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AM BEST'S MONTHLY INSURANCE MAGAZINE

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AM BEST'S MONTHLY INSURANCE MAGAZINE

GOING DARK

NotPetya paralyzed businesses and put cyber on the map as an emerging catastrophe risk.

Catastrophe Coverage
Pages 41-59


Let's talk niches. Special events and business services. Transportation and fuel. Entertainment, education, and environment. They all need coverage they can count on. Philadelphia Insurance Companies provides protection for more than 120 niche, real-world industries, making it easy for you to handle complex risk. We know every niche business has some risk, and each deserves exceptional protection and service.
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The New Storms

From the Editor's Desk: A California wildfire was last year's biggest insured catastrophe loss. While hurricanes are a perennial threat, how long before a cyberattack tops the list?

June marks the start of the hurricane season and these storms, with their destructive winds and heavy rains, almost always rank as one of the top insured losses each year.

Last year, however, the Camp Fire in California, which destroyed most of the town of Paradise in northern California, was the biggest insured catastrophe loss, estimated at more than $12 billion.

That was more than the estimated $10 billion insured loss from Hurricane Michael, the first hurricane to make landfall in the United States as a Category 5 since Andrew in 1992.

Insured losses from Typhoon Jebi, which hit Japan in September, meanwhile, have been creeping higher and are now estimated at about $10 billion as well, with the potential to go even higher.

Wildfires had previously been considered a "second-tier" catastrophic event, not on the plane of hurricanes and earthquakes, according to Matthew Mosher, AM Best executive vice president and chief operating officer. But the blazes of 2018 and 2017 changed that. While hurricanes and wildfires were among the top insured losses last year, other storms are brewing.

Cyberattacks, for instance, are a growing concern. Insured losses from the NotPetya malware attack in 2017 were estimated at about $3 billion, just a little less than the $4.5 billion insured loss from last year's Woolsey Fire in California.

June is Catastrophe Awareness Month and in this issue *Best's Review* looks at some of the catastrophe risks insurers, risk modelers, businesses and homeowners have had to consider lately.

In "Going Dark," *Best's Review* examines the NotPetya malware attack and the growing threat of cyber catastrophes.

While wildfires captured many of the headlines in 2018, volcanoes also made their presence known, spewing ash, toxic gases and lava. Mt. Kilauea in Hawaii and Mt. Etna in Italy were just a few of the volcanoes that erupted in 2018.

In "Waiting to Erupt," *Best's Review* looks at last year's volcanic eruptions and how insurers are responding. While insured losses from these events are typically low, the industry has been working on ways to improve coverage.

Massive flooding in the Midwest earlier this year has been a devastating catastrophe. An AM Best report, *Blizzards, Heavy Rains, Melting Ice Produce Catastrophic Midwest Flooding*, examines this event.

Despite the magnitude of the potential losses, these catastrophes are usually insurable. At the personal level, however, people with chronic conditions often have not been able to get life insurance. In "Reaching the Uninsurables," *Best's Review* looks at how life insurers are now working to provide coverage for people with conditions such as diabetes.

On the economic front, asset managers are preparing for a different kind of storm. To find out more about how asset managers are preparing their portfolios, check out "Storm Clouds on the Horizon?"

To read these and other features online, go to *www.bestreview.com.*

Patricia Vowinkel
Executive Editor
patricia.vowinkel@ambest.com

The Question:

Are you concerned about whether your insurance policies will cover losses from a cyberattack?

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

Reader responses will be published in a future issue.

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Cover design by Andrew Crespo

State of Medical Professional Liability Market

AM Best Webinars

An AM Best webinar reviews the state of the U.S. medical professional liability insurance sector. Also, insurance and technology experts discuss the value of participating in a contributory database.

On Demand

Strength in Numbers: How Contributory Databases Are Driving Insurance Insight

A panel of insurance and technology experts will discuss the value of participating in a contributory database to gain critical and unique insights across the market and the policy life cycle. (Now available.)

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. (Now available.)

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 liability insurance sector. (Now available.)

How the Internet of Things Is Remaking Homeowners Insurance

A panel of technology and insurance experts will examine how homeowners insurers are leveraging sensors, monitors and data to build better coverages and provide more value to insureds. (Now available.)

Streaming Live

How MGAs Are Leveraging Insurtech to Transform Operations and Drive Business

A panel of insurance and technology professionals will examine ways in which managing general agents and program administrators are leveraging technology to transform operations, respond to emerging risks, capitalize on market opportunities, develop innovative offerings and reach new customers. Sponsored by Xceedance.

Thursday, June 13, 1 p.m. ET

State of the Caribbean Insurance Markets

AM Best analysts review the insurance markets in the Caribbean region, including property/casualty, life and health sectors.

Monday, June 17, 2 p.m. ET

View These and Other AM Best Webinars

- How Social Media Is Changing Insurance Claims
- Rating ILS-Affiliated Collateralized Reinsurers
- Transforming Insurance Business Through Data, Machine Learning and AI

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

RIMS Meets in Boston

AMBestTV reports on topics explored at the Risk and Insurance Management Society's conference in Boston and Philly I-Day 2019 in Philadelphia. Also, AMBestRadio presents discussions on customer interaction via chatbots and how the data from connected devices can benefit insurers.

On Demand

AMBestTV at RIMS: 'You Cannot Underwrite Behind a Desk,' Says Risk Manager Panel

A panel of risk managers from companies ranging from Red Bull to Chik-fil-A discuss how insurers must listen to their clients. Lance Ewing, executive vice president, global risk management and client services, Cotton Holdings; Shannon Gardner, executive director, enterprise risk management, Chick-fil-A; Kristen Peed, director, corporate risk management, CBIZ Inc. and Simon Keshishian, senior director of risk management, Red Bull, spoke with AMBestTV at the 2019 RIMS Annual Conference & Exhibition in Boston. (April 30, 2019)

Travelers' Ives: Virtual Reality Helps Patients Manage Pain Without Opioids

Rich Ives

Rich Ives, vice president of claims for Travelers, said virtual reality can be used to help injured workers cope with pain and recover from surgery without pharmaceuticals. In workers' comp, predictive analytics also can be used to change outcomes by signaling the need for early intervention in a claim, Ives said. He spoke with AMBestTV at the 2019 RIMS Annual Conference & Exhibition in Boston. (April 29, 2019)

Adjusting Company SVP Kaminski: Site Access Delays Add to 'Loss Creep'

Danielle Kaminski

Danielle Kaminski, senior vice president and chief commercial officer, Charles Taylor Adjusting, said claim activity is up for several sectors, including renewable energy, crisis management, product recall and cyber. Kaminski spoke with AMBestTV at the Risk and Insurance Management Society's annual conference in Boston. (April 29, 2019)

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

CoverWallet's Berenguer: Successful Companies Are Morphing Into Tech Firms

Inaki Berenguer, CEO and co-founder, CoverWallet, said the startup is aimed at the small-business insurance sector. He spoke with AMBestTV at Philly I-Day 2019 in Philadelphia. (April 10, 2019)

Inaki Berenguer

AM Best's Thomas: UK Non-Life Outlook Based on Political Uncertainty, Performance

Catherine Thomas, senior director of analytics, AM Best, said the market segment outlook remains negative for the U.K. non-life sector, pending improvements in technical performance and developments in regulatory and political issues. (April 8, 2019)

Catherine Thomas

AM Best's Botelho: Spanish Insurers Turn to Tech to Enhance Reach and Control Costs

Jessica Botelho, senior financial analyst, AM Best, said insurers in Spain are using technology to combat limited growth opportunities in domestic markets and political risk in Latin America. (March 25, 2019)

Jessica Botelho

Chatbots for Interaction, Devices and Data

AMBestRadio presents discussions on software applications and the use of connected devices.

Insurers Are Using More Chatbots

Jeff Goldberg, executive vice president of research and consulting, Novarica, discusses how software applications are being used by insurers for customer interaction.

The Institutes' Frappolli: In the IoT World, Data Matters As Much as Devices

Marty Frappolli, senior director of Knowledge Resources, The Institutes, said insureds will benefit from connected devices, and insurers will also benefit from what they learn by deploying those devices.

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

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'Elevate' Is Theme of 15th Bermuda Captive Conference; AHIP Expo in Nashville

June 1 – 5: Farm Bureau Insurance Managers Conference, American Agricultural Insurance Co., Jackson Hole, Wyo.

June 2 – 4: IAC Conference, 39th Annual Caribbean Insurance Conference, Insurance Association of the Caribbean, Cancun, Mexico.

June 2 – 5: IASA Educational Conference & Business Show, Insurance Accounting and Systems Association, Phoenix.

June 2 – 5: National Flood Conference, American Property Casualty Insurance Association (APCIA), Washington, D.C.

June 3 – 5: Airmic Conference 2019, Association of Insurance and Risk Managers, Harrogate, England.

June 3 – 5: CAILBA 2019 National Conference & AGM, Canadian Association of Independent Life Brokerage Agencies, Victoria, British Columbia.

June 3 – 7: Insurance Summit, National Association of Insurance Commissioners and National Insurance Provider Registry, Kansas City, Mo.

June 6 – 8: IAIP 78th Annual Convention, International Association of Insurance Professionals, Reno, Nev.

June 9 – 12: PRIMA19 Conference, Public Risk Management Association, Orlando, Fla.

June 9 – 12: WCCP 28th Annual Claims Management & Leadership Conference, Workers' Compensation Claims Professionals, Bonita Springs, Fla.

June 10 – 12: Bermuda Captive Conference, Bermuda Business Development Agency, Southampton, Bermuda.

June 11 – 14: International Conference on Risk and the Insurance Business in History, Microinsurance Network, Seville, Spain.

June 12 – 14: IICF Women in Insurance Global Conference, Insurance Industry Charitable Foundation, New York.

June 13: InsiderTech New York, Insurance Insider, New York.

June 13: RAA Re Underwriting 2019, Reinsurance Association of America, New York.

June 14 – 18: SLA Annual Conference, Special Libraries Association, Cleveland, Ohio.

June 18 – 21: Global Insurance Forum, International Insurance Society, Singapore.

June 19 – 21: AHIP Institute & Expo, Americas Health Insurance Plans, Nashville, Tenn.

June 19 – 21: FAIA 115th Annual Convention & Education Symposium, Florida Association of Insurance Agents, Orlando, Fla.

June 23 – 25: IMCA Annual Conference & Showcase Gala, Insurance Marketing & Communications Association, Minneapolis.

June 23 – 25: Reinsurance Buyers Conference, American Agricultural Insurance Co., Chicago.

June 23 – 26: HFMA Annual Conference, Healthcare Financial Management Association, Orlando, Fla.

June 23 – 26: NAMIC Management Conference, National Association of Mutual Insurance Companies, Asheville, N.C.

June 24-26: ACE America's Claims Executive, Las Vegas.

June 24 – 26: SOA 2019 Health Meeting, Society of Actuaries, Phoenix.

June 29 - July 2: NAHU Annual Convention, National Association of Health Underwriters, San Diego.

July 10 – 13: NCOIL Summer Meeting, National Council of Insurance Legislators, Newport Beach, Calif.

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

Attending Exhibiting Speaking Hosting Sponsoring Video

June: Catastrophe Awareness

June may be the beginning of hurricane season, but insurers also are facing the increasing threats of other types of catastrophes. The June issue examines how insurers are dealing with cyberrisk and the threat of volcanic activity. Coverage begins on page 41.

StarStone Names Former Validus CEO as Chairman

Also: Nationwide's Rasmussen to retire, Maryland commissioner confirmed for another term, and a new head of reinsurance for Tokio Marine Kiln.

Ed Noonan

Ed Noonan, former chief executive officer of Validus Holdings, has returned to the Bermuda specialty market as chairman of StarStone Group as the company announces several management changes.

Dick Sanford is joining the specialty underwriter as president, StarStone said in a statement. He will oversee StarStone's global underwriting and reinsurance strategy.

Chris Rash is being promoted to CEO of StarStone International and deputy group CEO.

StarStone said it underwrites business across the property, specialty and casualty risk classes from operations in London, Continental Europe and the United States. It is owned by Enstar Group Ltd., Trident V funds managed by Stone Point Capital LLC and Dowling Capital Partners I L.P.

Noonan has more than 30 years of industry experience, said StarStone. He was most recently chairman and CEO of Validus Group, a position he held from 2005 to 2018.

