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AM BEST'S MONTHLY INSURANCE MAGAZINE

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BEST'S REVIEW®

December 2018 • Volume 119 • Issue 12
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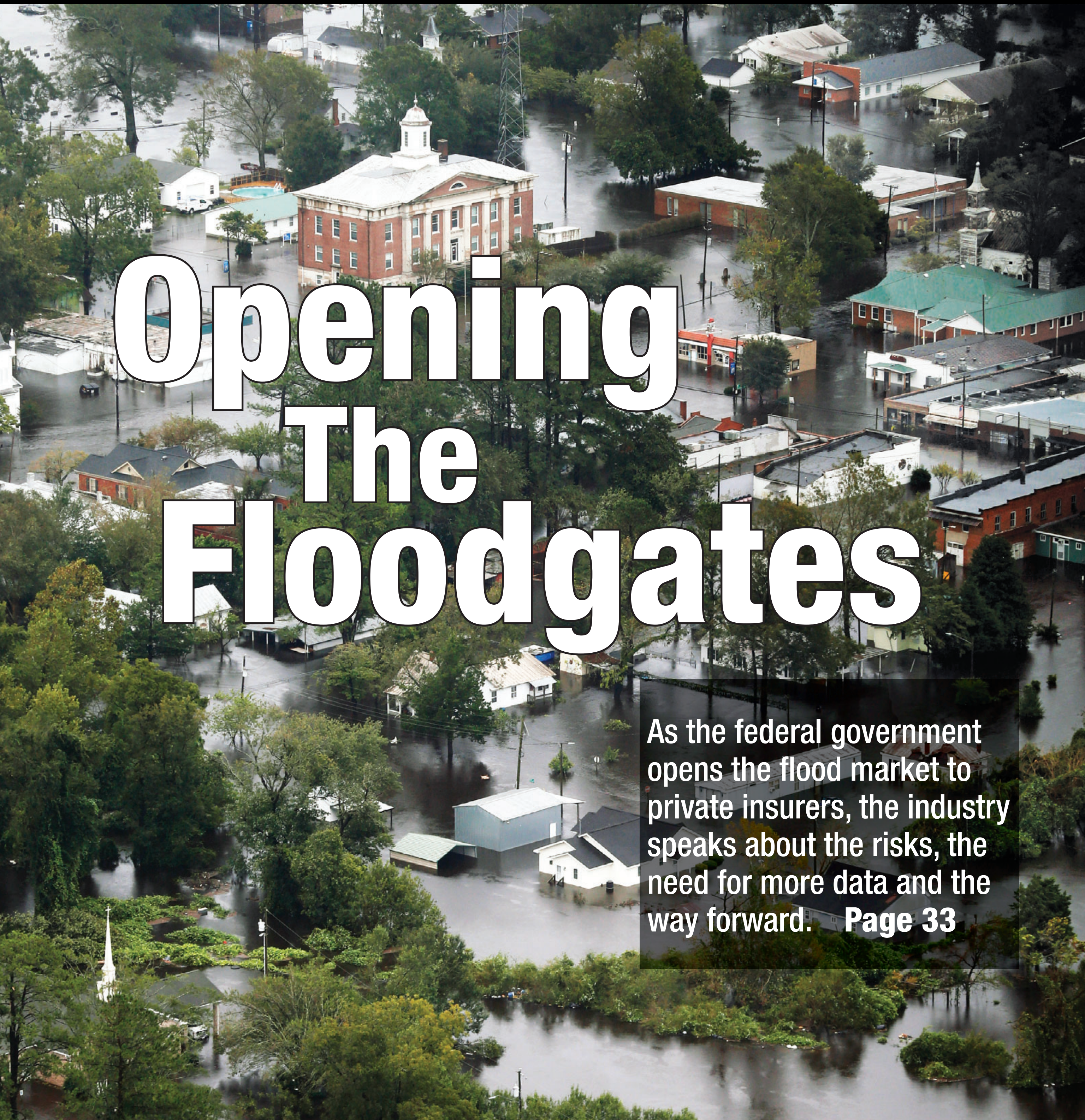
A.M. BEST'S MONTHLY INSURANCE MAGAZINE



Opening The Floodgates

As the federal government opens the flood market to private insurers, the industry speaks about the risks, the need for more data and the way forward. **Page 33**

THANK YOU

We would like to thank our sponsors who made the 2018 Katie School Hall of Fame such a wonderful event.

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Water, Water, Everywhere

From the Editor's Desk: Private insurers eye the U.S. flood insurance market while marine insurers in London pull back from certain lines of business.

Floods damage countless homes every year. While major hurricanes like Harvey and Florence generate a lot of press, flood damage is a problem for homeowners in most U.S. states.

And yet insurers generally stay away from flood risks, with flood damage excluded under standard homeowners policies. One reason is that the damage can be so widespread and extensive that it can be impossible to spread the risk adequately. Pricing is also difficult without better data.

Little by little, however, the federal government is seeking to shift more of the coverage into the private market. In "Opening the Floodgates," *Best's Review* looks at the latest developments with the government's National Flood Insurance Program and the challenges facing the private market.

While Harvey and Florence damaged residential and commercial properties, yachts were also a big loss with Hurricane Irma in Florida last year.

That was one factor that took a toll on the marine insurance market in London last year. Now as the market prepares for 2019, some syndicates, under pressure from Lloyd's to improve their performances, are exiting one or more lines of marine business. In "Rough Seas," *Best's Review* examines the marine market in London and how it is seeking to correct course for 2019.

December is Inland Marine and Marine Insurance Awareness Month. *Best's Review*'s coverage includes rankings of the top U.S. writers in these markets.

Hurricanes often deal sudden, major blows to property. But for most insurers, it's the drip, drip, drip of leaky pipes and malfunctioning appliances that add up to significant losses. Non-weather-related water losses are one of the leading causes of homeowners claims, according to industry reports.

In "Plugging the Leak," *Best's Review* looks at the problem of non-catastrophe water damage and how insurers are using new technology to manage the risk.

Losses from catastrophes have a major impact on industry profitability. Return on equity, one measure of profitability, is expected to improve significantly for the property/casualty insurance industry for 2018, helped by lower catastrophe losses, higher investment income and corporate tax cuts.

In "Rating Return," *Best's Review* looks at the metrics of profitability, and in "Hitting the Targets," *Best's Review* speaks with Assurant CEO Alan Colberg about the company's multiyear transformation, its financial targets and how close it is to achieving them.

In "Ten Years Post-Crisis," *Best's Review* speaks with Michael McRaith, the former director of the Federal Insurance Office, about the formation of the FIO and changes in regulation after the financial crisis.

Also with our December issue we say goodbye to longtime columnist William Panning. *Best's Review* first published an article from Panning in 1984. The topic then was interest rate volatility and the unpredictability of investment income. While today the problem is low interest rates, then it was high interest rates.

Since 2001, he has written 66 columns. During the courses of his career, Panning worked for the Hartford Insurance Group and later joined Willis Re, where he was executive vice president. He is now principal and founder of ERMetrics, an enterprise risk management consultancy. We thank him for his thoughtful contributions.

A new reader-friendly version of *Best's Review* is now available online. Go to *www.bestreview.com* to read and share these articles and other *Best's Review* content.

Patricia Vowinkel
Executive Editor
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The Question:

What advice do you have for young people considering a career in insurance?

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

Reader responses will be published in a future issue.

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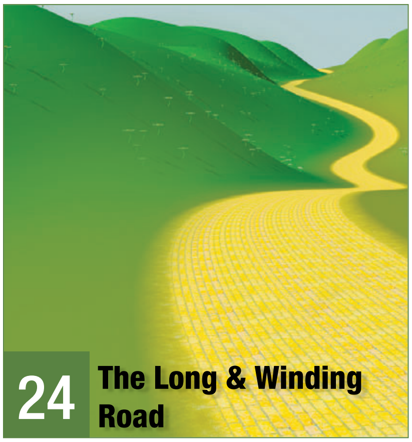
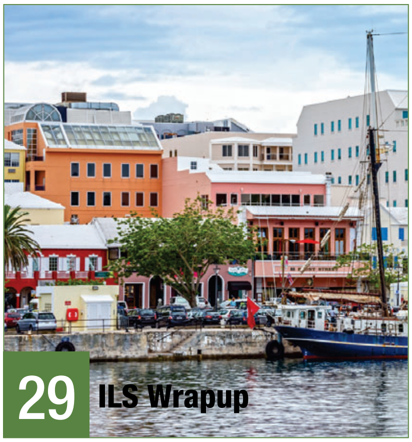
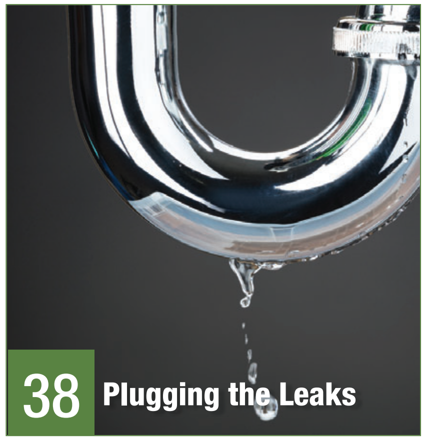
ON THE COVER





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Reinventing Distribution

A.M. Best's webinar focuses on direct-to-consumer channel efforts. Also, coming soon, digital maturity and the sharing economy.

D2C Panel: Simplicity Is Key For Life and Annuity Insurers

Changing customer expectations and advances in technology are opening the door for new direct-to-consumer distribution approaches in the life and annuity market, according to a panel of business and technology experts. This changes the old paradigm of the product being sold not bought as consumers are now encouraged to be as self-directed as possible. "It's a laboratory for what the future will look like," said Todd Eyler, senior director and a platform leader at Cognizant. Sponsored by Cognizant. (Oct. 24, 2018).

Also in the A.M. Best Webinar Library

- **Inside Today's Surplus Lines Market**
- **State of the Global Reinsurance Market**
- **Cyber Intruders Target the Insurance Legal Community**
- **State of the Captive Insurance Market**

Coming Soon

Are We there Yet? How Insurers Can Gauge Their Digital Maturity

Most insurers are investing in their digital transformation journey, but few know how to achieve improved business outcomes. A panel of insurance business and technology experts will reveal the results of a new, ongoing study that measures insurance companies' digital maturity and analyzes why some are further along, while others fall short. Sectors discussed in detail will include life and annuity, group benefits, and property/casualty (for both personal and commercial). Sponsored by Cognizant.

Wednesday, Dec. 5, 2 p.m. EST

How the Sharing Economy Is Rewiring Claims

Ride hailing, home and possession sharing, along with other forms of short-term and long-term sharing is forcing insurers and claims professionals to develop more responsive claims policies and rethink coverage strategies. Topics covered include the changing legal environment for risk sharing, how insurers are addressing coverage gaps and claims issues these new coverages present.

Tuesday, Dec. 11, 2 p.m. EST

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

Insurtech Growth and Interest in Weather

A.M. BestTV reports on the InsureTech Connect conference and the Property Casualty Insurers Association of America's annual meeting and other industry gatherings.

ITC's Weintraub: Insurers Drawn to Technology in Their Time of Need

Jay Weintraub, co-founder and CEO of the InsureTech Connect conference, said the conference continues to grow, fueled by insurers' need to learn about technology and its practical applications. (Oct. 1, 2018).

Nephila Climate's Coleman: Market for Weather Risk Could Rival Cat Coverage


Matt Coleman

Matt Coleman, director of strategic partnerships, Nephila Climate, said governments and organizations are acquiring coverage for various weather risks: temperature, rain, wind and more. Coleman spoke with A.M. BestTV at the ILS Bermuda Convergence 2018 conference in Hamilton, Bermuda. (Oct. 10, 2018).

PCI's Sampson: Insurers Focused on Flood Coverage Gap, Auto Parts Cost Inflation


David Sampson

David Sampson, president and chief executive officer, Property Casualty Insurers Association of America, said heightened tariffs on Chinese imports are spiking costs for new and replacement auto parts, raising costs for auto insurers. Sampson spoke with A.M. BestTV at the annual meeting of the Property Casualty Insurers Association of America, held in Miami. (Oct. 29, 2018).

Visit www.ambest.com/video to see new and archived video from A.M. BestTV

RMS' Williams: Tsunami Models Will Help Bring the Full Picture to Typhoon, Quake


Chesley Williams

Chesley Williams, senior director, model product management, RMS, said modelers are focusing on the events that occur after the initial peril. Williams spoke with A.M. BestTV at the Singapore International Reinsurance Conference. (Oct. 31, 2018).

A.M. Best Analysts: Interest Rates, Storms, Fires Constrain Title Sector Growth


Meg Mulry

Meg Mulry, associate director, and David Blades, senior research analyst, review the state of the U.S. title insurance sector, which has seen slowing growth and profitability. Rising housing costs are also helping to slow real estate activity, they said. (Oct. 30, 2018).

Swiss Re's Pande: Frequency of Cat Losses Picking Up


Mohit Pande

Mohit Pande, head of property underwriting for the U.S. and Canada, Swiss Re, said increasing loss frequency exposes inadequate pricing by many insurers. Pande sees opportunity in flood insurance. Pande spoke with A.M. BestTV at the annual meeting of the Property Casualty Insurers Association of America, held in Miami. (Oct. 29, 2018).

A Home to Insurance and A Look at Capital

A.M. Best Radio speaks with Bermuda's premier and Horseshoe Group's CEO.

Bermuda's Burt: I Look at My Entire Island as an Accelerator and Innovation Hub

Bermuda Premier David Burt outlines the legislative and regulatory changes Bermuda is making to make it a global home to insurance innovation, insurance-linked securities, insurtech and fintech.

Horseshoe Group's Perez: Convergence Capital Could Ultimately Go Retail

Andre Perez, CEO, Horseshoe Group, said the continued growth and diversity of risks being covered by convergence capital means smaller investors eventually might have ways of allocating funds toward insurance-linked securities.

Find A.M. BestRadio at www.ambest.com/ambradio.

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Editorial

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Olympic Medalist Shannon Miller to Give Keynote Presentation at NCOIL Annual Meeting

Dec. 5 – 7: National Workers' Compensation and Disability Conference & Expo, Las Vegas.

Dec. 5 – 7: NCSL Capital Forum, National Conference of State Legislatures, Washington, D.C.

Dec. 5 – 8: AIRC 10th Annual Conference, American International Recruitment Council, Westin, Fla.

Dec. 5 – 8: NCOIL Annual Meeting, National Council of Insurance Legislators, Oklahoma City.

Dec. 6 – 7: International Cyber Risk Management Conference, Bermuda Business Development, Hamilton, Bermuda.

Dec. 6 – 7: Seminar on Effective P/C Loss Reserve Opinions, American Academy of Actuaries, Chicago.

Dec. 7 – 9: SAC Workshop 2018, Southern Agents Conference, Atlanta/Buckhead, Ga.

Dec. 12: CLM New York Conference & Holiday Party, Claims and Litigation Management Alliance, New York.

Dec. 12: IICF 12th Annual Benefit Dinner, Insurance Industry Charitable Foundation, New York.

Jan. 7 – 9: AICPA Personal Financial Planning Summit, American Institute of CPAs, Rancho Palos Verdes, Calif.

Jan. 16: St. John's Insurance Leader of the Year Award Dinner, St. John's University, New York.

Jan. 16 – 17: 26th AIMSE Annual Canadian Conference, Association of Investment Management Sales Executives, Toronto.

Jan. 17: Joint Industry Forum, Insurance Information Institute, New York.

Jan. 23: OIAA Claims Conference, Ontario Insurance Adjusters Association, Toronto.

Jan. 24 – 27: PIMA Industry Insights Conference, Professional Insurance Marketing Association, Hollywood, Fla.

Jan. 27 – 29: PCI Executive Roundtable Seminar and Board of Governors Meeting, Property Casualty Insurers Association of America (PCIAA), Naples, Fla.

Jan. 28 – 30: 28th Annual Health Benefits Conference & Expo, Clearwater Beach, Fla.

Jan. 29 – 31: ICA Winter Meeting, International Claim Association, Nashville, Tenn.

Jan. 29 – Feb. 2: 20th Annual Windstorm Insurance Conference, Windstorm Insurance Network, Orlando, Fla.

Jan. 30 – Feb. 1: World Captive Forum, Miami.

Jan. 30 – Feb. 1: SMPS Southern Regional Conference, Society for Marketing Professional Services, San Antonio, Texas.

Feb. 1: ILS NYC 2019, Artemis, New York.

Feb. 5 – 6: Enrollment Technology Strategy Seminar, LIMRA, Miami.

Feb. 6 – 8: LIC Annual Meeting and Marketing Conference, Life Insurance Council, LOMA, Destin, Fla.

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

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December: Focus on Inland Marine And Marine Insurance

December is Inland Marine and Marine Insurance Awareness Month. Today's globally connected world depends on timely cargo and related coverages, within countries and across oceans. *Best's Review*'s annual look at these sectors focuses on leading writers, underwriting results, emerging risks and evolving coverages. Stories begin on page 52.

Aetna/CVS Merger Affects Execs

Also: AHIP adds COO, two EVPs; Country Financial's Kurt Bock plans to retire and Jim Jacobs named CEO; Munich Re Names UK Life CEO.

Aetna Inc.'s Chairman and Chief Executive Officer Mark Bertolini will resign his position after the company is acquired by CVS Health Corp., and will be succeeded by Aetna President Karen Lynch, who will oversee day-to-day operations.

Bertolini will join the board of directors for CVS Health once CVS Health's $69 billion acquisition of Aetna closes.

Under the post-deal management structure, Lynch will also serve as executive vice president of CVS Health. Larry Merlo, president and CEO of CVS Health, will become the CEO of the combined company.

Karen Lynch

The combination with Aetna will help consumers, Thomas M. Moriarty, executive vice president, chief policy and external affairs officer, and general counsel, CVS Health, said.

"The high cost of prescription drugs is one of the nation's most pressing problems and a major source of financial worry for consumers here in Connecticut and across the country," Moriarty said at a Connecticut Insurance Department hearing on the merger.

"Aetna sees this as the next and most important step in our own journey to really put consumers at the center of their care," Lynch said.

Meanwhile, Shawn Guertin, Aetna's executive vice president, chief financial officer and chief enterprise risk officer, has decided to step down from those posts for personal and family reasons once the transaction is complete.

Guertin will remain with CVS Health until June 2019 in order to help the merged companies with integration and financial planning strategy, CVS Health said.

Eva Boratto will become the new executive vice president and CFO of CVS Health Corp. following the completion of the deal. Boratto is currently the CVS Health's executive vice president, controller and chief accounting officer.

—Frank Klimko and Thomas Harman

AHIP Adds COO, Two Executive Vice Presidents

America's Health Insurance Plans has named John Mathewson as the trade association's chief operating officer and has also named two new executive vice presidents.

John Mathewson

Before joining AHIP, Mathewson was interim president and chief executive officer for the DC Primary Care Association. Mathewson is responsible for the association's business and operational strategies and succeeded Matt Eyles, who was formerly head of policy and COO before being named AHIP president and CEO earlier this year.

Eyles succeeded Marilyn Tavenner, who retired on June 1.

Keith Fontenot joins as executive vice president of policy and strategy. Previously, he worked as managing director of government relations and public policy at Hooper Lundy & Bookman PC, a health law firm. Fontenot will fill Eyles former policy role.

Elizabeth Goodman joins as executive vice president of government affairs and innovation. Previously, Goodman worked at MassHealth—the Medicaid and Children's Health Insurance Program for the state of Massachusetts—where she was chief of long-term services and supports. She will replace Adrienne Morrell, who left the association earlier this year for SCAN Health Plan, a California-based insurer, which is also a member of AHIP.

Zurich UK Appoints Chief Financial Officer

Zurich Insurance Group said it has appointed Helen Pickford as U.K. chief financial officer.

Helen Pickford

Pickford takes over the U.K. CFO role from James Quin, who decided to leave Zurich after five years, the company said.

Pickford has more than 25 years of experience in the insurance industry. She was previously deputy CFO for Zurich UK and CFO for Zurich's U.K. life business. Before joining Zurich in 2016, she was finance director at Ageas and held senior finance roles at Royal Sun Alliance.

Chubb Names President of Bermuda Division

Judy Gonsalves has been appointed vice president of Chubb Group and division president of Bermuda.

Judy Gonsalves

Effective immediately and subject to regulatory review, she will succeed Joseph Clabby, who will be named chairman of Chubb Bermuda. In this new role, Clabby will serve in an advisory role to Gonsalves and the Chubb Bermuda team.

Gonsalves is currently executive vice president and chief underwriting officer of Chubb Bermuda. She will remain in Bermuda,

In addition to his Chubb Bermuda responsibilities, Clabby will join Chubb's North America field management leadership team and will be based in Whitehouse Station, New Jersey.

Mary Parsons

Gonsalves has more than 25 years of experience in the insurance industry. She joined Chubb Bermuda (formerly Ace Bermuda) in 1992 as an assistant underwriter in the excess liability department. In 2004, she was appointed senior vice president, and was promoted to executive vice president in April 2010, before assuming her current role.

Tim Barziza

Clabby has more than three decades of industry experience, with 17 years at Chubb. Most recently, he was Chubb's division president of Bermuda and its global accounts division. Prior to Ace's acquisition of Chubb in January 2016, he held a number of leadership positions.

Chubb recently named Mary Parsons executive vice president, sales and distribution leader for the North America personal risk services division at Chubb Ltd. Parsons succeeds Annmarie Camp, who in July was named head of Chubb's European personal risk services division.

Parsons joined Chubb as a personal lines underwriter in 1998, and has since held a number of leadership roles.

Chubb also has appointed Tim Barziza as head of North American property claims. He succeeds Bill Turnbull, who joined the insurer 33 years ago and plans to retire at year end.

Barziza will be based in Dallas. He has more than 25 years of industry experience, the past 15 at Chubb.

Hendrickson New CEO at StarStone Group

StarStone said it appointed John Hendrickson as chief executive officer of StarStone Group. He succeeds Demian Smith, who resigned in September after eight years with the company.

StarStone Insurance Bermuda Ltd. confirmed Smith had left the company.

Hendrickson has more than 35 years of industry experience, and most recently was director of strategy, risk management and corporate development of Validus Group and a member of the Validus Holdings public company board of directors, until its acquisition by American International Group Inc. in July 2018.

Kingstone Appoints New CEO

Kingstone Cos. Inc. has appointed Dale Thatcher as chief executive officer. He will succeed Barry Goldstein, who has been named executive chairman of the board of directors.

Thatcher, a board member since 2017, was named earlier in the year to the newly created positions of chief operating officer of Kingstone Cos. and president of Kingstone Insurance Co. He founded Atherstone Partners, a consulting practice in insurance and investments, after serving 16 years as chief financial officer at Selective Insurance Group.

Thatcher remains Kingstone Insurance president. Goldstein, 65, will continue with the company, particularly working on the development of a distribution network in the Northeast.

Hagerty Group Appoints Chief Operating Officer

Hagerty Group LLC has appointed Collette "Coco" Champagne as chief operating officer. She fills a post that has been vacant since 2011.

Collette Champagne

Previously, Champagne was Hagerty's chief people officer. Champagne joined Hagerty in 1999 as the leader of sales and service. Three years later, she became vice president of human resources.

Cigna Appoints Post Merger Leadership Team

Cigna Corp. has appointed a leadership team that will report to President and Chief Executive Officer David Cordani after it completes its $67 billion acquisition of Express Scripts Holding Co.

Post-merger enterprise leadership reporting to Cordani will include: Chief Financial Officer Eric Palmer;

Chief Information Officer Mark Boxer; Chief Marketing Officer Lisa Bacus; Chief Clinical Officer Dr. Steven Miller; Chief Human Resources Officer John Murabito; U.S. Government Business President Brian Evanko; General Counsel Nicole Jones; Strategy and Solutions President Matthew Manders; International Markets President Jason Sadler and U.S. Commercial Business President Michael Triplett.

Cigna previously announced that Express Scripts President and CEO Tim Wentworth will serve as Express Scripts and Cigna Services president, heading the health services business.

Brit's Cloutier Joins Apollo, Focus on Aspen

Mark Cloutier

Mark Cloutier will step down as executive chairman of Brit Insurance in December 2018, after which he will work with an affiliate of Apollo Global Management LLC as a consultant focused on Apollo's proposed acquisition of Aspen Insurance Holdings Ltd.

Cloutier will work on the proposed acquisition by investment funds managed by affiliates of Apollo Global Management "with a view to assuming the role" of chairman and chief executive officer of Aspen following completion of the transaction, Brit said.

Chris O'Kane is currently Aspen's group CEO.

Cloutier was appointed CEO of Brit in 2011, and became executive chairman in January 2017. Over a 40-year career, he held a number of CEO and senior executive positions, including CEO of Alea Group, CEO of Overseas Partner Re and president of E.W. Blanch Insurance Services Inc.

Munich Re Names UK Life CEO

Mari-Lizette Malherbe

Munich Re London (Life Branch) said it appointed Mari-Lizette Malherbe as chief executive officer of the U.K. and Irish life reinsurance business.

She succeeds Andy Batley, Munich Re London. Malherbe was the company's commercial director before assuming the CEO role on Oct. 1.

Malherbe was appointed to the U.K. senior management team in 2016. She joined Munich Re in 2007 and worked in international Munich Re offices in a variety of roles.

Peak Re Names Chief Operating Officer

Peak Reinsurance Co. Ltd. has appointed David V. Cabral as the group's chief operating officer.

The Hong Kong-based reinsurer said Cabral's role has leadership responsibilities in business processes integration, achieving operational efficiency and driving Peak Re's technology strategy development.

Before joining Peak Re, Cabral was a founder of a reinsurance advisory firm providing advisory services from strategy to new product development for reinsurance companies and insurtech start-ups across multiple geographies. He was also a founding member of a start-up reinsurance company.

Country Financial Appoints Jacobs CEO

Jim Jacobs

Kurt Bock

Country Financial has appointed Jim Jacobs as chief executive officer. He succeeds Kurt Bock, who is retiring.

Jacobs has been general counsel, secretary and chief legal officer for Country Financial, Illinois Farm Bureau and other affiliated companies since 2008.

Earlier, he was an attorney and assistant corporate secretary in Illinois Farm Bureau's Office of General Counsel and had been a litigation attorney and partner at a New Orleans law firm.

Bock led Country Financial during a time of rapid change as it increased digital capabilities, its focus on customers and employee development, the company said earlier. He has been CEO for seven years.

Bock is also a member of the Federal Advisory Committee on Insurance and is the Property Casualty Insurers Association of America board chairman.

Legal & General America Names CEO

Legal & General America said it appointed Mark Holweger as president and chief executive officer of its insurance division.

Holweger was previously executive vice president, distribution and marketing for Legal & General America. He joined the U.S. operation earlier this year from Legal & General Insurance in the United Kingdom.

Legal & General America includes operating companies Banner Life Insurance Co. and William Penn Life Insurance Company of New York. BR

Agents’ Concerns

Best’s Review recently asked readers: What are some of the insurance issues you are most concerned about for 2019?

I am happy to respond with the following inquiries:

• Does the agent/agency model of insurance distribution have a future in the age of online transactions? Will more people purchase and service their own policies online as arms-length transactions, thus eliminating the need for us middlemen?

