and engaging, they increase the value of that platform, increase the amount of time consumers are on the platform and increase the trust they're bringing to the marketplace.

"These tech companies have a strength in both consumer experience and data and analytics. But they also have become strong brands that establish a level of consumer confidence in the marketplace. Financial services, with insurance being a key component of that, is an element of how can I continue to build trust around financial services. Being the funnel that gets more consumers engaged in insurance or insuring products or insuring some asset or element of my life, that is a value add to all participants in the ecosystem." BR

BAT Takes a Swing at Insurance

China's tech giants are transforming the insurance market.

by Kate Smith

Baidu, Alibaba and Tencent—the tech behemoths known by the acronym BAT—are fixtures in the everyday lives of Chinese citizens. Originally a search engine, an e-commerce platform and a social networking site, respectively, the big three have expanded far beyond their core businesses. They offer cloud computing, digital payments and, increasingly, insurance options.

Over the past seven years, the big three have aggressively targeted the financial services sector. And with a combined market cap of more than $1 trillion, according to Yahoo Finance, they have become a force to reckon with … or partner with.

To understand the impact the BATs have on the Chinese insurance sector, *Best's Review* turned to David Wu, partner and Hong Kong insurance sector leader for Deloitte China, and Joanna Wong, a consulting partner at Deloitte China.

Baidu, Alibaba and Tencent all have made moves into the insurance space. What's driving their interest in insurance?

Wu: Since 2011, the BATs in China have aggressively expanded the reach, scale and accessibility of their digital platforms into the financial services space. The speed and scale of investment has also made China one of the fastest-growing insurtech leaders in the world.

The move made by the BATs into the insurance space recognizes their desire to leverage one of the most important assets for an insurance company—a rich and diverse but relevant range of data.

According to Deloitte China's research, there are about 1 billion Chinese netizens currently using mobile devices to browse the internet. They spend around 106 hours online every month versus 54 hours in the U.S. Meanwhile, 52% of the time spent online are spent on apps developed by the BATs, which have secured their titles as the three biggest internet giants in China through their unique capabilities and their abilities (including

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"Through the partnership with BAT [Baidu, Alibaba and Tencent], insurers may provide services in locations where they did not have a physical presence before."

David Wu
Deloitte China

communication, entertainment, shopping, mobility and navigation, as well as information) to influence the daily life of Chinese citizens.

These interactions provide a vast amount of data that the BATs could effectively leverage to run a profitable insurance business.

At the same time, regulatory developments and market trends have supported the rapid proliferation of insurance technology disruptions across the nation.

How are the BAT companies transforming insurance in China?

Wong: The BATs are transforming insurance in China in three major ways: Disrupt distribution and servicing, foster product innovation to align to "real" customer needs, shorten the product development cycle. Online insurers can reach out to customers in remote locations where they do not have a physical presence. This has given rise to the growth of new insurance products enabled by the digital economy. The rise of innovative products that address new insurance needs are also arising. In addition, internet giants accelerate the time to market by scaling up the product development process. For example, an online insurance JV [joint venture] invested in by one of these giants can launch a new insurance product in five to six weeks as opposed the typical timeline of six months.

Which of these tech giants is pursuing insurance most aggressively?

Wu: These tech giants have all obtained regulatory approval to either set up their own insurance company or form insurance JVs with local and/or foreign partners. Baidu formed a JV with Allianz and Hillhouse Capital to form BaiAn Insurance. Alibaba formed a life insurance JV with local technology companies and with another foreign insurer to form a P&C JV, in addition to launching an insurance cloud service with another local partner. Meanwhile Tencent was permitted to set up its own online insurance company in October 2017, one month after its online P&C insurance JV partnered with Alibaba and another leading Chinese insurance group had gone public in Hong Kong.

The rapid development of financial technology and growing demand for protection in China fuels more interest in the insurance segment. We believe that these big tech companies will continue to seek opportunities brought by the increasing demand for insurtech, particularly internet-based insurance. Meanwhile, internet companies which aim to hold core assets—customer resources—are not going to just stay as distributors. As such, we expect these players to continue making bolder moves in the near future to tap into the remaining white space in the market.

Tencent could be the most aggressive out of the three tech giants in our view simply because it has been allowed to set up its wholly owned online insurance company. It is also the founding partner of another online insurance JV with two other local partners. It is important to note that Tencent currently owns leading internet and communication platforms in China. It has become a vital part of China's mobile internet industry with a combined MAU [monthly active user] of approximately 938 million in March 2017, all of which strategically support the company to acquire new insurance customers via its vast customer base.

BAT Moves Into Insurance

Firm	Date	Type	Partner/Name	Description
Baidu	Nov. 2015	Joint Venture	Hillhouse Capital, Allianz	In November 2015, Baidu teamed up with Allianz and Hillhouse Capital to launch a new online-only insurer in travel, short-term health, lifestyle and auto. The initiative has yet to receive regulatory approval or launch.
Baidu	June 2016	Joint Venture	China Pacific Insurance Co.	The joint venture aimed to set up a new online car insurance company.
Alibaba Health	April 2016	Joint Venture	China Taiping	Alibaba Health announced a joint venture focused on online health insurance operations.
Alibaba	Nov. 2013	Founding Investor	Zhong An Insurance	In 2013, Alibaba became a founding shareholder of Zhong An Insurance, China's first online-only insurer. Zhong An's first product was a shipping returns insurance for Alibaba's Taobao marketplace.
Alibaba	July 2017	Investment	Compare Asia Group	Alibaba became an investor in the insurance comparison marketplace in a $50 million Series B round in July 2017.
Ant Financial	August 2017	Investment	MassMutual Asia	Ant took a 5% stake in MassMutual Asia in August 2017. The two will reportedly "work together to explore future business opportunities."
Ant Financial	Sept. 2015	Majority Stake	Cathay Century Insurance	Ant took a 60% stake in Cathay Insurance China to collaborate on online insurance products.
Ant Financial	Sept. 2017	Joint Venture	China United Insurance Holdings	The joint venture received regulatory approval to provide agriculture insurance to Chinese agricultural companies while utilizing Ant and Alibaba's technology and logistics resources.
Ant Financial	Jan. 2017	Partnership	China Taikang	The partnership provides a certain amount of free health insurance to Alipay users every time they make an offline payment with their Alipay wallet.
Tencent	Jan. 2017	Joint Venture	Hillhouse Capital, Aviva	Tencent, Aviva and Hillhouse Capital announced they would team up to develop a new digital life insurance entity in Hong Kong.
Tencent	July 2017	Joint Venture	Fubon Financial	Tencent partnered with Taiwan's Fubon Financial to sell Fubon's insurance products on Tencent's WeChat platform.
Tencent	Oct. 2017	Controlling Stake	WeMin Insurance Agency	Tencent's online insurance agency received regulatory approval to sell insurance products through its apps WeChat and QQ.
Tencent	Nov. 2016	Joint Venture	HeTai	Tencent became one of eight investors to back a new online life insurer, which received regulatory approval in July 2016.
Tencent	Nov. 2013	Founding Investor	Zhong An Insurance	In 2013, Tencent became a founding shareholder of Zhong An Insurance, along with Alibaba and Ping An Insurance.
Tencent	May 2016	Investment	Shuidihuzhu	Tencent is an investor in the startup, which operates a crowdfunding platform, a "mutual aid" platform for critical illness and a health insurance sales platform.

Source: CB Insights

How do Chinese insurers view these tech companies? Do they see them as a threat or a potential ally?

Wong: In recent years, there has been growth in the adoption and development of futuristic solutions amongst traditional insurers to improve both the top and bottom lines. Apart from organic solution developments, Chinese insurers have been actively collaborating with insurtech startups via different engagement models to transform their business, aiming to leverage those tech companies' unique capabilities, ecosystem strength and access to consumers.

For example, one of the national insurers launched an online insurance platform on

"Insurers who have effective technology deployment strategies to improve their business operations would not see those tech companies as a threat, but rather a potential ally to complement each other."

Joanna Wong
Deloitte China

one of those internet giants' communication app, providing a one-stop insurance purchase experience and self-service features to cater to after-sales needs of customers.

Insurtech is increasingly becoming a significant business development trend in the insurance sector in China, as well as in the global market, in the next decade. We believe that insurers who have effective technology deployment strategies to improve their business operations would not see those tech companies as a threat, but rather a potential ally to complement each other.

What is the strategic value in partnering with the BATs?

Wu: Since the BATs are dominating China's internet market and influencing the daily life of Chinese citizens through their unique capabilities, insurers who are looking to partner with BAT could also drive the growth of new insurance products enabled for the internet economy.

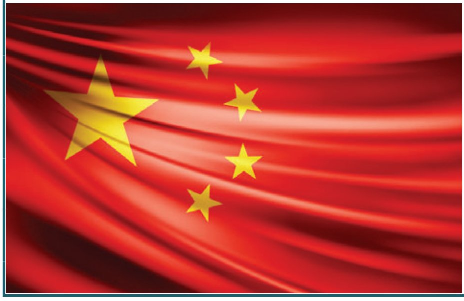
Meanwhile, the vast amount of data collected by the BATs can help insurers develop strong customer insights, which will then support insurance companies to develop innovative products that address new insurance needs arising from the use of the internet, as well as improving customer experience and engagement, in particular, those tech savvy younger generations.

In addition, through the partnership with the BATs, insurers may provide services in locations where they did not have a physical presence before. This can also help enlarge their business networks and product cross-selling opportunities in the growing insurance ecosystem.

Are agents losing business as a result of BAT's entrance into the online insurance space?

Wong: To a certain extent, agents are threatened by the emergence of the BAT online insurers. This is especially true for simple and commoditized products that typically require limited human interactions in the sales process. However, complex products and China's relationship-driven culture still warrant the need for agents to be an effective distribution channel co-existing with the new distribution models. BR

By the Numbers
China Snapshot



1 Billion:	Chinese netizens (avid internet users).
106 Hours:	Spent online monthly by Chinese netizens.
54 Hours:	Spent online monthly by U.S. netizens.
52%:	Percentage of time spent on apps developed by Baidu, Alibaba and Tencent.
938 Million:	Monthly active users of Tencent.

Source: Deloitte China

ACCELERATING

Insurtech accelerators are helping to foster innovation and connect insurers with technologies that could transform the industry.

by Lori Chordas

Gems never seen before.

That's what startup accelerator programs are seeking, said Sabine VanderLinden, CEO of Startupbootcamp's insurtech business.

Startupbootcamp has been running an insurtech accelerator program in London since 2015. In 2017, it broadened its reach by kicking off a program, the Hartford Insurtech Hub, which was created to attract new technologies and talent into Hartford, Connecticut, and the local insurance ecosystem.

Companies that have already begun working with the Hartford program include claims management company Crawford & Company, Cigna, Travelers, USAA, White Mountains Insurance Group, Hartford Financial Services and others.

The Hartford Insurtech Hub is just one of a number of similar programs that have been launched in the past few years. Others include the Des Moines, Iowa-based Global Insurance Accelerator, Silicon Valley Insurance Accelerator and the MetLife Digital Accelerator.

The accelerator programs are shaking up the insurance sector by connecting carriers to insurtechs and startup technology, providing them with access to disruptive technologies such as artificial intelligence, mobile technology, the internet of things, big data and blockchain.

Insurtech accelerators typically operate as independent businesses with revenues from corporate members, receive fees or equity from their startups or are affiliated with a single carrier. They also help companies expand their geographic footprint.

The accelerator model is a mature concept in other industries, but only recently has it started to grab the attention of carriers.

Along with the opportunity to work with a rigorously screened group of high-potential insurtechs, accelerators keep carriers abreast of new market changes and offer ways to refine their marketing and technology strategies, said Michael Fitzgerald, a senior analyst in research and advisory firm Celent's insurance practice.

For insurtechs, accelerators offer a platform to spotlight their innovations to the industry.

Innovative transformation is hitting the insurance industry at breakneck speed, with global investments in insurtech surging in 2017, according to Accenture.

In fourth quarter 2017, insurtech funding volume accelerated to near record levels at $689 million—a

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157% climb from $271 million in the prior year's last quarter, Willis Tower Watson reports.

In April, 10 companies from five countries who completed Hartford InsurTech Hub's three-month program had the opportunity to showcase their industry solutions at the accelerator's inaugural Demo Day.

Graduating startups received a $25,000 cash grant, co-working space and access to Startupbootcamp's global network of mentors and investors.

Many of the insurtechs were focused on artificial intelligence, big data analytics, natural language processing, cyber security, smart home and health insurance.

"They create partnerships between incumbents and startups by working with all participants to increase the pace and effectiveness of change," Fitzgerald said.

Today, 85% of insurance CEOs say they're concerned about the pace of technological change, PwC reports.

But accelerators alleviate some of those fears by bringing together incumbents and startups to collaborate, learn and network to address those changes, Startupbootcamp's VanderLinden said.

While those programs continue to pique the interest of insurance startups, only about 2% of applicants make it through the application process, Fitzgerald said.

One of a Kind

While insurtech accelerators have much in common, they have their differences as well.

Key Points

The Backdrop: Insurance startups are creating new technologies aimed at driving efficiencies, improving the customer experience and fueling growth.

A Lending Hand: Accelerator programs are helping foster those innovations and uniting insurers with technology startups across the globe.

Shifting Tides: Insurtech accelerators will soon target midsize and smaller companies and branch into other areas such as life insurance.

"There isn't one stamp when it comes to accelerators; each is very unique," Fitzgerald said.

Accelerators have focused almost exclusively on property/casualty, but life insurance now attracts 24% of accelerators, according to the *Insurance Accelerators: A Market Scan 2017* study by Celent and Guy Carpenter.

The study examined 10 high-profile insurance accelerators that combined have already received more than 8,500 applications to join their programs.

Global Insurance Accelerator focuses on early-stage startups. "We're not a consulting firm. We're not venture capitalists. We're not driven by profits. Rather, we help startups beginning on their innovation pathway to foster those innovations," said managing director Brian Hemesath.

The genesis behind Global Insurance Accelerator's creation in 2015 was an aha! moment.

After financial challenges forced a Des Moines

"There isn't one stamp when it comes to accelerators; each is very unique."

Michael Fitzgerald
Celent

incubator to close its doors, its founder reflected on lessons learned.

"He said the one thing he'd change if he could do it over again was to create an accelerator model focused exclusively on insurance," Hemesath said.

A few months later, with the financial support of seven local insurers, GIA was launched as an innovation platform to discover new talent and startup ideas and as a way to get industry experts deeply involved in the development of those companies.

Since 2015, GIA has doubled its number of carrier partners, which have each invested $100,000 in exchange for a stake in the respective fund.

Startups that graduate GIA's 100-day program receive $40,000 of seed money in exchange for 6% equity. And at the end of each program, startups have the opportunity to showcase their achievements on the main stage at the Global Insurance Symposium, an annual event that attracts more than 500 attendees.

Silicon Valley Insurance Accelerator, founded in January 2016, is what co-founder Natalie Wood calls a next-generation accelerator.

Typically, accelerators bring in a set number of startups to mentor, run them through a six-month program and help introduce potential investors or provide seed funding for their new companies. But SVIA takes a more holistic approach.

"Most accelerators are more siloed, introducing and hosting startups, getting investments and looking at single projects. But we follow an insurer's entire journey and help transition startups into that passage," Wood said.

Location offers SVIA a competitive edge.

As highlighted in its name, the accelerator is based in Silicon Valley—the epicenter of the insurtech revolution and home to more than 150 startups, technology companies and innovation outposts.

