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AM BEST'S MONTHLY INSURANCE MAGAZINE

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BEST'S REVIEW®

April 2019 • Volume 120 • Issue 4
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AM BEST'S MONTHLY INSURANCE MAGAZINE

GROWTH INDUSTRY

As states across the country move to legalize cannabis, insurers assess the risks but remain cautious of market entry. **Page 32**


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Changes Ahead

From the Editor's Desk: A legal marijuana industry emerges, but state and federal laws put insurers and risk managers in a bind. April's issue also examines a peer-reviewed study that tested active shooter responses.

Changes to state laws have helped to create a new legal marijuana market, resulting in businesses large and small that are in need of insurance. Sales of legal marijuana reached $8 billion in 2017 and are projected to hit $22 billion by 2022.

Even so, insurers have been cautious about rushing into this market because marijuana remains illegal under federal law. But insurers have good reason to pay close attention as federal legalization efforts continue.

In "Growth Industry," *Best's Review* looks at the issue of marijuana, the emerging business risks and what it means for insurers and risk managers. In "A Green Shift," *Bests' Review* examines U.S. life insurers' attitudes toward marijuana. As more states legalize marijuana and it continues to gain mainstream acceptance, the life insurance industry is slowly evolving to cover the needs of recreational and medical users.

The April issue of *Best's Review* also examines responses to active shooter incidents, particularly in schools. Incidents such as the shootings at Virginia Tech, Sandy Hook Elementary School and Marjory Stoneman Douglas High School raise serious questions about the best way to minimize casualties.

One approach calls for the traditional lockdown of the building and for people to take shelter, hiding in closets or under desks, out of the line of sight of a possible shooter. A multi-option approach teaches people to react by barricading, distracting and swarming the shooter or escaping the scene.

A peer-reviewed study published in December in the *Journal of School Violence* tested the two approaches using simulations of school-shooting incidents. The results were compelling.

In "Studying Options," the authors of the study, *One Size Does Not Fit All: Traditional Lockdown Versus Multi-Option Responses to School Shootings*, explain how they conducted their study and what they learned.

In "In Support of Lockdown," an advocate of the lockdown approach raises his concerns about the study and explains why he believes lockdown is the safer approach for schools.

A third article, "No Easy Answers," offers the view of another school safety expert, who is an advocate for traditional lockdowns, scenario-based training and school staff being physically resistant in certain situations.

New and evolving risks, from marijuana business exposures to the response to active shooter threats, are just a few of the issues that risk managers and insurers need to manage in today's world. In "Wish List," *Best's Review* shares feedback from risk managers about what they are looking for from their insurers. Insurers will have an opportunity to meet with risk managers in Boston later this month at the annual RIMS conference. April is Risk Management Awareness Month and AMBest TV will provide extensive coverage of the RIMS conference, including interviews with senior industry executives.

All of these features can be found online in a 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 some of the reasons you enjoy working in the insurance industry?

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

Reader responses will be published in a future issue.

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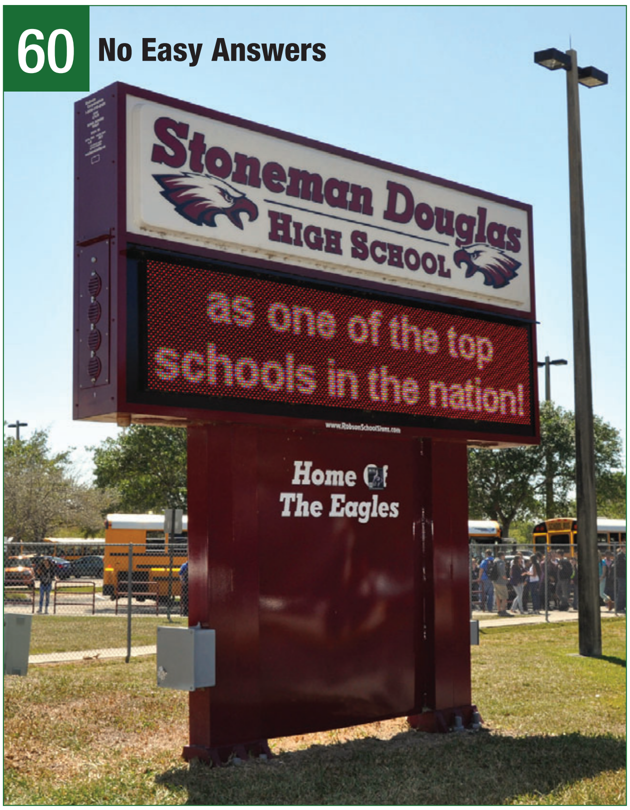

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ON THE COVER

Cover design by Andrew Crespo

Tech Making Waves

An AM Best webinar examines what the latest tech wave means for insurers and how companies need to keep pace. Also, experts discuss four trends that will fuel future ETF growth and how these might affect portfolios.

Transforming Insurance Business Through Data, Machine Learning and AI

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

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)

Coming Soon

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

How the Internet of Things Is Remaking Homeowners Insurance

Wednesday, April 24, 2019, 2 p.m. EDT

State of the Medical Professional Liability Market

AM Best senior analytic personnel and insurance industry leaders review the state of the U.S. medical professional liabiity insurance sector.
Tuesday, May 7, 2019, 2 p.m. EDT

How Portfolio Managers Are Leveraging Equity Enhanced Fixed Income

A panel of insurance portfolio management experts will examine how pairing fixed income securities with equity options offers new opportunities for growth. Sponsored by Invesco.
Wednesday, May 8, 2 p.m. EDT.

View These and Other AM Best Webinars

- The Future of Claims Management
- Sudden Impact: How Insurers Are Dealing With the Rise in Head Injury Claims

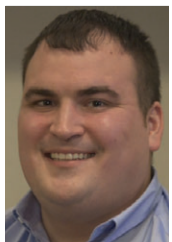
For details or to register for webinars, go to *http://www.ambest.com/conferences/webinars.asp*

Emerging Leaders, Data Analytics and ILS

AMBestTV reports on the inaugural 2019 Emerging Leaders Conference in Miami. Also QBE North America's Russell Johnston on specialty coverage; Aon's Eric Andersen on data analytics and risk solutions; and Swiss Re's Judith Klugman on insurance-linked securities. AMBest Radio presents discussions on a new risk barometer and changing business models.

New Talent Pushing Insurers To Innovate Faster

An AMBestTV panel at the Emerging Leaders Conference in Miami says new talent is pushing the insurance industry to innovate and integrate change faster to compete with companies like Google and Amazon. The panel included: Dan Hofmeister, financial analyst, AM Best; Jyotipriya Ajay, assistant vice president, Amica Mutual Insurance Co.; and Kunal Malhotra, vice president, innovation and product development, Assurant-Global Specialty. (Feb. 24, 2019)



Dan Hofmeister

Jyotipriya Ajay

Kunal Malhotra

AM Best's Mosher: Strong Companies Need Strong Leaders

Matt Mosher, executive vice president, AM Best, said you can't have a strong company without strong leaders. He spoke with AMBestTV at the Emerging Leaders Conference in Miami. (Feb. 25, 2019)

Matt Mosher

AM Best's Keenan: Diversity Promotes Innovation

Andrea Keenan, AM Best senior managing director, industry relations, said insurers are striving to be more inclusive. She spoke with AMBestTV at the Emerging Leaders Conference in Miami. (Feb. 24, 2019)

Andrea Keenan

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

QBE's Johnston: Succeeding In Specialty Coverage Means Thinking Beyond Products

Russell Johnston, CEO, QBE North America, said the organization is focusing on programs, property and building out coverage and support across 12 industry verticals. (Feb. 19, 2019)

Russell Johnston

Aon's Andersen: New Capital, Plus Data Analytics, Equals New Risk Solutions

Eric Andersen, co-president, Aon, said evolving technology and greater use of data analytics are widening the range of where and how the broker places risk. (Feb. 7, 2019).

Eric Andersen

Swiss Re's Klugman: Recent Activity Shows Differences Among Insurance-Linked Vehicles

Judy Klugman, global co-head of ILS, Swiss Re, said a busy claims environment in late 2018 highlighted liquidity differences among types of alternative capital. (Feb. 4, 2019)

Judy Klugman

Big Threat to Business, Specialization Grows

AMBestRadio presents discussions on a new risk barometer and changing business models.

BI Surpasses Cyber as Biggest Threat to Business

Tom Varney, ARC regional manager at Allianz Global Corporate & Specialty discusses the company's just-released 2019 Risk Barometer that shows business interruption surpassing cyber as the biggest threat to U.S. businesses as well as the study's other findings.

Risk Strategies' Power: MGA Specialization, Tech Driving E&S Innovation

Matthew Power, senior managing director, Risk Strategies, said changing business models tied to advances in technology, data analysis and science, are forcing insurers and MGAs to choose specialization.

Find AMBestRadio at *www.ambest.com/ambradio.*

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Risk Managers and Insurers to Gather In Boston for Annual RIMS Conference

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 2 – 3: IRUA Annual Meeting & Conference, Intermediaries and Reinsurance Underwriters Association, Hilton Head, S.C.

April 3 – 4: Spring Fly-In and Policy Conference, Crop Insurance and Reinsurance Bureau (CIRB), Washington, D.C.

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

April 4 – 6: CPCU Society Leadership Summit, The Institutes CPCU Society, Denver.

April 4: Buffalo I-Day, Insurance Club of Buffalo, Buffalo, N.Y.

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

April 7 – 9: APCIA Human Resources Conference, American Property Casualty Insurance Association, Nashville, Tenn.

April 7 – 10: The 23rd Annual HCCA Compliance Institute, Health Care Compliance Association, Boston.

April 9: Philly I-Day 2019, Insurance Society of Philadelphia, Philadelphia.

April 9 – 10: PAMIC Claims Summit, Pennsylvania Association of Mutual Insurance Companies, Gettysburg, Pa.

April 10 – 12: Regulatory Compliance Exchange, LIMRA/LOMA, Nashville, Tenn.

April 14 – 16: AAIS Main Event, American Association of Insurance Services, Hollywood, Fla.

April 14 – 16: IDMA 2019 Annual Conference, Insurance Data Management Association, Chicago.

April 14 – 17: ALA Annual Conference & Expo, Association of Legal Administrators, Grapevine, Texas.

April 15 – 16: 5th Annual International Cyber Risk Management Conference, MSA Research, Toronto.

April 28 - May 1: RIMS Annual Conference & Exhibition, Risk Management Society, Boston.

April 22 – 25: National Hurricane Conference, New Orleans.

April 23 – 25: Global Insurance Symposium, Des Moines, Iowa.

May 1 – 2: NCIGF Annual Conference, National Conference of Insurance Guaranty Funds, Chicago.

May 1 – 3: ICA Spring Meeting, International Claim Association, Destin, Fla.

May 1 – 3: Customer Experience Conference, LOMA, San Antonio.

May 6 – 8: Mid-Year Meeting, Target Markets Program Administrators Association (TMPAA), Baltimore.

May 6 – 8: NAMIC Directors' Bootcamp 2.0, National Association of Mutual Insurance Companies, Winter Park, Fla.

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

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April Is Risk Management Awareness Month
Insurers, regulators and organizations of all types are learning that new risks are developing, known risks are evolving and that many risks are connected in surprising ways. Enjoy coverage of the RIMS conference via AMBestTV and reports to be published in coming editions of *Best's Review*.

Former CFO at AIG Joins Health Insurtech Oscar

Also: New commissioners in Connecticut and West Virginia, former Lloyd's chairman dies at 85 and Arch Capital names chief risk officer.

Oscar Health appointed former American International Group Inc. chief financial officer Sid Sankaran as its new CFO.

He will oversee accounting, financial planning and analysis, strategic finance, actuarial, pricing and plan design at the consumer-focused, technology-driven health care company and will be based in the Oscar's New York headquarters.

Sankaran "embodies an unmatched breadth and depth of experience in subjects critical to any company, such as capital and strategy, as well as those particularly important at Oscar, such as actuarial and risk," Mario Schlosser, chief executive officer and co-founder at Oscar, said in a statement. He said Sankaran "will be a valuable addition to Oscar."

Speaking about Oscar, Sankaran said "I have been impressed with the company's efforts to restructure how insurers and consumers interact, and I see great potential in Oscar's technology-driven approach to bending health care's cost curve."

Sid Sankaran

Sankaran succeeds Brian West, who left Oscar last year to become CFO of Refinitiv.

Sankaran was most recently CFO at AIG, where he oversaw a nearly $500 billion balance sheet and was responsible for AIG's end-to-end financial operations, corporate development and capital markets activities, according to Oscar. Before that, he spent five years as AIG's chief risk officer and was a member of the executive leadership team that helped lead AIG through its restructuring.

Before joining AIG, he was a partner in the finance and risk practice of Oliver Wyman Financial Services.

—David Pilla

Deloitte Executive Tapped as Connecticut's Next Insurance Commissioner

Connecticut Gov. Ned Lamont nominated Andrew N. Mais, a member of Deloitte's insurance industry group, to be the state's next insurance commissioner.

Mais specialized in insurance regulation at the Deloitte Center for Financial Services in Stamford, Connecticut, where he worked since 2011, Lamont's office said. Before that, he served in the senior leadership team of the New York State Insurance Department, including as the agency's director of public affairs. In addition to his career in insurance, Mais also served as a talk show host on Cablevision from 2001 to 2007.

Andrew N. Mais

Mais succeeds Katharine Wade, who left office Dec. 19 in the waning days of Gov. Dannel Malloy's second term. Malloy appointed Wade commissioner in March 2015.

Lamont, a Democrat, won a slim victory in November over Republican Bob Stefanowski.

State Insurance Regulators Elect Florida Commissioner as NAIC Vice President

The National Association of Insurance Commissioners elected Florida Insurance Commissioner David Altmaier to fill the vacant position of the office of NAIC vice president. The position became vacant when Hawaii Insurance Commissioner Gordon Ito was replaced in January.

David Altmaier

Altmaier joins other 2019 NAIC officers, NAIC president and Maine Insurance Superintendent Eric A. Cioppa; NAIC president-elect and South Carolina Director of Insurance Raymond G. Farmer; and secretary-treasurer and Idaho Insurance Commissioner Dean L. Cameron.

In November, Cioppa was elected as the new president for 2019. He succeeded Julie Mix McPeak, Tennessee Commissioner of Commerce and Insurance.

Altmaier was appointed as the Florida Insurance Commissioner in April 2016 by the state Financial Services Commission.

West Virginia Governor Names New Insurance Commissioner

James A. Dodrill was named West Virginia's insurance commissioner, according to an announcement by Gov. Jim Justice.

Dodrill succeeds Allen McVey, who earlier this year was named secretary of the Department of Administration. McVey was appointed as insurance commissioner in 2017.

Since McVey's move over to the Department of Administration, Erin K. Hunter, the department's general counsel, has served as acting insurance commissioner.

Dodrill worked for two decades as the corporate claims counsel for Progressive Group of Insurance Cos. Before that, he worked as a lawyer in private practice. Dodrill is a colonel in the Civil Air Patrol and is retired from the West Virginia Air National Guard.

Philadelphia Insurance Cos. Names SVP

George Schalick

Philadelphia Insurance Cos. named George Schalick senior vice president of underwriting.

Schalick, who had been division vice president, will continue to oversee the management and professional liability underwriting division in his new role, Philadelphia Insurance said in a statement. He joined the company in 2002 as an underwriting trainee and has held several positions over the past 17 years, including underwriter, underwriting manager, product manager and assistant vice president.

Great American Names Executive Vice Presidents to P/C Group

Anthony J. Mercurio

David L. Thompson Jr.

Great American Insurance Group has promoted both Anthony J. Mercurio and David L. Thompson Jr. to executive vice president of its property/casualty group.

The Cincinnati-based company created the new positions to strengthen its leadership team, according to a company spokesperson.

Mercurio will continue to serve as president and chief executive officer of National Interstate, a position he has held since 2016, the company said in a statement. National Interstate merged with parent company American Financial Group in a $660 million deal in 2016.

Since joining National Interstate in 1997, Mercurio has held a variety of leadership positions. He led the acquisition of Vanliner Insurance Co. in 2010 and served as its CEO. He is a 24-year veteran of the industry.

Thompson has served as senior vice president of Great American's property/casualty group since 2016. He joined the company in 2006 and has held various positions, including divisional president for the agribusiness division. He recently served as senior reporting officer with responsibility for six P/C businesses, oversight of the P/C group's predictive analytics function and the Dempsey and Siders Agency. He has 13 years of industry experience.

Arthur J. Gallagher Names Benefit Services President for Canada

Melanie Jeannotte

Global broker Arthur J. Gallagher & Co. has appointed Melanie Jeannotte as its first national president of Gallagher Benefit Services (Canada) Group Inc.

Previously, she was Western Canada area president for Gallagher's benefit and human resources consulting practice.

David Rowland, Lloyd's Chairman During Mid-1990s, Dies at 85

David Rowland

David Rowland, who as chairman of Lloyd's between 1993 and 1997 is credited with bringing in the structural changes that protected Lloyd's from possible devastation from U.S. health and pollution losses, has died at the age of 85.

In confirming Rowland's death with "great sadness," Bruce Carnegie-Brown, Lloyd's current chairman, credited him with heading off the threats posed by growing asbestos, pollution and health claims, and the after-effects of such disasters as the 1988 Piper Alpha oil rig explosion and the Exxon Valdez oil spill and the San Francisco earthquake, both in 1989.

Under Rowland, "Lloyd's was able to confront and address the losses it was facing and put in place many of the necessary structural changes that still underpin the market, ensuring it remained on a firm footing," Carnegie-Brown said.

Axa UK and Ireland Fills Newly Created Chief Operating Officer Role

Shali Vasudeva

Axa UK and Ireland has appointed Shali Vasudeva to the newly created role of chief operating officer.

As COO, she will lead a transformation office focused on simplifying the company's operations, Axa UK said in a statement. Subject to regulatory approval, Vasudeva was to begin her new role on March 1.

Vasudeva moves to Axa UK from Hiscox, where she led group-wide change, Axa UK said. She will join the management committee of Axa UK and Ireland and report directly to Chief Executive Officer Claudio Gienal.

Arch Capital Names Chief Risk Officer

Arch Capital Group Ltd. has named Janice Englesbe senior vice president and chief risk officer.

She will be based in Arch's Bermuda office and will report to François Morin, the group's chief financial officer. Englesbe takes over the CRO role after Morin, who previously held the position, was promoted to CFO.

Englesbe has more than 25 years of risk and finance experience, including as group deputy CRO of General Re.

Kemper Appoints Chief Actuary-Strategic Analytics Officer

Kimberly Holmes

Kemper Corp. has appointed Kimberly Holmes as senior vice president, chief actuary and strategic analytics officer.

She has more than 25 years of experience in insurance, actuarial functions and advanced analytics. Most recently, she served as senior vice president and global head of strategic analytics for Axa XL. Earlier, she held chief actuary roles at Endurance Risk Solutions, Endurance Specialty Insurance Ltd., Enterprise Reinsurance Ltd. and Starr Excess Liability Insurance Co. BR

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Risk Concerns

Best's Review recently asked readers: What do risk managers want from their insurers and what are some of the things insurers do that drive risk managers crazy?

Having previously worked in the risk management industry, I wanted my insurer to be more of a partner rather than just an agent supplying policies. Below is a short list of items that were valuable to me:

- An insurer who is knowledgeable of the industry where I was working and thereby providing coverage which helps to address specific needs.
- An insurer who was more of a partner which means bringing more to the table than just a renewal policy. They should be offering services that help me perform my job more efficiently. Depending on the industry this could include items such as: loss control services; cyber security services; and safety seminars or webinars.

Items such as this help the risk manager to present the best program possible to the business and aids management in making business decisions and addressing risk factors as the business moves forward.

Cynthia L. Burleson
Lecturer/Director of the Center for Insurance & Risk Management Studies, University of Central Arkansas

As a workers' comp/professional employer organization wholesaler, what drives us crazy about insurers is they do not have urgency when it comes to workers' comp, claims, safety and business administration services. When the policy deadline is fast approaching, they do not have the sense of urgency that we, as their insurance advisers, do.

Bonnie Sullivan
Sales Executive, Bixby Zane
Austin, Texas

Simple: They want the best rate without us having to market our account to get them to sharpen their pencils. In my husband's small business where our typical spend is only about $17,000 a year, I found a price differential of almost $5,000 by insurer. Until you hold the underwriter's/agent's feet to the fire, you get nothing.

Nancy Germond, Residential Faculty, Insurance
Glendale Community College
Glendale, Ariz.

Spreading the Word

Cigna is using star power to encourage individuals to get an annual check-up, and American Family acquires naming rights to the home of MLB's Milwaukee Brewers.

Star Power

CIGNA is teaming up with several celebrities to encourage individuals to get an annual check-up and talk to their health care providers.

Queen Latifah, Nick Jonas and Ted Danson are partnering with the global health service company in a new initiative that champions Cigna's whole person approach to health and well-being.

The campaign uses a public service message style and features the celebrities taking unique steps to find balance in their busy personal and professional lives. The ads use light humor to address the impact that feelings such as loneliness and stress can have on a person's health and well-being and "shed a light on the close connection between physical and emotional health," said Stephen Cassell, senior vice president, global branding at Cigna.

Many people are faced with the daily struggles of stress, anxiety or sleeplessness. "We're encouraging everyone to take control of their total health by scheduling an annual check-up today and being honest with your health care provider about how you are feeling both physically and emotionally," Cassell said.

The initiative— *Go. Know. Take Control*.—builds upon Cigna's preventive care efforts encouraging people to get an annual check-up, take control of their health and know their four health numbers—blood pressure, cholesterol, blood sugar and body mass index.