• Will telematics-enabled pay-as-you-go auto insurance replace the standard single-premium policy as we go into the future?

Thank you for soliciting my response. I know many agents who are both curious and deeply concerned about these developments.

Robert Humphreys
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Published by A.M. Best

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Brand New Day

Guardian launches its first major brand campaign in more than 150 years and Allianz to become a Worldwide Olympic Partner in 2021.

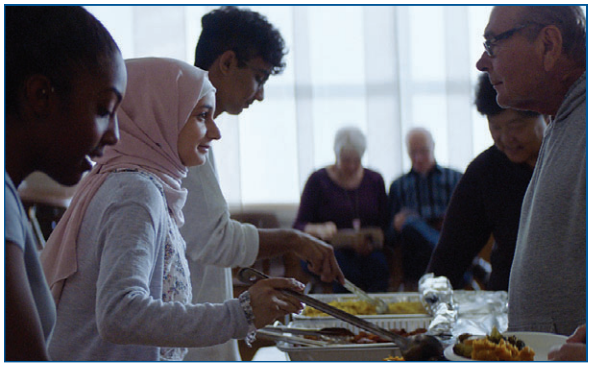
Now Is the Time

GUARDIAN LIFE INSURANCE COMPANY OF AMERICA has launched its first major brand campaign in 158 years.

The company was founded in 1860 by a German civil rights lawyer who wanted to create a better life for immigrants.

Over the years, Guardian has done some direct-to-consumer marketing, but the New York-based company is moving in a new direction with a fully integrated rebrand that includes digital, social, TV and radio ads and a new visual identity. The new logo features interlocking rings that symbolize the company's financial strength, the warmth of its approach to customer relationships and longevity that represents the long-term promises Guardian makes to customers.

"Guardian values have always connected with our customers, and they've told us directly that 'to know us is to love us.' But for too many, we've been a silent player in the marketplace," said Sherry Pudloski, chief communications officer at Guardian. Changing demographics and customer expectations has made this "an ideal time to change that and share more about the company," she said.



"We were founded to serve the social good and ensure customers have the same insurance as everyone else in their communities. Those values still hold true today and drive everything we do, and that's why we believe the campaign, Everyone Deserves a Guardian, will resonate," Pudloski said.

Guardian uses an emotional appeal to tell the tales of real people. The 60-second spot uses mini-vignettes that bring those stories to life with an empathetic voiceover that says, "When you care about someone more than yourself, you change, you become stronger, more determined, more courageous. You become part of something bigger. You become a Guardian."

Going for Gold

ALLIANZ will become a "Worldwide Olympic Partner" in 2021. The partnership will allow the global insurer to provide insurance solutions, such as fleet and property/casualty coverages, to the National Olympic Committees and their Olympic teams and athletes across the world.

Next year Allianz, who will become the International Olympic Committee's 14th top partner, will begin having marketing rights in China, France and Spain.

The partnership will run through 2028 and will cover the 2022 Beijing Olympic Winter Games, the Olympic Games Paris 2024, the Olympic Winter Games 2026 and the Olympic Games LA 2028.

PARTNERS: IOC President Thomas Bach and Allianz CEO Oliver Bäte.

Allianz and the IOC hope to use the power of sport to connect with new audiences via digital channels.

"We're excited about the opportunity to take both teams to the next level—digitally, commercially and globally. Working with the IOC also gives us a new platform to connect with customers, especially the younger generation, in their preferred way to insure and assist them. We're looking forward to moving Allianz into new markets, as well as strengthening our position in existing territories," said Jean-Marc Pailhol, head of group market management and distribution at Allianz SE.

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

A Mixed Bag

Experts from the insurance industry discuss the emerging risks and growth areas that are impacting the multifaceted inland marine market with A.M. BestTV.

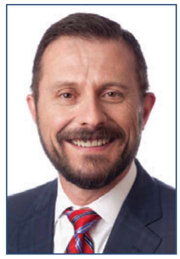
"There's been a movement over the last few years where mass timber or cross-laminate timber is used in building wood construction. It's greatly increased in terms of being able to elevate those structures from a five- or six-story structure to now, they can go 12-, 14-, and sometimes even close to 20.

The insurance market is still very apprehensive about mass timber. The mass timber process really refers to taking wood panels and gluing them together with an adhesive that makes it stronger. It also is able to then increase the height for the construction.

Another interesting emerging risk is the whole cannabis industry. Many U.S. states have made it legal for medicinal purposes. Also, several now have made it legal for recreational purposes. That industry is changing. There are exposures now that really weren't contemplated before when it was contraband. You have transportation exposures going back to motor truck cargo. How are you going to ship these goods? You also have potentially warehouse legal liability where marijuana is being stored in warehouses and what can happen to that while it's there.

The interesting thing though is it's illegal in the U.S. federally and the federal government has pretty much said we're not turning a deaf ear on this, and we're not changing our position. There is no standard banking available for the marijuana industry. Primary insurers are backing away from it, because they can get into legal issues, and they're not sure where the federal government is going to be on it. However, it remains a growing exposure that has to be covered by insurance."

Kevin O'Brien
President & CEO
Inland Marine Underwriters Association



"If you don't have a few hundred million dollars to go buy a classic painting but you'd like to own a piece of it, there's a website now where you can go buy .00275% of a classic work as an investment. You don't get the property to take home. You don't necessarily even know where it is, but you know you have a partial ownership of it.

As a collector, what do you do with that? How do you report that to your agent? How does it show up on your policy? If you go to that website, it says, 'Fully insured.' What does that mean? What happens if it's not? Should our coverage form do something different than what it does today to address that growing trend? These are all the questions we'll have to grapple with as this technology becomes more useful."

Rich Soja
Global Head of Inland Marine
Allianz Global Corporate and Specialty

"The inland marine market is one of the best performing of all major property/casualty lines. That's been the case for the last 30 years. It's been performing better in terms of underwriting results, with combined ratios that are typically in the high 80s, for instance, compared to, oftentimes, high 90s, or low 100s for the rest of the industry.

In terms of growth, it's also seen growth that's been above average in the post-crisis era. Whether we look at growth or we look at performance, we can see inland marine is one of the brighter spots in the commercial insurance space in particular.

Inland marine covers many different sorts of risks, including transportation-related and construction risks. As it turns out, the way that the economy is performing today is hitting the sweet spots of inland marine.

For instance, construction activity. Private construction investment is at an all-time high in the United States. That's creating considerable demand and insurable exposures for construction equipment and so on.

When we're talking about transportation and trucks, we're seeing record numbers of miles and trucks being driven all across the country. This is good news for the inland marine business. It's good news for the entire commercial insurance industry.

We've seen less softness in terms of rate in inland marine than we have in other areas. We just see much more disciplined underwriting here than is typically the case elsewhere in the commercial insurance space. Occasionally, inland marine gets hit by catastrophes big time, as does the rest of the industry.

But apart from those periods of time, it's an outperformer."

Robert Hartwig
Clinical Associate Professor, Finance Department
University of South Carolina

"One of the classes of business that I've seen[new capacity] going, or one of the industry groups that I've seen it going to most frequently is wood frame builder's risk business. I've seen projects up to $400 million being written in a couple of different ways.

One is nonadmitted through London with excess and surplus lines paper. Also, being put together with standard U.S. markets with quota share pieces of it with $10 million here, $20 million there, and being able to build up to those kind of numbers.

Wood frame projects in California and the Pacific Northwest are huge now. They're very, very popular. It's cheaper construction. It's more earthquake resistant and being used more frequently.

We're going to see it expanding across the country. You'll see high rise projects, the podium construction where you'll have noncombustible for the first couple of floors and then frame on top of that.

Primarily, it's residential, it's habitational. It's condos and apartments going up that way.

I'm talking several stories up, like nine-, 10-, 12-story projects. It's replacing steel. It's much, much cheaper and lumber's more available."

Richard Pye
Chairman
Inland Marine Underwriters Association

Visit *www.ambest.tv* to watch the video interviews with these executives.

A New Focus

As post-millennials enter the workforce, insurers must recognize their unique characteristics.

As we close out 2018, it's time to address the elephant in the room. Millennials are getting old … I feel it. My friends feel it. The post-millennial generation feels it. And still, it seems possible that our parents, employers and the popular industry press aren't recognizing it. This year, the oldest millennials turned 37, and if you use the 1997 cutoff that the Pew Research Center has adopted for post-millennials, the oldest of this generation has turned 21. What does this mean for our industry that is still "trying to figure out" how to be an industry of choice for millennials? It means we need to accelerate our efforts to modernize our corporate cultures, human resources practices and information technology management and systems. Why do I believe that these efforts are even more important in retaining post-millennials than they were in retaining millennials? Here are a few characteristics of the next generation:

Carly Burnham

Our industry has yet to solve the recruitment and retention issue regarding millennials, but **we must start focusing on post-millennials now.**

Digital Natives

If we thought that millennials were addicted to their cell phones, there isn't even a word for how attached post-millennials are. Going into an office where "green screens" still exist will seem utterly foreign to the 2019 class of college grads who likely never used an Apple IIe, like me and many of my cohorts did in elementary school.

Social Justice Warriors

The students from the Marjory Stoneman Douglas High School activated people all over the United States in the aftermath of the February 2018 shooting. Their tweets were as effective as the president's at getting national media attention. They used their platforms to open up a conversation that attacked the issue from many angles, bringing in students from Chicago to talk about the difference in media coverage of mass shootings and more quotidian gun violence and why it matters. This is only one issue where this generation is already more socially active than my generation. We can expect that they will value work that is pro-social, and insurance offers those opportunities, but still hasn't figured out how to own that message in an authentic and convincing manner.

Embrace Diversity and Inclusion

Many companies in our industry have embraced diversity and inclusion efforts, but we are still seen as stodgy, white and male. Demographic trends tell us that the post-millennial generation will be the most racially diverse generation we've ever seen. They are also more comfortable than any prior generation with fluid gender and sexual orientations. Many organizations are still working toward openness in this arena. We must speed up.

Entrepreneurial

In place of traditional part-time jobs, post-millennials are building "side hustles." This means they'll come into the workplace with the expectation that their experience building something will be meaningful to their employers. Our industry is slow to adopt results-based performance metrics in place of time-based. We are adapting slowly, but we should be prepared for a generation even more aware of the fact that time-in seat does not, in fact, equal productivity.

Unconvinced of the ROI of Higher Education

Post-millennials have witnessed the effects of student loan debt. They are questioning the value of traditional diplomas. Much of our pipeline building has been based in colleges and in hoping for more risk management programs. We should recognize that talent may come from other pathways, especially with the increased ability to educate oneself online. Determining how we can find that talent and assess its capabilities will be essential. Our industry has yet to solve the recruitment and retention issue regarding millennials, but we must start focusing on post-millennials now. Transferring knowledge to incoming professionals requires that we retain them long enough to make the knowledge transfer stick. 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*.

Regulatory Update

Retirement savings and risk corridor payments are a focus.

Retirement Savings: The U.S. Labor Department released a new proposed rule that would allow small employers to pool together their workplace retirement plans, which industry representatives said could make it easier for Americans to save for retirement.

Under the proposed rule, small businesses could join open Multiple Employer Plans. Such pools would allow companies to offer 401(k) plans with participants combined from multiple unaffiliated employers, rather than from a single one.

The proposed rule is in response to an executive order signed by President Donald Trump earlier this year to change the regulation of workplace retirement plans.

Risk Corridor Payments: A federal appeals court has declined to overturn an earlier ruling that said insurers can't recover $12 billion in unpaid risk corridor payments because the program did not constitute a contractual obligation between the government and participating carriers.

In a 9-2 vote, a panel of the U.S. Court of Appeals for the Federal Circuit rejected a request to bring the case before the entire appellate court.

The request for an en banc review (a review by the entire Federal Circuit bench) came from four insurers: Moda Health Plan, Land of Lincoln Mutual Health, Blue Cross and Blue Shield of North Carolina, and Maine Community Health Options.

It is expected the carriers will appeal to the U.S. Supreme Court.

Midterm Elections Overturn Political Landscape

U.S. House flip to Democrats ends ACA repeal, raises new roadblocks to deregulation.

by Frank Klimko

The Democratic takeover of the U.S. House will likely end Republican efforts to repeal the Affordable Care Act, but Democrats will probably attempt to derail the Trump administration's deregulatory agenda that has largely benefited the insurance industry, market observers said.

With some races still uncalled in early November, House Democrats have already passed the threshold for a majority by winning 219 seats so far, grabbing control of a chamber they haven't held since 2010. Projections show they could obtain as many as 234 seats.

Senate Republicans held onto control of that chamber, adding at least three seats there.

However, incumbent Sen. Jon Tester, D-Mont., prevailed in a tight race with Montana Insurance Commissioner Matt Rosendale Jr., a Republican.

The end of one-party rule in Washington D.C. overturns the political landscape and erects new challenges for the industry in pushing for its top priorities—like reforms to the National Flood Insurance Program.

> "With a split Congress, we almost certainly will get no significant financial services legislation."
>
> **Ian Katz**
> Capital Alpha Partners

"With a split Congress, we almost certainly will get no significant financial services legislation," Ian Katz, director of Capital Alpha Partners, said in a research note.

"A Democratic House can slow down the regulators. The time required to prepare (for congressional hearings) is underappreciated.

"The regulators are thinly staffed near the top, so having to respond to antagonistic lawmakers will slow down their deregulatory work," he said.

An ACA appeal is now off the table, said Timothy Jost, emeritus professor, Washington and Lee University School of Law. "There possibly could be some stabilization measures, but the path for this will be harder in the Senate," he said.

House Democrats will probably push for investigations into Trump administration efforts to undermine the ACA, he said. House Democrats questioned a decision by the U.S. Health and Human Services Department to reduce outreach and advertising for ACA open enrollment.

"And yes, there will be endless oversight hearings," he said. "This will possibly put the administration into more of a defensive mode, less likely to issue regulations or guidance undermining the ACA."

Such investigations could spread beyond the ACA and could hamstring efforts to get bills passed, said Nat Wienecke, Property Casualty Insurers Association of America senior vice president, federal government relations. BR

Frank Klimko is Washington correspondent, *BestWeek*. He can be reached at *frank.klimko@ambest.com*.

Maximizing Analytics

Simple tools can produce significant results.

By
Bill Panning

New and sophisticated analytical techniques with intriguing names (and uncertain benefits) have captured the attention of many firms eager to increase profits.

Firms that are cautious about investing in these new and unproven technologies should consider ways of extracting additional value from their existing algorithms (prescribed numerical procedures) for making complex decisions, whether implemented by software or by humans. Here are four such opportunities, with examples of their value.

Firms that are cautious about investing in new and unproven technologies should consider ways of extracting additional value from their existing algorithms.

• **Reality checks** focus on algorithms that respond to external conditions and produce results that affect a firm's decisions. Are these algorithms correct? Have they been made obsolete by changing circumstances? Preceding the financial crisis, financial firms assumed portfolios of home mortgages in geographically dispersed locations were diversified. But this situation changed, due to the evolution of nationally integrated mortgage markets. Consequently, home values and mortgage rates in locations as distant as Phoenix and Philadelphia became highly correlated. This change was not recognized by financial analysts nor incorporated in their pricing models, which significantly underestimated the riskiness of their mortgage-laden investment portfolios. This increased divergence between actual risk and the prevalent estimates of its magnitude played a huge role in precipitating the financial crisis.

• **Accuracy checks** examine the internal assumptions on which decision processes are based. For many years, insurers regularly altered their mix of taxable and tax-exempt bonds to maximize their after-tax net income in response to forecast changes in underwriting income. A colleague and I were assigned to evaluate that human, but nonetheless algorithmic, process at a large firm. We discovered that these seemingly routine decisions failed to consider the significant transaction costs of changing the portfolio composition. In most situations these costs outweighed the prospective tax benefits. We also discovered the forecast changes in underwriting income, obtained at great cost, had no predictive value whatsoever. Scrapping this whole process saved millions annually.

• **Focused reports** are customized versions of various monthly financial reports that insurers routinely produce. They focus recipients' attention by omitting or condensing numbers that are of little interest to the recipient, and using specific fonts and colors to direct attention to what matters most to them (e.g., numbers that significantly deviate from past experience or from target ranges). Their purpose is to enable decision-makers to make better use of a valuable and limited resource—their attention.

• **Feedback meetings** with the recipients of analytic reports can be valuable. At one such meeting, a department head confided he had growing misgivings about a pricing model his department had used successfully for years. Recently the model had begun to produce bids that were significantly lower than competitors. We reviewed the model and discovered a subtle programming error that failed to adequately reflect recent changes in the business environment. Correcting that error solved the problem and improved business performance.

Firms can implement such practices without help from expensive consultants. They may not be newsworthy, but can boost the bottom line. BR

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Friends for Life

Studies consistently indicate that those who engage in social activities have less mortality risk and that social isolation and loneliness increase that risk.

By
Hilary Henly

Fact: Adults who have stronger social networks live longer.

Current research shows that the long-term health impact of loneliness and social isolation will likely be comparable to that of obesity (a crisis predicted three decades ago), and poor social engagement's health impact comparable to that of excess drinking and smoking.

Clearly these are very important considerations in underwriting, yet because loneliness and social engagement are difficult to quantify, they are not currently used in traditional insurance underwriting.

Social isolation differs from loneliness in that a socially isolated person generally lives alone and has little or no contact with others. Loneliness is generally described as a person's perception of his or her relationships to others as well as a lack of connection to others.

Being lonely can influence dietary intake, smoking habits and alcohol consumption.

A large meta-analysis examining loneliness and social isolation as mortality risk factors showed that the increased likelihood of death was 26% for loneliness, 29% for social isolation and 32% for living alone.

Some studies have even shown that the risk is even greater than that of obesity. An analysis of data from a U.K. Biobank cohort study showed a 73% increased all-cause mortality for social isolation. Socially isolated people were also found to have double the risk of death from neoplasms (the abnormal growth of tissue that can become a tumor.)

Conversely, those who report higher enjoyment of life have fewer diagnoses of coronary heart disease, diabetes, arthritis, stroke and chronic lung disease, have better mobility and fewer impaired activities of daily living. These facts are hard for insurers to ignore.

> Underwriters, claims assessors and pricing actuaries are all too familiar with traditional mortality and morbidity risks such as raised blood pressure, obesity and high alcohol consumption. Loneliness and social isolation, although less well known, are clearly of relevance as well.

The increasing amount of time individuals spend on social media is reducing how much they would otherwise spend socializing face-to-face and engaging physically in athletic or social activities.

A meta-analytic review by Holt-Lunstad et al. in 2010 concluded that the health effect of having adequate social networks is comparable to that of stopping smoking, and the impact of a lack thereof exceeds risk factors such as obesity and physical inactivity.

Indeed, leisure-time physical activity has been associated with a lower risk of heart disease and all-cause mortality and is directly correlated to a lower risk of 13 different cancers, including bowel, bladder and breast cancers.

Underwriters, claims assessors and pricing actuaries are all too familiar with traditional mortality and morbidity risks that can include conditions like raised blood pressure, obesity and high alcohol consumption.

Loneliness and social isolation, although less well known, are clearly of relevance as well.

Can insurers incorporate them into the risk assessment process, given that they are usually self-reported and difficult to quantify?

It is worrisome that the mortality and morbidity risks from social isolation and lack of social engagement are shown to be higher than from obesity, smoking and excess alcohol.

Finally, is the risk assessment process missing other vital factors not currently used as part of the application process?

Perhaps now is the time to consider nontraditional risk factors in modern day insurance underwriting. BR

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Technology

Sustainability

Insurers must recognize the financial impact and benefit of investing in sustainable technology.

By

Gates Ouimette

The foreword of Microsoft's 2013 *The Microsoft Carbon Fee: Theory and Practice* begins with the risk mitigation opportunity available to insurers from sustainability initiatives.

"When it comes to mitigating risks associated with sustainability issues, the importance of having robust corporate policies that reflect a company's sustainability priorities cannot be overstated," said Mindy Lubber, president of sustainability nonprofit Ceres. Written in the foreword of Microsoft's guide summarizing its approach to building a simple carbon fee model, the guide includes a five-step process to help companies customize the model.

Five years after the publication was released, only one insurer—Canada's Manulife—is readily visible in Ceres' investor network list.

Perhaps carrier investments remain limited due to the slowly evolving business impact of sustainability, or because of the ongoing discussion and the evolving impact of climate change. Given the raison d'etre of the insurance industry is risk, despite sustainability's macroeconomics being hard to qualify and quantify at a corporate business level, insurers need to take a more active role.

Given the raison d'etre of the insurance industry is risk, despite sustainability's macro-economics being hard to qualify and quantify at a corporate business level, insurers need to take a more active role.

Along with taking a top-down approach with organizations like Ceres, insurers should also try bottom-up strategies using emerging technologies to positively impact sustainability. Just look at how many trees have been saved with the use of email, the internet and pdfs.

The sustainability impact from new technologies has never been more pronounced than it is today. Insurers need to take in, then break down, the gamut of these technologies into actionable initiatives. From the basket of machine learning, artificial intelligence, virtual/augmented/mixed reality, the internet of things, conversational user interfacers and robotics are hundreds of risk mitigation opportunities.

Examples include using:

- Machine learning and AI to identify energy transportation risk in wholesale (e.g., oil pipelines) and consumer (gas delivery to residential) in physical delivery assets.
- Virtual/augmented/mixed reality for ongoing safety and security training simulation, both physical and cyber.
- Land, water and air-based robotics to more quickly analyze and respond to natural catastrophes, such as hurricanes, or to man-made disasters such as terrorism.
- Conversational UI interfaces, which let users interact with various applications in a natural way, to simplify human interaction with all of these technologies.

A bottom-up approach for sustainability investments does not require a direct sustainability return on investment correlation. It becomes an added benefit.

However, from the top down, U.S. insurers need to take a more active leadership role, minimally at the level seen in other industry sectors. While across sectors, 65% of businesses hold senior executives responsible for sustainability performance, the insurance sector sits at only 38%. Moreso, despite the critical financial impacts of a changing climate facing the insurance sector, only 31% of insurers have formal board oversight for sustainability, according to *Forbes*.

Given the political dynamics arising from November's U.S. midterm elections, it's time for domestic carriers to not only get involved but to also lead the way. Missing out on a market evolution like sustainability could jeopardize our environment and insurers' investment returns. BR

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Fire on Water

Shipboard fires are still the most dangerous threat to life and property at sea.

By
David Y. Loh

> If a ship's fixed firefighting systems cannot immediately put out the fire, then it may take weeks to get the fire under control.

According to the TT Club, an insurance and risk management services provider, major shipboard fires aboard container ships occur every 60 days on average. When these fires occur, they have the capability of becoming a massive conflagration resulting in a significant loss of life and property.

To highlight this problem further, commercial vessels travel on the open sea often quite far from land. Making matters worse, shipboard fires can occur within cramped spaces below deck, which can magnify the heat of the fire. It is not uncommon for shipboard fires to have temperatures over 1,000 degrees Fahrenheit, which is more than enough to consume weaker metals like aluminum.

If a shipboard fire burns that hot, it will be difficult if not impossible for crew members themselves to extinguish the fire. In all likelihood, a ship will have to rely upon its fixed CO_2 firefighting system to put out the flames. If a ship's fixed firefighting systems cannot immediately put out the fire, then it may take weeks to get the fire under control. This is exactly what happened earlier this year on the *Maersk Honam*, when a fire resulted in five fatalities on the ship with a capacity of 15,226 TEUs (20-foot equivalent units). And in 2012, the *MSC Flaminia*, a 6,732 TEU container ship, was a constructive total loss and the fire caused three fatalities and seriously injured two.

The industry has responded by calling for improved regulations and ship design. For example, the International Maritime Organization amended Chapter II-2/10 of the International Convention for Safety of Life at Sea to increase the effectiveness of shipboard firefighting equipment and systems. This change applies to all new construction on or after Jan. 1, 2016.

With respect to firefighting systems aboard existing ships, certain industry groups—such as International Union of Marine Insurance (IUMI)—have called for upgrades. For example, IUMI has asked that the industry consider a proposal from the German Insurance Association which has called for at least two fixed firefighting systems in critical below-deck spaces, such as the hold walls, major bulkheads, hatch covers, the main deck and the cargo itself. The activation of a fixed CO_2 system can temporarily starve a fire of oxygen, but in order to prevent reflash and the fire spreading, especially into the crew and engineering spaces, a water-based fixed firefighting system should be retrofitted to maintain vessel cooling.

The industry is also examining existing regulations and practices for the handling and stowage of all dangerous goods. For instance, Maersk, the world's leading container line, is adopting a set of principles—Risk-Based Dangerous Goods Stowage. This guideline is to consider the location of particular cargoes in order to minimize the risk to crew, cargo, environment and vessel in the event a fire develops. Stowage of dangerous cargo next to crew accommodation and the main propulsion plant has the lowest risk tolerance, whereas stowage on deck fore and aft likely will have the highest.

These are just a few of the measures to be considered by the shipping industry to reduce and otherwise mitigate the risk posed by shipboard fires. It is likely that as time goes on further measures will be considered to hopefully eliminate this sea hazard. BR

Best's Review contributor **David Y. Loh**, is an expert on admiralty and maritime law, and is a member of Cozen O'Connor's transportation and trade group. He can be reached at *dloh@cozen.com*.

The Long & Winding

Steve Friedman's unorthodox career path took him from practicing law to investment banking to a unique, hybrid role with Pan-American Life, managing both its investment portfolio and its business growth strategy, reflecting a reinvented role amid changing industry dynamics.

by Jeff Roberts

The bargain was struck as graduation neared. Steve Friedman had reached a crossroads, one that intersected nearly every aspect of his young life.

The Wharton School senior wanted to be a banker. His parents wanted him to get "a real job"—meaning doctor or lawyer. And then there was a young woman in New Orleans weighing heavily on his mind.

Time was running out to reconcile it all.

"But then I had this romantic notion," Friedman said some 25 years later, a smile rising in his voice.

He reached a compromise with his parents that led him down an unorthodox and somewhat accidental career path. It culminated in July when he took on a custom-made, hybrid position for Pan-American Life Insurance Group, managing both its investment portfolio and leading its organic growth and mergers and acquisitions initiatives.

Friedman needed that uncharted journey, traversing from the University of Pennsylvania to law school to a global law firm and then to investment banking, to develop the necessary and singular skill set.

The career path, largely outside the insurance and asset management realms, sets him apart from many others in similar roles in the life insurance space, according to industry observers.

And it all started with that fateful deal.

"I'm telling you: Sometimes it's better to be lucky than good. And hopefully you can be both," Friedman said with a laugh. "There's no question

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

that that variety of experiences has positioned me well.

"They all tie together. I think they have to. I do think it's becoming part and parcel with the business and the industry. We're in a different era today that demands more."

As executive vice president and chief investment officer, corporate development and strategy, Friedman manages Pan-American's $5.2 billion portfolio and leads its corporate development strategies.

The position reflects a company thinking more holistically about growth, investment return and how to realize its strategic vision. And it illustrates the evolving needs of an international life and health insurer seeking a unique solution.

"Steven's role reflects the natural evolution of the company as we optimize our organizational structure to meet the changing dynamics in the industry and in the business climate more generally," said José S. Suquet, chairman of the board, president and CEO. He responded to questions via email.