"We wanted to distinguish ourselves from other global accelerators but also highlight our strong drive in innovation that comes out of the Silicon Valley as a place where people come to create partnerships," Wood said.

Along with access to local innovators, SVIA offers its members Insurtech FUSION summits and bootcamps, jumpstart innovation programs for insurance executives and an open innovation lab, which are all meant to help accelerate insurance innovation and digitally transform their products, companies and cultures, she said.

Startupbootcamp, meanwhile, has been running industry-focused accelerator programs since 2010. In 2014, the London-based network of industry-focused startup accelerators launched its first fintech program and has since shaped programs in areas such as digital health, e-commerce, IoT and smart cities to align innovative thinking and corporate needs.

Over the years, Startupbootcamp has powered a number of successful insurtechs including Buzzmove, Europe's first online price comparison and booking platform for the moving industry.

Buzzmove, which was part of Startupbootcamp's 2016 London cohort, raised 8 million euros from White Mountains Insurance Group. White Mountains is currently a partner in Startupbootcamp's first program in Hartford.

Last year, Buzzmove spun off a new entity it calls buzzvault—the world's first digital asset vault built on the blockchain that allows customers to digitally catalogue and securely store details of their possessions. Buzzvault is backed by Munich Re Digital Partners.

While each insurance-focused accelerator is unique, insurers looking to partner with a program should select an accelerator that closely aligns with their own strategy, Celent's Fitzgerald said.

The ability to identify new talent or offer a local tie are other value adds, he said. "There are times when groups can come together and work virtually, but if a carrier is located in the Northeast U.S. or on the West Coast, for instance, they may want to select an accelerator with local accessibility to their program in those areas."

Getting In on the Action

The insurance industry is also engaging with the accelerator model in different ways.

While insurers such as American Family Insurance and Liberty Mutual are backing insurtech startups as corporate venture capitalists, others are creating their own accelerators.

Earlier this year, MetLife and Techstars, a mentorship-driven accelerator based in Boulder, Colorado, created the MetLife Digital Accelerator. It will target insurtech startups in four areas: those looking to rethink traditional underwriting processes, the benefits marketplace, the gig economy and health and wellness as it pertains to finances.

Startups that complete the three-month program will receive $120,000 in funding and engagement with MetLife's extensive mentor network. MetLife Digital Accelerator began accepting applications in January and will begin operating later this year.

In 2016, Swiss Re created the first-ever insurance startup accelerator in India. The accelerator allows Swiss Re to connect with innovative new companies to share their ideas in areas such as IoT, innovative disruption channels and models and smart analytics.

The Road Ahead

This year insurtech will become even more significant, Startupbootcamp's VanderLinden said. "Smart and connected devices, big data and intelligent machines will change what we believe in today, in ways we cannot yet even comprehend."

This year will also likely bring about a transition from proof of concepts to production as insurtech products are proven and scale for wider launch, benefits and cost savings offered by the technologies come to light, KPMG reports.

Accelerators will have a hand in that process by helping move startups forward, creating relationships within the insurance community and staying abreast of the evolving ecosystem, SVIA's Wood said.

Accelerators are also expected to become more niche-focused and attract the attention of midsize and smaller insurers, who have been slow to adopt the accelerator model, Celent's Fitzgerald said.

"One of the things that keeps me up at night is the fear that someday our applicant pool will be full of solutions that we've already seen, and we'll no longer see new things happening," GIA's Hemesath said. So far that fear is unfounded. "The past four years have been full of new ideas. A few things, such as claims providers and underwriting tools, have been repeated but every application up until now has had some sort of new twist that's made it unique," he said.

The pathway to continued innovation is a recognition that digital changes are occurring and emerging technologies used to facilitate those changes are here to stay, VanderLinden said.

Insurers who have not yet put in place an innovation strategy that includes external players need to begin working on those changes, she said. "No longer can companies afford to ignore open innovation. Technology has become vital to everything we do." Accelerators can help advance companies' understanding of technology drivers to meet the needs of current and future customer segments, she said. BR

A Closer Look at Several Insurance Accelerators*

Cookhouse Lab Insurtech Toronto
Headquarters: Toronto
Industry Focus: Multiple industries
Cohorts:** Yes
Venture Capital Arm: No
Parent Companies: msg global solutions and LOGiQ3 Group
Innovators: The Co-Operators, Hannover Re, IRB Brasil Re, Munich Re, AIG
Lines of Business: P/C, life, multiline, intermediary, outside insurance
Insurtech Activity Locations: Toronto; Utrecht, Netherlands (pop-up location), Munich (pop-up location)

Fintech 71
Headquarters: Ohio
Industry Focus: Multiple industries
Cohorts: No
Venture Capital Arm: No
Sponsors: Accenture, Grange Insurance, Huntington, Jobs Ohio, KeyBank, Visa
Lines of Business: P/C, multiline, outside insurance
Insurtech Activity Location: Columbus, Ohio

FinTLV
Headquarters: Tel Aviv, Israel
Industry Focus: Multiple industries
Cohorts: No
Venture Capital Arm: Yes
Partner Organization: SOSA
Investors: CLAL Insurance, Kidron Corporate Advisors, Integrated Alternative Investments, BDO Israel
Lines of Business: P/C, life, health, multiline, outside insurance
Insurtech Activity Location: Tel Aviv

Founders Factory
Headquarters: London
Industry Focus: Multiple industries
Cohorts: Yes
Corporate Partners: Guardian Group, L'Oreal, EasyJet, Holtzbrinck, CSC
Lines of Business: P/C, life, health, multiline, intermediary
Insurtech Activity Locations: San Francisco; London; Madrid

Gener8tor
Headquarters: Madison, Wisconsin; Milwaukee; Minneapolis
Industry Focus: Multiple industries
Cohorts: Yes
Venture Capital Arm: Yes
Lines of Business: P/C, life, multiline
Insurtech Activity Locations: Madison, Wisconsin; Milwaukee; Minneapolis; Chicago

Global Insurance Accelerator
Headquarters: Des Moines, Iowa
Industry Focus: Insurance only
Cohorts: Yes
Venture Capital Arm: No
Investors: Allstate, American Equity Investment Life Insurance Co,, Delta Dental, EMC Insurance, Farm Bureau Financial Services, Farmers Mutual Hail Insurance Company of Iowa, Grinnell Mutual Reinsurance Co, IMT Insurance Co., Mutual of Omaha, Markel Corp. Principal, SFM, Voya Financial, W.R. Berkley Corp.
Lines of Business: P/C, life, health, multiline
Insurtech Activity Location: Des Moines

Lumenlab/MetLife Innovation Centre PE Ltd.
Headquarters: Singapore (MetLife is headquartered in New York)
Industry Focus: Insurance only
Cohorts: Yes
Venture Capital Arm: No
Lines of Business: Life
Insurtech Activity Location: New York, San Francisco, England, United Arab Emirates, France, Spain, Australia, Japan, India, Vietnam, Malaysia, Hong Kong

Plug and Play Tech Center
Headquarters: Sunnyvale, California
Industry Focus: Multiple industries
Cohorts: Yes
Venture Capital Arm: Yes
Lines of Business: P/C, life, health, multiline, intermediary
Insurtech Activity Location: Sunnyvale

Startupbootcamp
Headquarters: London
Industry Focus: Multiple industries
Cohorts: Yes
Venture Capital Arm: No (takes equity in participating startups)
Lines of Business: P/C, life, health, multiline, outside insurance
Insurtech Activity Locations: New York; Miami; London; Amsterdam; Eindhoven, Netherlands; Berlin; Barcelona, Spain; Cape Town, South Africa; Copenhagen, Denmark; Istanbul; Rome; Mumbai, India; Dubai, UAE; Singapore; Kuala Lumpur, Malaysia; Melbourne, Australia; Chengdu, China; Mexico City

Silicon Valley Insurance Accelerator (SVIA)
Headquarters: San Mateo, California
Industry Focus: Insurance only
Cohorts: No
Venture Capital Arm: No
Lines of Business: P/C, life, health, multiline
Insurtech Activity Location: San Mateo

*These insurance accelerators were profiled in Celent and Guy Carpenter's *2017 Insurance Accelerators: A Market Scan* report.
** Cohorts are a set of startups going through a structured program together.

A Global Shift

Investment in insurance technology startup deals climbed globally last year, with Europe and Asia gaining ground as insurtech hubs.

by Lori Chordas

Insurtech is quickly going global, but overall deal activity may be reaching a tipping point and may begin to slow this year.

North America has long held the lead in the number of new startup deals and deal value. But other markets have started gaining on the startup mecca, and investment in insurtech globally climbed 39% to $2.3 billion last year, according to an Accenture report.

A third of that capital is now coming from Europe. Investments in European startups rocketed 118% in 2017. One notable deal last year was U.K. startup Gryphon Insurance, which raised 180 million pounds, or about $253 million. The company plans to market and sell critical illness and income protection products directly and through financial advisers.

The Asia-Pacific market is also quickly emerging as an insurtech hub.

Insurtech deals in that market surged 27% last year, according to the Accenture report *Fearless Innovation: Insurtech as the Catalyst for Change Within Insurance*.

A rapidly emerging tech-savvy middle class and low effectiveness of traditional insurance distribution in the region is fueling that growth.

Munich Re in January, for instance, announced the formation of an insurance unit in Beijing that will develop tech-focused solutions in China, including blockchain-related technologies and real-time insurance.

While there has been a wave of insurtech investment activity over the past few years, that may begin to slow this year, according to David Connolly, a partner and the global insurance digital leader at EY. A growing maturity in the startup space and anticipated consolidation in the market will likely fuel that trend.

"We're not seeing new companies forming as quickly as they had in the past. And we're not seeing new brands emerge that make us sit back and say,

Key Points

Turning to Transformation: Insurtech will continue to transform the insurance industry in new ways.

Tools of the Trade: The sector can expect to see greater use of machine learning and artificial intelligence, blockchain and claims management technologies that boost customer engagement, reduce risk and automate.

Changes Abound: The number of investment deals may have reached a tipping point and a slowdown in the number of new deals is expected this year.

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While insurers will continue to fund new investment deals this year, they'll likely do so to a lesser degree than in the past.

Matthew Wong
CB Insights

'Wow, we didn't see that coming," he said.

Consolidation, driven largely by overlapping capacity in the market, is also expected to shake up the insurtech space this year.

"We're already seeing winners emerge from the first wave of startups, as evidenced by their growing revenues and customer bases," said Michael Costonis, senior managing director and global insurance practice leader at Accenture.

Areas of Focus

The new tech startups across the globe will continue to focus on insurance automation and new ways of improving the value chain, including claims, marketing, distribution and customer service.

But while investment has largely focused on startups in home, auto and small business insurance, markets like title insurance and cyber insurance are also now grabbing the attention of entrepreneurs and investors.

Another trend that is emerging is closer integration, both online and offline, between insurtech startups and the real estate industry.

"We're seeing some of that already with partnerships between startups like Lemonade and Jetty and apartment owners and California-based digital homeowners' insurer Hippo partnering with mortgage technology platforms. We can expect more of this to continue moving forward," said Matthew Wong, financial services team lead at CB Insights.

Insurtechs focused on cyber insurance solutions are also coming to the fore.

Cyber insurer Coalition launched in 2017, backed by capacity from Swiss Re Corporate Solutions and Argo Group. Coalition, co-founded by technology entrepreneurs Joshua Motta and John Hering, provides cybersecurity products, including comprehensive cyber and technology error and omission insurance, for small and midsize businesses.

Small-business insurance is also poised for disruption. Up to one-quarter of total premium in that market could be digitally underwritten by 2020, according to industry reports. Several startups, along with their incumbent insurance partners, are already shaking up the small-business market.

Last year, Travelers Insurance acquired U.K. broker Simply Business for $490 million. Simply Business specializes in small business insurance.

AIG and Bermuda-based Hamilton Insurance Group joined forces with investment manager Two Sigma to create a technology-enabled insurance sales platform for small to medium-size businesses.

Personal lines also continues to dominate the insurtech space. In 2017, 42% of new global investments went into property/casualty, according to Accenture.

Now many expect to see a greater push into the commercial segment. And life insurance, annuities and health insurance markets will also increasingly capture the attention of investors and entrepreneurs this year, said Laird Rixford, CEO of Insurance Technologies Corp. ITC provides marketing, rating and management software and services to insurers, agents and industry startups.

The Insurer View

Insurers' views on innovation may also undergo some shifts this year.

For years, insurtech has been seen as an industry disrupter and competitive threat. But that's changing.

Now insurers see insurtech as more of an enabler, and they're looking for ways to take advantage of those enabling capabilities, said Tom Kavanaugh, a partner in the financial services practice at PwC.

That creates new opportunities for the industry to partner with startups rather than compete against them, Rixford said.

No longer is insurtech just a target for venture capital private equity, Accenture's Costonis said. "It's a burgeoning global phenomenon."

That's changing the way insurers across the world need to reshape the technology landscape and drive investments to bolster the customer experience, he said.

In 2017, incumbent insurers fueled the insurtech momentum with a record 120 private technology investments, 35 of which were made in the fourth quarter, global advisory, broking and solutions company Willis Towers Watson reports.

Insurers often invest in new startups for one of two reasons: As a pure investment with hopes for a positive return and/or as a way to benefit the insurer's business through utilization of that technology, EY's Connolly said.

While insurers' investment dollars will continue to flow into the market, they'll do so to a lesser degree than in the past, CB Insights' Wong said.

They'll still be part of the process but they won't fuel the momentum, he said.

"What we've largely seen so far is insurers looking to invest in complimentary technologies. These range from drone and smart home technologies to cybersecurity and car sharing," Wong said.

Insurtech investments alone won't drive innovation in the industry.

Insurers are starting to think about other ways to develop their own digital products to compete with new startups while also learn from them, Wong said.

There has already been some movement in that direction.

Travelers recently created Traverse to provide personal insurance for consumers who don't need a traditional home or auto policy.

Travelers is also gearing up for the future and expanding into new digital plans. "That's another indication that incumbents realize that they need to use technology in different ways in order to engage with today's generation of customers," Wong said.

State Farm is developing digital strategies through its wholly owned subsidiary, HiRoad Assurance—a behavior-based insurance company that rewards insureds for smart driving and mindful living.

HiRoad is now selling auto insurance and will begin offering home and travel insurance this year to Rhode Island residents. State Farm is initially testing HiRoad in Rhode Island—a state where the insurer doesn't have any captive agents.

"Just look at State Farm's development of HiRoad. While it's unclear what the market will look like over time or if such initiatives will succeed, that launch signals that State Farm realizes the industry will look

The number of insurtech investments will likely taper off this year. A growing maturity in the startup space and anticipated consolidation in the market will likely fuel that trend.

David Connolly
EY

a whole lot different than it does today, whether it's in auto, homeowners, the role of the agent or other areas," Wong said.

Thriving or Not Surviving

While insurtechs have been viewed as a competitive threat, not all will scale and survive.

"That's especially true of those focused solely on point solutions that just use one piece of the process," Accenture's Costonis said.

Arguably, insurtechs focused on full-line distribution or those that eventually become insurance companies stand the best chance for success, he said.

While some experts believe insurtech investments have hit their tipping point, the pipeline of new business capabilities that emerging technologies can enable for insurers continues to explode.

"Today, great ideas are enabling insurance to happen in ways that we've never dreamed of before, and those ideas will persist," EY's Connolly said.

