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AM BEST'S MONTHLY INSURANCE MAGAZINE

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BEST'S REVIEW®

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AM BEST'S MONTHLY INSURANCE MAGAZINE

Centers of Expertise

Though insurtech hubs can be found around the world, certain places are known for a particular type of talent or a particular type of startup. **Page 44**

Insurtech Coverage
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The Insurtech Marketplace

From the Editor's Desk: Insurtech startups mature, tackle new problems … and still draw a crowd. March's issue also examines environmental, social and governance investing.

Insurtech startups now number in the thousands, tackle more complex areas of the insurance value chain, and spark the imagination of insurers and investors who want to take advantage of the latest technology and innovative solutions to industry challenges.

The industry can now boast of at least a half dozen insurtech unicorns—startups valued at more than $1 billion. And many are now expanding beyond their early focus on personal lines insurance as the industry matures.

Interest in insurtechs is still going strong, with about 6,000 people attending the InsureTech Connect conference in Las Vegas last year and more than 2,000 expected at the big Insurtech Insights conference in London later this month. Large turnouts show an industry that's still hungry for information and networking opportunities.

In our March issue, *Best's Review* looks at some of the latest insurtech developments.

In "Centers of Expertise," *Best's Review* found that certain locations globally have emerged as centers with specialized insurtech expertise. The article explores how these places became centers for certain types of insurtech startups.

In "Uncovering Unicorns," *Best's Review* identifies insurtech startups that have reached unicorn status. Not many insurtechs can claim a valuation of $1 billion or more, as it is still fairly early in the maturity process, according to Matthew Wong, a senior research analyst at CB Insights.

Early insurtechs often focused on ways to improve customer experience for personal insurance. A number of insurtechs today, however, are turning their attention to small-business customers. In "Taking Care of Business," *Best's Review* looks at why the next wave of insurtechs is so interested in working with small businesses.

"It is very attractive to not only insurtech startups, but also the insurance industry as a whole," according to Scott Ham, CEO of digital small-commercial insurance solutions for McKinsey.

Just as in the property/casualty lines, the life insurance sector also is working to improve customer experience. In "Decoding the Connection," *Best's Review* talks to USAA executive Bill White about designing innovative life products. "Essentially what you're trying to find is data that is a substitute for a medical exam," White said. "That's what everybody's trying to decode."

When it comes to investing assets, insurers face growing scrutiny from regulators as well as shareholders. In "Joining the Movement," *Best's Review* looks at insurance industry asset management and its environmental, social and governance investments.

March is Cyberrisk Awareness Month. As the world becomes increasingly virtual, insurers and risk managers explore protection from a growing array of exposures. *Best's Review* has a full lineup of cyber-related webinars, video interviews and articles online.

All of these features can be found online in a new reader-friendly version of *Best's Review*. Go to *www.bestreview.com* to read and share these articles and other *Best's Review* content.

Patricia Vowinkel
Executive Editor
patricia.vowinkel@ambest.com

The Question:

What are the biggest risks insurers face with the use of new data and predictive analytics?

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

Reader responses will be published in a future issue.

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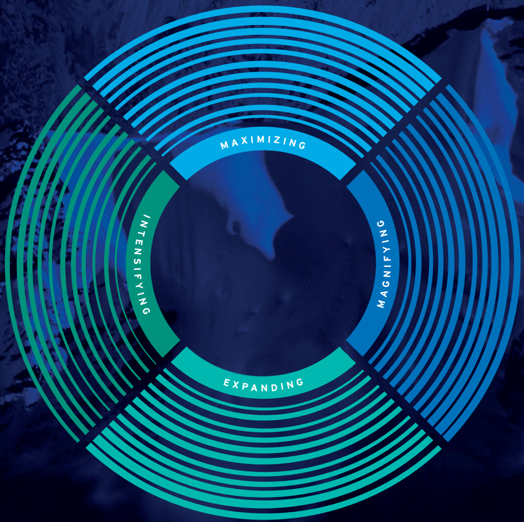

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Cover design by Andrew Crespo

A Changing Claims Process

An AM Best webinar features experts exploring how technology and other factors are impacting the claims process. Also, a look at how the business model for financial advice is transforming.

The Future Of Claims Management

The insurance claims process is changing and evolving more rapidly than at any time in nearly a century. In a one-hour webinar, a panel of insurance industry experts explores how technology, artificial intelligence and other factors are impacting the way insurers think about and manage the claims process today and for years to come. (Now Available)

What Insurers Should Know About Trends Transforming Asset Management

Experts from iShares discuss four trends that will fuel future ETF growth and how these might transform insurance general account portfolios: ETF investors are active investors; investors are cost-sensitive; bond trading evolution favors ETFs for efficient market access; and the business model for financial advice is transforming. Sponsored by BlackRock. (Now Available).

View These and Other AM Best Webinars

- Sudden Impact: How Insurers Are Dealing With the Rise in Head Injury Claims
- Are We There Yet? How Insurers Can Gauge Their Digital Maturity
- Why AM Best Changed Its Market Segment Outlook for the Global Reinsurance Sector
- How the Sharing Economy Is Rewiring Claims
- D2C: How Life and Annuity Insurers Are Reinventing Distribution
- Inside Today's Surplus Lines Market

Coming Soon

Transforming Insurance Business Through Data, Machine Learning and AI

New technologies are changing insurers' operations. A panel of industry experts will examine what the latest tech wave means for insurers and how they can keep pace with customers and competitors.

Tuesday, March 26, 2 p.m. EDT

Social Media Is Changing Claims

Legal and insurance claims experts will examine the advantages, pitfalls and judicial implications that social media is having on policyholders, the claims process and insurers.

Thursday, April 18, 2019, 2 p.m. EDT

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

P/C Joint Industry Forum, Cat Losses and Exposures

A.M.BestTV reports on the Property/Casualty Insurance Joint Industry Forum in New York, where P/C industry leaders were optimistic about 2019. Also an insurance leader is honored.

P/C Insurers' Outlook for 2019: Positive, With a Chance of Upheaval

Attendees to the annual Property/Casualty Insurance Joint Industry Forum in New York said the industry has demonstrated its ability to weather storms and other natural disasters, but will be buffeted by an increasingly contentious political climate and an advancing technology sector. (Jan. 22, 2019)

Swiss Re's Wolfe: Primary Insurers Making Strides In Marketing Flood Coverage

Keith Wolfe, U.S. property and casualty president, Swiss Re, said the reinsurer has been deploying flood-related coverages through client insurers, with noteworthy results in at least one instance. Wolfe spoke with AMBestTV at the annual Property/Casualty Insurance Joint Industry Forum in New York. (Jan. 21, 2019)


Keith Wolfe

Providence Mutual's Parrillo: Mutual Insurers Share Common Ground With Insurtechs

Sandy Parrillo, president and CEO, Providence Mutual, said some technology-based entrants have adopted a business plan similar to a traditional mutual insurer model. Mutual insurers' challenge is to leverage their business model with the aid of new technology, she said. Parrillo spoke with AMBestTV at the annual Property/Casualty Insurance Joint Industry Forum in New York. (Jan. 21, 2019)


Sandy Parrillo

Visit *www.ambest.com/video* to see new and archived video from AMBestTV.

AM Best's Holzberger: Complex Cat Losses Are Having a Wider Impact


Stefan Holzberger

Stefan Holzberger, senior managing director and chief rating officer, AM Best, said recent hurricanes and wildfires created business interruption and other losses beyond the expectations of modelers, insurers and investors. Holzberger spoke with AMBestTV at the annual Property/Casualty Insurance Joint Industry Forum in New York. (Jan. 24, 2019)

Industry Honors Glaser: 'A Passion for Running To Problems and Solving Them'


Daniel Glaser

Insurers gathered in New York for St. John's University's annual Insurance Leader of the Year dinner, with one of the highest turnouts and fundraising totals in the event's history. The event honored Daniel Glaser, CEO and president, Marsh & McLennan Cos. (Jan. 18, 2019)

AM Best's O'Larte: Why Estimates Went Up for Insurance Asbestos And Environmental Exposures


Brian O'Larte

Brian O'Larte, director, AM Best, discusses a special report that examines insurers' obligations for asbestos-related and other environmental liabilities, and why payouts are not as quick as some had expected. (Jan. 17, 2019)

Covering Cyber Claims, Fighting Fire Losses

AMBestRadio presents discussions on cyber losses and on bonds to help fight fires before they start.

RMS' Nielsen and Maloney: Cyber Claims Bleeding Into 'Non-Affirmative' Coverage

Matthew Nielsen, senior director of global governmental and regulatory affairs, and Kathleen Maloney, U.S. cyber solutions lead, both of RMS, said some claims for cyber losses are being pursued under coverage for D&O, property and casualty policies.

Forest Resilience Bond Created to Combat Wildfires

Linc Walworth, vice president of investments, CSAA Insurance Group, discusses the creation of a bond proceeds from which will be used by the U.S. Forest Service to use in the mitigation of wildfires.

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AHIP's National Health Policy Conference: A Look at Critical Health Care Issues, Policies

March 3 – 5: AIFA 44th Annual Conference, Association of Insurance and Financial Analysts, Naples, Fla.

March 4 – 6: SIR Spring Research Workshops Summit, Society of Insurance Research, Chicago.

March 5 – 6: 31st Annual Combined Claims Conference (CCC), Garden Grove, Calif.

March 5 – 8: Valen Analytics Summit 2019, Valen Analytics, Avon, Colo.

March 6 – 8: 2019 Insurance Immersion Atlanta, LOMA, Atlanta.

March 10 – 12: CICA 2019 International Conference, Captive Insurance Companies Association, Tucson, Ariz.

March 10 – 13: ACLI ReFocus Conference, American Council of Life Insurers, Las Vegas.

March 13 – 14: AHIP's National Health Policy Conference, America's Health Insurance Plans, Washington, D.C.

March 13 – 16: MPL CEO/COO Meeting, Medical Professional Liability Association, Scottsdale, Ariz.

March 14 – 15: AHIP'S Individual & Small Group Markets Conference, America's Health Insurance Plans, Washington, D.C.

March 14 – 15: Reinsurance Symposium, The Institutes CPCU Society, Philadelphia.

March 14 – 17: NCOIL Spring Meeting, National Council of Insurance Legislators, Nashville.

March 17 – 20: WSIA Automation Conference, Wholesale & Specialty Insurance Association, Orlando, Fla.

March 18 – 20: SIIA Self-Insured Health Plan Executive Forum, Self-Insurance Institute of America, Charlotte, N.C.

March 19 – 20: Insurtech Insights Conference, Insurtech Insights, London.

March 20 – 21: SVIA InsurTech Fusion Summit, Silicon Valley Insurance Accelerator, San Francisco.

March 20 – 23: ACLI Financial & Investment Roundtable, American Council of Life Insurers, San Antonio.

March 24 – 27: 19th Annual ILTCI Conference, Intercompany Long-Term Care Insurance Conference Association, Chicago.

March 24 – 27: SIFMA Compliance & Legal Annual Seminar, Securities Industry and Financial Markets Association, Phoenix.

March 25: Underwriting Collaboration Seminar, Casualty Actuarial Society, Boston.

March 25-27: Ratemaking, Product and Modeling Seminar & Workshops, Casualty Actuarial Society, Boston.

March 31 - April 3: PLRB Claims Conference & Insurance Services Expo, Property & Liability Resource Bureau, Indianapolis.

April 1 – 3: Life Insurance Conference, jointly hosted by LIMRA, LOMA, SOA and ACLI, Baltimore.

April 1 – 4: PIA Federal Legislative Summit & Spring Governance Meetings, National Association of Professional Insurance Agents, Arlington, Va.

April 3 – 5: Retirement Industry Conference, jointly hosted by the LIMRA LOMA Secure Retirement Institute and the Society of Actuaries, Baltimore.

April 6 – 9: NAIC Spring National Meeting, National Association of Insurance Commissioners, Orlando, Fla.

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

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March: Cyberrisk Awareness
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New CEO at Prudential Plc North America

Also: MetLife names successor to CEO Kandarian, MMC's Mercer has new CEO and a new commissioner is named in Michigan.

Michael Falcon has begun his role as chairman and chief executive officer of Prudential plc's North America business unit following the retirement of Barry Stowe.

Falcon began in his new post on Jan. 1 and takes over the same titles Stowe had with Jackson Holdings, Prudential plc's North America unit, said Patrick Rich, a spokesman for Jackson.

Michael Falcon

Under Stowe's leadership "our Asian business grew to become the market-leading operation it is today, and more recently he has positioned our U.S. businesses for continued success in serving the needs of American retirees," Mike Wells, group CEO of Prudential plc, said in a statement.

"The demand among Americans for a secure income in retirement is a huge social need and an attractive long-term business opportunity for the group," said Wells. He added Falcon's expertise and record "mean that he is well-placed to lead the next phase of our development in North America."

Falcon has nearly two decades of senior experience in the savings and retirement industry, said Prudential. He was CEO of JP Morgan Asset Management's retirement businesses in the United States and led the firm's asset management businesses in Asia.

He had also been head of Merrill Lynch's retirement group, with responsibility for several businesses serving individual and employer retirement plans.

Prudential said Falcon will divide his time between Nashville, Tennessee, and Lansing, Michigan.

—David Pilla

Lloyd's Names CEO, Underwriting Head For Brussels Office

Lloyd's has appointed Sonja Rottiers as chief executive officer of Lloyd's Brussels.

Rottiers will also be Lloyd's regional director for Europe, Middle East and Africa, and was to take up her position in February.

Sonja Rottiers

Delphine Marchessaux also joins Lloyd's Brussels as chief underwriting officer.

Lloyd's Brussels will have 50 staff in Brussels and 45 in 19 branches across Europe, said Lloyd's. Rottiers has more than 30 years of experience in Belgium's financial services industry, including senior leadership positions in insurance and banking. Most recently, she was a non-executive board member with ING Belgium and member of the board of directors for Kinepolis NV Group and Leasinvest Real Estate. Previously, she was chief finance and data officer and executive member of the board of directors of Axa Belgium.

Marchessaux joins Lloyd's from Axa Corporate Solutions in France, where she was head of underwriting cargo, Lloyd's said.

Lloyd's Brussels also announced two additions to its board of directors. Michel Flamée was appointed chairman and Christian Noyer joined as nonexecutive director.

Flamée was a board member of National Bank of Belgium and chairman of the Belgian Centre for Arbitration and Mediation. Noyer has been honorary governor of the Bank of France since 2015 following a 10-year period as governor. He is also a member of the French Fiscal Council and an adviser to the French government on issues related to Brexit.

Hastings Names Chief Financial Officer

John Worth will be named chief financial officer of Hastings Group Holdings plc following the retirement of Richard Hoskins.

John Worth

Worth, currently CFO of MS Amlin, is expected to join the Hastings board within the next few months.

Worth joined MS Amlin as interim CFO in November 2017 and was appointed to the permanent position in July 2018. Over the past five years, Worth was with Co-operative Bank plc and Hiscox plc.

Hoskins has been with Hastings since April 2015.

Marsh & McLennan Appoints CEO At Consulting Affiliate Mercer

Martine Ferland

Marsh & McLennan Cos. has appointed Martine Ferland as chief executive officer of global consulting affiliate Mercer, effective March 1. She will retain her position as group president.

Current CEO Julio Portalatin will become an MMC vice chairman, which has been an open position. Portalatin led Mercer for seven years.

Ferland joined Mercer in 2011 as retirement business leader for Europe and the Pacific region. She served as president for the two areas and as global health co-president before taking on responsibilities as Mercer's president. She also will become a member of the company's executive committee.

Axis Capital Names Chief Information Officer and Chief Analytics Officer

Keith Schlosser

Govind Balu

Axis Capital Holdings Ltd. has hired Keith Schlosser as chief information officer and Govind Balu has joined as chief analytics officer.

Schlosser will lead the company's global information technology strategy. He has 30 years of insurance industry experience with roles in information technology, business solutions, marketing and sales. Before joining Axis, he spent seven years as chief information officer for Chubb's overseas general insurance division.

As chief analytics officer, Balu is responsible for leading data and analytics initiatives worldwide, and will also lead the company's Analytics Center of Excellence.

Balu has more than 25 years of experience in data analytics, data strategy, business intelligence and data management. He most recently was chief data and analytics officer for Allstate Roadside Services. Before joining Allstate Roadside Services, Balu worked at both Walgreens Corp. and Bank of America, where he held senior data analytics roles, Axis said.

MetLife Names Michel Khalaf Successor As CEO Kandarian Retires

Michel Khalaf

MetLife Inc. said it has appointed Michel Khalaf as president and chief executive officer, succeeding Steven Kandarian, who is retiring, effective May 1.

Khalaf became president of Europe, Middle East and Africa, for MetLife in 2011 and, in 2017, also assumed responsibility for U.S. operations, MetLife said in a statement. In the United States, Khalaf oversaw group benefits, retirement and income solutions and property/casualty business since 2017.

Kandarian, who became CEO in 2011, joined MetLife in 2005 as chief investment officer. MetLife said he helped the company emerge from the 2008 financial crisis with the strength to acquire American Life Insurance Co. from American International Group in 2010 for $16.4 billion.

The deal brought Khalaf, who had served Alico for 21 years in leadership positions around the world, to the company.

Independent lead director Glenn Hubbard will become nonexecutive chairman upon Kandarian's retirement.

American Family Fills New CEO Position At The General With Former Ironshore Exec

American Family Insurance Mutual Holding Co. has appointed Tony DeSantis to a newly created position as president and chief executive officer of nonstandard automobile subsidiary The General.

Previously, DeSantis was CEO of syndicated risk services for Ironshore.

He will lead the company with Steve Tjugum, who was appointed chief operating officer when The General in October became a subsidiary as part of the mutual's merger with Main Street America Group.

Tjugum started at American Family in 1988 as a sales agent and most recently was agency strategy and support vice president. He succeeded John Hollar, who has left the company.

Earlier DeSantis was president and CEO at 21st Century Insurance and president of personal lines at Farmers Insurance.

American Family also appointed Elicia Azali as marketing senior vice president at The General. Previously she was vice president of property/casualty channel marketing at Nationwide.

Michigan Governor Appoints Commissioner

Anita Fox has been named the director of the Michigan Department of Insurance and Financial Services, replacing former DIFS Director Patrick McPharlin, who served in the position for three years.

Anita Fox

Fox, an insurance law expert, was appointed by Gov. Gretchen Whitmer, a Democrat. McPharlin was appointed by former Gov. Rick Snyder, a Republican, and served from 2015 to Dec. 31, 2018.

Fox has more than three decades of legal experience and has taught insurance law at Michigan State University College of Law.

Beazley Names Group Finance Director

Beazley plc said it appointed Sally Lake as its next group finance director, to be effective when Martin Bride steps down from the post in May.

Bride is expected to resign from the Beazley board at the end of its planned meeting on May 23.

Lake joined Beazley in 2006 and has been the group actuary since 2014. Prior to her appointment as group actuary, Lake held several senior roles within the organization.

Sally Lake

Beazley also said after two three-year terms, Angela Crawford-Ingle, nonexecutive director and chairwoman of the audit and risk committee, will step down from the board "at the conclusion of the 2018 accounting year and when the hand-over to her successor is complete."

Sompo Names Overseas CEO

Sompo Holdings Ltd. has appointed John Charman as chief executive officer of overseas insurance.

John Charman

Nigel Frudd succeeds Charman as Sompo International CEO.

Charman's promotion takes effect April 1. He will remain Sompo International executive chairman and join a new Sompo

Holdings global executive committee forming in April to guide groupwide strategy.

Charman was CEO of Endurance Specialty Holdings Ltd. when Sompo acquired the insurer and reinsurer early in 2017. He became chairman and CEO of the then newly formed, Bermuda-based property/casualty insurer and reinsurer Sompo International.

Frudd will also join the global executive committee and assume the new role of Sompo Holdings senior executive vice president and chairman of overseas mergers and acquisitions.

Recai Dalas, CEO and director of Sompo Japan Sigorta for the Turkish market, will become retail CEO and Sompo International retail executive committee chairman.

Malaysia's Tune Protect Appoints New CEO

Ai Lin Khoo

Malaysia's Tune Protect Group has appointed Ai Lin Khoo as the group chief executive officer. She succeeds former CEO Razman Hafidz Abu Zarim.

Khoo joined Tune Protect in August 2017 as CEO of the group subsidiary Tune Insurance Malaysia Bhd. She will continue to be the company CEO while heading the group.

Before joining the group, Khoo was chief marketing officer of Prudential Assurance Malaysia from 2016 to 2017. She has more than 20 years of experience in Malaysia's insurance industry, including working as general manager for bancassurance at Hong Leong Assurance and vice president at American Home Assurance.

Munich Re Appoints CEO of New North American Commercial Insurance Unit

Michael Kerner

Munich Reinsurance America Inc. has appointed Michael Kerner as chief executive officer for Munich Re Specialty Insurance, its new commercial insurance unit in North America.

Kerner brings more than 30 years of experience in the global insurance or reinsurance market, most recently as Everest Re executive vice president of risk management and strategy. He served in a variety of senior executive positions during 23 years at Zurich Insurance, including CEO of general insurance, CEO of global corporate North America and global North America chief underwriting officer. BR

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The Insurance Information Source

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Sailing Ahead

Erie Insurance sponsors Tall Ships Challenge Great Lakes and Farmers Insurance has debuted its first three-part episodic ad series.