"The cross-section of expertise that Steven has in terms of life insurance, investments, mergers and acquisitions and compliance complements key areas of focus for the company going forward."

Friedman succeeds Rodolfo "Rudy" Revuelta, who retired after 42 years with PALIG, the last 13 years as chief investment officer. He left behind a high-quality portfolio low on risk and high on return that has consistently beaten the industry average.

But Pan-American, ranked the 99th largest company in A.M. Best's Top 200 U.S. Life/Health Insurers based on 2017 admitted assets, saw an opportunity to reinvent the role.

The New Orleans-based, mutual holding company wants to continue to expand organically in its international business and through M&A in its more established, slower

Key Points

Hybrid Role: Friedman's position reflects Pan-American's vision to grow organically in its international business, through M&A domestically and through savvy investments.

Big Growth: Pan-American has quadrupled its size in recent years and recorded $60 million in net income in 2017.

Big Return: Friedman inherited a $5.2 billion portfolio that has consistently outperformed the industry average.

growing domestic business.

And it wanted someone who could manage the portfolio, but still expand a company with a long-established brand name and cultural affiliation among its 4.8 million-strong customer base in 22 Latin American and Caribbean nations and in 49 U.S. states.

Stagnating domestic sales, the prolonged low interest rate environment and shifting industry paradigms have inflicted significant earnings pressure on life insurers. The expanded position offers one potential solution in response to that challenging landscape.

Friedman was uniquely qualified for it. Pan-American leaders knew he was. He had served the company as an external adviser for more than a decade.

And for Friedman, something had been missing.

After more than 20 years of helping clients craft their own development plans, he wanted to actually execute his own strategy. "Real world practical application" he calls it.

"It's one thing to talk theory all day. It's another to actually do the job," said Friedman, who turned 47 in November and has three sons, ages 12 to 17.

"I had this really terrific seat at the table where I could provide advice to companies, but it was only just that: It was providing advice. I was never fully satisfied."

Then Pan-American reached out offering something more.

Targeting Growth

Pan-American's story is one of growth.

It has quadrupled its size "in about a 13-, 14-year period despite everything that has gone on," Friedman said. "Everything" includes the financial crisis and the Great Recession.

That growth attracted Friedman.

The developing middle class in Latin America, where markets are not as mature and penetration rates have been historically lower than in the U.S., has been a driver of its organic expansion.

"We have a lot of people on the ground, and they are indigenous to those countries," Friedman said. "That cultural divide doesn't really exist for us in a way that it may for many other companies. We've been in those markets for 50, 70, 100 years."

The U.S. market "provides a lot of stability and ballast" with comparatively low political risk, Friedman said.

M&A also has been a growth source. Pan-American acquired the majority of MetLife's assets in the Caribbean, Panama and Costa Rica in 2012. Then it merged with Mutual Trust Holding in 2015, adding nearly $2.1 billion in assets and strengthening its U.S. business. And last year it acquired HolaDoctor, a digital provider of health and wellness solutions for Hispanic audiences.

In 2017, the company recorded net income of $60 million, an increase of 22.7%. Total assets surpassed $6 billion for the first time, and GAAP revenues reached $1.08 billion.

Friedman inherited a $5.2 billion portfolio in cash and invested assets that has consistently beaten the industry average in yields, ranging from 5.3% to 7.4% over the past five years, according to A.M. Best data.

In that same period, the industry composite exceeded 4.6% just once.

Friedman has received the seal of approval from the man who built that portfolio. And Revuelta's opinion carries weight.

A co-worker referred to him as "one of the founding fathers" of Pan-American, a term of endearment and a gentle ribbing in one, owing to his longevity and importance to the company.

Revuelta initially planned to stay on as a consultant through the middle of 2019 to ease the transition. Then he began working with Friedman.

"I told José, 'I don't think I need to be around for that long,'" Revuelta said. "'Look, you guys made a great decision. I don't want to be in his way.'"

So he's ending the arrangement this month.

"I'm very impressed with him," Revuelta said. "He brings Pan-American not only knowledge of the company, but sees it through a different lens."

It took quite a journey for Friedman to develop that perspective.

A Fateful Bargain

The original plan was to study engineering, just like his father.

But by Friedman's sophomore year at Penn, business had become his passion. He had dual concentrations in finance and real estate and worked weekends in New York as an equity research analyst, commuting by train.

There was just one problem. Carol and Aaron Friedman wanted their son to go to medical school or law school.

"I'm not sure they had a great appreciation for corporate finance," said Friedman, who grew up in Wethersfield, Conn., just outside of Hartford. "I think part of them thought, 'Is he

“We tend to see things coming that we want to be smart about and reposition the portfolio, and have a little dry powder so that if the markets dislocate, we’ll have the opportunity to take advantage of that.”

Steve Friedman
Pan-American Life

going to be a teller at a window? Or a bank manager?’ ”

Actually, Friedman had another problem. He was hundreds of miles from his girlfriend, Bethany, who was graduating from Tulane and starting at an accounting firm in New Orleans.

But he was also clever and hard-working, with a predisposition for deal-making and strategic planning. So he made an agreement with his parents that solved those problems.

He would attend law school. But he focused on corporate law, with his eye still on finance. And the program he chose? Tulane Law School—in New Orleans.

So he made his parents happy. He would further the career he still wanted in banking. And that young woman in New Orleans? She is now Mrs. Friedman.

“She has been Mrs. Friedman for 24 years,” he said.

But that was just the beginning. The Friedmans moved to New York, and he practiced for the law firm of White & Case.

“I found that I really loved doing deals and transactions,” Friedman said. About two years later, he had a team of his own as a young associate.

Then he met the head of Credit Suisse First Boston’s financial institutions group. After discovering Friedman had a Wharton degree, the executive encouraged him to return to banking, where he could oversee M&A transactions through the entire process.

Friedman was sold. He joined Credit Suisse First Boston, then UBS as co-head of insurance for North America, helped build Greenhill & Co.’s financial services business and served as a senior managing director in Guggenheim Securities’ financial institutions group.

As a banker, he advised clients—including Pan-American Life—on more than $200 billion in corporate transactions, such as the buying and selling of business units. He helped shape what those companies would look like in three to five years and realize what they ultimately wanted to become.

“If I had only done one particular thing, I probably wouldn’t have as broad a role today or the broad ability to see things,” Friedman said.

Uncovering Jewels

Besides that vision, he holds two advantages many of his peers do not have.

He can take a long-term view thanks to Pan-American’s mutual ethos. And he is not beholden to the pressure to find yield thanks to the quality portfolio Revuelta left him.

“We don’t take a lot of risk on the product, and that’s by design,” Friedman said. “We think we can take appropriate risk and earn appropriate return. And we’re spending the time looking to uncover some of the jewels in the credit market.”

Revuelta constructed a portfolio that consistently outperformed the industry average. It produced yields of 7.4% in 2013 (versus the industry average of 4.4%), 5.5% in 2014 (5.0%), 5.3% in 2015 (4.6%), 5.5% in 2016 (4.6%) and 5.5% last year (4.4%).

Pan-American maintains a “well-performing” and “high-quality fixed-income investment portfolio that has avoided large investment losses and is in a net unrealized gain position,” according to its A.M. Best credit report.

“Investments have been one of Pan-American Life’s core strengths for decades,” said Suquet, the chairman and CEO. “In fact, one of the things that attracted me personally to the company was the strength of the balance sheet and the investment portfolio.

"Steven's role reflects the natural evolution of the company as we optimize our organizational structure to meet the changing dynamics in the industry."

José S. Suquet
Pan-American Life

"I would say that investments are a key part of our financial strength...We've consistently outperformed the industry in terms of returns year over year, and it's one of the main reasons that PALIG 'punches above its weight' as an organization."

Pan-American has focused on long-term, high-quality bonds, which make up more than 78% of its total invested assets, according to the credit report. More than 40% of the portfolio is in well-diversified private placement issues.

Revuelta says it started with effective credit analysis and portfolio monitoring. He patiently sought relative value in the new-issue and secondary markets, jumped on market dislocations and avoided "toxic assets."

PALIG had no exposure to subprime mortgage-backed loans or collateralized debt obligations when the crisis hit, he said. And when other insurers were forced to invest defensively, Revuelta was on the hunt for bargains.

And he found quite a few during the crisis.

For instance, he bought corporate bonds in early 2009 that "were trading like dirt at huge spreads," he said. Pan-American still holds a Valero bond with a coupon of 10.5%, bought in March 2009 at a spread of 687 basis points.

"We have this low, flat yield curve that's existed over the last decade, and investment income has been impacted throughout the life industry," Friedman said. "You've seen some companies stretch for higher yield either through taking greater credit risk or longer duration.

"Rudy has not dipped into lower credit classes or extended duration. The book yield that we've been able to achieve while keeping a very high-credit quality has been just outstanding."

Friedman said he shares a similar investment philosophy. The goal is "a rock-solid credit portfolio that at that margin, when we find either growth opportunities or dislocation, then we can act," he said.

Pan-American relies on its own sophisticated data analytics to conduct credit and sensitivity analyses, not external advisers, he added.

Despite a strong U.S. economy, Friedman remains vigilant. Many have predicted a shallow recession in the next 12 to 18 months, with the economic cycle in its late stages.

Pan-American is reviewing its assets and has reduced the average life of its bond portfolio to about 10 years and its duration to less than eight.

"We tend to see things coming that we want to be smart about and reposition the portfolio," Friedman said, "and have a little dry powder so that if the markets dislocate, we'll have the opportunity to take advantage of that."

Risk and reward. A circuitous journey coming full circle. It's been a worthwhile ride, Friedman says, a quarter-century after making his bargain.

"I'm fascinated by the insurance industry not just because big data gives insight into the business and consumer behavior today in a way that would not have been possible 10 years ago," Friedman said.

"I am also a real believer in the industry serving the greater good. As a mutual holding company and as a life insurer, Pan-American really has the ability to show up during people's greatest financial stress or difficulty, and we can do well by doing good. To be able to come to work every day and know we're doing this for a good reason—that gets me up in the morning." BR

Learn More

Pan-American Life Insurance Group (A.M. Best # 052015)

For ratings and other financial strength information visit *www.ambest.com*

ILS Wrapup

ILS Bermuda Convergence

Interviews from the networking event for the insurance-linked securities, alternative reinsurance, and convergence marketplace held in Hamilton, Bermuda. The following are interviews from A.M. BestTV's coverage of the event.

Coverage by Meg Green

Expansion Plans

The next phase of insurance-linked securities is 'reverse convergence.'

Several insurance-linked securities funds have expanded by setting up their own reinsurance entities, with more expected to follow, said Anup Seth, managing director, Aon Insurance Managers (Bermuda) Ltd.

How has the ILS market fared after the 2017 natural catastrophes?

I think the industry has fared really well after the 2017 storms. In fact, most of the ILS funds actually reloaded prior to the January 1 renewal season. When you look at the amount of capital that is now within the alternative sources—Aon does a report every year just before Monte Carlo—the total assets under management or capital that's coming from the alternative sources now stands at just under $100 billion. That represents an increase of 10% over the previous 12 months.

Anup Seth

When you stand back and look at the total reinsurance capital that we have in the market, that stands at around $600 billion. Effectively, one in $6 is now coming from this alternative source. It is becoming a significant part of the overall market. They fared really well, and they're here to stay.

How are ILS funds accessing new business?

Historically, ILS funds are focused on property cat retro or property cat reinsurance. One of the trends we're seeing now is that they're looking to access more direct insurance business, and they're doing that either through a fronting partner, or they'll do that through an MGA relationship that's linked to a fronting partner.

I think some of the acquisitions that we're seeing are accelerating those strategies. The recent announcement of Markel acquiring Nephila, I think that will accelerate Nephila's strategy of accessing direct business. Similarly, when we were in Monte Carlo, Brian Duperreault was very vocal about AIG's strategy around how they want to use their ILS vehicle—AlphaCat—moving forward in this space. I think that's a clear trend now that we're seeing, these ILS funds wishing, or willing to, or wanting to access direct insurance business.

How are ILS funds themselves evolving?

Given the size now, these ILS funds are looking at their own structures and looking to see what is the most efficient way to deploy this capital. One of the things we're seeing in Bermuda, in particular, is that these funds are setting up their own rated reinsurance entities. They're starting off with perhaps a Class 3A entity to take advantage of the Solvency II equivalency

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that Bermuda offers. Then as they graduate, and build further, and grow further, their plans are to get these entities rated. We saw that a couple years ago with Lumen Re here in Bermuda, and I think we will see that trend continuing as well.

That's almost a reverse convergence?

It is, yes. The phrase that we're coining here is reverse convergence.

What new perils is the market looking to cover now?

One of the things the funds are looking at is how to diversify their portfolio. We're certainly seeing other credit insurance coming into play, so mortgage insurance bonds. The premise is really that these risks have to be non-correlated. Mortgage insurance is not that. It is correlated to the wider macroeconomic industry. Investors, they are different, and they have a different appetite. I think some of the newer perils like cyber, like broader operational risk, I feel will come into play.

More importantly, more recently, I think life insurance is a great way to diversify a book. We have seen a couple of large ILS funds set up their own life funds. What they're doing in that space is they're providing liquidity for life insurance companies. They're able to do that by monetizing or securitizing the economic value that's embedded within a portfolio of life insurance policies.

Then the second area where I think—and this is more the future of what I believe life ILS funds will look to provide a solution for—is longevity risk. If you just look at the U.K. market, there's significant longevity risk that's uninsured. These pension funds are looking to de-risk their pension portfolios, de-risk their schemes. I think ILS funds, if they can provide a suitable solution, that'll be a great source of diversification for them. BR

A.M. BestTV

Go to *bestreview.com* to watch the interview with Anup Seth.

Changes Ahead

Industry expert says convergence capital could ultimately go retail.

The continued growth and diversity of risks being covered by convergence capital means smaller investors eventually might have ways of allocating funds toward insurance-linked securities, said Andre Perez, chief executive officer of Horseshoe Group.

Earlier this year, you discussed the potential threat of trapped collateral in the ILS space. Can you tell us about that?

Last summer we had three big hurricanes in the U.S., Irma being probably the most significant one of the three. Because they happened toward the end of the year, one of the mechanisms in collateralized reinsurance is that if there's a significant loss, there's a formula by which the collateral is not released on time, to put the collateral toward the next year's transaction. We thought it would be a problem, because a lot of collateral was going to be trapped.

Andre Perez

Will ILS funds and ILS investors have sufficient capital to reload, if you will, and renew other transactions? We thought it was initially a problem, but we didn't anticipate the speed at which a lot of ILS funds not only replenished and raised additional funds to go back to where they were before the three hurricanes, but most of them actually raised even more funds than what they had before. I think net net, we ended up with something like 10%-15% additional assets in the ILS space. In that sense, yes, there was still trapped collateral, but it wasn't an issue, because with the additional collateral, funds were able to reload and participate in renewals.

What does that say about the strength of the ILS market?

It's very exciting, because we at Horseshoe have been in this market for a little over 13 years now. We set up in March of '05. Katrina, Rita, and Wilma hit that summer, which I think changed the trajectory of the reinsurance market—more specifically, the property catastrophe reinsurance market—and definitely was the birth of ILS as we know it today.

There were transactions. It wasn't called, really, ILS pre-KRW or Katrina, Rita, and Wilma, but we certainly saw the major expansion after that. Since then, we kept hearing, "Oh, the next big loss, capital will go, and this market will go away. It's just a passing fad." I've heard that for the last 13 years.

What's interesting is now, it showed that even after three significant losses, capital was still coming back into the market. I could tell you for a fact, had Irma hit Miami the way it was supposed to originally, we would have seen even more capital coming to the market. There's a fair number of people interested in ILS. The other thing to keep in mind in terms of the stability of the investor base is that we had a lot of hedge funds investing post-KRW. They have a much more aggressive investment strategy, but also that are much less sticky, if you will, in terms of investors.

Once the market condition decreased, they'll move on to the next industry. Whereas, if you look at the complexion of investors nowadays, a huge part is pension funds. The plus and the minus of pension funds investing in the ILS space, the minus, I'll start with that, is that it takes them a long time to make a decision to invest into it. The big plus is once they've decided they're going to make the strategic allocation, they actually have the staying power, which helps a lot in terms of ensuring the viability and the stability of the ILS market.

How do you see the ILS market continuing to evolve?

It's in constant evolution, let me tell you. Because that's what we do for a living, we're in the front row of the show, so we see all the activity going on. It's interesting, because if you look at ILS in general, it was basically property-cat business, predominantly U.S. exposures, so U.S. quake, U.S. wind. We had some Japanese quake as well.

You have three evolutions that have been cooking for a while, but definitely are now becoming more prevalent. One of the evolutions is the fact that ILS investors are willing to look at different risks than just property-cat business. We've been involved in transactions where they access the ILS market for operational risk or credit risk, some was a jackpot of a lottery risk. I think you're starting to see a lot more risk entering the market, and a lot of short-tail risk. The second one, which has been happening, but I think it's happening even more now, is geographic diversification, where we're now seeing ILS being done not only predominantly in the U.S. It's still the predominant territory. But we're seeing Europe, we're seeing Asia, we're seeing obviously, Australia, New Zealand, etc., so it's the expansion in terms of the geographic base of risks.

The third one, which I think is the most interesting one for me is to start seeing participation from the ILS market, what I call down the food chain, and so getting closer and closer to the risk. It started originally with retrocession, then it went with reinsurance, and now you have ILS funds participating on the insurance side. What [AIG has] access to is a tremendous book of business, and so they have the ability to package risks and be able to sell those risks to ILS investors in a way that they already have the origination, they already have the risks, as opposed to trying to generate the risks themselves.

What would be interesting to me is also to see how brokers are going to react to ILS funds going down the food chain, because a lot of brokers will tell you they own the distribution channel.

We've seen Ryan Specialty, Pat Ryan being the founder of Aon, starting to think about setting up his own balance sheet. It has its pluses and minuses, but again, it is in reaction to the fact that, "Hey, you're not coming down to my playground. I own the playground" sort of thing.

There's a lot of dynamics at play. I think that the investors' base is pretty stable. You still have new investors coming into the space, but it's what is ILS evolving to become? If you read a lot of the statistics, we're now saying we're at $100 billion. That's two years ahead of time. We thought, $100 billion, we'll hit in 2020. We're now in 2018, and we're already at $100 billion.

It tells you the speed at which this market is developing. Multi-jurisdictional, more risk, more sources of business, all of that contributes to ILS becoming more and more a bigger part of the insurance and the reinsurance market. What's really interesting is seeing a move. If you look at Markel, for example, recently buying Nephila, it's a move where you now have all the insurers and reinsurers who, 10 years ago, said, "This is a passing fad," using the attitude of if you can't beat them, join them thing.

It's really reshaped the entire industry, hasn't it?

It has. I think definitely on the reinsurance side, and again, more specifically property/catastrophe, because that's where it all started.

If you were a monoliner, I don't think we have any more true monoline property cat reinsurers, but if we do, you'd seriously question your existence. What is the differentiating factor? Shouldn't you be a package or a risk and provide different pools of risk to different investors' appetites?

That's where I'd like it to go, is really get a lot more bespoke investment funds, if you will. I've been saying for a long time, my dream is to see it become retail. People say I'm crazy, but I'm like, "Look, why wouldn't…When I have my pension fund, and I check off 'Put 10% in equity, and 20% in bonds,' I have no clue what I'm doing anyway, so why not an ILS fund?"

That would expand even more the investors' base, but that's further down the line.

Do you see companies and entities directly tapping into the ILS space instead of going to an insurance company?

That is my only one disappointment of this market, is that I was really bullish thinking that a lot of large corporate entities would directly access the ILS market. We've seen a little bit of that. Way back, you had Disney Japan, who issued a parametric cat bond many, many years ago. I forgot the name of it. More recently, you had the Metro Transit Authority doing their own cat bond following Superstorm Sandy, so that was a bit of a sign of what was going to happen. We haven't really seen large corporations with plenty of insurance risk access the ILS market yet. I'm still hoping it will happen. I was hoping it would happen a long time ago, and it hasn't. We were approached by one large corporate looking at ILS. They're like, "Look, we don't know anything about ILS. Tell us a little bit."

When they told me how much they were paying on their insurance program, I said, "You know what? Stay with your traditional insurers, because I don't think the ILS investors would be interested in the rate you're paying." I wonder if part of the reason is that the insurance they're paying themselves is pretty cheap. Another look at that, any other alternative? Part of it is the fact that where ILS may play a role is, are they risks that are uninsurable or difficult to insure?

Operational Re, which is a cat bond, where the exposure is basically operational risk—trying to insure operational risk is a little difficult, if not impossible. That's a very good use of the ILS market for corporates. Hopefully that will evolve, but I haven't seen that as much as I would have liked to see it, to be honest. BR

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Go to *bestreview.com* to watch the interview with Andre Perez.

Opening the **Floodgates**

As the federal government opens the flood insurance market to private insurers, the industry speaks about the risks, the need for more data and the way forward.

by *Best's Review* staff

Massive flooding from hurricanes Florence and Harvey resulted in billions of dollars in economic damages. Most of these losses, however, were uninsured.

That's because the private market for flood insurance remains small, and coverage under the federal government's National Flood Insurance Program is limited. Only about 12% of Americans have flood insurance policies, according to a 2016 poll by the Insurance Information Institute.

The private market, however, may start to take on a greater role in covering flood now that the Federal Emergency Management Agency has reduced the National Flood Insurance Program's Write-Your-Own compensation rate and rescinded the WYO noncompete clause. That will allow NFIP participating carriers to sell private flood insurance.

While the NFIP was set to expire on Nov. 30, Congress was expected to extend it.

The federal government has been working to encourage the private market to provide flood cover as it seeks to reduce its own role in this market as the NFIP is about $20 billion in debt to the federal Treasury.

Best's Review editor **Lynna Goch** and senior associate editors **Lori Chordas**, **Meg Green** and **John Weber** contributed to this report. *Best's Review* staff can be reached at *bestreviewcomment@ambest.com.*

Key Points

Stormy Weather: Hurricanes Harvey and Florence caused historic floods and flooded thousands of homes. Most losses were not insured.

Market Developments: The federal government has dropped the NFIP's Write-Your-Own noncompete clause, allowing participating insurers to sell private flood insurance.

Data Call: Insurers say they need more data about flood risk. Advances in technology will allow insurers and reinsurers to better understand, assess and quantify the risk.

Even so, the private market still often remains on the sidelines.

"As we continue to move forward, the industry will probably be taking up some of the flood insurance programs itself and issuing flood insurance on its own," said Paul Ehlert, president and chief executive officer of Germania Insurance Co., speaking at the annual conference of the National Association of Mutual Insurance Companies in San Antonio in late September.

"We still need the federal government to get behind and provide actuarial-based rates for the flood program that currently exists," Ehlert said.

The Scope of the Problem

When the skies open, the rain falls and the rivers and streams rise, the damage to property can be extensive. It can be so widespread and so comprehensive, that insurers have for many years considered it an uninsurable risk.

Insurers considered flood a risk that could not be covered because of the catastrophic nature of flooding, the difficulty in calculating rates and the risk of adverse selection, according to a Congressional Research Service report *Private Flood Insurance and the National Flood Insurance Program.*

"Hurricane Florence in North Carolina this year, like Harvey in Texas [last year], has again exposed the big gap that exists between the economic losses and insured losses, what we call the protection gap," said Mohit Pande, head of property underwriting for the U.S. and Canada, Swiss Re, speaking at the annual meeting of the Property Casualty Insurers Association of America in Miami in late October.

"Still, one in six homeowners in the U.S. are not insured. There's about 10 billion of economic losses from the peril of flood that goes uninsured each year. NFIP, the government program, is addressing a small portion of it. We feel there's an enormous opportunity for private insurance to address this gap," Pande said.

Indeed flood was a topic of discussion at the PCIAA annual meeting.

"The undercoverage for flood damage," said David Sampson, president and CEO, Property Casualty Insurers Association of America, when asked about the key issues at the conference. "Eighty percent of properties in Houston last year, residential and commercial, did not have any flood coverage. We're seeing similar numbers reported by CoreLogic this year for [hurricanes] Florence and now Michael," Sampson said.

"Clearly the NFIP is not penetrating the market the way it should," Sampson said. "With the National Flood Insurance Program once again up for reauthorization in the months ahead, we think that we really need to have a discussion about bridging this insurance gap, creating better education among consumers about their own risk profile, and also creating more opportunities for private sector carriers to make flood policies available."

The maximum limit for one- to four-family residential buildings is $250,000; content coverage is limited to $100,000. Private insurers underwrite losses above these limits. In 2017, 31 private flood insurers wrote coverage in the United States, according to the *Best's Special Report NFIP Extended but Private Markets May Provide Long-Term Flood Relief*.

An Unexpected Market

Many homes and businesses are exposed to flood risk, especially those near coastal areas and near rivers and other bodies of water.

But the risk may be much more widespread than previously understood.

The NFIP has some 5 million policies in force. And it was believed that about 13 million Americans were exposed to a 1-in-100-year flood event, based on FEMA flood maps. A recent U.K. study, however, puts the number of Americans at risk at 41 million.

Approximately 13.3% of the contiguous U.S. is exposed to a 1-in-100-year flood, which translates to a GDP exposure of $2.9 trillion, according to the study from the University of Bristol, *Estimates of Present and Future Flood Risk in the Conterminous United States.*

The estimate of 41 million people does not include the millions of Americans that are at risk of coastal flooding, the university said.

"It was a little shocking," Susan Molineux, associate director at A.M. Best said of the study. "Of course, the Bermuda market, and I think the industry at large, is very interested to privatize flood so Americans, and those exposed to flood all over the world, would have access to more coverage."

Private Hurdles

Shifting coverage from the federal government into the private market, however, has its challenges.

The main deficiency of the NFIP is the program's failure to reflect true risk in premium rates, according to the Best's Special Report.

Subsidized premiums that don't adequately reflect risk exposures, statutory caps on premium increases, the lack of capital requirements or the need to earn a profit and mandatory purchase requirements have all contributed to the program's instability, the report states.

Since 1983, private insurers have been involved in administering the NFIP, including selling and servicing policies and adjusting claims, according to a Congressional Research Service report.

The NFIP retains the financial risk of paying the claims. Private insurers participate in the NFIP in two ways. They can be a direct servicing agent that sells policies on behalf of the NFIP. Or, they participate in the Write Your Own program where they are paid to issue and service the flood policies, according to the Congressional Research Service report.

Some 12% of the total NFIP policy portfolio is managed through the direct servicing agent, and 88% of NFIP policies are sold by the 67 companies participating in the WYO program.

Insurers in the WYO program, however, had to adhere to a noncompete clause issued by FEMA that did not allow them to write their own standalone flood insurance policies.

This rule changed in early October. The noncompete clause was removed allowing WYOs to sell primary flood insurance that in the past competed with the NFIP product.

"This change opens the private flood market and provides consumers with a choice of government or private flood insurance and will give them more choices to protect their homes and businesses," said Don Griffin, vice president of policy, research and international for the Property Casualty Insurers Association.

"More options in the marketplace will be part of the solution to address the major uninsured challenge we face as a nation," he said.

Some private insurers have already expressed interest in providing flood coverage.