Under Noonan's leadership, Validus "experienced significant success and growth" and was acquired by American International Group in 2018.

Sanford was previously chairman and president of PartnerRe US and head of property/casualty North America.

He has 35 years of insurance market experience, having begun his career as a casualty underwriter at AIG in 1984, said StarStone. He has since held a succession of senior roles, including executive vice president, TIG Re/Odyssey America Reinsurance and vice president, Cologne Reinsurance Company of America, before joining PartnerRe in 2000.

Rash, who joined StarStone in August 2018, will lead StarStone's international business, and operational strategy at group level, the company said. He has more than 20 years of industry experience, having held financial and operational leadership positions, including 15 years at RSA, and as group chief financial officer at MS Amlin.

—David Pilla

Kemper Appoints Life Segment President

Cheryl Kingsfield Neal

Kemper Corp. has appointed Cheryl Kingsfield Neal as president of Kemper Life. She succeeds Michael Plazony, who is no longer with the company.

Most recently, Neal was North American life and annuity division president and global chief strategy and marketing officer at Foresters Financial. Earlier, she was an executive at Liberty Mutual.

Tokio Marine Kiln Names Head of Reinsurance

Will Curran

Will Curran has been named as the new head of reinsurance for Tokio Marine Kiln.

He succeeds David Huckstepp who is leaving the company "on a planned break from the sector," Tokio Marine Kiln said.

Curran began his career at Lloyd's in 1996 and after stints with Beazley, Wellington and Catlin, he joined Tokio Marine Kiln in 2008 and has since been the deputy underwriter of the company's reinsurance team.

Hyperion Fills Newly Created Chief Operating Officer Role

Hyperion Insurance Group has named Rebecca Scott group chief operating officer.

Rebecca Scott

She will report to David Howden, the London-based broker's chief executive officer, and has joined the group executive committee.

Scott's role is a newly created position and is global in scope. She joined the broking and underwriting agency group in 2014 as head of internal audit and became chief risk officer in 2015. She was most recently appointed COO of Howden Broking Group in 2017. Before joining Hyperion, Scott was CRO at a Lloyd's managing agency and a partner at chartered accountancy firm Mazars, Hyperion said.

PartnerRe Names Americas Property/Casualty Chief Executive Officer

Jonathan Colello has been appointed chief executive officer, property/casualty, Americas, and president of Partner Reinsurance Company of the U.S. He will join the company July 1.

In his new role, Colello will have executive responsibility for leading PartnerRe's property/casualty business in the United States, Canada and Latin America, and for the company's health business in the United States.

Colello has spent the majority of his 20-year career in the industry. Most recently he was president of North America for Axis Re, where he was responsible for all underwriting platforms in Bermuda, Canada and the United States.

He was previously president and chief underwriting officer, United States, for Axis Re.

Nationwide Chief Executive Officer to Retire in October

Steve Rasmussen said he plans to retire from Nationwide effective Oct. 1.

Steve Rasmussen

Rasmussen's career with Nationwide spanned 45 years. Before becoming CEO in February 2009, he was president and chief operating officer of the company's property/casualty insurance division from 2003 to 2009. He joined Nationwide in 1998 as a result of a merger with Allied Insurance, where he was president and chief operating officer. He joined Allied in 1974.

Maryland Insurance Commissioner Confirmed for Another Term

The Maryland state Senate has confirmed Al Redmer Jr. for another term as Maryland's insurance commissioner.

Al Redmer Jr.

Redmer, whose term expires June 30, must be sworn in, and his next term runs through May 31, 2022. Redmer previously served as commissioner from June 2003 until October 2005 and again since January 2015.

He also is a member of the governor's subcabinet on International Affairs and sits on the board of directors of the Maryland Health Benefit Exchange.

Chubb Names Execs in Bermuda, United Kingdom and Ireland

Richard Porter has been named senior vice president and head of financial lines at Chubb Bermuda.

Richard Porter

Porter is based in Bermuda and succeeds Joe Casey, who has left the company.

Porter has more than two decades of U.S. and international industry experience. Before this appointment, he was general counsel for Chubb Bermuda.

Also, Chubb Ltd. appointed Jonathan Kennett as head of financial institutions for the United Kingdom and Ireland and Chubb Global Markets.

Kennett was previously financial institutions manager for the United Kingdom and Ireland. He joined Chubb in 2017 and before that held a number of senior leadership roles at several insurers and reinsurers including American International Group, Munich Re and Zurich.

Axis Re Names President of EMEA And Latin America Divisions

Andy Hottinger

Axis Re, the reinsurance arm of Axis Capital Holdings, has appointed Andy Hottinger president of its Europe, Middle East and Africa and Latin America division.

Hottinger succeeds Jan Ekberg, who will retire in July following a 45-year career in the insurance industry, including 15 years at Axis.

Hottinger has held a number of underwriting managerial roles at Axis Re, most recently serving as head of property EMEA and, before that, head of engineering and property risk.

SterlingRisk Insurance Names Alternative Market Program Director

Angelina M. Bocanegra

SterlingRisk Insurance, an independently owned insurance brokerage in Woodbury, New York, has named Angelina M. Bocanegra alternative market program director.

She joins SterlingRisk from JLNY Group LLC, in Woodbury, where she was small-business commercial underwriter and personal lines manager before becoming marketing manager, business development. Before joining JLNY Group, she was a wholesale service manager and team leader at Access General Agency.

Concord Group Appoints Chief Executive Officer and Chief Operating Officer

Daniel McCabe

Concord Group Insurance Cos. has appointed Daniel McCabe as president and chief executive officer. Michael Nolin succeeds him as senior vice president and chief operating officer.

McCabe will work with Auto-Owners, with which Concord is affiliated, to expand capabilities, product lines and distribution through independent agents in New England.

He joined the company in early 2017, and has served more than 20 years in the industry, with senior leadership positions in underwriting, product development, marketing and operations at Chubb, Travelers, The Hanover, MAPFRE and Lexington Insurance.

Nolin joined Concord Group 35 years ago. He is charged with overseeing business operations and corporate steering functions.

Former Allstate Executive to Succeed Retiring CSAA Chief Executive Officer

Thomas Troy

Former Allstate executive Thomas Troy has been tapped to succeed Paula Downey as CSAA Insurance Group chief executive officer.

He brings more than 30 years of industry experience. Previously, he was executive vice president of property/casualty alternative segments at Allstate, which included business insurance, Encompass, Esurance and Ivantage Select Agency.

Earlier, he was an executive vice president and chief operating officer at Liberty Mutual. He also held senior leadership positions at Safeco Corp.

AIG Names CEO of Private Client Group And Chief Information Security Officer

American International Group Inc. appointed Kathleen Zortman as president and chief executive officer of its private client group, general insurance.

In this new role, Zortman will lead AIG's global high-net worth portfolio and will be based in New York.

Zortman joins from QBE Insurance Group, where she was president of property/casualty, North America. Before that, she was chief field executive of Fireman's Fund Insurance from 2011 through 2015.

She had earlier in held leadership roles at Professional Risk Solutions, Johnson & Higgins, Deloitte and Chubb.

Rich Baich

Also, AIG has named Rich Baich senior vice president and chief information security officer.

Baich will lead AIG's global cybersecurity risk management program, working closely with the group's executive leadership team.

Baich joins AIG from Wells Fargo & Co., where he was CISO since 2012. BR

A Changing Industry

Best's Review recently asked readers: What are some of the reasons you enjoy working in the insurance industry?

I have enjoyed working in the insurance industry for the past 30 years because insurance is an ever-changing market. It never gets old or out of date because it's driven by changes to technology, weather, social behavior and other driving factors. There is the challenge of predicting new risks in our future, and new regulations and insurance products to mitigate those risks.

Janet Bordeau
Sr. Compliance Analyst, Legal & Audit
FCCI Insurance Group
Sarasota, Fla.

Comment: 'Active Shooter'

The "Active Shooter" package in the April 2019 issue was most informative and explored all aspects; I thoroughly enjoyed it. What impressed me most were the unbiased opinions in the "No Easy Answer" story.

Cathy Hughes
Commercial Account Manager / Surety & Fidelity Bonds
Stone Insurance Inc.
Metairie, La.

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Supporting Roles

Hartford Financial is bringing back its iconic stag and MassMutual is recognizing the dedication of hockey moms in a new campaign with the National Hockey League.

The Buck (Doesn't) Stop Here

HARTFORD FINANCIAL SERVICES GROUP is bringing back a piece of iconic history in a new advertising campaign that targets small-business owners.

The Hartford Buck, a widely recognizable brand symbol for the company, is featured in a series of new ads that are told from the buck's perspective for the first time in the company's advertising history. The "Nothing Small" campaign is comprised of three ads that spotlight small-business owners pursuing their unique ambitions and showcasing what they do best. For instance, an accountant is depicted as a superhero and a barber is a magician.

The company introduced its iconic stag in television advertising in the 1970s. "We decided to move away from using the buck in 2008 to spend more time focusing our advertising on customers and the need for insurance," said Kathy Bromage, chief marketing and communications officer at Hartford Financial."The Hartford's logo is one of the most recognized in our industry. We have a lot of equity in it and our logo has helped people see our company as trustworthy, long-standing and reliable. So why not create opportunities to take advantage of that value that companies spend decades trying to create?"

The ads starring the Hartford Buck are airing on cable news stations, along with streaming services such as Hulu and Roku. The campaign also includes print, digital and social media ads.

Mother's Day

Photo courtesy of MassMutual

MASSACHUSETTS MUTUAL LIFE INSURANCE CO. is teaming up with the National Hockey League in a multiyear partnership that recognizes the dedication and support of mothers to the sport.

MassMutual and the NHL created this first campaign to share inspiring stories about that commitment and crown one mother as the recipient of the first "NHL Most Valuable Hockey Mom" award. The winner, who was announced on Mother's Day, received an all-expense paid trip to this year's NHL Awards in Las Vegas and an invitation to ride on the NHL float in this year's Macy's Thanksgiving Day Parade in New York City. MassMutual is a presenting partner of this year's NHL float. MassMutual will be sharing hockey moms' inspiring stories throughout the 2019-20 NHL season via digital networks and will have a significant presence during NHL events and across NHL broadcast and digital media channels throughout the regular season and Stanley Cup Playoffs.

As part of the partnership, MassMutual is now the Official Life Insurance and Retirement Planning Partner of the NHL. MassMutual has been a retirement plan provider of the NHL since 2002.

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

Focus on Catastrophes

^{AM}BestTV talks to industry experts about how floods, hurricanes, wildfires and climate change are impacting insurers.

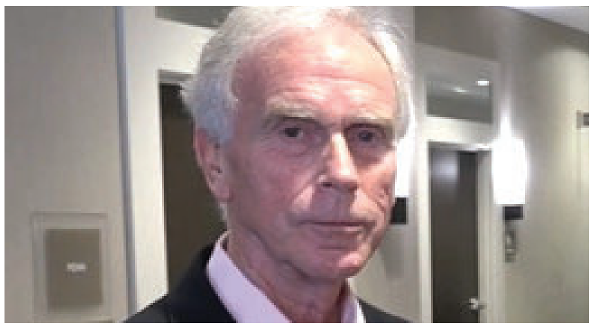
"We saw such wide scale impact of the fires that played out. The Woolsey Fire down in Los Angeles County, and obviously, the Camp Fire there in Paradise, California. I traveled with our forensic team in December and walked through those neighborhoods. It's hard to explain what it means when 90% of the structures are gone. The closest corollary is an EF5 tornado that came through. The research we've been doing at the Insurance Institute for Business and Home Safety, looks to understand the losses, and work with the modelers, so that they can understand what to do with in terms of expected losses. Then ironically, we come back to the roof. When those embers, those flying charcoal pieces come at you, the real danger is when that gets up into your attic.

That gets up into the soffit and eaves, and that's how homes just begin to blow. That's what we saw over and over again."

Roy Wright
President and Chief Executive Officer
Insurance Institute for Business & Home Safety

"The challenge is, right now, not enough people at the upper end of the capital supply chain have been able to fully understand cyber yet because you're not living in the data center day-to-day. The models are evolving and doing a great job of evolving, but it's not as established as property catastrophe yet. You've got a lot of capacity that's got a lot of learning to do, which takes time, when you're tending to your book, especially following [hurricanes] Harvey, Irma, and Maria."