Trade Winds

ERIE INSURANCE is once again sailing ahead with its sponsorship of the Tall Ships Challenge Great Lakes. This is the fourth year of the property/casualty insurer's official sponsorship of the race series.

This year's Tall Ships Challenge spans all five Great Lakes and aims to preserve the maritime heritage of North America through sail training and education. The annual race series rotates between the Great Lakes, the Pacific Coast and the Atlantic Coast.

The 2019 races series event will begin on June 30 in Toronto where a fleet of more than two dozen tall ships will sail to Buffalo; Cleveland; Kingsville, Ontario; Erie, Pa. and other ports in the Great Lakes region. The ships will dock in each host city as part of the cities' maritime festivals, which include children's activities and onboard tours and day sails. The challenge will conclude in late August in Brockville, Ontario.

The Tall Ships Challenge Great Lakes allows Erie Insurance to bring "important pieces of history to these cities, while also showing off some of the wonderful places in which we do business," said Erie Insurance president and CEO Timothy NeCastro.

Erie Insurance also will be sponsoring 20 students from Pennsylvania's Erie County in the Exploring the Great Lakes high school program. The program provides students the opportunity to live aboard the tall ship Brig Niagara with a crew and experience sea life by helping to prepare, sail and maintain the ship.

Cliffhanger

FARMERS INSURANCE is taking advertising to a new level with its inaugural three-part ad series based on its popular "We Know From Experience" campaign. The 30-second episodic ads, entitled "Parking Splat" and "Fly-By Ballooning," are running on Hulu as individual episodes, with sequential ads featuring a story arc and cliffhangers and twists.

Farmers debuted its episodic ads during CNN's New Year's Eve special.

The insurer opted for a three-part sequential storyline approach to "tell a good story," said Leesa Eichberger, head of brand at Farmers. "People become frustrated when seeing the same ads over and over again in a streaming environment. One of the things we love about our 'We Know From Experience' campaign is that the ads are fun and engaging. We wanted permission to be in people's living rooms and to entertain them with ads while still telling a compelling story," she said.

Over-the-top TV platforms such as Hulu are attracting the attention of advertisers. A 30-second video ad on Hulu generates a 61% increase in top-of-mind awareness and a 22% increase in purchase intent versus linear TV ads, according to Hulu.

Farmers' "We Know From Experience" campaign, based on insight that Farmers agents know a thing or two because they've seen a thing or two, won two Effie Awards last year. The awards recognize all forms of marketing communication that contribute to a brand's success. Also in 2018, Ace Metrics named Farmers' "Parking Splat" spot the funniest ad of the year, Eichberger said.

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

Special Solutions

Experts in the specialty lines, program and surplus lines markets discuss the challenges and new strategies facing this part of the insurance industry with AMBestTV.

"I think we'd all agree that insurance is a slow-clock speed industry. Change takes time. The more interesting question is, what does the end game look like? There, I think the answer is, the end game is fundamentally a revolution.

If you're a personal lines insurer, then almost certainly, motor dominates what you do. Motor is how you acquire customers. It's how you fund your brand spend. It's your biggest product line.

The motor market, in 10, 20 years, is going to disappear entirely from personal lines. When we're in the autonomous car world, I think motor is going to be essentially a wholesale insurance product. If you're a personal lines insurer, your entire business model has now changed.

This is not just about one line changing technically. This is about the way you acquire customers. It's the way you finance and structure your business.

The same is true if you think about commercial lines. First of all, the industries that you are serving are being fundamentally disrupted. Things like 3D printing changed the way manufacturing processes work. Secondly, also, the way you underwrite is being disrupted.

If you're not using artificial intelligence, external data sources in your underwriting, then you're on the road to becoming unprofitable. Who knows how long it will take before you realize that that's a problem? The problem has already started now."

Andrew Rear
CEO
Munich Re Digital Partners

"I think there are always those things people have on their minds that cause them some concern. What will technology do to the industry? Does any of that type of technology advancement disintermediate our market?

I think those are things that keep some people up at night.

We've got regulation on our minds all the time. How the states regulate the business. How the federal government is thinking about changes in certain areas that could impact our market. There are always risk factors out there, things to be well aware of and on top of.

We lobby. We advocate. We educate about how this market works, how it's regulated, how it operates. If we do that well, a lot of those concerns should not be significant ones."

Brady Kelley
Executive Director
Wholesale & Specialty Insurance Association

"Our expansion [plans] are typically to strengthen our relationships with segmentized clients. We are also looking for an opportunity like managing general agent binders, where we think that we are able to participate in a far more disciplined market, but we are taking our time. We are sufficiently capitalized, so we should be able to cherry-pick some of these good opportunities."

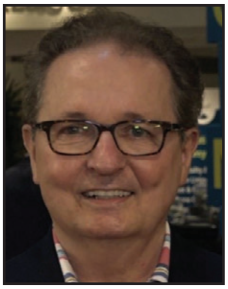
Zainudin bin Ishak
President, CEO
Malaysian Re Berhad

"In today's marketplace, there are a number of challenges. Just being able to react with speed to develop solutions for emerging risks. Again, we talk about new technology. As great as technology is in terms of bringing solutions to the marketplace, there are also risks that are associated with that.

The ability of surplus lines and specialty market companies to bring those solutions to bear in the marketplace, to develop them comprehensively, and to react in accordance with what the customers need, including not just the insurance products.

Also, again, on the risk mitigation side, to help those entities be more holistic in terms of how they're looking at covering their own risks. That's something that we're looking at that's important in that regard."

David Blades
Senior Industry Analyst
AM Best



"We see wholesalers, program administrators, MGAs creating marketplaces, superstores, that become watering holes for their brokers to connect with them, to connect with the programs they're offering, and to be able to then fulfill the business that's being submitted."

Bob Ridinger
Director of Business Development
ValueMomentum

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

Say Yes

Looking to give your career a boost? Put your hand up and volunteer for new opportunities.

One of the earliest pieces of career advice that I actually acted on came from my mother. I accepted a job that was turning out to be a poor personality fit for me. The position did not use any of my strengths and forced me to keep working with my weaknesses. The job was at a large organization that I truly believed in and whose culture I enjoyed. At the time, I didn't understand exactly what my strengths were and how they could be applied to find a job that was a better fit for me. I told my mother how frustrated and overwhelmed I was at the thought of applying for a new position within the company. I knew I had to do it, but I had no direction or understanding of what the next best move would be.

Carly Burnham

By making it known that I was **looking to learn** new things and try new skills, an abundance of **requests started coming** my way.

Then she asked me, "Do you remember what I said when you were feeling out of place or bored during high school?" I confessed that I did not remember. She said "I told you: When someone asks you to do something, say yes. It might be new and scary, but you should say yes. This is the same situation. You might feel overwhelmed by taking on new projects and balancing your standard responsibilities, but you'll get to meet new people and develop or demonstrate what you are good at and what you love."

I did listen to her advice in high school, and through those extracurricular activities, I met some of my best friends; many of whom I am still close with today. So, I thought her advice might be worth trying to jump-start my career, too. I began paying more attention to announcements at work that were looking for volunteers or applicants for additional responsibilities. I asked my manager for stretch opportunities. When I learned about an opportunity, I attended a meeting and looked for responsibilities that I was interested in and that I believed I could accomplish well. I reached out to the chair of the committee, introduced myself, and offered my help. If there wasn't anything specific, I signed up for the committee's mailing list and kept my eyes open for my chance to make an impact. I became involved in advisory boards, social committees, volunteer organizations, associate resource groups, educational opportunities and a handful of other projects within this organization.

By making it known that I was looking to learn new things and try new skills, an abundance of requests started coming my way. And, I did what my mother said. The response, "Yes, I'd love to help with that!" became a part of my daily lexicon. My performance in my "day job" improved as I became more well-rounded and learned the art of time management. And, just like in high school, I formed some very strong relationships throughout the company. I was exposed to facets of the insurance business that I never thought about before. I learned as much from networking as from the actual work I did on those projects.

For professionals who are just beginning their careers, I cannot think of a faster path to understanding your organization and our industry. Look for opportunities to say yes to extracurricular activities. You will get your name out there, build valuable relationships and learn skills that are outside of your day-to-day purview.

One caveat to this advice, however, is that you must do this extra work wholeheartedly, and this can become a challenge after you've been on the "Just Say Yes" train for a time. Next month, I will share how and when I learned to say no. Saying yes is great for visibility, but saying no is essential for protecting the quality of your work, and thus, your reputation. 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*.

In the News

Regulatory Update

Guidance on data use in NY and auto insurance in Florida are a focus.

Life Insurance: Life insurers now have specific guidance for using algorithms informed by unconventional data sources such as credit scores and even social media to underwrite policies, courtesy of the New York State insurance regulator.

The state Department of Financial Services sent a letter Jan. 18 to life insurers advising them "of their statutory obligations regarding the use of external consumer data and information sources in underwriting life insurance."

The regulator is the first to provide specific guidelines on how to apply data and algorithms that help set premium rates, especially useful in accelerated underwriting. Insurers should not use data unless they know it is nondiscriminatory.

Auto Insurance: Florida state Sen. Jeff Brandes has renewed efforts to repeal Florida's motor vehicle no-fault law with legislation that would mandate drivers purchase bodily injury and property damage coverage. Senate Bill 896 marks the latest attempt in a series of legislative efforts to change the existing law that requires insurers to provide $10,000 in personal injury protection coverage for insureds, regardless of whether they are at fault in an accident. The bill would mandate Floridians buy bodily injury liability coverage at limits of $25,000 per person, $50,000 for bodily injury and death of more than one person and $10,000 for property damage. If enacted, the new system would kick in on Jan. 1, 2021.

Willis Re: ILS Capital Reached $93 Billion in 2018

Recent deals include California wildfire liability cover.

by David Pilla

Nonlife insurance-linked securities capital continued to grow in 2018, as the total stood at $93 billion at year-end, up from $88 billion a year earlier, according to Willis Re. Recent deals covered California wildfire liability and U.S. earthquake.

"Lines of demarcation within the ILS space are blurring as ceding companies and intermediaries look to the range of cat bonds, sidecars and other collateralized ILS to identify the best tools to meet specific challenges, continue to develop new solutions, and refine existing structures," said the reinsurance intermediary unit of Willis Towers Watson in a statement. "This blurring of categories should help the ILS market to overcome concerns including prompt loss reporting, valuation accuracy, collateral release and rollover, and increasing volatility."

> "We are seeing the convergence of convergence."
>
> **William Dubinsky**
> Willis Towers Watson Securities

"We are seeing the convergence of convergence," said William Dubinsky, managing director and head of ILS at Willis Towers Watson Securities, in a statement. "The overall ILS figure is today a much more meaningful measurement of market size than focusing on cat bond and sidecar issuance alone. ILS capacity and products are growing organically and dynamically as gaps between different products and subsectors fill in, and innovation and market necessity create new capacity and products. Our confidence in the speed that new solutions will emerge gives us a favorable outlook for ILS in 2019."

Alternative capital is showing up in many places other than catastrophe bonds, said Willis Re in its January "ILS Market Update." As an example, the runoff business "is essentially a form of alternative capital, as are some of the bank facilities providing alternative capital in the life and annuity space," the report said.

"Sometimes the boundaries between traditional insurance and reinsurance equity capital and alternative capital blur too, as insurers and reinsurers strive to become more efficient in the solutions they can deliver."

Willis Re said as innovation and market necessity create new capacity and products, gaps are filled between different products and subsectors, redefining markets. "This feature of the market, very much in evidence in 2018, bodes well for a continued healthy ILS market in 2019 and beyond," the report said.

ILS and reinsurance industry outsiders "can potentially solve some of the illiquidity issues that have emerged for ILS investors," the report said. "Whether from the convergence of convergence or otherwise, confidence in the speed with which new solutions will emerge gives us a favorable outlook for the ILS market in 2019." BR

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

At Large

Partner Up

With innovation, the sum is greater than the parts.

By
Tony Kuczinski

In a 2017 PwC survey of CEOs, insurance respondents noted that innovation (67%) and digital skills (41%) are very important to their business. I would note that insurance companies—from agents and brokers to third-party administrators—that have not yet begun to test concrete ways that innovation and digitalization can impact their business and customer experience are in jeopardy of falling so far behind that it may be difficult to catch up.

Technological advances, such as cyber, robotics, internet of things, mobility and connected vehicles, are presenting new risks and opportunities. Rapid advancements in sensor technology, for example, are driving a move toward loss prevention in addition to loss response. Robotics, machine learning and artificial intelligence are replacing repeatable processes, thereby allowing the industry to redirect its efforts toward complex risks and decisions that still need human interaction.

As the nature of risk continues to rapidly shift, customer buying habits and expectations are evolving. Insurance needs are changing as some people are no longer owning things, but rather they are renting them. Consumers are requesting options to the traditional insurance purchase from small limits to micro time frames and usage-based coverage. They want a user experience that includes digital touchpoints allowing for convenient, instantaneous transactions across multiple channels and devices.

At the same time, our role in society and our opportunity as an industry continues to center on the need to help protect people and businesses from the unknown and to empower them to build the kind of safe, resilient and prosperous world we all want to live in.

Partnership is critical to the kinds of innovation that can change the way we handle risk and, ultimately, transform our industry.

We can use technology and digitalization to make our processes more efficient and our solutions customized, but it can't happen by working in silos. By collaboratively developing solutions across the value chain of insurance, companies can offer clients and partners more than any single business could alone. This synergy is the unpredictable magic that happens when we combine forces. It's the proof that 2 + 2 = 5.

United by a shared purpose and vision, partnership is critical to the kinds of innovation that can change the way we handle risk and, ultimately, transform our industry. When we share learnings, resources, ideas, and strategies, we not only become more efficient, we are a stronger and more effective force in the marketplace.

What are the next steps? We need to embrace transformation, co-create with our clients, invest time and resources in partnerships with insurtechs and others, and combine our risk expertise with technology and data to develop new solutions. Continual advances in computing power as well as the cloud are increasing the amount of data at our fingertips. This allows for more complex modeling and an increased use of predictive analytics—this can benefit our clients and partners as we seek innovative solutions to new risks and changing customer expectations. All of this together enables companies to profitably grow their core business and drive innovation in the industry while also expanding the boundaries of insurability.

By taking these steps, we will be more prepared for the changes inherent in the next 100 years because we understand that we have to innovate to stay relevant for our clients and end customers. Our industry still has much work ahead to reach that goal, but that's what creates the great opportunity and makes this space so exciting. BR

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Buckle Up

Directors and officers insurance rates for public companies likely to harden in 2019.

By
Kara Altenbaumer-Price

The U.S. Supreme Court's March 2018 decision in *Cyan v. Beaver County Employees Retirement Fund* ushered in a truly hard D&O insurance market for new initial public offerings.

After years of falling prices, several trends and one critical Supreme Court case have the public directors and officers market bracing for change.

The U.S. Supreme Court's March 2018 decision in *Cyan v. Beaver County Employees Retirement Fund* ushered in a hard D&O insurance market for new initial public offerings. Within weeks, premiums and retention levels rose dramatically for companies seeking to purchase their first public D&O insurance program. It appears the *Cyan* decision's effect on the market may not be confined to IPOs; it was also the excuse the market sought to reverse a decade of soft market conditions.

As early as 2017, public companies could no longer expect an annual decrease in their premiums. Insureds began to see their D&O insurance rates flatten. Then, in 2018, many companies saw single-digit increases in the primary or first excess D&O layer. However, rate decreases in the high excess layers allowed those with large towers to keep their overall premium relatively flat. Smaller cap companies and harder-to-place industries or those with struggling balance sheets saw their rates rise even more in 2018, with some experiencing increases between 10% and 20%.

A number of factors led to this point. Securities litigation is up, with the number of filings hitting an all-time record in 2017. While 2018 looks on pace to be slightly lower, it still represents a 10% increase over the 10-year average. Considering the fact that public companies number less than half of what they did a decade ago, the chances of an individual company getting sued is very high. Indeed, one in 15—or 6.4% of all S&P 500 companies were sued in 2017. With a smaller pool of companies to absorb the premium dollars associated with increasing risk, carrier profits also have been declining. Rates were bound to go up and, then, the Court issued its *Cyan* ruling.

The *Cyan* decision resolved a longtime circuit split over whether securities class action cases arising from IPOs can be brought only in federal court or in both state and federal court. The court decided that the law allowed cases to be brought in state court in every jurisdiction. While the decision may seem like an arcane point of legal procedure, it has a very significant impact on the likelihood—and more importantly—the cost of a securities class action following an IPO. Motions to dismiss are far easier to survive in state court and, more importantly, discovery is allowed in state court while the motion to dismiss is pending. These two factors are expected to dramatically increase the cost of IPO litigation, and with approximately 20% of all new public companies getting sued during their first five years, carriers are increasingly concerned.

In recent IPO towers built for companies going public in the fourth quarter of 2018, some carriers that had traditionally competed for the coveted primary slot for new public companies pulled out of the primary market altogether. Most carriers are unwilling to consider more than $5 million in capacity on an IPO tower, and many carriers are only willing to attach above $10 million. Rates per million dollars of coverage were quoted as high as $100,000, even on some low excess layers. Perhaps, most shocking, is the dramatic increase in retentions; some carriers are now requiring retentions of $5 million or more on IPOs.

This hard market is unlikely to be confined to new public companies. The trends of 2017 and 2018 have already laid the foundation for a hardening market. *Cyan* only cemented it. BR

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Privacy Concerns

In the age of insurtech, consumers must be aware of what information insurers are sharing with third parties.

By **Stephanie Lemoine**

The value of consumer data is such that it is now considered an asset that can be used as collateral for financing or sold as part of bankruptcy proceedings.

The development of new technology and the rise in the use of existing technology are transforming the insurance industry. From telematics that track and report location, time of day, speed, number of miles driven and braking habits to cancer detection technology built into breathalyzer devices, as well as smart-home security sensors that detect break-ins and even plumbing leaks, insurers are in a better position than ever to gauge and manage the risks they insure.

The use of this data has become so paramount to some insurers that one leading insurer is even re-branding itself not as an insurer, but as a customer-focused data company.

While not unique to the insurance industry, the collection and storage of data by insurers and their service providers have heightened privacy concerns among consumers regarding the types of data their insurers are collecting, how that data will be secured, and how and by whom that data will ultimately be used.The fine print in the privacy policies for many insurers' mobile applications specifies that a consumer's personal information will be shared with third parties for a variety of business purposes outside the determination of premium rates, including the marketing of products to the consumer.

The value of consumer data is such that it is now considered an asset that can be used as collateral for financing or sold as part of bankruptcy proceedings. Recognizing the value of the data and consumer privacy concerns, states across the country have begun enacting laws that limit the collection and use of certain data.

In 2008, Illinois led the country in implementing a statute governing the retention, collection, disclosure, and destruction of biometrics, and other states followed suit. California's recent passage of the Consumer Privacy Act of 2018, which becomes operative Jan. 1, 2020, is the most broad-sweeping legislation regarding personal identifying information.

This new law requires businesses to disclose, upon request of the consumer, information regarding the specific pieces of personal information collected, the sources of that information, the business purposes for collecting or selling the information, and the categories of third parties with which the business shares the consumer's personal information. The law permits consumers to request deletion of their personal information and to opt out of a business's sale or disclosure of the consumer's personal information. The law also prohibits businesses from charging a different price to consumers who exercise their privacy rights, specifically including the use of discounts or other benefits or by imposing penalties unless the difference in price is reasonably related to the value provided to the consumer for the data. However, businesses will be permitted to offer financial incentives, such as payments to consumers as compensation, for the collection of personal information. In addition to enforcement by the attorney general, the California Consumer Privacy Act of 2018 provides for a private right of action by consumers for unauthorized access or disclosure of the consumer's personal information as a result of a business's violation of its duty to implement and maintain reasonable security measures to protect personal information.

Insurers can reasonably expect that other states will follow California's lead in regulating the collection, protection and use of consumers' personal information and should monitor the implementation of consumer privacy laws to ensure compliance or risk penalties that may outweigh the value of using consumers' personal information. BR

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Special Advertising Section

BEST'S REVIEW®

ISSUES & ANSWERS:

PROGRAMS & WHOLESALE BUSINESS

A look at today's expanding range of specialized program insurance offerings and distribution channels.

Interviewed Inside:

Jon Peeples
Philadelphia Insurance Cos.

View past Issues & Answers sections at
www.bestreview.com/issuesanswersarchive.asp

Growth Environment

Jon Peeples, vice president of environmental insurance for Philadelphia Insurance Cos. said what makes PHLY a top environmental market is a variety of capabilities. “We have an experienced team of 30 underwriters located in offices throughout the U.S., nine different products that allow us to offer a broad spectrum of coverages and an experienced claims staff dedicated solely to our environmental team,” he said. The following are excerpts of an interview.

PHILADELPHIA INSURANCE COMPANIES

A Member of the Tokio Marine Group

- Key underwriting staff that averages more than 10 years of environmental experience.
- Best’s Financial Strength Rating A++ (superior) and approved in 50 states.
- Provides creative approach to complex environmental risks.

We are service intensive as our company was recognized for the sixth consecutive year by Confirmit ACE Awards – Achievement in Customer Excellence.

Jon Peeples
Vice President
Environmental Insurance for Philadelphia Insurance Cos.

How is the environmental insurance market performing?