Private insurers have the capital and desire to write flood insurance, according to Kurt Bock, the CEO of Country Financial. Private flood is doable beyond excess and surplus lines, he said.

"We would all like to see the opportunity there," said Bock, who plans to retire at the end of January.

Asked about growth opportunities, Ed Hochberg, CEO North America, JLT Re, speaking at the PCIAA meeting said, "Flood."

"The big promise of flood and what will that mean, and just more generally, the hope of business that's in the public sector moving into the private sector and how will that drive growth going forward, I do expect that we will see growth related to those areas in the near future," he said.

New Tools

Advances in models and other tools may help give insurers more of the information they need to expand their reach in the flood market.

"One of the reasons why we are confident around the insurability of this peril is because of the recent technological advancements that have

US P/C Industry—Top Private Flood Insurers by DPW, 2017

AMB#	Company Name	2017 DPW ($ Thousands)	2016 DPW ($ Thousands)	% Change
018502	FM Global Group	263,313	227,218	15.9
018924	Assurant US PC Companies	89,901	1,569	5,629.8
018549	Zurich Financial Services NA Group	63,838	0	N/M
018540	American International Group	58,233	63,460	-8.2
003262	Swiss Reinsurance Group	41,520	48,989	-15.2
000811	Berkshire Hathaway Insurance Group	27,603	2,381	1,059.3
000060	Liberty Mutual Insurance Companies	15,460	0	N/M
018640	Alleghany Insurance Holdings Group	13,197	13,080	0.9
018801	MAPFRE North America Group	13,103	14,345	-8.7
018429	Allianz of America Companies	11,705	11,354	3.1
018498	Chubb INA Group	9,972	8,661	15.1
018733	Tokio Marine US PC Group	9,388	0	N/M
002946	Western World Insurance Group	7,756	2,939	163.9
011138	United Surety & Indemnity Company	5,007	4,212	18.9
018753	Munich-American Holding Corp Companies	3,989	-1,177	-438.9
000780	Progressive Insurance Group	1,778	1,427	24.6
018902	Bankers Financial Group	1,747	1,927	-9.3
004294	The Cincinnati Insurance Companies	1,018	36	2,727.8
005987	Nationwide Group	951	0	N/M
022031	Palomar Specialty Insurance Company	664	0	N/M
004861	Hanover Insurance Grp Prop & Cas Cos	482	230	109.6
018672	Universal Insurance Group of Puerto Rico	350	0	N/M
000048	Hartford Insurance Group	256	0	N/M
018782	MS&AD US Insurance Group	184	122	50.8
000964	West Bend Mutual Insurance Company	149	78	91.0
018252	W. R. Berkley Insurance Group	91	0	N/M
018912	Centauri Insurance Group	82	3	2,633.3
018468	Markel Corporation Group	71	0	N/M
018863	National General Companies	62	0	N/M
003110	Philadelphia Contributionship Group	10	0	N/M
018874	XL CatlinAmerica Group	2	0	N/M
	Total – P/C Industry	**641,883**	**415,648**	**54.4**

N/M = Not Meaningful
Source: A.M. Best data and research

"I think the industry at large is very interested to privatize flood so Americans, and those exposed to flood all over the world, would have access to more coverage."

Susan Molineux
A.M. Best

taken place, which allow us to understand, assess, and quantify this risk," said Swiss Re's Pande.

But there's still more work to be done, other experts said. To get the private market involved, insurers need more data.

"I think you see massive under-penetration within the flood insurance market," said Jimmy DeCicco, client manager, RMS.

"The main reason for that, or one of the main reasons, is lack of tools to assess that risk," DeCicco said. "Flood has always been viewed as a high risk and very difficult to quantify. There's a lot of different sources of flooding, everything from pluvial, fluvial, coastal flooding. You have to account for all of those in a model.

"Until very recently, there haven't been the technological advancements, things like cloud and also the model science, to be able to properly assess those risks and quantify them," DeCicco said.

"That's changing. There are more and more tools in terms of data models and analytics that are out there on the market to help quantify that risk.

"We're releasing our inland flood model later this fall. We think that with the ability to quantify comes the ability to write that business and expand the market, hopefully grow the flood market and close that gap," DeCicco said.

Emma Watkins, head of exposure management at The Channel Managing Agency, a Lloyd's managing agency owned by Scor, said private insurers are ready to get involved, but they still need more data.

"We don't necessarily need the data ourselves to underwrite policies, but we need to know that the data is out there and that it's included in the models because we need models, unfortunately," said Watkins, speaking in May at the RMS Exceedance 2018 conference in Miami.

"We need to be able to understand the risk. We need models and systems that we can rely on and trust in order to price the risk appropriately and be able to carry it," Watkins said.

Changes at the NFIP and the need for more data were also a big part of the conversation at the RMS Exceedance conference.

"There are a lot of things that FEMA is doing administratively that are helping bring the National Flood Insurance Program to the 21st century," said Cliff Roberti, managing principal for Federal Hall Policy Advisors. "Through their Risk Rating 2.0 program that's trying to bring more transparency and market information and data to get more accurate rates for policyholders, as well as have them better understand their risk," Roberti said. "That's currently happening."

The modeling industry also has a role to play in providing greater insight into the data.

"There's also things that I think we, as a modeling industry, can do to help the policyholder," said Matthew Nielsen, director of government affairs, RMS. "I say that because I am a policyholder. I know that there are a couple of things that if I'd have known then when I bought my house, I might have thought a little bit differently about my risk.

"Right now, the way that the FEMA maps work you're either in or out of a flood zone," Nielsen said. "It's very binary. Do you know, in a 1-in-100-year

A.M. BestTV

Go to *bestreview.com* to watch interviews about flood coverage from the Property Casualty Insurers Association conference.

flood zone, are you in a one-foot flood or are you in a 15-foot flood? It turns out where I live, I'm in a 15-foot flood. It would have been nice to know that up front.

"The way that the pricing works in the NFIP is you get one price that is across the entire flood zone," Nielsen said. "That does two things. One is that people are all in the same flood zone, being charged the same price. There's not an understanding of how severe the flood could be. The second is that there's no real understanding of how much the government is subsidizing the amount of flood insurance that you're paying.

"What that does is it hides the risk that people are bearing when they get their policies," he said.

Risk Capital

FEMA also has been taking steps to lay some of its risk off into the private market via reinsurance, Federal Hall's Roberti said.

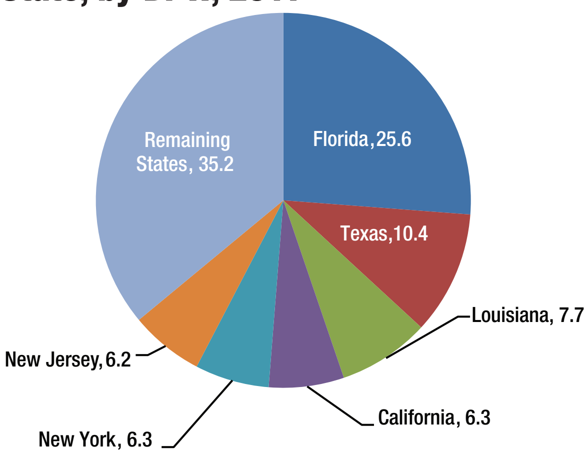
"They did two reinsurance placements, one in 2017 that actually, unfortunately, paid out from the perspective because there were giant storms and people were affected," Roberti said. "There was a new placement in 2018."

FEMA also secured $500 million of coverage with a catastrophe bond transaction to provide additional reinsurance for the NFIP.

Combined with the January 2018 traditional reinsurance placement, the August 2018 placement enabled FEMA to transfer $1.96 billion of the NFIP's flood risk for the 2018 hurricane season to the private sector, FEMA said.

FloodSmart Re was the first U.S. flood cat bond and FEMA's first foray into the cat bond market for reinsurance protection for the NFIP flood insurance book, according to Artemis.

Flood Insurance Market Share by State, by DPW, 2017



Market share does not total to 100.0 due to rounding
Source: A.M. Best data and research

A Place for Surplus Lines

Another area for flood coverage comes from the surplus lines market. Surplus lines insurers cover risks that the admitted market won't.

"We're trying to get the admitted carriers a little more comfortable with the peril, [and] let them know that it's a place where they can safely grow some premium," said Ivan Maddox, executive vice president at Intermap Technologies, speaking at the PCIAA meeting. "We're at that early stage now where things might be making the transition from E&S lines into the more admitted, mainstream insurance markets."

Surplus lines insurers would be willing and able to increase their exposure to flood risk under conditions that would allow them to underwrite and price risk appropriately, according to the Best's Special Report.

Surplus lines insurers wrote $232.6 million in flood insurance premium in 2017, according to data collected by surplus lines stamping offices for that year. Primary residential coverage accounted for 21.5% of the 2017 total, and 45.3% represented primary commercial.

Surplus lines insurers are looking for legislative clarity that would ameliorate some of the issues that banks have with accepting private flood policies from mortgage holders. Streamlining the process to enter the market will preserve the surplus line industry's ability to provide flood insurance solutions, which could serve as a key component of necessary NFIP reforms, according to the *Best's Market Segment Report: Surplus Lines Push Through Various Headwinds for Higher Growth.*

Looking ahead five years, Intermap's Maddox says he believes the protection gap will close.

"Ninety percent of the properties that should have flood insurance don't. In five years, if everything goes well, if the admitted carriers are successful, and if we're successful as an analytic provider, those numbers should be flipped," Maddox said. "We should be talking about, maybe, 5% of the properties in the United States being uncovered for flood."

While FEMA has taken a number of steps to help shift flood coverage into the private market, the private market now has to step up to the plate, according to E.W. "Ted" Blanch, founder of reinsurance firm Coin Re.

"There's a lot of conversations about flood, flood, flood," Blanch said at the PCIAA conference.

"My observation is there's more talk than actual action. To the extent we get the flood insurance issue under control, I think if the insurance companies stop talking and start acting we'd get there much quicker." BR

Plugging The Leaks

Non-weather-related water damage is the second-leading cause of homeowners claims. New tech tools are helping to drive down those losses.

by Lori Chordas

The hurricane season of 2018 brought another round of devastating weather-related property damage, following one of the worst years on record last year. Total insured losses from this year's events, including mammoth storms Florence and Michael, were expected to total an estimated $10 billion, according to industry reports.

But Mother Nature isn't the only one causing claims for the industry.

Culprits inside the home, including frozen pipe leaks and failures, faulty plumbing, sewer backups and broken appliance water lines, are also driving

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Key Points

A Bursting Problem: Non-weather-related water damage is one of the most common and costliest causes of home damage in the United States.

Underwater: Insurers pay out billions of dollars annually on those losses.

Looking Ahead: Smart home technology and IoT sensors are helping mitigate the problem and insurers are offering premium incentives to encourage homeowners to install those devices.

up property claims.

Non-weather-related water losses are one of the leading causes of homeowners claims, according to industry reports.

In an October earnings call to investors, Chubb North America Chairman and CEO Evan Greenberg reported a rise in non-weather-related water losses during this year's third quarter,

Aviva Canada is also seeing a spike in those losses. About 40% of the Canadian property/casualty insurer's homeowners claims stem from water damage, including non-weather-related events.

While claims are on the upswing, policyholders' awareness regarding these types of claims remains low.

That's because water loss doesn't garner the same attention as other damage-causing events, said Stephen Poux, global head of risk management services and loss prevention at AIG Private Client Group. The company, a division of AIG, insures high net worth individuals and families.

"Water isn't sexy. It doesn't kill people, and it doesn't make the evening news like wildfires and theft," he said.

Yet, over the past two years more than half of U.S. homeowners have experienced a water leak claim that generated $5,000 or more in cleanup and repair costs, according to Chubb.

Aging infrastructure, urban sprawl, colder temperatures and extra bathrooms and second-floor laundry rooms in homes are causing the rise in water damage.

Jennifer Naughton

Turning to Technology

Unlike hurricanes and floods, water damage is often preventable.

Simple measures, such as inspecting hoses and faucets, installing emergency pressure-release valves, checking pipes and knowing the location of a home's main water shut-off valve, can stave off costly repairs.

Homeowners, however, are failing to take those necessary steps.

Less than half of homeowners say they periodically check appliance hoses or conduct water heater maintenance, and only 19% have installed a water shut-off device, according to Chubb's 2018 *Homeowners' Water Risk Survey*.

Insurers are hoping the use of artificial intelligence, predictive analytics and the internet of things will change that. Reports show smart home devices, Wi-Fi-connected water leak detectors and whole house shutoff systems can reduce non-weather-related water losses by up to 93%.

That's good news for insurers, who are paying billions of dollars annually for those claims.

Insurers are promoting the use of in-home, tech-enabled water detection tools by partnering with device manufacturers and incenting homeowners to install and use those devices.

Home telematics provider Roost is partnering with Erie Insurance, Mutual of Enumclaw Insurance and others to provide homeowners with a free Roost Smart Water Leak and Freeze Detector that uses a mobile app to alert homeowners about a burst pipe or water leak.

The detector, which can be placed in water-leak-prone areas such as sinks, toilets and hot water heaters, is designed to sense water leaks, humidity and freezing temperature situations.

The result of those efforts could save insurers and consumers up to $10 billion annually in water loss costs, said Roost CEO and co-founder Roel Peeters.

Chubb is also incenting the use of in-home water devices, such as Sentinel Hydrosolutions' Leak Defense System. Along with premium discounts ranging from 3% to 8%, Chubb's personal risk policyholders can receive discounts on water leak detection systems like Sentinel's that detect leaks and shut off the water supply to a home.

Devices like those are filling a need in the market.

"There's a fundamental shift occurring in property insurance," Peeters said. "Traditionally property insurance has been an indemnification business where carriers write a check when all is lost, so to speak. But the advent of smart, connected devices allow insurers to now be in the protection and prevention business."

Promoting Awareness

The promise of those devices, however, is being overshadowed by low take-up rates.

"We are finding that homeowners have not been very accepting of putting those systems and sensors in their homes," said Bill Gatewood, corporate vice president and director, personal insurance at Burns & Wilcox, a wholesale insurance broker and underwriting manager.

The industry, he said, can play a role in educating homeowners. "The insurance industry doesn't always do the best job of creating awareness," Gatewood said.

AIG Private Client Group is trying to build awareness of the issue.

Water damage doesn't garner the same attention as other damage-causing events. It "isn't sexy. It doesn't kill people, and it doesn't make the evening news like wildfires and theft."

Stephen Poux
AIG Private Client Group

The company offers loss prevention device coverage that pays policyholders for the installation of technology.

"If frozen pipes in, let's say, someone's second home cause a claim, then as part of the claims settlement process we'll reimburse them up to a certain limit to install technology that would have detected or taken action to shut off the water in the first place," Poux said.

Homeowners who have suffered a water damage loss in the past are two to three times more likely to experience a future loss, AIG Private Client Group reports.

"So we understand the importance of addressing the issue and improving tools and expertise to get at the initial source of damage. It's also important for brokers to understand the role they play in advising clients and helping them navigate the claims and loss prevention process," Poux said.

While home telematics and tech-enabled water detection tools are just starting to make their way into the industry, Jennifer Naughton, executive vice president and risk consulting officer at Chubb, is hopeful that they'll soon become the norm.

Today, more than 90% of Chubb homeowners have fire or smoke detection devices installed in their homes, yet only 1.5% have a water shut-off device.

"When those devices are used, it's also important to ensure that enough devices are in place. A 4,000-square foot home, for instance, should have at least 10 or more sensors to be adequately protected. Also, the installation of smart thermostats can be programmed to keep homes at a steady temperature year-round to avoid pipes from freezing," Naughton said, adding Chubb recommends that the temperature should not be kept below 65 degrees.

The Cost Factor

Costs generated by water damage continue to rise.

Since 2015, non-weather-related water losses exceeding $500,000 have more than doubled, and those topping $1 million have tripled, according to industry reports.

The average cost of a home water damage claim today tops $6,700, according to reports.

The majority of those claims come from plumbing supply system failures, including frozen, leaking or burst pipes.

The average cost for those failures, after the deductible is met, is $5,092 per incident, according to the Insurance Institute for Business and Home Safety. Corroded, leaky or improperly installed pipe-related losses cost about $4,300 and water heater failures tally up more than $4,400 in costs, IBHS reports.

This year from January to September, Aviva paid out $164 million in water damage claims, not including catastrophe claims. That is a 14% increase in the amount paid during the same period last year, the company said.

Even a small amount of water can cause serious damage to a home, AIG Private Client Group's Poux said.

Today, the average luxury home has more than 40 different entry points into the domestic water system.

"And all of those points of entry are another opportunity for a leak or break," Poux said.

Standard homeowners policies typically cover losses created by a sudden or accidental water burst or leak, broken appliance hose, overflowing toilets and water heater failures.

Many policies will provide replacement cost coverage for damage to a home.

Repeated leaking and seepage, however, are typically excluded from standard homeowners policies, said Bob Buckel, vice president and product manager at Erie Insurance.

Coverage for water damage follows a general rule of thumb. Water that comes from the top down, such as burst pipes or rainfall, is covered by a standard homeowners policy, he said. Water that comes from the bottom up, such as an overflowing river, is covered by a separate flood policy that can be purchased from private insurers or the federal government's National Flood Insurance Program.

In the past, most homeowners and renters policies provided unlimited coverage for sewer and drain backups. That's no longer the case, Buckel said.

Losses for sewer and drain backup-related events, caused by things like aging sewer systems, combined pipelines, tree roots and sanitary main blockages, can now be covered under special endorsements to a standard policy.

The rise in non-weather-related water damage is creating a flood of challenges, including rising rates and nonrenewals.

In California, more than 30% of companies have refused to renew policies of customers who have filed one or two water-loss claims in the past three years, according to the state Department of Insurance.

Some insurers may eventually decide not to renew customers who fail to take preventative steps such as installing water shut-off systems, Poux said.


Shannon Lewandowski

Test the Waters

One in 50 homes experience water damage or frozen pipes annually, according to insurance data aggregator ISO.

"And as long as we have plumbing in our homes that problem will continue to be an issue," Burns & Wilcox's Gatewood said.

Aging infrastructure and appliances will have a hand in that.

Three-quarters of water heaters fail before they are 12 years old, and the average age of failed washing machine supply hoses is less than nine years, according to reports.

"Non-weather water damage is really driving the loss ratio in the industry, and it's something we all need to tackle. We need to make consumers aware of what's available, like new technologies and sensor devices, and help them get those innovations installed in their homes," Gatewood said.

The good news is that the costs of those tools is dropping, Poux said.

Also, companies like American Modern Insurance are gauging the effectiveness of those devices and encouraging insureds to install the systems into their homes.

American Modern, a subsidiary of Munich Re, is in the final phase of a one-year water sensor pilot in Alabama, Ohio, Washington and Colorado. The pilot is designed to assess homeowners' interest in smart home water detection devices and test how effective the tools are at reducing or preventing water damage claims, said American Modern innovation and digital-IoT analyst Shannon Lewandowski.

She said preliminary results so far have been favorable. "We'll then take the data we gather at the end of the pilot to decide what kinds of incentives we might be able to provide to insureds who install those in-home devices," Lewandowski said.

The industry is also turning to building manufacturers and code developers to help increase the use of smart home devices.

"The best time to prevent losses is when homes are being built. So it would be great if they began installing those tools during the construction phase," Gatewood said.

Other companies are also doing their part to help drive down non-weather-related water losses with the assistance of technology and analytics.

In May, property information and analytics provider CoreLogic launched WaterRisk, which uses predictive analytics and geospatial risk models to assess non-weather-related water risk.

WaterRisk also provides more than 11 million points of risk (or unique micro-territories by block, each with its own WaterRisk score) to property insurers who have long been challenged to accurately analyze the likelihood and severity of those events due to a lack of consistent, complete data that captures unaccounted-for water risk.

Gatewood is excited that the insurance industry has finally reached what he calls a tipping point when it comes to non-weather-related water damage.

"And it's usually at that point when good things start to happen. People begin taking preventative steps and installing new technologies to solve the problem," he said. BR

Learn More

American International Group (A.M. Best # 058702)

Chubb Group (A.M. Best # 019568)

Erie Insurance Co. (A.M. Best # 058702)

For ratings and other financial strength information visit *www.ambest.com*

Ten Years Post-Crisis

The former Federal Insurance Office director says the regulatory changes stemming from the financial crisis may not have been popular, but they left the nation better prepared to handle future downturns in the economy.

by Kate Smith

It's been 10 years since Lehman Brothers collapsed, the U.S. government bailed out AIG with $180 billion, and the Federal Reserve slashed rates to nearly zero.

The 2008 financial crisis devastated Wall Street and created global panic. The world's largest economy was unraveling, and government officials, as well as the broader public, wanted to know how it had happened.

Many questioned what role regulation—or lack thereof—played in the collapse. As a result, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010, which included the establishment of a Federal Insurance Office within the U.S. Department of the Treasury.

In March 2011, Michael McRaith, former director of the Illinois Department of Insurance, was appointed as the first director of the FIO under the Obama administration. He spent just under six years in the role, resigning his post as of Jan. 20, 2017, when the Trump administration was sworn in. McRaith was succeeded by Steven J. Dreyer, a former S&P Global executive.

Best's Review sat down with McRaith, who is now managing director at Blackstone Insurance Solutions, to discuss the formation of the FIO, disagreements over Systemically Important Financial Institutions (SIFI), and how regulation has changed as a result of the financial crisis.

The director of the FIO is an appointment position. How did you land the role? Did Barack Obama pick up the phone and give you a ring?

It's unfortunately far less glamorous. The director of the Federal Insurance Office is both an appointee of the secretary of the Treasury and a career Senior Executive Service member of the federal government, which means the person appointed has to apply through the SES process.

I was fortunate enough to apply in writing, go through the interview process and then be offered the position.

The statute, like many things in insurance, is a function of compromise of polar opposite sides. There were some in the industry who wanted the position to be purely a political appointment and some who didn't want the position to exist at all. So Congress ended up with a compromise that made it both an SES career position but also subject to the appointment of the Treasury secretary.

To your point, some in the industry didn't want that position to exist at all. Why did you want that job?

As an officer of the NAIC and as someone who had been in leadership roles in the NAIC for a number of years throughout my tenure as the Illinois insurance director, I was engaged with Congress on behalf of all the states in trying to negotiate the language and the limitations on the Federal Insurance Office. As we moved through the crisis, I understood the reasons why the office should be created.

Why did we need this office?

One was that the federal government needed, within its four walls, an office that had expertise about the industry and its regulation.

Kate Smith is a senior associate editor. She can be reached at *kate.smith@ambest.com.*

Second, the country needed someone who could collect and assess data following natural catastrophes or following disasters. After Katrina or after 9/11, the federal government did not have within its walls the expertise or the resources or the authority to understand the economic implications and the participation of the private insurance sector in recovering from those events.

The third reason was financial stability. We saw with the financial crisis that the insurance industry was directly involved with the financial crisis. We can discuss whether it was the industry itself that had a critical role. But really what we saw, if nothing else, is that the industry is an essential part of our national economic fabric and the global financial system.

For me this was an opportunity to serve the country, to represent the insurance industry and consumers within the federal government, to help the federal government, and ultimately the country, understand the industry and its regulation better than it did before the office was created.

Finally, by Constitution, there is no state that represents the United States. The industry and sector, including the regulators and consumers, needed some federal office to represent the country globally on insurance matters. I felt my understanding of the regulatory system and my understanding of the essential consumer-focused priorities of the U.S. insurance industry and regulators, would serve our country well in the global conversation.

Did your history as a state regulator help you gain acceptance from those who may not have wanted this layer of federal oversight? Or was it still an uphill battle?

Anything new in government is always an uphill battle. However, the NAIC endorsed the establishment of the Federal Insurance Office as a matter of statute. As we moved forward and executed on the statutory authority, there were always some who were supportive, there were always some who were concerned.

Frankly, what I focused on, and what we focused on largely, was how to move forward in the best interest of the country. The states, I thought, rallied to that cause.

I thought together we did a great job representing the interest of the country in the global conversation.

Did this office do what it was supposed to do?

One of my personal priorities was to execute on every single statutory authority provided by Dodd-Frank, knowing that as the first person to build and lead the office, the failure to execute on that statutory authority would make it more difficult for whoever succeeded me. We undertook all of our activities in a very substantive, professional, serious and balanced way.

We, in my view, supported the state regulatory system. We supported consumer interests, the interests of policyholders. And we represented the interests of the country in the global conversation and, ultimately, allowed the U.S. to have the place and the prominence it should have in global financial and economic conversations.

While looking back there are always things I would improve upon, we did in fact help the Financial Stability Oversight Council, as called upon by statute. We worked with the Federal Reserve and the states on the global conversation regarding prudential oversight of the insurance industry. We studied and reported on consumer protection issues in the insurance industry. Working with our EU counterparts, we conceived the EU-U.S. covered agreement, and I then had the privilege of leading the U.S. delegation.

We completed 17 separate reports in five years and seven months, which is a substantial amount of public reporting. We worked with stakeholders around the country and world. We did what was in the best interest of the country.

So in my view, the Federal Insurance Office did exactly what the drafters of the statute expected us to do.

In retrospect, would you do anything differently?

I don't think in those terms. Our team did our best at every juncture. I have said for the last several years that I think the industry and the regulators undersell the importance of the industry to the country and the American promise of economic fairness and opportunity.

In terms of where we could have done more, we were so immersed in the details of our work and the important global and national issues, and looking back, there were opportunities I could have helped the Congress understand better the importance of the industry to families and communities. Having said that, I think we did a great job of highlighting for Congress, and multiple committees within the Congress, the importance of the work we were doing and the importance of our engagement with the industry and consumers throughout that work.

How has insurance regulation changed as a result of the financial crisis?

There were many aspects of the AIG experience that were helpful for the states to learn from. At the state level, what I saw was the development of an agenda based on group supervision. Since that time, we've seen the states dramatically enhance the oversight of insurance groups at the group level.

They're looking more broadly at group capital for large insurers operating with multiple subsidiaries around the world. They're looking at governance more broadly. That has strongly enhanced the stability of the insurance industry in the United States.

> "As a country, we are much better positioned today if a crisis that resembles the last one were ever to occur again."

Michael McRaith
Former Director of the Federal Insurance Office

Also, the work of the FSOC in looking at and evaluating AIG, MetLife and Prudential. Even though not everyone agreed with those FSOC decisions, those decisions ultimately enhanced the regulatory system at the state level and enhanced the understanding of the insurance industry at the federal level.

So as a country, we are much better positioned today if a crisis that resembles the last one were ever to occur again. We have insurance industry and regulatory expertise in the national financial stability conversation, and that strongly enhances the financial stability of the country overall.

You've made the not-so-obvious jump from insurance regulation to asset management. What exactly is your role at Blackstone?

Blackstone is committed to building a global leader in the insurance industry to provide investment and capital solutions to insurance companies. My role as part of the team is to support the growth and the development of Blackstone Insurance Solutions.

The experience I have of building within Treasury, the world's leading finance ministry, a global leader, the Federal Insurance Office, has parallels to being part of the team building Blackstone Insurance Solutions.

How does your background play into it? Is industry knowledge your value-add?