Tom Johansmeyer
Assistant Vice President
Verisk



"I see public announcements by some of the insurance companies that they're looking to reassess their exposure in wildfire-related areas. The reinsurers certainly are looking at the significant losses that they incurred from 2018.

From our perspective, we would like to see the legislature authorize the state to purchase catastrophe bonds or other kinds of prefunded solutions to deal with wildfire remediation, as well as recovery and the cost of recovery for wildfire."

Frank Nutter
President
Reinsurance Association of America

"From a property standpoint, what we would expect to see is that in light of the recent spate of fire and hurricanes over the last two years, that companies will continue to reevaluate their underwriting strategies and their risk tolerances. This, in turn, could lead to an increase in non-renewals or a significant increase in the rate activity.

We'd also expect to see the prevalence of dedicated cat specialists to increase, and also those companies focused on segments of the property markets to increase as well, such as high-net-worth segments."

Greg Williams
Senior Director
AM Best

"One of those which is on everybody's mind these days is climate change. What is climate change? What impact is climate change having on natural catastrophe losses? We all know we've seen an increase in hurricanes, we've seen a dramatic increase in hail and wildfire, and of course, there's flooding. We're going to take a look at what's happening with climate change, what's the forecast for climate change and what impact is that going to have on catastrophe losses."

Kevin O'Brien
President and Chief Executive Officer
Inland Marine Underwriters Association

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

Owning Your Development

It's up to you to make time for professional development.

"You'll never get bored; there is always something new to learn." That's one of the most common things I've heard since joining the insurance industry. And it's true. Insurance is a dynamic ecosystem that touches all aspects of individuals' lives and businesses' processes. As our clients' needs and risks change, we adapt.

But in order to do so effectively, we must continually update our own skill sets and knowledge. That means taking ownership of our professional development.

Carly Burnham

The **responsibility** for professional development increasingly **is led by the individual.**

Though some employers make an effort to guide individuals in their career development, the responsibility for professional development increasingly is led by the individual.

Whether your company gives you time to focus on development or you have to carve out time on your own, it is incumbent on each of us to develop plans that fit our interests and our style of learning to stay current.

Here are a few tactics that have worked for me:

• **Schedule the time.** I block off the first 30 minutes of my day for educating myself.

This can be as informal as reading some articles or as formal as studying for a designation.

Setting the time aside in the morning means I don't lose track of the day and neglect this important task. But if you're even less of a morning person than I am, commit to whatever time slot works best for you.

• **Consume company material.** As a fresh underwriter, I read policy forms for 15 minutes of my allotted time. When I was selling, I reviewed our marketing materials. It's important to know your company, so learning about other divisions and their work would also be applicable. Understanding the company you work for and the role you're in will help you to improve on day-to-day skills.

• **Consume external material.** While it's important to know about the products you work on and the advantages your company holds, it's also important to know your competition.

Visit competitors' websites and read their marketing materials. Read trade magazines, attend networking events, go to conferences. And don't just focus on insurance material when searching for external sources of education. If you're in personal lines, look to understand consumer trends. If you're in commercial lines, look to understand the workings of the industries you're targeting.

• **Be goal driven, but not laser focused.** If you're working to acquire a designation or complete a degree, by all means it is best to devote your time to that goal. But a curious mind that explores topics that aren't immediately related to your day-to-day work is also valuable. The most interesting innovations often come from disparate sources.

If you're an underwriter but you have a passion for coaching your daughter's basketball team, learn all you can about that. You might bring some communication strategies back to the office or form some new opinions about insuring organizations that work with students. You never know what ideas will emerge when you're learning about things that truly interest you.

Whether you are new to the insurance industry or have been around awhile, there is always something new to learn.

If you're a people leader, talk to your employees about how they best learn and what they're doing to gain knowledge and skills. Insurance depends on each of us knowing as much as we can about the work we do and sharing that knowledge. Besides all that, learning is fun! BR

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

Regulatory Update

Michigan House passes auto insurance reform plan and Oklahoma Supreme Court voids cap on noneconomic damages.

Auto Insurance: On the heels of a Senate bill drastically changing Michigan's no-fault automobile insurance law, the state House has passed its own measure.

The two bills aim to reduce Michigan's auto insurance rates, the highest in the United States, but face an uncertain future as Democrats and Republicans battle over priorities.

The House plan is similar in many respects to the Senate version, but provides more options for coverage and guaranteed rate reduction on the personal injury protection portion of drivers' insurance bills ranging from 10% to 100%. The rate reduction would last for five years.

Bodily Injury Lawsuits: The Oklahoma Supreme Court has struck down a law capping damage awards for pain and suffering in bodily injury lawsuits. The court said the cap was a "special law" that treated classes of people differently.

According to the Oklahoma Constitution, it said, the legislature cannot pass "special laws" in which part of an entire class of similarly affected persons is segregated and targeted for different treatment. "Here, the statutory cap on noneconomic damages resulting from bodily injury … is a special law because it targets for different treatment less than the entire class of similarly situated persons who sue to recover for bodily injury," the ruling said.

On the Rise

Private flood insurance writers, policies grow in Florida.

by Timothy Darragh

The number of private flood insurance policies is on the rise in Florida as the state prepares for another hurricane season beginning June 1.

But insurers still have a long way to go before they can match the number of policies in the state provided through the federal government's National Flood Insurance Program, according to Don Griffin, vice president of policy, research and international for the American Property Casualty Insurance Association.

The number of insurers eligible to write private flood insurance in Florida increased 45% from 20 to 29 since June 2017, the Florida Office of Insurance Regulation said. Private carriers have written more than 62,000 personal primary flood insurance policies in Florida, a 169% increase since 2017, the FOI said in a statement.

That's an "admirable" sign of growth, said Griffin, "but it's still fairly low compared to the amount of NFIP policies in the state."

As of Sept. 30, 2018, Florida had 1.77 million NFIP policies in force, or more than a third of all NFIP policies nationwide, according to the Federal Emergency Management Association.

Rising NFIP rates that make private flood insurance competitive is fueling the growth, Griffin said.

"It's getting to the point where they can write the policies and make money," he said, adding the Federal Emergency Management Agency treated NFIP "almost like a loss-leader."

The NFIP's 5.1 million policies cover a fraction of the market because the program works with frequently outdated FEMA maps, Neptune Flood Insurance Chief Executive Officer Jim Albert said in March. More than 25% of property flood losses occur outside designated high-hazard areas, he said.

> Insurers still have a long way to go before they can match the number of policies in the state provided through the federal government's National Flood Insurance Program.
>
> **Don Griffin**
> **American Property Casualty Insurance Association**

The increase in Florida's private flood insurance marketplace reflects growth seen nationwide.

According to the National Association of Insurance Commissioners, more than 120 insurers wrote private flood insurance in 2018, up from around 90 insurers in 2017 and 50 in 2016.

The NAIC data also showed the total direct premium written in states and territories was about $644 million in 2018, compared with $589 million in 2017. In addition, states saw a 71% growth in private flood insurance written premiums from 2016 to 2018, with 15 states experiencing over 100% growth.

For the market to continue expanding, lawmakers will have to make coverage affordable to homeowners by providing needs-based subsidies. Insurers also need to educate consumers at risk for floods even if they don't live in a flood plain, Griffin said.

The 2017 hurricane season hit nearly every county in Florida, with Hurricane Irma resulting in more than $8.6 billion in insured losses, said Chief Financial Officer Jimmy Patronis in statement. Hurricane Michael last year caused more than $6.3 billion in insured losses in the Florida panhandle alone, he said.

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

Say Yes to Cyber

Companies of all sizes benefit from affirmative cyber insurance policies.

By
Tony Kuczinski

The rise of silent cyber demonstrates the need for affirmative cyber coverage.

The day that I sat down to write this column, the news headlines announced a major cyber intrusion of Citrix Systems. As cyberbreaches continue to make news, this is a risk that is top of mind for most executives.

According to the 2018 *PwC CEO Survey*, cyberthreats ranked as No. 1 for extreme concern to an organization's growth prospects by North American CEOs. Cyber is a risk that continues to evolve as criminals seek out new ways to obtain information and disrupt commerce, and as new regulations are passed whose compliance may challenge some companies, especially small- to medium-size businesses.

In 2017, the NotPetya attack, malware that masqueraded as ransomware, crippled businesses and created about $10 billion in damages worldwide. Facing significant losses, many businesses turned to their general liability, property or professional liability insurance policies, which typically lacked a cyber exclusion or specific cyber cover. This non-affirmative coverage, dubbed "silent cyber," has since become an issue for insurers and commercial policyholders that will most likely be resolved in the courtroom for NotPetya and other cyberattacks.

As insurers proactively contemplate how best to manage silent cyber, insurance policies will better address this issue. The rise of silent cyber demonstrates that the need for affirmative cyber coverage is critical for companies of all sizes. General liability, property and professional liability policies were not built or priced to help protect companies from cyber.

Unlike many property damage claims, which can often wait a few days for a claims adjuster to arrive on location, once a cybersecurity incident occurs, response time is critical. Minutes may be the difference between stopping a criminal from gaining access to valuable data and losing it all.

Cybersecurity incidents require specialized related services to help prevent or mitigate any loss. As cyberthreats advance in complexity and persistence, partnering with best-in-class breach response experts is also critical to helping prevent or mitigate the damage from a cyberattack. Subject, of course, to the terms and limitations found in cyber policies, coverage for first-party breach response exists in affirmative cyber policies and provides 24/7 response capabilities to contain and remediate an event with minimal loss to an organization.

The good news is that more U.S. companies are purchasing cyber coverage. A survey by analytics firm FICO found that only 24% of U.S. firms reported having no cyber insurance coverage in 2018 compared with 50% in 2017. Unfortunately, only 32% said their cyber insurance covers all risks.

In 2003, California was the first state to pass a data breach notification law. Today, all 50 U.S. states, as well as the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands, and a number of other countries, have data breach notification laws. As the legal environment continues to evolve, companies will need to be more aware and proactive in the way they handle data.

For instance, in the United States, the regulatory environment has increased the demand for contractually required cyber insurance. It also has intensified the requirements on companies to take proactive steps to manage the collection, use and handling of personal data.

Many small and midsize enterprises may not be aware of these regulations or may believe themselves to be exempt, which may not be true. In addition, the ability of an SME to recover from a cyber-related loss may be far less than that of a large company.

Cyberrisk isn't going away and the regulatory landscape will evolve. Having an effective pre- and post-cybersecurity incident response and access to legal counsel can help make it harder for bad actors to succeed. Securing a cyber insurance policy is also an important step in mitigating the risk. BR

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Overcoming Biases

Consumers have many misconceptions about insurance coverage. Employing certain strategies can help them make appropriate choices.

By
Howard Kunreuther

While flood insurance today is underwritten primarily by the National Flood Insurance Program (NFIP), a number of small private insurers now provide this coverage in Florida and other coastal states. Some of these insurers offer flood coverage as part of their standard homeowners coverage. These policies have been shown to be attractive to property owners, and if more widely offered, could lead to greater take-up in flood coverage than we currently have in the United States. In the future, insurers might also want to consider including earthquake protection as part of a standard homeowners policy.

To improve take-up of disaster insurance, it is important to understand why homeowners do not want to purchase insurance. Specifically, when making their choices with respect to uncertain and risky adverse events, individuals tend to be myopic, optimistic and to exhibit inertia.

My colleague Robert Meyer and I propose a behavioral risk audit that addresses these cognitive biases. The following examples, as discussed in our book *The Ostrich Paradox: Why We Underprepare for Disasters*, show how private insurers could encourage property owners to purchase insurance at risk-based premiums and invest in mitigation measures:

Dealing With Myopia: Homeowners may not want to incur the high upfront costs of making their house safer because they view the expenditure as too high relative to the short-term benefit. But, homeowners could be encouraged to undertake loss reduction measures if they were offered a long-term home improvement loan tied to the mortgage. The mitigation measures would result in a reduction in their insurance premiums due to lower expected claims, and if the mitigation measures are cost-effective, the annual premium reduction should be greater than the annual loan cost.

> To improve take-up of disaster insurance, it is important to understand why homeowners do not want to purchase insurance.

Dealing With Optimism: Individuals generally aren't concerned about the likelihood of flood-related damage. So, instead of presenting the probability of a flood or hurricane as a 1 in 100 annual chance, present the probability as a greater than 1 in 5 chance of at least one event occurring in the next 25 years. These two probabilities are mathematically the same, but the latter may spur property owners to pay attention.