It’s prospering. It’s grown quite a bit over the past few years. There has been an influx in new carriers over the past three years. We’ve seen a lot of new capacity come back in. For clients and agents right now, there are more competitors, more products and more capacity.

Is the economy having any impact on the environmental market?

We’re keeping an eye on it, however, it’s been negligible. All of our clients’ exposure bases, whether it’s more property or whether it’s more revenues for contractors or consultants continue to grow. We haven’t seen a dramatic downturn yet. Everything’s steady as she goes.

Are there any risks, in particular, that are catching your attention these days?

We’re continuing to watch lead in drinking water. Our big concern is a lot of the older buildings that we cover may have lead feeder pipes, lead pipes, or lead solder in their plumbing systems. The other major concern we’re watching right now is polyfluorinated compounds. These are typically associated with fire retardants. We see them primarily in ground water around military bases.

What impact are regulations having?

Most of the impacts are on a macro basis. They haven’t gotten down to commercial, certainly not to the class of business we typically cover. If you’re writing mining risks, if you’re writing large industrial, you will see some impacts. Generally speaking, regulations are set on the federal basis, then it takes time for the states to implement those regulations.

Go to the Issues & Answers section at *bestreview.com* to watch an interview with Jon Peeples.

Building Blocks

Allied World's Kleabir: Construction boom strains workforce, safety.

by Meg Green

Mark Kleabir, senior vice president, Allied World Assurance, said many regions of the United States face labor shortages. One bright spot for safety is that more building components are being constructed offsite. Kleabir spoke with AMBestTV at the 2018 WSIA Annual Marketplace conference, held in Atlanta.

Following is an edited transcript.

How is the labor shortage impacting the construction business today?

Day in and day out it's having a tremendous impact on projects. The shortage of workers is obviously having an impact on the amount of quality of labor force you have on the jobs. It's really geographic in a lot of cases. Certain states are a little further along as far as the workforce itself. In Texas, for instance, the electrical, mechanical and HVAC contractor shortage is huge. A lot of jobs are using temp agencies to fill the jobs on project sites.

Part of the issues with that is, when you have a project, you have to integrate those workers into the program. If it's a wrapup, they need to be trained on the wrapup every morning and be part of the program. I've been on sites where you can't identify which trade is which trade. You may have workers that are part of the wrapup. You may have workers that are not part of the wrapup. They're not wearing their helmets. They're not keeping track of who's who.

It's becoming an issue from just a quality as well as a safety standpoint. It's something to be very concerned with. We haven't done a great job as an industry at really bringing workers up from a younger standpoint to fill a lot of these jobs. There's a need. On the West Coast, framing contractors are experiencing a shortage. Wood-frame construction is a big problem. A lot of the residential stuff that's being built is being built with workers that aren't qualified to do what they're doing. In turn, the

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long-term effect is construction defect issues, so it becomes a big problem.

How is the insurance industry responding?

The insurance industry is involved. A lot of companies have been involved with organizations like the Associated General Contractors of America, which is involved with training and bringing workers on from high school and going to high schools, going to campuses. Trying to integrate and make construction an industry that's viewed as more of a glamorous-type role versus a get-your-hands-dirty kind of trade. It's having some impact. We're starting to see more organizations and universities that are buying into these programs. There is a lot of recruitment on campuses for blue collar type trades: the electrical, the framing, the HVAC stuff. It is helping a little bit. We have a long way to go. We are seeing a bit of an impact on that where it is starting to fill a little of these jobs.

A lot of contractors have programs where they bring people in from high school and train them as they move up in the trades to eventually become leads on job sites.

How is new technology impacting the construction industry?

It's big impact overall in a lot of different areas. In particular, one area that stands out is the prefabrication and modular construction. Prefab's been around for a while. What we're doing now is a lot of these new facilities that are being built—from hotels to corporate headquarters to apartments—are building units offsite in warehouse facilities. They use fewer workers, create better quality and it's easier to keep track of everything. They assemble the pieces offsite and bring them to the site themselves on transport and fit the pieces into the pie, so to speak. It's having a tremendous impact. Marriott just signed a contract to do hotel construction. That's going to be prefab or modular construction, essentially creating units, the individual hotel rooms, that will fit into a building like pieces of a pie. The Apple headquarters in Cupertino that was recently completed was essentially created offsite, a lot of that. The building itself was prefabbed into little concrete pie pieces and then brought on site and fit into the main headquarters and assembled. A lot of new facilities that are being built are using that type of construction. It's helping both from a loss control, from a safety standpoint, and then from a workers' standpoint. It's had a great impact.

We talk about new technologies and how wearable technologies can help with knowing who's who on a job site. Wearable technologies are allowing you to identify who's who on a job site at any given time. You'll be able to know where your trade contractor is running around, who's who, where they are. If they're lifting materials that they shouldn't be lifting, certain degrees of back strains and issues like that. Wearable technology is having a huge impact on that.

We talked about technology a while back, sustainable materials and new creation of new technology to build buildings and LEED certification. There was a big rush a while ago, still is a rush for that matter, to be in a building that's LEED certified. Your carbon footprint is less. A lot of these buildings are being built with materials that are new, untested technology. We're starting to see a little impact with that. A lot of the stuff hasn't materialized as well as they thought it was going to. A lot of it has but we've seen issues with new materials that don't perform like they were supposed to, such as used rubber tires used in sidings and on buildings are not necessarily holding out the water like we thought they were going to. There are some issues with that and also with some premanufactured lumber, cross laminated lumber that's being used in a lot of construction.

Mark Kleabir

That building and that type of material causes gaps in the wood. There is water getting in. There are issues that have come along with that. We've seen a lot of new technology that's been great but also it's untested and not used yet. You also have a lot of the design issues with a lot of these buildings that have been certified. You have people moving into buildings that you want them to be up to standards and LEED certified. Unfortunately, they're not necessarily meeting those standards. When converting old buildings into these new facilities, the air conditioning systems don't necessarily work as well as they're going to when you have to work around old beams and support structures that don't necessarily allow flow for air. We've seen a lot of advancement, a lot of stuff that isn't performing well.

In general, technology is only helping and making things more efficient, hopefully improving the workforce, the quality that we get, and the quality of the construction. BR

AMBestTV

Go to *bestreview.com* to watch the interview with Mark Kleabir.

JOINING MOVE

Asset managers are taking an active role in environmental, social and governance investing, even if their objective is using risk analysis and pricing tools more than doing good in society.

by Jeff Roberts

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

THE MENT

Key Points

Positive Impact: Responsible investing strategies provide risk analysis and pricing tools as well as make a positive impact on society and the environment.

Rising AUM: Global ESG assets under management have grown to more than $22 trillion, according to McKinsey & Co.

Financial Relevance: The growth of ESG accelerated about five years ago when academic studies linked corporate sustainability performance with strong financial results.

The movement has gone mainstream.

Insurers are increasingly putting the principles of responsible investing and the environmental, social and governance revolution into practice.

Global ESG assets under management are rising across all sectors—up to more than $22 trillion, according to a McKinsey & Co. study—as expanding regulation in Europe and growing client demand worldwide are further driving investment.

Although ESG has not yet substantially changed institutional investors' portfolios—including insurers' general accounts—it has impacted the way they analyze fixed income and equity assets, experts say.

Responsible investing's emerging strategies have become risk analysis and pricing tools that inform how insurers evaluate potential investments. They also are a pathway to good corporate citizenship amid rising pressure from the public.

"We realized this trend was becoming bigger," said Johanna Köb, head of responsible investment for Zurich. "And we realized that there's a completely new suite of data out there, especially with ESG integration, that was gaining quality, breadth and depth that was really useful in building a holistic picture of a company on the equity and credit side and informing your judgments.

"And more and more studies were showing a connection in how those factors can influence performance. Ignoring this would not be very prudent or fiduciary."

Responsible investing, ESG and their various forms are rising in importance and application among the asset management arms of insurers.

The vocabulary may differ from manager to manager, but it offers institutional investors analytical tools, reduced volatility and a way to both identify attractive opportunities and avoid environmental, social and reputational risks.

Responsible investing is based on the assumption that ESG factors have financial relevance. It differs from the older socially responsible investment (SRI) movement, which applies ethical and moral criteria to exclude businesses such as those involved in alcohol, tobacco or firearms through negative screening.

In September 2018, *Newsweek* proclaimed, "Over the past decade, a quiet revolution has been taking place in the world of investment; now, Environmental, Social and Governance (ESG) investing is going mainstream."

More than 80% of S&P 500 companies report on ESG metrics compared to 20% in 2011, according to Axioma, an enterprise risk and portfolio analytics provider.

Not surprisingly, 83% of insurers view having an ESG investment policy as very or extremely important, according to BlackRock's annual *Global Insurance Report*, released in September 2018.

The target is not necessarily excess return, but protecting portfolios from toxic investments, tail risk and reputational risk. And all the while, they help make a positive impact on society.

"We believe asset management will evolve further into the type of ESG integration we employ in our overall company analysis from the traditional SRI approach," said Christian McCormick, director and product specialist for Allianz Global Investors. "And arguably this will have a greater positive social impact than the traditional SRI pillars of divestment, exclusion and 'Best in Class.'"

Insurers are learning that being socially conscious has become a must in the evolving business environment. For instance, in March 2018, environmental activists protested outside Generali's Warsaw offices and delivered a petition calling on the insurer to stop underwriting Polish coal mines and plants.

In fact, AM Best created a new section in its rating

"You can argue that you will win in the long run by losing less in the short run. We've found through our own analysis and this growing research that companies that handle their material ESG risk better tend to have lower costs of capital ... and lower default risk."

Christian McCormick
Allianz Global Investors

methodology in December dedicated specifically to ESG throughout each of its building blocks.

Index performance data also shows that the integration of ESG factors as risk analysis and pricing tools can increase returns, reduce volatility and improve the risk-return profile, experts say.

That financial impact, along with growing pressure from regulators, investors and the public, has made responsible investing a critical component for asset managers.

Large European insurers such as Allianz, Axa and Zurich have taken the lead in implementing ESG investment strategies. In fact, Allianz applies ESG integration—using those factors to analyze assets for a more complete view through risk mitigation and pricing—into all of its investment strategies.

"There are potential financial costs or benefits associated with ESG risks and opportunities that really can motivate insurers and reinsurers to do it," said Jessica Botelho, senior financial analyst, AM Best. "It is part of a movement, and companies realize they have to change and be seen doing the right thing since society at large and consumers are starting to demand this.

"But ultimately, companies are trying to capitalize on ESG opportunities or prevent or reduce losses."

Managing Risk

Responsible investing managers are implementing ESG factors, their own proprietary analyses and indices such as the MSCI USA ESG, Sustainalytics and RobecoSAM to create negative exclusion screens, measure risk and identify equity and fixed-income opportunities.

"ESG risks and opportunities are often much longer term in nature," Botelho said. "The trend over the past several years has been companies with good ESG scores and practices in general are able to better manage their risks. That results in not necessarily higher, but more stable returns."

The stability stems from avoiding products and corporate activities deemed harmful to society or the environment, which have become financial liabilities.

Businesses in areas such as controversial weapons, coal-based energy production and tobacco pose significant reputational risk thanks to potential public relations disasters, regulatory action and activist uprisings.

Ask California utility PG&E, which filed for bankruptcy in late January, about environmental hazards following the 2017 and 2018 wildfires. Ask Facebook and Volkswagen about governance issues.

"Breaking down a very broad and nuanced picture and being more conscious of the risks and opportunities and what role investments could be affected by is important," Köb said. "Understanding how a company will behave from a strategic perspective, from a legal and liability perspective is really important."

The concept of ESG investing evolved from a 2005 landmark study initiated by former United Nations Secretary General Kofi Annan to integrate ESG principles into capital markets. That led to the launch of the U.N.'s Principles for Responsible Investing, the 2006 set of standards and initiatives for socially responsible and sustainable investment.

"Insurance companies have been doing this type of analysis forever," McCormick said. "They just never called it ESG. But the U.N. PRI really brought that mindset."

Then the growth of ESG accelerated about five years ago when studies by academics such as George Serafeim, Bob Eccles and Ioannis Ioannou linked quality corporate sustainability performance with strong financial results.

Companies with better ESG standards usually produce strong financial performances and beat their benchmarks, according to an Axioma study. The portfolios weighted with companies holding higher ESG scores outperformed benchmarks by 81 to 243 basis points from 2014 to 2018.

"It helps in rounding out the picture of an asset and avoiding risks," Köb said. "Research shows there's little chance looking at ESG factors will hurt you if you use the information around the edges and still have a diversified portfolio, and it can really help to avoid risks if something happens."

Some large investors such as the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System have divested from coal companies due to state mandates. CalPERS also divested from tobacco in 2000.

"But on the whole, this has not really become a large part of institutional investor portfolios," McCormick said. "Still insurers are ahead of the rest of the financial services marketplace in their general accounts in terms of their ESG reporting.

"In terms of their general account investments, we've also seen an increase. It's a natural fit for an insurer with the way they approach their business."

It's a good fit because the risk analysis component of ESG integration works well with fixed income.

And with the rise of social media and the digitization of information, ESG analysis can also better assess reputational risk than traditional, fundamental methods.

"You can argue that you will win in the long run by losing less in the short run," McCormick said. "We've found through our own analysis and this growing research that companies that handle their material ESG risk better tend to have lower costs of capital, lower credit spreads and lower default risk.

"So you have a quote-unquote safer fixed-income investment."

Factors to Consider

The ESG criteria considered by those who apply the principles of responsible investing.

Environmental

Clean technology
Emissions reduction
Conservation/resource management
Environmental accidents
Green building

Social

Human rights
Employees' health and safety
Diversity/anti-bias
Supply chain monitoring
Community development

Governance

Vision
Accountability of leadership
Diversity in leadership
Shareholders' rights
Anti-corruption policies

European First Movers

European insurers have taken a leading role in responsible investing.

Regulation has driven some of the growth, especially with climate-related, nonfinancial reporting requirements.

A European Commission directive requires listed financial institutions with more than 500 employees to disclose ESG initiatives as part of their annual reporting.

In May 2018, European regulators also proposed mandates for institutional investors who claim to have sustainability goals to show how their investments are aligned with these objectives.

The proposed regulation would also require insurers, asset managers and pension funds to report on the procedures they have in place to integrate ESG risks into their investment and advisory processes and list how those risks could impact financial returns.

"The big primary players and reinsurers like Munich Re, Swiss Re, Hannover Re, Allianz and Axa have really embraced ESG and are becoming increasingly more transparent," Botelho said. "They've got really sophisticated divisions and systems in place to help to do this.

"And then there's the rest of the market. This disparity between large and smaller players may be driven by the lack of resources or expertise on knowing to how to effectively disclose and implement some of these practices."

But there has not yet been a major regulatory push in the United States. Most states do not have frameworks in place, not even on a voluntary basis.

In fact, in April 2018, the U.S. Department of Labor said pension fund fiduciaries "must not too readily treat ESG factors as economically relevant" and "must always put first the economic interests of the plan in providing retirement benefits."

California is an exception. It requires insurance companies to disclose information about carbon-based investments and has urged insurers to voluntarily divest investments in thermal coal.

Axa divested from coal in 2015 and exited from tobacco investments the following year. It also restricts investment in controversial weapons.

In May 2018, Allianz said it will no longer invest in energy companies that put the Paris Climate Agreement's two-degree Celsius target at risk. In the long-term, companies that fail to adjust their greenhouse gas emissions will be gradually removed from its portfolio.

And Generali said in February 2018 it will increase its investment exposure to green businesses and will gradually divest from coal-related companies.

Concerns Remain

But just because parent insurance companies use ESG exclusions to underwrite—or decline to underwrite—certain businesses does not necessarily mean their asset management arms share them in investing for clients.

Managers have a fiduciary duty to deliver return and avoid conflicts of interest.

While Allianz SE no longer underwrites businesses involved in coal, Allianz Global Investors—which has about $30 billion in dedicated ESG strategies—is not similarly restricted.

Zurich has only two exclusions on its investment side: weapons banned by the United Nations, such as land mines and cluster munitions, and companies that derive more than half of their revenue from thermal coal. It will run off existing holdings in such companies.

"For example, from an ESG integration point of view, we interpret tobacco through a pricing mechanism," Köb said. "You would not make a judgment call on whether tobacco is good or bad. You would look at environmental factors, the labor conditions and the governance part of it."

Institutional investors were initially reluctant to embrace the concept of responsible investing over concerns of lost return. Some still worry, McCormick said.

"Absolutely, we have run into numerous investors—especially on the institutional side," he said. "The uptake on the institutional side has been much slower. Despite some of the academic research that's been done, ESG has just not been at the forefront of investments long enough for there to be a good data set.

"That's why ESG integration has gained a lot of traction with institutional investors who are saying, 'We have a fiduciary duty to invest our money purely for the benefit of financial returns for our constituents.'"

It is also why asset managers create separate responsible investing strategies.

Zurich divides its offerings into ESG integration, impact investing—consciously making a positive impact on either the environmental or the social space—and advancing together. Advancing together is its collaboration with other asset managers to make ESG more mainstream and grow the impact investing market.

Allianz offers ESG integration and provides socially-responsible investing for clients who want to earn financial return while making a positive impact on society.

But concerns remain over limiting returns, especially in sectors that historically pay large dividends.

CalPERS' decision to divest from tobacco in 2000 has angered pensioners recently due to lost return. A 2018 report by Wilshire Associates, the pension system's general investment consultant, revealed it has lost $3.581 billion in investment gains by divesting.

"Holdings in 'controversial' companies, such as tobacco and oil and gas manufacturers, may provide higher returns, at least in the short term," Botelho said. "However, it is about understanding how sustainable those results will be.

"If you invest in tobacco or coal extraction for instance, over the longer term there may be issues concerning the viability of that business model perhaps driven by a change in legislation, which can result in having 'stranded assets' on the balance sheet."

But even in Europe, fears remain.

The Umbrella of Responsible Investing

Responsible investing has joined balance sheet analysis as a critical component to consider when investing in equity or corporate bonds.

There are five applications or tools "within the umbrella of responsible investment," according to Johanna Köb, head of responsible investment for Zurich Insurance.

"The strategies have broadened," she said. "There's ESG integration. There's impact investing and thematic investing.

"And on the ESG integration side, the data that you need is more prevalent, more systematic, broader in coverage and more reliable."

Negative exclusion screens are the most common tool, whether based on quantitative metrics or investor values, according to Jessica Botelho, senior financial analyst, AM Best. Simply, it means divesting or avoiding companies that work in predetermined industries such as coal or tobacco.

"It is still No. 1 and a very broadly applied one," Köb said.

ESG integration is another strategy rising in popularity. The values-neutral assessment tool is applied as a pricing and risk mechanism.

"Where are the risks? Where are the opportunities?" Köb said. "What should the proper risk-adjusted price be?"

Impact investing is also "definitely" on the rise, she said. Based on moral and ethical motives, the objective is to make a positive impact in society while ensuring stable investments.

A thematic approach has been growing in popularity among retail funds, high net worth individuals and smaller institutional investors. The idea is to choose a sustainability topic such as climate change and combine it with an asset class. It is too narrowly focused for large institutional investors.

And active ownership involves engagement with companies and exercising voting rights to reduce risks, maximize returns and have a positive impact on society and the environment.

"There are potential financial costs or benefits associated with ESG risks and opportunities that really can motivate insurers and reinsurers to do it. It is part of a movement, and companies realize they have to change and be seen doing the right thing."

Jessica Botelho
AM Best

One quarter of investors globally are concerned that investing sustainably could harm returns, according to Schroders Global Investor Study 2018. In Europe, it's 23% of investors.

"Not everybody has taken up all these ESG practices," Botelho said. "We see less ESG considerations in the investment portfolios of London market participants. They're in a low-interest rate environment and looking for higher yields where they can get them."

But many companies see the value, whether they want to make the world a better place or just ensure the quality and stability of their portfolios.

Zurich, for one, is receiving more questions and engaging in frequent dialogue with its large corporate clients.

"Many are really stepping up their game when it comes to their sustainability strategies," Köb said. "They are even looking into their supply chains and rating their suppliers on sustainability." BR

Decoding the Connection

USAA's Bill White flew F-14s in the Navy. Now his mission is designing innovative life products as the insurer tries to find a substitute for paramedical exams.

by Jeff Roberts

The F-14 Tomcat was a vulnerable target, flying low over war-torn Bosnia-Herzegovina.

The threat of being shot out of the sky loomed over the mission.

At such low altitudes, Bill White's fighter jet was within range of the Bosnian Serbs' sophisticated surface-to-air missile systems.

But the orders for the radar intercept officer and his pilot were clear: Fly cover for other Navy aircraft photographing Serb positions during the 1994 NATO reconnaissance mission.

"That was a dicey situation," said White, sounding less like a USAA life insurance executive and more like the Naval flight officer he once was. "They had a lot of advanced weaponry."

So White understands risk.

And the retired captain and Naval Academy graduate can speak with authority when he says he understands the men and women who serve in the United States military.

USAA's vice president for life insurance and investment products was one of them, a back-seat navigator, weapons officer and communications specialist in the two-seat, aircraft carrier-based F-14.

Photo courtesy of Bill White

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

Key Points

Transformation: The race to transform the purchasing process and reduce friction such as the paramedical exam is the industry's holy grail.

Convenience Matters: Half of all consumers say they are more likely to purchase life insurance if it's priced without a physical examination.