"Often those ideas come from individuals outside the industry who don't understand insurance and its regulatory environment," Connolly said. "We see a lot of insurtechs fall short after they make it through the design phase because they're unable to survive in the real world."

Survivors will find success in areas such as machine learning and artificial intelligence, data analytics, the internet of things and claims and underwriting intelligence. "That's where companies will get the biggest bang for their buck," Rixford said.

Regulation also can pose some significant obstacles for insurtechs. Creating a successful startup in the complex, heavily regulated insurance industry can be a difficult task. Seventy percent of companies that receive investments either fail or become self-sustaining, according to CB Insights.

Successful startups can later become potential targets of M&A interest from incumbent insurers, large technology companies and institutional and retail investors, EY's Connolly said.

While consolidation may shape the future of the industry, Wong said it's still very early in the cycle. "There will be startups that die off and others that will be acquired as in any hot area in a venture cycle. But I don't expect it to be a sudden collapse or consolidation phase."

Instead, he expects to see more internet platforms and insurance services providers move into the market.

"We're also starting to see larger platform players looking to partner up or get involved in insurance," Wong said.

In March, Asian on-demand transportation and fintech platform Grab announced its partnership with Chubb to offer insurance solutions to Grab's driver-partners.

Time Will Tell

Today, there are more than 1,500 insurtech startups worldwide, according to an estimate by Willis Towers Watson. It's unclear how many new deals will soon be added to that list.

Technology, however, will remain top of mind in the insurance C-suite, Wong said. "We see that coming through in earnings calls and investment announcements, and it's a very good thing."

The focus on innovation will drive the need for even more technology developments in the sector. This will be a big year for insurtech, Rixford said.

"Maybe not in terms of the number of deals but in the way existing startups will innovate the industry. This year we'll start to see many of the ideas that have been developing over the years come to light," Rixford said.

"And those new technologies and new ways of doing business will really change the insurance industry." BR

Chung

Secara

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BLOCKCHAIN REVOLUTION

Use of blockchain technology is expected to grow as it helps to improve claims management, product development and boost customer satisfaction.

by Huhnsik Chung and Nicholas Secara

Blockchain is about to transform the financial services industry. The entire value chain—from risk underwriting to policy development and issuance to claims management and adjudication and ultimately to financial settlement—will be more efficient and transparent through the use of the publicly distributed ledger.

Insurers can use the shared, public ledger to detect fraudulent and erroneous claims, streamline their claims reporting and management processes, improve the engagement and satisfaction of their insureds and develop new products and payment mechanisms. While blockchain is a nascent technology, its use should grow exponentially as the benefits it offers to the financial services industry become tangible.

Key Points

The Blockchain Advantage: Insurers can use the shared, public ledger to detect fraudulent claims, streamline their claims reporting, improve the engagement and satisfaction of their insureds and develop new products and payment mechanisms.

Fraud Control: By limiting their frequency and severity, blockchain stands to significantly reduce the financial impact of fraudulent and erroneous claims.

Data and Products: As big data explodes, blockchain's ability to collect and transmit information creates a significant opportunity that insurers can exploit to develop new products and payment mechanisms.

Detect Fraud and Errors

Transparency is a key characteristic of blockchain that will enable insurers to more efficiently detect fraudulent and erroneous claims. Because all transactions executed via the blockchain are recorded on a public, decentralized ledger, the data for each individual insured is available in a single, accessible location. Insurers can access this digital warehouse to verify the authenticity of each claim, to detect fraudulent losses or falsified identification information, as well as counterfeit products. Duplicate or otherwise erroneous claims will also be discernible in a much faster and more efficient manner in comparison to historical claims management procedures.

By limiting their frequency and severity, blockchain stands to significantly reduce the financial impact of fraudulent and erroneous claims. In *Blockchain in Insurance: Opportunity or Threat?,* McKinsey and Company reports that 5% to 10% of all claims are fraudulent. In the United States, the FBI has reported that fraudulent claims cost U.S. nonhealth insurers more than $40 billion annually. The early adoption of blockchain by a critical mass of insurance industry participants could drastically reduce this figure. In this regard, blockchain could serve as the rising technological tide that lifts all boats in the insurance industry.

Blockchain also can serve as a validation mechanism in developing markets especially where claims adjusters cannot easily perform claims adjudication. Insurers' inability to validate losses of tangible assets in these often volatile locales frequently deters or outright prevents insurers from accepting risks in these markets. Blockchain can potentially make these risks more palatable, as the technology provides a means for publicly recording the status of specific assets. That could lead to increased insurance penetration and adoption rates in developing markets, according to a July 2017 *Harvard Business Review* article "Blockchain Could Make the Insurance Industry Much More Transparent" by Dante Disparte, founder and CEO of Risk Cooperative, a risk advisory and insurance brokerage firm.

Streamline Claims Reporting

By incorporating blockchain into services that deal with policyholders, insurers will improve their claims reporting and management processes. In today's dynamic environment characterized by the exponential growth of mobile technology and the explosion of big data, blockchain can be a means of efficiently organizing and sharing information between industry participants. An insured can use an application on a mobile device to submit claim information immediately upon the occurrence of a loss, for instance, which in turn may reduce loss adjuster costs and potentially increase the accuracy of claim information.

Moreover, claims reporting might become entirely automatic as smart devices permeate the consumer goods market, creating a complex matrix of interconnections via the internet of things. These smart devices will be able to transmit claim information to insurers via the blockchain immediately upon an occurrence. Full automation notwithstanding, in the immediate future insurers will have access to a massive inflow of data that can be collected, categorized and quantified using the blockchain.

This data will be increasingly valuable as insurers use it to develop more accurate actuarial models with predictive analytics, evaluate new claims and transmit claim data in real time, and quickly identify new products to market.

Managing auto and life insurance claims is an area where blockchain will be particularly helpful. An obvious benefit to insurers is that blockchain can be used to collect data immediately after a collision from sensors embedded within the insured vehicle or on other devices in the vicinity. Of equal or even greater benefit to insurers is the data that can be collected and analyzed prior to the issuance of an auto policy. Blockchain can transmit information about driver tendencies, traffic patterns, and acceleration and braking trends, all of which insurers can use to more accurately underwrite and price their policies, according to an EY report, *Blockchain in Insurance: Applications and Pursuing a Path to Adoption*.

A decentralized ledger that includes verified, contact information for each beneficiary should increase the likelihood that insurers will be able to locate and compensate the appropriate individuals, while maintaining their confidentiality via encryption.

Life insurance, likewise, will benefit from the use of blockchain technology. In the United States, $7.4 billion in life insurance benefits are unclaimed annually. A decentralized ledger that includes verified, contact information for each beneficiary should increase the likelihood that insurers will be able to locate and compensate the appropriate individuals, while maintaining their confidentiality via encryption.

Improve Engagement

Insured engagement and satisfaction will increase through the use of blockchain. Once an insured's personal information has been recorded and verified, the data can be used repeatedly for renewals or entering into new policies. Insurers and insureds alike will benefit from the reduction of redundancies that are inherent in the renewal and application processes. Blockchain also should alleviate the insured's fear of losing control of personal information as the data is encrypted. Not all personal data necessarily needs to be stored on the blockchain. An insured can send a limited amount of encrypted personal data to a physician or other health care professional for a tailored purpose, for instance, such as verification. The transmission of data directly to the health care provider also removes the insurer from the transmission chain, obviating the need for a third-party intermediary.

Blockchain also will increase the speed and transparency associated with the claims settlement process. An insurer can design an insurance policy on the blockchain using a smart contract that is intended to pay a specific sum to the insured upon a triggering event. McKinsey and Company has reported on startups that have designed smart contracts to automatically issue payments to policyholders for the difference in their airline ticket prices if the insureds' flights are canceled or delayed. The trigger for payment is simply that a pre-determined, verified source confirm the flight changes. The ease of receiving payment is of particular interest to millennial insureds, who expect an automated, interconnected, internet-of-things world.

Develop New Products

As big data explodes, blockchain's ability to collect and transmit information creates a significant opportunity that insurers can exploit to develop new products and payment mechanisms. Insurers will have real-time access to voluminous information meticulously detailing the precise risk factors that their insureds confront in specific jurisdictions.

Insurers will be able to use this information to develop bespoke coverages for special risks based on their respective risk appetite and cost-benefit analysis, potentially issuing coverage to an array of insureds ranging from large industrials to purchasers of microinsurance in developing countries. In addition, by using blockchain insurers and insureds can frictionlessly transmit premium and benefit payments via any of the hotly debated cryptocurrencies, such as bitcoin or ethereum.

Last June AIG and IBM, for instance, said they had developed an insurance policy using blockchain to manage a complex international insurance program for Standard Chartered Bank PLC. The companies said this smart contract was the first of its kind, using blockchain's digital ledger technology to facilitate the transmission of information for a main policy written in the United Kingdom, and three local policies written in the United States, Singapore and Kenya.

This blockchain-based, smart contract enabled the insured, its individual business units and its insurer to simultaneously transmit all data and documents for the underlying policies, as well as receive notice of any payments. Blockchain will play an important role in scenarios, where large multinational companies headquartered in one jurisdiction have affiliates in various other jurisdictions, each of which imposes different regulations, documentation requirements and payment terms. More broadly, blockchain will be particularly useful for political risk insurance. With political risk insurance, insurers typically confront a series of complex, ill-defined risks that often are located in volatile, inaccessible regions of the world. These risks demand a significant degree of trust between the insurer and insured, and can be difficult and slow to issue, thereby, delaying any potential investment or cross-border capital flow. Here, blockchain can provide speed and security for these risks, thus, lowering or eliminating barriers of entry to previously inaccessible markets. BR

Mind Your ABCs

New technologies—particularly AI, blockchain, and the cloud—will help spur vital disruption and infuse new life into the insurance landscape.

by Pat Renzi

Digital disruption is touching every aspect of the consumer market, including the insurance industry. Customers expect more personalized, agile, and on-demand delivery, causing insurers to keep pace and deliver more relevant solutions for a changing user landscape. What's more, the digital revolution is demanding internal changes to drive digital transformation within the organization and operate in more cost-effective ways.

Insurance companies face added pressure, because it's not just about disruption in their own backyards. Industries such as travel, automotive, health and financial services, all of which are deeply tied to the insurance industry, have undergone significant disruptions of their own. Even more concerning are pressures from outside industries that believe they can approach common insurance concerns in better ways. Companies such as WeWork or Amazon are making the ability to deliver better insurance options to their employees and customers a top priority.

Despite these pressures, savvy insurers are preparing for a future that delivers more relevant solutions to their customers. This requires they learn from the pitfalls and successes of other industries and find ways of reaching customers that transcend markets.

Emerging technology offers a solution for many of the concerns today's insurers face as it creates a foundation of opportunity and lays the groundwork to not only navigate disruption, but to deliver true innovation and value. The ABCs of insurance technology—specifically artificial intelligence (AI), blockchain and the cloud—must be front and center in every insurance company's strategic initiatives.

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Key Points

The Situation: Insurers are facing the pressures of digital disruption from within and outside the industry.

New Tools: Emerging technology including artificial intelligence, blockchain and the cloud are helping insurers to not only navigate disruption but to deliver innovation and value.

What's Ahead: Insurance companies that engage in mutually beneficial partnerships with diverse experts or startups in the field will see faster, smarter and more successful disruption.

Artificial Intelligence

AI serves two distinct purposes in the insurance landscape—data analytics and automation. Information derived from machine learning and predictive analytics enables insurance companies to not only better understand the customers they serve, but to anticipate their needs and provide valuable advice to keep customers protected. This speed and agility allows the insurance industry to match stride with others in the digital age.

Between massive flooding and raging wildfires, reinsurers and insurers report that 2017 was a devastating year across the country, causing the insurance industry to keep pace with a deluge of claims. When such disasters arise, AI offers access to relevant data that can help insurers process claims faster and get customers the help they need in the moment they need it. Rather than suffering while an insurer imposes requirements of an endless supply of forms, victims of these tragedies can be better served in the times that matter most.

Using chatbots and voice technology, AI also can help automate labor-intensive areas of the insurance process such as claims and underwriting. This not only makes customer transactions more seamless, but also helps reduce costs for the insurer, as these simple but time-consuming tasks can be managed by machine.

The good news is that customers are on board. According to Accenture's *2017 Global Distribution and Marketing Survey*, 74% of consumers say they'd be happy to get computer-generated insurance advice, and 78% would take investment advice from a virtual assistant. AI not only serves insurers, but the modern consumer as well.

New market entrant Lemonade is already making waves in the home insurance sector through its chatbot AI Jim. Though the company says most claims are still routed to a human, AI Jim has processed claims completely on its own, some in mere seconds. This is just a glimpse into the very near future of what insurance carriers will provide their customers.

Another great example of the use of AI is Generali, one of the largest auto insurance companies in Italy. The company was among the first in the industry to create a pay-as-you-drive policy option that takes data from the vehicle, including how often it is driven, how fast a driver goes, how quick that person is to brake, etc.

Using AI, Generali predicts the insurance risk for the driver. Drivers have seen as much as 40% decreases in insurance premiums as a result of these more targeted policies.

Generali is also using that data for wider purposes. Thanks to sensors in the cars it can intelligently assess potential medical concerns following an accident and dispatch appropriate help. In addition, Generali is able to cull collective data and share the most dangerous intersections in a particular region.

Examples like these demonstrate how AI is transforming customer interactions for insurers and that instant, personalized gratification will soon become the expectation and not the differentiation.

Blockchain

Fraud accounts for as much as $80 billion every year across all lines of insurance, according to the Coalition Against Insurance Fraud. Blockchain—where transactions are time-stamped and unalterable, identities are secure, and data is far more trustworthy—presents an interesting opportunity for the insurance industry. With this security and mobility, insurers can depend on this technology for precise, secure delivery.

Beyond just security, blockchain also opens the door to underserved markets. As customers in the developing world turn toward their mobile devices to conduct all transactions, it makes it easier for insurers to engage this market even without traditional financial institutions. This global expansion opens a new realm of opportunity for the insurance industry.

The ABCs of insurance technology—specifically artificial intelligence, blockchain and the cloud—must be front and center in every insurance company's strategic initiatives.

Regulatory hurdles may also be less of a concern with blockchain, as the nature of the model requires less stringent regulations across borders and markets, and concepts such as "smart contracts" make it feasible to deliver legal insurance contracts or death benefits electronically—putting critical information directly into the hands of the consumer.

The Blockchain Insurance Industry Initiative (B3i), made up of European insurance and reinsurance providers, is the first consortium of its kind designed to facilitate an exchange of ideas and a place to pursue proof of concepts in this space. The consortium, now 23 members strong, just celebrated the successful launch of the first reinsurance blockchain prototype and with it there are high hopes to create an efficient platform to more easily cede, handle and trade risks.

While the future of blockchain in insurance looks promising for delivering new and innovative ways to reach the global market, bitcoin's success highlights the economic problem with large blockchains. Bitcoin mining consumes more electricity a year than Ireland, reports the website Digiconomist. This limitation for enterprise solutions, such as insurance, is obviously a problem. Additionally, an ability to scale to numerous transactions per second is also a significant hurdle. Public blockchain implementations, such as Ethereum, can only handle a handful of transactions per second. When high transactional throughput is required, the standard blockchain implementations will struggle to keep up.

The Cloud

The cloud is quickly becoming a critical source for innovation and vast amounts of data. Without a robust cloud strategy, the pace and breadth of innovation is hampered.