Dealing With Inertia: Insurers could offer a homeowners policy that includes flood protection, with the opportunity to opt out of this added coverage. There is significant empirical evidence that individuals are likely to maintain the default option where they would not have purchased flood coverage as a separate policy. This strategy also would educate property owners who mistakenly believe they are protected against flood in their current homeowners policy.

For the private market to offer flood insurance, state insurance regulators must allow insurers to charge risk-based premiums and ensure insurers have enough surplus on hand and sufficient reinsurance to avoid insolvency.

The NFIP would continue to play an important role in addressing issues of equity and fairness for households who can't afford risk-based premiums, and provide federal reinsurance against catastrophic losses that aren't protected through private risk-transfer instruments. The NFIP also can assist in reducing future losses by requiring communities to adopt a well-enforced flood plain management strategy as a condition for joining the program. BR

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Data Manufacturing

DataOps is the latest agile process-oriented methodology used by insurers to improve data quality and reduce data analytics cycle time.

By
Gates Ouimette

As industries across all sectors embrace corporate agility, and traditional vertical lines continue to blur, insurers are finding themselves in a digital transformation race.

The race, as expected, has become more of an ultra-marathon than a sprint, with a greater focus on time frame and pace than on short-term winners and losers.

DataOps is an emerging discipline recognizing the value to an insurer of data, both their own internal data and any other data available to them, in that digital marathon.

Unlike traditional marathons where runners compete at a slower, steadier pace, DataOps defines a framework where short, frequent activities ensure the optimal race is being run both strategically and tactically.

DataOps, as defined by Wikipedia, is "an automated, process-oriented methodology ... to improve the quality and reduce the cycle time of data analytics."

It is especially important to highlight the two-headed DataOps value proposition—data quality and data analytics cycle time.

Since DataOps is new, specific insurance use cases are evolving. However, because DataOps is essentially a set of best principles, insurers can get started today in applying DataOps principles to their data usage.

Resources such as DataKitchen's *The DataOps Cookbook* can help improve insurers' understanding of DataOps thinking. The cookbook identifies specific techniques to begin applying product-independent principles, equating a data life cycle to a manufacturing process. In this context, it describes how statistical process control, a lean manufacturing quality tool, can be applied to any data used by an insurer. This approach then helps achieve the DataOps data quality value proposition.

Insurers embracing DataOps can become the industry and sector disruptors rather than being the disrupted.

Likewise, decreased data analytics cycle time resulting from DataOps is something any insurer can now begin visualizing, regardless of what types of data products are, or aren't, being used. Specifically, insurers using robotic process automation tools can get a head start on DataOps simply by applying the same analysis done for their current RPA implementations to their data process life cycle.

Insurance is an industry built on data. Insurers embracing DataOps can become the industry and sector disruptors rather than being the disrupted.

For insurers thinking that it may be too early to jump into DataOps or those waiting for others to stub their toes first, tools such as Celent's *Demystifying Artificial Intelligence in Insurance: The Tools Supporting Data Science and the Rise of DataOps*, can provide perspective.

The report helps insurers apply manufacturing terms not commonly used in the insurance industry today, such as industrialization and common assemblies, to their data pipeline. For example, the metadata of an insurer's data parallels a manufacturing bill of materials, where all components come together as a data inventory for use by an insurer's data team, independent of source.

It is important for insurers to leverage data to optimize the profit machines they already have, Tom Warden, former chief data officer at AIG Life and Retirement, said in a *Forbes* article.

"Best practice today is to embed more predictive modeling in all parts of the value chain. You don't necessarily need big data to do that. You need smart people, a disciplined approach and a culture of cooperation to monetize data-driven insights," he said. In other words, you need DataOps. BR

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Climate-Related Cats

Hurricanes, tornadoes and mudslides: For insurers, the costs associated with catastrophes are a cause for concern.

By
Alycen Moss and Susie Lloyd

Many coverage issues arise from climate-related catastrophes, including debates over exclusions and causation.

Climate-related catastrophes are increasing, as are coverage issues facing insurers. In 2017, we were faced with the highest number of disasters occurring since 2011, according to the National Oceanic and Atmospheric Administration.

Hurricane Harvey caused damage exceeding $125 billion, followed closely by Irma, which moved up the East Coast and resulted in historic levels of coastal flooding. Hurricane Maria caused massive flooding and mudslides in Puerto Rico. By April 2017, 570 tornadoes were reported, 100 more than average.

Following the ongoing drought in California, in 2018, areas reported almost 400% more rain, causing destructive mudslides. NOAA also reported that the costs associated with these disasters surpassed the previous record of $214.8 billion, with most of the cost falling on insurers.

Many coverage issues arise from these climate-related catastrophes, including debates over exclusions and causation. Although flooding may be excluded from a homeowners policy, many commercial policies have flood or water endorsements, resulting in large business interruption claims.

And even where a homeowners policy contains a flood exclusion, many states find coverage if there are concurrent causes of damage.

For example, Florida and North Carolina follow the concurrent causation doctrine, which provides that, when two or more causes contribute to a loss, the insurer is responsible for the entire claim, as long as one cause is covered.

Texas follows a variation of the doctrine, requiring an allocation between covered and noncovered risks.

California, on the other hand, follows the efficient proximate cause doctrine holding that, in order for there to be coverage, the insured peril must be the "predominating" cause.

Insurers also must consider whether their policy has anti-concurrent causation language, which will exclude an entire loss from coverage where a property loss is caused by a combination of excluded and covered perils. Some states allow such language, and others do not.

Statutory reforms can also impact claims or claim-related lawsuits. In response to a rise in hailstorm lawsuits, Texas enacted Section 542A of the Texas Insurance Code, which now governs all lawsuits arising out of insurance claims where the damage was caused, either directly or indirectly, by the weather or other "forces of natures."

In North Carolina, the Mediation of Emergency or Disaster-Related Property Insurance Claims Act provides for an alternative dispute resolution procedure intended to promote effective and timely resolutions of residential property claims caused by an event for which there is a state of disaster declared.

As more people relocate to areas that experience weather-related events at higher occurrences, insurers can increasingly expect to face these issues. It, therefore, becomes even more important that those handling claims or lawsuits are vigilant and stay on top of the ever-changing coverage issues. BR

Best's Review contributor **Alycen Moss** is an authority on property insurance issues and co-chair of Cozen O'Connor's Property Insurance Group. She can be reached at *amoss@cozen.com*. **Susie Lloyd** is a litigation associate in the firm's Denver office.

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Interviewed Inside:

Scott Baskind
Invesco Senior Secured Management Inc.

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Senior Secured Loans: Looking Beyond Interest Rates

Scott Baskind, Head of Global Senior Loans and Chief Investment Officer believes that senior secured loans' high level of current income, defensive positioning at the top of the capital structure, and low correlation to traditional asset classes can support the argument for loans to be a strategic allocation in investors' portfolios.

Scott Baskind
Head of Global Senior Loans and Chief Investment Officer
Invesco Senior Secured Management Inc.

"Historically, senior secured loans' overall coupon, not net increases in reference rates, have been the primary driver of returns."

How have stagnant or decreasing interest rates impacted loan returns?

Historically, senior secured loans' overall coupon, not net increases in reference rates, have been the primary driver of returns and have contributed to the overall stability of the asset class. This is because the components of loans' coupon (LIBOR and a credit spread) typically display an inverse relationship. As LIBOR increases, usually driven by macroeconomic strength, strong demand for floating rate loans enables issuers to reprice or refinance their loans—resulting in a decline of the credit spread. Conversely, when LIBOR declines, usually amid macroeconomic weakness, credit spreads have increased to compensate investors for the increase default or credit risk. Given this dynamic, dating back to 1992, loans have only produced two years of negative total returns (2008 and 2015) as the asset class's relatively consistent and high level of coupon has more than compensated for price declines.[1]

How do loans currently compare to traditional high yield bonds on a relative value basis?

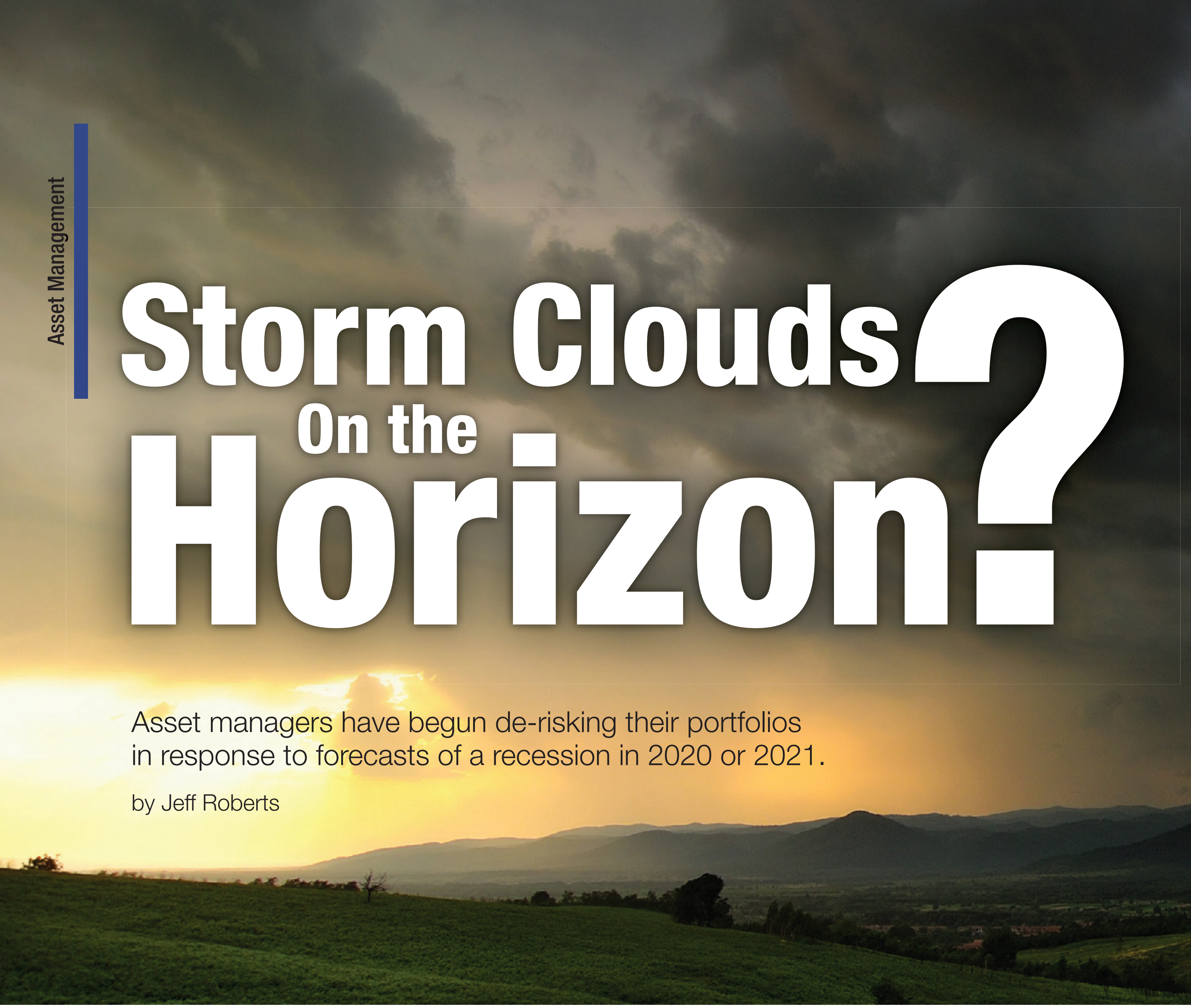
On a relative value basis, we currently believe that loans present an attractive opportunity compared to unsecured high yield bonds. With the Fed's hiking cycle on pause, investors have rotated capital from floating rate loans to fixed rate bonds. This myopic focus on interest rate expectations has led to investors trading senior secured risk for unsecured risk, despite loans' yield being comparable or even exceeding that of unsecured high yield bonds.[2] While investors have been rewarded through April for this shift in asset allocation, we now believe an opportunity exists to reverse this tactical allocation.