Yes. I understand the insurance industry from a 360-degree perspective. I've spent 12 1/2 years in oversight of and in direct engagement with all aspects of the industry. I understand the conversations that regulators and industry leaders and rating agencies have, and understand that fundamentally the value of an insurance company is its capacity to deliver on a promise to a policyholder. That perspective and how we at Blackstone enhance the ability of the insurers to deliver on that promise, that's one value I add, among other things, to the firm.

Are insurers' investing needs different than other sectors'?

The insurance industry is, as you know, heavily regulated. In the United States, state by state there is extensive regulation. But then for companies that operate in multiple states or nationally, much less multinationally, the regulation is even more extensive. Part of that regulation is focused on the oversight of investments by insurers.

Insurers are limited—restricted, in some ways—by what types of investments they can make and how much investment can be made in any one type of asset. There are penalties related to lack of diversification or liquidity within invested assets. So there are restrictions on insurance companies in terms of what they can invest in and how much. We are working with the industry and looking to provide it with alternative investment options.

So do you come up with portfolio mixes then that fit various combinations of regulatory requirements?

That's right. We're looking to do a couple of things in terms of asset management. We can help insurers optimize their unique investment portfolio, meaning we can help preserve the limited risk that regulators, rating agencies and consumers are so interested in, but also look for ways to improve yield on that investment portfolio. So on the one hand there is the broader service of portfolio management that we can provide, and then on the other hand there are individual investment products that we can offer to insurers. BR

A.M. BestTV

Go to *bestreview.com* to watch an interview with Michael McRaith.

Rating Return

Return on equity can be a valuable measuring tool, but not for everyone.

by Kate Smith and Jeff Roberts

Return on equity is a key metric for analysts and shareholders. But it's not necessarily the most accurate metric for insurers.

Experts say short-term reporting is problematic for life insurers, who need to view profitability with a long-term lens. Though the metric can be more valuable for property/casualty insurers, it still has some issues.

"P&C insurers price their products to return on capital, or equity," said A.M. Best's Greg Dickerson, senior financial analyst. "But it's not necessarily as good a metric for how the overall operating performance is going because there's some noise in it, such as realized capital gains.

"It's one of the many profitability metrics we look at in ratings. We look at post-tax profitability measures, we look at pretax profitability measures. I wouldn't say that we focus overly on ROE, but it's certainly a component."

Key Points

Measuring Profitability: While analysts and investors often focus on return on equity, it is only one of a number of different metrics used for the insurance industry.

Improved Outlook: ROE is expected to improve significantly for the property/casualty industry for 2018, with lower catastrophe losses, higher investment income and corporate tax cuts being the key drivers.

Life Sector Focus: Life products generally produce lower return due to hefty capital requirements from regulation. For instance, Solvency II in Europe has made guaranteed products increasingly capital-intensive.

ROE on the Rise

ROE is expected to improve significantly for the property/casualty industry for 2018, with lower catastrophe losses, higher investment income and corporate tax cuts being the key drivers.

Experts say the industry could finish the year with an ROE in the high single digits, nearly doubling its 2017 result of 4.8%.

Through the first six months of 2018, the U.S. property/casualty industry, on a statutory basis, generated an after-tax ROE of 4.4%, according to A.M. Best.

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"If the industry does something comparable in the second half of the year, a high single digit ROE wouldn't seem unreasonable," Dickerson said.

The industry's first-half performance was a marked increase over the same period of 2017, when its ROE was 2.1%.

"You see the year-over-year improvement," Dickerson said. "For the full year 2017, the industry ended up with a 4.8% total return for the year. Included in the second half of 2017 were large catastrophe losses—Hurricane Harvey, Hurricane Irma and Hurricane Maria. So all things being equal, you would expect 2018 to come in materially stronger than 2017."

Although the second half of 2018 saw two major U.S. hurricanes—Florence and Michael—those storms were nowhere near the magnitude of the big cats in 2017. Insured losses from Florence have been estimated at up to $3 billion and losses from Michael up to $10 billion. By contrast, Harvey, Irma and Maria generated more than $90 billion in insured losses.

"2017 was the second-highest year for U.S. catastrophe losses in history," Dickerson said. "In 2018, catastrophe activity has returned to more normalized levels, which will benefit underwriting results. That's a big driver of expected improved results in 2018."

Investment income also is finally starting to show year-over-year improvement.

"New money is finally getting invested at equivalent or higher rates than the bond portfolios that are coming off the books," Dickerson said. "So you're seeing higher year-over-year net invest income."

Many companies also are getting a boost from the reduction of the U.S. corporate tax rate, which dropped from 35% to 21%.

Assurant CEO Alan Colberg said the tax cut has "absolutely" boosted profitability for his company.

"We were a full U.S.-rate taxpayer at 35% for our U.S. business prior to this year," Colberg said. "We're still a full U.S.-rate taxpayer, at 21%. That's part of the reason our earnings growth this year is strong. We're growing beyond the tax cut, because we have strong growth in our businesses, but we have a significant lift in earnings in 2018 from tax reform."

Colberg said Assurant's long-term effective tax rate now is 22%-24%, down from around 33%.

"We have a fair amount of business outside of the U.S.," he said. "In the old model, the rest of the world was a lower tax rate than the U.S.'s 35%. That's how we got down to 33%. Now the rest of the world is a higher tax rate. We have significant Canada operations and a significant and growing Japan business. That pulls our effective tax rate up.

"So we don't get as much of a savings as you might think moving from 35% to 21% because of the mix we have outside of the U.S. But still, it's a meaning lift for us in 2018."

Dickerson said the lower tax rate doesn't affect every company in the same way, since some weren't full taxpayers to begin with.

"But looking overall at the bottom line," Dickerson said, "the lower tax rate will benefit more companies than it won't."

The Life Lens

In the life space, ROE is a key financial indicator for many public insurers. But it also presents a fundamental incongruence.

Because life insurance is a capital-intensive product that spans decades and needs to be viewed through a long-term lens, true profitability can be determined only after policy obligations have been fulfilled.

Yet ROE is a construct of quarterly return.

That dichotomy can be problematic, sometimes pitting short-term business considerations against the long term and even shareholders against policyholders.

"Sometimes it's difficult because the sacrifice may be that you will start to do things in the short term that will hurt you in the long term, or you'll make decisions in the short term that really don't enhance the economic value to the company," said Rosemarie Mirabella, director, A.M. Best. "That's what makes this short-term GAAP reporting very problematic for the life industry."

However, most life insurers do manage to the metric, and not just because it's a core consideration for their shareholders and for A.M. Best analysts in determining company financial and credit ratings.

ROE portends the ability to grow capital, an essential component for life companies.

"ROE is particularly important for life writers," said Thomas Rosendale, director, A.M. Best. "The duration of their liabilities tend to be rather long, certainly longer than property/casualty writers in general.

"So the ability to demonstrate your capacity for organically growing capital over the long term is particularly important because A.M. Best is looking at the likelihood of companies being

"Return on equity is particularly important for life writers. The duration of their liabilities tend to be rather long, certainly longer than property/casualty writers in general."

Thomas Rosendale
A.M. Best

able to make good on their policyholder claims, which could be 30, 40, 50 years down the road."

The global life and annuities industry has maintained a stable ROE of 9% to 10%, according to McKinsey and Company's annual review, *Life insurance and annuities state of the industry 2018: The growth imperative*.

Life products generally produce lower return due to hefty capital requirements from regulation. For instance, Solvency II in Europe has made guaranteed products increasingly capital-intensive.

Life insurers typically generate half the ROE that annuity companies do over the long term. Term life does better than other life products, and supplemental voluntary products such as accident and health offerings often produce still higher ROE.

"Companies are managing all the assumptions they put into their products, and they manage to a certain rate on return, which turns out to an ROE depending on the capital structure," said Erik Miller, senior financial analyst, A.M. Best.

The capital-intensive nature of the life industry has driven some companies to exit core businesses in recent years or switch to capital-light products.

MetLife pointed to ROE as a major driver in spinning off its traditional U.S. life insurance and annuity businesses in 2017 into Brighthouse Financial.

In recent years, The Hartford and Voya both shed their runoff variable annuity blocks to focus on new risks, exiting the capital-intensive businesses that had brought earnings volatility and pressure, especially in the prolonged low interest rate environment.

"If you go into any of the research reports of any of the big public companies, the most common theme is how capital-intensive the product is, how much money has to be held on the books and left there earning basically nothing versus how much capital can be deployed for share buybacks and dividends," Miller said. "What you see is a big push for lower capital-intensive products, which focuses on less diversification and more on concentration of the liability and the risk profile, which obviously makes it more risky overall for the policyholder."

It is easier to manage the equity part of the ROE equation than the return, so insurers use capital management techniques such as those share repurchases or dividend increases to augment returns.

ROE is most effective as a financial measure when comparing companies selling similar products.

Red flags are raised when they produce different ROEs. It essentially reveals their capital structures differ when they probably should not.

"It tells you how companies are pricing their products for what kind of return," Miller said. "If you compare company-to-company with similar products, they should have similar returns."

But ROE can be a misleading metric on the life side unless it's viewed in the proper context and among other variables.

For instance, undercapitalized companies will have better ROEs, but that doesn't necessarily mean they're better companies, said Bill Pargeans, director, A.M. Best.

"It's really risk-adjusted returns," Mirabella said. "Some of the more sophisticated companies are incorporating that into their analyses and part of their risk management program because it's very hard to look at a number in isolation and say anything about whether it's good or bad.

"What really ultimately matters is: Are you getting the best return for the level of risk that you're taking?" BR

"ROE is an important measure, but it's becoming less so for our business."

Alan Colberg
Assurant

Hitting the Targets

Assurant's CEO explains how the company tries to meet its key financial goals.

by Kate Smith

When Alan Colberg took over as president and chief executive officer of Assurant in late 2014, he launched a multiyear transformation of the company. He wanted to focus on fewer businesses, but go more deeply into them.

Assurant sold its employee benefits business and sold and ran off its health business. It also focused more on its housing and "lifestyle" businesses, which provide protection around the purchase and ownership of significant items, such as homes,

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automobiles and devices. And in May, it closed on its $2.5 billion acquisition of The Warranty Group.

"So now we're really focused on how to out-execute and out-deliver for the market over time," Colberg said.

Under Colberg, Assurant has measured its success by three key financial metrics—net operating income, net operating income per diluted share and operating return on equity.

Best's Review talked with Colberg about the financial targets Assurant set and how close it is to achieving them.

You've identified net operating income, earnings per share and operating ROE as key numbers. Why those three?

We laid out three metrics at our 2016 Investor Day that were most important. One was that we could grow earnings. That was significant for us, given we have one business that is heavily counter-cyclical. So our earnings had been declining for a few years.

We achieved that. We grew earnings in 2017 for the first time in a few years. We recently gave guidance that this year the earnings will grow 20%-25%.

The second metric was that we could grow EPS on average 15% a year. We've made good progress. We only grew 1% in 2016, but we grew 22% last year and we're in double digits so far this year. So there's good momentum at growing EPS.

By the way, all the metrics I'm talking about exclude catastrophes. We're looking at the underlying performance independent of whether we had storms or not in our storm-prone businesses.

The third metric we gave out was that we could expand operating ROE to 15% by 2020. Our reported GAAP ROE today is more like 11% at the end of the second quarter. Our statutory ROEs tend to be higher because we have goodwill from previous M&A and other factors that impact that metric due to our mix of insurance and service-related business. As a result, that causes our GAAP ROEs to be different than statutory.

So you focus on the GAAP ROE?

Yes. And ROE is an important measure, but it's becoming less so for our business.

Why is ROE becoming less important?

If you look at our business mix, we talk a lot about the evolution toward more capital-light fee income. Roughly half of our businesses are not capital intensive, so ROE is not the right metric. The right metric is something like pretax margin or EBITDA margin. If you look at our exposures, in our Lifestyle segment for example, we have a Connected Living business line. That's our mobile business primarily. What we always talk about is pretax margin, because the amount of capital required isn't very high, and most of the capital we have is intangible in goodwill-related capital. So ROE isn't a very useful metric.

Is it a useful metric in your housing business?

In our traditional housing business, which is where we have our homeowners products, ROE is very much a relevant metric. There we've told the market we have a long-term ROE target—and this is AFTER catastrophes—of 20% in that business line after catastrophes.

The reason the ROE is high is that our business is a mix of traditional insurance and service. It's not a pure insurance business, so we have a very different cost structure than a typical insurance company.

In that business, for example, we track 35 million mortgage loans. What we do is receive all correspondence on those mortgage loans from other insurance companies. If we get notified that someone no longer has insurance coverage to protect their mortgage, we then write them and call them to get them back into insurance. So we have a massive customer care operation that's part of that business, and that's capital-light fee income.

Part of why we have high ROEs is we're doing these hybrid business models that aren't pure traditional insurance.

Is ROE a driving factor in why you're pursuing these hybrid business models?

The ROE is an outcome, not the driver. If you think about a standard lines product like homeowners insurance, we don't have the scale to be a national competitor. So what we do is come up with unique ways to gather risk. So our unique way to gather risk there is to run this very large, very complicated, service operation to ensure that every consumer we're tracking has insurance to protect their mortgage company. We end up writing homeowners when the house is vacant. We're kind of the insurer of last resort when there's nobody in the house. We also end up writing insurance when the consumer chooses to buy it, after they've searched for a product and can't find one because the voluntary carriers are not in the market.

We aggregate risk in traditional product lines through nontraditional distribution. That's how we end up with higher ROEs, because we do a lot of activities beyond just providing insurance. So it's a very different business model than the typical insurance company.

If you have these fee-based businesses that make ROE less important, why did you select that metric as a key financial indicator?

It's an important discipline to drive how we're making efficient use of capital. At the time we put out that metric we were around 10%, give or take a little bit. It's important to be disciplined in investing, and ROE is a measure of discipline as you're making investments.

We'd have a different hurdle depending on how capital intensive the business was. For a capital intensive business you'd expect to have one kind of ROE. If you're looking at fee income businesses, the ROE is less relevant. But I wanted to send a strong message to ourselves and to our investors that we are deploying their capital in ways that are attractive and increasing the value of the company.

ROE is not a perfect metric for us. It is a very good metric for our risk businesses—our housing businesses, primarily. It's not a very good metric for our Lifestyle businesses. But that message of "We can improve the overall ROE of the company" is still a positive message to the market and to ourselves.

What role does stock repurchase play in achieving that 15% target ROE?

It actually has no role. Over our history as a public company, which is now 14 years, if we make a dollar of earnings in one of our legal

ROE Is a 'Holistic Measure'

The metric reveals both profitability and efficiency.

Return on equity may even be the very measure of success for some public companies, serving as an operational performance benchmark for shareholders to evaluate how those companies utilize the investments they have made.

"It's a key component of operating performance, which is a building block of the ratings," said Thomas Rosendale, director, A.M. Best.

And among life insurers, Primerica has consistently delivered high ROE.

In 2017, its ROE increased to 27.4%, although that reflected the transition effect of the Tax Cuts and Jobs Act. In the second quarter of 2018, it achieved an ROE of 24.5%.

Primerica provides financial services to North American middle-income households. It underwrites term life insurance and offers mutual funds, variable annuities and other financial products, which it distributes on behalf of third parties.

In a Q&A, Primerica CEO Glenn J. Williams explains what ROE means as a metric and why his company has succeeded in achieving high returns.

How important is return on equity as a metric for your company?

We consider many financial and nonfinancial factors when making business decisions including margins, internal rate of return, operational efficiency and brand perception. ROE is one of the most holistic measures in determining how well a business is performing, because it factors in both earnings performance as well as the effective management of excess capital in business investments and returns to shareholders.

Is there a direct correlation between your lines of business and your healthy ROE?

Our unique business model enables us to achieve an industry-leading ROE. With over 130,000 life insurance-licensed representatives, we are well-positioned to provide financial services to the vast and underserved middle-income market. We only underwrite term life insurance, and it is less capital intensive than other life insurance products. Our fee-based investment and savings products segment, which accounted for 35% of revenues in the first half of 2018, has a very low capital requirement and generates a high ROE. Solid earnings growth in our diverse businesses coupled with prudent capital deployment has driven our top tier ROE.

How do you manage to ROE? And what do you trade off to manage ROE effectively?

We use ROE as a metric to compare how alternative uses of capital will be accretive in order to help determine the most prudent uses of free cash flow.

Although our primary focus is on successfully executing our strategic plan, knowing that if we do that consistently, we should generate growth, achieve ROE expansion and continue to enhance value for all of our stakeholders.

—Jeff Roberts

entities, we can get that dollar of earnings up to the holding company.

So we have this long-term, 100% conversion of segment earnings to cash available.

What we've done with that cash over 14-plus years is four things. First, we've funded organic growth of the company. Ten years ago we weren't in the mobile cell phone business. Today we're one of the world leaders in doing things around cell phones—from handset protection to repair and logistics to customer care. And we've funded that through the earnings that were developed in the segments and brought up to the holding company.

The second thing we've done with it is M&A. We tend to do smaller deals. We put a very high hurdle rate on M&A given the execution risk involved with M&A. The exception was this year, when we did a very big M&A deal with The Warranty Group. But we did that because we were in the same business as they were in. What they did for us was fill in in markets and geographies, so we understood their business very well. You still have execution risk, but there's less when you're actually in the business and understand the business.

Whatever is left we've returned to our shareholders. We've done that through dividends.

And then we've done buyback. The one big buyback program we did was in early 2016, when we announced we were going to return \$1.5 billion to shareholders. That was in the form of dividends and buyback. As we sold employee benefits and sold and put our health business into runoff, we had estimated our proceeds would be \$1.5 billion. We elected to give it back to shareholders.

We've bought back relatively consistently. As we have excess capital, we return it. What that helps is EPS growth, but it doesn't meaningfully impact our ROE.

What steps can you take to increase your ROE from its current 11% to the targeted 15%?

Over the last couple of years our ROEs have been below where they'll be on a longer term run rate. We had \$1.5 billion in capital come into our company from selling our employee benefits and health businesses, and we've been returning it over that time period. So we've depressed ROE because we've had lots of capital come in and we haven't given it back in one swoop. We've let it back in the market through buyback. So part of our lift will happen from optimizing our capital and working through all of those big changes that we've had in the business mix.

But the bigger factor is growing earnings. We've had this one business—lender-placed homeowners—that for the last five years has been rapidly contracting. This business is counter-cyclical. A lot of what we do in lender-placed homeowners is write insurance when the home is vacant. That's typical when a mortgage is either seriously delinquent or has gone into foreclosure. That business for us grew dramatically during the financial crisis. That's one of the reasons we weathered the financial crisis really well.

We've been dealing with that contracting, and that's hurt our ROEs. But we've now said to the market that that business will be flat in 2019.

What impact will that have?

It's a huge step for us after years of declines. The entire rest of our company has been growing earnings in double digits for years now, and that's been absorbed by lender-placed prior to 2017. So just keeping that flat is a huge step.

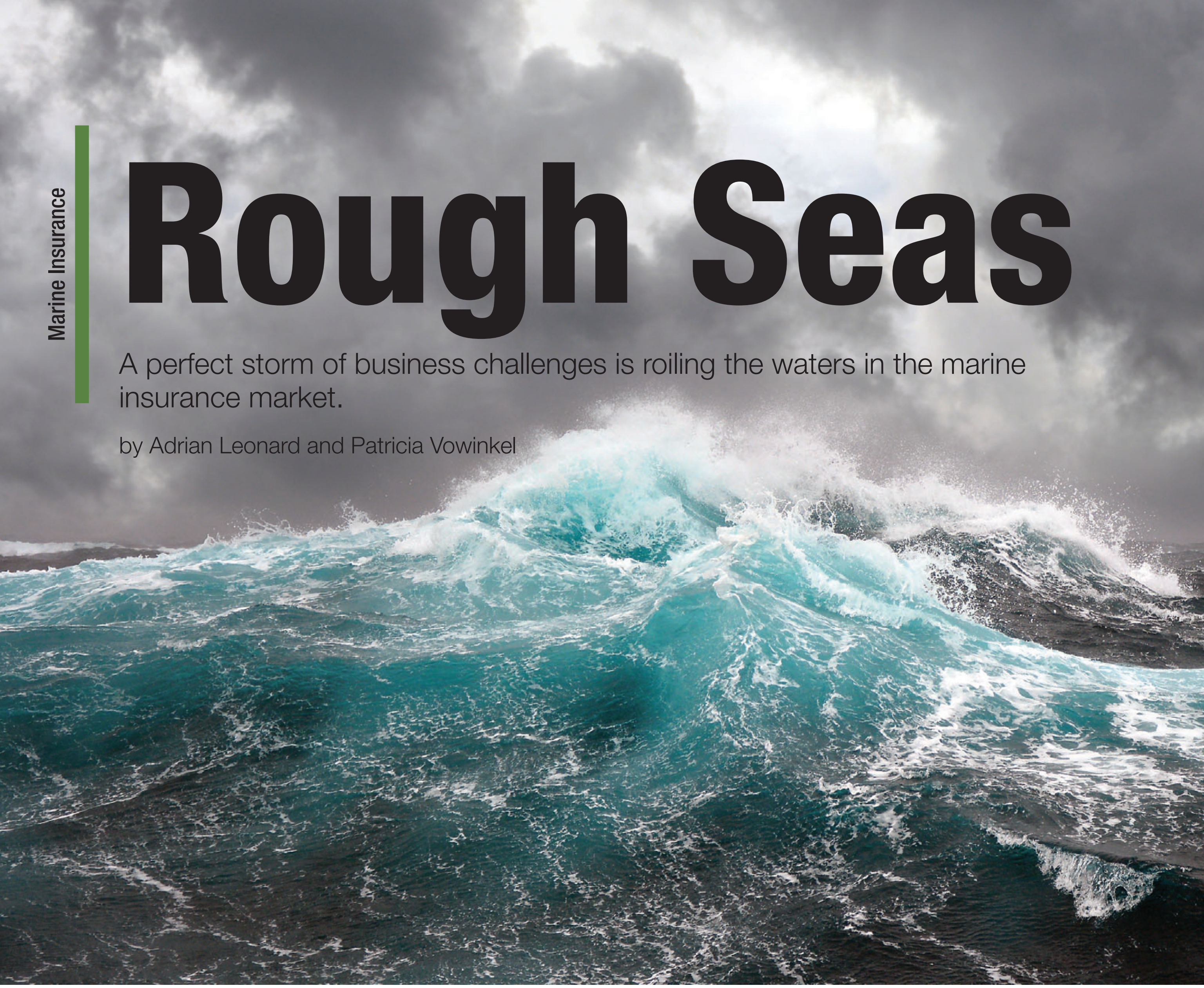
So the biggest thing that will grow ROE is to grow earnings, and we're very well set up to grow earnings. Again, our guidance to the market was that earnings would grow 20%-25% this year. We haven't given long-term guidance yet, other than we are well-positioned for sustained earnings growth in 2019 and beyond.

On the equity side of it, we'll fine-tune our capital structure. But that's not nearly as impactful as growing earnings.

Does your acquisition of The Warranty Group change your targets or affect how you'll reach the existing targets?

We've told the market we'll do an Investor Day early next year and we will refresh our targets, given we've really changed the composition of the company with The Warranty Group. Roughly 30% of our revenue now comes out of automotive. We're the market leader in service contracts on vehicles as a result of The Warranty Group. We were relevant before, but now we're the clear market leader. About 30% of our revenue now comes out of Connected Living, which is primarily cell phone related. That's a very different business mix than when we gave out those metrics in 2016.

So we've told the market in March of next year we will reset and refresh what to expect long term from the company. That's coming. BR



Rough Seas

A perfect storm of business challenges is roiling the waters in the marine insurance market.

by Adrian Leonard and Patricia Vowinkel

After a period of excess capacity, declining rates, large losses and disappointing performances, marine insurers are under pressure to turn the ship around as they head into 2019.

Marine insurers in London especially have experienced a series of challenges recently. In a market flooded with capacity, they have had to reduce rates to compete. Big losses last year and this year further complicated matters.

Insurers suffered major losses in 2017 from hurricanes Harvey, Irma and Maria. An accumulation of attritional losses as a result of exposure to a number of natural catastrophes this year also took a toll on some marine insurers. A fire at the Lürssen shipyard in Bremen, Germany in September delivered another painful blow, with losses estimated as high as $700 million. Marine hull lines were expected to bear the brunt of that loss.

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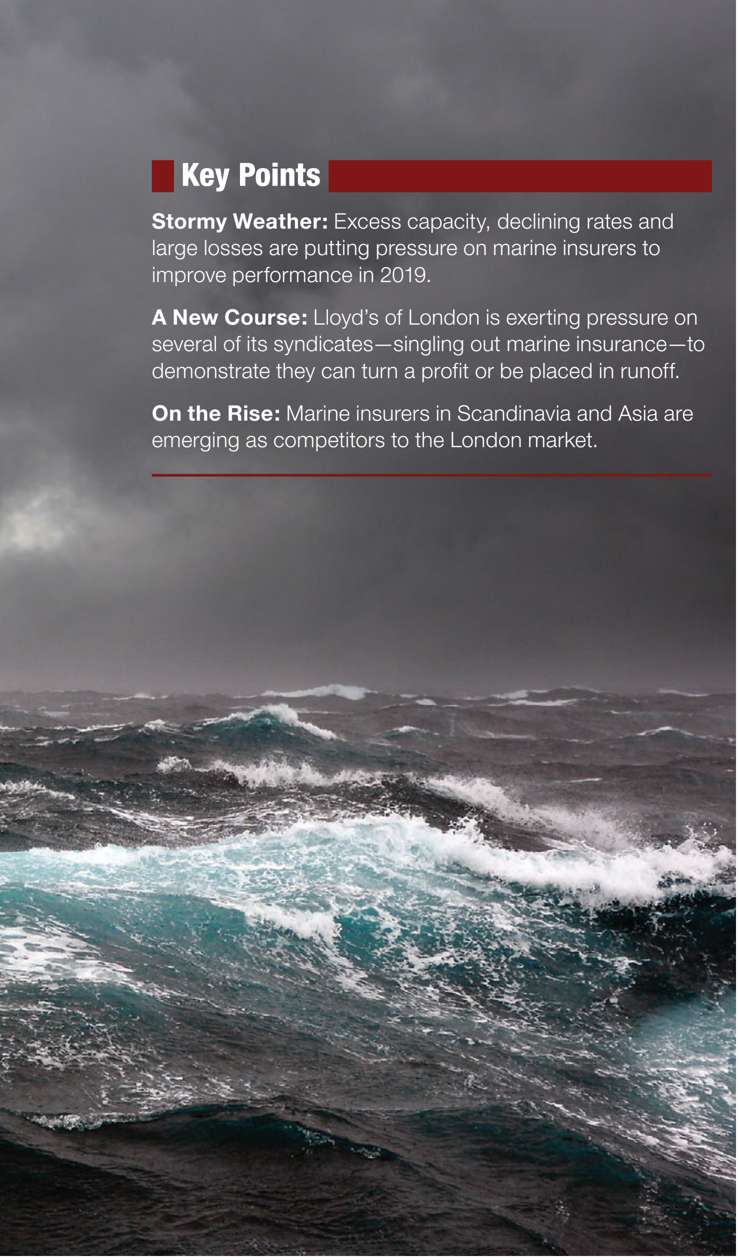
The challenges have become so vast that Lloyd's of London warned syndicates that have produced consistent losses in recent years that they must demonstrate how they will return to profitability or face being put into runoff. Marine was singled out as one of the lines facing notable problems.