The cloud makes it possible to have access to the kind of big data required for organizations to compete today, and it is the mechanism that delivers value from AI applications.

Furthermore, many believe the cloud will address the cost and scale of blockchain to help enable it. In fact, cloud vendors, such as Microsoft Azure, are investing in building open tooling for enterprise blockchain networks, which will see widespread adoption of blockchain in the enterprise.

The cloud has opened up doors to deep data analytics while significantly increasing the speed at which transactions can occur. For this reason, any reticence the industry showed early on has been replaced with a holistic embrace of trusted cloud platforms. Implementing the cloud into business strategy is a positive leap toward a digital insurance landscape.

With this more widespread reliance on the cloud comes a cautionary tale.

Insurers, in particular, manage vast amounts of highly private and personal data, and transacting through the cloud can prove risky if not working with a reputable and knowledgeable vendor. While any new technology brings with it inherent risk, cloud computing is safe and efficient when acquired through large, reliable providers.

For the insurance industry, the cloud has proven itself in three distinct areas: access to data, scalability, and trust and reliability.

The greater access to data—whether to support machine learning, predictive analytics or another form of AI—isn't just about improving the bottom line. It also helps the industry to better understand the customers it serves, and to design and deliver the right products at the right time to the right audience.

Insurance companies are powered by actuarial analysis, something that requires vast amounts of data understanding and computational power. To keep up with a modern on-demand economy, it becomes impossible to conduct this level of analysis on-premise, making the cloud the ideal environment for speed and scalability.

Over time, cloud technology is also proving itself to skeptics, using one of the most stringent units of measurement in the insurance industry—trust and reliability. The more cloud technology transitions from "emerging tech" to "knowable entity," the more readily insurers are able to rely on cloud capabilities to bring to pass other technical innovations.

Spurring Transformation

Emerging technologies—particularly AI, blockchain, and the cloud—have provided a vehicle of change for the insurance industry, and new innovations will help spur vital disruption that will infuse new life and opportunities into the insurance landscape. So how do we transition from talk to action? With all of this inevitable change, who will step forward as clear industry leaders and who might get left behind?

The good news is that innovation is not built on the principles of scarcity. For one to succeed another does not have to fail.

The rise of insurtech has introduced a host of startups to the market, small companies built on digital agility that bring new perspectives to the business of insurance.

Tech giants offer another intriguing opportunity for insurance companies to disrupt or face being disrupted themselves. The recent watershed announcement by Amazon, Berkshire Hathaway, and JPMorgan Chase demonstrates how leading experts in other fields can make real change, even in complex regulatory environments such as insurance.

Partnerships will be critical to innovation. Change does not happen in a silo, and as insurance companies engage in mutually beneficial partnerships with diverse experts or startups in the field they will see faster, smarter and more successful disruption.

Whomever the industry partners with, the bulk of the industry evolution must begin within the walls of our own institutions and gradually expand.

The insurance industry is a valuable and necessary institution, and a holistic internal approach to the challenges it faces will yield the best outcome.

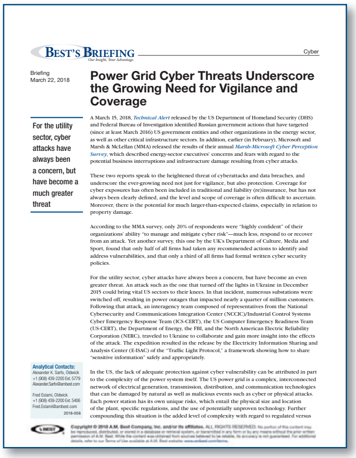
We must individually and collectively shift our focus and recognize the need to become technology-minded companies—using our strengths and skills in insurance, coupled with key partnerships and a newfound understanding and expertise in emerging technology—to provide lasting value to our customers. BR

What A.M. Best Says

Best's Special Reports and Briefings Examine the Role of Technology in Insurance

Best's Briefing (Excerpt): Power Grid Cyber Threats Underscore the Growing Need for Vigilance and Coverage (March 22, 2018)

In the United States, the lack of adequate protection against cyber vulnerability can be attributed in part to the complexity of the power system itself. The U.S. power grid is a complex, interconnected network of electrical generation, transmission, distribution and communication technologies that can be damaged by natural as well as malicious events such as cyber or physical attacks. Each power station has its own unique risks, which entail the physical size and location of the plant, specific regulations, and the use of potentially unproven technology. Further compounding this situation is the added level of complexity with regard to regulated versus nonregulated companies, project finance arrangements, and ownership structures. Unique risks and a highly complex supply chain demand extensive and highly specific underwriting expertise in the areas of loss engineering, claims handling, and loss prevention.


BEST'S BRIEFING
Our Insight, Your Advantage.
Cyber

Briefing
March 22, 2018

Power Grid Cyber Threats Underscore the Growing Need for Vigilance and Coverage

For the utility sector, cyber attacks have always been a concern, but have become a much greater threat

A March 15, 2018, *Technical Alert* released by the US Department of Homeland Security (DHS) and Federal Bureau of Investigation identified Russian government actions that have targeted (since at least March 2016) US government entities and other organizations in the energy sector, as well as other critical infrastructure sectors. In addition, earlier (in February), Microsoft and Marsh & McLellan (MMA) released the results of their annual *Marsh-Microsoft Cyber Perception Survey*, which described energy-sector executives' concerns and fears with regard to the potential business interruptions and infrastructure damage resulting from cyber attacks.

These two reports speak to the heightened threat of cyberattacks and data breaches, and underscore the ever-growing need not just for vigilance, but also protection. Coverage for cyber exposures has often been included in traditional and liability (re)insurance, but has not always been clearly defined, and the level and scope of coverage is often difficult to ascertain. Moreover, there is the potential for much larger-than-expected claims, especially in relation to property damage.

According to the MMA survey, only 20% of respondents were "highly confident" of their organizations' ability "to manage and mitigate cyber risk"—much less, respond to or recover from an attack. Yet another survey, this one by the UK's Department of Culture, Media and Sport, found that only half of all firms had taken any recommended actions to identify and address vulnerabilities, and that only a third of all firms had formal written cyber security policies.

For the utility sector, cyber attacks have always been a concern, but have become an even greater threat. An attack such as the one that turned off the lights in Ukraine in December 2015 could bring vital US sectors to their knees. In that incident, numerous substations were switched off, resulting in power outages that impacted nearly a quarter of million customers. Following that attack, an interagency team composed of representatives from the National Cybersecurity and Communications Integration Center (NCCIC)/Industrial Control Systems Cyber Emergency Response Team (ICS-CERT), the US Computer Emergency Readiness Team (US-CERT), the Department of Energy, the FBI, and the North American Electric Reliability Corporation (NERC), traveled to Ukraine to collaborate and gain more insight into the effects of the attack. The expedition resulted in the release by the Electricity Information Sharing and Analysis Center (E-ISAC) of the "Traffic Light Protocol," a framework showing how to share "sensitive information" safely and appropriately.

In the US, the lack of adequate protection against cyber vulnerability can be attributed in part to the complexity of the power system itself. The US power grid is a complex, interconnected network of electrical generation, transmission, distribution, and communication technologies that can be damaged by natural as well as malicious events such as cyber or physical attacks. Each power station has its own unique risks, which entail the physical size and location of the plant, specific regulations, and the use of potentially unproven technology. Further compounding this situation is the added level of complexity with regard to regulated versus

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2018-058


BEST'S SPECIAL REPORT
Our Insight, Your Advantage.
US Insurance

March 5, 2018

Insurance Industry – Looking Forward

Insurer focus on innovation and technology is crucial in times of change

Planning for the future is essential for all types of business. The speed of technological change has accelerated in the recent past and will likely continue to do so. Along with this technological revolution, we will witness significant demographic shifts and a new economy. Insurers will have to react to this with product innovation, and the competitive environment will surely change as new entrants and established players jostle to take control. Insurers historically have lagged other industries when it comes to keeping up with some of these changes, but setting long-term goals and having an innovation-focused mindset will be critical if companies are going to be prepared for the inevitable changes coming. As we move forward, other variables will need to be considered as well—the legal and regulatory framework will change and insurers will need to be prepared for these aspects as well.

Demographic Shifts

In the near future, the World War II generation will be gone, and the number of Baby Boomers will continue to decline from an estimated 65 million. This will present both a challenge and an opportunity for life, health, and P/C insurers. By 2049, a majority of the US population will not have lived in a world without the smartphone, which took off with Apple's launch of the iPhone in 2007 (**Exhibits 1 and 2**). These demographic trends will drastically change consumer preferences, signs of which are already starting to appear. Younger generations are more comfortable using the internet and smartphones for their insurance needs. Purchasing policies over the internet, getting quotes and customer service through chat tools, or snapping a picture of your damaged car and submitting it through an app are already becoming increasingly commonplace.

Demographically, the population will continue to shift gradually toward younger generations. According to the Pew Research Center, based on US Census Bureau data, Millennials now

Exhibit 1
Age Distribution of US Population, 2014-2060

Source: US Census Bureau

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2018-002

Nevertheless, for some time now, specialty groups in the energy/utility sector have been exploring avenues to leverage their industry knowledge into areas of profitable—but conservative and controlled—growth in cyber. Specialty insurance covers high-hazard insurance, nonstandard general insurance, niche market segments, bespoke underwriting, and excess and surplus lines insurance. A challenging P/C market, along with weakening profitability, led to the growth of the specialty insurance market, which has become increasingly global, with specialty carriers trending in similar lines and facing common issues. As there is no standard definition for specialty insurance, estimating the size of this market is complicated. The specialty group offers both existing and new members opportunities to participate in core insurance programs, as well as broad packages of primary casualty coverage, which allows members to benefit from affiliations with other insurers.

Best's Special Report (Excerpt): Insurance Industry – Looking Forward (March 5, 2018)

Big data and predictive analytics are two of the hottest topics in the industry, but they are both in their infancy in terms of realized potential. This technology just recently became available, and as its speed and flexibility improves, so will its capabilities. The advancement in predictive analytics has already improved the accuracy of risk pricing and has the potential to prevent future losses by enhancing loss control and risk management practices. It is also being used in fraud detection and for more targeted marketing.

As is the case with artificial intelligence (AI), big data and predictive analytics could also pose hurdles for insurers. The legality of using personal data (collected from sources such as search engines and social media) could limit its use for underwriting. In addition, more advanced underwriting tools could disproportionately help or hurt specific demographics, which will likely draw the ire of regulators. Last, whether historical data is still a good indicator for the future, specifically for catastrophes and other non-validated behavioral variables, remains questionable.

Blockchain technology has been touted as a technology that would allow stakeholders to communicate in a seamless, protected, and trustworthy manner. The Blockchain Insurance

Industry Initiative (B3i)—started by Swiss Re, along with a group of Europe's biggest insurers—is exploring the use of blockchain to streamline reinsurance and insurance processes, including maintaining ledgers to serve clients better. The technology is in its infancy and faces challenges in the form of computing speeds, transaction costs, and adoption by end users, etc. However, as the technology matures, the industry will be in a better position to harness the power of its application.

Advancements in the internet of things (IoT) and sensors should have significant benefits for the insurance industry, but not many insurers currently incorporate either in their plans. Improvements in automobile sensors could mitigate or prevent future accidents, which should benefit both claims frequency and severity. Connected devices in homes and businesses should also be able to improve future loss trends, whether it is a smart outlet preventing a fire or a sensor that prevents a pipe from freezing and bursting.

Best's Briefing (Excerpt): Market Segment Outlook: United Kingdom Non-Life (March 21, 2018)

In a highly competitive and increasingly commoditized market, A.M. Best believes that insurers must be proactive and able to respond to changing market conditions at least as quickly as their competitors if they are to remain relevant and avoid losing market share. Advancements in technology mean that pricing can be adapted and rolled out to price aggregators and sales platforms in a matter of minutes, with decisions not made by the executive management team at their next meeting, but instead inbuilt into pricing algorithms that automatically adjust hundreds of times a week. Insurers that have developed these increasingly sophisticated ways of doing business are well positioned to outperform their peers.


BEST'S BRIEFING
Our Insight, Your Advantage.
UK Non-Life

March 21, 2018

Market Segment Outlook: United Kingdom Non-Life

Competitive market conditions, legislative uncertainty and the potential impact of Brexit on the UK economy underpin the negative outlook.

A.M. Best has a negative outlook on the United Kingdom (UK) non-life insurance market. Persistent competitive market conditions, uncertainty related to legislative changes and the potential impact of 'Brexit' on the UK economy, create an overall difficult operating environment and earnings are likely to be depressed over the medium term. Notwithstanding this, capitalisation is generally robust and the sector's risk management capabilities are viewed as strong. Going forward, companies that are able to differentiate themselves and build a competitive advantage through more sophisticated use of data and technology will be better placed to navigate this difficult environment.

The majority of business written by UK non-life insurers falls within the three classes of motor, liability and property. The market has reported accident-year combined ratios above 100% in each of the past five years for both motor and liability business, reflecting a weak pricing environment, combined with high losses arising from a number of factors including an increasingly litigious claims environment, more costly bodily injury claims and ongoing insurance fraud. In contrast, the property segment has generated sub-100% accident year combined ratios in several of the past five years. Property earnings have, however, been buoyed by the absence of major wind and flood activity, which will not persist indefinitely. In addition, overall calendar year underwriting earnings of UK insurers have been impacted by volatile prior year reserve development over the past five years, with 2016/17 results hit by reserve strengthening for personal injury claims in the motor and liability sectors.

The UK market has sought to supplement pure underwriting profitability by marketing an increasingly large range of ancillary products, such as motor breakdown and legal protection, as well as through offering premium financing packages that provide additional income for insurers.

In 2017, insurers had to contend with unrelenting price competition, an unfavourable change in the discount rate used to calculate lump-sum personal injury compensation, a further hike in insurance premium tax, and uncertainty related to the UK's decision to leave the European Union (EU). Whilst a number of these challenges were headline news for the sector in 2017, their impact is likely to be much longer lasting than just a single year.

The sector may benefit from the implementation of the Civil Liability Bill, particularly any changes to whiplash compensation and the way the personal injury discount rate is calculated. But the timing of these reforms is uncertain and A.M. Best notes that there is a concern that any positive impact on the market's technical profitability will be temporary and, over the medium term, insurers will have to pass on savings to policyholders through reduced premium rates. Sacrificing technical margins to remain competitive with peers has been a market dynamic present for many years in this sector and is one that shows no signs of abating.

The ability to continue to conduct business throughout the EU post-Brexit is a pressing concern for Lloyd's, the London market and other UK-based commercial insurers. However, for the

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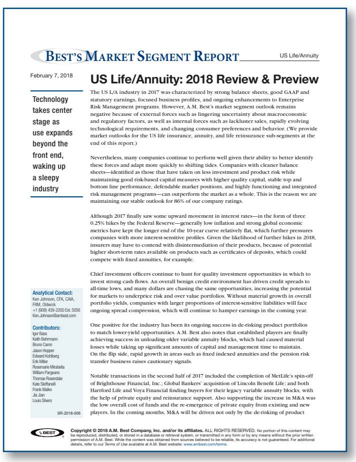
2018-056

Best's Market Segment Report (Excerpt): US Life/Annuity: 2018 Review & Preview (February 7, 2018)


BEST'S MARKET SEGMENT REPORT
US Life/Annuity

February 7, 2018

US Life/Annuity: 2018 Review & Preview

Technology takes center stage as use expands beyond the front end, waking up a sleepy industry

The US L/A industry in 2017 was characterized by strong balance sheets, good GAAP and statutory earnings, focused business profiles, and ongoing enhancements to Enterprise Risk Management programs. However, A.M. Best's market segment outlook remains negative because of external forces such as lingering uncertainty about macroeconomic and regulatory factors, as well as internal forces such as lackluster sales, rapidly evolving technological requirements, and changing consumer preferences and behavior. (We provide market outlooks for the US life insurance, annuity, and life reinsurance sub-segments at the end of this report.)