In today's economic environment, senior secured loans can offer investors who are concerned about the length of the current U.S. economic growth cycle a compelling high return/lower volatility opportunity. If the economy outperforms expectations in 2019 and the rate outlook consequently shifts upwards, loans stand to benefit from their short duration structure, and from the inflows that typically follow rising rate expectations. If the economy underperforms expectations, loans' defensive positioning within issuers' capital structures should help stabilize the asset class relative to other credit products, as occurred during a volatile 2018. In either scenario, loan yields continue to best those of high yield bonds, despite the security of being at the top of the capital structure.[2]

How can loans' senior and secured status benefit investors at this stage of the cycle?

Loans' senior and secured status provides investors with a unique credit risk mitigation mechanism that has contributed to the asset class's low historical rate of volatility. As the senior ranking debt in the capital structure and secured by the collateral of the company's assets, interest and principal payments to loans take priority over most other forms of debt and equity. If a company faces financial hardship, loans have a priority claim on the company's assets and are to be repaid first. During instances of default, this translates to senior secured loans recovering 80% of principal on average over the last 30 years (compared to 48% for unsecured high yield bonds).[3] Furthermore, BB and B rated loans (which constitute a vast majority of the index) have exhibited a relatively stable total return profile during periods of elevated defaults.

1. Credit Suisse Leveraged Loan Index as of March 31, 2019. 2. JP Morgan as of March 31, 2019. 3. Average ultimate recoveries, Moody's Research published February 2019.



Storm Clouds On the Horizon?

Asset managers have begun de-risking their portfolios in response to forecasts of a recession in 2020 or 2021.

by Jeff Roberts

The warnings began to build over the winter and into the spring.

Slowing global growth, especially in China and Europe. Trade wars. An inverted yield curve in March and again in May.

As the late stages of this credit cycle stretch on, insurance investors are closely watching conflicting—and even troubling—indicators signaling a U.S. recession is on the horizon in 2020 or 2021.

"There are certainly warning signs out there that are telling us that you should have an elevated view of what risk is and make sure that you're getting paid for it very carefully," said Woody Bradford, Conning's CEO and chair of the board. "There's a lot of yellow signs out there, and yellow tells you to proceed with caution.

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

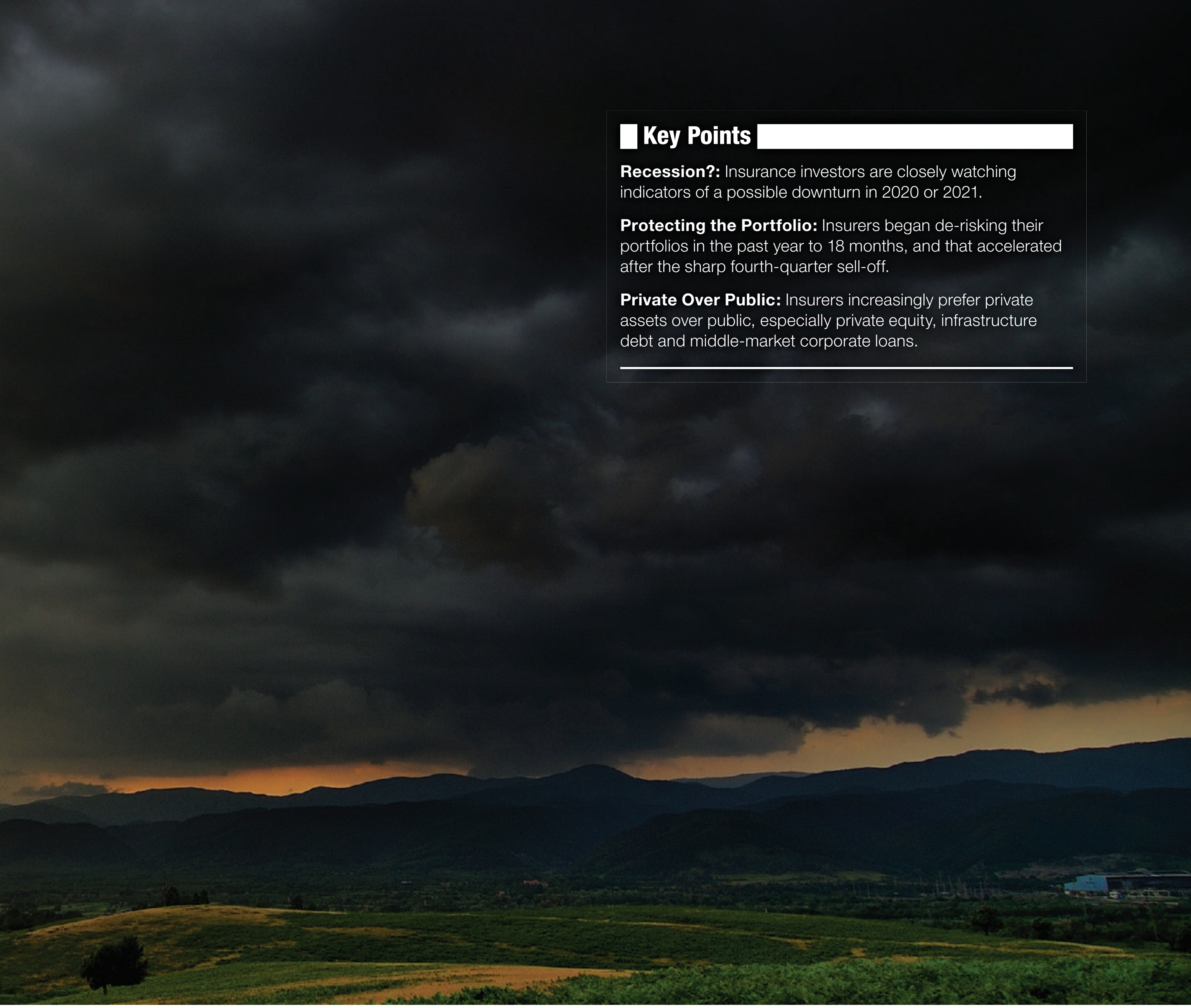
"Almost everybody's talking about this. We're a day closer to the next recession. I don't know if that's two years out or one or five, but we're definitely a day closer."

Many insurers have already started protecting their portfolios, even if a timeline for the next downturn remains elusive. The U.S. economy grew a surprisingly strong 3.2% in the first quarter, and the labor market continues to add jobs while unemployment is the lowest it's been in decades.

But in the past year to 18 months, many carriers have begun mitigating against the heightened risk a recession brings. The number has accelerated in the past six months, driven by the return of market volatility and a sharp fourth-quarter sell-off in 2018.

It marks a shift in priorities for asset managers, especially life insurers, who have pivoted to de-risking their portfolios after years of reaching for yield while mired in a historically low rate environment.

"If you go through the fourth-quarter earnings



Key Points

Recession?: Insurance investors are closely watching indicators of a possible downturn in 2020 or 2021.

Protecting the Portfolio: Insurers began de-risking their portfolios in the past year to 18 months, and that accelerated after the sharp fourth-quarter sell-off.

Private Over Public: Insurers increasingly prefer private assets over public, especially private equity, infrastructure debt and middle-market corporate loans.

calls for all the publicly traded insurers, almost everybody addressed this question: What do you do in a downturn? How are you preparing?" Bradford said.

"If you can't answer those questions for your board or your public shareholders at an insurance company today, you should get on it. You're late."

The common levers for reaching for yield—dropping in asset quality and delving further into riskier assets—could become liabilities in a recession.

So most asset managers are reconsidering their asset allocations and risk appetites, even if they have been disciplined in their approach, working on the margins to find diversification and yield.

Insurers are studying the risks in their portfolios and how a range of downturn scenarios would impact their overall capital positions and key metrics.

And they are searching for safe havens and adequate returns without leaving their portfolios overexposed to credit risk and interest rate risk.

The threat of downgrades looms large, especially with the proliferation of BBB-rated holdings among carriers. One insurer even asked Conning to model the ramifications of selling its BBB securities and moving into A-rated assets.

"The greatest risk to the industry is a ratings migration downward, creating the need for more risk-based capital backing investments," said John Simone, managing director and head of insurance solutions at Voya Investment Management.

Despite the concern, the industry is "well-positioned to weather" a recession, said Mike Siegel, global head of Goldman Sachs Asset Management's insurance business. Since the financial crisis, insurers have diversified in asset classes and learned critical lessons in risk monitoring and risk management.

They have also navigated a series of mini-cycles during this expansionary period, including an oil crash, the Greek debt crisis and the emerging market debt sell-off of the mid-2010s.

But a climate of caution remains.

"In the mid-November to mid-January period, there was a little bit of concern out there that the sky was falling and the world was ending," Bradford said. "If people weren't alerted to the fact that they might face a downturn in the near term, that woke them up.

"One of my clients likes to say they're sleeping with one eye open."

Testing Scenarios

Concern is building.

The 2019 Goldman Sachs Asset Management insurance survey reflected growing unease, even as the economic expansion is widely forecast to continue through the end of the year.

In fact, 85% of responding investors think we are in the late stage of a deteriorating credit cycle, a significant jump from 34% in 2018.

"We saw concerns around recession rise across each of the major markets," said Matt Armas, the global head of insurance fixed income portfolio management at Goldman Sachs Asset Management.

The 300-plus chief investment officers and chief financial officers surveyed reported they were most concerned with the deterioration of credit quality in their portfolios and low yields.

Although a decade has passed since the financial crisis, 2007 and 2008 remain fresh in the minds of most executives overseeing insurance portfolios. The late stages of the cycle have them again reconsidering strategic asset allocations.

Most asset managers—or their external advisers—have begun protecting their portfolios by risk modeling and stress testing to reassess their assets and risk tolerance under a series of variables.

"A lot of insurance companies are taking a look at downside scenarios, modeling work and stress tests more frequently," Bradford said. "A lot of people are asking many, many more questions.

"The three things that people mostly want to know? Show me what happens if '07 repeats. Show me your stochastic modeling of outliers and tail risks that could impact my portfolio. And show me what the impact is on [risk-based capital], on income and on liquidity."

Macquarie Investment Management has had "on-going and pretty constant conversations" on the same topics with its clients, said senior vice president Chris Hanlon, head of insurance strategy & ALM.

Carriers are not just studying how their portfolios will hold up. They want to understand the risks they hold, demonstrate what value they're getting paid for those risks and how it all syncs up with their risk tolerance.

"We've had conversations with insurance companies where they wanted us to do a deep dive on the risk at the portfolio level, but also at the underlying credit level, the fundamental level," Hanlon said.

Once carriers comprehend their positioning in downturn scenarios, they then plan how to transition out of their riskier assets.

"If people weren't alerted to the fact that they might face a downturn in the near term, [the fourth-quarter sell-off] woke them up. One of my clients likes to say they're sleeping with one eye open."

Woody Bradford
Conning

Emerging Trends

There are three fundamental principles to preparing a portfolio for a recession.

First, insurers need to understand their investment risk and remain disciplined with their risk tolerance. Hence that increased modeling.

Second, they need to grow more defensive in their holdings by improving credit quality. Therefore, many are reducing their below-investment-grade positions and increasing exposure to assets that have higher yield per unit of risk—such as collateralized loan obligations (CLOs) and consumer non-cyclicals.

Finally, they need to diversify their strategies, asset classes and individual investments to not only add value to their portfolios, but also mitigate credit risk and interest rate risk.

"The three transcendent rules in credit investing are diversification, diversification and diversification," GSAM's Armas said. "Appropriate diversification helps manage that single-name event risk.

"The takeaway from the crisis is an incremental diversification through different styles rather than taking large, concentrated market views to deal with the challenge of the low rate environment."

Other trends are emerging as carriers rethink their strategic allocations.

For instance, insurers increasingly prefer private assets, especially private equity, infrastructure debt and middle-market corporate loans.

Privates generally offer better returns than publics, better recoveries in a downturn and "clients feel that private markets give them better protections" in loan covenants, Armas said.

"We favor private assets over public because not only are we getting better yield, but we get better structure," Voya's Simone said. "And better structure is really important with where we are in the credit cycle.

"We like private placements, investment-grade quality private commercial mortgage loans extending into below-investment-grade commercial mortgage loans and lower quality private debt, where we see opportunity. We really want to be able to pounce there when the market turns."

The push into private markets is part of the industry's continued search for investment income beyond traditional, fixed-income assets in the post-crisis environment.