Since its launch in 2016, the *Go. Know. Take Control* campaign has helped drive an 18% increase in annual check-ups among Cigna's customers.

The company is also taking that message on the road with its national grassroots Health Improvement Tour that provides free health screenings in select local communities. Last year, the tour visited nearly 140 cities and provided more than 14,000 free screenings.

Grand Slam

AMERICAN FAMILY INSURANCE has acquired the naming rights to Miller Park, home of the Major League Baseball team, the Milwaukee Brewers. The deal takes effect in 2021 and will continue for 15 years, dependent upon the team extending its stadium lease beyond 2031. American Family will succeed MillerCoors, title sponsor since the stadium opened in 2001.

American Family Chairman and CEO Jack Salzwedel calls the deal "a smart marketing investment" for the Madison, Wisconsin-based insurer.

While American Family doesn't have the mega-advertising budget of other larger insurers, its marketing philosophy is to pursue creative, authentic and inspiring opportunities that align with the principle of value, Salzwedel said.

Naming rights are a popular marketing move for insurers. Last year, State Farm scored a deal for the naming rights to the home stadium of National Football League's Arizona Cardinals.

As part of the deal with the Brewers, American Family said the entities will jointly fund community projects that contribute to the growth and revitalization of Milwaukee. The company will also open a new office in two to three years in the city's downtown area. American Family also is the title sponsor of Summerfest and the American Family Insurance Amphitheater on the city's lakefront.

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

Model Behavior

Industry experts talk to AMBestTV about the success and challenges of using risk models.

"I think after two very challenging years in 2017 and 2018, from a natural catastrophe perspective, we may be reaching an inflection point in 2019, when it comes to capacity, rates, and terms and conditions.

In the insurance industry, we're very used to severe natural catastrophes, but there were some elements of the events over the last couple of years that, to a degree, caught the industry by surprise. By that, we're talking about in late last year, the severity of the California wildfires, which is a peril that's not overly well modeled by the modeling companies.

We had a combination of less than robust modeling data for the insurance companies to rely on, and then just an unprecedented level of severity for those California wildfires last year. The year before, with Hurricane Maria hitting Puerto Rico so hard, I don't think the cat models or those of us that are following the insurance industry ever really expected that level of business interruption. The complexity of those losses, and the fact that those reserves are proving inadequate, even a year-plus post the event, we've seen adverse reserve development from many players in the market on the primary and the reinsurance side. That's also had implications for alternative capacity. There's been some headlines about collateralized programs, where the collateral is not being released because of this problem with adverse development on losses that happened over a year ago. That's led some ILS fund managers, ILS investors to start thinking about how much capacity do I really want to put into insurance risk or insurance as an asset class. All of those factors coming together could have implications for the amount of capacity that's available on the reinsurance and the retro side."

Stefan Holzberger
Senior Managing Director and
Chief Rating Officer
AM Best

"In most typhoon models, we actually capture the heavy precipitation because, very often, it's actually the inland flooding from the precipitation that causes the most damage, sometimes more than the wind or even the storm surge.

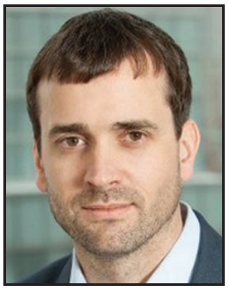
Most catastrophe models capture that currently. What's more uncertain are the landslides and mud slides, because they don't always happen, necessarily, at the time of the typhoon. That's a little bit more complex to capture. At the moment, we're still trying to fully understand that correlation of peril, looking at that closely. We certainly see that there's a correlation when typhoons happen, that you do have in several instances. In the Philippines with Typhoon Mangkhut, we saw there were very large landslides that killed 156 people. It does happen, but the difficulties in modeling that and representing it for the industry is a little bit harder. We haven't got there yet with landslides, but I think in the future it may well be something we model, as well."

Iain Willis
Managing Director
JBA Risk Management Singapore

"There actually is a lot of data [concerning cyber losses]. I think that's a misconception that people have, that it's a data-poor type of problem. There's surprisingly a lot of data out there. In fact, we have data on about 77,000 historical incidents to use to build a model. That's a lot of incidents. This is just over the past decade or so. Things are happening all the time. Because of how quickly things are happening, there's a lot of data flowing in. Not only do we have that data on historical incidents just about the incidents, but we get real cyber claims data. This allows us to calibrate the model to what cyber insurers are suffering today, as opposed to just looking at a pure cyber security-focused model. We're doing that for sure, but we take it that step further to build the cyber insurance aspect into the model."

Scott Stransky

Assistant Vice President and
Director of Emerging Risk Modeling
AIR Worldwide



"Insurers are exploring ways to use machine learning techniques for pricing. They are using machine learning techniques to look for ways to improve their generalized linear models which can be used for pricing. For example, to find new features or combinations of variables that could improve those models.

Secondly, they're using them to develop models that support pricing decisions, such as inspection models. We still see insurers being hesitant to use machine learning techniques for rating because they simply don't have a complete understanding of how they'll impact prices and there's that reputational risk."

Ben Williams

Director, Insurance Consulting and Technology
Willis Towers Watson

"The insurance sector is not only a potential victim to the cyber threat attacks but also underwrites insurance. We have the cyber insurance exposure, we have the cyber insurance underwriting and accumulation of risks. There are question marks whether sufficient data and sufficient models exist right now in the market to actually support these exposures."

Dimitris Zafeiris

Head of Risks & Financial Stability Department
European Insurance and Occupational
Pensions Authority

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

When to Say No

How to weigh the pros and cons of accepting new opportunities.

Last month, I shared the value I found in my mother's advice to "Just say yes."

This month, I want to explain why I believe it's also important to get comfortable saying "no" in our careers.

Once I began saying yes to new opportunities at the office, the requests started rolling in. I was soon in a position where continuing to say yes would be unrealistic. I would be unable to continue performing at the high standards I had set for myself. My day-to-day work would certainly have suffered.

But, that's not all: The point was to find new strengths and build new relationships. Showing up as less than my best in these situations would not accomplish those goals.

Carly Burnham

Learning to say **yes or no** judiciously is an **important** career skill.

But, of course, some of the new opportunities still sounded interesting to me. I knew I had to make a change.

How did I manage this?

First, I triaged the requests that were coming in.

Based on my better understanding of my strengths and interests, I said no to the ones that I knew fell outside of those.

If I could, I recommended someone who seemed to me a better fit. With that recommendation, I was still providing some benefit after being asked, but I was protecting my time.

Then, I sat down and looked at the activities that were already on my plate. I discovered I was more interested in some than others.

Some of the activities or projects that I was working on were time bound. In those cases, I honored my commitments. In the cases where there was no agreed-upon time frame for my participation, I withdrew.

Where appropriate, I said I would find my replacement or at least offer a name to the organizers as a potential lead.

After clearing some of my plate, I looked at the offers that I was most interested in—either areas that I wanted to grow in or that I knew I could make a concrete and valuable impact.

I said yes to those that I knew I could make time for. The others, I politely turned down.

This is a process that I repeat quarterly or so, as my career in the insurance industry has continued.

But, like many people, saying yes comes more naturally to me. I have to remind myself that time is a finite resource.

While there are benefits to saying yes, like meeting new people, trying out new skills and finding new interests, we must be realistic about the commitments we make.

When you say yes, the organization that you've committed to will have expectations about the effort that you are going to put into their project. If you can't meet their expectations, you'll disappoint yourself and the group that was depending on you.

Setting this as a pattern or even making one misstep can tarnish your reputation. Our reputations are valuable, and overcommitting is one of the quickest ways I know to fail at something.

Learning to say yes or no judiciously is an important career skill. It is likely that you have made some of these missteps on your own. If you're new to your insurance career, spend some time thinking about both sides of these situations.

If you're further advanced, share how you learned these lessons with the young professionals around you.

Carefully explain to your colleagues or team members the thought process you go through in choosing what "extracurricular" to accept.

If you're delegating a request to one of your team members, be explicit about how they should reflect on what they can gain from the experience and how and when they ought to say no instead. 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*.

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Healthcare Professional Liability Insurance

Regulatory Update

A risk retention group is placed into receivership. State legislators move to limit balance-billing and create invisible reinsurance pool. Private flood insurance growing in Pennsylvania.

Auto: A Nevada court has ruled Spirit Commercial Auto Risk Retention Group is insolvent and has placed the company into receivership.

The Eighth Judicial Circuit Court of Nevada found the Las Vegas-based commercial automobile liability insurer was unable to pay all of its policy claims, requiring the appointment of a receiver to administer the company's affairs, according to court records on its web site.

Spirit's insurance policies will be canceled no later than April 15, it said.

The court appointed Nevada Insurance Commissioner Barbara Richardson permanent receiver and Cantilo & Bennett of Austin, Texas, the special deputy receiver.

The receivership records also said the company is barred from writing any new business.

Health Insurance: The Washington state House of Representatives has passed legislation that would restrict out-of-network health care providers from balance-billing consumers.

By a vote of 84-13, the house passed the measure, requested by Insurance Commissioner Mike Kreidler. It now is in the state senate Health and Long Term Care

New Cybersecurity Law in Effect in Ohio

The law requires insurers to create a comprehensive information security program.

by Timothy Darragh

New cybersecurity requirements to guard against data breaches went into effect last month for insurance companies, agents and other licensed entities in Ohio.

Based on the National Association of Insurance Commissioners' model data security law, the measure requires insurers to create a comprehensive information security program based on their risk assessment, according to a legislative analysis by the Ohio Legislative Service Commission.

The law requires a written incident response plan designed to help companies respond to, and recover from, any cybersecurity event that compromises the confidentiality, integrity or availability of non-public information, the analysis says. Former Ohio Gov. John Kasich signed Senate Bill 273 in December after it passed the legislature. The law is effective March 20.

> Approved plans will be deemed "industry-recognized" and gives licensees an affirmative defense if it is alleged in court to have failed to implement a reasonable security plan.
>
> **Ohio Legislative Service Commission**

The measure requires licensees or outside vendors working for the licensees to conduct a prompt investigation when a breach appears to have occurred. Licensees will be required to report the incident to the superintendent of Insurance as soon as possible, but no more than three days after the event, the analysis says.

It also spells out what information must be reported, including when the event occurred, how the information was compromised, whether the licensee has filed a police report and a best estimate of the total number of consumers potentially affected.

Insurers also will be required to document areas that need material improvement or updating, it said.

The superintendent of insurance will have the authority to review the written plans and reports, and the measure authorizes the superintendent to take "any necessary or appropriate action to enforce the bill's requirements," it said.

Approved plans will be deemed "industry-recognized," it said, and gives licensees an affirmative defense if it is alleged in court to have failed to implement a reasonable security plan.

Licensees that have fewer than 20 employees, less than $5 million in gross annual revenue or less than $10 million in assets are exempt, it said. Licensees have a year to comply with the measure and two years to certify that third-party providers take their own steps to secure their systems, it said.

The NAIC adopted its model law in 2017.

South Carolina became the first state to pass a law based on the model less than a year later. BR

Timothy Darragh is associate editor, BestWeek. He can be reached at timothy.darragh@ambest.com.

New SIFI Process Proposed, Will Focus on Systemic Risks

The proposed guidance would put in place a new approach first suggested in 2017.

by Frank Klimko

The Financial Stability Oversight Council wants to adopt industry-friendly language in a new interpretive guidance over how it designates insurers as systemically important financial institutions, focusing on system-wide risks rather than individual institutions.

The council voted unanimously to issue new rules under which it would have to take an activities-based approach toward designation, perform a pre-designation cost-benefit analysis and assess the likelihood of a nonbank financial company's material financial distress before assigning it a SIFI label.

The new approach would largely side with the insurance industry over a central element in the fight over interpreting the powers given to the FSOC through the Dodd-Frank Act. Critics, and the FSOC itself, have argued the FSOC was required to test a company's material financial strength first before deciding whether to designate it as a SIFI.

> "It's clear federal regulators under the Trump administration don't anticipate designating any insurers as SIFIs."
>
> **Ian Katz**
> Capital Alpha Partners

Under the prior administration, attorneys for the FSOC said the Dodd-Frank financial reforms never required the FSOC would first test each company's financial sturdiness. However, Judge Rosemary M. Collyer, of the U.S. District Court for the District of Columbia, ruled the FSOC violated its own guidance by failing to measure MetLife Inc.'s vulnerability to material financial distress. MetLife eventually prevailed and shed its SIFI designation via litigation in 2016.

The guidance asks whether the council should incorporate Collyer's decision into the way it designates SIFIs.

The new rule mandating a cost-benefit analysis is also a big change. Under the proposed rule, the council would designate a nonbank financial company only if the expected benefits outweighed the anticipated costs of the designation.

It's clear federal regulators under the Trump administration don't anticipate designating any insurers as SIFIs, Ian Katz, director of Capital Alpha Partners, said in a research note.

"The FSOC decision cements the view, which was already gaining momentum under (President Barack) Obama, that the days of designation are over—unless some 2008 AIG-like craziness appears poised to emerge," he said.

FSOC critics, however, called the new proposed guidance a step in the wrong direction.

"These actions irresponsibly ignore the lessons of the 2008 crash, which was ignited in and spread by systemically significant nonbanks in the shadow banking system," said Dennis Kelleher, president and chief executive officer of Better Markets. BR

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

Regulatory Update

Committee, which passed a similar bill out of committee unanimously earlier this session, Kreidler's office said in a statement.

The department has heard from hundreds of consumers who received a surprise bill from an out-of-network provider despite seeking treatment from an in-network hospital or surgical facility. In many of those cases, the bills totaled thousands of dollars, it said.

Health Insurance: The North Dakota House of Representatives has passed a bill to create an "invisible" reinsurance pool for the individual health insurance market. Invisible reinsurance is expected to make the state's individual market more attractive to carriers. It also would allow enrollees to remain in the individual market with their current plan and carrier, but with part of their claims being reimbursed by the reinsurance pool, which would be funded with federal funds and assessments placed on companies selling in North Dakota's health insurance market.

The idea, according to the state insurance department, is to create an affordable option for healthier individuals who have chosen not to buy health insurance in the past and to inject healthier risk into the single risk pool.

Flood Insurance: The number of private flood insurance policies in Pennsylvania grew by 72% over the past year, according to the state insurance department. Homeowners had 8,950 private flood insurance policies as of February of 2019, compared with about 5,200 in February, 2018, the department said in a statement. Twenty Pennsylvania-licensed insurance companies sell private flood insurance, in addition to 59 individual surplus lines producers, the statement said.

A Stubborn Truth

Debunking the many misconceptions homeowners and business owners have about flood insurance.

By
Lance Ewing

Mark Twain once quipped, "If a cat sits on a hot stove, that cat won't sit on a hot stove again. That cat won't sit on a cold stove either." Or so the story goes.

Yet, that is not the case when it comes to flood insurance. Many homeowners, renters and even commercial corporations, who have had previous flood claims and were not covered, still do not purchase flood policies. The facts substantiate that since 2009 the number of policies issued in the United States by the National Flood Insurance Program (NFIP) has decreased by almost 10%. Many of these same homes and businesses that are declining to buy flood coverage are still susceptible to flooding or have even filed previous flood claims. So why do homeowners and businesses that have been or could be adversely and financially impacted by flooding not buy flood insurance? A few reasons may include:

Lack of Knowledge. Many homeowners and small-to-mid-tier business owners are under the misguided belief that their current property policies cover flood. Insurance agents and brokers need to improve their marketing to clients. Including a flood insurance quote with every homeowners and commercial property quote would be a good start. In addition, the federal government and NFIP have to do more with marketing the coverage, specifically where flooding has occurred repeatedly.

Apathy. Many policyholders believe that it will not happen to them. The fact is if it rains on their house or business they need flood coverage.

Much like with life insurance, most homeowners and small-business owners are reluctant to discuss or do not want to think about potential flood losses. Unless their financial lending institution or mortgage company mandates it, many will not buy flood insurance. It is the "it won't happen to me" approach.

Much like with life insurance, most homeowners and small-business owners are reluctant to discuss or do not want to think about potential flood losses.

Flood Maps Are Erroneous. In October 2018, the City of Mexico Beach, Florida was devastated by Hurricane Michael. Federal Emergency Management Agency (FEMA) flood maps for Mexico Beach were last updated in 2009. Many of the homes damaged by flood in Mexico City were not in FEMA's flood zones according to the maps. Therefore, many residents and businesses did not purchase flood coverage. This was also true in other parts of the United States during the 2017 hurricanes Harvey, Irma and Maria.

FEMA Disaster Grants. In 2015, the University of Pennsylvania Wharton School's Risk Center (in conjunction with the flood resilience alliance) conducted a study in which one of the findings was that, "If people know that they can receive a fairly sizable amount of money 'for free' after a disaster, they will most likely include this knowledge in their insurance decision-making process, giving rise to moral hazard."

In 2017, the average FEMA payment was more than $33,000 for floods and disaster losses. While not nearly enough to cover an entire loss, it does play in the back of homeowners' minds that the government will provide some relief. This may lead to purchasing less flood coverage than needed or not buying any at all.

Education on purchasing flood insurance is the responsibility of the insurance industry, financial institutions and the government so home and business owners do not get burned twice by not having flood coverage. BR

Best's Review columnist **Lance Ewing** is executive vice president of Global Risk Management for Cotton Holdings Inc. He also is the former president of the Risk and Insurance Management Society. He can be reached at *bestreviewcomment@ambest.com.*

The Data Divide

Data ethics and data governance need to be part of every employee's onboarding, highlighting their responsibility along the supply chain.

By
Pat Saporito

Organizations need to view data as a supply chain, examine exposures and adopt risk mitigation efforts at every stage, including collection, manipulation and consumption.

The digital world is built on data-enabling analytics. Data abounds, but with great data wealth comes great data responsibility, especially in the insurance and financial services industries where data is one of the most valuable corporate assets.

We are stewards of the data we own and use. Organizations must consider the ethics of data collection, manipulation and use. We have the duty to protect it and to use it fairly as well as transparently. Given how rapidly and completely we are living in a data-driven world, data ethics should be taught in educational institutions and made part of every business, IT and data science program in all organizations, including our professional associations.

Data security and privacy guidelines are part of the baseline. The General Data Protection Regulation (GDPR) is a good standard to adhere to not only in Europe but to adopt in other countries as well. However, data ethics go beyond merely protecting the data. It also includes the algorithms that we create potential bias in and how we apply them.

Data ethics should be part of corporate security policies, but the mandate goes beyond the chief information security officer or chief information officer. It needs to go further than data security, starting with data governance. Organizations need to view data as a supply chain, examine exposures and adopt risk mitigation efforts at every stage, including collection, manipulation and consumption. This should be a board-level initiative, given the corporate risk exposure and enterprise scope.

A data supply chain includes data acquisition and storage; data aggregation and analysis; and applied usage, sharing and disposal. Managing this supply chain will require a strategy as well as best practices to operationalize it. People, processes and technologies are all required. Data ethics policies and cyber security policies must be continuously reviewed and adhered to, and data governance must be given more visibility and importance. Data ethics and data governance need to be part of every employee's onboarding, highlighting their responsibility along the supply chain. Technologies like block chain can help address data auditability and immutability.

Some practices are already in place but are stove piped across different areas within the organization. Others, such as data governance, lack widespread awareness and resourcing. They need to become part of an organization's enterprise data analytics strategy and under the purview of the chief data officer or analytics officer. Successful organizations can improve their data ethics by reviewing their data strategy and their current processes, identifying gaps, defining initiatives to address gaps and building a prioritized risk-based road map with assigned resources.

As industries become more digital and part of broader ecosystems, and technologies like artificial intelligence become more pervasive, data ethics will grow in importance. Organizations should build data ethics programs to simultaneously manage risk and build trust. Failure to do so will impact their reputation, brand, and customer and partner trust and put them at a true competitive disadvantage. BR

Best's Review columnist **Pat Saporito** is an analytics thought leader and author of *Applied Insurance Analytics: A Framework for Driving More Value from Data Assets, Technologies and Tools*. She can be reached at *pat.saporito@gmail.com*.

Good Times and Bad

The trauma of the financial crisis needs to be remembered even as new threats become a growing concern.

"You still wake up sometimes, don't you? You wake up in the dark and hear the screaming of the lambs… And you think if you save poor Catherine, you could make them stop, don't you? You think if Catherine lives, you won't wake up in the dark ever again to that awful screaming of the lambs."—Hannibal Lecter

By
Howard Mills

The number and types of risks are unlikely to diminish in the near future.

In the movie, *The Silence of the Lambs*, Clarice Starling, the young FBI trainee played by Jodie Foster, discusses with serial killer Hannibal Lecter (played by Anthony Hopkins) a particularly traumatic incident from her early childhood that shaped who she had become.

Board members, like FBI agents, must protect their charges. Many have been shaped by the trauma of the financial crisis, yet things may have become even more difficult as the threats of the past are superseded by new and seemingly exponentially growing new concerns.

In the latest *Deloitte Global Risk Management Survey* my colleague Ed Hida notes, "Financial organizations face challenges from nonfinancial risks such as cybersecurity, model, third-party, and conduct risk—as well as looming economic dangers—that will require institutions to rethink their traditional risk management approaches."

The survey finds that while some risks may be familiar, management of those risks is not yet at an effective level. For example, cybersecurity was cited as a top three risk by 67% of respondents, but only about half felt their institutions were either extremely or very effective at managing it.

While close to 90% of respondents felt their institutions were extremely or very effective in managing traditional financial risk, the number who felt the same about risk management for nontraditional financial risks was much lower. Only half felt the same about model risk management, 40% about third-party risk management, and 34% about data integrity risk management.

Board members who lived through the failure of risk management a decade ago might now be waking up in the dark and hearing the screaming of the lambs.