Unprotected Public: About 20% of USAA members and nearly 40% of the U.S. population do not carry life insurance.

He served in Iraq as well as in the Balkans.

White's latest mission is developing innovative life, annuity, investment and health products to meet the financial protection and retirement needs of the multiline insurer's distinct customer base. Its clients—USAA calls them members—are 12.8 million current and former military personnel and their families.

The race to transform the customer experience and reduce friction is the industry's holy grail, White says. It requires the design of appealing product solutions and the eventual phasing out of invasive paramedical tests.

"Essentially what you're trying to find is data that is a substitute for a medical exam," said White, sitting at a banquet table inside a midtown Manhattan hotel

"When the process elongates and we make it more complicated and more difficult, it stops people from getting the coverage they need. The complication of getting through the process for those who have decided to get life insurance is the No. 1 constraint."

Rob Schaffer
USAA

ballroom. "That's what everybody's trying to decode. That's the *it*—figuring out that connection.

"If we were to figure out the algorithm, the code that is the substitute for a blood test and urinalysis and measuring somebody's body mass index, that would be the big learning."

Innovation has long been a driver for USAA, thanks to the special needs of its customers.

It was one of the first U.S. life insurers to allow applicants to digitally transfer their electronic health records. It was the first U.S. financial institution to offer facial and voice recognition on a mobile app to protect against identity theft. And it offers a fully digital application process.

But redefining the customer experience and making affordable products easy to buy remains an elusive target for the industry as a whole.

The obstacles are considerable.

The time-consuming application process. Harrowing paper forms. The obtrusive paramedical exam and fluid screens. Complex policy terms.

They help explain why 20% of USAA members and nearly 40% of Americans do not carry life insurance.

"Sometimes people just give up and say, 'This process is just too hard,'" said White, who leads the integrated solutions team within USAA's Financial Advice and Solutions Group, which is responsible for product innovation, management and development.

Once a staple of nearly every American family's financial plan, life insurance continues to fall on the public's priority list.

Insurers have struggled to engage consumers enough to get them to initiate—and then follow through with—the lengthy and intimidating application process, even as survey after survey shows they understand the product's value.

Reducing or eliminating those tension points while still offering substantial protection just might be critical to maintaining the industry's relevance.

"If you don't like change, you'll like irrelevance even less," LIMRA CEO David Levenson warned life insurers in October.

The Quandary

White needs a coffee.

It's a rainy Monday morning in Times Square, and he's in town for a life insurance conference.

In between meetings and presentations on the need to engage apathetic consumers and improve the buying experience, White squeezes in a caffeine boost at a chain café.

While waiting for his order—simple brewed coffee, not an espresso or latte—he explained the quandary USAA and the entire industry face.

"We need the best information to give people the lowest price," said White, who served in the Navy from 1990 to 2000 and then in the Navy Reserve from 2000 to 2015. "And right now, a blood test, urinalysis and medical records when we need them still provide the best information."

The son of a schoolteacher-turned-principal mom and a dad who was an accountant and community college night school professor, White said he has "a curiosity and affinity for financial planning."

The central New York native joined USAA in 2013 after earning his MBA from the University of North Carolina while still on active duty. He then worked 13 years at GE Capital and Genworth Financial.

He came to USAA to be closer to the customer. And that's exactly where the paradigm needs to change.

Life insurers recognize the need to leverage technology and data to simplify an application process that could take weeks to months, and substitute for the medical test when possible to meet evolving consumer expectations.

They have already tapped into medical, prescription and financial data to inform and accelerate underwriting. Wearables that track heart rate, sleep patterns, exercise and other factors are increasingly being employed as well.

And there is great potential for the use of genetic information to augment underwriting in the future.

After all, 50% of consumers say they are more likely to purchase life insurance if it's priced without a physical examination, according to the 2018 Insurance Barometer Study by Life Happens and LIMRA.

The wait and inconvenience are daunting headwinds in an age when nearly everything is easily accessible and other industries are designed to satisfy customers.

"You have to immerse yourself in the reality of your customers," Levenson said.

USAA's Rob Schaffer, vice president for life and health solutions, agrees.

"When the process elongates, and we make it more complicated and more difficult, it stops people from getting the coverage they need," he said. "The complication of getting through the process for those who have decided to get life insurance is the No. 1 constraint."

The problem is, offering a faster, smoother experience has proven largely elusive, especially when price still matters more than anything to consumers.

The most common reason people do not buy life insurance is its cost, according to the LIMRA study. USAA's own data also indicates expense is the top concern.

That is why the insurer cut rates in the fall of 2018 for its term life by an average of 13% in 39 states.

Even if American consumers routinely overestimate premiums by a factor of two or three, according to LIMRA, the cost is a very real purchasing barrier.

And while multiple life insurers have delivered accelerated underwriting options in the past two to three years, the large majority of simplified issue policies are more expensive and offer less coverage than standard life.

That's by design. The elevated premiums protect insurers from what they do not know.

Conversely, paramedical exams and fluid tests are inconvenient, but offer "protected value," according to White—precise information about applicants' health that technology and data analytics cannot currently match.

"We're going to strive to remove that barrier when we can, but our priority is the lowest price and having the best information," said White, who speaks at a relaxed pace, with each word carefully selected. "So we're going to be cautious and thoughtful about taking those risks.

"I think the medical exams are going to be around for some time, especially for larger policies and complex health issues."

The reason is simple: An underwriting mistake made with products that provide six- and seven-figure guaranteed protection over decades can have profound consequences.

"When you buy any life insurance policy, there's a risk transfer. And that is a large risk transfer," White said. "If you pay $500 a year for a $500,000 policy and the insurance company gets that wrong, it costs us half-a-million dollars.

"It is very important that the math works. But there's a lot of hopefulness."

Experimentation

The hope stems from experimentation.

USAA launched a recent initiative to "constantly test" a large control sample of its applicants, experimenting "in the background to learn and understand how it's working," White said.

The insurer is moving cautiously, waiving the medical exam in only a limited number of cases.

It has learned that there's "a cost for doing these things. There are trade-offs," White said. "You save money in that you don't have to pay for the exam. But there is a cost to that lack of information.

"We're trying to determine the situations where we can skip the medical exam and still offer a great price. It's really too soon to tell what we've learned. Time will tell who gets it right."

Someone will have to do just that as the life space continues to redefine itself in the 21st century.

Insurers will continue to increase their reliance on big data to inform their underwriting in lieu of medical exams to entice new applicants. So the race to innovate without sacrificing accuracy is paramount.

But experimentation is nothing new for USAA.

If necessity is the mother of invention, its well-defined, but nomadic customer base that moves from military base to military base has driven innovation through its unique needs.

The insurer was designed to conduct business over the phone and now through the web and smartphones, not an agency system. That has helped make it adaptable enough to meet emerging needs.

For instance, USAA developed the remote deposit capture technology in 2005 that is now standard for people depositing checks in banks no matter where they are.

"About 30% of our term life insurance comes through without a phone call," White said. "We've really simplified the application process. A member jumps on our mobile app or website and buys it.

"If you are in good health, you can do the whole thing in five minutes or less."

In 2017, USAA became one of the first U.S. insurers to allow customers to send their electronic health records directly to the company to expedite the application process.

It has seen an average reduction of 30 days in obtaining the data by cutting out an inefficient and lengthy paper system.

The insurer accomplished this by making its patient portal compatible with the Blue Button electronic health records technology used by the Department of Defense and Veterans Affairs.

"Typically to get a medical record, it's going to take at least a couple of weeks, and in some cases, a couple of months," White said. "If you can log in and basically hand us the records, you've just eliminated all that time. We were the first ones to do that."

In 2014, USAA became the first U.S. financial institution to offer facial and voice recognition on a mobile app to protect against fraud and identity theft. Members were able to access information on their smartwatches the next year.

And for more than a decade, USAA—which cracked the Fortune 100 last year with reported

'Triggering' More Protection Awareness?

The enemy is apathy.

Slogging through the lengthy and invasive application process to buy life insurance remains discouraging for many consumers.

But daunting obstacles exist beyond the paramedical exam and a wait that can drag on for weeks or even months.

"Before that there's a larger constraint, which is: People just don't think about life insurance enough," said USAA's Rob Schaffer, vice president for life and health solutions. "Gaining their attention is a larger hurdle for us."

Like most life insurers, USAA reaches out to clients as key life events occur, such as a wedding, the birth of a child and the purchase of a home, to target new customers or up-sell or cross-sell to members.

Study after study from insurers, consultants and brokers reveal that these milestones—also known as trigger events—are a prime opportunity.

Tailored outreach around those milestones generates sales up to 14 times more often than during other periods, McKinsey & Company said in its 2017 report, *Unlocking the Next Horizon of Growth in the Life Insurance Industry*.

Companies are using enhanced technology, data management and predictive analytics tools to identify those approaching life events, microtarget potential customers and tailor their outreach.

"You have to convince people that it's an important thing, and you have to make it easy," said Bill White, vice president for life insurance and investment products at USAA. "Saving for retirement, buying protection products like life insurance—those are things that people walk past. Life gets in the way."

Mass and middle market consumers—roughly 68 million American households—are "the next horizon of growth," according to McKinsey. Fifty-seven percent of those households do not own individual life insurance.

Even those that do often fail to increase coverage as their needs grow.

However, some industry figures find that the trigger event strategy may be more effective in raising awareness than necessarily leading to sales.

"USAA absolutely focuses on life events just like every good financial planning firm would do," White said. "Life events raise awareness of the need. But they may not trigger a purchase at that moment."

One problem is young families often find themselves cash-strapped after such life-changing, but wallet-draining milestones. They also happen to be busy times in people's lives, and insurance protection can get lost on a list of deadline-driven priorities.

For instance, a couple buying a house for the first time often stretches their budget to do so, making an additional discretionary expense unaffordable.

Other clients might be motivated by a near-miss experience such as a car accident, Schaffer said. Another driver could be loss of a relative or a close friend.

But is that the right time to pitch a customer?

Opportunity awaits—if insurers can identify the right moment.

"We have a great portion of those who are acquiring life insurance from us already experiencing those life events," said Schaffer, who served in the Marine Corps for 10 years. "I just don't feel like we've actually cracked that egg as well as I would like. We have started applying data analytics and modeling to fully understand when is the best time to approach consumers."

Just as USAA and others are experimenting to find the right data and algorithms to substitute for a life policy medical exam, they also are searching for the right time to approach customers.

"In the life insurance space, most folks don't wake up and think, 'Today is the day that I'm going to get life insurance,'" Schaffer said.

“Essentially what you’re trying to find is data that is a substitute for a medical exam. That’s what everybody’s trying to decode. That’s the *it*—figuring out that connection.”

Bill White
USAA

revenue of $30 billion in 2017—has offered accelerated underwriting for deploying military personnel without higher rates.

“The key was members asked for it,” White said. “You can always underwrite quickly. You just have to charge more. Our answer was faster at the same price. That’s the difference.”

Of course, there are complications that come with covering those who are sent off to the battlefield. Post-traumatic stress disorder and a higher rate of suicide than the general population are two examples.

“It’s affecting every single life insurance company. It does affect USAA more than most because we serve the military community,” White said. “We underwrite and make offers to many members who have been treated for post-traumatic stress.”

‘Nerve-Racking and Intense’

The Iraqi pilots would stay just out of reach.

They flew at the edge of the no-fly zone just to prod the Navy fighter jets patrolling southern Iraq in the years following the Gulf War.

“They would test it,” said White, who has a coffee mug on his desk at USAA’s San Antonio headquarters that bears his wings and call sign, “Snack,” thanks to his habit of carrying food everywhere. “They would get close to the border of where they weren’t supposed to be, and we would warn them.”

White completed more than 1,000 flight hours and more than 200 carrier landings.

He served on three aircraft carriers—the USS George Washington, the USS John F. Kennedy and the USS John C. Stennis.

But missions could be less stressful than the carrier landings.

Taking off in daylight with good weather “is about as fun as it gets,” White said. “It’s a great ride. The view is terrific. The speed is a rush.”

Retired in 2006, the F-14 could reach speeds of 1,500 mph.

But landing on the USS George Washington’s 1,092-foot flight deck at night in bad weather was “the worst day of your life.”

Limited visibility made timing the landing and catching one of the carrier’s four arresting wires that keep planes from careening off the deck into the sea considerably more difficult.

“It’s nerve-racking and intense,” said White, who was not a Navy pilot, but earned a civilian pilot’s license on his own while he was on active duty. “In fact, some studies in the Vietnam War actually showed that the heart rate of pilots was highest landing at night rather than in combat.”

And with the F-14 carrying heavy payloads of bombs and missiles during combat missions, low fuel was a frequent concern as they came in over the Adriatic Sea or the Persian Gulf.

“You have a very narrow window,” White said. “When you fly in combat, you have a lot less wiggle room. That can be pretty nerve-racking.”

But the great moments outweighed the anxious ones, like the time his father, Don, visited him on the USS Stennis.

“It was a brand new ship, and it was going through what was called a shakedown cruise,” White said. “You fly every day. You drop bombs, shoot missiles. We have to put the ship through its paces. I asked permission and got my dad to walk aboard.

“So he got to see me fly off and land on the carrier. And then he and I actually got to fly off the carrier together in [a C-2 cargo plane]. That was really meaningful for both of us.”

And there was one other bright side in his 10 years of active duty.

“As far as I know, nobody shot at me,” White said, stifling a laugh. BR

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Insurtech: The Next Round

Early insurtechs got their start by focusing on improving customer engagement, primarily for auto and homeowners insurers. Today, insurtechs are moving into new areas of the insurance value chain as well as more complex sectors. Insurtechs are working on underwriting, artificial intelligence and expanding into specialty lines and commercial lines. Startupbootcamp InsurTech CEO Sabine VanderLinden says life, health and annuity startups are also coming to market.

In this special section, *Best's Review* focuses on the latest insurtech trends.

"Centers of Expertise" offers a look at the way local talent and markets drive the development of insurtech expertise. "Taking Care of Business" examines insurtechs active in the commercial insurance sector. In "Uncovering the Unicorns," *Best's Review* identifies insurtech startups that have a valuation of at least $1 billion. In "A Combined Approach," VanderLinden discusses trends in the insurtech market and some of her London accelerator program's successful startups.

CONTENTS

Centers Of Exper

tise

Though insurtech hubs can be found around the world, certain places are known for a particular type of talent or a particular type of startup.

by Kate Smith

In the computer labs of the University of Toronto, Professor Geoffrey Hinton spent decades investigating neural networks. He worked in relative anonymity for years, until one of his doctoral students took his research and ran with it.

Alex Krizhevsky, a Ph.D. candidate Hinton advised, built on his mentor's work, creating an artificial neural network that was able to classify images and objects. Krizhevsky's algorithm won the 2012 ImageNet challenge, a prestigious competition in the field of artificial intelligence, and earned him a job at Google.

His work, and that of Hinton, also put Toronto on the map as a hotbed for artificial intelligence.

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

"In November of 2012, the snowball started rolling down the hill and Google became really interested in Toronto," said Stephen Piron, who studied at the University of Toronto and is co-founder and CEO of Toronto-based AI insurtech Dessa. "Toronto has gone from a sleepy little town to the white-hot center of modern AI."

Technology has no geographical boundaries. Great minds and great insurtech startups can be found around the world.

But certain cities and countries have become known for a particular expertise. In Toronto, as well as a few other cities, it's AI. In Israel, it's cybersecurity. France is known to be strong in machine learning and big data. London is known for building aggregators and new business models. Germany has a reputation for producing digital managing general agents.

"I would say there are definitely patterns, but not rules, in geographic centers of insurtech excellence," Martha Notaras, partner at venture fund XL Innovate, said.

To be sure, quality startups of every ilk can be found around the world. As can insurtech hubs. But pockets of technical expertise are slightly different. While cities like London and Tel Aviv are indeed insurtech hubs in the broader sense—they have startup-friendly environments, accelerator programs, a concentration of insurtechs, etc.—they also are hubs for a particular type of talent or a particular type of startup.

"There are global peculiarities," Andrew Johnston, global head of insurtech for Willis Re, said. "Mainly they are a reflection of the society that existed beforehand."

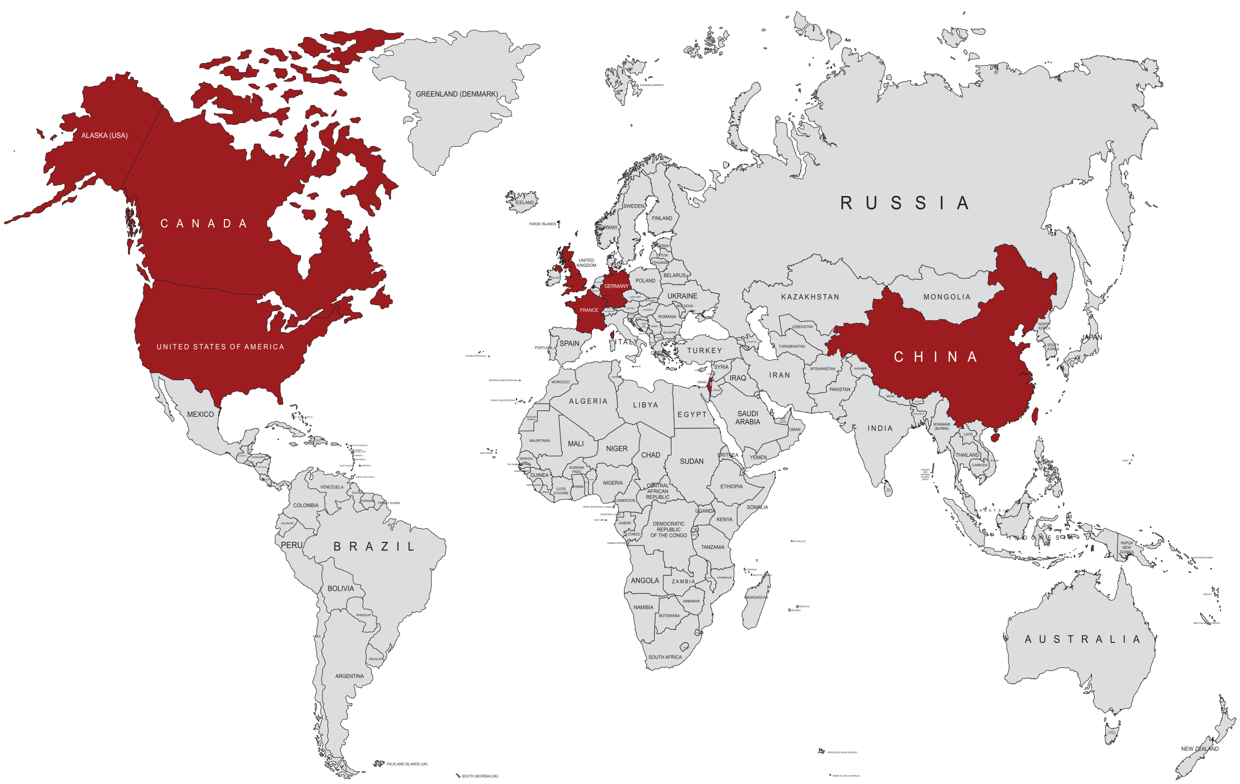
Peppered across the globe, these centers of specialization have developed in response to a number of factors. It could be a reflection of local culture, market dynamics, university systems or broader technology trends. And their insurtech communities tend to reflect those dynamics.

Nathan Eusko, who oversees business development for Insurtech Hartford, said it makes sense for insurtechs to follow that lead.

"Insurtechs," he said, "are marrying and matching insurance with the folks and technologies that are moving the world forward."

Global View: Centers of Expertise

Israel/Tel Aviv, London, Germany, Ontario/Toronto, China, US, France



Ontario/Toronto

Brain Trust

The Toronto-Waterloo corridor is an example of expertise spurred by local universities. The University of Waterloo, like the University of Toronto, is churning out top talent in the fields of math, computer science and artificial intelligence.

"Waterloo is about an hour and a half outside Toronto, and it's got some of the best computer science and mathematics universities in the world," said Joseph D'Souza, founder of AI startup ProNavigator.

BlackBerry, once the gold standard of business communication devices, was founded in Waterloo. And the brand's decline spurred the rise of Waterloo's tech scene.

"When BlackBerry started letting off a lot of their staff, team members from BlackBerry started branching out and starting their own companies," D'Souza said. "So there is an ecosystem now of at least 300 technology companies in the Waterloo area.

"Google has an office here. Square has an office here. A lot of American companies that are coming into Canada look at this as a space for talent. We very much like to say it's the Toronto-Waterloo corridor, where these neighboring cities are building up the Canadian ecosystem in terms of the tech scene. And it's driven by the quality of talent coming out of universities."

That glut of talent prompted D'Souza to base his company in the area. He brought on Pascal Poupart, a University of Waterloo professor of artificial intelligence and machine learning, as a technical adviser at ProNavigator. "That helps us recruit talent," D'Souza said.

Poupart, who earned his Ph.D. in computer science from the University of Toronto, is also a researcher for the Vector Institute, a Toronto-based AI research facility. Hinton, who went on to become a vice president at Google, is the chief scientific adviser of the Vector Institute.

For insurtechs like Dessa, having access to the great minds of AI is priceless.

"Because it's built as a brain trust of excellence in AI, the Vector Institute attracts the top AI researchers," Piron said. "That's great for us because what they're doing is cutting-edge stuff. They're pushing the theoretical envelope. We're far more applied.