Nevertheless, many companies continue to perform well given their ability to better identify these forces and adapt more quickly to shifting tides. Companies with cleaner balance sheets—identified as those that have taken on less investment and product risk while maintaining good risk-based capital measures with higher quality capital, stable top and bottom line performance, defendable market positions, and highly functioning and integrated risk management programs—can outperform the market as a whole. This is the reason we are maintaining our stable outlook for 86% of our company ratings.

Although 2017 finally saw some upward movement in interest rates—in the form of three 0.25% hikes by the Federal Reserve—generally low inflation and strong global economic metrics have kept the longer end of the 10-year curve relatively flat, which further pressures companies with more interest-sensitive profiles. Given the likelihood of further hikes in 2018, insurers may have to contend with disintermediation of their products, because of potential higher short-term rates available on products such as certificates of deposits, which could compete with fixed annuities, for example.

Chief investment officers continue to hunt for quality investment opportunities in which to invest strong cash flows. An overall benign credit environment has driven credit spreads to all-time lows, and many dollars are chasing the same opportunities, increasing the potential for markets to underprice risk and over value portfolios. Without material growth in overall portfolio yields, companies with larger proportions of interest-sensitive liabilities will face ongoing spread compression, which will continue to hamper earnings in the coming year.

One positive for the industry has been its ongoing success in de-risking product portfolios to match lower-yield opportunities. A.M. Best also notes that established players are finally achieving success in unloading older variable annuity blocks, which had caused material losses while taking up significant amounts of capital and management time to maintain. On the flip side, rapid growth in areas such as fixed indexed annuities and the pension risk transfer business raises cautionary signals.

Notable transactions in the second half of 2017 included the completion of MetLife's spin-off of Brighthouse Financial, Inc.; Global Bankers' acquisition of Lincoln Benefit Life; and both Hartford Life and Voya Financial finding buyers for their legacy variable annuity blocks, with the help of private equity and reinsurance support. Also supporting the increase in M&A was the low overall cost of funds and the re-emergence of private equity from existing and new players. In the coming months, M&A will be driven not only by the de-risking of product

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SR-2018-006

There is no doubt that the U.S. life insurance industry is being forced to address it shortcomings with respect to the use of technology. Current and future advancements will change the industry at an unprecedented pace. However, such moves go directly against an industry that is characterized as being plodding and slow and that takes it as a compliment to be a fast follower. A. M. Best believes this technological revolution is unlike anything the industry has undertaken and will eventually drive much needed consolidation.

Technological advancements, much like enterprise rise management, must eventually flow throughout a company culture. Every aspect of the business model—including modeling, sales and marketing, product development, claims management and customer service—must be updated and kept current with technology. However, technology enters the industry as a double-edged sword. On the one hand, life insurers will look to reinvent themselves through a series of modernization initiatives; on the other, the industry is open to competitive attacks from non-insurance players with plenty of capital, large customer bases, and a substantial head start in the realm of data mining and technological advances. So, while emerging technology provides opportunities for traditional life insurers to modernize and reinvent their business models and product offerings, it will also force them to respond to new and more nimble competitors from outside the industry.

In the recent past, most of the U.S. life industry has tried to simplify the sales process through technology, which generally meant creating a phone app to reduce or eliminate the use of paper applications and involved only a small segment of the company to work on it. The results of this attempt to raise the level of customer engagement have been mixed at best.

Today, industry CEOs need to understand concepts such as insurtech, blockchain, smart contracts, chatbots, the internet of things (IoT) and artificial intelligence (AI), and how each relates to their industry. They can no longer relegate technology-related matters to the IT department. Many knew they had to be involved in the technological wave being driven by so-called disrupters from outside the industry. The primary response was to be seen as being involved in big data and predictive analytics. More recently, this has expanded to making seed investments across the insurtech space and waiting to see what technology catches on.

Insurers remain focused on solving the automated sales concept. This push attempts to speed up the ultimate processing of selling an insurance product while simultaneously reducing costs. The ability to expedite the sales process is also essential in today's competitive market. The growing millennial market comes with high expectations for customer engagement, speed and a more personalized experience. This is one area where artificial intelligence has and will be continued to be used to improve the sales experience and help penetrate underserved markets. Much like at Amazon, AI needs to be used to accumulate customer data, search the internet for additional social detail, create a profile, and target specific individuals with specific insurance products, which will increase the likelihood of a successful sale.

Also, for either prospective or in-force policyholders, insurers can use IoT technologies or smart devices such as wearables to obtain biometric measures (heart rate, blood pressure, sugar levels) to make real-time personalized decisions and potentially manage risk better.

A. M. Best believes that the life insurance industry has made up some ground but that most companies have a long way to go to better incorporate today's technology in antiquated business models. Intense competition can bring out the best in some companies, but cause others to be left behind.

Technology could and may be the biggest driver of M&A over the next few years. Although it is less likely that a company like Amazon would want to become a full-fledged insurer (despite its recent activity in the U.K.), it and similar companies may prove a substantial partner with unmatched capabilities in data management, customer segmenting and providing ongoing service. BR

The complete versions of these reports are available at ***ambest.com***.

Best's Rankings

U.S. Property/Casualty – 2017 Financial Results

Top 25 Writers

Ranked by net premiums written as of Dec. 31, 2017.

($ Thousands)

Company or Group Name	Net Premiums Written	Admitted Assets	Policyholder Surplus	<------- % CHANGE -------> DPW	NPW	ADMT ASTS	PHS	DPW/ PHS	GPW/ PHS	NPW/ PHS	LIA/ PHS	NET LEV	NET INC/ NPE	COMB A/DIV 12 MOS 2017	12 MOS 2016
State Farm Group	$64,604,365	$192,325,888	$97,026,993	4.3	3.6	7.9	10.8	0.7	0.7	0.7	1.0	1.7	2.6	109.9	108.7
Berkshire Hathaway Ins	46,006,795	323,294,154	170,264,117	15.3	18.6	25.3	25.3	0.2	0.5	0.3	0.9	1.2	25.7	102.3	95.0
Allstate Ins Group	30,560,792	51,328,506	18,318,226	2.0	2.3	5.3	11.1	1.7	3.1	1.7	1.8	3.5	9.8	94.9	96.8
Liberty Mutual Ins Cos	28,625,043	78,260,746	17,966,550	5.0	7.4	6.0	-11.1	1.9	4.6	1.6	3.4	5.0	-3.8	109.7	102.5
Progressive Ins Group	27,134,228	35,542,604	9,640,470	16.3	16.2	16.6	12.6	2.9	5.8	2.8	2.7	5.5	5.2	93.2	95.3
Travelers Group	24,464,954	77,724,281	19,903,068	4.0	4.8	2.0	-1.7	1.2	3.3	1.2	2.9	4.1	15.3	97.2	91.8
USAA Group	19,607,612	46,169,007	26,525,561	10.3	10.2	6.2	4.7	0.8	1.2	0.7	0.7	1.4	4.3	104.9	106.5
Nationwide Group	18,871,828	52,915,798	14,741,180	-2.7	-2.3	-0.1	-5.1	1.3	3.0	1.3	2.6	3.9	-3.5	113.3	107.7
Farmers Ins Group	14,263,415	29,223,859	5,558,414	0.9	-3.4	2.5	0.0	3.6	9.6	2.6	4.3	6.9	0.8	103.5	105.4
Amer Intl Group	14,179,180	80,430,608	21,615,055	-10.0	-12.8	-13.8	-1.7	0.6	2.0	0.7	2.7	3.4	-4.6	126.7	131.6
Chubb INA Group	10,928,294	59,486,372	13,160,552	2.3	-9.7	-6.4	-26.0	1.6	3.5	0.8	3.5	4.3	52.4	94.7	88.9
Hartford Ins Group	10,520,546	40,582,734	11,459,082	-1.3	-1.0	-5.0	-19.8	1.0	2.4	0.9	2.5	3.4	19.4	102.9	100.0
Amer Family Ins Group	8,363,098	18,396,353	6,631,365	7.1	6.2	7.0	-3.4	1.3	2.0	1.3	1.8	3.1	1.7	108.1	100.5
Auto-Owners Ins Group	6,862,973	20,309,180	10,962,742	10.2	10.3	7.2	10.3	0.7	0.7	0.6	0.9	1.5	9.6	93.3	90.0
Erie Ins Group	6,629,010	17,853,915	8,802,787	6.0	6.0	12.7	14.2	0.8	1.0	0.8	1.0	1.8	10.1	96.2	96.5
CNA Ins Cos	6,391,908	44,262,777	10,726,216	1.9	0.4	0.1	-0.2	1.0	1.3	0.6	3.1	3.7	19.6	109.7	115.0
Tokio Marine US PC Group	6,224,364	24,049,555	7,265,419	4.0	4.8	8.1	4.7	0.9	1.2	0.9	2.3	3.2	12.3	96.6	93.6
W. R. Berkley Ins Group	5,594,506	19,774,600	5,481,758	0.4	-2.0	2.3	-0.2	1.0	2.2	1.0	2.6	3.6	13.3	93.9	94.4
Munich-Amer Hldg Corp Cos	5,478,555	22,332,774	5,235,220	1.8	28.0	3.1	-15.1	0.5	1.9	1.0	3.3	4.3	-11.9	111.6	97.0
Fairfax Financial (USA) Group	5,470,328	21,783,918	6,941,472	6.8	7.2	3.3	1.3	0.8	1.5	0.8	2.1	2.9	-2.7	101.7	95.7
Cincinnati Ins Cos	4,843,959	13,373,751	5,093,566	4.5	5.7	6.8	8.7	1.0	1.1	1.0	1.6	2.6	10.3	97.2	94.5
Zurich Finl Svcs NA Group	4,630,422	32,125,175	7,639,652	0.9	9.9	2.1	-3.0	1.5	2.3	0.6	3.2	3.8	18.5	97.9	96.3
Alleghany Ins Holdings Group	4,481,308	19,405,372	6,882,395	1.3	-1.8	5.8	3.1	0.2	0.9	0.7	1.8	2.5	3.2	107.3	92.6
Great Amer P & C Ins Grp	4,229,043	12,164,417	2,884,604	6.2	8.0	5.5	-1.9	2.0	3.2	1.5	3.2	4.7	16.0	93.0	90.0
The Hanover Ins Grp Prop & Cas Cos	4,110,269	8,626,405	2,077,091	6.3	5.8	3.8	-4.4	2.2	3.6	2.0	3.2	5.2	9.4	98.5	100.9
Top 25 Writers	**$383,076,795**	**$1,341,742,751**	**$512,803,555**	**4.8**	**5.2**	**7.1**	**8.1**	**0.8**	**1.5**	**0.7**	**1.6**	**2.3**	**8.9**	**103.6**	**101.5**
Top 100 Writers	**$494,939,810**	**$1,718,950,613**	**$652,252,751**	**4.8**	**5.0**	**6.7**	**7.2**	**0.8**	**1.5**	**0.8**	**1.6**	**2.4**	**8.2**	**103.7**	**100.9**
Total U.S. PC Industry	**$556,057,974**	**$1,984,541,545**	**$760,140,132**	**5.0**	**4.7**	**6.2**	**6.7**	**0.8**	**1.5**	**0.7**	**1.6**	**2.3**	**8.1**	**103.9**	**100.7**

Source: A.M. Best
Data as of March 15, 2018.

U.S. Life/Health – 2017 Financial Results

Top 25 U.S. Life/Health Groups

Ranked by admitted assets as of Dec. 31, 2017.

($ Thousands)

Company or Group Name	Admitted Assets	12-Month % Chg	Separate Account Assets	Net Premiums Written	12-Month % Chg	After-Tax Net Oper Gain	Realized Gains/ Losses	C&S + AVR	12-Month % Chg	Adj C&S/ Adj Liab (%)
Prudential of America Group	$595,555,706	3.8	$416,009,415	$35,939,305	-17.9	$5,894,740	-$2,591,416	$20,830,364	6.6	13.1
Metropolitan Life & Affiliated Cos	427,448,980	0.9	142,616,627	21,136,778	-22.1	6,303,793	-1,073,854	22,382,028	-0.3	8.5
New York Life Group	320,496,126	5.6	54,640,201	28,400,612	0.7	1,924,209	-57,265	24,198,211	3.7	10.0
TIAA Group*	307,292,117	4.6	42,648,118	16,121,127	1.5	1,645,307	-595,628	41,771,212	5.0	18.7
AIG Life & Retirement Group	290,019,361	4.4	96,254,494	16,620,050	999.9	2,222,651	-1,080,233	14,518,656	-1.5	8.1
John Hancock Life Insurance Group	272,029,693	6.1	158,105,790	20,045,864	32.7	2,506,591	-418,364	10,555,339	24.7	10.2
Northwestern Mutual Group	265,145,196	5.8	32,461,832	17,698,660	0.2	931,654	92,836	25,184,939	6.4	12.1
Lincoln Finl Group	254,926,788	8.3	146,859,504	18,805,467	13.4	1,383,717	139,096	9,155,421	4.5	9.3
Massachusetts Mutual Life Group	251,812,588	7.1	75,504,812	17,746,667	-16.4	567,521	-433,567	19,013,688	1.7	12.1
Jackson Natl Group	241,568,398	11.6	176,578,848	19,186,486	2.2	2,870,211	-2,627,305	4,301,868	-19.6	7.1
Aegon USA Group	217,575,851	1.8	136,900,786	4,147,237	-82.0	761,902	-355,290	9,775,223	0.3	13.8
Brighthouse Ins Group	213,449,643	14.9	125,773,761	12,634,406	26.3	-268,998	-1,678,161	7,607,742	41.6	9.5
Voya Finl Group	200,198,070	5.7	107,959,051	15,874,732	-0.5	1,695,125	-732,186	6,284,541	-4.6	7.3
Axa Finl Group	199,534,700	11.9	141,189,630	13,423,159	0.8	1,766,725	-878,851	8,393,775	46.2	16.8
Principal Finl Group Inc.	189,320,923	10.3	118,178,632	8,339,625	6.8	1,118,565	854,285	5,986,862	8.4	9.2
Nationwide Mutual Life Group	171,244,359	12.7	108,772,195	17,162,398	21.0	1,020,203	-255,335	6,499,009	13.6	11.6
Hartford Life Ins Group	157,546,216	1.6	119,817,794	6,440,452	109.9	-471,083	-225,200	6,026,167	-6.8	19.0
Allianz Life Ins Group	141,291,787	8.3	29,506,692	10,250,648	-20.5	-2,815,204	3,615,100	6,740,021	-0.7	6.4
Pacific Life Group	135,236,993	8.5	61,455,858	9,788,498	11.7	832,752	414,732	9,924,641	7.4	15.5
Aflac Inc Group	114,329,112	3.9	0	18,993,565	-3.9	2,610,077	-15,397	12,147,552	0.2	11.9
Ameriprise Finl Group	113,652,262	6.1	82,729,138	5,454,848	-8.9	956,656	-782,890	2,451,472	-19.7	8.6
Thrivent Finl for Lutherans Group	94,652,846	7.2	32,066,109	5,151,459	-8.1	451,326	74,163	9,506,507	7.5	17.9
Sammons Finl Group	82,102,685	12.0	4,658,582	6,486,901	-18.4	616,868	76,362	5,372,593	6.5	7.4
Guardian Life Group	76,640,193	6.1	13,632,429	8,694,238	25.4	622,438	-160,461	7,586,701	7.7	13.7
State Farm Life Group	75,995,849	4.3	1,782,556	5,258,272	-7.2	445,224	46,889	12,803,335	8.0	20.7
Top 25	**$5,409,066,442**	**6.2**	**$2,426,102,856**	**$359,801,452**	**-1.3**	**$35,592,972**	**-$8,647,939**	**$309,017,867**	**5.1**	**11.5**
Top 100	**$6,961,136,879**	**6.5**	**$2,686,098,640**	**$570,250,467**	**-1.3**	**$47,438,106**	**-$8,445,217**	**$440,855,850**	**5.1**	**11.5**
Total U.S. Life/Health Industry	**$7,069,881,848**	**6.5**	**$2,688,925,510**	**$592,230,591**	**-1.0**	**$48,774,946**	**-$8,311,052**	**$458,722,275**	**5.0**	**11.7**

* TIAA's assets are significantly understated. Most of its separate account assets are in its affiliate, CREF.
Source: A.M. Best
Data as of March 15, 2018.