Fortunately, board members are stepping up their risk oversight game. Hida notes that "many institutions are following leading practices in board oversight." The survey shows that a risk committee of the board—usually chaired and staffed by independent directors—has primary responsibility for risk oversight in a majority of companies. Capital and liquidity stress tests also are being used much more extensively for the board. This is good news, meaning the industry is moving to respond to changing regulatory governance requirements.

In February 2019, the International Association of Insurance Supervisors (IAIS) released its *Application Paper on Proactive Supervision of Corporate Governance*.

That paper, meant to guide supervisors and regulators worldwide, instructs them to "question an individual insurer's or the entire sector's directions or actions, in good as well as bad times, and not act only after things have gone awry. While it is important for the supervisor to be proactive in order to address governance issues, the insurer is ultimately responsible for having a sound corporate governance framework."

The IAIS listed numerous red flags that should trigger supervisory interest, among them the inability of the board to clearly explain the strategy, risks and results to the supervisor.

That all points to a need for ongoing deep board involvement in risk oversight. The number and types of risks are unlikely to diminish in the near future, and as with Clarice's lambs when she tried to free them from the slaughter, standing still does not work. Boards that do not proactively oversee those risks may find themselves in an unpleasant spot at the regulatory buffet, served with fava beans and a nice Chianti. BR

Best's Review columnist **Howard Mills** is global insurance regulatory leader at Deloitte LLP and a former superintendent of the New York Insurance Department. He may be reached at *howmills@deloitte.com*.

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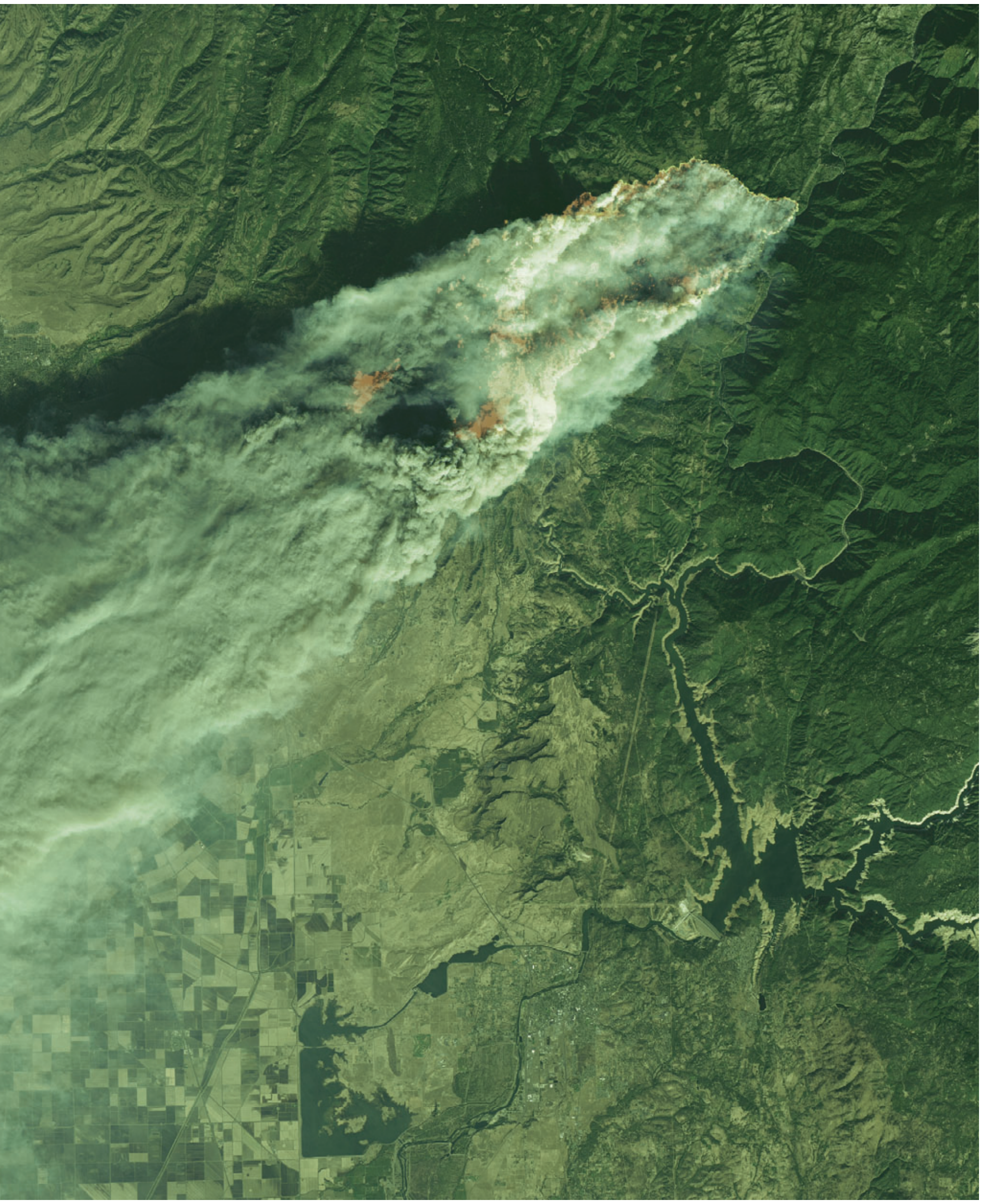

Interviewed Inside:

Andy Shockey
Philadelphia Insurance Cos.

Ben Williams
Willis Towers Watson

Matt Tierney
Grant Thornton

Devon Snyder
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Kevin Barth
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Protecting Children

Andy Shockey, an assistant vice president for Philadelphia Insurance Cos. said the insurance industry is shrinking capacity for sexual abuse and molestation coverage. “We are seeing that being driven by the claim settlements that a few short years ago would have been an event of several hundreds of thousands of dollars and today it can be a multimillion dollar claim situation,” he said. The following are excerpts of an interview.

What are the issues that agencies face when it comes to sexual abuse and molestation coverage?
The most prevalent is capacity of this coverage in the marketplace. It’s shrinking from just availability in general, to the actual limits that are available for purchase and consideration. That along with the terms and the conditions of the policies that come with the coverage when it is provided.

What’s driving the big change in the landscape?
There are several factors. One of them is news coverage, as the media has gravitated to these stories over the years. You also are seeing an ever-evolving legislative environment, both at the federal and state level. Finally, you will see the plaintiffs’ bar has been drawn to these situations, and that has, of course, increased the jury awards.

What is PHLY doing as a result of the need for sexual abuse and molestation coverage?
We’re continuing to educate our agents and our policyholders on strategies that they can reasonably undertake to reduce the potential and raise the barrier to this event happening in their business. One such example is consulting with their clients on their hiring practices. There are things that can reasonably be done that can send the right signal to what the organization is about. First and foremost, it’s about protecting the children they serve. When it comes to abuse and molestation, we feel that the hiring process is an excellent place for those risk strategies to start.

“When it comes to abuse and molestation, we feel that the hiring process is an excellent place for those risk strategies to start.”

Andy Shockey
Assistant Vice President
Philadelphia Insurance Cos.

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

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Additional Uses for Loss Cost Models

Ben Williams, a director with Insurance Consulting and Technology for Willis Towers Watson, said insurers could use their loss cost models of expected claims to guide their underwriting or their client acquisition efforts. "We do see more sophisticated clients using their models for these more general purposes, while the majority of the market is still focused on rate segmentation," he said. The following Q&A is an excerpt from a recent interview.

How are most insurers using these models and how can they be using them?

The pricing teams of most property & casualty insurers, particularly in personal lines, spend a lot of time developing sophisticated models of expected claim costs. The main reason is to understand how variables or rating factors impact expected claims. Once they have this information, they use it to inform the segmentation of their rates. They will compare the impact of, say, credit scores according to their predictive models against what their current rates are doing and make a selection. Then the combination of each of those selections is their proposed set of rates.

What should insurers consider when using loss cost models for other purposes?

They should consider the purpose of the model they're fitting. If the purpose of the model is only to inform rate segmentation, it may be fine to consider the variables or factors you can rate on. If you want the best possible estimate of claims, then you should include all information available to you. If the predictive models only include factors or variables that insurers can rate on, then they could give a biased or incomplete view of the expected claim costs.

Is it a lot of work to fit constrained and unconstrained models?

In a word, yes. Fitting unconstrained and constrained models does require more work than just fitting constrained models. If a pricing team has time constraints, then it makes sense just to focus on those constrained models. We advise our clients to begin with unconstrained models, that is, not being constrained by the variables they can use for rating. We do find there are benefits associated with starting with unconstrained models and then focusing on constrained. So when reducing the variables being considered, we do generally find that the additional work is worth the effort.

"Unconstrained models will give you the best estimate of claims associated with any combination of predictors or characteristics of the risk."

Ben Williams
Director, Insurance Consulting and Technology
Willis Towers Watson

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Moving to the Cloud

Grant Thornton

Approximately 25% of the Russell 2000 and private companies have migrated the back office applications that support finance, HR and supply chain to the cloud. The remaining 75% are in the process of or have plans to transform operations to cloud technologies. Traditionally insurers tend to be conservative when it comes to major back office transformations and typically make that investment once every 10 to 15 years, according to Devon Snyder, Grant Thornton principal who leads the firm's Insurance Business Applications practice.

Matt Tierney
Global Insurance Practice Leader

Devon Snyder
Principal, Insurance Business Applications

Kevin Barth
Senior Manager
Business Advisory Services

The cloud migration trend is proving to be especially prevalent in the insurance industry. According to Matt Tierney, Grant Thornton principal who leads the firm's services to insurers, competitive pressures from nimble "internet based" insurance start-ups are forcing traditional insurers to think differently and look for ways to leverage cloud-based technologies in order to create opportunities to dramatically improve operational efficiencies.

Why are insurers shifting to cloud-based systems?

Many insurance companies are still using on-premise ERP applications that were developed over 20 years ago, with outdated charts of accounts structures and manual processes required to simply close their books. This is untenable for a number of reasons. First, manual processes are cumbersome, time consuming, expensive and prone to inaccuracy. Second, they're competing with Silicon Valley-type insurance start-ups that are free of legacy overhead complexity, and therefore can be extremely competitive. Finally, software manufacturers are no longer investing in on-premise applications. The only way to stay current is to move to cloud-based applications.

What benefits have insurers realized by moving to the cloud?

Kevin Barth, Grant Thornton Senior Manager states: We have supported several insurance companies in their transitions to cloud/SaaS-based ERP solutions. In our experience, insurers experience a reduction in IT spending compared to their previous on-premise solutions, more efficient processing and faster close cycles. Furthermore, their employees are happier because they can spend their time analyzing data rather than manipulating it just to get it to reconcile. As they integrate the cloud-based systems throughout their organizations, they experience increased accuracy through automation in their claims processing of invoices with minimal/zero human interaction. From the broader business perspective, they're more agile in managing corporate acquisitions and divestitures, and are better able to support strategic initiatives.

How do cloud-based systems affect their customers?

For policyholders, cloud-based systems directly result in improved customer service. Claims can be paid faster, questions can be answered more quickly and accurately, and they can have greater confidence that their insurer is doing everything it can to reduce the cost to carry the policy and remain price competitive.

Are there industry-specific challenges that insurers should consider when contemplating a cloud transition?

Absolutely. Because of the challenges cited earlier, all insurance business systems (whether legacy on-premise or cloud-based) require significant configuration. In our work with insurers, we have developed an insurance-specific library of tools, leading practices and project artifacts to help streamline transitions. In addition, our team has created an insurance-specific software instance of Oracle Cloud ERP, capturing the best-in-class features, functionalities and lessons learned from successful past implementations.

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Growth Industry

As states across the country move to legalize cannabis, insurers assess the risks but remain cautious of market entry.

by Kate Smith

When she speaks at insurance conferences, Camille Dixon encourages carriers to visit marijuana dispensaries and manufacturing plants.

"Ask for tours," she says. "Look at these operations. You'll see they're wearing gloves and following OSHA protocols. See for yourselves how far this industry has come as a regulated market."

Dixon may sound like a representative of the cannabis industry, championing its cause. She is not. She is a regulator, championing insurance for cannabis-related businesses.

Dixon is director of the Cannabis Insurance Initiative for the California Department of Insurance. As a regulator, her mission is to make sure insurance is available for consumers. In this case, she said, cannabis companies are the consumers, and they currently are underserved.

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

“We probably won’t see it legalized at the federal level this year. But maybe after the 2020 election. We’re seeing sentiment changing, just not as fast as the industry needs it.”

Phil Skaggs
American Association of Insurance Services

“While there is some insurance available, we definitely need more,” Dixon said.

Around the country, states are moving to legalize cannabis, a term that’s used interchangeably with marijuana but actually is the plant from which marijuana and its non-psychoactive cousin hemp are derived. Medical marijuana is now legal in 33 states, and both medical and recreational use of marijuana is legal in 10.

Americans spent more money on legal marijuana ($8.1 billion) in 2017 than they spent on coffee ($5.1 billion), and legal marijuana sales are expected to double from $10.9 billion in 2018 to $22.1 billion in 2022.

Despite the size of the industry, though, only 25 carriers (mostly non-admitted) currently offer insurance to cannabis-related businesses, according to AM Best. And the coverage that is offered tends to be limited.

“It’s a fragmented market,” said attorney Ian Stewart, who co-chairs the cannabis law practice for Wilson Elser Moskowitz Edelman & Dicker. “There are many carriers who only offer one or two lines of coverage. None offer the full spectrum.”

The insurance industry’s skittishness stems from federal laws. Under U.S. federal law, marijuana is a Schedule 1 narcotic, which the U.S. Drug Enforcement Administration defines as “drugs with no currently accepted medical use and a high potential for abuse.” Banks that accept deposits from marijuana-related businesses are subject to prosecution for money laundering under federal drug laws.

Though the U.S. government has taken no action against insurers that serve the cannabis industry, experts say carriers are unlikely to jump into the market until marijuana is decriminalized at the federal level and banking regulations change.

Congress is currently considering a bill that would protect banks that service state-legal cannabis businesses. Passage of the SAFE Banking Act, Stewart said, would also force the U.S. Treasury to update the Financial Crimes Enforcement Network (FinCEN) guidelines that all financial institutions, including insurers, must follow when dealing with marijuana-related businesses.

“If the banking gets cleared up, you’re going to see a lot of carriers waiting on the ledge to jump in,” Stewart said.

Robert Raber, associate director of North American property/casualty for AM Best, pointed out that insurers were quick to enter the market in Canada once marijuana was legalized.

“Legality is the biggest hurdle for insurers in the U.S.,” Raber said. “You can see how in Canada, where it was legalized at a national level, there was much more interest by insurance companies to step in and meet the need.”

While there is debate about whether the 2018 Farm Bill, which laid the framework for legal production of hemp, signaled a softening of the federal stance on cannabis, there is a sense that the U.S. is moving toward federal decriminalization of marijuana.

“It’s only a matter of time before cannabis is de-scheduled,” Dixon said. “At that point, we will start to see a lot more insurance products. Even though they may not be willing to offer products because of the federal issue, a lot of insurance companies are paying attention to the market.”

Last month, the Ending Federal Marijuana Prohibition Act of 2019 was introduced in Congress. The bipartisan bill seeks to remove marijuana from the federal Controlled Substances list.

Federal legalization would be a game-changer for many insurers, according to Lorie Graham, chief risk officer and vice president of product development for the American Agricultural Insurance Company. While American Ag does not currently offer coverage to the cannabis industry, Graham said it is preparing to do so.

"We are researching, studying, trying to understand it so that when it does become available to insure, we are prepared," she said. "We're looking at emerging trends, making sure we're staying on top of it as it unfolds, and evaluating products and processes to make sure we're ready when it becomes legal."

When federal decriminalization will occur, though, remains to be seen.

"While cannabis is becoming a political platform, it is not a priority," Phil Skaggs, assistant counsel for the American Association of Insurance Services, said. "We probably won't see it legalized at the federal level this year. But maybe after the 2020 election. We're seeing sentiment changing, just not as fast as the industry needs it."

Cannabis Risks

Dixon said insurers are actively reaching out to their departments of insurance to ascertain what the cannabis industry looks like and what industries it compares to.

The answer, she says, is that the cannabis industry is not all that unusual.

"This is a normal business," Dixon said. "We can't stress that enough."

Mike Aberle, senior vice president of CannGen Insurance Services, said many of the risks cannabis-related businesses face are similar to other businesses.

"Retail is retail," said Aberle, whose cannabis-focused managing general agency is a subsidiary of Next Wave Insurance. "You have a seller and a buyer. You have a storefront. That doesn't change. You just need to find the baseline, and then add in what makes that particular business unique.

"Nothing the cannabis world does is any different than the normal world when you think about classifications. The product is just a widget. Whether you're growing that widget, manufacturing that widget, selling that widget or testing that widget, it's just a widget. The risk is not the product; we're not insuring nuclear waste."

While dispensaries may be at high risk for theft because they carry a lot of cash and valuable products—as do jewelry stores, banks and video game stores—they also have extensive security in place. State regulators have been very prescriptive in their requirements for cannabis businesses, down to the pixilation of surveillance cameras and the fire ratings of safes and vaults.

"The video monitoring systems in some of these businesses is cutting edge, like you'd see on a casino floor," Raber said. "The safes are similar to

Five Myths

Camille Dixon, director of the Cannabis Insurance Initiative for the California Department of Insurance, identified five misconceptions that insurers have about the cannabis industry.

Myth #1: The industry is unprofessional.

"Insurers don't understand or don't know that these are sophisticated businesses. They have scientists, lawyers and accountants. It's a very professional business."

Myth #2: There's no due diligence.

"There's a misconception that they're not required to do due diligence to make sure the products are safe. This industry is highly regulated. If you look at the California regulations for licensing, you will see there are hundreds of pages of regulations that have to be complied with."

Myth #3: A wait-and-see approach is needed.

"No, we should be looking at this and figuring out how to address this industry. These businesses need to have the same risk management protocols in place that any other business would."

Myth #4: No banks work with the cannabis industry.

"That isn't true. If you look at the Financial Crimes Enforcement Network (FinCEN) reports from last quarter, you'll see that nationally there are several hundred banks that are working with the cannabis industry."

Myth #5: Compliance is impossible.

"Another misconception along the banking line is that it's not possible to be compliant. Well, the federal government has come out with guidelines. Some would say guidance is not law. That's absolutely true. But there is a way to work with the industry to make sure protocols are being followed according to the FinCEN guidelines and the Cole Memorandum. There is a path. It is a business risk decision. But if people want to work with the industry, there is a path to do it."

“If the banking gets cleared up, you’re going to see a lot of carriers waiting on the ledge to jump in.”

Ian Stewart
Wilson Elser

what you’d see in a jewelry store or a bank. They have double locks, triple locks and video cameras everywhere.

“There’s a higher level of concern about theft, but also a higher level of risk mitigation and security.”

The biggest risk the cannabis industry faces, experts say, is uncertainty. Not only is there uncertainty around regulation, but there also is uncertainty around the nature of the lawsuits this industry will face.

“Because of the federal and state conflict of laws, there is a huge risk of whether the federal government will act, and when, and how, and for what purpose,” Skaggs said. “And the state regulations themselves are open to interpretation and open to multiple changes. California went through a dozen iterations of their cannabis regs before settling on what they claim to be the final. What that did was, it made a lot of cannabis companies react overnight to stay in compliance. Compliance is a big risk.

“There also is uncertainty of the courts. There is no real telling which way a certain court or judge will rule.”

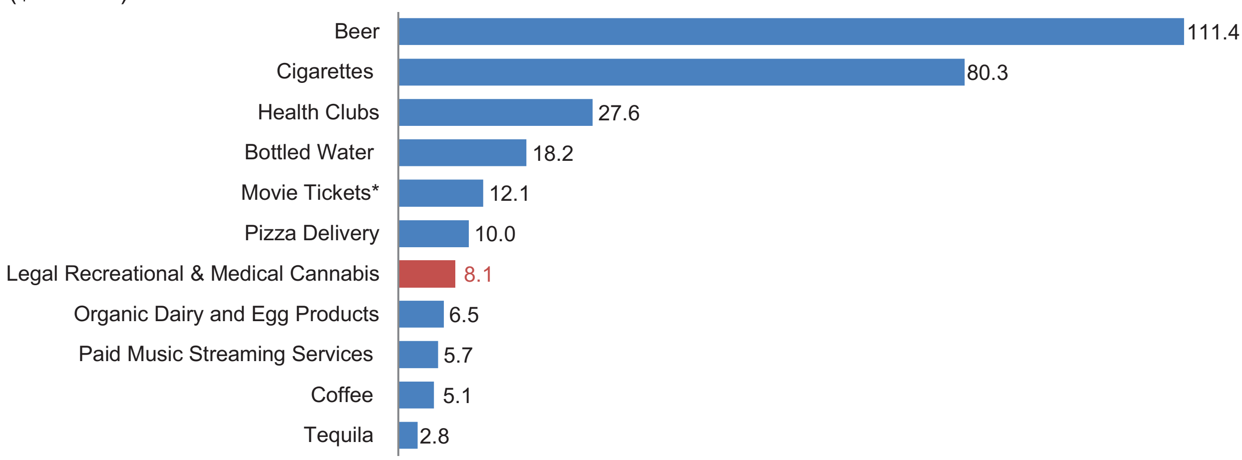
Like other emerging industries before it, the cannabis industry is, and will continue to be, a target of the plaintiffs’ bar. While there haven’t been many class-action lawsuits yet, experts say there inevitably will be. “Plaintiffs will look to cash in on the popularity of cannabis,” Skaggs said.

Just a few years ago, Stewart would point to product liability whenever he was asked about the risks associated with insuring the cannabis industry.