A few syndicates already have departed from one or more marine lines.

And that was before warnings came from some insurers about third-quarter profits.

Lancashire Holdings Ltd., a Bermuda-domiciled Lloyd's underwriter, warned of impending net losses of up to $75 million in the third quarter, pointing to marine and natural catastrophe claims. Lancashire said $30 million of the underwriting loss was likely to be in the marine account.

RSA Insurance Group, a U.K.-based multiline insurer, said it expected an underwriting loss of about $91 million in the third quarter with higher weather, large losses and attritional claims. Underwriting losses in the U.K. and London were especially high in marine, the group said.



Key Points

Stormy Weather: Excess capacity, declining rates and large losses are putting pressure on marine insurers to improve performance in 2019.

A New Course: Lloyd's of London is exerting pressure on several of its syndicates—singling out marine insurance—to demonstrate they can turn a profit or be placed in runoff.

On the Rise: Marine insurers in Scandinavia and Asia are emerging as competitors to the London market.

All told, about 10% of Lloyd's 100 or so lines were not meeting the expectations of its performance directorate, according to Lloyd's Chief Financial Officer John Parry.

The action is part of an extended annual approval process for Syndicate Business Forecasts. Lloyd's underwriting units use them to map their business plans for 2019.

In most cases, Lloyd's is urging managing agents to cut their marine premium incomes or withdraw from the business. Managing agents are the Lloyd's underwriting businesses, which are, for the most part, subsidiaries of international carriers.

Market Departures

Insurers CNA Hardy, Barbican and AmTrust have already departed from one or more marine lines.

In October, CNA Hardy said it would immediately stop writing property treaty, marine hull and some types of construction policies within Lloyd's. The lines being discontinued "have struggled to deliver consistent profitability even in light of improving market conditions," CNA Hardy said.

Barbican Syndicate 1955 plans to withdraw from property insurance, marine cargo and hull insurance, and professional indemnity insurance, after receiving approval from Lloyd's for its 2019 business plan, Barbican Insurance Group said in November. Syndicate 1955 remains committed to its other business lines and has increased capacity for marine reinsurance and energy.

"We have taken some hard decisions, that reflect prevailing market conditions, to ensure the sustainability of our plan," said Iain Bremner, managing director, Barbican Managing Agency Ltd.

AmTrust said in June it was exiting the marine cargo, hull and liability lines of business following a strategic review.

Aspen made a similar decision. CEO Chris O'Kane said in a conference call in August that the company's Lloyd's business in international professional indemnity and marine hull had turned in disappointing performances.

"We will no longer underwrite these books on the Lloyd's platform," he said. In August, Aspen agreed to be acquired by private equity funds controlled by New York-based Apollo Global Management for $2.6 billion.

SCOR's Lloyd's operation, the Channel Syndicate, has reportedly opted to cease writing hull and cargo business. SCOR is expected instead to write its London marine business from a company-market platform.

The Standard Syndicate 1884, a marine-focused syndicate, will be placed into runoff in January, according to The Standard Club, an apparent casualty of the Lloyd's profitability edict. The operation, part of the UK's 130-year-old Standard Protection & Indemnity Club, a mutual marine liability insurer, was launched only in 2015.

Losses on the Upswing

The sector's losses go beyond recent catastrophes and the shipyard fire.

The cost of wreck removal, for example, has skyrocketed in recent years as governments seek gold-plated environmental protection following a marine casualty.

The claim arising from the wrecking of the *Costa Concordia*, which ran aground in Italy, totaled more than $2 billion. The indemnity for the cruise ship's hull was only about $500 million.

The challenge of rising loss costs comes as a surprise given the shipping industry's improved safety record. The number of total losses of vessels was "stable" in 2017 at 94, the second-lowest total since 2007 and well below the 10-year average

> "Regional markets are typically closer to local clients and know the unique risks for their market. They are willing and able to serve the local accounts and will provide the necessary capacity, at the appropriate rate, for these risks."

Pat Hickey
Aspen Insurance

of 113, according to Allianz Global Corporate & Specialty (AGCS).

Improved ship design, enhanced risk management and shipping safety regulation account for a 38% decline in total losses over the past 10 years—as does falling shipping activity, according to Baptiste Ossena, AGCS's global product leader for hull and marine liabilities. Total losses numbered 151 in 2008.

Large losses make the difference.

In recent years, the most costly 1% of all hull claims accounted for at least 30% of total claims costs in any given year, according to the International Union of Marine Insurers (IUMI).

For cargo insurers, the 2016 Tianjin port explosion was a huge blow, revealing an unexpected aggregation of risk that IUMI believes could ultimately cost $6 billion.

Claims may come under even more upward pressure as more vessels enter into Arctic waters. Those areas are difficult to assess if there is an incident.

The amount of cargo transported over the Northern Sea Route rose nearly 40% in 2017, to a record high, according to Russia's Federal Agency for Maritime and River Transport. Reported incidents in the waters above the Arctic Circle increased 29%.

Cargo loss ratios showed an extraordinary increase in the years 2014-2017, which might indicate a new normal, according to Astrid Seltmann, analyst with the Nordic Association of Marine Insurers and Vice-Chair of IUMI's Facts & Figures Committee. Value accumulations on single sites or vessels, alongside a resurgence in natural catastrophes, are a particular concern.

Indeed, natural catastrophes have been taking a serious toll on the sector.

Data from Lloyd's yacht portfolio, for example, shows that this class had been profitable since 2001, although margins had fallen steadily with rates since 2007.

Lloyd's yacht business, however, declined into the red in 2016, and was disastrous in 2017, when the portfolio yielded a combined ratio in excess of 160% after weather—particularly Hurricane Irma—smashed scores of high-value vessels.

Inability to gain access in the post-storm chaos exacerbated the problem, as many damaged yachts deteriorated into constructive total losses in the interim. The recent Lürssen shipyard fire, which destroyed a 100-plus meter yacht under construction, further exacerbated yacht insurers' woes.

Rate Expectations

With insurers pulling back capacity, rates are expected to begin to stabilize and even move higher.

"The international market has shown signs of improvement during 2018," said Mark Edmondson, chairman of the Ocean Hull Committee of the International Union of Marine Insurers and head of marine at Chubb Global Markets.

IUMI estimates that $100 million of capacity has been removed from the market over the past year, with few start-ups to offset the withdrawal of a number of high-profile hull insurers.

He further said that facilitisation, the creation by brokers of capacity vehicles backed by groups of insurers, "appears to be under increasing pressure due to worsening performance and heightened regulatory scrutiny." The latter is probably a reference to the UK supervisor's investigation into alleged anti-competitive practice by large brokers.

"Overall the deterioration of underwriting results, over what has been a considerable period, has appeared to have triggered a brake in the decline in market conditions," Edmondson said.

A cyclical market adjustment is "long overdue," especially for hull risk prices, which have declined steadily for several years, according to Neil Roberts, head of marine underwriting at the Lloyd's Market Association, the trade body for Lloyd's managing agencies.

While rates continued to decline during the 2017/2018 renewal season, "reducing capacity for hull risks may put a stop to rate cuts," he said.

Pricing in the cargo market has been more stable, but is already beginning an uptick.

Citing the effects of pressure from Lloyd's on profitability, Hiscox pointed to a "much-needed" 20%-plus rate increase since August on cargo business.

"Cargo is becoming more difficult to place, and conditions began to tighten up over the summer, when at least five hull, four cargo and a couple of yacht books were shut down," Roberts said. Since then, more Lloyd's syndicates and insurance companies in London and further afield have ceased underwriting one or more of these marine classes.

Navigators Group, a Stamford, Connecticut-based global insurer specializing in marine and other lines, said in May that it saw rate increases in the low- to mid-single digits in international marine compared to declines a year ago.

Premium volume for its London market marine business dropped 19% in the second quarter, according to Navigators CEO Stanley Galanski, speaking on an earnings conference call in August. International marine premiums outside of London were down 14.2%. International marine's $9 million underwriting loss weighed on overall international results, yielding a $3.4 million underwriting loss, and the company suffered attritional losses in international marine in cargo and in hull and transit.

Navigators agreed to be acquired in late August by Hartford Financial Services Group for $2.1 billion in cash.

Regional Markets

While the marine market in London seeks to correct course, other insurance centers are emerging as competitors.

Marine insurance products available in Scandinavia, Asia and elsewhere may not be equivalent, yet when they emerge from lower-cost markets, keener pricing is possible.

"Regional markets are typically closer to local clients and know the unique risks for their market," said Pat Hickey, executive vice president and head of U.S. marine at Aspen Insurance. "They are willing and able to serve the local accounts and will provide the necessary capacity, at the appropriate rate, for these risks."

Navigators said competition was taking a toll on the London market, while other marine markets were doing better.

"While we remain committed to the London and Lloyd's marine markets, we believe the best opportunities for ocean marine in the short-to-intermediate term will be in our regional offices serving continental Europe and Latin America," Navigators' Galanski said in May.

Some London operations, like the Lloyd's managing agency Neon Group, are taking advantage by acquiring marine managing general underwriters in distant markets (Oslo and Genoa, in Neon's case), and bringing the premium and risk back to London.

In other cases, marine insurance contracts simply leave the London market. Norwegian insurer Gard won the hull insurance business for more than 800 vessels belonging to shipping giant Maersk from the London operation of XL Catlin.

Aspen's Hickey does not believe regional markets will alter the dynamics of the global market significantly, "as they are already delivering appropriate capacity at a local level," he said. The combination of global expertise and a local presence should allow carriers to meet the "increasingly complex needs of the marine market," he added.

Market Redefining Itself

Some of the recent developments in the market were outlined in a July blog post by Lloyd & Partner, an international wholesale broking operation and a member of the Jardine Lloyd Thompson Group. The blog highlighted some of the challenges in the cargo market.

The 2017 Lloyd's marine loss ratio, of which cargo is a part, came in at 122%, according to the report. Cargo, as a stand-alone business, was reported to be closer to a 135% loss ratio. The report said as many as 14 cargo syndicates were believed to be under review by Lloyd's.

"In 2018, the London cargo market is seeing further market consolidation, with Axa buying XL Catlin for a staggering USD 16 billion and AIG buying Validus Re. This reduces the number of market leaders available which in turn restricts choice for clients," the report said. "So with four becoming two, we will, regrettably, see reduced market appetite and potentially consequent job losses," the report said.

"The impact of this capacity shrinkage and market consolidation has to be managed carefully by claims brokers, as service and solutions need to be maintained to the high standards that Lloyd's mandate on its managing agents," according to Lloyd & Partner.

"We do not believe this is just a momentary market correction but this is the market redefining itself to safeguard the long-term trading future. Insurers are reengineering parts of their portfolios so they can return to sustainable profit margins and so they can continue to offer product solutions to meet the demands of their clients." BR

Art Lessons

Inland marine experts say the hot market for art lures fraudsters.

by Meg Green

AP Photo/Thibault Camus

A pair of experts in art and art fraud said forgeries and fakes have become more prevalent, keeping pace with the rise in value of artwork and collectibles.

David Hall, a partner with the law firm Wiggin and Dana, and Robert Wittman, a founder of Robert Wittman Inc., a security and recovery consulting firm, spoke with A.M.BestTV at the annual conference of the Inland Marine Underwriters Association.

Following is an edited transcript of the interview.

Meg Green is a senior associate editor, A.M.BestTV. She can be reached at *meg.green@ambest.com*.

How big is the art market today?

Hall: The fine art market is about $60 billion in size. It's a rough approximation. The cultural property market is larger than that.

Whitman: When I was at the FBI it was estimated that the cultural property market's about a $200 billion

FRANCE ART THEFT: Vjeran Tomic (pictured at his trial in 2017) was convicted of stealing $100 million worth of artworks, including a Picasso and a Matisse, from Paris' Museum of Modern Art. Tomic was sentenced to eight years in jail for his role in the dramatic 2010 heist, in which he stole five masterpieces. Two accomplices also were sentenced to prison and fined.

industry. When we talk about the cultural property market, it's not just fine art. It's also things like baseball cards and comic books. A Superman comic book sold for $1 million.

It's other things like archaeological artifacts and antiquities. When you put all these pieces together, at the FBI they call it cultural property.

What's very interesting, the United States is the largest consumer country in the world for this type of material. The estimate in the United States is that it's an $80 billion industry, over 40% of the overall world market.

What trends are you seeing in terms of theft and forgeries?

Hall: The legitimate art market has grown substantially in the last 10 or 15 years and has grown even when the economy generally was not growing. That's created incentives for people to commit art crimes, including thefts and forgeries.

As a result of all that, we've seen the total volume of art crime increasing along with the market.

Wittman: There's a famous bank robber who was once asked why he robbed banks. He said, "Because that's where the money is." It's the same theory. These thieves and fraudsters, they're following the market. As the market trend of the art goes higher and higher in value, they follow the market.

In fact, there's actually market funds now where people can invest in the value of art. It's become a hard property for investment for future gains, as well.

David Hall

Isn't it important when you buy a piece of art to look at the history of it and the paperwork? How do thieves get around that?

Hall: It certainly is important to review the provenance of any work. Thieves get around that in different ways. One way is that, as a practical matter in the art market, provenance is rarely perfect. It's not unexpected to find gaps in provenance. Criminals can take advantage of that in the course of committing a crime.

Sometimes they'll also forge provenance. In other words, they'll just make it up in order to bolster their claims.

Wittman: When we're looking at value of art, there's three things that make a piece of art valuable. The first is authenticity. That's one of the three legs of the stool. The second thing is the provenance, the history. The third thing is a good title. In other words, if you buy something that's been stolen, in the United States you never acquire a good title.

As a result, you don't have anything worth anything at all. It doesn't matter what you paid, you don't own it. Those are the three things you have to have to have a valuable piece of art.

How does the insurance industry respond to the market?

Hall: The insurance industry insures different kinds of risks in the context of the art market. The answer to the question depends on what exact risk is being insured. Title insurance requires knowledge of the title history of a work. That's an area that implicates what Bob just mentioned, which is the title in the U.S., a title is void when an object is stolen at some point in its history.

It's very important to figure out whether that could be the case, because that would entirely void the title that's been insured.

Of course, there's also casualty insurance and other sorts of insurance to insure the piece itself. Actually, it's damage to art that probably causes the most claims and the greatest loss to the insurance industry.

Wittman: I would second that. I think damage is more prevalent than art crime as far as losses to the industry are concerned. Usually, that damage occurs in transit when the art's being transported, say, from one museum to another.

It's really important that insurance companies make sure that when these pieces are being moved that the registrars at the museums do their due diligence, do their jobs, and that the proper moving companies are used that do the proper techniques for safe transport and that registrars in the incoming museums also do a good registration report.

Those are the things that are important to hold down the losses in the insurance industry.

What happens to really high-profile pieces of art that are stolen from a museum? I would think it would be very hard to find a buyer for that.

Hall: I think that's true. What Bob and I've seen over the years is that a lot of art thieves are really good at the thieving part. They're really good at burglary, robbery, maybe not so good at the art market side of things.

They're two completely separate skill sets and knowledge bases for that. There have been cases where famous pieces of art have been stolen, and then they can't be moved as a practical matter. I think that explains some of the disappearances of famous art that's been stolen over the years.

Wittman: I've always said that the real art in an art theft is not the stealing; it's the selling. The thieves are better at being criminals than they are businessmen. That's why, over the years, we've done so many undercover cases where we were able to recover the artwork as they tried to take it back to the market.

The whole purpose of the thefts and frauds is to make money. When it hits the market, that's when these things are discovered and recovered. A good part about it, when you have a high-value, well-known artwork that's stolen from a museum in some fashion, whether it's gunpoint or through a burglary or whatever, it's my experience that someday it will come back.

That's the good news. It's very seldom when pieces go away forever. Of course, they could be destroyed, but if they're not destroyed at some point within the theft, they will come back because they will outlive the people who steal them. These Rembrandts that are 400, 500 years old today, they're much older than anybody that's around here.

If someone steals one, at some point, it's going to move. It will be recovered and discovered.

Robert Wittman

Is technology changing the landscape at all when it comes to art crime?

Hall: Yes. The internet has changed everything. It changes the way in which art is sold in certain circumstances. It hasn't completely replaced old-fashioned methods like art dealers, and galleries, and auction houses, but there's a lot of economic activity on the internet in the art market.

This is one way in which, for example, forged art is moved, is through the internet. The seller feels comfortable because he's anonymous and does not feel as vulnerable as he might if he was trying to sell the forged art in a physical place.

I think it's fair to say that over the last 10 to 20 years there's been an increase in art crime that has been committed over the internet.

Wittman: The internet's really helped police departments, as well. The fact is, if a painting was stolen from a museum in Paris 30 years ago, it might take a day and a half to two days to get all the information out about the theft, police departments on alert, even in countries contiguous with, say, France.

Today, because of the internet, within minutes, everyone knows, everyone's seen the picture. It puts the information out very quickly and clearly on about what's been taken so that it can be recovered more quickly.

How likely is the art to be recovered?

Hall: I think that's probably impossible to answer, just because there's so much variety in terms of the nature of thefts and the nature of recoveries. I agree with Bob that, in the long run, if it's not destroyed, it's likely to be recovered. That's cold comfort to somebody who just had their art stolen because, in the long run, I'm thinking generationally.

Often, what will happen is that somebody will come into contact with stolen art, maybe even unwittingly, and then will hold it and then die. The estate gets a hold of it. The estate's trying to sell it.

Wittman: What's good about that, from the insurance standpoint, is insurance companies last a long time, as well. Even though there might be a payout immediately, at some point, when that piece comes back, the insurance industry will get back their investment. Oftentimes, depending on the policy, there could be an exponential value growth for the artwork itself.

We had a case involving a number of Norman Rockwells that were stolen back in the late 1970s. At the time that these Rockwells were stolen, the insurance company paid out tens of thousands for these paintings. When they were recovered, they were valued in the millions.

The insurance company would get the value of the growth. It actually seems to work out.

Hall: It was actually a win, in that case, for the insurance companies. BR

A.M. BestTV

Go to *bestreview.com* to watch the video of this interview.

A.M. Best Data

Best's Rankings

Top 25 U.S. Ocean Marine Writers

Ranked by 2017 direct premiums written.

($ Thousands)

2017 Rank	2016 Rank	Company / Group	AMB#	2017 Direct Premiums Written	% Change in Premiums	Market Share (%) 2017	Market Share (%) 2016	Market Share (%) 2015	Adjusted Loss Ratios 2017	Adjusted Loss Ratios 2016	Adjusted Loss Ratios 2015	% of Company Premiums
1	1	Amer Intl Group	018540	$503,204	-10.3	15.3	16.5	22.1	37.1	21.8	30.2	3.4
2	2	Chubb INA Group	018498	262,116	11.7	7.9	6.9	7.9	55.6	50.1	60.0	1.2
3	4	Berkshire Hathaway Ins	000811	253,025	15.7	7.7	6.4	5.3	96.7	69.8	56.6	0.7
4	3	Travelers Group	018674	238,618	4.6	7.2	6.7	6.5	51.2	40.3	37.3	1.0
5	6	Allianz of America Companies	018429	166,756	-5.7	5.1	5.2	5.8	50.2	64.6	80.3	4.2
6	5	Starr Intl Group	018756	162,615	-25.3	4.9	6.4	5.8	110.1	85.3	46.1	7.1
7	8	Navigators Ins Group	018081	162,127	-3.7	4.9	5.0	3.6	73.5	48.2	23.3	15.9
8	7	XL CatlinAmerica Group	018874	123,193	-30.0	3.7	5.2	4.1	128.9	67.9	75.3	2.8
9	9	Tokio Marine US PC Group	018733	122,182	-2.9	3.7	3.7	3.8	42.3	36.9	45.6	1.8
10	10	OneBeacon Ins Group	018458	120,762	2.8	3.7	3.5	3.3	52.2	44.5	51.4	9.9
11	11	CNA Ins Cos	018313	115,711	3.1	3.5	3.3	3.2	52.1	27.3	-13.3	1.1
12	12	Great Amer P & C Ins Grp	004835	107,108	3.5	3.3	3.0	2.6	77.0	34.7	35.9	1.8
13	14	Markel Corp Group	018468	101,794	10.3	3.1	2.7	2.4	62.1	43.4	45.4	2.2
14	13	Amer Steamship Owners Mut P & I Assn	000161	85,589	-10.3	2.6	2.8	2.5	35.3	63.1	46.2	100.0
15	15	Liberty Mutual Ins Cos	000060	80,056	-1.6	2.4	2.4	2.3	61.7	45.7	45.9	0.2
16	17	Zurich Finl Svcs NA Group	018549	73,103	0.9	2.2	2.1	2.5	49.0	75.1	61.2	0.6
17	18	Sompo Hldgs US Group	018878	63,571	5.3	1.9	1.8	1.5	78.8	46.8	66.3	2.4
18	19	Farmers Ins Group	000032	50,861	4.6	1.5	1.4	1.2	98.4	80.4	68.3	0.3
19	16	Fairfax Financial (USA) Group	003116	50,019	-31.8	1.5	2.2	2.4	53.1	69.1	41.6	0.9
20	20	The Hanover Ins Grp Prop & Cas Cos	004861	40,610	-4.6	1.2	1.3	1.1	83.3	97.2	51.4	0.9
21	21	ProSight Specialty Group	000419	36,924	-3.5	1.1	1.1	1.5	37.6	87.0	38.4	4.7
22	22	Hartford Ins Group	000048	31,448	7.9	1.0	0.9	0.8	77.0	21.1	27.6	0.3
23	25	Swiss Reins Group	003262	30,163	32.4	0.9	0.7	0.3	144.7	48.0	37.0	1.6
24	24	RLI Group	003883	26,217	3.6	0.8	0.7	0.6	57.1	47.6	16.4	3.1
25	23	W. R. Berkley Ins Group	018252	25,994	-1.0	0.8	0.8	0.7	-91.2	152.6	105.9	0.5
		Top 25 Writers		**$3,033,766**	**-3.6**	**91.9**	**92.6**	**94.0**	**62.8**	**50.9**	**45.0**	**1.3**
		Total U.S. P/C Industry		**$3,299,481**	**-3.0**	**100.0**	**100.0**	**100.0**	**64.6**	**51.1**	**45.3**	**0.5**

Note: Data for some companies in this report has been received from the NAIC.
Reflects Grand Total (includes Canada and U.S. Territories).
Source: BESTLINK — State/Line (P/C Lines)-P/C, US; Data as of: October 1, 2018

Top 25 U.S. Inland Marine Writers

Ranked by 2017 direct premiums written.

($ Thousands)

2017 Rank	2016 Rank	Company / Group	AMB#	2017 Direct Premiums Written	% Change in Premiums	Market Share (%) 2017	Market Share (%) 2016	Market Share (%) 2015	Adjusted Loss Ratios 2017	Adjusted Loss Ratios 2016	Adjusted Loss Ratios 2015	% of Company Premiums
1	1	CNA Ins Cos	018313	$3,733,885	8.1	16.4	16.2	14.3	63.8	70.6	72.3	35.7
2	2	Liberty Mutual Ins Cos	000060	3,422,749	6.3	15.1	15.1	14.4	54.6	51.7	57.2	10.1
3	3	Chubb INA Group	018498	1,182,837	4.3	5.2	5.3	5.2	48.8	42.1	35.4	5.6
4	4	Amer Intl Group	018540	1,099,933	4.2	4.8	5.0	6.0	84.7	36.7	36.7	7.3
5	5	FM Global Group	018502	1,035,217	3.0	4.6	4.7	5.8	30.9	21.5	37.1	29.2
6	6	Allianz of America Companies	018429	972,766	7.9	4.3	4.2	4.8	46.3	54.0	40.4	24.5
7	7	Travelers Group	018674	691,000	-3.2	3.0	3.4	3.5	51.1	42.3	32.0	2.8
8	11	Nationwide Group	005987	647,556	10.6	2.9	2.8	2.6	60.8	53.4	51.5	3.4
9	9	State Farm Group	000088	646,761	3.5	2.9	2.9	3.0	45.0	38.4	35.2	1.0
10	10	Assurant US PC Companies	018924	623,165	6.1	2.7	2.8	2.7	69.0	80.9	70.3	9.4
11	8	Zurich Finl Svcs NA Group	018549	609,767	-2.5	2.7	2.9	3.4	51.2	35.7	31.1	4.7
12	12	Transamerica Casualty Ins Co	000323	387,360	9.2	1.7	1.7	1.5	55.2	58.8	61.4	98.6
13	13	Progressive Ins Group	000780	375,629	7.1	1.7	1.6	1.6	55.8	48.2	41.9	1.3
14	17	Fairfax Financial (USA) Group	003116	315,784	22.7	1.4	1.2	1.2	81.8	64.4	70.4	5.8
15	14	Old Republic Ins Group	000734	315,035	10.1	1.4	1.3	1.5	41.2	46.1	36.0	7.6
16	20	XL CatlinAmerica Group	018874	287,065	26.3	1.3	1.1	0.9	86.9	41.7	42.5	6.4
17	15	USAA Group	004080	284,510	4.8	1.3	1.3	1.2	36.5	37.0	35.1	1.4
18	16	Great Amer P & C Ins Grp	004835	281,171	7.9	1.2	1.2	1.2	33.0	32.4	38.9	4.8
19	18	Markel Corp Group	018468	259,695	9.7	1.1	1.1	1.1	53.1	38.3	44.4	5.6
20	19	Hartford Ins Group	000048	236,136	-0.1	1.0	1.1	1.2	51.0	46.9	46.4	2.1
21	21	The Hanover Ins Grp Prop & Cas Cos	004861	231,702	7.3	1.0	1.0	1.1	68.0	38.7	42.6	5.1
22	26	Amer Pet Ins Co	013860	205,455	33.2	0.9	0.7	0.6	63.8	64.4	64.6	100.0
23	23	Fortegra P&C Group	018686	198,253	12.6	0.9	0.8	0.9	9.6	17.8	7.8	35.6
24	22	Allstate Ins Group	000008	197,330	-2.3	0.9	1.0	1.0	40.4	37.9	33.1	0.6
25	25	Jewelers Mutual Group	018905	178,647	9.4	0.8	0.8	0.7	33.8	42.9	35.9	87.2
		Top 25 Writers		**$18,419,408**	**6.4**	**81.1**	**81.2**	**81.7**	**55.8**	**50.1**	**48.9**	**5.5**
		Total U.S. P/C Industry		**$22,725,003**	**6.6**	**100.0**	**100.0**	**100.0**	**54.0**	**48.8**	**47.5**	**3.5**

Note: Data for some companies in this report has been received from the NAIC.
Reflects Grand Total (includes Canada and U.S. Territories).
Source: BESTLINK — State/Line (P/C Lines)-P/C, US; Data as of: October 1, 2018

Top 25 U.S. Fire and Allied Writers

Ranked by 2017 direct premiums written.