"Toronto has gone from a sleepy little town to the white-hot center of modern AI."

Stephen Piron
Dessa

"We can fold their innovations back into the practical work we're doing. Their research is public and available to anyone, but it helps that we can walk down the street and talk to the researcher who did the research."

The depth and breadth of Ontario's AI expertise has trickled into the insurtech space. A search on Innovator's Edge, a platform that tracks tech startups, revealed more than 60 Ontario-based insurtechs working with AI—including Piron's Dessa, for which Krizhevsky is now a technical adviser.

"There's a nice critical mass here, where you go to a coffee shop and people are wearing T-shirts from competing AI startups and AI companies," Piron said. "It's good. In order to be an AI center of excellence, you need that kind of critical mass. You need people with competing ideas and competing companies so you have a bit of competition."

Israel/Tel Aviv

Battle Tested

Israel is also known for its expertise in artificial intelligence, but it's more widely known for its cyber expertise. Both skill sets trace their roots to the country's military.

Shalom Bublil, co-founder and chief risk officer of Tel Aviv-based Kovrr, said his career path is common among Israel's cyberexperts.

He started his career in Unit 8200, a well-known intelligence group within the Israeli Army. The group leverages technology to solve some of the challenges Israel faces as a nation—security, acts of terrorism, instability of the region.

For four years Bublil's focus was on cyber, and when he completed his military service, he joined a cyber startup founded by former members of his intelligence unit. Then, just over two years ago, he launched Kovrr, a cyber insurtech, with Yakir Golan and Avi Bashan, also former members of the intelligence unit.

"Like most people who are part of the Israeli cyber ecosystem of startups, I started off in the Israeli Intelligence forces," Bublil said. "You keep hearing the same story here. Someone started in one of the intelligence units, either 8200 or another unit, and moved on to a startup with friends who had left the Army before them."

There are more than 300 cybersecurity companies in Israel, according to Startup Nation Central, a nonprofit serving the Israeli innovation ecosystem. And the Israeli Defense Forces are a main talent pipeline for these companies, training soldiers who then move on to the private sector and often become entrepreneurs.

"There is defense cyber and attack cyber," Kobi Bendelak, CEO of investment fund InsurTech Israel, said. "These entrepreneurs have knowledge about both segments from their experience in the Army's intelligence unit, and they use that to develop commercial ideas. This includes cyber insurance."

Kovrr, for instance, developed a predictive cyberrisk model. Startups such as Cyberwrite, which earned a spot on Gartner's 2018 list of Cool Vendors in Insurance, and InnoSec also are working to help the industry better understand cyberrisk and exposure.

"Tel Aviv is an ongoing source of a number of interesting insurtechs in the cyber

“This is what a lot of people like about the Israeli ecosystem—the entrepreneurs are mature. It’s the culture, it’s the army, it’s the way people live here. We are surrounded by enemies. There’s something in our mindset that drives you to be independent, to depend on yourself.”

Kobi Bendelak
InsurTech Israel

space,” Notaras said. “We have met many entrepreneurs with experience in the 8200 unit of the Israeli army. These entrepreneurs start with a useful depth of understanding of cybersecurity.

“I would broaden the insurtech center of excellence in Tel Aviv to include artificial intelligence, including machine learning,” Notaras added. All three of XL Innovate’s Tel Aviv-linked portfolio companies—Lemonade, GeoQuant and Windward—are active in developing AI and ML solutions.

Israel’s expertise in these realms has earned it global attention. Tom Van den Brulle, the global head of innovation for Munich Re, said the country’s cyberintelligence is “huge and unmatched.”

“Probably only Silicon Valley can keep up with it,” Van den Brulle said. “But for cyber problems, you would go to Tel Aviv.”

The country’s prowess is so well known that it has created a sort of “startup tourism.”

“A lot of companies will actually organize trips to Israel to meet with startups,” said Sabine VanderLinden, CEO of Startupbootcamp InsurTech. “There is startup tourism because of their reputation.”

Johnston said Israel’s military conscription has given it some “competitive advantages in terms of their understanding of cybersecurity.”

With a concentration of young talent, a large budget and interesting challenges, the military is “a great playground for starting a cybersecurity career,” Bublil said. But the competitive advantages don’t end upon discharge. The shared military background leads to a strong network.

“During my time in 8200, in addition to gaining experience, I gained connections,” Bublil said. “It’s a tight unit. Most of the people in the cyber space in Tel Aviv know each other, served with each other and or know someone who served with the people they work with, so there is a strong element of trust.”

There is also an element of collaboration that stems from military service.

“If you spent two, three, four years with someone, working on a challenge, even if they become quite successful, they will probably remember you and will do their best to help you,” Bublil said. “It creates a really strong network, even in small numbers.

“The talent pool is not huge. It’s not like the Israeli ecosystem is based on millions of people in the cyber space. It’s tens of thousands of people overall, but it’s a really concentrated space.”

Bendelak said Israeli’s culture gives its entrepreneurs another advantage—maturity.

“This is what a lot of people like about the Israeli ecosystem—the entrepreneurs are mature,” he said. “It’s the culture, it’s the army, it’s the way people live here. We are surrounded by enemies. There’s something in our mindset that drives you to be independent, to depend on yourself. And we are not conservative. We adopt innovation immediately. If there’s something new, we take it, we think about it, we see it from other sides. We think out of the box.”

London/Germany/France

Market Conditions

London and Germany have distinct reputations that stem largely from the market structures that have long existed in their countries.

"What's distinct about the insurtech coming out of Germany is how many have taken the broker route to market," Notaras said.

Indeed, Germany has produced a long list of successful digital brokers—Friendsurance, Simplesurance, Wefox, Knip and Clark, to name a few. Johnston links that to the industry's strong historical ties with banks and shops.

"The really good startups coming out of Germany are typically digital MGAs or broker portals," Johnston said. "You have a lot of MGAs with plug-and-sell products for larger carriers, banks or shops. For example, massUP."

The U.K., experts say, is known for creating aggregators and new business models.

"In the U.K., we have a long history of buying insurance online, and it's extremely price sensitive," Johnston said. "So if you want to build an aggregator, you'd probably go to the U.K."

VanderLinden said London is also on the forefront of developing new business models.

"The largest market for insurtech after the U.S. is the U.K.," she said. "When you look at what sort of innovation they are doing, some are trying to solve problems by collaborating with insurance companies, but you're also seeing many of them trying to be more disruptive by developing different business models."

Companies such as Laka and Brolly fall into that bucket. The former doesn't collect premiums, but rather spreads the true cost of claims across its policyholders. The latter, which was founded by former Aviva underwriter Phoebe Hugh, is a personal insurance assistant.

"Even though Brolly is a distribution platform, it's a concierge service," VanderLinden said. "It's a challenger to comparison websites, trying to drive more transparency for clients."

Like the U.K., France has a lot of price comparison websites; they account for 10% of the country's 131 insurtechs, according to Oliver Wyman's InsurTech Radar 2018. And like Germany, France also has a good number of digital brokers, with one in five of its insurtechs falling into that category.

But VanderLinden thinks of France's expertise as being around technology—big data, machine learning and APIs, in particular—as opposed to being around the types of startups it produces.

"When you look at France, our core competency is in mathematics," VanderLinden, a native of France, said. "While Germany is known for engineering, in

"There are global peculiarities. Mainly they are a reflection of the society that existed beforehand."

Andrew Johnston
Willis Re

France it's about math. A lot of the startups which are coming out in France are doing things involving machine learning."

Though insurtech in Asia is less well evolved than in North America and Europe, according to Inzsure CEO Steve Tunstall, the region contains some "standout, world-beating examples of innovation."

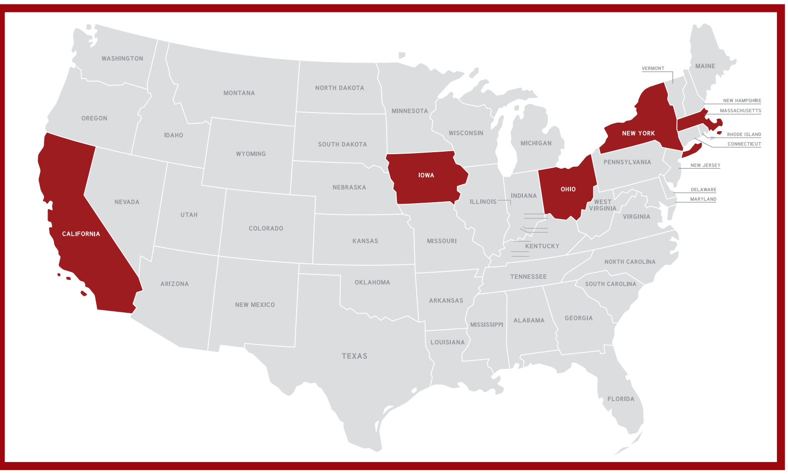
Shanghai-born Zhong An, an online-only insurer that raised $1.5 billion in its 2017 IPO, is one of them.

"Zhong An is likely the world's biggest and most successful insurtech," said Tunstall, who is a Pan-Asia Ambassador for the International Insurance Society. "By comparison Lemonade insurance is tiny. I love the fact that they [Zhong An] target millennials and younger, they issue literally billions of policies every year and are totally tech-focused."

Because it has very little insurance infrastructure, China is a blank slate compared to more developed markets. Zhong An is a product of those market conditions.

"Insurtechs do not have to consider legacy integration, but can focus on creating modern insurance solutions, and a whole insurance ecosystem, from scratch," Notaras said. "I think it is very possible that the truly disruptive solutions will start in China, because there is little inertia to disrupt. Then the question will be whether those disruptive solutions can be transported to additional markets."

United States
Best Athlete



While it may seem odd that the United States—the largest insurtech and insurance market in the world—isn't known for a particular expertise, Notaras offered a simple explanation.

"I would characterize the U.S. as the all-around athlete," she said.

The country is dotted with insurtech hubs—from Boston and New York on the East Coast to Columbus and Des Moines in the Midwest to the San Francisco Bay area out West.

"We see such a variety of insurtechs within the U.S., that I have not identified a pattern as to a center of excellence," Notaras said.

With its proximity to both the great tech minds of Stanford and the deep pockets of Sand Hill Road investors, Silicon Valley could be viewed as the natural leader of insurtech hubs. But it's not an easy place to start a company because it's so expensive.

"Unless you have a very generous family member or personal connection," Johnston said, "it's pretty hard to bootstrap a business."

The startup communities of the United States, therefore, are geographically dispersed, and often thrive in small cities likes Des Moines.

"Big cities will dominate a discussion on this topic, but my bias lies with the smaller communities, where it is easier to network and get things done," said Brian Hemesath, managing director of the Global Insurance Accelerator in Des Moines.

When VanderLinden looks at the U.S. insurtech landscape, she sees it as being distinguished not by any one city or type of technology, but by many dollars.

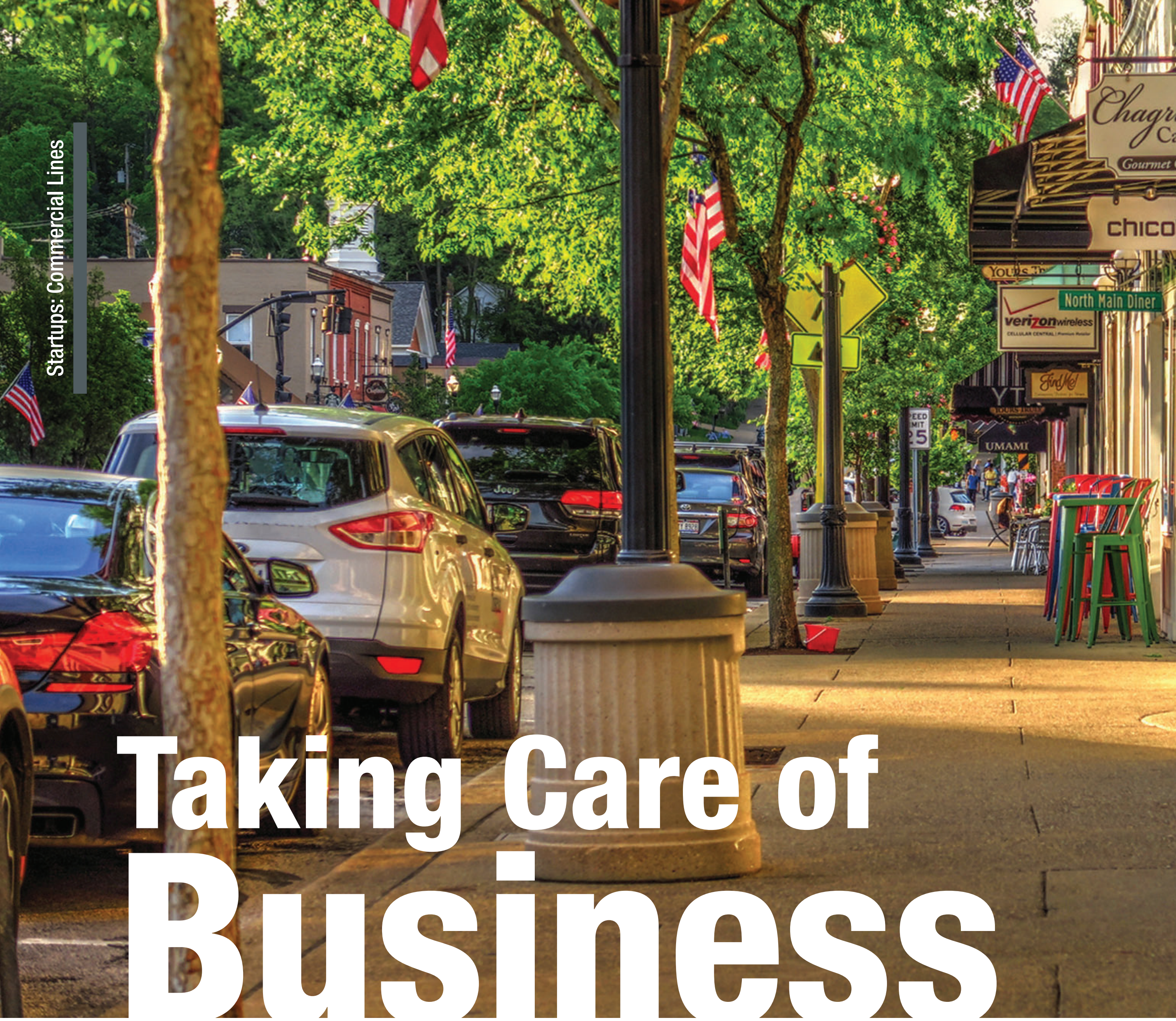
"The advantage in the U.S. is that they can get massive investments," she said. "Startups can raise so much money that they don't have to work with insurance companies. So you see disruptive insurers, like Lemonade and Trov, Ladder Life and Oscar Health.

"Because they can raise massive amounts of money, they don't need to work with another insurer to be successful. They can do it themselves."

Insurtechs that don't want to go it alone often focus on operational efficiencies and innovative broker-agent tools—a nod to the existing market.

"The U.S. has an agent-driven distribution model that insurers don't want to cannibalize," VanderLinden said. "The only way the startup can help, then, is through operational efficiency. Taking cost out. Claims, distribution, maybe a bit of policy innovation and cybersecurity.

"But if you want to disrupt the market, the likes of Trov and Lemonade can do that because they're able to raise massive amounts of money." BR



Taking Care of Business

Insurtechs look to ease pain points in commercial lines.

by Kate Smith

Three of the four insurtech startups Matt Streisfeld has invested in are focused on commercial insurance. It's a space the Oak HC/FT principal loves, largely because of its abundance of problems.

"There are so many pain points," Streisfeld said. "And there is so much fat in the supply chain that can be absolved with streamlining the process."

The insurtech community appears to feel the same. While the early wave of insurtechs targeted personal lines, more and more are setting their sights on commercial lines. According to McKinsey, 39% of today's insurtechs work in commercial lines, and the majority of those are focused on small business.

It's easy to understand why. The small-commercial market is large, fragmented and inefficient. Yet it's also profitable, with businessowners policy loss ratios holding around 65% in 2017, according to Verisk.

Depending on how it's defined, the small-commercial segment has a value of anywhere from $90 billion to $135 billion. And according to Accenture, no single carrier has more than 4% market share in small commercial, which creates opportunity for market share growth.

In addition to those economic factors—which of themselves make commercial lines attractive—

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SMALL BUSINESS ROW: In the U.S., 82% of small-business insurance buyers bind through the agency channel. As a result, many insurtechs are trying to support the channel rather than compete with it.

Key Points

Big Business: Small business is big business, with a market size in the range of $100 billion.

Helping Hand: Nearly two-thirds (63%) of commercial lines insurtechs are looking to enable the existing value chain.

Pain Points: Insurtechs largely focus on digital interaction and core insurance capabilities, looking to improve customer experience and profitability.

the space also is highly inefficient. With its cumbersome questionnaires, slow pace and high operational costs, commercial lines insurance, particularly small commercial, is friction-filled.

Combined, these elements make small commercial alluring to both incumbents and newcomers.

"It is very attractive to not only insurtech startups, but also the insurance industry as a whole," said Scott Ham, CEO of digital small-commercial insurance solutions for McKinsey.

On the incumbent side, there are plenty of examples of carriers looking to expand or improve their reach into the small-business market. Travelers acquired Simply Business, a U.K. small-to-medium-size enterprise insurance broker, in an effort to expand its small-business presence. Allstate launched an insurance quoting platform for small business. Starr has a unit, Starr Insure, that sells directly to small businesses. The list goes on.

Carriers equally are looking to insurtechs for help in better reaching and servicing the small-business market. Small-commercial insurtechs can be found all along the value chain, from customer acquisition through claims handling. And unlike many of their personal lines predecessors, most small-commercial insurtechs have positioned themselves as enablers of the value chain rather than disruptors of it.

"I never use the word disruption," said Allan Egbert, co-founder of Ask Kodiak, a platform that allows P/C carriers to share their risk appetite with agents and brokers. "We don't think in terms of disruption or breaking the mold. For us, our focus is primarily on customers and building companies."

A mere 9% of commercial insurtechs are looking to disrupt the full value chain, whereas nearly two-thirds (63%) aim to enable it, according to McKinsey.

Ryan Hanley, chief marketing officer of Bold Penguin, understands that rationale. While he sees plenty of room for improvement in the small-commercial space, he sees no need for full scale disruption.

"Disruption is the wrong goal," said Hanley, whose company built a platform that connects businesses, agents and carriers. "It's a great buzzword. It gets you press. It gets people writing about you, looking at you. Tech Crunch or The Verge will write an article about you if you plaster 'disruption' all over. But disruption is not actually a fruitful endeavor because our industry works incredibly well.

"There are just points in the value chain where there is intense friction—problem-causing, issue-driving friction."

Increasing Efficiency

The small-commercial space offers growth potential on several fronts. Not only is it fragmented, which means market share gains are up for grabs, but McKinsey reports that 40% of solo

"Disruption is not actually a fruitful endeavor because our industry works incredibly well. There are just points in the value chain where there is intense friction—problem-causing, issue-driving friction."

Ryan Hanley
Bold Penguin

proprietors have no commercial coverage. That's a lot of underinsured people.

According to research by Upwork and the Freelancers Union, there are 55 million freelancers in the United States, which translates to 35% of the workforce. In the United States and Europe combined, more than 160 million people engage in some form of independent work, according to McKinsey.

Insurtechs such as Dinghy and Zego have targeted these untapped pools. Dinghy, which in January was acquired by U.K. insurer Kingsbridge, provides flexible insurance for freelancers through a mobile app. Zego, meanwhile, provides on-demand insurance for gig economy workers.

But more often than not, insurtechs are looking to address pain points in the traditional small-business insurance process. With the segment still relying heavily on human judgment and manual processing, inefficiency is one of the biggest pain points.

"You have a high-cost, high-touch model, which means there's a lot of human interaction, a lot of human judgment involved in commercial and small-commercial business," Ham said. "You also have an agent experience or a consumer experience, when talking about the buying or selling experience, that is not intuitive. It's a bit clunky and burdensome in terms of the number of questions that are asked and the amount of information that's requested. Finally, you have a time period of weeks to go from application to delivery and binding."

Insurtechs are addressing all of those problems, but Ham said they are particularly focused on two areas—digital interaction and core insurance capabilities.

"They're trying to build more intuitive platforms with fewer questions," Ham said. "They're also working on straight-through underwriting so that a human doesn't have to touch the simple cases. The same with claims. Those are the big areas insurtechs are focusing on now."

On the operational side, insurtechs are looking to drive costs out of the business. How they do so varies. Shift Technology, for instance, uses technology to reduce fraud. Risk Genius uses artificial intelligence to streamline policy language and create more efficient workflows. Hyper Science automates data entry by making content machine-readable.

On the digital interaction front, companies such as Next, CoverWallet and Insureon use artificial intelligence and machine learning to speed up the process and enhance the customer experience. Insureon, which has sold more than 200,000 policies, targets businesses with fewer than 10 employees. According to U.S. Census statistics, 61% of all businesses fit that size category.

"They are targeting micro businesses and providing them with vertically focused insurance products, providing them with price shopping to a

By the Numbers: Insurtech

9%	of insurtech startups look to disrupt the value chain.
39%	of insurtechs work in commercial lines.
40%	of solo proprietors have no commercial coverage.
55 Million	freelancers in the United States, represent 35% of the workforce.
61%	of U.S. businesses have fewer than 10 employees.
63%	of insurtech startups look to enable the value chain.
160 Million	people engage in some form of independent work in the United States and Europe.