“My stock response was, ‘Product liability is by far the cat risk of the industry,’ ” he said. “And that still may be true. But we haven’t seen in the intervening years a lot of product cases. What we are seeing are product liability-adjacent cases.”

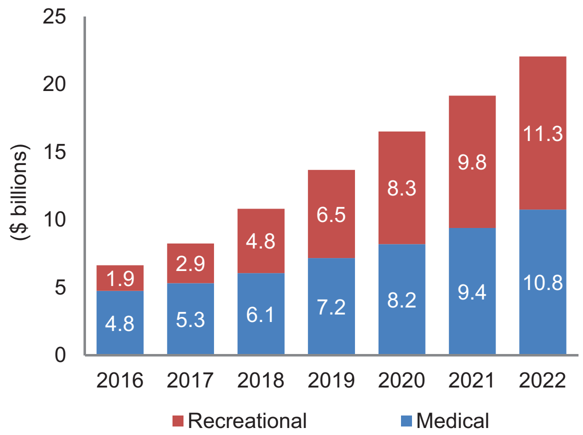
Product labeling and marketing are two areas generating early lawsuits. That could include packaging that’s appealing to minors or labels

Annual US Marijuana Sales vs. Other Industries, 2017
($ billions)



* Includes US & Canada.
Source: Brewers Association, Alcohol & Tobacco Tax & Trade Bureau, Mordor Intelligence, Statista, Eli Lily and Company, US Distilled Spirits Council

Projected Growth of Marijuana Revenue, 2016-2022



Source: Cannabis Business Plan

that claim a product is the "purest" or "strongest." Lawsuits also could arise from labels that contain incorrect information on the cannabinoid panel.

"You have strict guidelines at the state level of what has to be included on a cannabis label," Skaggs said. "If they have something that is in the wrong font size or if they don't include a logo that the state requires, then the plaintiffs' bar can bring a class-action lawsuit and seek millions of dollars just in penalties. That can put companies out of business in a matter of months.

"We already saw something like that with the health supplement industry. They were a huge target five or 10 years ago of the plaintiffs' bar because of the same thing—making claims on their products that couldn't be supported."

For insurers, Aberle said, litigation costs are a big concern. Defending cannabis companies against allegations of injury or wrongdoing quickly becomes expensive.

"There's a difference between product liability injury and product liability litigation," he said. "Litigation always comes first. You might never get to an injury because you prove you were right. So it's the litigation that is the biggest risk."

Aberle said the duty to defend is a critical part of coverage. Most insurers, however, include defense costs in the policy limits. And limits are low.

According to David Blades, senior industry researcher for AM Best, most carriers who are entering the marijuana market offer three types of policies—commercial general liability, property liability and product liability—with limits of $1 million per occurrence and $2 million aggregate.

"A million-dollar loss is likely to happen, especially if you have a duty to defend," Aberle said. "That doesn't even include the payout for damages; it's just the response letters to the lawsuit."

Coverages and Gaps

While California has two admitted insurers—Golden Bear and California Mutual—the vast majority of coverage is written by surplus lines carriers.

"This is what surplus lines carriers bring to the market—they focus on unique risks that the standard companies may not want to look at," Blades said. "They have the freedom and ability to craft policy forms that provide coverage but also protect them from the exposures at hand."

Dixon said the California Department of Insurance is grateful for the surplus lines stepping up, taking the risk and being early adopters in learning about the industry. But the limited availability of insurance providers creates high prices for insureds.

"One of the major concerns we hear from cannabis businesses is the price," Dixon said. "When we get more companies in the market that are offering the product, that will cause prices to go down."

To encourage market participation, California enlisted AAIS, Skaggs' organization, to create a business owners policy for cannabis businesses. CannaBOP, which offers property and liability coverage, was rolled out last year.

"The goal was to legitimize cannabis insurance," Skaggs said. "This is something admitted carriers can get in on with limited work on their end."

While traditional BOP policies contain Schedule

In the Weeds: Defining Cannabis, Marijuana and Hemp

While the terms **marijuana** and **cannabis** are often used interchangeably, the U.S. government defines marijuana as the leaves, flowers, stems and seeds of either the *Cannabis indica* or *Cannabis sativa* plant. With tetrahydrocannabinol (THC) levels that can reach 30%, marijuana has a psychoactive effect and is used for medical and recreational purposes.

Hemp is also a member of the *Cannabis sativa* family, but contains THC levels of less than 0.3%. Because of its low THC levels, hemp does not give the effect of a "high." It is used for industrial purposes.

Both hemp and marijuana contain **cannabidiol** (CBD), a non-psychoactive cannabinoid believed to offer medicinal benefits.

“A million-dollar loss is likely to happen, especially if you have a duty to defend. That doesn’t even include the payout for damages; it’s just the response letters to the lawsuit.”

Mike Aberle
CannGen Insurance Services

1 exclusions, CannaBOP removes any language that restricts coverage for cannabis and adds in more narrowly tailored restrictions. For example, it includes a chronic illness exclusion, territorial limitations (coverage doesn’t extend beyond the state), track-and-trace limitations (no coverage for cannabis whose source cannot be traced), and a “compliance equals coverage” limitation, which says no coverage will be provided for claims arising from non-compliance.

Even with these efforts to expand coverage, experts say many gaps remain.

One of the most glaring is the low policy limits. “More and more of the insureds need $5 million or $10 million, if not more, depending on the size of the business risk,” Blades said. “A lot of carriers are not comfortable extending high limits right now.”

More capacity is needed for directors and officers, errors and omissions, and cyber, Stewart said.

“Those coverages need to come along,” Stewart said. “There are limited markets for them, and they’re very expensive.”

Because licensed cannabis businesses are required to collect customer information, they are particularly vulnerable to cyberattacks.

“Cannabis entities are at a higher risk of data loss than other entities that would be similar in nature in other parts of the economy,” Stewart said. “When you walk into The Gap, you can pay with cash and walk out, and nobody knows who you are. But if you walk into any licensed cannabis facility, the first thing you do is hand over a state identification card, which they scan. They also have video rolling throughout the facility. Many times that feed is accessible live to regulators online, which means it’s accessible to hackers. Their seed-to-sale tracking systems, which are part of the track-and-trace programs they use, are also accessible to regulators.

“So they are at a high risk for data loss. At the same time, they don’t appreciate it because they’re often startups and their eye is elsewhere. They’re not thinking about data loss; they’re thinking about compliance and other risk management issues. And the insurance markets are extremely limited for cyber.”

Experts say gaps also exist around cultivation, professional liability, special events and cargo.

“For cultivators in California who for the last two years have been ravaged by wildfires, the price of taking out a policy can be very expensive,” Skaggs said. “And it’s only going to cover you for a fraction of what your actual losses will be. So that’s a big gap that as an industry we need to solve.”

More coverage also is needed for festivals and conferences that may want cannabis on site for purchase or use. “How you attack that is fairly complicated from an insurance standpoint,” Skaggs said.

There’s also a shortage of availability for professional liability coverage for cannabis experts who offer advice to these businesses. And because of its federal illegality, cannabis cannot be transported across state lines, which created issues for inland marine.

“Inland marine is another coverage line that’s feeling its way through the exposure,” Blades said.

That sentiment can be felt across the insurance industry, Blades said.

“This is an emerging area,” he said. “Insurers are just finding out the full scope of the risks they may have to deal with and the types of claims they may get. That’s creating some trepidation.”

With legalization expected on the horizon, though, insurers increasingly are exploring the cannabis industry.

“Even though we’re seeing some consternation with insurance companies,” Dixon said, “it’s not something they’re ignoring, because it does appear to be moving toward legalization.” BR

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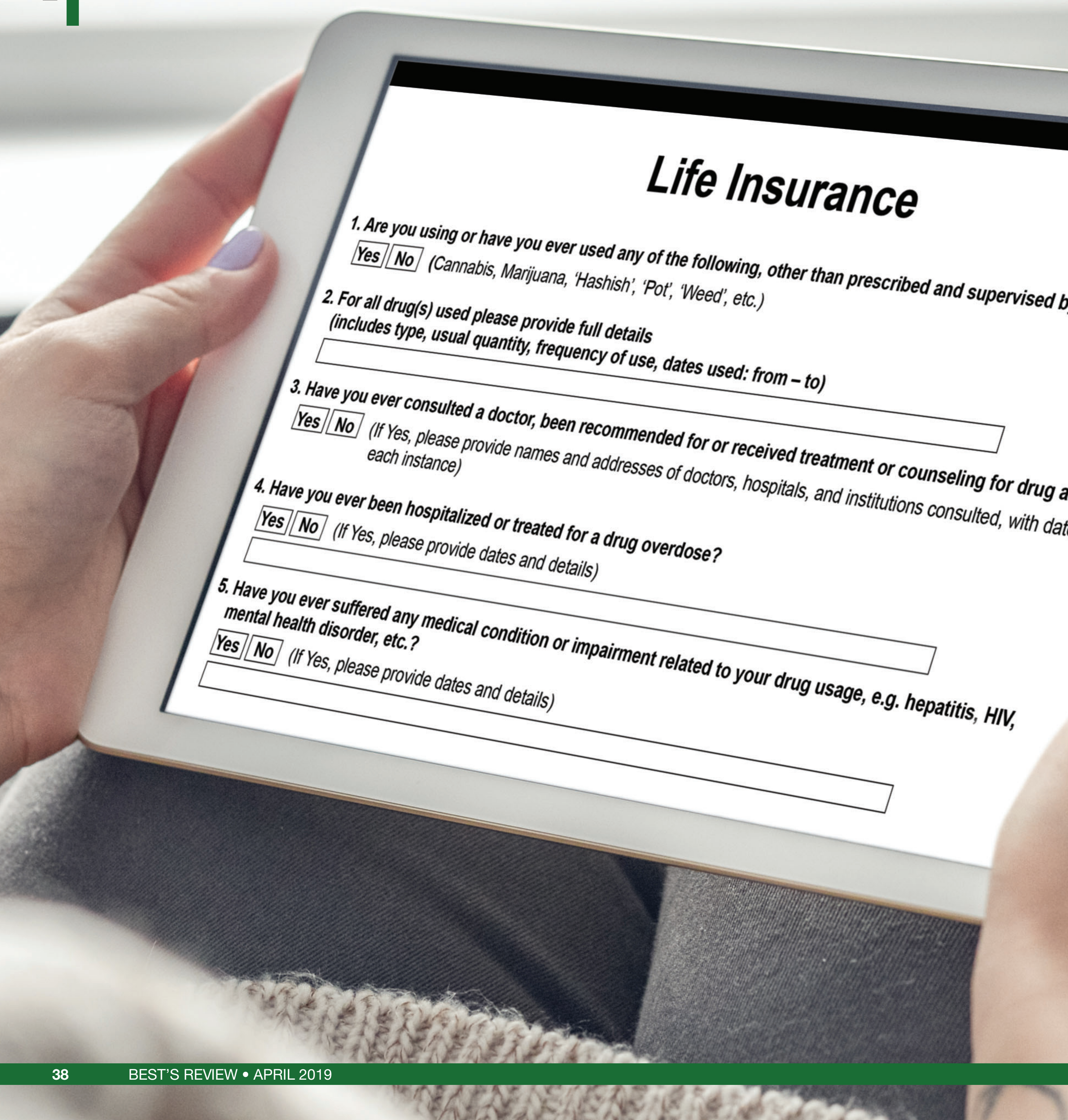
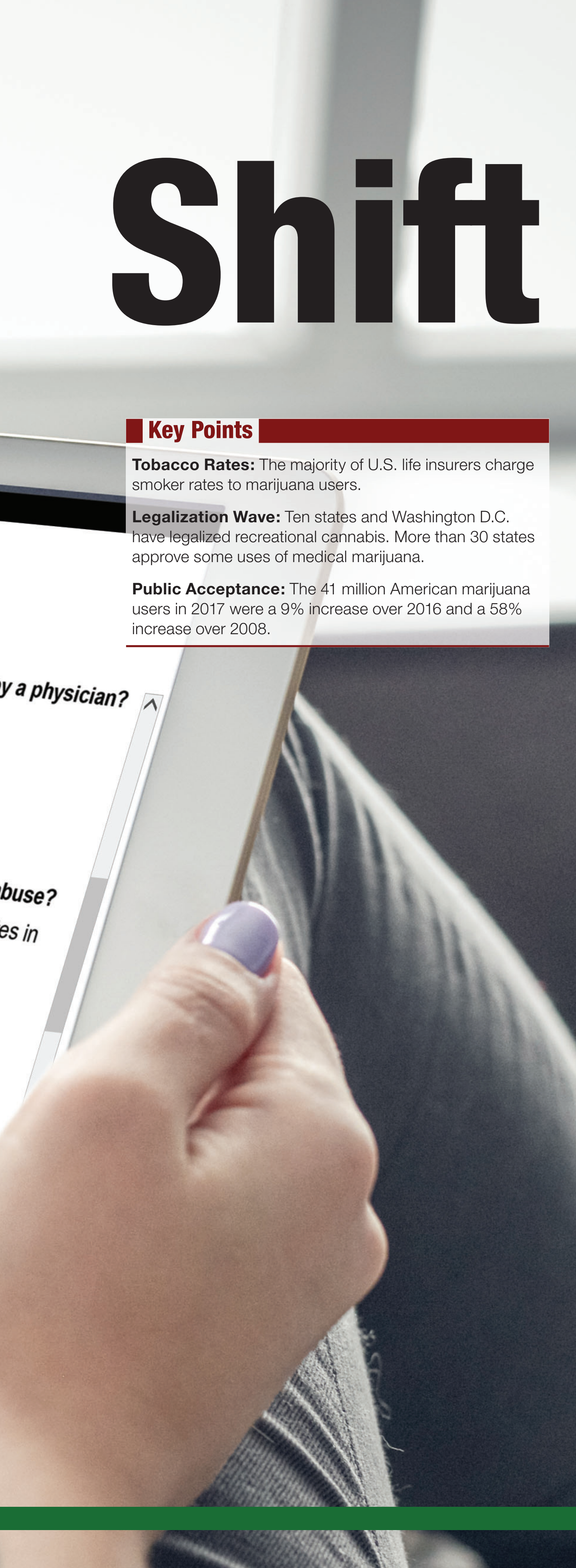

Life Insurance
1. Are you using or have you ever used any of the following, other than prescribed and supervised
Yes No (Cannabis, Marijuana, 'Hashish', 'Pot', 'Weed', etc.)
2. For all drug(s) used please provide full details
(includes type, usual quantity, frequency of use, dates used: from – to)
3. Have you ever consulted a doctor, been recommended for or received treatment or counseling for drug
Yes No (If Yes, please provide names and addresses of doctors, hospitals, and institutions consulted, with
each instance)
4. Have you ever been hospitalized or treated for a drug overdose?
Yes No (If Yes, please provide dates and details)
5. Have you ever suffered any medical condition or impairment related to your drug usage, e.g. hepatitis, HIV,
mental health disorder, etc.?
Yes No (If Yes, please provide dates and details)



Shift

U.S. life insurers' attitudes toward marijuana are evolving, with some carriers reevaluating their underwriting protocols. But the majority remain conservative and charge smoker rates.

by Jeff Roberts

Key Points

Tobacco Rates: The majority of U.S. life insurers charge smoker rates to marijuana users.

Legalization Wave: Ten states and Washington D.C. have legalized recreational cannabis. More than 30 states approve some uses of medical marijuana.

Public Acceptance: The 41 million American marijuana users in 2017 were a 9% increase over 2016 and a 58% increase over 2008.

The agent of last resort found them by accident.

Chris Abrams had offered advice that called to marijuana users, posting an article on his agency website for those among them struggling to get approved for life insurance.

Then came the flood.

Emails. Phone calls. Messages through the website.

They arrived from throughout the country, from states that had legalized cannabis and states that had not.

Abrams inadvertently discovered eight years ago that there is considerable demand from marijuana-using consumers eager to obtain life coverage. And he uncovered a customer segment for his own business he didn't realize even existed.

"I was getting all of these people contacting me for help who use marijuana," said Abrams, whose MJ Life Insurance is "a last resort" for cannabis users who have been declined. He launched it as an offshoot business three years ago from his San Diego-based Abrams Insurance Solutions.

"It's definitely a growing niche. And I expect it to keep growing as [marijuana] gets legalized across the country."

Demand has only risen since he posted that article, as marijuana continues to gain mainstream acceptance in the United States. The life insurance industry is slowly evolving to cover the needs of recreational and medical users.

The shift has been driven by changing attitudes among the American public, increasing data on marijuana's health effects and a cascade of legalizations at the state level.

"It's transitioning as we speak," Abrams said. "What's starting to happen is these companies are updating their guidelines and not necessarily charging tobacco rates if you use marijuana.

"Some companies will still decline you. The majority of U.S. life insurers will charge you tobacco rates. And then there's a handful of companies that are a little bit more progressive that will give you non-tobacco rates."

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

That translates into much smaller premiums, with smoker rates running two-to-three times more expensive.

Although there is a definitive shift, most insurers remain conservative in their stance with occasional-to-moderate cannabis users.

"It's not an issue to get life insurance if you use marijuana," said Jeff Root, founder of Rootfin Life Insurance Services, based in Austin, Texas. "It's a shift in that we've seen it in underwriting guidelines.

"Most of them take it, but they take it at a smoker rate, which in my opinion means they don't want the business."

A very-real stigma remains as the federal government still classifies marijuana as a Schedule I drug. Grouped with heroin and LSD and a classification above cocaine and fentanyl, it is defined as having high potential for abuse and no accepted medical application.

That could eventually change, as two House of Representatives bills were introduced in March that would allow states to establish their own laws without federal interference and would require the U.S. government to study the impact of state legalization policies.

However, a small number of insurers still reject applicants who test positive for its active chemical, tetrahydrocannabinol (THC), or reveal their use on an application. Some carriers decline to even address the topic publicly.

Best's Review requested interviews with two life reinsurers and three primary life companies. All five did not respond or failed to make someone in its life operation available for comment.

"I can tell you that I run a lot of websites that talk about marijuana use and life insurance and mention some companies," Root said. "And I've had a few companies say, 'Hey, take down our name from this article. We don't want to be associated with marijuana.'"

There is no industry stance or best practices on the issue among U.S. carriers, said Jack Dolan, a spokesman for the American Council of Life Insurers. Each company determines the criteria it uses for its own underwriting.

However, as the number of marijuana users grows—or at least those now admitting consumption—so does that segment's demand for life coverage.

Carriers in the Canadian market have almost uniformly offered non-smoker rates since 2016, two years before the nation legalized recreational use.

Some U.S.-based insurers, such as Prudential and Lincoln Financial, have been offering non-smoker rates even longer. And industry observers view it as inevitable that other American insurers eventually will follow their lead given the sizable market.

The fear of losing business in an age of stagnant sales growth and stiff competition is a powerful motivator, according to broker Lorne Marr of greater Toronto-based LSM Insurance.

"It will happen pretty soon," he said. "A lot of [Canadian] companies have U.S. operations like Sun Life. They're going to see the data in Canada and think, 'It makes sense to do more business, without losing any money underwriting policies.'"

A Cresting Wave

Momentum has been building for years.

Widening acceptance and spreading legalization have driven increasing use. It started in earnest in 2012 when Colorado and Washington became the first states to legalize recreational marijuana.

Ten states and Washington D.C. have now legalized cannabis. Illinois, New Jersey and New York could push that total to 13 in 2019. Thirty-three states have approved some uses of medical marijuana, and another dozen or so states have decriminalized possession.

"There's definitely an increase, and it will keep increasing," Root said. "There's just more people using it now, and with that, there's more people using that need life insurance.

"It's just going to keep getting bigger."

More than 14% of American adults used marijuana in 2017 and nearly 9% had used in the previous month, according to a 2018 survey published in the *Annals of Internal Medicine*.

The 41 million American users in 2017 were a 9% increase over 2016 and a 58% increase over 2008, according to the most recent National Survey on Drug Use and Health. Theoretically, all need life insurance.

It's not just men and the young. Consumption by women almost doubled between 1984 and 2015 to 10.6% and use among men and women 50 to 59 increased 2,220% and 7,200% respectively since 2005, according to a 2017 study by the Public Health Institute.

Smoking continued to be the most common manner of consumption, although those who live in states where recreational use has been legalized were more likely to consume edibles or vape.

One in five residents who live in states where recreational pot is legal reported using marijuana in the past year.

Meanwhile, nearly every national poll finds marijuana acceptance rates of more than 60% and rising.

Support builds with each successive generation. Three-out-of-four millennials, 63% of Gen Xers and 54% of baby boomers approve of marijuana use, according to a 2018 Pew Research Center survey.

"Getting legalized in more and more states around the country, people are coming out of the closet a little bit and not so afraid to admit using it," Abrams said, "especially when they find out they don't get in trouble if they put it on their life insurance application.

"It does seem to be loosening up more and more, with people talking openly about it. It's not as big a deal as it once was, especially that it's getting legalized recreationally around the States."

Yet only 29% of underwriters Munich Re surveyed at the 2015 Association of Home Office Underwriters annual conference classify marijuana users as non-smokers.

And it's almost impossible for those who work in the cannabis industry to get approved for coverage.

Root said he could not find a single carrier among at least a dozen he tried that would supply cover for a client who cultivates marijuana and wanted to offer life insurance to his employees.

"If you grow marijuana. If you sell it. If you distribute it or have any ownership in a company that does any of that, you can't get business life insurance," Root said. "Nobody will cover that right now. If you're growing it, it can be dangerous. People go and steal it. It's not safe."

With acceptance and use rising, a possible model the U.S. life industry could follow lies just north of the border. (See sidebar on page 42.)