($ Thousands)

2017 Rank	2016 Rank	Company / Group	AMB#	2017 Direct Premiums Written	% Change in Premiums	Market Share (%) 2017	Market Share (%) 2016	Market Share (%) 2015	Adjusted Loss Ratios 2017	Adjusted Loss Ratios 2016	Adjusted Loss Ratios 2015	% of Company Premiums
1	1	Zurich Finl Svcs NA Group	018549	$2,946,778	2.4	7.1	7.1	8.0	92.6	53.1	61.1	22.6
2	2	Chubb INA Group	018498	2,853,674	2.6	6.9	6.8	6.7	90.1	51.5	55.7	13.4
3	3	Amer Intl Group	018540	2,515,730	6.8	6.1	5.8	6.0	165.3	63.3	41.1	16.8
4	4	FM Global Group	018502	1,827,204	1.5	4.4	4.4	3.8	134.8	64.2	45.3	51.5
5	5	Assurant US PC Companies	018924	1,772,956	-0.9	4.3	4.4	4.3	118.3	45.2	29.2	26.9
6	6	QBE Americas Group	018713	1,647,114	9.8	4.0	3.7	3.9	78.5	40.3	57.0	38.5
7	7	Travelers Group	018674	1,367,110	0.0	3.3	3.4	3.3	76.9	46.9	33.3	5.5
8	10	Great Amer P & C Ins Grp	004835	1,116,892	11.3	2.7	2.5	2.4	59.5	38.9	67.1	18.9
9	8	Liberty Mutual Ins Cos	000060	1,113,342	-0.3	2.7	2.7	2.8	122.5	65.7	43.5	3.3
10	11	Sompo Hldgs US Group	018878	1,113,282	14.1	2.7	2.4	2.4	88.5	48.5	83.5	42.2
11	9	Farmers Ins Group	000032	1,078,641	1.1	2.6	2.6	2.5	158.7	55.4	40.6	5.4
12	16	CGB Ins Co	022038	972,236	54.6	2.4	1.5	1.5	56.1	65.6	75.2	100.0
13	12	Tokio Marine US PC Group	018733	800,474	2.1	1.9	1.9	1.8	95.9	62.7	68.4	11.8
14	14	FMH Ins Group	018171	796,717	12.4	1.9	1.7	2.0	48.7	30.8	61.1	98.2
15	13	USAA Group	004080	768,077	2.4	1.9	1.8	1.7	129.2	90.5	51.7	3.8
16	17	CA Earthquake Authority	012534	690,222	11.0	1.7	1.5	1.5	0.0	0.0	0.2	100.0
17	18	Wright National Flood Insurance Company	012582	604,623	2.3	1.5	1.5	1.4	383.4	126.1	27.7	100.0
18	15	Nationwide Group	005987	577,144	-18.3	1.4	1.7	2.0	88.5	76.8	50.9	3.0
19	22	XL CatlinAmerica Group	018874	526,796	4.2	1.3	1.2	1.2	161.0	61.9	72.5	11.8
20	26	Berkshire Hathaway Ins	000811	525,180	10.2	1.3	1.2	1.2	65.9	36.4	26.9	1.4
21	23	Selective Ins Group	003926	523,217	4.5	1.3	1.2	1.2	60.6	75.0	32.9	19.1
22	21	Swiss Reins Group	003262	507,870	0.0	1.2	1.2	1.3	171.3	30.7	31.5	27.7
23	27	Fairfax Financial (USA) Group	003116	500,732	8.8	1.2	1.1	1.2	94.8	76.7	63.7	9.2
24	43	Aspen US Ins Group	018783	479,533	150.7	1.2	0.5	0.5	120.7	55.0	51.0	42.9
25	25	Allianz of America Companies	018429	467,427	-2.6	1.1	1.2	1.0	171.0	49.2	38.5	11.8
		Top 25 Writers		**$28,092,971**	**4.0**	**68.0**	**66.2**	**67.5**	**109.9**	**54.0**	**48.2**	**10.9**
		Total U.S. P/C Industry		**$41,304,291**	**1.2**	**100.0**	**100.0**	**100.0**	**106.6**	**53.6**	**46.2**	**6.4**

Reflects Grand Total (includes Canada and U.S. Territories).

Source: BESTLINK — State/Line (P/C Lines)-P/C, US; Data as of: October 1, 2018

U.S. Fire and Allied Lines - Top Writers by State, Canada and U.S. Territories - 2017

Ranked by 2017 direct premiums written.

($ Thousands)

State	2017 Rank	2016 Rank	No of Cos	Direct Premiums Written	% of Grand Total	Premium % Change	ALR[1]	DDCCE[2]	Market Share Agency Writer[3]	Market Share Direct Writer[4]	Leading Writer	% Market Share	Second Leader	% Market Share
AL	30	30	447	$471,163	1.1	-0.8	92.5	1.6	72.7	27.3	Chubb INA Group	8.7	Zurich Finl Svcs NA Group	6.6
AK	48	47	257	102,393	0.2	-2.1	118.5	3.0	65.0	35.0	Western Natl Ins Group	11.2	Chubb INA Group	9.8
AZ	35	35	445	413,131	1.0	11.9	84.9	1.4	70.6	29.4	Great Amer P & C Ins Grp	23.0	Travelers Group	6.4
AR	32	32	427	452,524	1.1	3.8	81.7	1.0	62.6	37.4	Farm Bureau Mutual Ins of AR	13.0	Amer Intl Group	6.7
CA	2	2	454	4,311,993	10.4	1.2	56.9	1.1	71.7	28.4	CA Earthquake Authority	16.0	Amer Intl Group	6.2
CO	28	29	434	548,425	1.3	11.7	126.3	1.9	70.2	29.8	Amer Intl Group	8.0	Chubb INA Group	7.6
CT	37	37	399	315,486	0.8	-0.3	35.6	1.2	65.2	34.8	Assurant US PC Companies	9.0	Farmers Ins Group	6.7
DE	50	52	358	84,665	0.2	17.5	39.0	0.9	80.4	19.6	Zurich Finl Svcs NA Group	15.9	Amer Intl Group	11.4
DC	53	53	303	65,371	0.2	-4.2	87.9	1.6	66.4	33.6	FM Global Group	18.1	Amer Intl Group	14.6
FL	1	1	450	4,331,689	10.5	-3.7	145.0	5.0	87.4	12.6	Assurant US PC Companies	10.1	Citizens Property Ins Corporation	10.0
GA	19	19	488	794,590	1.9	1.9	88.8	1.6	68.3	31.7	FM Global Group	5.9	USAA Group	5.9
HI	41	41	244	211,159	0.5	-0.5	41.0	0.5	86.6	13.4	Tokio Marine US PC Group	16.1	Amer Intl Group	8.3
ID	45	44	373	134,818	0.3	-6.3	121.3	1.4	77.9	22.1	Chubb INA Group	21.7	QBE Americas Group	9.5
IL	5	5	522	1,516,526	3.7	2.8	40.3	0.6	76.6	23.4	Great Amer P & C Ins Grp	10.5	Zurich Finl Svcs NA Group	9.3
IN	18	18	485	820,321	2.0	4.2	39.4	0.6	81.6	18.5	Amer Intl Group	8.6	QBE Americas Group	7.4
IA	9	9	427	1,061,086	2.6	10.4	41.8	0.4	87.2	12.8	Chubb INA Group	16.6	FMH Ins Group	14.5
KS	11	12	434	920,376	2.2	4.6	49.4	0.5	83.4	16.7	Zurich Finl Svcs NA Group	15.3	Chubb INA Group	10.3
KY	33	33	442	434,275	1.1	0.9	50.6	0.7	72.3	27.7	Zurich Finl Svcs NA Group	12.5	FM Global Group	6.7
LA	7	7	415	1,119,909	2.7	0.2	29.7	1.0	76.5	23.6	Wright National Flood Insurance Company	7.8	Louisiana Citizens Property Ins Corp	5.9
ME	49	48	343	97,958	0.2	-6.1	26.7	0.3	69.1	30.9	Chubb INA Group	8.8	Zurich Finl Svcs NA Group	7.5
MD	36	36	425	338,533	0.8	-1.5	47.3	1.8	69.9	30.1	Travelers Group	9.7	Amer Intl Group	8.6
MA	25	24	414	620,728	1.5	-0.2	37.3	0.0	74.9	25.1	FM Global Group	8.3	Assurant US PC Companies	7.0
MI	22	22	424	653,739	1.6	1.3	68.9	1.2	76.1	23.9	Auto-Owners Ins Group	9.6	Zurich Finl Svcs NA Group	9.0
MN	6	6	433	1,224,226	3.0	3.6	40.5	0.3	90.7	9.3	Zurich Finl Svcs NA Group	18.9	QBE Americas Group	9.1
MS	34	34	414	431,632	1.0	1.6	44.2	0.6	71.6	28.4	CGB Ins Co	16.4	Southern Farm Bureau Cas Group	6.2
MO	13	15	464	888,988	2.2	3.3	59.6	0.9	73.8	26.2	Chubb INA Group	19.2	Great Amer P & C Ins Grp	8.1
MT	40	40	357	224,867	0.5	3.3	123.6	0.3	86.3	13.7	Chubb INA Group	26.1	QBE Americas Group	23.8
NE	14	16	400	885,114	2.1	5.4	63.0	0.4	89.7	10.3	Zurich Finl Svcs NA Group	15.3	Chubb INA Group	14.4
NV	42	43	401	189,913	0.5	6.2	60.3	1.1	63.9	36.1	Travelers Group	10.3	Amer Intl Group	9.4
NH	51	50	347	73,108	0.2	-6.8	32.9	0.9	65.5	34.5	FM Global Group	7.8	Liberty Mutual Ins Cos	6.1
NJ	15	10	430	867,128	2.1	-7.4	43.3	2.9	78.2	21.8	Assurant US PC Companies	11.6	Selective Ins Group	9.5
NM	44	45	386	135,789	0.3	2.9	85.3	0.7	66.4	33.6	Amer Intl Group	7.5	Liberty Mutual Ins Cos	7.3
NY	4	4	514	1,630,168	3.9	-8.1	52.3	1.8	76.8	23.2	Travelers Group	11.4	Amer Intl Group	10.8
NC	16	14	452	847,721	2.1	-2.4	57.0	0.9	71.7	28.3	Zurich Finl Svcs NA Group	9.0	NC Farm Bureau Ins Group	5.9
ND	8	8	362	1,096,592	2.7	6.6	62.9	0.1	94.0	6.0	QBE Americas Group	22.8	Chubb INA Group	22.1
OH	10	11	489	920,408	2.2	3.2	61.5	0.9	80.2	19.8	Zurich Finl Svcs NA Group	11.1	Amer Intl Group	8.0
OK	27	26	432	554,323	1.3	-1.2	56.6	1.3	68.3	31.7	Amer Intl Group	10.5	Zurich Finl Svcs NA Group	6.2
OR	38	38	415	292,941	0.7	-3.0	54.2	0.7	57.2	42.8	Liberty Mutual Ins Cos	10.5	Chubb INA Group	9.4
PA	17	13	540	843,639	2.0	-3.0	41.7	1.0	71.1	28.9	Amer Intl Group	9.5	FM Global Group	7.7
RI	47	49	349	102,690	0.2	-1.4	43.1	0.9	68.7	31.3	Assurant US PC Companies	10.0	Selective Ins Group	7.1
SC	23	25	449	642,885	1.6	4.9	54.7	2.0	72.1	27.9	Chubb INA Group	10.5	Assurant US PC Companies	7.7
SD	20	20	382	765,270	1.9	-1.7	55.2	0.0	97.2	2.8	Chubb INA Group	24.8	Zurich Finl Svcs NA Group	16.6
TN	24	23	488	633,770	1.5	-1.1	132.8	0.7	62.9	37.1	TN Farmers Ins Cos	10.1	Travelers Group	6.4
TX	3	3	516	4,305,434	10.4	5.8	334.6	4.9	77.9	22.1	Sompo Hldgs US Group	7.4	Germania Mutual Group	6.8
UT	43	42	406	186,283	0.5	2.9	26.4	0.3	63.7	36.3	Assurant US PC Companies	16.3	Amer Intl Group	9.3
VT	52	51	328	70,611	0.2	-3.0	22.9	-0.2	40.2	59.8	Queen City Assur, Inc	38.9	FM Global Group	4.6
VA	29	28	460	538,679	1.3	0.4	49.5	1.2	67.0	33.0	Zurich Finl Svcs NA Group	11.1	USAA Group	10.8
WA	21	21	428	695,456	1.7	0.4	51.8	0.9	66.2	33.8	Chubb INA Group	10.3	Liberty Mutual Ins Cos	7.4
WV	46	46	364	109,646	0.3	-3.4	45.1	1.0	67.5	32.6	Amer Natl PC Group	8.2	Assurant US PC Companies	7.5
WI	26	27	449	570,958	1.4	3.8	50.1	1.0	86.8	13.2	Zurich Finl Svcs NA Group	13.2	Amer Intl Group	8.5
WY	54	54	343	60,230	0.1	-3.4	49.3	0.6	65.6	34.4	Zurich Finl Svcs NA Group	8.1	Amer Intl Group	7.6
Amer. Samoa	58	58	3	8	0.0	-11.1	-36.1	0.1	98.9	1.1	XL CatlinAmerica Group	98.9	FM Global Group	1.1
Guam	55	55	39	46,387	0.1	-1.4	2.0	0.7	99.7	0.3	DB Ins US Group	44.5	Amer Intl Group	16.6
Puerto Rico	39	39	98	240,594	0.6	-14.4	999.9	20.4	84.1	15.9	MAPFRE North America Group	25.5	Cooperativa Seguros Group	13.3
U.S. Virgin Is.	56	56	58	33,997	0.1	1.9	999.9	22.4	95.9	4.1	Underwriters at Lloyd's, London (VI)	70.8	Guardian Ins Group	9.6
Canada	31	31	53	454,512	1.1	2.5	82.9	1.8	37.3	62.7	FM Global Group	45.1	Allianz of America Companies	18.6
Other	12	17	102	917,887	2.2	10.1	92.4	2.2	79.4	20.6	Fairfax Financial (USA) Group	32.8	Chubb INA Group	26.6
N. Mariana Is.	57	57	12	1,579	0.0	-40.4	-32.5	6.4	98.8	1.2	DB Ins US Group	43.2	First Net Ins Co	41.4
Grand Total			**1,300**	**$41,304,291**	**100.0**	**1.2**	**106.6**	**2.0**	**77.3**	**22.7**	**Zurich Finl Svcs NA Group**	**7.1**	**Chubb INA Group**	**6.9**

Note: Data for some companies in this report has been received from the NAIC.
1. ALR: Adjusted loss ratio is direct losses incurred divided by the difference between direct premium earned and dividends paid to policyholder.
2. DDCCE: Direct defense and cost containment expense ratio is the former allocated loss adjustment expense (ALAE) ratio.
3. Insurers that distribute primarily through independent agents.
4. Insurers that distribute primarily through a direct-selling system or an exclusive agency system.
Source: BESTLINK — State/Line (P/C Lines)- P/C, US; Data as of: October 1, 2018


INSIGHT
A+

Active Shooter

A Response to Tragedy

Photo Credit: Gerald Herbert/Associated Press

Key Points

Evolving Coverages: In response to mass-shooting incidents, insurers have been exploring coverages to include victim-related costs and liability exposures.

In Demand: Demand for these policies has increased, as smaller entities now begin to seek coverage.

Mitigating Risk: Some policies also now include risk mitigation services, including crisis response and post-underwriting assessments.

The insurance industry is creating new policies designed to cover liability from gun violence and to provide benefits to victims.

by Meg Green

IN REMEMBRANCE: People gather to honor the memories of the victims of the Marjory Stoneman Douglas High School shooting in Parkland, Fla., on Feb. 15, 2018.

Columbine. Sandy Hook. Parkland.

From the Texas Tower sniper, who opened fire from the University of Texas clock tower in 1966—ultimately killing 17—to the Las Vegas hotel shooter who fired more than 1,100 rounds into a crowded concert venue, killing 58 and injuring 851 in 2017, mass shootings have been making headlines, sparking gun control debates, and more recently, raising questions for insurers about how to respond.

"The cry of the public is, someone needs to take care of and needs to respond to the victims, to the organizations," said Paul Marshall, managing director of McGowan Program Administrators, which offers active shooter workplace violence insurance.

Insurers have been stepping up to offer new coverages for venues' gun-related liability exposures, including for victims, such as funerals, crisis counseling, death benefits and medical bills. Insurers also have been looking to expand property insurance beyond physical damage to a building to include coverage to renovate or rebuild in the wake of an emotionally devastating mass shooting.

"The insurance industry has been real pioneers, groundbreaking," Marshall said.

A Troubling Problem

Mass shooting incidents happen all too often, leaving behind a trail of bodies and lingering emotional trauma for survivors. And yet, it can be difficult to pin down exactly how many cases there have been, in part because there is no central database and the definition of a mass shooting remains up for debate. A mass shooting has been defined by *Mother Jones* magazine as one in which a shooter kills at least four people in a public place. Using that criteria, Mother Jones found 99 mass shootings since 1982.

A crowd-sourced database, the Mass Shooting Tracker, defines a mass shooting as one in which four or more people are shot (not necessarily killed) in a single shooting spree. That database recorded 477 mass shootings in 2016 and 427 in 2017. As of late October, there have been 361 mass shootings in 2018.

Recent mass shootings include an incident at the Pulse nightclub in Orlando, Florida in 2016 where 49 people were killed and 53 wounded. An incident at Marjory Stoneman Douglas High School in Parkland, Florida, left 17 killed and 17 injured. The numbers from these and other cases are staggering and numbing.

The shocking nature of mass shootings captures the most national news attention, but on an average day in the United States, 96 Americans are killed by firearms, according to the Centers for Disease Control

Meg Green is a senior associate editor. She can be reached at *meg.green@ambest.com*.

> "With the changing face of terrorism, with terrorists going out and damaging individuals rather than necessarily bombing properties, we decided the actual product had to evolve to remain fit for purpose."

Chris Parker
Beazley

and Prevention. Only the largest and most dramatic mass shootings receive more than a day's worth of local news coverage.

Most shootings—like the two out of every three shooting deaths that are suicides—receive almost no news coverage at all.

Active Shooter Insurance

In response to active-shooter threats, insurers began launching coverage for venues about three years ago. Businesses and schools were the most common sites for active shooters from 2000 to 2017, according to a study from the FBI.

Mass shootings in places of worship, like the 11 people killed and six injured in the Tree of Life synagogue in Pittsburgh in October, represent about 4% of mass shooting incidents, the FBI said. Venue owners approached insurers looking for cover, and the industry responded, crafting policies that offer financial protection if the unthinkable happens.

Beazley and Hiscox have crafted active-shooter coverage by expanding their existing terrorism policies. XL, now Axa XL, expanded its workplace violence, kidnap and ransom cover.

"On the terrorism side, we typically look at damage to assets and not people," said Chris Parker, terrorism and political violence focus group leader for Beazley. "With the changing face of terrorism, with terrorists going out and damaging individuals rather than necessarily bombing properties, we decided the actual product had to evolve to remain fit for purpose."

Beazley developed an active-shooter policy that includes third-party liability, a crisis management component and business interruption coverage.

"The event doesn't necessarily need to occur at your premises," Parker said. "It can occur within a close proximity, but it has an adverse effect on your business. People stop visiting your business and therefore you lose revenue." The policy also covers funeral costs and counseling for victims and survivors.

Jennifer Rubin, head of terrorism, war and political violence for Hiscox, said active-shooter-type events are becoming more varied and complex, including instances in which terrorists use vehicles as weapons. The industry is responding, but each company's terms and conditions are different, she said.

"Our policy for active shooters was written specifically to cover the active-shooter event," Rubin said. "We're defining the event. And we have parameters in place identifying the period of indemnity, the deductible in place, and a very specific contract definition of coverage so the client knows exactly what they'll be covered for."

The market is changing every day, she said.

"We don't all think like terrorists and everything changes," Rubin said. "Nobody expected a van to run over a group of people in Nice, France [in 2016]…. Every single day when something new happens, terrorist underwriters sit back in their chairs and think, 'How am I going to evolve my product so that I'm relevant for my insureds and we're providing the services and coverages that they need following these attacks?'" she said.

Denise Balan, senior vice president and head of U.S. kidnap and ransom for Axa XL, said the kidnap policy had offered an extension known as an "assault cover," which would be triggered by weapons used in a workplace setting.

"But it became clear over the last several years that it was insufficient to truly address the duty of care concerns that our insureds were coming to us with," Balan said.

"At that point, we decided … [to launch an active-shooter policy] allowing for legal liability costs as well as for off-site coverage to allow clients to have a little more confidence that they were doing the most that they can for their insureds," Balan said.

Axa XL also picks up extra expenses associated with legal liability, defense costs as well as a judgment or settlement costs, additional medical, psychological

“The traditional coverage required a lawsuit. This is a no-fault coverage that within 24 hours … we’re reaching out to victims’ families, helping the community heal, helping the families heal.”

Paul Marshall
McGowan Program Administrators

costs and some business interruption for a workplace shooting, Balan said. The costs of a mass shooting can easily run into millions of dollars.

Virginia offered an $11 million state settlement to compensate families who lost loved ones, pay survivors’ medical costs and avoid a court battle after the shooting that killed 32 people at Virginia Tech in 2007.

Harry Rhulen, co-founder of Firestorm, a crisis risk management firm, was on the ground at Virginia Tech for two weeks following that shooting. “We brought in counselors, lawyers … the expenses ran into the hundreds of thousands of dollars just for the crisis response aspect of it,” he said.

Evolving Policies

Policies have continued to evolve in 2018, with insurers adding more victim coverages, including funeral, crisis counseling, death benefits and medical bills, McGowan’s Marshall said.

Insurers offered these coverages following the public response to the shootings in Las Vegas and Parkland. After the Las Vegas shooting, citizens donated $31 million in 90 days for victims, he said. After the Parkland shooting, the Florida State Legislature agreed to pay funeral costs and medical bills for victims.

“The traditional coverage required a lawsuit,” Marshall said. “This is a no-fault coverage that within 24 hours … we’re reaching out to victims’ families, helping the community heal, helping the families heal.”

In addition to new coverages for victims, insurers are exploring new property coverage. Insurers have long provided coverage for property loss, but they are now looking at coverage that goes beyond physical damage to a building. After a mass shooting, especially in a public setting, the emotional toll of returning to the site can be deemed too great, and officials often opt to tear down the building and rebuild.

It took five years and $50 million, for instance, to tear down and rebuild the Sandy Hook Elementary School in Newtown, Connecticut, the site of the massacre of 20 students and six teachers in 2012.

Parkland, meanwhile, has asked Florida for $28.5 million to replace the building where the shooting occurred.

“These are the financial concerns of our clients,” Marshall said. “What we did was build a property program with a mental anguish trigger that allows an insured to transfer that financial exposure to an insurance mechanism.”

Demand Increasing

With so many high-profile mass shooting incidents in the news in recent years, insurers and MGAs say more clients are calling to see what insurance is available. “Because of the number of incidents and because of the publicity that are attended to them, and because the threat is growing and the perception of the threat is growing, there’s more demand for policies,” said James Lynch, chief actuary with the Insurance Information Institute.

Marshall, who works with both Beazley and Axa XL, said demand has grown from 20 to 30 submissions a month in the spring of 2017 to 200 submissions a month as of October 2018.

While large entities—larger school systems, health care systems, parades and high-focus events—were the first to buy the coverage, today smaller entities, such as churches, day care centers and delis are seeking coverage. “It’s evolving to an almost ‘Main Street’ type of coverage,” Marshall said.

The concern is understandable, but many of these fears may be overblown, said Peter Kochenburger, an associate clinical professor at the University of Connecticut School of Law.

“Many of these losses are already covered if they have liability, workers’ compensation, health and all of that … we all agree every one of those events is a tragedy, but the chance of any individual school or business having an active-shooter event is [one in a] million,” Kochenburger said.

"I think that a comprehensive approach as opposed to a specific policy for active shooters is much more promising and valuable. At some point you might be better off with a good liability policy than a narrowly targeted [policy]."

David Blades
A.M. Best

He said he saw marketing material that called active-shooter insurance "the next cyber."

"I really thought that was really unfortunate and perhaps irresponsible," Kochenburger said. "We all know that cyber events, cyber hacks occur every day, and perhaps, to every company. Thankfully, we don't live in a world and hopefully never will, where that's remotely true for active shooters."

Prevention and Crisis Response

Active-shooter coverage can also include a prevention/crisis response component.

"When there's been any kind of adverse event, an insured will call two people: their insurance agent and their lawyer. What they want to know from those people is, 'What do I do now?' It's not business as usual. It's business as unusual," said Firestorm's Rhulen.

"These people don't know what their next step is. They need someone to advise them on what to do or say, or very often, what to not do or not say.... Very often, their crisis response becomes their next crisis."

Firestorm worked with Beazley in developing their active shooter and deadly weapons policies from an underwriting guidelines standpoint.

In the workplace, most violent incidents are a result of hiring, firing or discipline, Rhulen said, and corporate culture and the way these events are handled can make a big difference in whether there is an event or not. "It's not the type of organization they are," Rhulen said.

"It's not their exposure in a crime-ridden area. It's really how they manage their business," he said "Most workplace violence events are as a result of hiring, firing or discipline. Those kind of things are very significant in how the organization responds but also whether or not it's preventing these type of things from happening."

On behalf of Beazley, Firestorm does a post-underwriting assessment of every insured.

"What is their culture? How do they treat their people? How do they handle hiring, firing, discipline? How do they handle people who come through the front door of their business who have a complaint? Do they have in place the appropriate type of workplace violence prevention program?" Rhulen said. "That's what determines whether a situation escalates from a behavior of concern to something that results in a workplace or school violence type of situation."

One crucial point for employers is how they handle employees who are fired. "One of the things that an employer should absolutely avoid is what we call the 'walk of shame,' where terminated employees pass by their peers as they are escorted out of the building," Rhulen said.

That scenario, he said, adds humiliation to an already stressful situation. "We regularly run into situations where human resource departments have not been trained in how to appropriately manage a firing," Rhulen said.

The risk management services, such as the crisis response assistance and post-underwriting assessments that are now included with some active-shooter coverages highlights the proactive approach the industry is taking, the III's Lynch said.

"We're trying to create a policy that's a bit more proactive … to head off the threat before it blossoms into some kind of tragedy," Lynch said.

The risk mitigation component may be the most valuable aspect of active-shooter coverage, said David Blades, A.M. Best senior industry analyst. "I think that a comprehensive approach as opposed to a specific policy for active shooters is much more promising and valuable," he said. "At some point you might be better off with a good liability policy than a narrowly targeted [policy]."

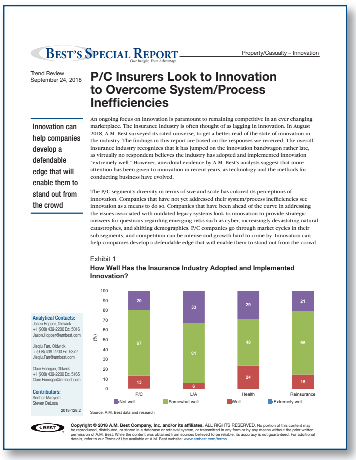
"The risk mitigation assistance that [a policy] can provide is maybe the most valuable portion, whether it's an active-shooter policy or any of those other policies, particularly for small companies that, otherwise, don't have access to it." BR

Charting a Path to Property/Casualty Innovation

Best's Special Report (Excerpt): Insurers Agree Innovation Is Critical for Future Success (September 24, 2018)

An ongoing focus on innovation is paramount to remaining competitive in an ever changing marketplace. The insurance industry is often thought of as lagging in innovation. In August 2018, A.M. Best surveyed its rated universe, to get a better read of the state of innovation in the industry. The findings in this report are based on the responses we received. The overall insurance industry recognizes that it has jumped on the innovation bandwagon rather late, as virtually no respondent believes the industry has adopted and implemented innovation "extremely well." However, anecdotal evidence by A.M. Best's analysts suggest that more attention has been given to innovation in recent years, as technology and the methods for conducting business have evolved.