Best's Credit Rating Actions

This edition lists all Credit Rating actions that occurred between March 1 and March 31, 2018. For the Credit Rating of any company rated by A.M. Best and basic company information, visit the A.M. Best website at *www.ambest.com/ratings/access.html* or download the ratings app at *www.ambest.com/sales/ambmobileapp*.

Operating Companies

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
		U.S., CANADA AND BERMUDA LIFE/HEALTH						
New	H	Allina Health and Aetna Insurance Co	062225	A u a u	Negative Negative			Minnesota
⊕	L	American Family Life Insurance Company *American Family Insurance Mutual Hldg Co*	006052	A a+	Stable Stable	A u a u	Positive Positive	Wisconsin
⚑	L	American Retirement Life Insurance Co *Cigna Corporation*	008831	A- u a- u	Negative Negative	A- a-	Stable Stable	Ohio
—	L	Atlanta Life Insurance Company *Alonzo F. & Norris B. Herndon Foundation*	006130	C++ b+	Stable Negative	B- bb-	Stable Stable	Georgia
⚑	L	AXA Corporate Solutions Life Reinsurance *AXA S.A.*	009083	B+ u bbb- u	Developing Developing	B+ bbb-	Stable Stable	Delaware
⚑	L	AXA Equitable Life and Annuity Company *AXA S.A.*	009516	A- u a- u	Developing Developing	A- a-	Stable Stable	Colorado
⚑	L	AXA Equitable Life Insurance Company *AXA S.A.*	006341	A u a+ u	Developing Developing	A a+	Stable Stable	New York
⚑	H	Bravo Health Mid-Atlantic Inc *Cigna Corporation*	064697	A- u a- u	Negative Negative	A- a-	Stable Stable	Maryland
⚑	H	Bravo Health Pennsylvania Inc *Cigna Corporation*	064743	A- u a- u	Negative Negative	A- a-	Stable Stable	Pennsylvania
⚑	L	Brooke Life Insurance Company *Prudential plc*	068117	A+ u aa- u	Developing Developing	A+ aa-	Stable Stable	Michigan
⚑	H	Central Reserve Life Insurance Company *Cigna Corporation*	006203	A- u a- u	Negative Negative	A- a-	Stable Stable	Ohio
⚑	H	Cigna Dental Health of California Inc *Cigna Corporation*	060171	A u a u	Negative Negative	A a	Stable Stable	California
⚑	H	Cigna Dental Health of Florida Inc *Cigna Corporation*	060173	A u a u	Negative Negative	A a	Stable Stable	Florida
⚑	H	Cigna Dental Health of Maryland Inc *Cigna Corporation*	060176	A u a u	Negative Negative	A a	Stable Stable	Maryland
⚑	H	Cigna Dental Health of Missouri Inc *Cigna Corporation*	064702	A u a u	Negative Negative	A a	Stable Stable	Missouri
⚑	H	Cigna Dental Health of New Jersey Inc *Cigna Corporation*	060184	A u a u	Negative Negative	A a	Stable Stable	New Jersey
⚑	H	Cigna Dental Health of Ohio Inc *Cigna Corporation*	060179	A u a u	Negative Negative	A a	Stable Stable	Ohio
⚑	H	Cigna Dental Health of Pennsylvania Inc *Cigna Corporation*	060180	A u a u	Negative Negative	A a	Stable Stable	Pennsylvania
⚑	H	Cigna Dental Health of Texas Inc *Cigna Corporation*	060181	A u a u	Negative Negative	A a	Stable Stable	Texas
⚑	H	Cigna Dental Health of Virginia Inc *Cigna Corporation*	064706	A u a u	Negative Negative	A a	Stable Stable	Virginia
⚑	H	Cigna Dental Health Plan of Arizona Inc *Cigna Corporation*	060170	A u a u	Negative Negative	A a	Stable Stable	Arizona
⚑	H	Cigna Health and Life Insurance Company *Cigna Corporation*	006871	A u a u	Negative Negative	A a	Stable Stable	Connecticut
⚑	H	Cigna HealthCare of Arizona Inc *Cigna Corporation*	068726	A u a u	Negative Negative	A a	Stable Stable	Arizona

Rating Action: (⊕) Upgrade; (—) Downgrade; (New) Initial Rating; (⚑) Under Review; (⇅) Change in Outlook; (⇥) Rating Withdrawal; (☑) Rating Affirmation.
Outlook: Positive, Negative, Stable. **Implications:** Positive, Negative, Developing. **Business Type:** **P** = Property/Casualty (Non-Life); **L** = Life; **H** = Health; **T** = Title; **C** = Composite.

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
		U.S., CANADA AND BERMUDA LIFE/HEALTH (CONTINUED)						
⚑	H	Cigna HealthCare of California Inc *Cigna Corporation*	068912	A u a u	Negative Negative	A a	Stable Stable	California
⚑	H	Cigna HealthCare of Colorado Inc *Cigna Corporation*	068864	A u a u	Negative Negative	A a	Stable Stable	Colorado
⚑	H	Cigna HealthCare of Connecticut Inc *Cigna Corporation*	068865	A u a u	Negative Negative	A a	Stable Stable	Connecticut
⚑	H	Cigna HealthCare of Florida Inc *Cigna Corporation*	068860	A u a u	Negative Negative	A a	Stable Stable	Florida
⚑	H	Cigna HealthCare of Georgia Inc *Cigna Corporation*	068753	A u a u	Negative Negative	A a	Stable Stable	Georgia
⚑	H	Cigna HealthCare of Illinois Inc *Cigna Corporation*	068867	A u a u	Negative Negative	A a	Stable Stable	Illinois
⚑	H	Cigna HealthCare of Indiana Inc *Cigna Corporation*	068536	A u a u	Negative Negative	A a	Stable Stable	Indiana
⚑	H	Cigna HealthCare of New Jersey Inc *Cigna Corporation*	068862	A u a u	Negative Negative	A a	Stable Stable	New Jersey
⚑	H	Cigna HealthCare of North Carolina Inc *Cigna Corporation*	068570	A u a u	Negative Negative	A a	Stable Stable	North Carolina
⚑	H	Cigna HealthCare of South Carolina Inc *Cigna Corporation*	068594	A u a u	Negative Negative	A a	Stable Stable	South Carolina
⚑	H	Cigna HealthCare of St Louis Inc *Cigna Corporation*	068877	A u a u	Negative Negative	A a	Stable Stable	Missouri
⚑	H	Cigna HealthCare of Tennessee Inc *Cigna Corporation*	068878	A u a u	Negative Negative	A a	Stable Stable	Tennessee
⚑	H	Cigna HealthCare of Texas Inc *Cigna Corporation*	068828	A u a u	Negative Negative	A a	Stable Stable	Texas
⚑	L	Cigna Life Insurance Company of New York *Cigna Corporation*	006538	A u a u	Negative Negative	A a	Stable Stable	New York
⚑	L	Cigna Worldwide Insurance Company *Cigna Corporation*	008944	A u a u	Negative Negative	A a	Stable Stable	Delaware
⊕	L	CMFG Life Insurance Company *CUNA Mutual Holding Company*	006302	A a+	Stable Stable	A a	Stable Stable	Iowa
▬	H	ConnectiCare Inc *EmblemHealth Inc*	068517	C+ b-	Negative Negative	C++ u b+ u	Negative Negative	Connecticut
⚑	L	Connecticut General Life Insurance Co *Cigna Corporation*	006266	A u a u	Negative Negative	A a	Stable Stable	Connecticut
☑	L	Fidelity & Guaranty Life Ins Co of NY *FGL Holdings*	007122	B++ bbb+	Positive Positive	B++ u bbb+ u	Developing Developing	New York
☑	L	Fidelity & Guaranty Life Insurance Co *FGL Holdings*	006384	B++ bbb+	Positive Positive	B++ u bbb+ u	Developing Developing	Iowa
▬	H	Group Health Incorporated *EmblemHealth Inc*	064601	C+ b-	Negative Negative	C++ u b+ u	Negative Negative	New York
▬	H	Health Insurance Pln of Greater NY *EmblemHealth Inc*	068985	C+ b-	Negative Negative	C++ u b+ u	Negative Negative	New York
⇥	H	Health Net Health Plan of Oregon Inc *Centene Corporation*	068947	NR nr		B++ bbb	Stable Stable	Oregon
⇥	H	Health Net Life Insurance Company *Centene Corporation*	006722	NR nr		B++ bbb	Stable Stable	California
⇥	H	Health Net of Arizona Inc *Centene Corporation*	068713	NR nr		B++ bbb	Stable Stable	Arizona
⇥	H	Health Net of California Inc *Centene Corporation*	068507	NR nr		B++ bbb	Stable Stable	California
⚑	H	HealthSpring Life & Health Insurance Co *Cigna Corporation*	060673	A- u a- u	Negative Negative	A- a-	Stable Stable	Texas
⚑	H	HealthSpring of Alabama Inc *Cigna Corporation*	068784	A- u a- u	Negative Negative	A- a-	Stable Stable	Alabama

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Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
		U.S., CANADA AND BERMUDA LIFE/HEALTH (CONTINUED)						
⚑	H	HealthSpring of Florida Inc	064756	A- u	Negative	A-	Stable	Florida
		Cigna Corporation		a- u	Negative	a-	Stable	
⚑	H	HealthSpring of Tennessee Inc	064300	A- u	Negative	A-	Stable	Tennessee
		Cigna Corporation		a- u	Negative	a-	Stable	
—	H	HIP Insurance Company of New York	008034	C+	Negative	C++ u	Negative	New York
		EmblemHealth Inc		b-	Negative	b+ u	Negative	
⚑	L	Jackson National Life Insurance Co of NY	060216	A+ u	Developing	A+	Stable	New York
		Prudential plc		aa- u	Developing	aa-	Stable	
⚑	L	Jackson National Life Insurance Company	006596	A+ u	Developing	A+	Stable	Michigan
		Prudential plc		aa- u	Developing	aa-	Stable	
⇅	L	Landmark Life Insurance Company	068055	B	Stable	B	Stable	Texas
		Jarvis Family Limited Partnership		bb	Positive	bb	Stable	
⚑	L	Life Insurance Company of North America	006645	A u	Negative	A	Stable	Pennsylvania
		Cigna Corporation		a u	Negative	a	Stable	
⚑	H	Loyal American Life Insurance Company	006671	A- u	Negative	A-	Stable	Ohio
		Cigna Corporation		a- u	Negative	a-	Stable	
⚑	H	Medco Containment Insurance Co of NY	010747	A- u	Developing	A-	Stable	New York
		Express Scripts Hldg Co		a- u	Developing	a-	Stable	
⚑	H	Medco Containment Life Insurance Company	006449	A- u	Developing	A-	Stable	Pennsylvania
		Express Scripts Hldg Co		a- u	Developing	a-	Stable	
⊕	L	MEMBERS Life Insurance Company	008719	A	Stable	A	Stable	Iowa
		CUNA Mutual Holding Company		a+	Stable	a	Stable	
⚑	L	MONY Life Insurance Company of America	008091	A u	Developing	A	Stable	Arizona
		AXA S.A.		a u	Developing	a	Stable	
⚑	H	Provident American Life & Health Ins Co	006932	A- u	Negative	A-	Stable	Ohio
		Cigna Corporation		a- u	Negative	a-	Stable	
New	L	Puritan Life Insurance Co of America	007358	B++	Stable	NR		Texas
		Ernest C. Garcia II		bbb+	Stable	nr		
⊕	L	RBC Life Insurance Company	066806	A	Stable	A	Stable	Ontario
		Royal Bank of Canada		a+	Stable	a	Positive	
☑	L	Trans World Assurance Company	007136	B++	Stable	B++ u	Negative	California
		TWA Corporation		bbb	Stable	bbb u	Negative	
⚑	L	US Financial Life Insurance Company	008492	A u	Developing	A	Stable	Ohio
		AXA S.A.		a u	Developing	a	Stable	
⚑	L	XL Life Ltd	073313	B++ u	Developing	B++	Stable	Bermuda
		XL Group Ltd		bbb+ u	Developing	bbb+	Stable	
		U.S., CANADA AND BERMUDA PROPERTY/CASUALTY						
—	P	A. Central Insurance Company	012475	A	Stable	A+ u	Negative	New York
		New York Central Mutual Fire Ins Co		a+	Stable	aa- u	Negative	
⚑	P	American Country Insurance Company	002735	B u	Negative	B	Stable	Illinois
		Atlas Financial Holdings, Inc.		bb u	Negative	bb	Stable	
⊕	P	American Family Insurance Company	011789	A	Stable	A u	Positive	Wisconsin
		American Family Insurance Mutual Hldg Co		a+	Stable	a u	Positive	
⊕	P	American Family Mutual Ins Co, S.I.	002022	A	Stable	A u	Positive	Wisconsin
		American Family Insurance Mutual Hldg Co		a+	Stable	a u	Positive	
⇥	P	American Resources Insurance Co, Inc	002856	NR		D	Negative	Oklahoma
		ARIC Investments Inc		nr		c	Negative	
⚑	P	American Service Insurance Company Inc	001777	B u	Negative	B	Stable	Illinois
		Atlas Financial Holdings, Inc.		bb u	Negative	bb	Stable	
⊕	P	American Standard Insurance Co of OH	011790	A	Stable	A u	Positive	Wisconsin
		American Family Insurance Mutual Hldg Co		a+	Stable	a u	Positive	
⊕	P	American Standard Insurance Co of WI	002023	A	Stable	A u	Positive	Wisconsin
		American Family Insurance Mutual Hldg Co		a+	Stable	a u	Positive	
⚑	P	AXA Insurance Company	003718	A u	Developing	A	Stable	New York
		AXA S.A.		a+ u	Developing	a+	Stable	