The Future

Change is on the horizon. But no one knows exactly how far off it is.

Obstacles such as a dearth of long-term research on cannabis' medicinal uses and health effects due to its classification around the globe as an illicit drug have slowed underwriting changes.

"They will evolve as more studies come out," Root said. "I just think they don't have the information actuaries need to really make that call.

"Carriers will get looser and looser with their underwriting guidelines on marijuana because of all the studies that I see at least."

Although most companies do not classify recreational use as illicit activity, even progressive carriers view frequent consumption as a red flag, similar to problem drinking.

Brokers and agents have become adept at finding insurers that accept the risk. A few in particular were named repeatedly because they offer non-smoker rates.

Prudential and Lincoln were mentioned most frequently. A Lincoln spokesman said cannabis is not treated as a tobacco product in its underwriting guidelines, hence it offers non-smoker rates to users.

In a statement, Prudential said, "Cannabis users generally are insurable for life insurance whether it is being used recreationally or medicinally. We consider the frequency of use in admitted recreational users with the possibility of standard non-smoker rates for infrequent users. More frequent users may face increased rates or are not offered coverage.

"For those using cannabis for medicinal purposes, we evaluate the medical condition that is associated with the marijuana prescription. As states continue to legalize the use of marijuana and prevalence increases, we will continue to monitor closely."

Brighthouse was also cited multiple times. A spokesman confirmed that it does not classify marijuana users as smokers. However, it may rate heavy users that way or even decline them based on the severity of their use.

Brokers also named AIG and Mutual of Omaha.

The key questions for applicants are how frequently they consume marijuana and whether for medical or recreational purposes.

"It's all based on how much you use," Root said. "The companies that do take it, as long as it's not daily use, you're good."

Nearly all life applications ask customers if they use and how often. Most carriers, but not all, test for THC in their medical exams.

Many insurers view smoking marijuana recreationally twice a week or eight times a month as the threshold to still offer non-smoker rates. Every carrier will generally decline daily users.

"It is a bit of a misnomer that anyone smoking marijuana can get coverage at non-smoker rates," Marr said. "They do look at other variables. One is how much you smoke. Most of the companies are two joints [a week].

"A lot of the real regular users are using more than that, so that may disqualify them from the non-smoker rates."

But there are a handful of smaller companies that offer policies that don't ask about marijuana, Abrams said. They are options for daily users.

Another potential solution is automated policies. Abrams said applicants traditionally have gone with medically-underwritten coverage, but that is changing as automated underwriting becomes increasingly popular.

Sagicor, a life insurer and financial services

A Model in the Great White North

Marijuana users have become a target audience, at least in Canada.

TV commercials aim to reach them. Radio spots pursue them as well.

And there are blasts from life insurers to brokers, reminding them of the coverage options they offer those consumers.

Aggressive marketing by Canadian carriers, such as Canada Protection Plan, is just one example of how far the industry has evolved on the issue of cannabis.

They want to get the message out that they not only underwrite users, but at the same rate as non-smokers, based on criteria.

"A lot of the companies are quick to promote it because everyone may not know about it," said broker Lorne Marr of greater Toronto-based LSM Insurance. "Canada Protection Plan does a lot of no-medical exam and hard-to-insure people, and they offer non-smoker rates for up to four joints a week."

Canada has been a pioneer when it comes to marijuana, and its life industry offers a model in how U.S. carriers could handle coverage for users.

The nation legalized medical use in 2001. The approval of recreational use went into effect last year.

But Sun Life and BMO began offering non-smoker rates to users in 2016. The vast majority of Canadian carriers soon followed. It reversed the long-standing policy of charging smoker rates that could triple premiums.

The inevitability of legalization and growing acceptance drove more lenient underwriting.

"They knew legalization was coming," Marr said. "But even before it was legalized, most of the insurance companies started treating them as non-smokers, up to a certain amount—usually it's two joints a week.

"They're more comfortable now underwriting marijuana than they would have been eight or nine years ago."

The insurers were also motivated by a growing pool of health data that did not exist a decade ago, finding that marijuana does not pose the same significant risks as tobacco.

The World Health Organization does associate several health risks with the drug, including various cancers (mostly through smoking cannabis), bronchitis and cardiovascular issues such as stroke

"It is a bit of a misnomer that anyone smoking marijuana can get coverage at non-smoker rates. They do look at other variables. One is how much you smoke. … A lot of the real regular users are using more than [twice per week], so that may disqualify them from the non-smoker rates."

Lorne Marr
LSM Insurance

company with business in the Caribbean, Latin American and the United States, recently updated its guidelines to offer applicants non-tobacco rates in its automated underwritten policies, provided they do not use marijuana more than eight times a month.

However, some view the accelerated route with caution. They advise clients to pursue medically underwritten policies to ensure no issues arise through the contestability period. There is also the higher premiums to consider.

Medical Marijuana

Unlike recreational cannabis, medical marijuana is underwritten based on the underlying condition and its severity, not the consumption itself.

"The main difference between recreational use and medical marijuana is with the card, it's not the marijuana that they rate, but what it's treating," Abrams said. "If you're in a state where it's legal and you have a medical marijuana card, the life insurance company doesn't care about the marijuana, which is just another medication. It cares about what it's treating."

as well as potential links to depression, anxiety and suicidal behaviors.

But marijuana is also prescribed to treat glaucoma, epileptic seizures and reduce the pain of multiple sclerosis, arthritis and Parkinson's disease, among other uses.

However, the biggest motivator may just have been the fear of scaring off a growing segment with high premiums.

"You're going to lose customers. That's a driver," Marr said. "And once Sun Life started doing it, it puts you in a bad position if they're doing it and you're not."

Insurance companies in Canada do not measure the size of a joint or edible, although this is likely to change in the future, Marr said.

For now, most Canadian insurers consider an edible to be the equivalent of one joint and provide cover for those users at non-smoker rates.

However, Canada Protection Plan allows for unlimited consumption of edibles at non-smoker rates, but charges tobacco rates to those who smoke more than four times a week.

Sun Life even started covering medical marijuana in February 2018 in its Canadian group health benefit plans. It requires employers to pay a premium, and covers use only as a last resort for a handful of illnesses.

The decision was driven by interest from its clients and the rising importance medical marijuana plays in treating and managing pain for people with cancer, multiple sclerosis and rheumatoid arthritis among other conditions, CEO Dean Connor said at the time. Sun Life did not respond to an interview request.

Other insurers did not follow as swiftly as they did in charging non-smoker rates two years earlier. Some in the Canadian industry have concerns over the steep cost of medical marijuana, which can be higher than even pharmaceuticals.

Marr estimates marijuana users make up about 10% of his customers. Five years ago, "it was probably under 1%, but there was probably a lot of people smoking marijuana and just not saying anything.

"There's definitely more people admitting they're using marijuana," he said. "It's allowable now. And since it's allowable, they might as well be truthful on the application. And there's just less of a social stigma."

"It's definitely a growing niche. And I expect it to keep growing as [marijuana] gets legalized across the country."

Chris Abrams
Abrams Insurance Solutions

Root said some companies still offer the best rates for medical use.

"You can still qualify for preferred-plus, non-smoker with some companies if you have a medical marijuana card," he said.

But other factors do come into play.

Underwriters closely scrutinize driving records, medical histories and other medications the user may be on. An applicant with a history of driving while impaired would raise a red flag. So would someone also taking opioids or who had past issues with alcohol or hard drugs.

"Marijuana is not as severe a drug as cocaine or even alcohol," Marr said, "but if they're not able to control their alcohol consumption, there's a good chance they're not going to be able to control their marijuana consumption."

Depression is another warning sign. "They may underwrite someone differently even if just smoking one joint a week, if they do that in combination with certain mental health issues," Marr said. "Someone who is suffering from depression plus using marijuana, they'll factor the marijuana into the underwriting. It could be making a condition worse."

And cannabis and driving has long been a concern. That fear has grown as several states with legalized marijuana have witnessed a rise in car accidents.

Last year, the Insurance Institute for Highway Safety reported 5.2% more car accidents were reported to police in Colorado, Washington and Oregon—three states that had legalized recreational marijuana—than neighboring states.

A second IIHS study estimated insurance collision claims in those states were 6% higher.

"A DUI, whether it be from drinking or marijuana, would definitely affect your rates or make it impossible to get coverage," Abrams said.

The Customers

They tend to be discreet.

They prefer to reach out through digital channels.

And the customers seeking life insurance who use marijuana are well-educated on the topic. They know they need guidance to navigate the various insurers given some companies' conservative stances, brokers said.

The complex regulatory situation—with some states legalizing medical marijuana, others approving recreational use and still others decriminalizing it, juxtaposed with the federal ban—leave insurers cautious.

But the more states that legalize cannabis, the larger the niche grows.

Abrams' marijuana-focused business, MJlifeinsurance.com, now attracts about one-third of his overall clients, he estimates. Most are first-time buyers looking for guidance. A smaller portion worked with another broker and were rejected because of their use.

"So they need someone to navigate the insurance world and figure out who to apply with," Abrams said.

He created the offshoot because customers feel more comfortable coming to an expert with dedicated knowledge of their needs.

"There's still a stigma attached to it, even though it is legal in some states," Abrams said. "Marijuana is still illegal at the federal level. That definitely affects people's judgments in what they're willing to share."

Users are legally protected in admitting use when applying for life insurance, regardless of federal laws. The Health Insurance Portability and Accountability Act (HIPAA) ensures the confidentiality of the process.

Like Abrams, Marr's LSM Insurance specializes in the hard-to-insure market. It also created one of the first life insurance websites in Canada, another reason he attracted the niche, he said. It makes up about 10% of his customers.

Root says marijuana users are not a significant part of his business, but he hears monthly from those consumers. The reason is they still find it challenging to find affordable coverage. BR

Wish List

Risk managers weigh in on what they'd like from insurance carriers.

by Kate Smith

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

Long before he moved into the field of risk management, Simon Keshishian was a claims manager and litigator for multiple insurance companies.

Keshishian, the senior director of risk management and risk counsel for Red Bull North America, spent the first 10 years of his career litigating and managing claims for Travelers, The Hartford, ACE, and HDI-Global. So it's no surprise Keshishian makes claims handling a top priority when evaluating potential insurance partners for Red Bull.

"For me, having an organization that really understands claims and claim handling is paramount to anything," he said. "Ultimately, if an insurer doesn't deliver on its claims promises and resolve claims efficiently, you're throwing money out the window. The key for me when I look to risk carriers is what their claims departments look like."

Keshishian, a featured speaker this month at the Risk and Insurance Management Society (RIMS) annual conference, was among those who answered the call when *Best's Review* asked risk managers: What's on your wish list?

Below is a sampling of some of the diverse suggestions risk managers have for insurance carriers. Featured in addition to Keshishian are Gloria Brosius, director of risk management and insurance for Pinnacle Agriculture and president of RIMS; Patrick Sterling, senior director of legendary people and risk for Texas Roadhouse restaurants; and Andy Barile, chief executive officer of Alternative Global Risk Management Inc.

Gloria Brosius — Pinnacle Agriculture

Wish No. 1: Offer me deductible options that make sense.

I frequently get low deductible options, which may sound appealing until you look at the high premium. When I ask for higher deductibles (and presumably, lower premiums), it doesn't make financial sense to move to that higher deductible.

With Pinnacle, in particular, we're a fairly new company. We started business in 2012. Initially we took low deductibles because we weren't sure what our risk appetite was at that point. As we have become a more mature company, we know we can take higher deductibles. But oftentimes when we ask for the higher deductibles, the correlating premium relief isn't there. So it doesn't make sense for us to take the higher deductible, even though we want to. The premium needs to correlate better to the higher deductible.

I think insurance companies want to be taken out of the working layer of the claims. If Pinnacle, or any company, is willing to take on a higher deductible and keep that insurance company out of the working layer of those claims, the premium relief has to be there so that it makes sense for us financially to do so. But the premium relief has to be there.

Insurance companies need to do a better job of re-looking at that premium when a company is willing to take the higher deductible.

Wish No. 2: Know my company and why my risk is (or isn't) different than everyone else's.

I make every effort to distinguish my company from all the other insureds that my underwriters may come across, and my wish is that they have a true understanding of my business. Read the materials I give you during our meetings, and ask me questions.

For the most part, my partners in the industry understand the differences between my company and others. My wish is for that understanding to continue.

I work very, very hard to make sure they understand my business and why I'm different from other agriculture companies. When I meet with a new potential partner, a new insurance company that's not on my coverage, I go into deep explanations and I really want them to understand.

We work with a lot of chemicals, but we don't manufacture. A lot of times an insurance company will hear the word chemical, and they start backing off right away because they don't want to deal with that. But we are different in that we don't manufacture the chemicals. We apply them.

That often is a very deep explanation that I have to go into with the insurance companies, to make sure they understand our risk is lower than someone who actually does the manufacturing of the chemicals.

I like to have face-to-face meetings with underwriters and insurance companies because that's one way to remember me, and to remember Pinnacle Agriculture as being a little bit different from what they might have lumped me in as. So I think that face-to-face interaction is important.

And giving them documentation that they can take back to their office and remember you more clearly when they're doing the actual underwriting is important.

Andy Barile — Alternative Global Risk Management Inc.

Wish List: Provide up-to-the-minute accurate loss runs and explain the loss development factors you use.

The system now is the risk manager will go to their retail broker, and it's up to the retail broker to go to the insurance company to get up-to-date loss runs. With the new technology that's being developed, it all sits with the insurance company spending more money on IT than they did in the past.

In the past, with that kind of request, you'd have to wait because the claims department hadn't updated the loss reserves. Now, the claims department has been spending money to update it because they want to know who's costing them money and who isn't.

Risk managers need to know that information too, because that's how carriers are going to price the product. If they start realizing the losses are greater than the premiums, the risk is going to be renewed at a higher price.

So [updated loss runs] allow risk managers to make changes. Once you train the risk manager to be intelligent enough to understand that his premium is predicated on the losses he has, he should be requesting this information not just three months before the policy is due for renewal, but much more frequently. It should be coming in monthly, depending on the size of the client and the number of claims there are.

We're accelerating the information process.

The old traditional way was no one worried about it until two months before the policy was to be renewed. But now the smarter risk manager says, 'We need to know how we stand with our workers' comp or our GL or our auto with the carrier.'

It's one of the new dimensions that technology is bringing to the business. It's also the acceleration of the risk manager's understanding. They're not going to let the broker negotiate the renewal without understanding what's driving the price. But they're spending more time chasing this information down because it's not being proactively offered.

Patrick Sterling — Texas Roadhouse

Wish No. 1: Simplify the application process.

That is always a pain point. It takes a lot of man hours to get all that data together. I wish there was some way the industry could get together and simplify the application process. That's one thing that would save a lot of time.

It's all lines. Each one is unique. It would be nice to have a standard form or even just a database. It's a complicated, time-consuming process, and it seems like we should be able to simplify it.

You'd think with today's technology we'd be moving to a more modern, or even paperless, process.

Wish No. 2: Offer more flexibility for designing coverages.

Make it easier to create unique coverages based on the industry you're in. Instead of having to go form a captive, it would be nice to have more flexibility in coverage design.

Wish No. 3: Know our business.

I like it when they come visit us, versus us having to go visit them. I like them to understand our company, experience our culture, know our business well. Especially with us being in the restaurant business, I want them to have dined in our restaurant. That's important.

I want them to see our passion for excellence, our level of customer service, our culture of being the friendliest place in town, our culture of partnership. We like to do business with people that have similar beliefs as we do on things like partnership and customer service.

Wish No. 4: Be there when we need you and stick with us.

It may seem obvious. But when you have that claim that you hope you never have, you don't want them to make the claim process difficult

I've had good and bad experiences. We had one carrier who did a phenomenal job and stuck with us. Even on renewal they didn't take a draconian approach toward the renewal. They were a great partner. They stuck with us and showed they believed in us. They didn't kill us because we had the bad claim. And I had one carrier who did just the opposite.

Obviously, our goal is not to have claims, so the more they can be a partner in our risk program, the better. I always love the freebies, the free training, where they bring in expertise to help educate our teams. That's always very much appreciated. Our EPL excess will reimburse a certain dollar amount for training. That sends a good message. It doesn't cover all of our training, but the fact that they cover some makes it a good partnership.

Wish No. 5: Offer multiyear deals.

Then I'm not having to apply every year. It's more predictable on our program and cost of risk.

Simon Keshishian — Red Bull North America

Wish No. 1: Really understand claims handling.

Everyone offers customer service and says they're around 24 hours a day. As a practical matter, that comes in handy once in a while. For me, having an organization that really understands claims and claim handling is paramount to anything. Ultimately, you can have the risk profile and the insurance, but if they don't deliver on their claims promises and resolve claims efficiently, you're throwing money out the window. The key for me when I look to risk carriers is what their claims departments look like.

When I started 20 years ago, adjusters were more generalists. They had an understanding of how the big picture worked. As we've gone to a more technological focus, we're getting more specialized. As you get specialists who are really good at one thing, they lose the forest for the trees on some of the other stuff. So even though it's great to get a specialist on a certain type of claim, if they don't know how to subrogate or don't know the interplay of policies and which should be triggered, it becomes more of an effort on my part to educate the adjuster or the carrier. I have to follow up and spend a lot of time. So I've seen an improvement on specialty, but that also detracts sometimes.

Wish No. 2: Train adjusters better.

Training of adjusters is one of the biggest problems I'm seeing. Not necessarily with my own carriers. We're self-insured to some extent. We have big deductibles. So we have the same group of adjusters we're dealing with. But when I have a claim I'm tendering—I do a lot of risk transfer—and I'm dealing with other insurance carriers, I feel like I spend a good deal of time training adjusters because they don't understand the basis of the tender, what I'm sending over, or the coverage of a different line. They raise liability defenses when they should be talking about coverage defenses. Or vice versa. That's been a struggle.

When I started 20 years ago, training was part of every adjuster's road to becoming a claim handler. Now it seems like that's not happening. Maybe it's because people were getting trained and going across the street and taking a job elsewhere.

Wish No. 3: Modernize your technology.

Everyone talks about technology and everyone has some sort of electronic claims system. But instead of emailing me accident scene photos or a police report, they'll still send me a CD-ROM. It's 2019! They should be investing in scanners that are effective and make sure they're leveraging cloud solutions. Sending a CD-ROM is not a practical way to do things. Spend the money and get a cloud account. BR

ACTIVE SHOOTER:

Finding the Best Response

After school shooting incidents at places such as Columbine, Virginia Tech, Sandy Hook and Marjory Stoneman Douglas, school administrators have had to give serious thought to how best to protect students and staff.

Many schools have had policies that call for a lockdown of the facility and for students and staff to get out of harm's way by hiding in closets, under desks or in corners. Others have adopted multi-option responses that call for people to respond by barricading, distracting and swarming the shooter or evacuating.

Little to no empirical research, however, has been done on civilian responses to active shooter incidents.

In this special section, *Best's Review* provides information about a new study published in the peer-reviewed *Journal of School Violence* that tested the effectiveness of traditional lockdown versus options-based approaches. In addition, we offer counterpoint opinions from experts who raise concerns about multi-option responses and advocate for lockdown and scenario-based approaches.

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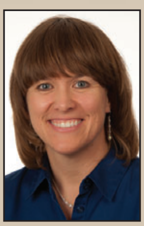
Studying

Photo Courtesy of the ALICE Training Institute.


Jonson


Hendry


Moon

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Key Points

The Situation: Little research has been conducted on civilian response to active shooters.

Put to the Test: Researchers studied the effectiveness of traditional lockdown techniques (hiding and keeping quiet) versus multi-option responses (barricading, distracting and swarming the shooter and escape) to an active shooter incident.

What Was Discovered: Simulations were developed to replicate as closely as possible a school-shooting incident. Drills using the multi-option response paradigm were found to end more quickly and significantly increased the survivability of persons in active shooter incidents.

Options

A published, peer-reviewed study tested the effectiveness of traditional lockdown versus multi-option responses in simulations of school-shooting incidents. The results raise questions about the effectiveness of traditional lockdown.

by Cheryl Lero Jonson, Joseph A. Hendry and Melissa M. Moon

For decades, students and faculty have been taught to react to an active shooter situation the same way. Techniques include locking the door, turning off the lights, hiding in closets or under furniture and keeping quiet. In early 2000, a new approach was introduced—a multi-option response that urged victims to react by barricading, distracting and swarming the shooter or escaping the scene.

A review of the anecdotal evidence can shed light on the effectiveness of the two competing paradigms for civilian active shooter responses. The school shootings at Virginia Tech, Sandy Hook, and Marjory Stoneman Douglas indicate a failure of traditional lockdown training to mitigate casualties. Conversely, an examination of the anecdotal evidence from the shootings at Springfield, Oregon; Noblesville, Indiana; and Salem-West Liberty, Ohio suggests there is a decrease in the number of casualties when multi-option responses are utilized.

While anecdotal evidence is valuable, it cannot take the place of empirically-based scientific studies. Despite the gravity of these incidents, little to no empirical research has been conducted on civilian responses to active shooters. To our knowledge, no known ethically, empirically-based study has been subjected to rigorous peer review and accepted by a scientific journal for publication.

Until now.

In December 2018, our article, "One Size Does Not Fit All: Traditional Lockdown Versus Multioption Responses to School Shootings," which tested the effectiveness of traditional lockdown versus multi-option responses to active shooting incidents, was published in the peer-reviewed *Journal of School Violence*. The study used a rigorous quasi-experimental pre-test, post-test design. While a convenience sample was used, we statistically controlled for any effect of demographic and background factors and found there were no significant impact on our results, negating criticisms of selection bias. Additionally, since one author is employed by the ALICE Training Institute (Alert, Lockdown, Inform, Counter, Evacuate), multiple measures were included in the study to mitigate the influence of confirmation bias. Furthermore, to be well-qualified to study the competing paradigms, all authors participated in traditional lockdown drills and have been trained in various multi-option programs.