Many insurers have also exited problematic businesses that offered guaranteed rates to free up capital and focus on higher growth opportunities.

"The days of just being able to buy very conservative product at a decent yield are over," Simone said. "We've been in a low rate environment for so long, you just can't bury your head in the sand and buy A-rated corporates and be happy. The spreads just aren't there.

"You have to look at the BBB space. You have to look at private equity. You have to look at private debt. That's the new view that insurance companies have to have."

Asset managers probably will go longer in duration and increase their exposure to illiquid assets to enhance yield without dropping in credit quality. Private equity, infrastructure debt, bank loans and mezzanine debt are often cited.

"We see life companies looking for yield enhancement that is [asset liability management] consistent," Macquarie's Hanlon said. "We see property/casualty and health companies looking for return boosters as well as a way to deploy built-up surplus."

While many insurers have kept a consistent risk profile, some have begun storing up dry powder to take advantage of market dislocations.

"If you're getting into a recessionary environment and you're generating cash flows, you have dry powder to invest in opportunities both in the primary and the secondary private equity market," Simone said. "When you're in a recession, commercial mortgage lending spreads tend to blow out and you have great opportunities to underwrite excellent properties with disciplined sponsors to take advantage of that market.

"In private debt, you're able to take a look at fallen angels in terms of below-investment-grade privates. We think there's going to be some tremendous opportunities in that market, as well as the middle market."

Meanwhile, P/C and health insurers have been exploring an exit from U.S. equities. They've been asking questions about how to reallocate "a very successful portion of the portfolio over the last seven, eight, nine years" thanks to the U.S. bull market, Hanlon added.

P/C carriers also have made material changes to their tax-exempt municipal bond holdings after the 2018 tax law changes reduced the value of the shield. Instead they're buying commercial mortgage loans and private placements—two spaces in which they historically were not large players.

But demand for taxable munis remains among life companies, according to Hanlon.

Many insurers also continue to reduce investments in hedge funds and other mark-to-market assets, and some have grown sensitive to any whiff of corporate scandal, remembering the rapid fall of some companies during the crisis.

But when it comes to reducing exposure, BBB

Fundamental Lessons

Woody Bradford, the CEO and chair of the board at Conning, says there are fundamental principles to preparing an insurance portfolio for a recession:

- Understand the risk you're taking and remain disciplined with your risk tolerance.
- Stay diversified in not only individual credits and sectors, but also strategies that boost a portfolio and mitigate the two principle risks: corporate credit risk and interest rate risk.
- Become more defensive in your positioning.

The bottom line is finding ways to add yield to the portfolio that diversifies against those two principle risks.

“The greatest risk to the industry is a ratings migration downward, creating the need for more risk-based capital backing investments.”

John Simone
Voya Investment Management

holdings—which could be prone to downgrade or default in a recession—are drawing the most discussion.

Credit Pressure?

The sheer amount of BBB holdings within the industry has many concerned.

More BBB securities are being issued, so insurers have increased their exposure.

“There’s so much migration in the market from A-rated credits to BBB-rated credits, so much so that the Bloomberg Barclays Global Credit Index is a BBB-plus index when it used to be an A or A-minus rated index,” GSAM’s Armas said.

BBB assets made up 30% of P/C insurers’ corporate debt allocations in 2010. They now make up 40%, Bradford said. Life companies increased their BBB allocations from 45% to 49% of their corporate debt.

Some fear an abnormally large wave of downgrades into high-yield, overwhelming some big balance sheets with below-investment-grade credit.

“The really big question is credit,” Bradford said. “If you do have a recession that has some staying power, what happens to the credit exposure in your portfolios, and in particular, all those BBB holdings?

“That question probably has most people quite concerned. That’s certainly an elevated level of risk in many insurance company portfolio holdings that I think should bear concern if we go into a recession.”

But GSAM sees fears over BBB corporate credit easing, as it has witnessed initial signs of stabilization and even debt reduction across the investment-grade market. And the longer the economic expansion continues and companies have stable-to-improving cash flows, the less of a concern it becomes, Armas said.

That expansion likely will become the longest in modern U.S. history this summer. GDP remains strong. Unemployment low. Profits generally high.

Simone says Voya likes BBBs in private markets, especially in the CML market, because they have better spreads than public securities, the default history is much lower than publics of a similar rating and their make-whole provisions can generate additional return if a covenant is missed.

“The BBB drumbeat that everybody’s talking about—yes, there is some level of concern of downgrades,” Simone said. “But the concern over actual default risk we think is a little bit overblown.”

Many see healthy economic growth continuing through at least 2019.

However, a reliable indicator of recession—the inversion of the yield curve—occurred in March and again in May. Each time, the yield on the 10-year U.S. Treasury note fell below the yield on the 3-month bill.

An inverted yield curve has preceded each U.S. downturn over the past 50 years. The last seven times it inverted among the 3-month and 10-year bonds, the economy went into recession within 15 months with one exception.

But many have downplayed the importance of the inversions this time, given the unusual period of monetary policies since the crisis.

“[The inverted yield curve] created a lot of news headlines,” Simone said. “Keep your head at full swivel, but we think it just feeds into volatility. And volatility spells opportunity that we’re going to take advantage of.”

Although the macroeconomic indicators remain strong as of mid-May, the industry knows the cycle is reaching its end.

Facing a framework of strict regulation, capital constraints and contingent liabilities, insurers are always on the lookout for the next downturn.

So their portfolios need protection. But that requires a deliberate process.

“Insurance companies don’t make asset allocation moves in large waves,” Simone said. “It’s sort of like steering a battleship.” BR

MEDIATION Matters

Five best practices insurers can use to make better settlement decisions.

by John Greer

Some insurance companies are better than others at settling court cases using mediation. Why is that?

Mediation in civil litigation is a regular fixture. Over the past 40 years, it has become routine for courts to refer cases to mediation. Fewer and fewer cases go to trial any more. Most settle. Settlement occurs at different stages: prior to mediation, during mediation or after mediation at a settlement conference with a judge or on the proverbial courthouse steps. Today it is not so much, "We'll see you in court," as it is, "We'll see you in settlement negotiations."

Some insurance companies do not take mediation seriously. Many always opt out of the practice. They may feel mediation means "compromise," something they are not willing to do. In truth, no party should accept a settlement agreement unless it is in the party's best interest to do so.

Or, they may feel skipping mediation signals they are ready to try the case, thereby enticing plaintiffs to settle for a lesser amount. But given that most cases settle without going to court, word will get around that the company's implied threat is an empty one. Knowing this, plaintiffs will simply wait out the company, nullifying any advantage it is trying to achieve.

Key Points

What's Happening: Fewer legal disputes between insurers and plaintiffs are going to trial anymore. Most cases settle.

Common Pitfalls in Mediation: Being unprepared, not making offers in good faith, lack of candor with the mediator, not being flexible and the inability to look for creative solutions.

The Solution: Insurers using best practices can have a clearer understanding of the case at hand and the prospects for settlement.

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Some companies merely go through the mediation motions. Maybe they are trying to get the plaintiff to reveal his litigation strategy or other trial nuggets. With the current state of required discovery, however, very little is likely to be revealed in mediation that would not, or has not already, come out.

Others may use mediation to play for time and do not get serious about settling until right before trial. This strategy is very much fact-dependent. There may be some instances in which the company's case is so strong it makes sense to hold out till the end to see if the plaintiff will realize his trial weaknesses and will settle close to the company's preferred number. On the other hand, there may be instances in which the trial could go either way or could likely go against the company. In these cases, there is little advantage to holding out to settle. Better to get on with negotiation at mediation and see what can be achieved.

Companies Find Mediation Useful

Insurance companies will fully engage in the mediation process if they find it advantageous to do so. Company settlement decisions are driven strictly by the bottom line, a straight-forward calculation of the risk of losing at trial weighted by the expected value of any payout plus the cost of litigation. Companies usually run the numbers before coming into mediation and so arrive with a pre-determined settlement range based on their reserve. If the maximum dollar figure generated by this initial risk analysis calculation was below the plaintiff's demand, many companies would not settle or budge off their top-line number no matter what happened during the mediation.

Yet some cases have been settled in mediation because the company found it to be in its interest to move off its initial calculation. Why are some companies better at figuring out which cases are worth settling, thereby providing certainty, closure, confidentiality and savings in time and money? The following are five ways companies can make better settlement decisions. Think of these as best practices used by effective companies.

The Advantages Of Mediation

Gives the parties a voice in shaping their own solutions. If they cannot agree, and the case does make it to trial, someone other than the parties (i.e., a judge or jury) will make the decision for them. Mediation can provide certainty in the sense that, if agreement is reached, the parties know exactly what will happen. Contrast that with the uncertainty inherent in going to trial.

Provides closure. Very often, injured plaintiffs want to get on with their lives. Settling in mediation has a high value for them compared to the time, expense and emotional turmoil involved in going to trial.

Confidentiality. Whether in joint session with the mediator and all the parties, or in private session with the mediator and only one party, everything said in mediation remains confidential and cannot be used if the case ends up in court. Confidentiality encourages the parties to look for creative solutions without fear that ideas placed on the table will come back to bite them. In contrast, absent special circumstances, a trial is a public event.

Five Best Practices

Be Fully Prepared. It is critical the insurer obtain and review all relevant information prior to mediation. An insurance company cannot make an informed settlement decision without all the facts.

All too often parties come to mediation missing key pieces of information, such as the plaintiff's full medical or financial records. Worse, the company has run its risk analysis calculation and set its reserve based on what it thought was complete information, only to find out during mediation that important gaps exist. Inertia can take over if the company becomes psychologically invested in its settlement numbers, making it hard to move off them. Time is wasted while the company waits for the plaintiff to produce the additional information. A good mediator can help prevent these problems by pressing the parties ahead of time for an accurate assessment of whether they have all the necessary information. Effective companies assist the mediator by being transparent about what information they need and what remains outstanding.

Deal in Good Faith. Putting out settlement numbers is a form of communication indicating what a party views as a reasonable settlement range. If a party in mediation puts out numbers that the other party feels are bad faith communications, negotiations break down quickly.

For example, if the plaintiff reduces his demand during each round of negotiation and the company makes only meager increases in its offers (or worse, no increases at all), the plaintiff soon gets the message that the company is not interested in a good faith settlement. The company may view its offers as reasonable according to its risk analysis calculation, but the other party may see this as evidence of bad faith. Impasse soon results. To avoid miscommunications, effective companies come into mediations with a plan about where to start the negotiations (their opening offer) as well as how to proceed through the subsequent rounds by making jumps that communicate in good faith their reasonable value of the case. For a fuller discussion of these concepts, see J. Anderson Little's book, *Making Money Talk: How to Mediate Insured Claims and Other Monetary Disputes*.

Be Upfront With the Mediator. Being candid with the mediator facilitates the settlement negotiations. The mediator will be carrying the company's offers to the plaintiff. Progress toward settlement is more likely if the plaintiff understands the company's reasons behind an offer. This is because, while he may not agree with the offer, the plaintiff is more likely to respect it, and thus make a reasonable good faith demand in response. The mediator can do a better job explaining the offer if he fully comprehends it.

Effective companies help the mediator put context around the offer. They explain in private session their understanding of the case and how they value settlement. All this is confidential, and the mediator will allow the plaintiff to know only that which the company agrees can be revealed. By giving the mediator a full picture of how the company values the case, the mediator is better armed to piece together in his head the parameters of a possible settlement and explore potential solution space with the parties.

Be Open to New Information and Remain Flexible. The most effective companies keep an open mind during mediation. They listen for new information that may lead them to change their settlement position.

A good example is the demeanor of the plaintiff. The mediation may be the first chance for the company to see the plaintiff in real time and assess how he may present to a judge or jury. The company's attorney may have a sense if the attorney has already deposed the plaintiff, but mediation gives the company a chance to see for itself. For this reason, if the company representative cannot attend the mediation in person (as often happens for logistical reasons), a mediator can use video-teleconferencing so the representative can observe directly how the plaintiff handles himself. Often, companies form an impression of the plaintiff based on a paper review and set their reserve on that basis. However, things may look very different on the ground, and effective companies are open to additional observational information.

Another example involves key facts that emerge during the mediation. Contrary to how plaintiff's attorneys sometimes paint insurance companies as cold and heartless, company representatives are people too. The facts in a plaintiff's story may be so compelling that hearing them at the table can change the company's risk analysis calculation.