Sources: McKinsey; Upwork; Freelancers Union and U.S. Census.

“You have a high-cost, high-touch model, which means there’s a lot of human interaction, a lot of human judgment involved in commercial and small-commercial business.”

Scott Ham
McKinsey

degree,” said Streisfeld, who counts Insureon among his investments. “They take an Amazon approach, or a personal lines approach, to the commercial world. And it works with that type of customer.”

Steve Tunstall, CEO of Inzsure, takes a similar approach at his Singapore-based startup. Inzsure’s platform allows small-and-medium enterprises to compare and buy insurance, with Inzsure providing end-to-end customer support throughout the process.

“Whilst much of the industry has an inward, product focus, Inzsure is more about finding what the customer needs amongst the often confusing and jargon-riddled insurance landscape,” said Tunstall, whose company received a broking license from the Monetary Authority of Singapore. “By simplifying the onboarding process, Inzsure makes it easier for decision-makers to get a good sense of what they need. Insurance remains a complex solution to difficult risks. Over-simplification is as problematic for the customer long term, as is confusion from the complexity. It’s challenging to tread the right line.”

Assisting Agents

Particularly outside the United States, agents are viewed as highly susceptible to disintermediation by insurtechs. Tunstall said small-business insurance buyers in Asia distrust the industry and have been poorly served by agents.

“There is an old adage that insurance gets sold, it doesn’t get bought,” he said. “Over the years this has been the task of intermediaries—agents and brokers—who communicate directly with customers and explain why insurance is a good thing. When it works well, it’s a tremendous partnership. When it doesn’t work well, the customer feels they are getting poor or biased advice. As with many intermediary processes, there is little transparency as to who is really working for whom.”

Tunstall noted the U.S. market is different, saying the traditional model is entrenched there “because there - is - no - choice.”

In the United States, 82% of small-business insurance shoppers bind through the agency channel, according to McKinsey. As a result, many insurtechs are trying to support the channel rather than compete with it.

Xagent, for instance, offers a single-entry market access solution for property/casualty agents, allowing agents to obtain multiple quotes at one time. In addition to its direct-to-consumer platform, CoverWallet also has a platform for agencies. Indio, meanwhile, offers a management platform for commercial insurance brokers. And Bold Penguin helps agents find, quote and bind more policies in less time.

The efficiencies that these startups offer are particularly important for small-commercial agents, who make small commissions on these policies, even though they require more attention. By eliminating some of the “touch” from this high-touch model, the margins can grow.

“Small commercial is incredibly profitable, or it can be profitable for carriers,” Hanley said. “Today, it is very difficult to be profitable as a broker or an agent in small commercial.”

Increasing profitability and improving efficiency are the goals of insurtechs like Bold Penguin, which still believes firmly in the human agent for commercial lines.

“If we look at the whole process and we say, ‘It’s broke,’ that’s the wrong language,” Hanley said. “Language matters when we have these discussions. The process is not broke. There are pieces of the process that we need to specifically address.

“If we can help reduce the friction points, then we’ve given this industry’s strongest assets, its human beings, the tools they need to be value providers in the moment when that customer needs them.” BR

Startups: Unicorns

Uncovering The Unico

A growing number of insurtechs are exceeding $1 billion in valuation and gaining unicorn status.

by Lori Chordas

Unicorns are mythical creatures often depicted in literary tales. But in today's startup world, unicorns are anything but reverie.

Last year was a record-breaking year for unicorns—startups valued at more than $1 billion. Of the 308 unicorns in existence today, 111 gained their horns in 2018.

Among that new cohort was a handful of insurance startups.

Some insurtechs that have over the years become unicorns include Oscar Health, Zenefits and Gusto, as well as Devoted Health and Root Insurance.

Last year, a $100 million Series D funding round led by Tiger Global Management propelled auto insurtech company Root Insurance's valuation above the $1 billion mark.

Since its founding in 2015, investors including Redpoint Ventures, Scale Venture Partners and Ribbit Capital have poured money into Ohio-based Root Insurance to create and grow its data-driven approach to provide auto insurance policies.

Root uses its proprietary model to assess driving patterns in applicants' smartphones during a test-drive period. Using telematics data as the primary inputs, Root delivers personalized quotes based on driving behavior and overall risk.

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Health-y Valuations

Root Insurance isn't alone. Several insurtech startups in the health space have over the years attracted the attention of investors who are hungry to support new ventures looking to disrupt the insurance market.

In 2015, a $145 million investment of new capital led by Goldman Sachs, Horizon Ventures, Wellington Management and Peter Thiel's Founders Fund catapulted Oscar Health's valuation above the $1 billion mark.

Oscar Health, which sells individual health insurance through exchanges, was created by venture capitalists Joshua Kushner, Kevin Nazemi and Mario Schlosser during the wake of the Affordable Care Act in 2013.

"When CEO Mario Schlosser and his wife had their first child several years ago they had a very difficult experience navigating the health care system. Mario and his two co-founders wanted to build a technology-driven health insurance company focused entirely on the customer experience to make it easier, seamless and more engaging for members," said Louis DeStefano, Oscar's vice president of sales.

Becoming a unicorn came at a pivotal point for the company. In 2015, Oscar Health grew its enrollments from 17,000 to 40,000 members, had captured nearly 15% of the New York individual

health marketplace and was expanding into other markets including Texas and California.

Since then, continued growth has solidified its mark as a unicorn. Today, Oscar's valuation tops $3.2 billion, thanks to a 2018 new round of funding led by Founders Fund and Google's parent company Alphabet.

Two other health insurers, Clover Health and Devoted Health, became unicorns in 2017.

Clover Health, which uses a proprietary technology platform to collect, structure and analyze health and behavioral data to improve medical outcomes and lower costs for patients, hit the $1 billion valuation mark after receiving $130 million from investors including GV, Alphabet Inc.'s venture arm.

Also that year, several funding series, including $7.4 million in seed investments and funding from Venrock, and Todd and Ed Park, vaulted Devoted Health into unicorn status. Devoted Health, a next-generation Medicare Advantage plan that uses technology to deliver a coordinated health care experience for its members, is a "payvidor" that integrates being both a payor and provider of health care services.

On Our Way

In 2013, venture capitalist Aileen Lee wanted to coin a term to describe software startups valued at $1 billion or more. She chose "unicorn" because she believed finding a company with such lofty valuations was as rare as stumbling upon a chimerical unicorn.

At that time, less than 1% of startups fit that bill.

The odds of entrepreneurs and investors building or investing in a billion-dollar company in 2013 were "somewhere between catching a foul ball at an MLB game and being struck by lightning in one's lifetime. Or, more than 100x harder than getting into Stanford," Lee wrote in an article, "Welcome to the Unicorn Club: Learning from Billion-Dollar Startups."

Today, however, 308 private companies have defied those odds by topping the $1 billion valuation mark, according to CB Insights, a research firm that tracks venture capital and startups.

Included in that elite cohort, who have together raised more than $256 billion, are household names such as Lyft, Postmates, DoorDash and Pinterest,

Key Points

Becoming Unicorns: A growing number of startups are reaching new heights with $1 billion-plus valuations.

Room to Grow: While many unicorns are coming from industries like software and on-demand, insurance lags behind.

Not All Glitter and Gold: Becoming a unicorn is a gold standard but there's fear that the status can lead to overinflated values for some startups.

along with a handful of insurtechs.

Last year, the continued outgrowth of investors interested in capturing value in the private market led to a year of lofty valuations, said Matthew Wong, a senior research analyst at CB Insights.

"Take SoftBank, for instance, which operates a $100 billion fund in today's private market. The group has created many new unicorns across different verticals. Also a number of public market investors, corporations and other growth-stage venture funds globally are all investing in these companies and doing so at fairly significant valuations," he said.

That availability of capital, along with competition to invest in higher quality companies, has significantly led to soaring valuations, especially in later-stage financing rounds, Wong said.

While nearly two dozen financial services startups, including insurtechs, now call themselves unicorns, the insurance industry has a long way to go to reach the likes of industries such as internet software and services, e-commerce and on-demand that dominate the unicorn space, he said.

"That's because this wave of insurtech startups is still a relatively recent phenomena. And since many were formed only over the last three to five years, it's still fairly early in the maturity spectrum," Wong said.

It's also still too early for discussions about any type of large valuations above $1 billion in the insurtech space, he said. "Also, many of these valuations are formed off of growth and momentum, so we may not see some of that growth materialize as quickly as in other verticals because insurance is a risk business. In some cases, companies have to ensure that they're growing sustainability, profitability and with the right constraints in mind," Wong said.

Keys to Success

Investors looking to pour millions, if not billions, into startups often seek companies focused on innovation and those creating new or niche markets.

They're also looking for entrepreneurial ventures with an intent focus on the customer, said Rick Chen, a spokesman for Gusto, a provider of HR and benefits tools.

Gusto, which rebranded from ZenPayroll in 2015, "overinvests" in the customer experience and educates its customer service agents on payroll principles, state tax laws and benefits jargon, he said. "That eliminates canned responses and empowers agents to answer customers' questions and share suggestions about how things may apply to their business," Chen said.

While becoming a unicorn has become a gold standard for success, the title remains rare or largely unattainable, said Didi D'Errico, vice president of communications for Zenefits.

Zenefits, a benefits administration tech platform and SaaS provider, became a unicorn in 2015 with the financial backing of investors such as Andreessen Horowitz, TPG Growth, Fidelity Investments, Insight Venture Partners and Y Combinator.

"While the unicorn status is good for awareness and investment, a lofty valuation without the right business model, top-notch talent, the right systems and infrastructure, market fit and customer experience will not be sustainable," D'Errico said.

"The storied Silicon Valley concept of a growth hack, or shortcut, is rarely more impactful than embracing the grind of doing the right things to build and sustain a business the right way," she said.

"To embrace the grind, companies need to run

A Closer Look at Several Insurance Technology Startup Unicorns

Clover

Clover Health

Founded: 2014

Founders: Kris Gale, Vivek Garipalli

Headquarters: San Francisco

Services: Medicare Advantage and health-tech company

Some Major Investors: Greenoaks Capital, First Round Capital, Google Ventures, Sequoia Capital

Approximate Value: $1.2 billion

Devoted

Devoted Health

Founded: 2017

Founders: Ed Park, Todd Park, Bryan Roberts, Bob Kocher

Headquarters: Waltham, Massachusetts

Services: Health care company for seniors

Some Major Investors: Andreessen Horowitz, F-Prime Capital, Venrock

Approximate Value: $1.8 billion

GUSTO

Gusto

Founded: 2011

Founders: Edward Kim, Joshua Reeves, Tomer London

Headquarters: San Francisco

Services: Payroll, HR and benefits services

Some Major Investors: General Catalyst, CapitalG (Google Capital), GV (Google Ventures), Kleiner Perkins Caufield & Byers, MSD Capital (Michael Dell)

Approximate Value: $2 billion

Sources: Company websites, CB Insights, CrunchBase their business efficiently by building the right foundation, the right team, the right strategy, the right products and services and continually test and adjust all the pieces to stay in front of the market and customer needs. It comes with a lot of work, but these are the ingredients to success—with or without the unicorn title," D'Errico said.

While startups strive to achieve that title, and the glamour that comes with it, being a unicorn doesn't guarantee success.

Sometimes it can lead to overinflated values, Wong said.

"The biggest downside is that the company never realizes its valuation and the company either has to raise additional capital at a valuation lower than that unicorn valuation or it doesn't end up being a successful company, in which case employees who are shareholders or investors lose out," he said.

In 2017, seven startups, including online lender Prosper and The Honest Company, an American consumer goods company founded by actress Jessica Alba, lost their unicorn status due to lower valuations in subsequent funding rounds, according to industry reports.

"There can also be certain downside protections attached to investors in the later stage rounds. In the event of an exit, such as an IPO or acquisition, investors who hold preferred stock receive their money back before any of the common shareholders, namely employees and founders. So it can be a potential downside if the company isn't growing into that valuation," Wong said.

Many startup entrepreneurs are heavily focused on fundraising and public relations early on, "but instead they should be concentrating on their business, products and what customer pain points they can help solve," Gusto's Chen said.

"Business metrics like revenue follow as a result. If you have not-so-great products but really great marketing your business won't go anywhere. Instead focus on solving problems and efforts; no shortcuts can be taken," he said.

Unicorn Hotspots

The United States continues to lead in share of unicorns.

Last year, nearly half of all new startups originated in the United States, followed by China, which saw a slight decline from 30% of new unicorns in August 2018 to 26% earlier this year, according to CB Insights.

America is an ideal breeding ground for billion-dollar companies. The nation has the largest global economy by gross domestic product and is home to tech hubs like the Silicon Valley.

China, which boasts more online users than India and the United States combined, offers its own appeal for entrepreneurs and investors. The nation's internet industry is developing at breakneck speed. Also, while American startups take an average of seven years to reach unicorn status, it takes just four years in China, according to a Boston Consulting Group report.

The percentage of Chinese unicorns that reached $1 billion valuation within two years was about 46%, compared to just 9% for U.S. unicorns, according to the report.

While China has emerged as a unicorn hub, unicorns also are coming recently from areas like Latin America and Southeast Asia. India is now home to more than two dozen unicorns.

Oscar Health

Founded: 2013

Founders: Joshua Kushner, Mario Schlosser, Kevin Nazemi

Headquarters: New York

Services: Health insurer

Some Major Investors: BoxGroup, Formation 8, Khosla Ventures

Approximate Value: $3.2 billion

Root Insurance

Founded: 2015

Founders: Alex Timm, Dan Manges

Headquarters: Columbus, Ohio

Services: Mobile-based auto insurer

Some Major Investors: Redpoint Ventures, Ribbit Capital, Tiger Global Management

Approximate Value: $1 billion

Zenefits

Founded: 2013

Founders: Laks Srini, Parker Conrad

Headquarters: San Francisco

Services: Mobile-based HR services

Some Major Investors: Institutional Venture Partners, SV Angel, Venrock

Approximate Value: $2 billion

The availability of capital, along with competition to invest in higher quality companies, has significantly led to soaring valuations, especially in later-stage financing rounds.

Matthew Wong
CB Insights

Leaping Ahead

Unicorns aren't the only lexicon in the startup vernacular. There's a rise in decacorns, or startup companies with an estimated valuation of more than $10 billion.

Today 19 private companies, including Uber, SpaceX, Airbnb and data analytic software company Palantir, have traded in their unicorn status to become decacorns.

Currently no insurtech unicorn has yet gained that illustrious title, but some industry experts believe that could one day change.

Last year, venture capital funding in the United States reached nearly $100 billion, according to PwC and CB Insights' quarterly *Money Tree Report*. That's the second highest recorded total since the 2000 dot-com boom peak.

VC funding also continues to flow into existing insurtech unicorns.

Earlier this year, Clover Health raised $500 million in a Series E funding round led by Greenoaks Capital. Clover plans to use the funds to grow its core Medicare Advantage business, deepen ties with physicians and improve the quality of care its members receive. Last year, the company broke new ground by developing an in-home primary care program that incorporates genomic testing to help reduce hospital readmissions and improve care outcomes.

In August 2018, Google's Alphabet invested $375 million to help Oscar Health expand into Medicare Advantage and grow beyond its nine states and 14 markets, Oscar's DeStefano said.

Also last summer, Gusto nearly doubled its valuation to $2 billion thanks to a $140 million Series C funding round led by T. Rowe Price Associates, Y Combinator Continuity Fund and General Catalyst.

Gusto's Chen, however, doesn't put much weight on valuation.

"We don't see a $1 billion or $2 billion valuation as a milestone in and of itself. It's just something that offers opportunities like hiring more engineers and other staff to build features such as Flexible Pay to better serve our customers," he said.

"Many people, especially in the Silicon Valley, are focused on two headline metrics: valuation and a company's real estate or number of employees," Chen said.

"But as our co-founder Josh says, at the end of the day we aren't doing our job if small businesses are continuously getting fined by the IRS for doing payroll incorrectly or if small-business employees don't have access to health insurance. Everything we strive to do is focused on investing back into our customers," he said.

While the pace of new entrants into the unicorn club slowed early last year, billion-dollar organizations made a comeback in the third quarter, according to PwC and CB Insights. Experts anticipate a similar trend again this year. But how long that trend will continue have some questioning whether the unicorn bubble will eventually bust.

"Eventually we'll see a shift in the trend," CB Insight's Wong said.

"Thus far the trend has been large financing valuations outpacing IPOs. Eventually we'll start to see that change a bit. Companies that have raised those significant valuations eventually will need to have a liquidity event or go public, especially those who have been operating for 10 or more years, which many unicorns have," he said.

"I think we'll continue to see billion-dollar valuations in the tech market because of the plethora of structured capital sources. So we will see more companies accrue a lot of valuations while they're private," Wong said.

But that could one day change.

"There's been an outgrowth of different types of investors and a frothy environment over the last several years, but that may soon subside a bit," Wong said. BR

A COMBINED APPROACH

by Kate Smith

Startupbootcamp InsurTech's VanderLinden: Insurers must implement incremental innovation and disruptive innovation at the same time.

Sabine VanderLinden, CEO, Startupbootcamp InsurTech, said most of the startups she's seeing currently are designed to collaborate with large enterprises, rather than build stand-alone operations. VanderLinden spoke with AMBestTV at InsureTech Connect 2018, held in Las Vegas.

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

How is insurtech of today different than insurtech of the past?

When you look at today's insurtech startups, I would say they are more mature. When we started in 2015, it was just a few startups which came to market. And during that year, we talked to 1,500 startups. My team here, just in the U.S., has talked to about 3,300 startups. What you find is volume, more startups. Then when you look at the type of things they are doing, when we started in 2015, it was all about retail, developing products and services for the travel, home, car insurance markets, improving that customer engagement. Probably 60% of the startups we sourced during that year were customer engagement startups. Today, the startups are going down the value chain, moving to more complex areas of that value chain, such as underwriting and AI, and looking at new ways to service customers, but also sectors. Complex type of insurances, such as specialty lines and commercial lines. Now, we are seeing more and more life, health and annuity startups coming to market. More complex, more interesting areas of the value chain. Startups, which are also coming from other adjacent areas of the industry, may enrich an insurance data pool to design new, personalized products and services.

Today, the startups are going down the value chain, moving to more complex areas of that value chain, such as underwriting and AI, and looking at new ways to service customers, but also sectors.

How has the industry's view of insurtech startups changed?

When we started, it was all about curiosity, observing. Everybody talked about the new disruptor coming into the industry. They didn't really know how to approach it. Now, the conversation is different; 80% of the startups which are out there need to collaborate with large enterprises, so they are part of an ecosystem of players which are aiming to improve and ensure ecosystem capabilities. I would say the relationship is a much more co-creative one, one where different players have the ability to add value. I think what we are seeing more and more is that insurance may be starting in retail, insurance may be starting in manufacturing or transportation, because that is where the relationship is starting. What we will see as well is a new business model coming to market.

Is disruption from within possible, and if so, what is the key to that?

I believe that large organizations need to do a lot of work to disrupt themselves from within, but yes, it is possible. You have the big players, such as Munich Re and AXA, who have started doing that for many years. What they're doing is, like one of my market colleagues would say, developing ambidextrous strategies. What they mean by that is that a business, to be successful, needs to implement incremental innovation and disruptive innovation at the same time. Incremental, meaning that they have to work tactically with a few startups to design a solution and partner with them.

Also, learn to change their internal capability, so changing the way people work with startups, changing the way people bring new products and services to market. You cannot produce a product in 12 months anymore. You need to shrink that to eight to 12 weeks. How are you going to do that? You need to change your internal DNA. Then you have the disruptive side, which is about corporate venture capital and venture build, where you're going to acquire new talent from the outside to help you build completely new companies. You have to do that at the same time. The only way you can disrupt from within is by using different parts of the puzzle to make your company ready to be agile and flexible to meet the needs of the future.

Collaboration, partnerships, those are big topics this week. Is that a shift in thinking? Is the industry more willing to partner now than it has been in the past?

As an industry, there's still a lot of work to do. You have a lot of companies who still want to keep their hand close, because they don't want to invite partners from the outside. A lot are learning from what happened in fintech. Open innovation is key to succeed in today's world. By inviting players from the outside to help you innovate, but also to design products which are more relevant for customers of tomorrow require you to deliver and work amongst ecosystem players.

You probably won't have the choice. You will see the leaders and the followers, and the laggards emerging more and more in the next few years. Businesses now are disappearing every day. Those who want to sustain and survive will have to adapt the way they are working with the external world.

You not so long ago launched a program in Hartford, Connecticut. How is it growing?

That is growing very well. Yes, in September [2017] we launched a program in Hartford. It's amazing to have seen the community in Hartford supporting us in our venture.

We are working now with probably six of the largest insurers in the region at the moment. A lot of other insurers are asking us, "Can we participate? Can we help build this ecosystem?"

The goal is for Hartford to become the next insurtech capital in the U.S. We have a lot of work to do. We have to bring a lot of talent from the outside world, meaning from Europe, Asia, but also bringing and building talent, and new culture as well in the city of Hartford.