Active Shooter Study Stats

Length of Time of Active Shooter Simulations

(All times on average and approximate)

Traditional Lockdown Approach	Minutes	Seconds
Classroom	3	16
Open-area	2	48

Multi-Option Approach	Minutes	Seconds
Classroom		16
Open-area		8*

* Mean time

Source: *One Size Does Not Fit All: Traditional Lockdown Versus Multioption Responses to School Shootings*

Anatomy of the Study

Simulation research is common and has been used to study police responses, fire responses, and crisis intervention with mental health issues. Using four simulations, the effectiveness of traditional lockdown versus multi-option responses to active shooting incidents were examined. Each of the simulations were developed to replicate as closely as possible a school shooting incident.

Individuals who were registered for a two-day ALICE Instructor Certification Course were recruited to voluntarily participate in the study and were able to opt out if they wished. Participants were given a pre-simulation survey, surveys after each simulation and a post-training survey. The surveys asked a variety of questions, including where they hid, the number of times they were shot and their background characteristics. Having participants self-report this information was intentionally done in the study to mitigate any confirmation bias. Thus, no one affiliated with ALICE filled out or assisted in filling out the surveys, and no research participant had a vested interest in the results of the study.

Simulations used Airsoft guns, protective equipment and clear instructions for all participants. The shooter, who was selected from each class and not affiliated with ALICE to further reduce any confirmation bias, was given two Airsoft pistols with clear instructions where to aim in each drill (for safety reasons, no head shots) and to shoot as many people as possible. The shooter was permitted to engage all targets for up to five minutes or until both guns ran out of ammunition. The remaining participants were assigned the role of potential victims in each simulation.

The first two simulations had participants use the traditional lockdown response. Simulations were run in classrooms first and then large open areas (e.g., hallways, cafeterias, libraries). Participants were permitted to hide in corners and under or behind desks, chairs, bookcases or other objects in the room. These simulations ended when the shooter ran out of ammunition or when five minutes elapsed. The five minute cut-off was selected to be consistent with the current data showing a large majority of mass shootings are resolved within five minutes.

After participants completed the two traditional lockdown simulations, they proceeded with the ALICE Instructor Certification course. On the second day, two multi-option response simulations were run in the same classrooms and open areas as the previous day. In these multi-option simulations, individuals were able to put into practice any or all of the options provided by the ALICE training. Evacuation, Counter, Lockdown/Barricade were labeled multi-option since the participants had the ability to respond to the shooter by choosing one or more of the options depending on their circumstances.

Unlike the traditional lockdown simulations, which all ended with the shooter running out of ammunition, most of the multi-option simulations were ended by participants swarming the shooter. There were also simulations that ended by the shooter being unable to breach barricaded areas and two that ended due to all participants evacuating the area, leaving no potential victims. This ability to choose among various options in the multi-option simulations mitigated casualties. In three of the training sites the shooter, a trained law enforcement officer, was unable to shoot any participants in the open area simulations.

Results Examined

This study examined 13 training locations across the United States for: length of time to resolution for traditional lockdown versus multi-option simulations (ALICE); the number of participants shot in each simulation; and a multivariate analysis to uncover any variables that could affect whether participants were shot in the multi-option simulations.

Time to Resolution: Classroom simulations requiring individuals to use traditional lockdown responses ended, on average, in just under 3 minutes and 16 seconds, while the multi-option classroom simulation ended, on average, in just over 16 seconds. The open-area simulation requiring traditional lockdown was resolved, on average, in approximately 2 minutes and 48 seconds, compared to a mean time of resolution of 8 seconds for the open area, multi-option simulation. Across our 13 training locations, statistically significant decreases in time to resolution were found in both the classroom and open area simulations for multi-option responses when compared to the traditional lockdown responses.

Percent Shot: Persons reporting being shot during the simulations showed a statistically significant decrease when multi-option responses were utilized in both the traditional classroom and open-area simulations. In traditional lockdown classrooms, on average, nearly three-fourths of individuals were shot across all training locations. Conversely, when multi-option techniques were used, on average, one-fourth of participants were shot, a drop of 50 percentage points. In the open-area traditional lockdown simulation, on average, 68% of the participants were shot across the training locations. This decreased drastically to 11% in the multi-option simulation.

Active Shooter Options

Traditional lockdown, sometimes referred to as Code Red, was adopted as an active shooter response roughly 26 years ago according to a 1993 article in *Education Week*.

There are two basic responses that are being taught in traditional lockdown. One is copied from drive-by shooting drills developed in the 1980s in Southern California. This tactic involves pulling drapes, turning off lights and hiding below the window level in the hard corner, so as not to be near the door, keeping quiet and awaiting further instructions.

The second tactic is copied from earthquake drills and involves all the same tactics, except individuals are trained to hide under desks or tables instead of in the corner. These tactics are taught to be used regardless of location or circumstance, as a single-option response for students in K-12 education. This training is then brought by these same students into universities and the workplace.

After the failure of the traditional lockdown response at Columbine in 1999 to address all the variables presented during the event, Greg Crane began developing the first multi-option response, ALICE Training (Alert, Lockdown, Inform, Counter, Evacuate) in 2000. Crane concluded that traditional lockdown was not only insufficient training for active shooter events, but that it also may explain why there were so many casualties.

Regression Analysis: To determine if the outcomes of the multi-option simulations varied by the characteristics of the participants and/or the unique properties of each simulation, multivariate analyses were conducted. These analyses uncovered that no demographic trait nor unique property of each simulation influenced the time to resolution nor the percentage of people shot. In other words, the results were not influenced by the sex, occupation, or age of the participants. In addition, the number of individuals in the simulation, the SWAT experience of the shooter, and whether a participant used the counter technique during the simulations did not alter the results.

These findings lend much credence to the effectiveness of multi-option responses over traditional lockdown. The impact of using multi-option responses does not vary by personal or situational characteristics, meaning that this approach to active shooters can be effective for men and women and those with and without law enforcement experience.

Overall, the findings of this study provide empirical evidence that using a multi-option response, and more specifically, ALICE, is a more effective approach than traditional lockdown when responding to an active shooting incident. The difference in time to resolution and number of casualties between the two approaches is stark and brings into serious question if traditional lockdown should still be considered as the sole response to these types of events.

Results from this study can have far-reaching implications for insurers of schools and workplaces. Underwriters and agents should seriously begin to question whether insuring single-option traditional lockdown is an acceptable practice.

Though this study—the first ever to empirically test either approach with live simulations—provides strong, suggestive evidence of increased survivability, it is recommended further studies be conducted with larger sample sizes, additional simulation scenarios, and varying populations (e.g., juveniles), and we welcome those studies to further the knowledge gained about these two competing civilian responses.

Nonetheless, we would be remiss if we did not acknowledge one of the main arguments of those who oppose multi-option responses. Many opponents to multi-option responses suggest children do not have the capacity to choose from various options, particularly evacuating and countering. However, two points are important to consider. First, evacuating and countering are biologically innate, which are encompassed in the fight-or-flight response to danger. Multi-option responses add one more option for individuals to choose from in active shooter situations (e.g., locking down/barricading), while traditional lockdown responses remove these biologically innate survival options and replace them solely with getting behind a locked door and hiding.

Second, other trainings provided to children embrace multi-option responses to crises. Fire training provides children with the option to evacuate, barricade (get low to the ground, close and place something under the door), or counter (Stop, Drop and Roll) depending on their proximity to the fire. Stranger Danger teaches children to run away from or fight back against a potential abductor. Thus, in other crises, the training that is provided recognizes the ability of children to choose among numerous options to increase their survivability, so why should training concerning active shooters be different?

Lessons learned from prior school shootings and various governmental reports have provided more options to consider beyond traditional lockdown. However, empirical evidence based on live simulations about civilian active shooter responses has been missing, until now. Armed with this anecdotal and empirical data, serious doubts are being raised about the ability of solely utilizing traditional lockdown as the civilian active shooter response, and a critical review of school and workplace emergency operation plans are needed. Additionally, results from this study can have far-reaching implications for insurers of schools and workplaces. Underwriters and agents should seriously begin to question whether insuring single-option traditional lockdown is an acceptable practice. BR

To read the entire study and methodology in the *Journal of School Violence*, visit: *https://www.tandfonline.com/doi/abs/10.1080/15388220.2018.1553719?journalCode=wjsv20*.

In Support of Lockdown

Options-based active shooter training is a high-risk and high-liability proposition in a K-12 school setting. Effectively implemented lockdowns do not create target-rich environments.

by Kenneth S. Trump

Options and empowerment. Who could possibly be opposed to having options and being empowered?

When considering school active shooter responses, training students and school staff to make a split-second pick from three or more options may make them feel empowered at that moment. But it could actually get them killed if they pick the more risky option on the list of choices they have been instructed to choose.

Well-intended school administrators and their public safety agency partners who advocate options-based school active shooter training may also find themselves facing increased liability risks for making policy decisions based upon emotions rather than on well-researched, proven best practices for comprehensive school safety planning. These could include well-designed School Resource Officer (SRO) programs, reasonably diversified lockdown drills, police-controlled evacuations, threat assessment protocols, student intervention and prevention supports and a culture that promotes student reporting of threats and plots.

Key Points

At Issue: Options-based training is not an appropriate response to an active shooter situation in K-12 schools.

Why It Doesn't Work: School-age children do not possess the intellectual and emotional capacity to fight off an attacker at a moment's notice and self-evacuation creates a target-rich environment.

Another Option: Lockdown is the best way to respond to an active shooter in a school setting.

Not the Industry Standard

School shootings over the past two decades have generated increased fear and high levels of ambiguity and uncertainty. Media coverage fuels the fears. The increased anxiety and public discourse adds pressure upon school and public safety leaders to show they are taking action to make schools safer. This pressure often leads to a "do something, do anything, do it fast, and do it differently" mentality that typically does make for good school safety policy.

One of the many strategies fitting this reactive modality is options-based active shooter programs that have appeared in K-12 schools over the past decade. Such models typically are represented under the names of Run, Hide, Fight or ALICE (Alert, Lockdown, Inform, Counter, Evacuate) Training, although there are a number of other program names. Whether the words include avoid, defend, deny, evade, resist, or combinations of other words, the general gist is that traditional lockdowns do not work or are not enough for today's K-12 school settings.

Run, Hide, Fight is a program that originated in Houston. In fact, the city lists the program on its web site as their registered trademark. A video produced by the city with funding from the U.S. Department of Homeland Security spread like wildfire several years ago. The Department of Homeland Security, along with many other homeland security state agencies, subsequently pointed to the program as their model for active shooter responses.

The Houston model, however, was designed for the workplace, not for schools. In a July 9, 2014, *Emergency Management* article in govtech.com, the chief policy officer for the Houston Mayor's office stated that the

Kenneth S. Trump is the president of National School Safety and Security Services, a Cleveland -based national school safety consulting firm. He has more than 30 years of experience working with pre-K-12 schools on security and emergency preparedness. Ken is currently a doctoral student at Johns Hopkins University where he researches strategic crisis leadership and school administrator communications with parents about school safety issues. He can be reached at *ken@schoolsecurity.org*.

"fight" component of Run, Hide, Fight video is not a component that is transferable to school settings.

Furthermore, the former director of the U.S. Department of Education's Office of Safe and Healthy Students, David Esquith, was attributed in a Sept. 27, 2015, *Charleston* (W.Va.) *Gazette-Mail* news story as saying his department does not recommend students fight shooters, even as a last resort and even if they are of high-school age.

This backing away from the "fight" or "counter" components of options-based training has not deterred advocates who point to a handful of governmental and non-profit reports suggesting that options-based training be considered by schools.

However, a closer look at the various state and federal government guides, such as the federal government's 2013 multi-agency guide for creating school emergency plans or the more recent *Final Report of the Federal Commission on School Safety*, finds disclaimers that the contents of their reports are simply examples to consider, that plans need to be determined and tailored locally, and that the models highlighted are not endorsed or prescribed. While options-based advocates and training marketers sometimes imply government sanctioning of these training programs for schools, the fine print suggests otherwise.

Advocates and trainers for the options-based training also often imply or state that options-based training is now the recognized industry standard. Some may say they have trained representatives from a few thousand school districts to back their claims. This does not necessarily mean that all of the trainee's school districts have adopted options-based training. It just means employees from their organizations attended the training.

With nearly 100,000 public schools, plus thousands more private and charter schools, in the United States, it is a long reach to suggest that the options-based active shooter training model has either been adopted by all of those school districts or that these models are now the industry standard.

The Devil's in the Details

Numerous experienced national school security experts and school psychologists have challenged the efficacy of teaching children and educators to throw items and attack, or as options-based advocates prefer to more softly call it "counter," heavily armed gunmen. These professionals point to age and development variables, such as brain research, indicating that the executive function and self-regulation processes that guide tasks such as focusing and juggling multiple tasks effectively, do not fully develop in a person until an age in the mid-20s.

Advocates for special-needs students have also raised serious questions about options-based active shooter training for children who are physically challenged, emotionally disturbed, medically fragile, or have learning disabilities.

School leaders also function *in loco parentis* where they are responsible for supervising children, unlike the workplace business environments for which options-based models like Run, Hide, Fight were first created for adults who are legally responsible for themselves.

School security experts have numerous examples where the implementation of options-based training has been dangerously flawed. For example, in one Midwest elementary school where our team was conducting a school security and emergency preparedness assessment, a second-grade teacher, following an options-based training she recently received, indicated she hid a hammer in her classroom to knock out a window so her two-dozen students could self-evacuate if an active shooter was in the school. When we asked what training she had or what protocols she had been given to determine when to leave a safe locked down room to self-evacuate, a counselor at the table replied, "It's a guessing game." Furthermore, the teacher said she had never thought through her plan of trying to push two dozen children through a broken window with shards of glass or what they would do once they got outside.

Most alarming was the response from the city police supervisor who taught the options-based training to the above school employees when he was asked what he advised educators to do when using this model with special needs children. "I didn't tell them anything. That's their problem to figure out," he replied. His answer, along with the answers of the school personnel, would likely not bode well in front of parents of injured or dead children. They also would likely not hold up well in a deposition or trial.

Research Is Weak

Academic research on the use of options-based active shooter training in K-12 school settings is minimal and weak, at best. Advocates for these programs point to various governmental publications and descriptive data on active shooter trends and incidents in general. School-specific data, however, is often one small piece of these overall reports.

The conclusions supporting options-based training, however, are frequently generalized to pre-K-12 school settings. For example, advocates supporting options-based active shooter training in K-12 schools often pointed to a 2013 FBI report on active shooter incidents in the United States between 2000 and 2013 based on data from a Texas University researcher to justify their call for teaching options-based active shooter training in K-12 schools. The author of a January 2014 FBI article cited 104 overall active shooter events (school and non-school) in which only six (29%) of 21 active shooter events in K-12 schools between 2000 and 2012 involved the shooters being subdued by citizens. This means that in more than two-thirds (71%) of the cases shooters were ***not*** subdued by citizens. These small number of cases and low percentages fail to reasonably support an argument for K-12 schools to adopt a policy calling for the teaching of school staff and children to attack or subdue heavily armed gunmen.

More importantly, independent research on the implementation and efficacy of options-based training in K-12 school settings, including the potential psychological and traumatic impact of such drills on children, is nearly non-existent.

A 2018 article published in the *Journal of School Violence* presented a study justifying multi-option responses over traditional lockdowns. After a careful review of the study, however, I found it light on methodology rigor and heavy on descriptive components of options-based training provided by the ALICE Training Institute, an Ohio-based active shooter response training company.

The study, *One Size Does Not Fit All: Traditional Lockdown Versus Multioption Responses to School Shootings*, focuses on school shootings in its title and recommendations. But study participants included employees from libraries, hospitals, insurance organizations, private companies, and state government employees, along with some school personnel, former military, and law enforcement. Law enforcement made up more than half of the participants. Educators made up only a portion of the non-law enforcement participants.

> Numerous experienced national school security experts and school psychologists have challenged the efficacy of teaching children and educators to throw items and attack, or as options-based advocates prefer to more softly call it "counter," heavily armed gunmen.

The study also did not include any children—a major variable in a real school shooting context.

An end-section on competing interests stated that of the three study authors, two are certified ALICE instructors and the third is employed as a national trainer for the ALICE Training Institute. Participants were a sample of enrollees in an ALICE Instructor Certification Course. The ALICE Training Institute was also identified as assisting in the data collection for the study and controlling the curriculum content and delivery.

Given the limitations, shortcomings, and risks for bias in this specific study, which is reported as the only known study with this focus, the findings should be taken with a grain of salt. Truly independent research is warranted. A need for research on the psychological implications of options-based training and traditional lockdowns is also sorely needed.

Lockdowns Work

Traditional lockdowns have more than two decades of examples behind them showing that they work in getting students and staff away from harm's way. For example, a police animation of the 2018 Marjory Stoneman Douglas High School attack in Parkland, Florida, shows more deaths and injuries on the third floor where individuals attempted to self-evacuate than on the second floor where students followed the traditional best practices of locking down inside the classroom and moving out of the line of sight of the doorway. Additionally, in a November 15, 2017, story in The 74, an online education news site, the Tehama County, California assistant sheriff credited the staff of Rancho Tehama Elementary for their "monumental" action of locking down when a gunman with a semiautomatic weapon entered the building and tried to get into classrooms, but could not do so because he was locked out. The gunman, who was involved in a shooting rampage that killed five people and injured others throughout the nearby town, left the building after being frustrated that the classroom doors were locked, according to a related *New York Times* story. He later committed suicide when engaged by police who stopped him in the stolen vehicle he was driving.

Unlike models promoting children and educators run or self-evacuate, effectively implemented lockdowns do not create target rich environments in hallways, stairwells, or outside of school campuses when masses are attempting to flee a scene of a heavily armed gunman. They often do not call for education organizations to expose themselves, their staff, and their students to the safety and liability risks associated with options-based training of attacking or "countering" gunmen and self-evacuating into harm's way.

Options-based active shooter training is not the industry standard for K-12 schools. Many schools reject these models with little hesitation. For those school board members and superintendents currently using or considering options-based training, our advice to them is simple: Get a written opinion from your insurance carrier and your school attorney advising whether they support your decision to adopt a policy and/or practice of teaching children and educators to attack heavily armed gunmen, and to self-evacuate (run) into a target rich environment for an active shooter.

Such documentation might be helpful when school leaders have to "counter" future litigation resulting from such practices. BR

No Easy Answers

A school safety expert cautions insurers to closely examine the types of training programs their insureds are using to prepare and respond to active shooter incidents.

by Lori Chordas

On Feb. 14, 2018, a former student at Marjory Stoneman Douglas High School in Parkland, Florida opened fire in the school, killing 17 students and staff and injuring 17 others.

Lawmakers in the state marked the first anniversary of what has now become the deadliest shooting at a U.S. high school by pushing forward a new bill that would allow teachers with a concealed carry weapons permit to bring their guns to school.

The only stipulation is that the teachers receive more than 100 hours of firearms training from a local sheriff's department.

Programs like that, along with national options-based training programs such as Alert, Lockdown, Inform, Counter and Evacuate (ALICE) and the federal Homeland Security Department's Run, Hide, Fight, are now part of the preparation and response tactics of many schools.

But are they enough to help educators respond and abate active shooter incidents and leave insurers comfortable with insuring those risks?

Michael Dorn, executive director of Safe Havens International, a private, for-profit national school safety consulting firm based in Cleveland, Ohio, isn't so sure.

Dorn, an author of 27 books on school safety, heads up a global nonprofit school safety center that provides prevention, mitigation, preparation, and response and recovery strategies for K-12 and higher education schools.

While he's an advocate for approaches such as

Key Points

Taking Aim: Hundreds of students and staff have died from mass school shootings in recent years; however, such shootings remain one of the rarest threats to schools.

On Target: Options-based training programs have become widely adopted by schools and businesses in recent years, yet some fear the programs are controversial and cause more harm than good.

Counterattack: Insurers need to assess the types of training programs used by insureds when underwriting schools and businesses.

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

traditional lockdowns, scenario-based training and school staff being physically resistant in certain situations, Dorn believes current options-based training programs often fail to work and can lead to ineffective response caused by hasty decision-making.

Put Into Question

Schools and colleges have been adopting options-based training programs that move away from the traditional lockdown-only approach and allow school staff to make more independent decisions about how to protect students based on evolving circumstances.

In 2000, two Texas law enforcement officers created ALICE following the Columbine High School shooting in Colorado. The training method teaches strategic response protocols that are designed to help counter violent actions.

Following the deadly shooting at an Aurora, Colorado movie theater in July 2012, Houston used federal grants to produce a "Run, Hide, Fight" video that teaches people how to respond during a workplace shooting. The approach suggests victims evacuate if possible, hide silently in a safe place and take action to disrupt or incapacitate a shooter.

Despite the popularity of those programs, Dorn is concerned that they often cause more harm than good.

"I've never seen so many emotionally-based, dangerous and untested approaches as are being used in schools today," said Dorn, based on his recent analysis that examined if options-based training programs are meeting their desired outcomes.

Dorn and his team assessed the training protocols and procedures of more than 7,800 schools. Staff members in 45 states were asked to verbally respond to more than 8,000 controlled video and audio simulations in 30 seconds—the typical time it takes for a life-saving action.

The study found that individuals trained in options-based programs consistently perform worse than those with no training.

Teachers and administrators who had undergone options-based active shooter training were more likely to attack or throw objects at a gunman rather than taking action steps outlined in their school's policies and procedures, Dorn said.