Encourage Creativity. The most effective companies look for creative solutions. They are not locked into one fixed solution, i.e., the one generated from their advance risk analysis calculation. Ineffective companies view mediation as a "win/lose" proposition. Effective companies, on the other hand, react to developments at the mediation table to find solutions that work for both parties. Surprisingly, when one party breaks a logjam by generating a creative option, the other party often responds in kind. When both parties commit to finding a solution, usually they will find one.

A structured settlement is a good example. Perhaps the insurance company is not willing to pay a lump sum up front. It may be that the plaintiff has financial needs that play out over a period of time, such as needing funds for doctor or physical therapy visits. If agreement on a lump sum payment cannot be reached, one might be possible for payments over time. If there is a concern the plaintiff may not be financially responsible, payments could be made directly to a doctor, physical therapist, or other reliable person.

The best way to find creative solutions is to be open to exploring the plaintiff's underlying needs and interests. A good mediator will facilitate this process by keeping the information flowing back and forth. Effective companies take the time to listen and consider whether, in meeting the company's needs and interests, there is a way also to meet those of the plaintiff.

Bottom Line

Why are some companies better than others at settling mediated cases? Effective companies are better at settling cases because they use the best practices outlined here to help them make better risk analysis calculations. Their calculations are more robust, enriched with newly acquired information gained during the mediation process. They work candidly with the mediator in making good faith offers and generating creative settlement options. Effective companies are thus better equipped with a fuller understanding of the case and the prospects for settlement. BR

Reaching The Uninsurables

The life insurance industry is targeting those with chronic illnesses such as diabetes, searching for growth in an underserved market.

by Jeff Roberts

The nightmare began with a rejection and an unsettling conversation.

It only got worse from there.

As a financial adviser, Robert Schmidt thought he understood the risk he posed to life insurers.

He has Type 2 diabetes, diagnosed in 2010. And he has a history of cardiac issues. But he changed his diet and lifestyle in the two years since suffering a heart attack, expecting expensive premiums, not a decline, when he applied.

Then the harsh reality hit. Schmidt consulted with a specialist after he was denied coverage and was told that initial decline would not be his last.

He was uninsurable.

The Kansas resident would be rejected by 21 different companies in all in a year-long ordeal.

"They're telling us the same thing: 'Don't even bother. Don't waste your time,'" said Matt Schmidt, Robert's son, who took over the dogged search. It took 11 months to find a carrier willing to cover Robert, now 77.

"It was almost a decline automatically with everyone across the board. And that's when you think, 'How many other people have gone through a similar experience as us?'"

But the industry's view of people with chronic conditions has evolved since Robert Schmidt's disheartening experience nine years ago.

Some insurers are actively targeting the growing segment of customers they once did not want, especially those with diabetes. They see them as an underserved, and even largely untapped, market.

"It's a growth opportunity," said Swiss Re's JJ Carroll, a senior vice president and head of its new solutions group. "People aren't buying insurance today.

"We have to look at things a little bit differently in order to close the protection gap."

Medical advances have improved the management of chronic illness, and therefore, the relative mortality of several conditions. Those breakthroughs are allowing insurers to offer coverage to many more people.

And underwriting has evolved among some carriers thanks to big data, analytics and artificial intelligence. They are providing enhanced insight and risk stratification within chronic disease, resulting in greater accuracy, mitigation of excess mortality and potentially lower rates.

But the biggest driver is stagnating industry sales trends. An expanding market is emerging in the millions of people who once were regarded as uninsurable or high risk.

People with diabetes. Multiple sclerosis. Chronic obstructive pulmonary disease. Even HIV and cancers.

A recent internal survey of clients by the Reinsurance Group of America "identified globally a high interest in offerings that target impaired lives," according to RGA's Dr. Dave Rengachary, senior

1 in 3

American adults are prediabetic.

Source: Centers for Disease Control and Prevention.

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

Key Points

A New Market: Life insurers are now targeting the growing segment of people living with chronic conditions, especially diabetes, viewing them as an underserved market.

New Paradigm: The embrace of those with chronic illnesses dovetails with the industry's paradigm shift toward building interactive partnerships with customers to help them proactively manage their health.

Reaching Out: Insurers are using direct marketing, partnerships with nonprofits and even discounts to reach those potential customers.

vice president, U.S. mortality markets and chief medical director.

"Individuals with diseases that were once thought to be beyond the reach of insurance are now in many instances able to get coverage," he said. "Chronic myeloid leukemia and HIV are just a few examples of disease states where we have seen remarkable improvements in mortality."

The embrace of those consumers dovetails with the industry's paradigm shift toward building relationships with customers to help them proactively manage their health.

Carriers now seek to be partners in their wellness and longevity—an ideal match for those with chronic conditions.

Insurers are offering reduced rates and other incentives to customers who share real-time data as proof they are managing their illnesses. Carriers hope it lowers their risk of developing serious complications. Companies are using direct marketing, partnerships with nonprofit groups and discounts to reach those with chronic illnesses—many of whom don't realize they're eligible for affordable coverage.

A handful of insurers such as RGA, Swiss Re and Protective Life and Health IQ have designed or are developing innovative products specifically for this segment.

Like John Hancock and its Vitality wellness program, they seek to leverage data and shared value to serve as risk advisers, helping customers manage their health—and by extension, their premiums.

"With the stagnant growth rate in life insurance, we have to change the equation to access that population," Carroll said.

"Individuals with diseases that were once thought to be beyond the reach of insurance are now in many instances able to get coverage."

Dr. Dave Rengachary
RGA

30 million

Americans—nearly 10% of the U.S. population—have diabetes.

Source: Centers for Disease Control and Prevention.

A Global Opportunity

The potential market is a vast one.

After all, more than 30 million Americans—nearly 10% of the U.S. population—have diabetes. However, only 2.6% of insurance applicants have the condition, Carroll said.

That is a huge discrepancy.

And more than one-in-three American adults—84 million—are prediabetic, according to the Centers for Disease Control and Prevention. But it's not just an American problem.

Globally, more than 422 million adults are living with diabetes. The condition directly led to 1.6 million deaths in 2016 and is a leading cause of heart disease, stroke, blindness, kidney failure and lower-limb amputations.

Those statistics are rising dramatically, part of an epidemic of so-called lifestyle illnesses rooted in poor diets and sedentary habits.

"Companies are realizing how many people have diabetes, not just in the United States but worldwide," said Matt Schmidt, who founded a life insurance agency specializing in serving the diabetes community after his father's experience. "This is a huge population in need of life insurance. And the companies that are going to understand the true risk that a person with diabetes poses are the ones who are going to get this business.

"This is a large market and not one that can be ignored any longer."

Of course, life insurers face a complex task in covering consumers with chronic illnesses. One misjudgment in assessing risk decades into the future could cost them $500,000 or more.

They need to operate with caution, especially when other comorbid conditions are involved.

"Life insurers get one bite at the apple in pricing a risk," said Brooks Tingle, John Hancock Insurance's president and chief executive officer. "That risk factor is baked into the price."

But carriers are getting more precise.

Even people with HIV have been able to obtain life policies in the past four years, provided their conditions are well-managed and they have minimal comorbidities, according to Dr. Daniel Zimmerman, senior vice president and global support team chief medical director at RGA.

Options exist for about 90% of those with diabetes, Matt Schmidt estimates.

"In my eight short years in the industry, life insurance companies have come leaps and bounds, especially for people with Type 1 diabetes," he said. "Companies are starting to get it. You went from barely being able to find coverage eight years ago to now companies are offering some discounted rates."

But some industry insiders contend misplaced consumer fear—of rejection and high premiums—is the biggest issue, not accessibility. There is a significant segment of those with chronic illnesses who would qualify for insurance, but aren't buying it.

"There is a growing recognition of the business opportunities in dispelling these myths," RGA's Rengachary said.

It all contributes to a $25 trillion U.S. mortality protection gap, according to Swiss Re.

"You have a huge population that isn't even considering your product," Carroll said. "If you think of all the frictions that exist for the average person, for somebody who's already nervous about applying, it's just that much greater of a hurdle."

The Underserved

This is personal for Matt Schmidt.

He helped guide his father's frustrating search for coverage as part of his estate planning. And the 38-year-old husband and father of two has since been diagnosed with diabetes himself.

After his father's experience, Matt dropped his financial adviser practice, and in 2012 they co-founded Diabetes Life Solutions. The online-based agency specializes in life insurance for those with the condition.

Although Matt has long been licensed to sell life cover, it wasn't his specialty. Now it's his vocation.

"This did completely change my career path," he said. "This is all I do now because of our personal experience, and we knew that others had gone through it."

Many of Schmidt's customers found their way to him after they were declined by a carrier.

"Once our first website went live, one of the first things everyone said was, 'I've been declined so many times,'" Schmidt said. "I'm sure some people get so frustrated they say, 'The heck with it. I'm done.'"

Coverage can be hard to find without a knowledgeable agent navigating the process. And premiums remain cost-prohibitive for many people.

Some carriers have become more flexible in their assessment of people with diabetes, Tingle said. But progressive underwriting can be found only in pockets and is not an industrywide trend, he added.

47%

Almost half of Americans living with diabetes are worried they won't qualify for life insurance.

Source: John Hancock.

"The headline is it's a large and growing segment of the U.S. population that our industry has not served well at all," Tingle said. "The industry has not done a good enough job reaching that community and serving them more proactively."

A 2017 nationwide survey by John Hancock found almost half of Americans living with diabetes (47%) are worried they won't qualify for life insurance. Nearly as many (45%) assume it will be too expensive.

Yet, more than 90% of those with diabetes who sought coverage from the company in a recent 18-month period qualified, and 88% received a standard or better rate, according to the carrier.

"There absolutely is a category of solutions that's available to them," Tingle said. "But they do need to shop."

Others view deficiencies in products and distribution as major obstacles.

Many advisers are "frequently hesitant to proactively sell to diabetics" given the difficulty in finding coverage that meets their needs, Carroll said.

And working with agents who do not specialize in complex cases such as chronic illnesses can result in declines or cost-prohibitive rates. Some even offer unrealistically low teaser quotes to attract consumers, which can backfire.

"I call it a bait-and-switch quote—which happens quite a bit," Matt Schmidt said. "They're not going to get that low a price. And they become more skeptical of life agents as a whole and maybe pull the plug on the entire thing."

'A Win-Win'

Innovation could be one solution.

Tools such as continuous glucose monitors, advanced insulin delivery systems and even commercial wearables like the Apple Watch are changing how diabetes is controlled, improving applicants' coverage opportunities.

People with Type 1 and Type 2 diabetes in average to above-average health also can qualify for no-exam products from multiple companies.

Although premiums might be 15% to 20% higher, accelerated underwriting options tend to be more

"It's a growth opportunity. People aren't buying insurance today. We have to look at things a little bit differently in order to close the protection gap."

JJ Carroll
Swiss Re

lenient and can be even cheaper than traditional products for diabetics, Schmidt said.

However, as larger numbers of healthy applicants are funneled through accelerated programs, expertise in underwriting "impaired lives" will only grow in importance for the industry.

"Diabetes, asthma, and epilepsy are particular disease states emerging as some of the best candidates for improved outcomes through real-time health monitoring," RGA's Rengachary said. "Underwriting will need to evolve in order to leverage the risk prediction afforded by these tools."

Big data, predictive analytics, artificial intelligence and machine learning already provide meaningful insights into risk.

Besides common biomarkers such as blood glucose levels, newer prescription scoring models can divulge the type of medication customers use as well as the consistency of use. And medical claims data can reveal complications.

But the biggest shift comes in simply helping customers control their conditions.

Management is often the difference between good and poor outcomes. A 2018 paper in *The New England Journal of Medicine* found that the risk of mortality for Type 2 diabetics improperly managing their condition increases by 299%, while the risk for those controlling it increases by only 15%.

It is why incentivized wellness is a driving force in many new initiatives, especially for those with

A Desperate Situation Resulted in a Classic Model

Death swept across the region before the world even had a name for it.

The epidemic spread quietly at first, cloaked by the political unrest and economic struggles of apartheid's final years.

The first diagnosed case of AIDS in South Africa came in 1982. By the early-1990s, the number of new infections had exploded.

South Africa now has the largest HIV epidemic in the world, with about 19% of adults—7.2 million people—carrying the virus in 2017, according to UNAIDS.