Rating Action: (⊕) Upgrade; (—) Downgrade; (New) Initial Rating; (⚑) Under Review; (⇅) Change in Outlook; (⇥) Rating Withdrawal; (☑) Rating Affirmation.
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Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY (CONTINUED)								
New	P	BlueShore Insurance Company *Ernest C. Garcia II*	000381	B++ bbb+	Stable Stable	NR nr		Colorado
☑	P	California Casualty Compensation Ins Co *California Casualty Management Company*	011655	B+ bbb-	Stable Stable	B+ u bbb- u	Positive Positive	California
☑	P	Canopius US Insurance, Inc. *Fidentia Fortuna Holdings, Ltd.*	013830	A- a-	Stable Stable	A- u a- u	Negative Negative	Delaware
⚑	P	Catlin Indemnity Company *XL Group Ltd*	014156	A u a+ u	Developing Developing	A a+	Stable Stable	Delaware
⚑	P	Catlin Insurance Company Ltd. *XL Group Ltd*	084805	A u a+ u	Developing Developing	A a+	Stable Stable	Bermuda
⚑	P	Catlin Insurance Company, Inc. *XL Group Ltd*	013046	A u a+ u	Developing Developing	A a+	Stable Stable	Texas
⚑	P	Catlin Specialty Insurance Company *XL Group Ltd*	010092	A u a+ u	Developing Developing	A a+	Stable Stable	Delaware
⊕	P	Countryway Insurance Company *Virginia Farm Bureau Mutual Insurance Co*	003206	A- a-	Stable Stable	B++ bbb+	Positive Positive	New York
⊕	P	CUMIS Insurance Society Inc *CUNA Mutual Holding Company*	003049	A a+	Stable Stable	A a	Stable Stable	Iowa
⊕	P	CUMIS Specialty Insurance Company Inc. *CUNA Mutual Holding Company*	013757	A a+	Stable Stable	A a	Stable Stable	Iowa
⇅	P	DaVinci Reinsurance Ltd *RenaissanceRe Holdings Ltd*	084749	A a+	Stable Stable	A a+	Stable Negative	Bermuda
⊕	P	Farmers Mutual Insurance Company (WV)	003523	A a	Stable Stable	A- a-	Positive Positive	West Virginia
⇅	P	FD Insurance Company *NORCAL Mutual Insurance Company*	013063	A a	Stable Stable	A a	Negative Negative	Florida
⚑	P	Gateway Insurance Company *Atlas Financial Holdings, Inc.*	010621	B u bb u	Negative Negative	B bb	Stable Stable	Missouri
⊕	P	General Automobile Insurance Company *American Family Insurance Mutual Hldg Co*	014118	A a+	Stable Stable	A u a u	Positive Positive	Wisconsin
⇅	P	Germania Farm Mutual Insurance Assn *Germania Farm Mutual Insurance Assn*	003687	A- a-	Stable Stable	A- a-	Negative Negative	Texas
⇅	P	Germania Fire & Casualty Company *Germania Farm Mutual Insurance Assn*	002779	A- a-	Stable Stable	A- a-	Negative Negative	Texas
⇅	P	Germania Insurance Company *Germania Farm Mutual Insurance Assn*	003840	A- a-	Stable Stable	A- a-	Negative Negative	Texas
⇅	P	Germania Select Insurance Company *Germania Farm Mutual Insurance Assn*	012564	A- a-	Stable Stable	A- a-	Negative Negative	Texas
⚑	P	Global Liberty Insurance Co of NY *Atlas Financial Holdings, Inc.*	012498	B+ u bbb- u	Negative Negative	B+ bbb-	Negative Negative	New York
⊕	P	Great Plains Casualty, Inc. *Hillcrest Holdings, Inc.*	013856	A- a-	Stable Stable	B++ u bbb+ u	Positive Positive	Iowa
⚑	P	Greenwich Insurance Company *XL Group Ltd*	011095	A u a+ u	Developing Developing	A a+	Stable Stable	Delaware
⇥	P	Hamilton Mutual Insurance Company	000448	NR nr		A a	Stable Stable	Iowa
⊕	P	Homesite Indemnity Company *American Family Insurance Mutual Hldg Co*	022137	A a+	Stable Stable	A u a u	Positive Positive	Wisconsin
⊕	P	Homesite Insurance Co of Midwest *American Family Insurance Mutual Hldg Co*	022138	A a+	Stable Stable	A u a u	Positive Positive	Wisconsin
⊕	P	Homesite Insurance Company *American Family Insurance Mutual Hldg Co*	022141	A a+	Stable Stable	A u a u	Positive Positive	Wisconsin
⊕	P	Homesite Insurance Company of CA *American Family Insurance Mutual Hldg Co*	022234	A a+	Stable Stable	A u a u	Positive Positive	California
⊕	P	Homesite Insurance Company of Florida *American Family Insurance Mutual Hldg Co*	022142	A a+	Stable Stable	A u a u	Positive Positive	Illinois

Rating Action: (⊕) Upgrade; (⊖) Downgrade; (New) Initial Rating; (⚑) Under Review; (⇅) Change in Outlook; (⇥) Rating Withdrawal; (☑) Rating Affirmation.
Outlook: Positive, Negative, Stable. **Implications:** Positive, Negative, Developing. **Business Type: P** = Property/Casualty (Non-Life); **L** = Life; **H** = Health; **T** = Title; **C** = Composite.

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY (CONTINUED)								
⊕	P	Homesite Insurance Company of GA *American Family Insurance Mutual Hldg Co*	022139	A a+	Stable Stable	A u a u	Positive Positive	Georgia
⊕	P	Homesite Insurance Company of Illinois *American Family Insurance Mutual Hldg Co*	022140	A a+	Stable Stable	A u a u	Positive Positive	Illinois
⊕	P	Homesite Insurance Company of New York *American Family Insurance Mutual Hldg Co*	022135	A a+	Stable Stable	A u a u	Positive Positive	New York
⊕	P	Homesite Lloyd's of Texas *American Family Insurance Mutual Hldg Co*	022136	A a+	Stable Stable	A u a u	Positive Positive	Texas
⚑	P	Indian Harbor Insurance Company *XL Group Ltd*	011340	A u a+ u	Developing Developing	A a+	Stable Stable	Delaware
—	P	Maiden Reinsurance Ltd. *Maiden Holdings, Ltd.*	078772	A- a-	Negative Negative	A a	Stable Stable	Bermuda
—	P	Maiden Reinsurance North America, Inc. *Maiden Holdings, Ltd.*	013979	A- a-	Negative Negative	A a	Stable Stable	Missouri
—	P	McMillan-Warner Mutual Insurance Company	012380	B++ bbb	Stable Stable	B++ bbb+	Stable Negative	Wisconsin
⇅	P	Medicus Insurance Company *NORCAL Mutual Insurance Company*	013758	A a	Stable Stable	A a	Negative Negative	Texas
⊕	P	Midvale Indemnity Company *American Family Insurance Mutual Hldg Co*	022001	A a+	Stable Stable	A u a u	Positive Positive	Wisconsin
New	P	Motor Club Insurance Company *Automobile Club of Southern California*	013778	A+ aa	Stable Stable	NR nr		Rhode Island
☑	P	Multinational Insurance Co *Ancon Investment Corporation*	014362	B++ bbb+	Stable Stable	B++ u bbb+ u	Negative Negative	Puerto Rico
⇅	P	New Jersey Manufacturers Insurance Co *New Jersey Manufacturers Insurance Co*	000694	A+ aa	Stable Stable	A+ aa	Stable Negative	New Jersey
—	P	New Jersey Re-Insurance Company *New Jersey Manufacturers Insurance Co*	003750	A a	Stable Stable	A+ aa-	Stable Stable	New Jersey
—	P	New York Central Mutual Fire Ins Co *New York Central Mutual Fire Ins Co*	000700	A a+	Stable Stable	A+ u aa- u	Negative Negative	New York
⇅	P	NORCAL Mutual Insurance Company *NORCAL Mutual Insurance Company*	003644	A a	Stable Stable	A a	Negative Negative	California
⇅	P	NORCAL Specialty Insurance Company *NORCAL Mutual Insurance Company*	003744	A a	Stable Stable	A a	Negative Negative	Pennsylvania
⊕	P	Permanent General Assurance Corp of OH *American Family Insurance Mutual Hldg Co*	011303	A a+	Stable Stable	A u a u	Positive Positive	Wisconsin
⊕	P	Permanent General Assurance Corporation *American Family Insurance Mutual Hldg Co*	001894	A a+	Stable Stable	A u a u	Positive Positive	Wisconsin
⇅	P	Preferred Physicians Med RRG, Mut Ins Co *NORCAL Mutual Insurance Company*	011056	A a	Stable Stable	A a	Negative Negative	Missouri
⊕	P	Protective Property & Casualty Ins Co *Dai-ichi Life Holdings, Inc.*	003812	A a	Stable Stable	A- a-	Stable Stable	Missouri
⇅	P	Renaissance Reinsurance Ltd *RenaissanceRe Holdings Ltd*	086357	A+ aa-	Stable Stable	A+ aa-	Negative Negative	Bermuda
⊕	P	Renaissance Reinsurance US Inc *RenaissanceRe Holdings Ltd*	011795	A+ aa-	Stable Stable	A a+	Stable Stable	Maryland
⊕	P	RenaissanceRe Specialty U.S. Ltd. *RenaissanceRe Holdings Ltd*	018057	A+ aa-	Stable Stable	A a	Stable Stable	Bermuda
⇅	P	Southern Trust Insurance Company *Santee Partners, LP*	004040	A- a-	Negative Negative	A- a-	Stable Stable	Georgia
☑	P	Specialty Risk of America *Specialty Risk of America LLC*	001980	B+ bbb-	Negative Negative	B+ u bbb- u	Negative Negative	Illinois
⇅	P	Stonetrust Commercial Insurance Company *Chou Associates Management Inc.*	012429	B++ bbb	Stable Stable	B++ bbb	Negative Negative	Nebraska
New	P	Sura Re Ltd *Grupo de Inversiones Suramericana S.A.*	095134	B++ bbb	Stable Stable			Bermuda

Rating Action: (⊕) Upgrade; (—) Downgrade; (New) Initial Rating; (⚑) Under Review; (⇅) Change in Outlook; (⇥) Rating Withdrawal; (☑) Rating Affirmation.
Outlook: Positive, Negative, Stable. **Implications:** Positive, Negative, Developing. **Business Type: P** = Property/Casualty (Non-Life); **L** = Life; **H** = Health; **T** = Title; **C** = Composite.

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
		U.S., CANADA AND BERMUDA PROPERTY/CASUALTY (CONTINUED)						
⚑	P	T.H.E. Insurance Company *XL Group Ltd*	000789	A- u a- u	Developing Developing	A- a-	Positive Positive	Louisiana
⇥	P	Texas Heritage Insurance Company *Germania Farm Mutual Insurance Assn*	013135	NR nr		B++ bbb	Stable Stable	Texas
⊕	P	Virginia Farm Bureau Mutual Insurance Co *Virginia Farm Bureau Mutual Insurance Co*	002549	A- a-	Stable Stable	B++ bbb+	Positive Positive	Virginia
⊕	P	Virginia FB F & C Ins Co *Virginia Farm Bureau Mutual Insurance Co*	002548	A- a-	Stable Stable	B++ bbb+	Positive Positive	Virginia
⊕	P	Virginia FB Town and Country Ins Co *Virginia Farm Bureau Mutual Insurance Co*	011667	A- a-	Stable Stable	B++ bbb+	Positive Positive	Virginia
⇥	P	West Virginia Mutual Insurance Company*	013014	NR nr		B++ bbb+	Stable Negative	West Virginia
⚑	C	XL Bermuda Ltd *XL Group Ltd*	086106	A u a+ u	Developing Developing	A a+	Stable Stable	Bermuda
⚑	P	XL Insurance America, Inc. *XL Group Ltd*	002423	A u a+ u	Developing Developing	A a+	Stable Stable	Delaware
⚑	P	XL Insurance Company of New York, Inc. *XL Group Ltd*	012182	A u a+ u	Developing Developing	A a+	Stable Stable	New York
⚑	P	XL Reinsurance America Inc. *XL Group Ltd*	002104	A u a+ u	Developing Developing	A a+	Stable Stable	New York
⚑	P	XL Select Insurance Company *XL Group Ltd*	002424	A u a+ u	Developing Developing	A a+	Stable Stable	Delaware
⚑	P	XL Specialty Insurance Company *XL Group Ltd*	000779	A u a+ u	Developing Developing	A a+	Stable Stable	Delaware
		EUROPE, MIDDLE EAST AND AFRICA						
⚑	P	AXA Global Re *AXA S.A.*	084358	A+ u aa- u	Developing Developing	A+ aa-	Stable Stable	France
⚑	C	AXA Mansard Insurance Plc *AXA S.A.*	090312	B+ u bbb- u	Developing Developing	B+ bbb-	Stable Stable	Nigeria
—	P	Canopius Reinsurance AG *Fidentia Fortuna Holdings, Ltd.*	078185	A- a-	Stable Stable	A u a u	Negative Negative	Switzerland
⚑	P	Catlin Insurance Company (UK) Ltd. *XL Group Ltd*	077622	A u a+ u	Developing Developing	A a+	Stable Stable	United Kingdom
⚑	P	Catlin Re Switzerland Ltd *XL Group Ltd*	091292	A u a+ u	Developing Developing	A a+	Stable Stable	Switzerland
⚑	P	CIGNA Europe Insurance Company S.A.-N.V. *Cigna Corporation*	089527	A u a u	Negative Negative	A a	Stable Stable	Belgium
⚑	C	CIGNA Life Ins Co of Europe S.A.-N.V. *Cigna Corporation*	083121	A u a u	Negative Negative	A a	Stable Stable	Belgium
⇥	P	Emirates Retakaful Limited *Dubai Group*	093190	NR nr		B++ bbb	Negative Negative	United Arab Emirates
⚑	P	Lloyd's Synd 2003 (Catlin Undrw Agc Ltd) *XL Group Ltd*	048339	A u a+ u	Developing Developing	A a+	Stable Stable	United Kingdom
⇅	P	LocalTapiola General Mutual Ins Co *LocalTapiola General Mutual Ins Co*	085429	A a	Stable Positive	A a	Stable Stable	Finland
⇅	P	Renaissance Reinsurance Eur Unlimited Co *RenaissanceRe Holdings Ltd*	087847	A+ aa-	Stable Stable	A+ aa-	Negative Negative	Ireland
⇥	P	StarStone Insurance Europe AG *Enstar Group Limited*	078515	NR nr		A- a-	Stable Stable	Liechtenstein
⇥	P	West of England Ship Owners Mut Ins Asn *West of England Ship Owners Mut Ins Asn*	084144	NR nr		A- a-	Stable Stable	Luxembourg
⚑	P	XL Insurance Company SE *XL Group Ltd*	087674	A u a+ u	Developing Developing	A a+	Stable Stable	United Kingdom

*Ratings were downgraded to B++/bbb+ from A-/a- on March 29, 2018. Ratings were withdrawn on March 29, 2018.

Rating Action: (⊕) Upgrade; (—) Downgrade; (New) Initial Rating; (⚑) Under Review; (⇅) Change in Outlook; (⇥) Rating Withdrawal; (☑) Rating Affirmation.
Outlook: Positive, Negative, Stable. **Implications:** Positive, Negative, Developing. **Business Type:** **P** = Property/Casualty (Non-Life); **L** = Life; **H** = Health; **T** = Title; **C** = Composite.