"We're seeing some bizarre and risky response behaviors by trained school employees during an active shooting event. They're forgetting to call 911, aren't pulling the fire alarm or are failing to alert school administrators to lock down the premises. And there are indications that some deaths have even resulted because of those training programs," said Dorn, who has provided post-incident assistance for 17 active shooter and targeted school shootings in North America.

The problem with options-based training programs, he said, is often the language that instructors use and the limited hours of training given to school personnel.

"Boiling down training into a 10-minute video or a two-hour program is like trying to teach someone how to become an emergency medical technician in just two hours," Dorn said.

In 1980, he received 80 hours of active shooter training from Vietnam combat veterans who were black belts in karate. "That's much more stringent than what school educators get today," Dorn said.

Lack of training and other concerns are raising a red flag for insurers, "and they need to proceed cautiously before insuring schools or businesses using options-based training approaches," he said.

Those programs have over the years resulted in a number of injuries. In one instance, a school employee became permanently disabled after his arm was crushed during a training exercise. Also, some school personnel have required hospitalization and surgery for injuries caused by options-based training programs and drills.

A national property/casualty insurer based in the midwestern United States recently paid out more than $1 million in medical costs to school employees for injuries sustained during a 22-month period for one popular active shooter training program, Dorn said.

"The problem with many of these programs is the lack or limited amount of evidence to validate them as effective. Some of the testing is based on inaccurate information, so that's also why we're not as effective as we could be in preparing and preventing these attacks," Dorn said.

Up in Arms

Instead of relying on options-based training programs or ticking off pass/fail items on a checklist, Dorn suggests schools and businesses develop a "customized blend" of preparation and response strategies to ward off active shooters.

Traditional lockdowns and scenario-based training should remain the foundation of those response plans, along with tactics such as visual weapons screening, anonymous reporting systems, social media monitoring and multidisciplinary threat evaluation and management, he said.

Dorn also suggests schools and businesses conduct fidelity testing to determine whether active shooter and active threat training concepts are being received and understood by faculty and staff.

"During a crisis people often react differently than what they've been trained to do. Fidelity testing a training program can help determine if there are gaps between what the trainer thinks the trainees will do and what actions trainees will take in a real-life event," Dorn said.

That's information insurers also need to know.

"Boiling down training into a 10-minute video or a two-hour program is like trying to teach someone how to be an emergency medical technician in just two hours."

Michael Dorn
Safe Havens International

"So it's important that they ask their insureds very specific questions about the training programs they use and the results of their fidelity testing," Dorn said.

Before underwriting a school, he said insurers also should determine if teachers or personnel are being armed with weapons. "If I were an insurer, I would create a checklist of things that should be done before I would feel comfortable underwriting that risk," Dorn said.

At least 28 states now have policies in place that allow armed security personnel in schools to carry firearms, according to a 2018 report by the Education Commission of the States. At least eight states, including Texas and Tennessee, allow school employees to carry firearms, while 21 states have policies that allow schools or districts to give individuals permission to carry firearms, according to the report.

An FBI review of 250 active shooter incidents that occurred between 2000 and 2017 found that in only seven cases was a shooter stopped by a civilian with a valid firearms permit.

Unarmed staff attempting to confront someone with a gun on campus can lead to tragic events, Dorn said.

"I'm aware of at least 10 cases where school employees who tried to confront a gunman actually died, and it's unclear if those attempts even saved anyone from harm," he said.

Just Part of the Problem

Mass shootings are not a new phenomenon.

The first mass school shooting dates back to 1891 when a 70-year-old man shot and injured five students on the playground of St. Mary's Parochial School in Newburgh, New York.

But mass shootings today sometimes can seem to be regular occurrences due to the widespread coverage of incidents by the news media and over social networks.

From 2007 to 2013, the average number of such shootings was 16.4, according to FBI data. The FBI defines active shooters as individuals actively engaged in attempting to kill people in a populated area.

In 2017 in the United States, there were 29 incidents involving active shooters—the most events and the most people killed in any one year since the turn of the century, according to AlertFind.

Last year, according to reports, there were nearly as many U.S. mass shootings as days in the year.

While schools and government facilities are often targets of those attacks, the majority of mass shootings still occur in the workplace, according to AlertFind.

Despite growing media attention, these types of shootings, along with hostage situations, remain two of the rarest types of events with a gun on a K-12 campus, Dorn said.

"It's important for schools to invest in active shooting training but often they forget to train employees and students for other types of threats, such as sexual misconduct, student attacks on teachers, suicide, opioid abuse and natural disasters," he said.

After the shooting at Sandy Hook Elementary School in December 2012, which claimed the lives of 26 students and staff, "we started seeing a lot of dangerous missteps taken by schools that we've never seen before.

"A quarter of people who have been through an active shooting training program will attack people depicted as taking hostages, but not firing, or a student depicted as threatening suicide with a cocked pistol to their temple and their finger on the trigger, by throwing objects such as a book or desk at the person, which as we have seen in actual incidents can result in a person firing the weapon.

"Instead they need to create an all-hazards approach and learn how to respond to statistically more common scenarios such as a person brandishing but not firing a gun or a student threatening suicide.

Those are the kinds of events that don't get reported on CNN or the evening news," Dorn said.

Spring into Action

While active shooter preparation and response efforts continue to evolve, there's still room for improvement.

"Schools and businesses spend thousands of dollars or more for just eight hours of training but aren't doing web courses or don't have policies in place to investigate if something happens. That's a growing problem that I'm not sure all insurers are picking up on, but it's something they should be concerned about," Dorn said.

"We don't tell clients to drop the whole approach of options-based training programs but instead focus on 'here's what you need to do with the training to cover what isn't covered in order to prevent tragic outcomes'," he said.

Dorn expects the projected rise in future mass shootings to span the globe.

"And we're going to see a regurgitation of things that have been done before, which is usually shaped by research done by attackers," Dorn said.

"In one shooting, the attacker's laptop contained 1,000 searches for school shootings. The Sandy Hook gunman had a database of 500 worldwide attacks," Dorn said.

"Probably sooner than later, and it may have already occurred during some recent events, things will start to be questioned, such as the 'run' part of training. When you condition people to run, we know that slows evacuation in certain situations when too many people try to escape through a door or stairwell. They funnel up and it makes it easier for a gunman to shoot large numbers," he said.

While it's difficult to predict the likelihood of future attacks, Dorn expects to see "one or more shootings where the number of people killed is beyond anything we've ever seen before. And, unfortunately, options-based training programs may have something to do with that," he said.

Insurers also expect to see some changes in the future.

"One insurer I spoke to said a lot of private trainers are going to have trouble getting insurance unless they make massive changes and that over time more carriers will start setting up stricter underwriting programs and look more closely at those programs," Dorn said.

Currently, no proven programs or methods exist to guarantee that active shooter events won't occur, so it's going to take a concerted effort to make preparation and response as effective as possible, he said. BR

Lessons In Leadership

AIG's Duperreault: Learn to manage diversity or be left behind.

by Lee McDonald

Photo by Kim Bjorheim

Brian Duperreault knows a lot about leadership.

Not only is he the president and CEO of AIG, but he has held several top executive positions including CEO of Marsh McLennan, Hamilton Insurance Group and ACE.

Duperreault views leadership as a learned skill and stresses the need to recognize the team as the true leader, not the CEO. In an interview with AMBestTV he also stressed how important it is for a leader to be surrounded by different points of view. It's easy to surround yourself with a team that's acting as an echo chamber of your thoughts, he said, but "it's a harder job to manage a diverse group. If you don't master that skill you'll be left behind."

Lee McDonald is group vice president AM Best Co. He can be reached at *lee.mcdonald@ambest.com*.

What does it take to be a strong leader?

I really believe in a servant-leader model. What that means is if you're a strong leader you put the team before you. The team is everything. Your leadership is to maximize the team's efforts, rather than maximizing your own. Indirectly, if your team succeeds, then you succeed. The strongest leaders I know defer to the team, put the team first, put the company first. They're second.

What leadership skills are even more important in insurance?

Insurance has, for us who take risk, this added uncertainty about it. When you're leading in a company that's taking risk you have to be prepared to deal with the consequences of that risk. Sometimes those consequences can be quite severe. You may do everything right and still

have issues. Your leadership has to withstand the vagaries of the future.

How did you learn to be a leader?

My learning is repetition. You take leadership roles and you build up skills. As I said, put the team first, always.

In learning to be a leader you have to learn not to do their work, but have them do their work better. You can't do it for them. You should learn from others—having role models, seeing the people that you've been led by. To be the leader you also have to be a good follower. You should learn from others. The people that you thought were the best, emulate them, apply those skills. It's an application of skills. It's learning by doing. Repetition is everything.

In insurance itself, this is apparently a time of transition. You're seeing a lot of older, experienced leaders retiring. You're seeing an influx of new talent, new skills. How do they learn? What advice would you give them to be leaders?

How do the new people learn their skills? When you're coming in as a generation that's a digital native, let's say, as opposed to me, who's a digital immigrant, taking the skill sets that you bring naturally with you to the job is part and parcel to how you can step in.

Your job is to not just repeat the past, but to use it to mold the future. Taking skills that you have that we don't have, those leaving, you'll replace them with some of those skills, but new skills, skills that have emerged because of the evolving world we're in. That's how you grow.

What do you consider to be your No. 1 challenge as a leader, and how do you deal with that?

No. 1 challenge? The business that we do, and I'm speaking particularly as the risk-taking side of insurance, is to step in people's shoes. We say let us take your risk. It's an uncertain world out there, and so we go to the cutting edge of uncertainty, because we're taking some of the uncertainty away from them and taking it on ourselves.

The biggest challenge is how do you deal with this process of taking on more and more uncertainty; how do you manage the company around that; how do you prepare yourself and your organization to do what's right. You don't go extreme. You don't put the company at risk, but you do your job, which is to absorb the risk from others.

As a member of an organization there are always mistakes, especially as a leader, both mistakes you make and others make. How do you handle those?

First of all, everybody makes mistakes, as you said. To me, that's not the problem. The problem is not recognizing them. The biggest mistake is not dealing with the mistakes, if you don't address them head-on, if you don't admit them. You have to own your own. You can't blame others, then you'll start to get the credibility. If you take them on, you'll get the credibility of your team, your company, and all who are associated with you. Address them. Deal with them, even if it means it might expose you to some criticism because you should have done something you didn't. Your criticism's going to be even greater for not addressing it in the first place or not in a timely manner.

Is there anything that you want to share with us about leadership?

Leadership, it's a learned skill. You can learn it. It's something you've got to work on. As we said, it's recognizing the team is more important than you. It also is evolving, in terms of the kind of skills you need to be a good leader. As we become more and more of a digital world, the skills around that are required. I would say most importantly it's embracing diversity. It can't be just a slogan. You have to live it. You have to manage diversity. Leaders and managers have to get the skill set of diversity management, because it's hard. It's hard, because you want to have everybody giving you points of view that are not your own, then you have to sort all that out. It's easy to lead a group of people, as I said, in an echo chamber of repeating your statements. It's when you have to deal with all of the diversity that you want, and people telling you to do certain things that at the end of the day the group should not do. You've got to sort all that out and get everybody to agree, after you go through that process, to go in this direction. It's a harder job to manage a diverse group, but if you don't master that skill, you'll be left behind. BR

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Go to *bestreview.com* to watch this interview with Brian Duperreault.

It's Complicated

Unanticipated risks, growing legal defense costs and undisclosed cybersecurity exposures are challenging the directors and officers insurance business.

by Meg Green

Various forces are increasing the complexity of risks facing directors and officers, requiring insurers to become more knowledgeable about the unique risks of the industries they cover, said Sridhar Manyem, director of research, AM Best. Manyem spoke with AMBestTV at the PLUS D&O Symposium in New York.

Following is an edited transcript of the interview.

D&O claims are becoming more complex. What are you seeing there?

We are seeing a greater trend in terms of the complexity of the D&O claims lately. D&O has always been a pretty complex line to underwrite, but then, at least people understood the risks that they were underwriting. Over the past few years, there has been a significant development in terms of unanticipated risks that the underwriters and insurance companies are really grappling with.

For example, the #MeToo movement, has created a lot of consternation in terms of proper behavior and the proper compensation for the kind of harassment that has taken place. Therefore, directors and officers are really worried, what kind of liabilities that they have. These losses have crept up steadily over the past few years. Recently, there's been a significant loss creep from cyber insurance policies, as well, in terms of the duty of the directors and officers to make sure that the disclosures regarding the cybersecurity of a company is appropriate. If they have disclosed something and there has been a significant event that has not been anticipated, then they might be on the hook for it, as well.

The third thing that is happening is the increasing securities class-action litigation and the derivative claims that are associated with that, as well. As a couple of Supreme Court decisions in terms of *Cyan vs. Beaver County*, that has allowed the proliferation of these lawsuits at the state level. These have all added to the complexities in terms of underwriting the D&O risk.

As these claims become more complex, how is it impacting insurers' bottom lines?

Insurers are really struggling to contain what is becoming a more and more significant component of their bottom line, which is the defense cost containment. Every single lawsuit, trivial, frivolous or serious needs to be defended. Therefore, the cost of these defenses have become an increasingly significant portion of the insurance companies' bottom line.

The trend has also been aggravated by a lot of emerging law firms with significant war chests that have taken the litigation very seriously and are finding more and more lawsuits. Therefore on that front, the insurers are definitely facing a significant challenge. They are facing pressure due to loss ratios, as well, because when they were underwriting to these risks they did not anticipate these risks emerging. Therefore, on the losses, as well, they are seeing a significant uptick. On the other hand, the prices have just started improving a little bit. They haven't really caught up with the loss spends yet. There is pressure, both on the top line and the bottom line.

How is the industry responding?

They are still struggling. The better insurance companies, the ones that are really focusing on the D&O risks, are the ones that are investing a lot in significant domain experience. D&O is not a catch-all underwriting. If you're underwriting an investment fund or an asset manager, that requires a different domain knowledge than if you are underwriting a technology company where cyberrisks can proliferate a lot more.

There is also a different mindset that you need to bring when you're underwriting a private company. For example, in a public company the financials are audited, transparent and dependable

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

"Over the past few years, there has been a significant development in terms of unanticipated risks that the underwriters and insurance companies are really grappling with."

Sridhar Manyem
AM Best

whereas in a private company setting maybe you need to make some judgment calls. There are different risks associated with each kind of D&O. Treating it as a general line is fraught with risks. Therefore, developing domain knowledge and deep expertise of the industries that you're underwriting is key to success. That's what successful companies are doing. Some companies that are new entrants might be caught unawares and might face problems in the future because of emerging risk, be it what we mentioned or something that might develop in the future, as well. BR

AMBestTV

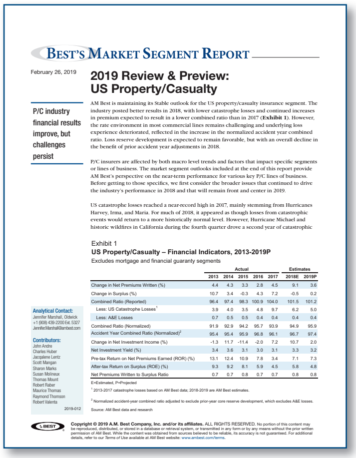
Go to *bestreview.com* to watch an interview with Sridhar Manyem.

US Property/Casualty Financial Results Improve

Best's Market Segment Report (Excerpt): 2019 Review & Preview: US Property/Casualty (Feb. 26, 2019)

AM Best is maintaining its Stable outlook for the U.S. property/casualty insurance segment. The industry posted better results in 2018, with lower catastrophe losses and continued increases in premium expected to result in a lower combined ratio than in 2017. However, the rate environment in most commercial lines remains challenging and underlying loss experience deteriorated, reflected in the increase in the normalized accident year combined ratio. Loss reserve development is expected to remain favorable, but with an overall decline in the benefit of prior accident year adjustments in 2018.

P/C insurers are affected by both macro level trends and factors that impact specific segments or lines of business. The market segment outlooks included at the end of this report provide AM Best's perspective on the near-term performance for various key P/C lines of business. Before getting to those specifics, we first consider the broader issues that continued to drive the industry's performance in 2018 and that will remain front and center in 2019.



BEST'S MARKET SEGMENT REPORT

February 26, 2019

2019 Review & Preview: US Property/Casualty

P/C industry financial results improve, but challenges persist

AM Best is maintaining its Stable outlook for the US property/casualty insurance segment. The industry posted better results in 2018, with lower catastrophe losses and continued increases in premium expected to result in a lower combined ratio than in 2017 (**Exhibit 1**). However, the rate environment in most commercial lines remains challenging and underlying loss experience deteriorated, reflected in the increase in the normalized accident year combined ratio. Loss reserve development is expected to remain favorable, but with an overall decline in the benefit of prior accident year adjustments in 2018.

P/C insurers are affected by both macro level trends and factors that impact specific segments or lines of business. The market segment outlooks included at the end of this report provide AM Best's perspective on the near-term performance for various key P/C lines of business. Before getting to those specifics, we first consider the broader issues that continued to drive the industry's performance in 2018 and that will remain front and center in 2019.

US catastrophe losses reached a near-record high in 2017, mainly stemming from Hurricanes Harvey, Irma, and Maria. For much of 2018, it appeared as though losses from catastrophic events would return to a more historically normal level. However, Hurricane Michael and historic wildfires in California during the fourth quarter drove a second year of catastrophic

Exhibit 1
US Property/Casualty – Financial Indicators, 2013-2019P
Excludes mortgage and financial guaranty segments

	Actual					Estimates	
	2013	2014	2015	2016	2017	2018E	2019P
Change in Net Premiums Written (%)	4.4	4.3	3.3	2.8	4.5	9.1	3.6
Change in Surplus (%)	10.7	3.4	-0.3	4.3	7.2	-0.5	0.2
Combined Ratio (Reported)	96.4	97.4	98.3	100.9	104.0	101.5	101.2
Less: US Catastrophe Losses[1]	3.9	4.0	3.5	4.8	9.7	6.2	5.0
Less: A&E Losses	0.7	0.5	0.5	0.4	0.4	0.4	0.4
Combined Ratio (Normalized)	91.9	92.9	94.2	95.7	93.9	94.9	95.9
Accident Year Combined Ratio (Normalized)[2]	95.4	95.4	95.9	96.8	96.1	96.7	97.4
Change in Net Investment Income (%)	-1.3	11.7	-11.4	-2.0	7.2	10.7	2.0
Net Investment Yield (%)	3.4	3.6	3.1	3.0	3.1	3.3	3.2
Pre-tax Return on Net Premiums Earned (ROR) (%)	13.1	12.4	10.9	7.8	3.4	7.1	7.3
After-tax Return on Surplus (ROE) (%)	9.3	9.2	8.1	5.9	4.5	5.8	4.8
Net Premiums Written to Surplus Ratio	0.7	0.7	0.8	0.7	0.7	0.8	0.8

E=Estimated, P=Projected

[1] 2013-2017 catastrophe losses based on AM Best data; 2018-2019 are AM Best estimates.

[2] Normalized accident-year combined ratio adjusted to exclude prior-year core reserve development, which excludes A&E losses.

Source: AM Best data and research

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2019-012

U.S. catastrophe losses reached a near-record high in 2017, mainly stemming from hurricanes Harvey, Irma and Maria. For much of 2018, it appeared as though losses from catastrophic events would return to a more historically normal level. However, Hurricane Michael and historic wildfires in California during the fourth quarter drove a second year of catastrophic losses above the long-term average. AM Best estimates that the U.S. P/C industry had net catastrophe losses of over $37 billion in 2018—down from $53 billion in the prior year, but still the second highest since 2011.

Projections for 2019 reflect a further decline in net catastrophe losses to five points (or approximately $31 billion), which is more in line with an average year. AM Best expects pricing for loss-impacted accounts to be stronger in both the insurance and reinsurance segments, but loss-free accounts and those with limited catastrophe exposure may continue to see lower premiums. Continued declines in property pricing in the primary market may be driving some of the increase in the industry's normalized accident year loss ratio.

Net premiums written jumped in 2018, primarily as a result of U.S. tax reform enacted in December 2017. (**Exhibit 2**) Many companies that had previously ceded premium to offshore affiliates substantially changed those arrangements in 2018 to reduce or eliminate the effect of the Base Erosion and Anti-Abuse Tax (BEAT) that was included in the Tax Cuts and Jobs Act (TCJA). In some cases, premiums were simply retained in the primary companies, while in other cases, the premium was ceded to U.S.-domiciled reinsurers. The growth in the commercial and reinsurance segments has been particularly affected by these changes.

AM Best expects personal lines rate increases in 2019 to be higher than for commercial lines, reflecting increasing severity trends, even as companies continue to focus on expense efficiencies. In personal auto, rising medical expenses and costlier repairs of increasingly sophisticated vehicles are driving higher rates. We expect rate levels for the homeowners line to increase modestly across the board, with higher increases and some modification in coverage terms in the weather-impacted areas. Commercial lines are more of a mixed lot, with overall modest expectations for price increases in 2019. Commercial auto losses remain a drag on the industry's overall profitability, despite multiple years of substantial rate increases. As a result, further price increases are expected for the line in 2019. Other liability, which had seen a number of years of favorable experience, driven in large part by favorable development of prior years' loss reserves, has shown more variability in performance in recent years. Consequently, modest price increases also are expected for this line in 2019.

AM Best expects pricing in 2019 for other commercial lines to remain flat or decline modestly. Workers' compensation pricing has seen modest decreases overall in the most recent years, although much of the decline in rates has been offset by higher payrolls due to higher employment levels and some upward pressure on wages.