[We are] training new entrepreneurs, we have a new insurtech course being launched as well. It's about bringing all the different ingredients to attract talent, build innovators, and get Hartford to become an insurtech destination in the next few years.

Your London accelerator program has been very successful. It's received a lot of funding. If you had to pick one of your startups that's been the most successful, which one would it be?

I have many. There are a few which are here today. The one everybody talks about right now is BuzzVault, a new offering with Munich Re Digital Partners. What I like about BuzzVault is that it's a female founder team. That shows that woman can do great work in the industry.

I do believe that this startup is going to be amazing. Others would include massUp, which has been doing great work with Willis.

The last one is Valoo, which is a French startup, also focused on asset digitization, and which is working with Bâloise, for instance, outside of France.

Those are three of my babies. There are many more, many more, which I am sure you are going to see people talk about in the next few years. BR

AM BestTV

Go to *bestreview.com* to watch an interview with Sabine VanderLinden.

MEG

Telecommuting

Collaborative Construction Claims Process

Four manageable risks that will impact the insurance industry in 2019.

by Louie Castoria and Mary Jo Barry

Many large risks are outside the insurance carriers' control, but there are some major trends that are within control, or at least their influence, and which can dramatically affect their fortunes for good or bad.

Best's Review contributors **Louie Castoria** and **Mary Jo Barry** are partners at Kaufman Dolowich & Voluck, LLP. Barry is co-managing partner of the firm's New York City office. Castoria (San Francisco) is co-chair of the firm's national Professional Liability Practice Group. They can be reached at *LCastoria@KDVlaw.com and MBarry@KDVlaw.com.*

Castoria

Barry

Here are four manageable megatrends nearing their tipping points. Insurers who manage them well will look back on 2019 as the year that made a difference.

Real Estate Isn't the Business of Insurance

Unless a business is subletting office space, each dollar spent on its occupancy costs comes off its bottom line, and for most employees, every hour commuting is lost productive or personal time.

Why force workers to commute? The insurance industry does not run an assembly line or NFL team, where employees must be present to be productive. Some insurers have adopted work-from-home policies and shared offices (hoteling) to reduce the need for office space or have opened satellite offices closer to suburbs.

Key Points

The Situation: Insurers must be aware of new risks and trends that will come to the fore this year.

Consider This: Develop telecommuting opportunities; hire military veterans and millennials; switch to a collaborative construction claims process; and encourage diversity and inclusion throughout the industry.

Seize the Moment: Getting ahead of these megatrends will have a payoff in the future.

A trend Watch

#MeToo Movement Meets Employment Practices Liability Insurance


Hiring Millennials

The trend away from paying for office space is most visible in service companies. A survey conducted in 2015 and reported by the London Business School's Global Leadership Conference found that 35% of the respondents predicted that half their employees would be working remotely by 2020. FlexJobs, a connector of workers with virtual companies (ones that mostly or completely operate remotely) currently identifies over 51,000 such companies, most of them in the tech sector, human resources services and education. Does telecommuting change the company's culture? Social interaction can be partly maintained through regular video check-ins and meetings. Many people maintain close friendships across states and continents, making rare times together in person even more valued.

The trend to decrease physical office space will be driven by the prime motivator—economic efficiency—but will have positive side effects for employees and their families.

The Millennial Migration

The insurance industry hasn't had much luck recruiting millennials as employees, but that is about to change. A Pew Research Center study found that by the end of 2020 there will be 400,000 unfilled job positions in the U.S. insurance industry. Within the next three years, 25% of the industry's professionals will retire. Yet, the study also found that only 4% of millennials expressed interest in working in the insurance industry.

Eventually, the laws of physics will come into play: A vacuum of filled jobs and a surplus of eligible workers will reach equilibrium. Not every millennial will develop an online company that Facebook or Google will buy for $1 billion. Others will have to find work.

The insurance industry is ideally suited in many ways to millennials' goals. Studies of this demographic in the workforce show several common characteristics:

- Millennials value mobility more highly than stability. They are willing to jump ship for higher compensation or opportunities to rapidly advance.
- Many carry staggering long-term student loan debts, restricting their ability to buy homes, start families and enjoy pastimes.
- Millennials have never known a world without the internet. According to *Ad Age*, 85% own smartphones and spend 25 hours per week, on average, using them.
- Millennials want to work in a company that is a good corporate citizen. Pat Wadors, LinkedIn's former chief of recruitment, reported in a LinkedIn article that half of all applicants asked about the company's mission before asking about their compensation.

Millennials are eager to do something meaningful, though they do not want their job to define them. So-called work/life integration is when the job supports the employee's personal and family goals.

With those characteristics in mind, it becomes clear why the insurance industry is a great place for millennials to make their careers.

With 400,000 job openings and many more on the horizon, insurance will be the Land of Opportunity, especially when it loses its most senior and best-compensated people to retirement.

At its core, insurance is about helping people and businesses get through adversity. Insurance people are protectors and often the second responders at tragedies. It is work one can be proud of.

Insurance carriers and brokers generally provide good benefit packages: exactly what a young family needs to get started. They also are clean and green businesses, especially as paper files migrate to electronic formats.

Insurance is a contact sport. Millennials are all about contacting other people. They are the most communicative, globally aware generation in history. If they make a good impression they can be the most effective mass-media marketers any company could want. They also are adept at making and maintaining relationships with the touch of a keypad.

A related trend is student loan debt relief as a job benefit. The Oct. 18, 2018 issue of *Forbes*, had a headline: "Student Loan Repayment Is the Hottest Employee Benefit of 2018." According to the article, 44 million Americans have student loan debts totaling $1.5 trillion.

Only mortgages constitute a larger portion of the total U.S. consumer loan debt. Some companies have begun offering monthly student loan repayment benefits in addition to other compensation. Student loan repayment is a strategy to recruit and retain young professionals.

However, most careers in insurance do not require advanced degrees. Many insurance certifications can be completed online through the Insurance Educational Association and similar nonprofit organizations at a fraction of the cost of one year of a post-graduate degree program.

Another idea: Hire veterans. Those who protected our country in the armed services often gravitate toward first-responder professions. Their instincts to safeguard others, their experience in teamwork and familiarity with hierarchical organizations make them ideal to be second responders in the insurance industry. If they don't have insurance training, make their tuition an employee benefit. Don't we owe them that?

Defects, Construction and Otherwise

Finding innovative solutions to recurring and high-cost claims is an emerging trend in the insurance industry.

A familiar example: A major construction project is discovered to have various defects in its design, materials and construction—everything from the soil compaction to the rooftop solarium. Claims are made and lawsuits are filed.

The insurance industry responds, each carrier appointing a different law firm to defend each insured, attend nearly every deposition and to do whatever a court-appointed special master orders them to do. Concerned about uncovered aspects of the claim, each carrier appoints coverage counsel to monitor developments in the consolidated case and attend settlement conferences and mediations.

What's wrong with this picture? Everyone from defense counsel to the special master is being paid by the hour, and is engaged in an antiquated, labor-intensive pre-trial process in a case that probably will never see a jury. It's like using a thousand catapults to launch a peanut into space.

A March 1, 2017, Judicial Arbitration

and Mediation Service's newsletter article, "Collaborative Construction Claims Process" describes a system that may resolve construction defect cases more efficiently. The goal: to reduce the fees and costs charged by counsel, expert witnesses and court-appointed referees.

In a collaborative construction claims process, attorneys and parties identify the defects in the project then engage in alternative dispute resolution processes to address each defect and the parties' responsibilities.

Some defects might be solved through early, direct negotiation, others through mini-arbitrations, mediations or settlement conferences.

The process is typically initiated by counsel: "To facilitate this form of ADR [alternative dispute resolution], a construction lawyer doesn't necessarily need any new skills. …The lawyer must be more of a problem solver and consensus builder than a litigator who can identify win-win opportunities for the parties[.]"

The insurance industry can jump-start this kind of change through its own collaborative processes. The industry can ascertain who the insured contractors and subcontractors are, their roles in the project, what their policy limits are, their contractual indemnity obligations and any unusual coverage issues.

With this information in hand, insurers can begin to fit the puzzle pieces together, and determine what judicial processes, if any, are needed before discrete aspects of the case can be resolved.

Or, they can start arming those catapults.

Insurers can also economize by, ironically, hiring more lawyers.

Sometimes the lawyer who is most familiar with the judges and jury pool is not in a firm that has a crack appellate practice team, an expert e-discovery vendor, a wizard at settling cases, an experienced public relations adviser, or a subject matter expert in the substantive area of law.

Through careful coordination and creative engagement agreements, the insurer can create a team with the skills needed in high-stakes cases, with minimal duplication of effort. Like President Lincoln's cabinet that was examined in the biography, "Team of Rivals," lawyers in competing firms can collaborate for their common client's and their firms' common good.

> The trend to decrease physical office space will be driven by the prime motivator—economic efficiency—but will have positive side effects for employees and their families.

Diversity and Inclusion Hits D&O

Any discussion of megatrends would be incomplete without the #MeToo movement and calls for increased diversity and inclusion in business leadership roles.

These movements have not yet effected changes in many C-suite offices. As reported by *Forbes* in a Feb. 22, 2018 article, their main effect has been to send upper-tier executives to diversity and inclusion (D&I) and anti-harassment training. That's progressive, but not yet progress.

The article cites a trend toward higher premiums and deductibles for employment practices liability insurance for entertainment, high-tech and some other industries. But inflation in EPL insurance costs is a deductible business expense, not a change in behavior.

The need for inclusivity will be felt beyond the EPL insurance premium. It will be felt directly in boardrooms where discriminatory practices may have been decried, but are still applied. The tactics will be familiar: boycotts, election challenges and shareholder derivative suits when misconduct erodes the bottom line.

Here the insurance industry can be an agent for change by its example and by including in premium pricing the true cost of harassment and discrimination claims.

Next Steps

Opportunities abound for those who recognize large-scale trends they can manage or influence.

- Take steps to better leverage real estate utilization.
- Clearly state the alignment between the insurance industry's core values and those common in the millennial generation.
- Adjust personnel policies accordingly and hire military veterans.
- Use creative alternatives to shortcut the most expensive types of litigation, using collaborative processes and selecting "lawyers, not law firms."
- Monetize the value of a nondiscriminatory workplace, rewarding those who practice what they preach about diversity and inclusion.

Perhaps we're wrong in these predictions. But we don't recommend that you bet on it. BR

CAPTIVE DOMICILE: The Federated States of Micronesia, an archipelago located about 2,500 miles southwest of Hawaii, is home to 25 captives.

Room To Grow

Asia may be home to only 3% of the 7,000 captives worldwide but the region's massive economies are fertile ground for growth.

by Meg Green

Future development of captive domiciles depends on regulations, tax codes and being seen as a tool to mitigate and control risks. Jose Ribeiro, managing director, Asia-Pacific, AM Best, talked to AMBestTV about growth opportunities for captive development in the Asia/Pacific region.

What are you seeing in terms of captives in Asia?

Traditionally, captives in Asia have been quite limited in terms of number of captives. To give you an idea, the latest statistics say or suggest there are close to 7,000 captives globally. I would say that only perhaps 3% of those captives are based in Asia.

It's a very small number, considering that Asia has massive economies. The second-largest economy, China, is in Asia. Japan is the third-largest economy. You have the second- and the third-largest economies and still the number of captives is very, very small compared to the global number of captives. In Asia, you have three domiciles that have been quite active in terms of attracting new

Meg Green is a senior associate editor with AMBestTV. She can be reached at *meg.green@ambest.com*.

"The three main domiciles are Singapore, Labuan and Micronesia. Then, you have China and Hong Kong. Those two domiciles will grow very, very fast over the next five to 10 years, mainly because of the Chinese market."

Jose Ribeiro
AM Best

captive ventures. Probably the most important one is Singapore. Singapore now boasts around 80 captives, which is a small number, but growing.

The second one is Labuan in Malaysia. They currently have around 50 to 60 captives.

The third one, believe it or not, is in a place called Micronesia, which is a lovely place, by the way. It's an archipelago of beautiful islands. That domicile is being mainly chosen by Japanese companies. Micronesia now has 25 captives—I would say probably all of them from Japan—and growing. I participated in an event recently in Japan hosted by the Micronesian government. The government is very, very supportive of developing Micronesia as a captive domicile in Asia.

Those are the three main domiciles in Asia. Then you have the Chinese captives, and still a very limited number. More and more captives are coming now to the market. You see them being domiciled either in China, or in Hong Kong.

Then, there's some scattered captives. You have Taiwanese, Korean and some Thai captives. The three main domiciles are Singapore, Labuan and Micronesia. Then, you have China and Hong Kong. Those two domiciles will grow very, very fast over the next five to 10 years, mainly because of the Chinese market.

How do you think that will impact the global captive market? In particular, we tend to think of Hawaii as being home to many Japanese captives.

Hawaii will continue to be an attractive domicile for Japanese captives in particular. I think they will coexist. Micronesia will develop itself over time, will grow. Currently, they have 25 captives. That number will grow, but probably grow three or four new captives a year. Hawaii will continue to be a domicile where some Japanese companies feel very comfortable for a variety of reasons. I don't think there will be a massive change for now, but in 10, 20 years, who knows? It depends on regulation. It depends on what happens to implementation of the Organization for Economic Co-operation and Development standards.

These small domiciles have to demonstrate that they can comply with [the issue of] base erosion and profit-sharing. For Hawaii, that is a given, as it is for Bermuda and other domiciles.

Small domiciles like Singapore, Labuan and Micronesia probably face more challenges in that regard. Future developments of these domiciles will also depend on that and how they deal with these issues.

Tax is also a very important thing. Some captive domiciles are seen as places where people establish captives to pay less tax, hence the BEPS situation. I think Micronesia in particular has had a very interesting approach. Their corporate tax rate is 21%, which is probably the same as the U.S. right now. Establishing a captive in Micronesia, you cannot argue now that it's because of tax reasons. It has to be because of other reasons. That is the challenge.

Captives need to be created as an integral part of the risk management strategy of a corporation. These domiciles need to demonstrate that by establishing the captive there, that role can be played in a very effective way, not so much as a tax efficient way to manage insurance, but also as a risk management solution that makes sense to the corporation as a total. BR

AM BestTV

Go to *bestreview.com* to watch the interview with Jose Ribeiro.

Competition, Emerging Trends Hit D&O Market

Best's Market Segment Report (Excerpt): Emerging Risks and Greater Complexity Challenge D&O Insurers (Jan. 28, 2019)

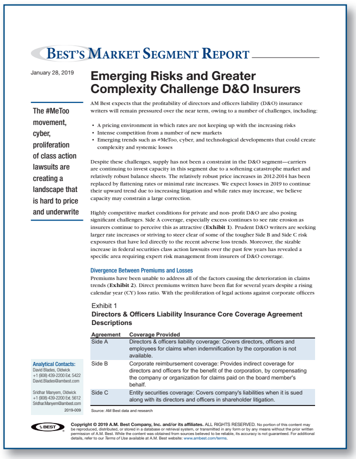
AM Best expects that the profitability of directors and officers liability (D&O) insurance writers will remain pressured over the near term, owing to a number of challenges, including:

• A pricing environment in which rates are not keeping up with the increasing risks.

• Intense competition from a number of new markets.

• Emerging trends such as #MeToo, cyber, and technological developments that could create complexity and systemic losses.

Despite these challenges, supply has not been a constraint in the D&O segment—carriers are continuing to invest capacity in this segment due to a softening catastrophe market and relatively robust balance sheets. The relatively robust price increases in 2012-2014 has been replaced by flattening rates or minimal rate increases. We expect losses in 2019 to continue their upward trend due to increasing litigation and while rates may increase, we believe capacity may constrain a large correction.



BEST'S MARKET SEGMENT REPORT

January 28, 2019

Emerging Risks and Greater Complexity Challenge D&O Insurers

The #MeToo movement, cyber, proliferation of class action lawsuits are creating a landscape that is hard to price and underwrite

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Highly competitive market conditions for private and non- profit D&O are also posing significant challenges. Side A coverage, especially excess continues to see rate erosion as insurers continue to perceive this as attractive (**Exhibit 1**). Prudent D&O writers are seeking larger rate increases or striving to steer clear of some of the tougher Side B and Side C risk exposures that have led directly to the recent adverse loss trends. Moreover, the sizable increase in federal securities class action lawsuits over the past few years has revealed a specific area requiring expert risk management from insurers of D&O coverage.

Divergence Between Premiums and Losses

Premiums have been unable to address all of the factors causing the deterioration in claims trends (**Exhibit 2**). Direct premiums written have been flat for several years despite a rising calendar year (CY) loss ratio. With the proliferation of legal actions against corporate officers

Exhibit 1
Directors & Officers Liability Insurance Core Coverage Agreement Descriptions

Agreement	Coverage Provided
Side A	Directors & officers liability coverage: Covers directors, officers and employees for claims when indemnification by the corporation is not available.
Side B	Corporate reimbursement coverage: Provides indirect coverage for directors and officers for the benefit of the corporation, by compensating the company or organization for claims paid on the board member's behalf.
Side C	Entity securities coverage: Covers company's liabilities when it is sued along with its directors and officers in shareholder litigation.

Source: AM Best data and research

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Highly competitive market conditions for private and nonprofit D&O are also posing significant challenges. Side A coverage, especially excess continues to see rate erosion as insurers continue to perceive this as attractive. Prudent D&O writers are seeking larger rate increases or striving to steer clear of some of the tougher Side B and Side C risk exposures that have led directly to the recent adverse loss trends. Moreover, the sizable increase in federal securities class action lawsuits over the past few years has revealed a specific area requiring expert risk management from insurers of D&O coverage.

Divergence Between Premiums and Losses

Premiums have been unable to address all of the factors causing the deterioration in claims trends. Direct premiums written have been flat for several years despite a rising calendar year loss ratio. With the proliferation of legal actions against corporate officers resulting from class action suits, the rise in funds supporting shareholder activism, and the growth in overall loss costs, competitive pressure on rates won't be sustainable for the health of the D&O industry. The rate environment on excess layers continues to be soft while the primary layers may have more flexibility in rates as most carriers are risk averse when it comes to primary layer. Some insurers have already strategically shifted from quoting on primary coverage layers, in an effort to avoid areas that are more loss-prone.

Certain segments of the market, including public company D&O, private and not-for-profit companies (particularly those in emerging industries or financially distressed firms), and coverage for new initial public offering companies, have seen rate increases reportedly between 5% and 10%.

However, overall, D&O rates have been relatively flat since 2016, with the rates for private companies especially subject to downward pressure. These rate indications cover a broad spectrum of the D&O market and different risk classes such as life sciences, both public and private company D&O, and nonprofit entities, of varying sizes (small cap, mid cap, large cap). In 2016, efforts by more recent market entrants to build up their portfolios led to largely flat renewal pricing, following the modest average quarterly rate increases in 2014 and 2015—a trend that largely continued in 2017, as capacity remained abundant.

Rates rose in the first three quarters of 2018—albeit modestly, by around 1% each quarter—seemingly in acknowledgement of the need for more conservative pricing. Some insurers are re-assessing their strategies, given that the escalating cost of defending claims is putting insurers of lower excess public company D&O layers closer to a "burn layer"—raising the likelihood that an insured's self-insured coverage retention will be breached and trigger a policy response.

The recent rate firming is likely to continue over the near term, given that current loss frequency and severity trends are resulting in higher losses throughout the D&O market. Some carriers are being more circumspect in deploying their available capacity. Capacity for some of the more complex risks may be available if pricing is appropriate for the risk. However, the added complexity will cause underwriters to be conservative as it becomes difficult to assess these emerging losses.

Number of Securities Class Action Suits Remains Elevated

The worsening claims frequency is due to a number of factors, but the increase in Federal Securities Class Action (FSCA) litigation is a key driver. According to the Securities Class Action Clearinghouse, filings of federal securities class action lawsuits have risen dramatically in recent years. In 2017, the number of lawsuits grew 52% from the prior year, during which the initial calendar year direct loss ratios for D&O rose as well. Through the third quarter of 2018, the number of lawsuits for the year was set to remain on par with 2017, but the segment's direct loss ratio declined to 55.5 and was more in line with 2015 and 2016 performance. Nonetheless, according to many industry observers, securities-related claims, and their negative impact on D&O results across the industry, will continue to rise in 2019.

IPOs in particular have consistently been a target for class action suits and have thus been quite a challenge for D&O insurance providers. Coverage for new IPO companies has become harder to place following the *Cyan Inc. v. Beaver County Employees Retirement Fund* case, in which the Supreme Court decided that lawsuits brought under Section 11 of the Securities Act of 1933 can be filed in state court, as opposed to limiting them to federal court. The upshot for IPO companies and their insurers is that the *Cyan* decision allows plaintiffs filing class actions in securities cases to avoid federal court and instead file in state court, which is more favorable to plaintiffs asserting that they were misled by companies in which they invested. Class action lawsuits often arise when stock prices drop precipitously. The effect on DCC (defense and cost containment) expenses will be exacerbated, as insurers could be on the hook for more defense costs from law firms with expanding war chests. Considering the stock market's volatility in the latter half of 2018, when gains from earlier in the year were wiped out, we may see a further spike in lawsuits at the beginning of 2019.

The #MeToo Movement, Cyber, And Innovative Technology Pile on the Pains

The allegations of sexual misconduct involving men in powerful positions—prominent media figures, politicians, athletes and corporate executives—have the potential for loss creep from employment practices liability to D&O as the board involvements and their roles and responsibilities get scrutinized.