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
EUROPE, MIDDLE EAST AND AFRICA (CONTINUED)								
⚑	P	XL Insurance Switzerland Ltd *XL Group Ltd*	078050	A u a+ u	Developing Developing	A a+	Stable Stable	Switzerland
⚑	C	XL Re Europe SE *XL Group Ltd*	078455	A u a+ u	Developing Developing	A a+	Stable Stable	Ireland
ASIA PACIFIC								
⚑	L	CIGNA Life Insurance New Zealand Limited *Cigna Corporation*	086363	A u a u	Negative Negative	A a	Stable Stable	New Zealand
⚑	P	Luen Fung Hang Insurance Company Limited	089625	A u a u	Negative Negative	A a	Stable Stable	Macau
⇥	L	Macau Life Insurance Company Limited *Fujian Thai Hot Investment Co., Ltd.*	084244	NR nr		B++ bbb	Stable Stable	Macau
New	L	Momentum Life Limited *BlueInc Group Pty Limited*	095487	B++ bbb	Stable Stable			New Zealand
⇅	L	Partners Life Limited *Partners Group Holdings Limited*	091252	B++ bbb+	Positive Positive	B++ bbb+	Stable Stable	New Zealand
⊕	C	Quest Insurance Group Ltd *Federal Pacific Group Limited*	094509	B bb+	Stable Stable	B u bb u	Positive Positive	New Zealand
☑	P	TOWER Insurance Limited *TOWER Limited*	089186	A- a-	Stable Stable	A- u a- u	Negative Negative	New Zealand
CARIBBEAN AND LATIN AMERICA								
⇥	P	ANA Compañía de Seguros, S.A. de C.V. *GMS Valore, S.A. de C.V.*	078003	NR nr		B- bb-	Stable Stable	Mexico
⚑	P	AXA Corp Solutions Brasil America Re *AXA S.A.*	094263	B++ u bbb u	Developing Developing	B++ bbb	Stable Stable	Brazil
—	P	Cesce Mexico, S.A. de C.V. *Compañía Española de Seguros de Crédito*	077267	B++ bbb	Stable Stable	B++ bbb+	Stable Stable	Mexico
⚑	C	QBE de México Compañía de Seg SA de CV *QBE Insurance Group Limited*	084250	A- u a- u	Developing Developing	A- a-	Stable Stable	Mexico
⚑	P	XL Seguros México, S.A. de C.V. *XL Group Ltd*	078108	A u a+ u	Developing Developing	A a+	Stable Stable	Mexico

Holding Companies

Rating Action	Company Name	AMB#	Current ICR	Current Outlook/ Implications	Previous ICR	Previous Outlook/ Implications	Domicile
⚑	Atlas Financial Holdings, Inc.	052818	b- u	Negative	b-	Stable	Cayman Islands
⚑	AXA Financial Inc	058039	bbb+ u	Developing	bbb+	Stable	Delaware
⚑	Cigna Corporation	058703	bbb u	Negative	bbb	Stable	Connecticut
⊕	CUNA Mutual Financial Group, Inc.	058586	bbb+	Stable	bbb	Stable	Iowa
⇅	DaVinci Re Holdings Ltd.	051630	bbb+	Stable	bbb+	Negative	Bermuda
☑	Fidelity & Guaranty Life Holdings Inc	050904	bb+	Positive	bb+ u	Developing	Delaware
—	Maiden Holdings, Ltd.	078740	bbb-	Negative	bbb	Stable	Bermuda
—	Maiden Holdings North America, Ltd.	052440	bbb-	Negative	bbb	Stable	Delaware
⇅	RenaissanceRe Holdings Ltd	058458	a-	Stable	a-	Negative	Bermuda
☑	TOWER Limited	091883	bbb-	Stable	bbb- u	Negative	New Zealand
⚑	XL Group Ltd	046310	bbb+ u	Developing	bbb+	Stable	Bermuda
⚑	XLIT Ltd.	058361	bbb+ u	Developing	bbb+	Stable	Cayman Islands

Rating Action: (⊕) Upgrade; (—) Downgrade; (New) Initial Rating; (⚑) Under Review; (⇅) Change in Outlook; (⇥) Rating Withdrawal; (☑) Rating Affirmation.
Outlook: Positive, Negative, Stable. **Implications:** Positive, Negative, Developing. **Business Type: P** = Property/Casualty (Non-Life); **L** = Life; **H** = Health; **T** = Title; **C** = Composite.

BEST'S FINANCIAL STRENGTH RATING GUIDE – (FSR)

A Best's Financial Strength Rating (FSR) is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In addition, an FSR may be displayed with a rating identifier, modifier or affiliation code that denotes a unique aspect of the opinion.

Best's Financial Strength Rating (FSR) Scale

Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Superior	A+	A++	Assigned to insurance companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations.
Excellent	A	A-	Assigned to insurance companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations.
Good	B+	B++	Assigned to insurance companies that have, in our opinion, a good ability to meet their ongoing insurance obligations.
Fair	B	B-	Assigned to insurance companies that have, in our opinion, a fair ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Marginal	C+	C++	Assigned to insurance companies that have, in our opinion, a marginal ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Weak	C	C-	Assigned to insurance companies that have, in our opinion, a weak ability to meet their ongoing insurance obligations. Financial strength is very vulnerable to adverse changes in underwriting and economic conditions.
Poor	D	-	Assigned to insurance companies that have, in our opinion, a poor ability to meet their ongoing insurance obligations. Financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions.

* Each Best's Financial Strength Rating Category from "A+" to "C" includes a Rating Notch to reflect a gradation of financial strength within the category. A Rating Notch is expressed with either a second plus "+" or a minus "-".

Financial Strength Non-Rating Designations

Designation Symbols	Designation Definitions
E	Status assigned to insurance companies that are publicly placed under a significant form of regulatory supervision, control or restraint - including cease and desist orders, conservatorship or rehabilitation, but not liquidation - that prevents conduct of normal ongoing insurance operations; an impaired insurer.
F	Status assigned to insurance companies that are publicly placed in liquidation by a court of law or by a forced liquidation; an impaired insurer.
S	Status assigned to rated insurance companies to suspend the outstanding FSR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
NR	Status assigned to insurance companies that are not rated; may include previously rated insurance companies or insurance companies that have never been rated by A.M. Best.

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BEST'S ISSUER CREDIT RATING GUIDE – (ICR)

A Best's Issuer Credit Rating (ICR) is an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis. A long-term ICR is an opinion of an entity's ability to meet its ongoing senior financial obligations, while a short-term ICR is an opinion of an entity's ability to meet its ongoing financial obligations with original maturities generally less than one year. An ICR is an opinion regarding the relative future credit risk of an entity. Credit risk is the risk that an entity may not meet its contractual financial obligations as they come due. An ICR does not address any other risk. In addition, an ICR is not a recommendation to buy, sell or hold any securities, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser. An ICR may be displayed with a rating identifier or modifier that denotes a unique aspect of the opinion.

Best's Long-Term Issuer Credit Rating (ICR) Scale

Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Exceptional	aaa	-	Assigned to entities that have, in our opinion, an exceptional ability to meet their ongoing senior financial obligations.
Superior	aa	aa+ / aa-	Assigned to entities that have, in our opinion, a superior ability to meet their ongoing senior financial obligations.
Excellent	a	a+ / a-	Assigned to entities that have, in our opinion, an excellent ability to meet their ongoing senior financial obligations.
Good	bbb	bbb+ / bbb-	Assigned to entities that have, in our opinion, a good ability to meet their ongoing senior financial obligations.
Fair	bb	bb+ / bb-	Assigned to entities that have, in our opinion, a fair ability to meet their ongoing senior financial obligations. Credit quality is vulnerable to adverse changes in industry and economic conditions.
Marginal	b	b+ / b-	Assigned to entities that have, in our opinion, a marginal ability to meet their ongoing senior financial obligations. Credit quality is vulnerable to adverse changes in industry and economic conditions.
Weak	ccc	ccc+ / ccc-	Assigned to entities that have, in our opinion, a weak ability to meet their ongoing senior financial obligations. Credit quality is vulnerable to adverse changes in industry and economic conditions.
Very Weak	cc	-	Assigned to entities that have, in our opinion, a very weak ability to meet their ongoing senior financial obligations. Credit quality is very vulnerable to adverse changes in industry and economic conditions.
Poor	c	-	Assigned to entities that have, in our opinion, a poor ability to meet their ongoing senior financial obligations. Credit quality is extremely vulnerable to adverse changes in industry and economic conditions.

** Best's Long-Term Issuer Credit Rating Categories from "aa" to "ccc" include Rating Notches to reflect a gradation within the category to indicate whether credit quality is near the top or bottom of a particular Rating Category. Rating Notches are expressed with a "+" (plus) or "-" (minus).*

Best's Short-Term Issuer Credit Rating (ICR) Scale

Rating Categories	Rating Symbols	Category Definitions
Strongest	AMB-1+	Assigned to entities that have, in our opinion, the strongest ability to repay their short-term financial obligations.
Outstanding	AMB-1	Assigned to entities that have, in our opinion, an outstanding ability to repay their short-term financial obligations.
Satisfactory	AMB-2	Assigned to entities that have, in our opinion, a satisfactory ability to repay their short-term financial obligations.
Adequate	AMB-3	Assigned to entities that have, in our opinion, an adequate ability to repay their short-term financial obligations; however, adverse industry or economic conditions likely will reduce their capacity to meet their financial commitments.
Questionable	AMB-4	Assigned to entities that have, in our opinion, questionable credit quality and are vulnerable to adverse economic or other external changes, which could have a marked impact on their ability to meet their financial commitments.

Long- and Short-Term Issuer Credit Non-Rating Designations

Designation Symbols	Designation Definitions
d	Status assigned to entities (excluding insurers) that are in default or when a bankruptcy petition or similar action has been filed and made public.
e	Status assigned to insurers that are publicly placed under a significant form of regulatory supervision, control or restraint - including cease and desist orders, conservatorship or rehabilitation, but not liquidation - that prevents conduct of normal ongoing operations; an impaired entity.
f	Status assigned to insurers that are publicly placed in liquidation by a court of law or by a forced liquidation; an impaired entity.
s	Status assigned to rated entities to suspend the outstanding ICR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
nr	Status assigned to entities that are not rated; may include previously rated entities or entities that have never been rated by A.M. Best.

Rating Disclosure: Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (A.M. Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of A.M. Best.

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Judge Allows Litigation Over 9/11 Attacks

A federal judge sided with a consortium of insurance companies, allowing them to move forward in a lawsuit against the Kingdom of Saudi Arabia—seeking at least $4.2 billion in damages over the events of Sept. 11, 2001.

Judge George Daniels, of the U.S. District Court for the Southern District of New York, based in Manhattan, ruled changes in U.S. law have removed previous barriers to the litigation. His order was in response to a motion to dismiss filed by attorneys for the kingdom. He ruled insurance company attorneys can conduct discovery as to the relationship between the attacks and alleged Saudi agents Fahad al Thumairy and Omar al Bayoumi.

"Accepting plaintiffs' well-pled allegation as true for purposes of resolving the instant motion, plaintiffs have therefore articulated a reasonable basis for Saudi Arabia to be held responsible for the conduct of its agents, Thumairy and Bayoumi, as well as those whom they appointed as subagents," Daniels wrote in the opinion.

"Since, however, the nature and scope of the agency is somewhat unclear in this case, and the party in the best position to shed light on that inquiry is Saudi Arabia," Daniels said, "plaintiffs shall be permitted to conduct limited and targeted discovery whether and to what extent Thumairy, Bayoumi and their agents took action in 2000, at the direction of more senior Saudi officials, to provide assistance to [the] 9/11 hijackers."

Thumairy and Bayoumi were accused of helping two hijackers get acclimated to the United States and begin preparing for the attacks. In the original complaint, about two dozen insurers affiliated with Travelers Cos. filed a lawsuit against two Saudi banks and a host of charities and companies with alleged ties to al-Qaida. Saudi Arabia and the Saudi High Commission, were later added to the litigation.

—Frank Klimko

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Something to Wine About

Wine collector left high and dry after a California appellate court, quoting Shakespeare, ruled in favor of Fireman's Fund in a wine fraud claim.

by Frank Klimko and Lori Chordas

The tragedy *Othello* took center stage in a California court ruling involving $18 million in counterfeit wine. A collector was stuck with "a devil wine without recompense" after a California appeals court quoted Shakespeare's "Moor of Venice" in ruling that Fireman's Fund did not have to pay a claim for the worthless wine.

"O thou invisible spirit of wine, if thou hast no name to be known by, let us call thee devil," the court said, in a quote from Michael Cassio, a faithful lieutenant to Othello.

A three-judge panel of the California 4th District Court of Appeals ruled in favor of Fireman's Fund, the U.S. subsidiary of global financial services company Allianz, in March in the breach of contract suit over the wine. The ruling, written and delivered by associate justice Eileen Moore, recounted the details of the case in language inspired by The Bard.

"Yea verily, we are presented with a most unfortunate tale of a villainous wine dealer who sold millions of dollars' worth of counterfeit wine to an unsuspecting wine collector," the court said.

"We agreeth with the trial court—the wine collector suffered a financial loss, but there was no loss to property that was covered by the property insurance policy. In other words, the wine collector is stuck with the devil wine without recompense. A Shakespearean tragedy, to be sure."

The fraud claim was filed by collector David Doyle, who purchased the purportedly rare vintage wine from Rudy Kurniawan. An investigation later revealed that Kurniawan had been filling empty bottles with his own blend created in his Los Angeles home and passing it off as rare vintages.

Doyle filed a claim seeking reimbursement for the fraud from Fireman's Fund, which denied the claim.

The insurer contended that nothing physical happened to the wine and said the purchase of fraudulently labeled wine was not covered under Doyle's "valuable possessions" property insurance policy. Doyle purchased the policy in 2007 and over the next decade renewed it eight times to insure his collection against loss or damage.

The "perils insured against provision" in the policy covers direct accidental loss or damage to covered property, Fireman's Fund said in a May 22, 2017 response brief. The wine (the covered property) was not lost or damaged. "In fact, nothing happened to the wine at all," according to the brief. "From day one, when Doyle purchased the wine and insured it under the Fireman's Fund policy, it was counterfeit. And it remained counterfeit until Doyle discovered it. The only thing that changed in the intervening years was Doyle's perception of the value of the wine. Doyle's changed view of the value of the wine, however, is not 'direct and accidental loss or damage to' the wine," Fireman's Fund said.

After the insurer denied his claim, Doyle sued Fireman's Fund for breach of contract. The court ruled in favor of the insurer.

This is an important case for the insurance industry, said Barry P. Goldberg, a personal injury attorney in Woodland Hills, California, who followed the case and wrote about it on his blog. "We're seeing a rise in similar cases, sometimes for very large claims involving expensive artwork, jewelry and other valuable collections," he said.

In many of those claims there is diminution of value, or the reduction in the worth of something caused by an action of a third party or entity, Goldberg said. Diminution of value is typically found in auto claims. "In this case, the insured suffered a diminution of value—he lost the money he had invested in his wine collection—because of the fraud," he said. "But the insured's financial loss was not a covered peril, it is simply a measure of his damages."

If it were a question of internal intrinsic value of the item then the insured could make a claim, but there was no cause and effect, Goldberg said. "That's what insurance policies generally insure for—not that someone is defrauded, but rather that something happens or there is some precipitating cause recognized under case law and the policy."

Kurniawan was convicted of fraud in 2013 and is currently serving a 10-year sentence at Taft Correctional Institution in California. BR

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