Uncertainty about macroeconomic issues may place downward pressure on exposure growth

Exhibit 2

US Property/Casualty – Combined Ratio Components, 2013-2019P

Excludes mortgage and financial guaranty segments

($ billions)

	Net Premiums Written	Net Premiums Written Growth (%)	Loss Ratio	Loss-Adjustment Expense Ratio	Underwriting Expense Ratio	Dividend Ratio	Combined Ratio
2013	482.4	4.4	55.7	12.0	28.0	0.7	96.4
2014	502.9	4.3	57.4	11.9	27.4	0.7	97.4
2015	519.5	3.3	57.9	11.9	27.8	0.7	98.3
2016	533.8	2.8	61.0	11.7	27.7	0.6	100.9
2017	557.9	4.5	64.4	11.9	27.1	0.7	104.0
2018E	608.6	9.1	62.5	11.9	26.6	0.6	101.5
2019P	630.4	3.6	62.3	11.7	26.7	0.6	101.2

E=Estimated, P=Projected

Source: AM Best data and research

in commercial lines in 2019. Higher interest rates should provide some tail winds to the P/C industry, given its substantial reliance on net investment income to boost profits. However, turmoil in U.S. and global equity markets in the fourth quarter of 2018 is expected to drive down overall investment returns for the year. With the unemployment rate now lower than the historical level that denoted "full employment," pressure on wages may spark higher inflation. The effects of the federal government shutdown on GDP constitute another "unknown" for 2019. Some economists project that there will be no GDP growth during the first quarter as a result.

The industry's prior years' loss reserves continue to develop favorably overall. With no unusually large reserving actions announced at year-end 2017 to adjust for, the long-term trend of diminishing favorable development is anticipated to continue in 2018 and 2019. Trends in the other liability line, where general liability has had increased variability, are being watched to understand whether a cyclical pattern is emerging, or if there has been a more fundamental shift in legal activity that will more permanently affect the future prospects of the line.

AM Best expects the P/C industry's pre-tax operating income to rebound to nearly $43 billion for 2018, driven by a lower underwriting loss and modestly higher net investment income. However, due to lower realized gains and unrealized losses on the industry's equity holdings, we anticipate a modest decline in equity of $3.6 billion to $768.1 billion, a drop of just 0.5%. We project a slight rebound for 2019, with a small decline in the underwriting loss and modestly higher net investment income. The 2019 forecast does not account for realized or unrealized capital gains or losses, which AM Best never projects when doing this annual study.

After a decade of year-over-year declines, we expect investment yield to show an increase for 2018, as companies are reinvesting proceeds from called and maturing bonds at the same or even slightly higher rates. Equity market declines in the fourth quarter of 2018 are expected to negatively affect the industry's holdings of common and preferred stock, with the overall level anticipated to decline for the first time since 2015. However, AM Best does not anticipate the P/C industry's overall investment mix to change substantially in 2019.

The industry's overall risk-adjusted capital position remains extremely solid, with the majority of P/C companies having capital levels that fall in the Strongest and Very Strong levels based on Best's Capital Adequacy Ratio (BCAR). Maintaining underwriting and pricing discipline in the face of these capital levels remains critical to the industry's continuing profitability. By developing and using increasingly sophisticated tools and leveraging data to better understand customers and their potential profitability, companies can retain an edge even under competitive conditions. In light of some uncertainty about near-term prospects for growth, inflation, and employment, those tools may be even more important in the years ahead. BR

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Best's Credit Rating Actions

This edition lists all Credit Rating actions that occurred between February 1 and February 28, 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 AND HEALTH						
—	L	EquiTrust Life Insurance Company *June Bug Lifetime Trust*	060315	B++ bbb	Stable Stable	B++ bbb+	Stable Stable	Illinois
New	L	Lumico Life Insurance Co of New York *Swiss Re Ltd*	062252	A a+	Stable Stable			New York
⚑	H	Moda Health Plan Inc *Oregon Dental Service*	011437	B- u bb- u	Developing Developing	B- bb-	Stable Stable	Oregon
⚑	H	Oregon Dental Service *Oregon Dental Service*	064364	B u bb u	Developing Developing	B bb	Stable Stable	Oregon
⇅	L	Principal Life Insurance Company *Principal Financial Group Inc*	006150	A+ aa-	Stable Positive	A+ aa-	Stable Stable	Iowa
⇅	L	Principal National Life Insurance Co *Principal Financial Group Inc*	007326	A+ aa-	Stable Positive	A+ aa-	Stable Stable	Iowa
⇅	L	Somerset Reinsurance Ltd.	061751	B++ bbb+	Positive Positive	B++ bbb+	Stable Stable	Bermuda
		U.S., CANADA AND BERMUDA PROPERTY/CASUALTY						
⊕	P	AgSecurity Insurance Company *Oklahoma Farm Bureau Mutual Insurance Co*	004099	B++ bbb	Stable Stable	B+ bbb-	Stable Stable	Oklahoma
—	P	Allied World Assurance Co (U.S.) Inc. *Fairfax Financial Holdings Limited*	012525	A a	Stable Stable	A a+	Stable Stable	Delaware
—	P	Allied World Assurance Company Ltd *Fairfax Financial Holdings Limited*	084808	A a	Stable Stable	A a+	Stable Stable	Bermuda
—	P	Allied World Insurance Company *Fairfax Financial Holdings Limited*	013865	A a	Stable Stable	A a+	Stable Stable	New Hampshire
—	P	Allied World National Assurance Company *Fairfax Financial Holdings Limited*	012526	A a	Stable Stable	A a+	Stable Stable	New Hampshire
—	P	Allied World Specialty Insurance Company *Fairfax Financial Holdings Limited*	012699	A a	Stable Stable	A a+	Stable Stable	Delaware
—	P	Allied World Surplus Lines Insurance Co *Fairfax Financial Holdings Limited*	011719	A a	Stable Stable	A a+	Stable Stable	Arkansas
—	P	American Sentinel Insurance Company *LD Investments LLC*	004740	B++ bbb	Stable Stable	A u a u	Negative Negative	Pennsylvania
⇅	P	Auto Club Group Insurance Company *Auto Club Insurance Association*	004089	A- a-	Positive Positive	A- a-	Stable Stable	Michigan
⇅	P	Auto Club Insurance Association *Auto Club Insurance Association*	002139	A- a-	Positive Positive	A- a-	Stable Stable	Michigan
⇅	P	Auto Club Property-Casualty Insurance Co *Auto Club Insurance Association*	000650	A- a-	Positive Positive	A- a-	Stable Stable	Michigan
⇅	P	Broome Co-operative Insurance Company	010924	B++ bbb+	Positive Positive	B++ bbb+	Stable Stable	New York
⇅	P	California Capital Insurance Company *CIG Holding Company, Inc.*	003136	A- u a- u	Developing Developing	A- u a- u	Negative Negative	California
New	P	ClearPath Mutual Insurance Company	023287	A- a-	Stable Stable	NR nr		Kentucky
⚑	P	Colorado Farm Bureau Mutual Insurance Co	000278	B+ u bbb- u	Positive Positive	B+ bbb-	Stable Stable	Colorado

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	Commonwealth Contractors Group SIA	055025	A- a-	Stable Stable	A- a-	Negative Negative	Virginia
⇅	P	Eagle West Insurance Company *CIG Holding Company, Inc.*	003125	A- u a- u	Developing Developing	A- u a- u	Negative Negative	California
—	P	Echelon Prop & Cas Insurance Company *Lockhart Companies, Inc.*	012679	B bb	Stable Stable	B+ bbb-	Stable Stable	Illinois
⇅	P	Fremont Insurance Company *Auto Club Insurance Association*	000405	A- a-	Positive Positive	A- a-	Stable Stable	Michigan
New	P	Glencar Insurance Company *HDI V.a.G.*	020599	A+ aa	Stable Stable	NR nr		Wisconsin
⊕	P	Grinnell Mutual Reinsurance Company *Grinnell Mutual Reinsurance Company*	000442	A a+	Stable Stable	A a	Stable Positive	Iowa
⊕	P	Grinnell Select Insurance Company *Grinnell Mutual Reinsurance Company*	001912	A a+	Stable Stable	A a	Stable Positive	Iowa
⇥	P	Maiden Reinsurance Ltd. *Maiden Holdings, Ltd.*	078772	NR nr		B++ u bbb u	Negative Negative	Bermuda
⇥	P	Maiden Reinsurance North America, Inc. *Maiden Holdings, Ltd.*	013979	NR nr		B++ u bbb u	Negative Negative	Missouri
⇅	P	Meemic Insurance Company *Auto Club Insurance Association*	004435	A- a-	Positive Positive	A- a-	Stable Stable	Michigan
⇅	P	MemberSelect Insurance Company *Auto Club Insurance Association*	002140	A- a-	Positive Positive	A- a-	Stable Stable	Michigan
New	P	Mobilitas Insurance Company *CSAA Insurance Exchange*	020628	A a+	Stable Stable	NR nr		Arizona
⇅	P	Monterey Insurance Company *CIG Holding Company, Inc.*	010603	A- u a- u	Developing Developing	A- u a- u	Negative Negative	California
⇅	P	Nevada Capital Insurance Company *CIG Holding Company, Inc.*	012493	A- u a- u	Developing Developing	A- u a- u	Negative Negative	Nevada
⊕	P	Northwest GF Mutual Insurance Company	000717	B++ bbb	Stable Stable	B+ bbb-	Positive Positive	South Dakota
⊕	P	Oklahoma Farm Bureau Mutual Insurance Co *Oklahoma Farm Bureau Mutual Insurance Co*	000732	B++ bbb	Stable Stable	B+ bbb-	Stable Stable	Oklahoma
⇅	P	Old Glory Insurance Company *Heartland Security Insurance Group*	012617	B++ bbb	Stable Stable	B++ bbb	Negative Negative	Texas
⇅	P	Ophthalmic Mutual Insurance Co (A RRG)	010844	A a+	Stable Negative	A a+	Stable Stable	Vermont
☑	P	T.H.E. Insurance Company *AXA S.A.*	000789	A- a-	Stable Stable	A- u a- u	Developing Developing	Louisiana
⇅	P	Universal North America Insurance Co *Universal Group, Inc.*	011600	A- a-	Negative Negative	A- a-	Stable Stable	Texas
—	P	Vantapro Specialty Insurance Company *Fairfax Financial Holdings Limited*	011219	A a	Stable Stable	A a+	Stable Stable	Arkansas
—	P	Vault E&S Insurance Company *Fairfax Financial Holdings Limited*	020586	A a	Stable Stable	A a+	Stable Stable	Arkansas
EUROPE, MIDDLE EAST AND AFRICA								
—	P	Allied World Assurance Co (Europe) DAC *Fairfax Financial Holdings Limited*	083090	A a	Stable Stable	A a+	Stable Stable	Ireland
⇥	P	Intercona Re AG *Nestlé, S.A.*	078032	NR nr		A+ aa-	Stable Stable	Switzerland
—	C	Jordan Insurance Company Plc.	088866	B bb+	Stable Negative	B+ bbb-	Stable Stable	Jordan
⇥	P	JSC Insurance Company Centras Insurance *Centras Capital LLP*	090884	NR nr		C+ b-	Stable Stable	Kazakhstan

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

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
EUROPE, MIDDLE EAST AND AFRICA (CONTINUED)								
⇥	C	QBE Re (Europe) Limited *QBE Insurance Group Limited*	085516	NR nr		A a+	Stable Stable	United Kingdom
New	P	Travelers Insurance DAC *The Travelers Companies, Inc.*	071553	A++ aa+	Stable Stable			Ireland
⇥	P	Wapic Insurance Plc *Wapic Insurance Plc*	093321	NR nr		C++ b	Negative Negative	Nigeria
CARIBBEAN & LATIN AMERICA								
⊕	P	Assurant Daños México, S.A. *Assurant, Inc.*	078093	A- a-	Stable Stable	B++ bbb+	Positive Positive	Mexico
⊕	L	Assurant Vida México, S.A. *Assurant, Inc.*	078094	A- a-	Stable Stable	B++ bbb+	Positive Positive	Mexico
—	P	Guardian Insurance Company, Inc. *Lockhart Companies, Inc.*	011328	B++ bbb+	Stable Negative	A- a-	Negative Negative	U.S. Virgin Islands
⇅	L	Insignia Life S.A. de C.V. *Proyecto Insignia, S.A.P.I. de C.V.*	091458	B+ bbb-	Stable Stable	B+ bbb-	Positive Positive	Mexico
⊕	C	MAPFRE Panamá S.A. *Fundación MAPFRE*	086149	A a+	Stable Stable	A a	Stable Stable	Panama
⊕	P	Nagico Insurance Company Limited *Nagico Holdings Limited*	090585	B++ bbb+	Stable Stable	B++ bbb	Stable Positive	Anguilla
⊕	C	Natl Gen Ins Corp (NAGICO) NV *Nagico Holdings Limited*	089215	B++ bbb+	Stable Stable	B++ bbb	Stable Positive	St. Maarten
⇥	L	StateTrust Life and Annuities, Limited*	073921	NR nr		B- bb-	Negative Negative	British Virgin Islands

Holding Companies

Rating Action	Company Name	AMB#	Current ICR	Current Outlook/ Implications	Previous ICR	Previous Outlook/ Implications	Domicile
—	Allied World Assurance Co Hldgs GmbH	058218	bbb	Stable	bbb+	Stable	Switzerland
—	Allied World Assurance Co Holdings, Ltd	051237	bbb	Stable	bbb+	Stable	Bermuda
⇥	Maiden Holdings, Ltd.	078740	nr		bb u	Negative	Bermuda
⇥	Maiden Holdings North America, Ltd.	052440	nr		bb u	Negative	Delaware
⇅	Principal Financial Group Inc	058179	a-	Positive	a-	Stable	Delaware

*Ratings were downgraded to B-/bb- from B/bb on February 1, 2019. Ratings were withdrawn on February 1, 2019.

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

BEST'S FINANCIAL STRENGTH RATING GUIDE – (FSR)

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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.

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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)	Class	Adj. PHS ($ Millions)
I	Less than 1	IX	250 to 500
II	1 to 2	X	500 to 750
III	2 to 5	XI	750 to 1,000
IV	5 to 10	XII	1,000 to 1,250
V	10 to 25	XIII	1,250 to 1,500
VI	25 to 50	XIV	1,500 to 2,000
VII	50 to 100	XV	2,000 or greater
VIII	100 to 250		

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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.

Rating Disclosure: Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.

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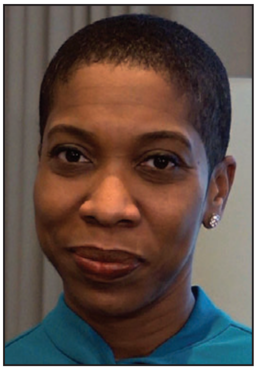
Fighting Myopia

CNA Chief Diversity Officer Joyce Trimuel says differing views generate better outcomes.

Joyce Trimuel, chief diversity officer, CNA Insurance, said diverse perspectives generate better outcomes. She spoke with AMBestTV at the Emerging Leaders Conference in Miami.

How does culture affect innovation?

When you think about just statistically, it's been proven that companies with diverse perspectives and diverse ideas generate better outcomes and better results. One of the things that I believe is critically important for the diversity inclusion space is that it's not just diversity of thought, but you need diversity of talent, you need diversity that includes age, gender, sexual orientation, disabilities because again, you're going to get perspectives that otherwise you wouldn't necessarily get if the room is very myopic.



Joyce Trimuel
CNA Insurance

That's why I think about the insurance industry and the work that we're doing in the D&I space really is not just about having the numbers in terms of X number of women or perhaps from an ethnicity standpoint. It's about the full dimension of diversity just because again, you're just going to get better ideas that you would not necessarily get if the room is all the same experiences and same thought process.

Do you have any extra considerations or challenges that when you work with people who are considering this industry that it may either be a plus or a minus?

One thing that I've found with our industry is that sometimes, it's kind of a well-kept secret, good, bad and indifferent. Sometimes, I know for myself and some colleagues, it wasn't as if we had necessarily intentionally pursued a career in insurance. A lot of us just through different experiences landed.

I definitely think from a talent standpoint, there is a war on talent just given the fact that we are an aging workforce as an industry and we're competing with so many other industries, so many other companies that perhaps have more brand recognition.

It's incumbent upon the insurance industry to be much more intentional about telling the story because you can have a very robust career. There's so much to do within our industry that sometimes people may not necessarily think about. For example if you are a psych major, why does that preclude you from doing something within the claims organization or within human resources? How can we attract, and then once we get the folks in the door, what are we doing to develop them so that they can really get the full experience of our industry? It's just such an amazing opportunity for individuals in terms of your career can go in a lot of different directions, but people have to know about the opportunities within the industry.

What are you seeing in terms of your own experience at bringing people up who probably are those emerging leaders?

I believe this conference is a great example of that because here you have close to 100 rising professionals within our industry who are given the opportunity for professional development. I'll use myself as an example. I started as an intern in the industry. The fact that I've had people to advocate and to mentor and to coach me along the way, that's been pivotal just in terms of having a 20-plus-year career doing a lot of different things. I really would say it's a two-step approach. We have to attract the individuals, but once we get them in the door, providing them with opportunities like this conference. I think it's going to be life-changing for these folks that are coming this week. Then, it's what do we do once they get back to their respective offices? What's going to be that call to action so that we continue to cultivate and motivate and engage them in different ways?

—Lee McDonald

AMBestTV

Go to www*bestreview.com* to watch the interview with Joyce Trimuel.

Information Controversy

Industry pushes back against proposed ban on education, occupation in underwriting auto in California.

Insurance trade groups are pushing back against a petition by consumer groups in California seeking to bar the use of educational level and occupation in setting personal automobile insurance rates.

Eleven groups, led by Consumer Watchdog, sent a petition to Insurance Commissioner Ricardo Lara urging the department to add a regulation prohibiting the factoring of educational level or occupation in determining auto rates and whether a consumer qualifies for coverage. Including them in underwriting auto policies essentially results in subsidies to the wealthy and well-educated, paid disproportionately by the poor, less-educated and minority groups, they said. Education and occupation in underwriting, the petition says, "are thinly veiled surrogates for wealth, ethnicity and race."

But the organizations misunderstand how insurance underwriting and rating work, said Mark Sektnan, vice president of the American Property Casualty Insurance Association. "Consumers benefit when insurers use information that enables them to more accurately price auto insurance," he said. "All consumers win when drivers who pose lower risk, pay less."

With data collected over decades, auto insurers have found the education and occupation of a driver can be accurate variables for predicting the likelihood and severity of insurance claims, he said. State agencies enforcing insurance laws in Maryland and New Jersey "conducted extensive studies and found these factors to be without question, reasonable to use because they are predictive of losses," he said.

Rates have to be approved by the California Department of Insurance, according to Proposition 103. "Therefore, all rates currently charged have been thoroughly vetted and found to be appropriate," Sektnan said.

—Timothy Darragh

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On Alert

A rash of cyberattacks that target online cryptocurrencies could soon generate a spike in business interruption and liability claims.

by Lori Chordas

Cyberhacks and breaches come in all shapes and sizes but one constant remains. Ransomware, malware-as-a service and other cyberattacks can wreak havoc on insurers and their insureds.

This year cybercrime costs are projected to top $2.1 trillion, according to Juniper Research. Included in that projection is a growing threat that insurers say could soon generate more business interruption and liability claims.

Last year was a monumental year for cryptojacking attacks. The attacks are carried out by cryptocriminals who use malware scripts to hijack users' computers and steal processing power to mine cryptocurrencies such as bitcoin and Monero.

During the first half of 2018, unauthorized cryptomining attacks were nearly 1000% higher than in the second half of 2017, according to a report by cybersecurity company Trend Micro. Some of last year's targets included Tesla, the *Los Angeles Times*, the Make-A-Wish Foundation and more than 4,000 U.S., Australian and U.K. government websites.

Insurers have so far been relatively unscathed by cryptojacking attacks. And they haven't had to raise rates as a result of those losses, said Stephen Vina, senior vice president and senior advisory specialist in Marsh's cyber practice.

"But soon we could see more business interruption claims, along with liability claims if criminals put cryptojacking malware onto a company's website and the company then transfers it to others," he said.

Chubb is seeing a rise in cryptojacking claims. "As organizations become increasingly reliant on systems to run critical aspects of operations, they are becoming aware that degradations or interruptions of those systems can have greater consequences to their business," said Patrick Thielen, senior vice president and product lead for cyber and technology errors and omissions for Chubb Financial Lines.

Cryptojacking victims are often unaware that they are targets of an attack. Last year, only one in five security professionals knew that their organization's systems had been impacted by mining malware, according to cybersecurity firm Check Point Research.

"It's difficult to quantify damage when data isn't stolen or destroyed or the cryptomining malware may ultimately end up looking like something else. So impacts of an attack may not be immediately known," Marsh's Vina said.

Similar to other types of cyberattacks, losses generated from cryptojacking generally would fall under a traditional cyber policy, Vina said. However, the line starts to blur "when we begin talking about the usage of computing power, electricity and cloud usage. Those types of costs or financial harm may not be as clearly covered in current cyber policies," he said.

Insurers are now educating insureds and the industry about ways to safeguard against the growing threat.

Vina hopes growing awareness will highlight the need for cyber coverage. "Often companies think they won't be a target of a cyberattack and some question why they even need the coverage. But anyone with a computer is a potential target, especially because cryptojacking isn't about the kind of information you have but about someone hijacking computing power and electricity and using it for their own purposes," he said.

The growing investment in cryptocurrency among financial institutions will continue to attract the attention of cryptocriminals. "And if cryptocurrency becomes a widely traded commodity, i.e. has the element of anonymity and gains more widespread value to trade for real goods and services, then the incidence of cryptojacking will continue to rise," said Sarah Stephens, head of cyber for JLT Group. BR

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