The newly implemented GDPR (General Data Protection Regulation) in the EU places increased responsibility on corporations to protect the privacy of consumers and these monetary fines could be a significant impact to bottom lines. France, for example, recently fined Google $57 million for violation of GDPR and reports indicate that the Federal Trade Commission (FTC) is weighing whether to fine Facebook for some of its past actions and privacy lapses. The GDPR and increased scrutiny of SEC and other regulators around the world can cause increased scrutiny of terms and conditions of D&O policies to identify explicit coverage and exclusion terms. Insurers are also examining the impact of companies adopting innovations such as blockchain, artificial intelligence technologies and the ramifications it may have on their coverage in general, and D&O in particular.

These claims have been tremendously impacted by social media's effect on the speed, strength and breadth of the movement. The result has been a growing number of lawsuits alleging corporate misconduct, leading to shareholder derivative actions. To combat the proliferation of these types of claims, corporations may choose to be proactive by providing necessary training, including scenario role play. From a risk management perspective, further educating employees about potential misconduct or harassment issues will also help get ahead of potential disputes. Helping policyholders/clients take steps to avoid sexual misconduct allegations, would exemplify prudent risk management for D&O insurers.

Leading Insurers Remain Steady While Facing Challenges

As the competitive market for D&O coverage shifts in response to loss frequency and severity developments, and new risks requiring revised strategies emerge, insurers—especially those with a sizable amount of market capacity—and appropriate risk management capabilities may look to re-orient coverage, pricing, reinsurance strategies and relationships to maintain their business profile without compromising on operating performance.

In many cases, market leaders are further leveraging their strengths to bolster relationships with brokers and clients. Based on financial statements filed through the first three quarters of 2018, seven of the top 15 D&O insurers reported yearly decreases in their direct D&O loss ratios, indicating an improvement in performance for the top writers as a whole, considering that 12 of the 15 reported increases for full-year 2017. Third quarter data, however, may not be a true indicator of annual results as insurers typically may do an annual reserve reviews, true up their adjustment expenses, and other costs in the fourth quarter. BR

The *Best's Market Segment Report* is available at ***http://www3.ambest.com/bestweek/bestweekreports.aspx?RT=sr.***

Best's Credit Rating Actions

This edition lists all Credit Rating actions that occurred between January 1 and January 31, 2019. For the Credit Rating of any company rated by AM Best and basic company information, visit the AM 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								
⇥	L	American Modern Life Insurance Company	006680	NR nr		A- a-	Stable Stable	Ohio
New	L	Athora Life Re Ltd. *Athora Holding Ltd.*	095382	B++ bbb+	Stable Stable			Bermuda
⊕	L	Gerber Life Insurance Company *Nestlé, S.A.*	007299	A a+	Stable Stable	A u a u	Positive Positive	New York
☑	H	Medco Containment Insurance Co of NY *Cigna Corporation*	010747	A- a-	Stable Stable	A- u a- u	Developing Developing	New York
☑	H	Medco Containment Life Insurance Company *Cigna Corporation*	006449	A- a-	Stable Stable	A- u a- u	Developing Developing	Pennsylvania
☑	L	Mutual Savings Life Insurance Company *Kemper Corporation*	006753	A- a-	Stable Stable	A- u a- u	Developing Developing	Alabama
⇅	H	Nippon Life Insurance Company of America *Nippon Life Insurance Company*	008419	A- a-	Stable Stable	A- a-	Positive Positive	Iowa
⚑	H	QCA Health Plan, Inc. *Catholic Health Initiatives*	064050	B+ u bbb- u	Positive Positive	B+ bbb-	Stable Stable	Arkansas
☑	L	Reliable Life Insurance Company *Kemper Corporation*	006986	A- a-	Stable Stable	A- u a- u	Developing Developing	Missouri
☑	H	Reserve National Insurance Company *Kemper Corporation*	006998	A- a-	Stable Stable	A- u a- u	Developing Developing	Oklahoma
⇥	L	Southern Pioneer Life Insurance Company	007521	NR nr		A- a-	Stable Stable	Arkansas
☑	L	Union National Life Insurance Company *Kemper Corporation*	007155	A- a-	Stable Stable	A- u a- u	Developing Developing	Louisiana
☑	L	United Insurance Company of America *Kemper Corporation*	007174	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY								
—	P	ACSTAR Insurance Company *ACMAT Corporation*	010607	A a	Stable Stable	A a+	Stable Negative	Illinois
☑	P	Alpha Property & Casualty Insurance Co *Kemper Corporation*	002634	A- a-	Stable Stable	A- u a- u	Developing Developing	Wisconsin
⇅	P	American Inter-Fidelity Exchange	001776	A- a-	Stable Stable	A- a-	Negative Negative	Indiana
⇅	P	Atain Insurance Company *Alan J. Kaufman Revocable Living Trust*	012422	A a+	Stable Negative	A a+	Stable Stable	Texas
⇅	P	Atain Specialty Insurance Company *Alan J. Kaufman Revocable Living Trust*	002842	A a+	Stable Negative	A a+	Stable Stable	Michigan
⊕	P	Auto Club Insurance Company of Florida *Auto Club Insurance Association*	013083	A- a-	Stable Stable	B++ bbb+	Stable Stable	Florida
—	P	Brotherhood Mutual Insurance Company	000221	A- a-	Stable Stable	A a	Stable Stable	Indiana
☑	P	Capitol County Mutual Fire Insurance Co *Kemper Corporation*	003829	A- a-	Stable Stable	A- u a- u	Developing Developing	Texas
☑	P	Charter Indemnity Company *Kemper Corporation*	010419	A- a-	Stable Stable	A- u a- u	Developing Developing	Texas
—	P	Crusader Insurance Company *Unico American Corporation*	001889	B++ bbb+	Stable Negative	A- a-	Negative Negative	California
⇥	P	Dentists Benefits Insurance Company	010690	NR nr		B++ bbb	Stable Stable	Oregon

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	Financial Indemnity Company *Kemper Corporation*	000391	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
⇥	P	Fireman's Fund Ins Co of Hawaii, Inc.	002717	NR nr		A+ aa	Stable Stable	Hawaii
⇅	P	Florida Family Home Insurance Company *Barrington Capital, LLC*	013984	A- a-	Negative Negative	A- a-	Stable Stable	Florida
⇅	P	Florida Family Insurance Company *Barrington Capital, LLC*	011975	A- a-	Negative Negative	A- a-	Stable Stable	Florida
⊕	P	Greenville Casualty Insurance Company *Greenville Casualty Insurance Company*	012324	B bb	Stable Stable	B- bb-	Stable Stable	South Carolina
—	P	Infinity Assurance Insurance Company *Kemper Corporation*	002515	A- a-	Stable Stable	A u a u	Negative Negative	Ohio
—	P	Infinity Auto Insurance Company *Kemper Corporation*	000555	A- a-	Stable Stable	A u a u	Negative Negative	Ohio
—	P	Infinity Casualty Insurance Company *Kemper Corporation*	004661	A- a-	Stable Stable	A u a u	Negative Negative	Ohio
—	P	Infinity County Mutual Insurance Co *Kemper Corporation*	003572	A- a-	Stable Stable	A u a u	Negative Negative	Texas
—	P	Infinity Indemnity Insurance Company *Kemper Corporation*	011669	A- a-	Stable Stable	A u a u	Negative Negative	Indiana
—	P	Infinity Insurance Company *Kemper Corporation*	002217	A- a-	Stable Stable	A u a u	Negative Negative	Indiana
—	P	Infinity Preferred Insurance Company *Kemper Corporation*	011745	A- a-	Stable Stable	A u a u	Negative Negative	Ohio
—	P	Infinity Safeguard Insurance Company *Kemper Corporation*	004941	A- a-	Stable Stable	A u a u	Negative Negative	Ohio
—	P	Infinity Security Insurance Company *Kemper Corporation*	002710	A- a-	Stable Stable	A u a u	Negative Negative	Indiana
—	P	Infinity Select Insurance Company *Kemper Corporation*	011252	A- a-	Stable Stable	A u a u	Negative Negative	Indiana
—	P	Infinity Standard Insurance Company *Kemper Corporation*	000843	A- a-	Stable Stable	A u a u	Negative Negative	Indiana
✓	P	Kemper Financial Indemnity Company *Kemper Corporation*	002701	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
✓	P	Kemper Independence Insurance Company *Kemper Corporation*	012213	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
—	P	MAPFRE Insurance Company of New York *The Plymouth Rock Company Incorporated*	000869	A- a-	Stable Stable	A u a u	Negative Negative	New York
✓	P	Merastar Insurance Company *Kemper Corporation*	003596	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
✓	P	Mutual Savings Fire Insurance Company *Kemper Corporation*	003655	A- a-	Stable Stable	A- u a- u	Developing Developing	Alabama
⇥	P	Northwest Dentists Insurance Company	010802	NR nr		B++ bbb	Stable Stable	Washington
✓	P	Old Reliable Casualty Company *Kemper Corporation*	003807	A- a-	Stable Stable	A- u a- u	Developing Developing	Missouri
⊕	C	PMG Assurance Ltd. *Sony Corporation*	086494	A a	Stable Stable	A- a-	Stable Stable	Bermuda
✓	P	Response Insurance Company *Kemper Corporation*	011946	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
✓	P	Response Worldwide Direct Auto Insurance *Kemper Corporation*	003045	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
✓	P	Response Worldwide Insurance Company *Kemper Corporation*	000609	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
✓	P	Trinity Universal Insurance Company *Kemper Corporation*	002523	A- a-	Stable Stable	A- u a- u	Developing Developing	Texas
⇥	P	Unigard Indemnity Company *QBE Insurance Group Limited*	004278	NR nr		A a+	Stable Stable	Wisconsin

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U.S., CANADA AND BERMUDA PROPERTY/CASUALTY (CONTINUED)								
☑	P	Union National Fire Insurance Company *Kemper Corporation*	003199	A- a-	Stable Stable	A- u a- u	Developing Developing	Louisiana
☑	P	United Casualty Insurance Co of America *Kemper Corporation*	002533	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
☑	P	Unitrin Advantage Insurance Company *Kemper Corporation*	012163	A- a-	Stable Stable	A- u a- u	Developing Developing	New York
☑	P	Unitrin Auto and Home Insurance Company *Kemper Corporation*	012560	A- a-	Stable Stable	A- u a- u	Developing Developing	New York
☑	P	Unitrin County Mutual Insurance Company *Kemper Corporation*	011055	A- a-	Stable Stable	A- u a- u	Developing Developing	Texas
☑	P	Unitrin Direct Insurance Company *Kemper Corporation*	011762	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
☑	P	Unitrin Direct Property & Casualty Co *Kemper Corporation*	012212	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
☑	P	Unitrin Preferred Insurance Company *Kemper Corporation*	012561	A- a-	Stable Stable	A- u a- u	Developing Developing	New York
☑	P	Unitrin Safeguard Insurance Company *Kemper Corporation*	003289	A- a-	Stable Stable	A- u a- u	Developing Developing	Wisconsin
☑	P	Valley Property & Casualty Insurance Co *Kemper Corporation*	011979	A- a-	Stable Stable	A- u a- u	Developing Developing	Oregon
☑	P	Warner Insurance Company *Kemper Corporation*	002028	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
EUROPE, MIDDLE EAST AND AFRICA								
⊕	L	AachenMünchener Lebensversicherung AG *Assicurazioni Generali S.p.A.*	085761	A a+	Stable Stable	A a	Stable Positive	Germany
⊕	P	AachenMünchener Versicherung AG *Assicurazioni Generali S.p.A.*	085302	A a+	Stable Stable	A a	Stable Positive	Germany
⊕	C	Assicurazioni Generali S.p.A. *Assicurazioni Generali S.p.A.*	085071	A a+	Stable Stable	A a	Stable Positive	Italy
New	L	Athora Ireland plc *Athora Holding Ltd.*	077712	B++ bbb+	Stable Stable	NR nr		Ireland
⚑	C	Axéria Prévoyance *Bruno Rousset SAS*	083186	A- u a- u	Developing Developing	A- a-	Stable Stable	France
⚑	C	Axeria Re Limited *Bruno Rousset SAS*	090190	A- u a- u	Developing Developing	A- a-	Stable Stable	Malta
⇥	L	Canada Life International Re DAC *Great-West Lifeco Inc*	084304	NR nr		A+ aa	Stable Stable	Ireland
⊕	L	Central Krankenversicherung AG *Assicurazioni Generali S.p.A.*	085303	A a+	Stable Stable	A a	Stable Positive	Germany
⊕	C	Ceska pojist'ovna, a.s. *Assicurazioni Generali S.p.A.*	083779	A a+	Stable Stable	A a	Stable Positive	Czech Republic
⇥	P	Cie Belge d'Assur Aviation SA (Aviabel) *AXIS Capital Holdings Limited*	083113	NR nr		A u a u	Developing Developing	Belgium
⊕	L	COSMOS Lebensversicherungs-AG *Assicurazioni Generali S.p.A.*	085304	A a+	Stable Stable	A a	Stable Positive	Germany
⊕	P	COSMOS Versicherung AG *Assicurazioni Generali S.p.A.*	085382	A a+	Stable Stable	A a	Stable Positive	Germany
⊕	P	Generali Deutschland AG *Assicurazioni Generali S.p.A.*	084112	A a+	Stable Stable	A a	Stable Positive	Germany
New	C	Generali Espana, S.A. de Seguros y Reas *Assicurazioni Generali S.p.A.*	090414	A a+	Stable Stable	NR nr		Spain
⊕	P	Generali IARD S.A. *Assicurazioni Generali S.p.A.*	084095	A a+	Stable Stable	A a	Stable Positive	France
⊕	C	Generali Italia S.p.A. *Assicurazioni Generali S.p.A.*	086554	A a+	Stable Stable	A a	Stable Positive	Italy
⊕	P	Generali Versicherung AG *Assicurazioni Generali S.p.A.*	085076	A a+	Stable Stable	A a	Stable Positive	Germany

Rating Action: (⊕) Upgrade; (–) Downgrade; (New) Initial Rating; (⚑) Under Review; (⇅) Change in Outlook; (⇥) Rating Withdrawal; (☑) Rating Affirmation.
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Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
EUROPE, MIDDLE EAST AND AFRICA (CONTINUED)								
⊕	C	Generali Vie S.A *Assicurazioni Generali S.p.A.*	085695	A a+	Stable Stable	A a	Stable Positive	France
—	P	HDI Global Specialty SE *HDI V.a.G.*	086486	A a+	Stable Stable	A+ u aa u	Negative Negative	Germany
New	C	London Life & General Reinsurance DAC *Great-West Lifeco Inc*	086455	A+ aa	Stable Stable	NR nr		Ireland
⊕	C	Talanx AG *HDI V.a.G.*	055436	A a+	Stable Stable	 a- u	 Positive	Germany
☑	P	Talanx Reinsurance (Ireland) SE *HDI V.a.G.*	091913	A a+	Stable Stable	A u a+ u	Developing Developing	Ireland
ASIA PACIFIC								
⇥	P	Education Benevolent Soc. Inc.	091607	NR nr		B++ bbb	Stable Stable	New Zealand
CARIBBEAN AND LATIN AMERICA								
—	P	Cooperativa de Seguros Multiples de PR *Grupo Cooperativo Seguros Múltiples*	003502	B++ bbb+	Stable Stable	A- u a- u	Negative Negative	Puerto Rico
⊕	P	Grupo Mexicano de Seguros, S.A. de C.V. *GMS Valore, S.A. de C.V.*	077263	B++ bbb+	Stable Stable	B++ bbb	Stable Positive	Mexico
⇅	L	Trans-Oceanic Life Insurance Company *Trans-Oceanic Group Inc*	007132	B++ bbb+	Stable Stable	B++ bbb+	Stable Negative	Puerto Rico
—	P	QBE Seguros *QBE Insurance Group Limited*	013088	B++ u bbb u	Negative Negative	A- a-	Negative Negative	Puerto Rico

Holding Companies

Rating Action	Company Name	AMB#	Current ICR	Current Outlook/ Implications	Previous ICR	Previous Outlook/ Implications	Domicile
—	ACMAT Corporation	058304	bbb	Stable	bbb+	Negative	Connecticut
⊕	Generali France S.A.	083077	bbb+	Stable	bbb	Positive	France
—	Infinity Property and Casualty Corp	051078	bbb-	Stable	bbb u	Negative	Ohio
☑	Kemper Corporation	058711	bbb-	Stable	bbb- u	Developing	Delaware
—	Unico American Corporation	058482	bb+	Negative	bbb-	Negative	California

Rating Action: (⊕) Upgrade; (—) Downgrade; (New) Initial Rating; (⚑) Under Review; (⇅) Change in Outlook; (⇥) Rating Withdrawal; (☑) Rating Affirmation.
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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 insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
F	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
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 AM Best.

Rating Disclosure – Use and Limitations

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Financial Size Category

To enhance the usefulness of ratings, AM 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

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BEST'S ISSUER CREDIT RATING GUIDE – (ICR)

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

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

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

** Best's Long-Term Issuer Credit Rating Categories from "aa" to "ccc" include Rating Notches to reflect a gradation within the category to indicate whether credit quality is near the top or bottom of a particular Rating Category. Rating Notches are expressed with a "+" (plus) or "-" (minus).*

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

Rating Categories	Rating Symbols	Category Definitions
Strongest	AMB-1+	Assigned to entities that have, in our opinion, the strongest ability to repay their short-term financial obligations.
Outstanding	AMB-1	Assigned to entities that have, in our opinion, an outstanding ability to repay their short-term financial obligations.
Satisfactory	AMB-2	Assigned to entities that have, in our opinion, a satisfactory ability to repay their short-term financial obligations.
Adequate	AMB-3	Assigned to entities that have, in our opinion, an adequate ability to repay their short-term financial obligations; however, adverse industry or economic conditions likely will reduce their capacity to meet their financial commitments.
Questionable	AMB-4	Assigned to entities that have, in our opinion, questionable credit quality and are vulnerable to adverse economic or other external changes, which could have a marked impact on their ability to meet their financial commitments.

Long- and Short-Term Issuer Credit Non-Rating Designations

Designation Symbols	Designation Definitions
d	Status assigned to entities (excluding insurers) that are in default or when a bankruptcy petition or similar action has been filed and made public.
e	Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
f	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
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 AM Best.

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Driving Down Hacks

Trillium Secure CEO David Uze is touring the nation to raise awareness about vehicular cyberattack threats.

by Lori Chordas

The growing incidence of car hacking has insurers on high alert.

Armed with just $15 in electronics gear that he purchased from RadioShack, a 14-year-old boy successfully hacked into a connected car, unlocking and remote-starting the internet-connected vehicle.

While the simulated incident was part of an annual hackathon organized by nonprofit research group Battelle, the threat of automotive cyberattacks is very real. And that's sending up a red flag to insurers who underwrite gig economy programs, such as car-sharing, ride-sharing and other mobility-as-a-service offerings. "These insurance providers must underwrite the financial risks of cyberextortion, data security threats and breach of privacy litigation," said David Uze, CEO of mobility platform and security provider Trillium Secure.

Sophisticated and novice hackers are unleashing new levels of creativity by exploiting external connectivity, access points such as Wi-Fi and Bluetooth and other attack vectors to take control of connected vehicles. Not only are they able to unlock doors, but bad actors can also gain full remote control and initiate life-threatening actions such as disabling brakes and steering, turning the engine on and off and spoofing GPS systems, Uze said.

Trillium offers software to protect in-car computer systems, which are susceptible to hacking attacks. Drivers, fleet owners and auto manufacturers are looking for ways to keep intruders at bay, and Trillium's software, which is placed on a vehicle's computing hardware before the vehicle rolls off the assembly line, encrypts in-car data transmissions and detects unusual activity that could signal a potential cyberattack.

Insurers also are interested in software that shields high-tech vehicles from those attacks. Having an extra layer of intrusion detection and firewall protection can offer insurers a standard safety feature for vehicles they underwrite and insure.

Cyberattacks are set to grow with the proliferation of connected and autonomous cars on the roads.

By 2020, more than 5.5 million semi- and fully autonomous cars will roll off the assembly line and 98% of them will be connected through cellular networks, according to industry reports.

Trillium, a member of startup accelerator Plug and Play Tech Center's cohort of insurtechs, is working to ensure that data generated and consumed by connected and autonomous vehicles are "well-protected to ensure immutable accuracy and certifiable trust in the data's integrity," Uze said.

Uze and his team frequently crisscross the United States on an education and consumer outreach tour called "Hack Across America." The tour educates drivers about hidden cybersecurity risks and vulnerabilities associated with connected and autonomous vehicles.

"The problem is lack of data security for electronic devices inside vehicles. Today machines talk to machines without human interaction, and they're making decisions that impact human life. Autonomous driving is a perfect example of that. We need to ensure vehicles are secure inside and out and that data is private, confidential and absolutely trusted," said Uze, who plans to embark on another tour this spring.

"Data is no longer a stream of information. It's the new currency of the transportation economy. Trillium anonymizes data from connected and autonomous vehicles and shares it with fleet owners, carmakers and insurers who can use the data to offer preventative maintenance programs, safe-driver discounts and other value-added services to car owners and fleet managers," Uze said.

There has been a 19% rise in car crime and a 29% increase in disruptions to vehicle networks since 2014, according to the Office of National Statistics. BR

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