The P/C segment's diversity in terms of size and scale has colored its perceptions of innovation. Companies that have not yet addressed their system/process inefficiencies see innovation as a means to do so. Companies that have been ahead of the curve in addressing the issues associated with outdated legacy systems look to innovation to provide strategic answers for questions regarding emerging risks such as cyber, increasingly devastating natural catastrophes, and shifting demographics. P/C companies go through market cycles in their sub-segments, and competition can be intense and growth hard to come by. Innovation can help companies develop a defendable edge that will enable them to stand out from the crowd.



Best's Special Report — Our Insight, Your Advantage. Property/Casualty – Innovation

Trend Review
September 24, 2018

P/C Insurers Look to Innovation to Overcome System/Process Inefficiencies

Innovation can help companies develop a defendable edge that will enable them to stand out from the crowd

An ongoing focus on innovation is paramount to remaining competitive in an ever changing marketplace. The insurance industry is often thought of as lagging in innovation. In August 2018, A.M. Best surveyed its rated universe, to get a better read of the state of innovation in the industry. The findings in this report are based on the responses we received. The overall insurance industry recognizes that it has jumped on the innovation bandwagon rather late, as virtually no respondent believes the industry has adopted and implemented innovation "extremely well." However, anecdotal evidence by A.M. Best's analysts suggest that more attention has been given to innovation in recent years, as technology and the methods for conducting business have evolved.

The P/C segment's diversity in terms of size and scale has colored its perceptions of innovation. Companies that have not yet addressed their system/process inefficiencies see innovation as a means to do so. Companies that have been ahead of the curve in addressing the issues associated with outdated legacy systems look to innovation to provide strategic answers for questions regarding emerging risks such as cyber, increasingly devastating natural catastrophes, and shifting demographics. P/C companies go through market cycles in their sub-segments, and competition can be intense and growth hard to come by. Innovation can help companies develop a defendable edge that will enable them to stand out from the crowd.

Exhibit 1
How Well Has the Insurance Industry Adopted and Implemented Innovation?

Source: A.M. Best data and research

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2018-128.2

The Innovation Landscape

Overall, 56% of P/C insurers view innovation as either extremely (17%) or very critical (39%) to the success of their organizations. Less than 14% of respondents believe that the P/C insurance segment has adopted and implemented innovation either well or extremely well, which is consistent with the general view that the insurance industry has lagged other industries, especially banking, in adopting and implementing innovation initiatives. Although the P/C segment has had its own share of challenges in past decades, it has not faced the kind of structural disruption and existential crisis as we have seen in other segments. It emerged relatively unscathed from the financial crisis—thus, the slow pace of change. Moreover, while the insurance industry has been using analytics and data for decades, the digitization of the world is providing the industry with new sources of data, allowing companies to become more data-driven.

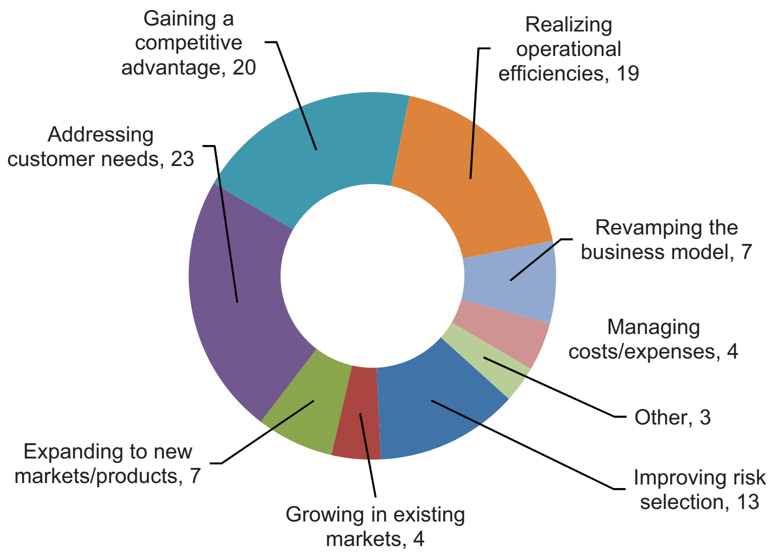
Close to one quarter of P/C respondents believe that addressing customer needs is the primary reason that innovation is important to their organization, slightly more than gaining a competitive advantage (20%) and realizing operational efficiencies (19%), all of which were a common theme throughout the industry. (**Exhibit 1**) Examples of customer-innovation include chatbots, an outgrowth of advancements in artificial intelligence. Chatbots provide convenience and ease of use for consumers but also benefit insurers, by lowering costs with automated customer-facing interactions such as onboarding new clients and processing claims.

The protection gap—the difference between insured losses and economic losses—is increasing across the globe, especially in emerging economies and countries that have not seen much economic progress. Many large insurers are attempting to address this gap through the use of innovative products such as microinsurance and inclusive insurance, which cater to the needs of low-income people. However, the distribution and servicing costs necessary to reach such populations have been prohibitive. Nevertheless, AI and big data may help insurers expand their reach with growing technological globalization and enable commerce through mobile applications.

Innovation can help overcome a number of challenges; P/C insurers believe that the top three challenges include system/process inefficiencies (90%), disruption of business model (61%), and underwriting risk (61%). Consistent with the observation that P/C companies are slow to innovate, companies themselves are starting to realize the drag an arcane IT system/inefficient processes can have on their operations. By not investing in innovation, companies will see their expense ratios gradually rise, take longer to reach customers, and eventually lose their competitive edge. In the age of big data and sophisticated predictive modeling by a few select players, those without underwriting and risk selection capabilities will likely find it increasingly hard to compete. For example, some insurers offer do-it-yourself inspection discounts if customers use a phone app to take pictures and videos of their home in lieu of a visit from a certified home inspector post-purchase. This could eliminate the cost and time of having a certified inspector and is more convenient to the insured, ultimately improving the overall customer experience. Further, AI enabled visual computing techniques can be used to automatically analyze areal images to detect pre-existing damage on properties such as roof damage or to detect liability hazards. Visual computing can also be used in wildfire risk and flood plain analysis.

Exhibit 1

What Is the Primary Reason Innovation Is Important to Your Organization?



Source: A.M. Best data and research

As technology has evolved drastically in a relatively short period and has become more complicated, it has opened the door for new potential products as new risks are identified. The demand for cyber is growing rapidly in light of cyber attacks such as the NotPetya and WannaCry ransomware attacks, and cyber hackers are exploiting even the slightest vulnerabilities in systems to wreak havoc on unprotected insureds. Progress in this area is hampered by a lack of actuarial data and understanding of the risk. P/C insurers who have technically savvy underwriting teams or strategic partnerships with vendors, reinsurers, etc., are starting to find innovative ways to address demand.

Big data, artificial intelligence, and cloud computing are expected to be the most significant technologies P/C insurers use to facilitate innovative change and improve operations. Companies are investing in these technologies to varying degrees, with 46% investing in big data, 35% investing in artificial intelligence, and 60% investing in cloud computing.

All three may be able to assist companies in overcoming the top three challenges respondents identified in. P/C insurance has always been a data-centric industry, and carriers are always seeking an edge, trying to charge premiums commensurate with the true underlying risk characteristics, with some form of predictive modeling. With the growing amount of data gleaned from telematics devices or social media websites, the possibilities for even deeper data mining are increasing rapidly.

Insurers can use big data to build unique customer profiles, enabling the creation of personalized offers based on individual preferences and behavioral data. More detailed understanding of customers can facilitate cross-selling opportunities, increase retention, and enhance customer experience.

Telematics, which can capture increasingly sophisticated information about driver behavior, can help insurance companies more accurately price policies based on the risk profiles of individual drivers and lead to a better understanding of underlying activities and processes.

Blockchain technology is relatively less mature than IoT or AI, and comes with the most security and performance concerns as well. There have been some recent developments in the title insurance industry with regard to the use of blockchain—for example, OneTitle (a new insurtech based in New York) does not use title agents at all; instead, it uses encryption technology and acknowledges that blockchain could disrupt the title industry and its processes. BR

This *Best's Special Report* is available at ***www.ambest.com***.

Best's Credit Rating Actions

This edition lists all Credit Rating actions that occurred between October 1 and October 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						
⇅	H	Blue Care Network of Michigan *Blue Cross Blue Shield of MI Mutual Ins*	068741	A- a-	Positive Positive	A- a-	Stable Stable	Michigan
⇅	H	Blue Cross Blue Shield of MI Mutual Ins *Blue Cross Blue Shield of MI Mutual Ins*	060081	A- a-	Positive Positive	A- a-	Stable Stable	Michigan
☑	L	Brooke Life Insurance Company *Prudential plc*	068117	A+ aa-	Stable Stable	A+ u aa- u	Developing Developing	Michigan
⊕	L	Colonial Life Assurance Company Limited *Edmund Gibbons Limited*	086817	A a	Stable Stable	A- a-	Stable Stable	Bermuda
☑	L	Jackson National Life Insurance Co of NY *Prudential plc*	060216	A+ aa-	Stable Stable	A+ u aa- u	Developing Developing	New York
☑	L	Jackson National Life Insurance Company *Prudential plc*	006596	A+ aa-	Stable Stable	A+ u aa- u	Developing Developing	Michigan
⇥	L	Pioneer Mutual Life Insurance Company *American United Mutual Insurance Hldg Co*	006933	NR nr		A+ aa-	Stable Stable	North Dakota
		U.S., CANADA AND BERMUDA PROPERTY/CASUALTY						
⇅	P	Agency Insurance Company of MD, Inc *Agency Holding Co of Maryland Inc*	010792	B++ bbb+	Stable Stable	B++ bbb+	Positive Positive	Maryland
⇅	P	Arch Excess & Surplus Insurance Company *Arch Capital Group Ltd.*	012254	A+ aa-	Stable Stable	A+ aa-	Negative Negative	Missouri
⇅	P	Arch Indemnity Insurance Company *Arch Capital Group Ltd.*	004822	A+ aa-	Stable Stable	A+ aa-	Negative Negative	Missouri
⇅	P	Arch Insurance Canada Ltd. *Arch Capital Group Ltd.*	066513	A+ aa-	Stable Stable	A+ aa-	Negative Negative	Ontario
⇅	P	Arch Insurance Company *Arch Capital Group Ltd.*	003186	A+ aa-	Stable Stable	A+ aa-	Negative Negative	Missouri
⇅	P	Arch Reinsurance Company *Arch Capital Group Ltd.*	011791	A+ aa-	Stable Stable	A+ aa-	Negative Negative	Delaware
⇅	P	Arch Reinsurance Ltd *Arch Capital Group Ltd.*	075169	A+ aa-	Stable Stable	A+ aa-	Negative Negative	Bermuda
⇅	P	Arch Specialty Insurance Company *Arch Capital Group Ltd.*	012523	A+ aa-	Stable Stable	A+ aa-	Negative Negative	Missouri
⇅	P	Aspire General Insurance Company *Alder Investments, LLC*	022030	B+ bbb-	Stable Stable	B+ bbb-	Negative Negative	California
⊕	P	Atradius Trade Credit Insurance, Inc. *INOC, S.A.*	011582	A a+	Stable Stable	A a	Stable Stable	Maryland
⊕	P	BusinessFirst Insurance Company *RetailFirst Mutual Holdings, Inc.*	012629	A- a-	Stable Stable	B++ bbb+	Positive Positive	Florida
New	P	Coface North America Insurance Company *Coface SA*	012657	A a	Stable Stable	NR nr		Massachusetts
⊕	P	Colonial Insurance Company Limited *Edmund Gibbons Limited*	086816	A a	Stable Stable	A- a-	Stable Stable	Bermuda
⊕	C	Colonial Medical Insurance Company Ltd *Edmund Gibbons Limited*	086818	A a	Stable Stable	A- a-	Stable Stable	Bermuda
⇅	P	Economy Fire & Casualty Company *MetLife Inc*	002276	A a+	Positive Positive	A a+	Stable Stable	Illinois
⇅	P	Economy Preferred Insurance Company *MetLife Inc*	003831	A a+	Positive Positive	A a+	Stable Stable	Illinois
⇅	P	Economy Premier Assurance Company *MetLife Inc*	002761	A a+	Positive Positive	A a+	Stable Stable	Illinois
⊕	P	Explorer Insurance Company *Ernest Rady Trust*	002852	A a	Stable Stable	A- a-	Positive Positive	California
⇅	P	Farmers Mut Fire Ins Co McCandless Twsp	004766	B+ bbb-	Stable Stable	B+ bbb-	Positive Positive	Pennsylvania
⇅	P	Housing Authority Property, A Mutual Co *Housing Authority Property, A Mutual Co*	011430	A a	Stable Stable	A a	Negative Negative	Vermont

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	Housing Authority RRG , Inc *Housing Authority Property, A Mutual Co*	010741	A a	Stable Stable	A a	Negative Negative	Vermont
⇅	P	Housing Enterprise Insurance Co, Inc. *Housing Authority Property, A Mutual Co*	072686	A a	Stable Stable	A a	Negative Negative	Vermont
⇅	P	Housing Specialty Insurance Company, Inc *Housing Authority Property, A Mutual Co*	022109	A a	Stable Stable	A a	Negative Negative	Vermont
⊕	P	Insurance Company of the West *Ernest Rady Trust*	004667	A a	Stable Stable	A- a-	Positive Positive	California
⇅	P	Kentucky Employers' Mutual Insurance	011781	A- a-	Negative Negative	A- a-	Stable Stable	Kentucky
⊕	P	Lancashire Insurance Company Limited *Lancashire Holdings Limited*	078141	A a+	Stable Stable	A a	Stable Stable	Bermuda
⇅	P	Metropolitan Casualty Insurance Company *MetLife Inc*	003288	A a+	Positive Positive	A a+	Stable Stable	Rhode Island
⇅	P	Metropolitan Direct P & C Ins Co *MetLife Inc*	002496	A a+	Positive Positive	A a+	Stable Stable	Rhode Island
⇅	P	Metropolitan General Insurance Company *MetLife Inc*	002866	A a+	Positive Positive	A a+	Stable Stable	Rhode Island
⇅	P	Metropolitan Group Prop & Cas Ins Co *MetLife Inc*	003733	A a+	Positive Positive	A a+	Stable Stable	Rhode Island
⇅	P	Metropolitan Lloyds Insurance Co of TX *MetLife Inc*	011417	A a+	Positive Positive	A a+	Stable Stable	Texas
⇅	P	Metropolitan P & C Ins Co *MetLife Inc*	004675	A a+	Positive Positive	A a+	Stable Stable	Rhode Island
New	P	Red River Valley Mutual Insurance Co	086573	A- a-	Stable Stable	NR nr		Manitoba
⊕	P	RetailFirst Insurance Company *RetailFirst Mutual Holdings, Inc.*	010017	A- a-	Stable Stable	B++ bbb+	Positive Positive	Florida
⊕	P	Sooner Insurance Company *ConocoPhillips*	056744	A a+	Stable Stable	A a	Stable Stable	Vermont
⊕	P	State Farm Florida Insurance Company *State Farm Mutual Automobile Ins Co*	012235	B++ bbb+	Positive Positive	B++ bbb	Stable Positive	Florida
☑	C	Validus Reinsurance, Ltd. *American International Group, Inc.*	078113	A a	Stable Stable	A u a u	Developing Developing	Bermuda
⊕	P	VerTerra Insurance Company *Ernest Rady Trust*	011653	A a	Stable Stable	A- a-	Positive Positive	Texas
⇥	P	Yosemite Insurance Company* *OneMain Holdings, Inc.*	003222	NR nr		B bb+	Stable Stable	Indiana
EUROPE, MIDDLE EAST AND AFRICA								
⇅	P	Alwyn Insurance Company Limited *Arch Capital Group Ltd.*	093497	A+ aa-	Stable Stable	A+ aa-	Negative Negative	Gibraltar
⇅	P	Arch Insurance Company (Europe) Limited *Arch Capital Group Ltd.*	077102	A+ aa-	Stable Stable	A+ aa-	Negative Negative	United Kingdom
⊕	P	Atradius Crédito y Caución de Seg y Reas *INOC, S.A.*	083565	A a+	Stable Stable	A a	Stable Stable	Spain
⊕	P	Atradius Reinsurance DAC *INOC, S.A.*	077332	A a+	Stable Stable	A a	Stable Stable	Ireland
⇅	C	Dubai National Insurance & Reinsur PSC	090716	B++ bbb+	Positive Positive	B++ bbb+	Stable Stable	United Arab Emirates
—	P	Intercona Re AG *Nestlé, S.A.*	078032	A+ aa-	Stable Stable	A+ aa	Stable Stable	Switzerland
New	P	Irwell Insurance Company Limited *Fred Done 1998 Children's Life Interest*	087409	B++ bbb	Stable Stable	NR nr		United Kingdom
⊕	P	Lancashire Insurance Company (UK) Ltd *Lancashire Holdings Limited*	078390	A a+	Stable Stable	A a	Stable Stable	United Kingdom
New	P	QBE Europe nv/sa	071399	A a+	Stable Stable			Belgium
New	P	S2C S.p.A. Cia Assicur Crediti Cauzioni *REAGIRA S.r.l.*	088499	B+ bbb-	Stable Stable	NR nr		Italy
⊕	P	Travelers Insurance Company Limited *The Travelers Companies, Inc.*	085363	A++ aa+	Stable Stable	A a+	Stable Stable	United Kingdom
—	P	Trust International Insur & Reins Co BSC *Nest Investments (Holdings) Limited*	086326	B++ u bbb+ u	Negative Negative	A- u a- u	Negative Negative	Bahrain

* Ratings were removed from under review and affirmed with a B/bb+ rating on October 3, 2018. Ratings were withdrawn on October 3, 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	Validus Reinsurance (Switzerland) Ltd. *American International Group, Inc.*	078516	A a	Stable Stable	A u a u	Developing Developing	Switzerland
ASIA PACIFIC								
☑	P	Capital General Insurance Company Ltd *Capital Insurance Group Limited*	092953	C++ b+	Stable Stable	C++ u b+ u	Negative Negative	Papua New Guinea
☑	L	Capital Life Insurance Company Limited *Capital Insurance Group Limited*	092954	C- cc	Negative Negative	C- u cc u	Negative Negative	Papua New Guinea
New	P	COSCO SHIPPING Captive Insurance Co Ltd *China COSCO SHIPPING Corporation Limited*	095941	A a	Stable Stable			China
New	P	Dah Sing Insurance Company (1976) Ltd *Dah Sing Financial Holdings Limited*	092800	A- a-	Stable Stable	NR nr		Hong Kong
☑	P	Luen Fung Hang Insurance Company Limited	089625	A a	Stable Stable	A u a u	Negative Negative	Macau
—	P	United India Insurance Company Limited	085412	B bb+	Stable Negative	B++ bbb	Negative Negative	India
CARIBBEAN AND LATIN AMERICA								
⊕	L	Atlantic Medical Insurance Limited *Edmund Gibbons Limited*	086819	A a	Stable Stable	A- a-	Stable Stable	Bahamas
⊕	P	Atradius Seguros de Crédito, S.A. *INOC, S.A.*	078635	A a+	Stable Stable	A a	Stable Stable	Mexico
⊕	P	British Caymanian Insurance Company Ltd *Edmund Gibbons Limited*	086808	A a	Stable Stable	A- a-	Stable Stable	Cayman Islands
New	P	C&F Cayman SPC *Fairfax Financial Holdings Limited*	071352	A a	Stable Stable			Cayman Islands
⊕	C	Colonial Insurance (BVI) Limited *Edmund Gibbons Limited*	083012	A a	Stable Stable	A- a-	Stable Stable	British Virgin Islands
⚑	P	Cooperativa de Seguros Multiples de PR *Grupo Cooperativo Seguros Múltiples*	003502	A- u a- u	Negative Negative	A- a-	Negative Negative	Puerto Rico
⊕	L	General de Salud Compañía de Seguros SA *Peña Verde, S.A.B.*	077276	A- a-	Stable Stable	B++ bbb+	Positive Positive	Mexico
⊕	C	General de Seguros, S.A.B. *Peña Verde, S.A.B.*	086515	A- a-	Stable Stable	B++ bbb+	Stable Stable	Mexico
⊕	P	Security & General Insurance Company Ltd *Edmund Gibbons Limited*	086820	A a	Stable Stable	A- a-	Stable Stable	Bahamas

Holding Companies

Rating Action	Company Name	AMB#	Current ICR	Current Outlook/ Implications	Previous ICR	Previous Outlook/ Implications	Domicile
⇅	Arch Capital Group Ltd.	058459	a-	Stable	a-	Negative	Bermuda
⇅	Arch Capital Group (US) Inc	050318	a-	Stable	a-	Negative	Delaware
⊕	Lancashire Holdings Limited	051279	bbb+	Stable	bbb	Stable	Bermuda
⇥	Validus Holdings, Ltd.**	051283	nr		bbb	Stable	Bermuda

**Rating was removed from under review and affirmed with a bbb rating on October 11, 2018. Rating was withdrawn on October 11, 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.

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.

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.

Financial Size Category

To enhance the usefulness of ratings, A.M. Best assigns each rated (A++ through D) insurance company a Financial Size Category (FSC). The FSC is based on adjusted policyholders' surplus (PHS) in U.S. dollars and may be impacted by foreign currency fluctuations. The FSC is designed to provide a convenient indicator of the size of a company in terms of its statutory surplus and related accounts.

Many insurance buyers only want to consider buying insurance coverage from companies that they believe have sufficient financial capacity to provide the necessary policy limits to insure their risks. Although companies utilize reinsurance to reduce their net retention on the policy limits they underwrite, many buyers still feel more comfortable buying from companies perceived to have greater financial capacity.

Class	Adj. PHS ($ Millions)
I	Less than 1
II	1 to 2
III	2 to 5
IV	5 to 10
V	10 to 25
VI	25 to 50
VII	50 to 100
VIII	100 to 250

Class	Adj. PHS ($ Millions)
IX	250 to 500
X	500 to 750
XI	750 to 1,000
XII	1,000 to 1,250
XIII	1,250 to 1,500
XIV	1,500 to 2,000
XV	2,000 or greater

BCRs are distributed via the A.M. Best website at *www.ambest.com*. For additional information regarding the development of a BCR and other rating-related information and definitions, including outlooks, modifiers, identifiers and affiliation codes, please refer to the report titled "Understanding Best's Credit Ratings" available at no charge on the A.M. Best website. BCRs are proprietary and may not be reproduced without permission.

 Version 051018

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.

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Building Support

Successful microinsurance products are built on good data.

R. Dale Hall, managing director of research, Society of Actuaries, said insurers are still working to build strong sources of data that will support microinsurance products in Latin America. Hall spoke with A.M. BestTV at the LIMRA LOMA Latin American conference in New York.

Following is an edited transcript of the interview.

What are some of the opportunities in Latin America microinsurance?

There's a lot of opportunities across a lot of different product lines, whether that be individual life, or credit life in association with a loan or a mortgage, health and disability. When someone goes into a hospital, some sort of micropayment there, or even on the property or agricultural side. One of the big things that is needed, though, is more data.

Some of these products are offered, and claims ratios are not high, and you're looking to collect more data. I think from the actuarial profession's point of view, it's trying to get more data, use more data, study ways that you can use parallel data to make good estimations for claims and loss ratios.

Will technology play a part in helping the take-up rate in Latin America?

Mobile network operators and smart phones are really the tools that are being used to distribute products, to make premium payments, to make claim payments. There's a little bit of legacy of the paper-based processes because banks and mortgage companies and insurance companies have evolved that way.

—John Weber

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Winter Wonderland

Outdoor holiday light displays are igniting a host of liabilities for insurers, including fires, injuries and distracted-driver accidents.

by Lori Chordas

Homes and organizations across the world will soon be lighting up the holidays with elaborate outdoor light displays that can potentially attract hundreds or even thousands of onlookers. But inside those ornate exhibits lurk potential dangers.

In 2014, a Los Angeles man suspected of driving under the influence injured 13 people after he drove into two parked vehicles that hit a group of holiday light display onlookers standing on a residential sidewalk.

Distracted driving isn't the only potential risk. Slips and falls by visitors who venture onto the property of homeowners or businesses and injuries sustained by individuals assembling those exhibits are among the most common claims generated by outdoor light displays, said Stephanie Waldron, senior vice president of events and attractions at K&K Insurance.

Last year, an 82-year-old man from Burlington, Ontario, died after falling off a ladder while examining a roof leak at his home's Christmas light display.

Light display-related losses are typically covered under business, auto or homeowners policies, said P.J. Miller, chairman and a partner at independent insurance agency Wallace & Turner. A standard homeowners policy, for instance, typically provides about $1,000 of medical payments coverage for injuries, regardless if the homeowner was negligent or not.

Those policies also cover property losses, such as fires. Overloaded electrical outlets, faulty bulbs and poorly placed lights can send light displays up in smoke.

Coverage begins to blur when homeowners and display organizers charge a fee for spectators to view their illuminated spectaculars. "Then it becomes a question of whether it's a residential display or a commercial display and where does personal insurance stop and commercial insurance begin," said Jason Metzger, senior vice president of risk management at PURE Insurance.

Many of PURE's policyholders hire outside contractors to decorate or hang lights. "Those third-parties can potentially be injured, and that's where coverages like personal excess liability will help," he said. PURE insures only high net worth individuals and families.

Inland marine, crime, liquor liability, workers' compensation and event cancellation can also cover losses generated by public outdoor light displays.

"We're also occasionally asked to write short-term non-owned commercial auto liability and hired auto liability if staff members need to drive to pick up something or vehicles are rented. Also, something more unique is volunteer accident coverage that pays for losses to volunteer workers who may get injured while climbing ladders or hanging lights," K&K's Waldron said.

Some insurers have created coverages specifically designed for public outdoor light displays. U.K. specialized intermediary Event Insurance Services offers a Christmas lights public liability policy that covers legal liability to pay claimants costs, including accidental bodily injury, accidental loss of or damage to property which does not belong to the policyholder and accidental obstruction, trespass, nuisance or interference with any right of way, air, light or water.

So far, the industry has received only a handful of claims from public outdoor light displays gone awry.

Light display organizers now face some new concerns, including elaborate computer systems, drones and laser lights. "Misdirected laser lights could temporarily blind visitors as they drive through a display, or homeowners may fly drones above their homes or neighborhoods. That creates new risks and additional investigation requirements for agents and brokers, who now are tasked with assessing if drone operators are certified and follow FAA guidelines, determining how high a drone is flying and ensuring computer networks aren't at risk for potential cyber hacks," Wallace & Turner's Miller said. That's where having risk mitigation procedures and a full risk assessment to minimize potential hazards can help, he said. BR

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