A desperate situation called for an innovative approach to protect them. AllLife, a South African insurtech established in 2004, came up with a novel solution that has become one of the global templates for the next-generation of life coverage.

It began incentivizing its customers to lead healthier lives by adjusting their premiums based on behavior.

AllLife uses shared data to monitor their health in real-time. And it uses engagement as a motivator, sending reminders through text messages and emails and even intervening when it sees troubling signs.

That model—similar to Discovery's Vitality health and wellness program—is now being applied around the globe for a range of chronic illnesses, including diabetes.

"It is probably the most powerful example of pure shared value," said Brooks Tingle, John Hancock Insurance's president and chief executive officer.

"The principle is very, very transferable: Great value can be created through an ongoing relationship, connectivity and stream of data in both directions."

South Africa has long been a market known for innovation, due mainly to the health issues of its people.

Discovery launched Vitality—which is now used by John Hancock in the United States, Manulife in Canada and other insurers around the world—in 1997. It incentivizes customers to lead a healthy lifestyle and share data through discounts and rewards.

And insurtech BrightRock offers flexible insurance that changes as its customers' needs evolve.

AllLife took its own leap forward when it developed Kalibre, an algorithmic risk assessment and pricing platform, to deliver coverage chronic illnesses. Insurers are offering apps, digital logbooks, online medical consultation, lifestyle planning and even diet and exercise intervention.

"The intent and driver is to benefit both the consumer and insurer," RGA's Zimmerman said.

The consumer gets improved health and longevity and more competitively priced premiums. The insurer gets more predictable and manageable claims.

RGA offers diabetes-specific coverage throughout the world, but primarily in the Asia-Pacific region, where it is focused on "complications and outcomes," said Dr. Paul Davis, chief medical officer, RGA Australia.

South African-based insurtech AllLife sells coverage to those with HIV and diabetes. It adjusts premiums based on how well customers manage their health and provides guidance to help them do so.

Protective Life Insurance and Health IQ collaborated to launch a product in November for Type 2 diabetics, offering lower rates for those who manage their condition and live a healthy lifestyle.

Swiss Re also plans to connect engagement with health and financial wellness.

It is developing coverage that would continuously monitor five "modifiable risks"—blood pressure, cholesterol, body mass index, blood glucose levels and smoking status. It then would reward those who improve their metrics by reducing their premiums.

The reinsurer hopes to find partners and bring the product to market by year's end.

John Hancock has partnered with the American Diabetes Association and management platform company One Drop to reach that community.

It continues to leverage its Vitality product—now in its fourth year—rewarding customers for exercise, proper nutrition and doctor visits. The company raised the annual premium discount to up to 20% for those initially given substandard rates.

"The concept is most powerful for folks living with chronic diseases," Tingle said. "They're paying more at the outset, and part of what they're paying is the uncertainty whether they're going to continue managing the condition. It's a win-win." It is just one of the many options that weren't available to Robert Schmidt when he was shopping for coverage. But the industry is evolving. "It's really not Wilford Brimley and the old diabetes commercial anymore," Matt Schmidt said. "Tell me any other chronic disease where a person tends to exercise, has to watch every single thing they eat, check their blood sugar regularly and see doctors every three months?" BR

422 Million

Adults—globally—are living with diabetes.

Source: World Health Organization.

supported by continuous underwriting.

The insurer became the first to offer whole life coverage to HIV-positive people. It says it has improved the overall well-being of those customers, who see an improvement of 15% on average in their first six months as measured by their CD4+ count.

"We used data to discover what people who lived a long time did and passed it on to all our customers," AllLife CEO and founder Ross Beerman said in October at the 2018 LIMRA Annual Conference.

He could not be reached for comment for this story.

Then the company applied lessons it learned with its HIV product and developed coverage for people with diabetes. The approval process takes less than an hour, according to AllLife.

Those with diabetes can reduce the cost of their policy by up to 40% if they routinely monitor their blood glucose levels, exercise, take their medication regularly and eat well.

The biggest challenge for AllLife was a fundamental one.

"We had to figure out how to price risk in real-time," Beerman said last fall at LIMRA.

It also figured out more than a decade ago how to sell its product direct-to-consumer over digital channels to overcome the stigma of HIV/AIDS. Customers didn't want to speak with brokers and share such sensitive personal information.

In 2017, AllLife launched a diabetes life product in the United Kingdom and had plans to introduce it in other regions.

The sharing of data—and how an insurer can use it to directly help people manage their health—is rapidly emerging as the future of life insurance.

Interactive partnerships and health monitoring is now "the classic model," Tingle said. Insurers are working to develop products that leverage continuous streams of data to help customers manage their health and improve longevity.

"There's wonderfully better outcomes for clients and obviously much better outcomes for the insurer and society in general," Tingle said.

"Every business says, 'We're on the customers' side.' But what purer alignment of interest exists?"

EMERGING CATASTROPHE RISKS

It's no secret that cyberrisks are increasing as the world becomes more dependent on and interconnected by technology. Lloyd's of London projects that a major global cyberattack could trigger $53 billion in economic losses, the equivalent of Superstorm Sandy. The eruption of Mt. Kilauea last year reminded insurers they need to pay closer attention to volcanic risk. Today, nearly one billion people live within 93 miles of a volcano, and volcanic ash fall is a serious threat on global economies and infrastructure, according to a 2017 Swiss Re annual report.

In this special section, *Best's Review* focuses on the emerging risk of cyber, the overlooked threat of volcanic eruptions and what's stopping the development of a cyber insurance-linked securities market.

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GOING DA

by Kate Smith

It was a June afternoon in 2017 when Maersk's internal systems began to shut down. One by one, computer screens throughout the shipping giant's Copenhagen headquarters went black. At ports around the world, Maersk's terminals came to a standstill.

The NotPetya virus had gotten a foothold in its system and paralyzed the company's global operations.

The world's largest shipping company went dark.

Kate Smith is managing editor of *Best's Review*. She can be reached at *kate.smith@ambest.com*.

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NotPetya paralyzed businesses and put cyber on the map as an emerging catastrophe risk.

Key Points

Cyber Cat: Insurers should be thinking of cyberrisk as potentially catastrophic.

Defining Moments: Cyber has had significant events, but not defining events yet.

Behind the Numbers: Favorable loss ratios give a false sense of how big cyber losses could be.

It took 10 days for Maersk to rebuild its network, company chairman Jim Hagemann Snabe later told the World Economic Forum. Maersk replaced 4,000 servers and 45,000 computers. But the biggest cost, the chairman said, came in lost business.

All told, the NotPetya attack cost Maersk an estimated $300 million.

Maersk was not alone. NotPetya, a malware attack disguised as ransomware, disrupted and disabled businesses around the world. Pharmaceutical giant Merck, FedEx subsidiary TNT Express, U.S. food manufacturer Mondelez, French construction company Saint-Gobain, and British manufacturer Reckitt Benckiser were among the multinational companies inadvertently hit by NotPetya.

PCS, a Verisk company, tracks cyber losses going back to 2013. NotPetya is the first event it has labeled a cyber catastrophe.

It won't be the last.

It's no secret that cyberrisks are increasing as the world becomes more dependent on and interconnected by technology. Nearly $600 billion, or about 1% of the global gross domestic product, is lost each year to cybercrime, according to estimates from McAfee. And Lloyd's of London projected that a major global cyberattack could trigger $53 billion in economic losses, the equivalent of Superstorm Sandy.

The numbers and scale of potential damage mean one thing: Cyber is an emerging catastrophe risk.

"The insurance industry definitely should be thinking of cyber as a catastrophic risk," Devin Page, underwriter for Hiscox, said. "The more ingrained cyber writers and more sophisticated reinsurance writers already are.

"The world we live in is becoming more reliant on electronic and digital assets and infrastructures. Those resources themselves are becoming more interconnected, which means the potential for a systemic or wide-reaching disruption is heightened by that interconnectivity. And because we rely on it so much, the ramifications of the disruptions are growing massively."

"The insured losses on the large loss side of cyber at the moment are effectively being capped by the amount of cyber insurance people are currently purchasing."

Devin Page
Hiscox

Defining Events

In the realm of property catastrophe insurance, names like Andrew, Katrina and Sandy stand out. They were defining events for the industry.

Cyber insurance hasn't had that yet.

"Just like in property, you have big cats and small cats," Page said. "I think we've had small cats on the cyber side. I don't think we've seen a big cat yet. Because the insurance penetration and take-up rates within cyber are still low, the insured losses are nowhere near what their potential could have been.

"So I don't think there's been a true defining event, not in the likes of a Katrina or an Andrew or a Sept. 11. From an event basis, you'd talk about WannaCry or NotPetya, but they are high profile only because of the lack of larger events affecting our industry as of yet."

NotPetya exemplified the fragility created by global interconnectivity. Multinationals weren't the target of that attack. They were bystanders in what is widely believed to be a Russian military cyberattack on the Ukraine. That attack caused $10 billion in global losses and, according to PCS estimates, $3 billion in insured losses.

While those numbers are significant, experts say they could have been much worse.

"NotPetya was concentrated as an attack on the Ukraine but had collateral damage with a relatively small number of large corporates," Graeme Newman, chief innovation officer for CFC Underwriting, said. "So in essence, had that attack been leveled against a more developed market where cyber penetration was higher, we'd have seen greater economic loss but also much greater insured loss, which would have made it a defining event in that sense."

WannaCry, a ransomware worm that spread in May 2017, caused $8 billion in economic losses. Most of that was uninsured, though. PCS, which provides individual risk loss estimates as well as cyber catastrophe loss estimates, said WannaCry did not meet the criteria for a catastrophe, which it defines as an event having at least two insureds and $250 million total in insured losses.

"WannaCry didn't meet our insured loss threshold," Tom Johansmeyer, assistant vice president at PCS, said.

It did have a huge impact, however, due to the mainstream attention it received.

"WannaCry and NotPetya are both significant events because they attracted a lot of media publicity, particularly at a time when the cyber market is starting to mature and we're all looking at aggregation and trying to model what it might look like," Newman said. "They happened to coincide with a point in time when we're all focusing on this. By no means will they be the largest or most significant events; they're just the ones we've heard about."

Since the start of 2019, a new breed of ransomware called LockerGoga reportedly has hit at least five industrial firms, including Norwegian aluminum manufacturer Norsk Hydro, U.S. chemical company Hexion, French engineering firm Altran, European zinc producer Nyrstar and U.S. materials manufacturer Momentive.

PCS has designated the Norsk Hydro attack as an individual risk loss, which it defines as having insured losses in excess of $20 million. PCS is monitoring the other four companies.

"Norsk Hydro won't be one of the largest losses. It'll be significant, but not one of the largest PCS has seen since 2013," Johansmeyer said. "The bigger implication is whether the malware, LockerGoga, will cause a cyber cat loss. That's the part we're trying to sort out right now.

"Norsk Hydro is the only one where there is a known affirmative cyberrisk loss. We're watching the others to see if there's an affirmative cyber claim. If they don't have affirmative cyber, they may try to claim on property."

Even the large individual losses in cyber, such as Marriott's estimated $600 million data breach in 2018, have not been catastrophic from an insurance standpoint.

"A lot of people will talk about Marriott, which is the largest single loss we've seen in the affirmative cyber market as of yet," Page said. "And to be honest, it's not that big. That's a function of how much limit is being purchased. The insured losses on the large loss side of cyber at the moment are effectively being capped by the amount of cyber insurance people are currently purchasing.

"You'll hear about Home Depot with a cyber loss of $100 million, but their actual loss is much greater than that. Target was around $90 million of cyber loss, but their actual loss was much greater than that as well. The numbers we are using within the historical data set as cyber insured losses are not completely representative of the actual economic losses that these events created."

False Comfort

The deceptive losses are problematic in two ways.

"It gives a false sense of the loss ratios and the loss experience within the cyber market when you're using it to project out what the insurance market will look like for cyber in coming years," Page said. "Also, with take-up rates increasing and limits purchased increasing, those losses are going to look dramatically different going forward than they have in the past, which contributes to the cyber cat potential in the market."

Loss ratios for cybersecurity insurance dropped from 64.3 in 2015 to 35.4 in 2017, according to AM Best data. Those numbers can give a false sense of comfort, though.

"Had NotPetya really targeted the U.S., the economic damage could have been in the tens of billions of dollars, which for a cyber market where the total global premium is $4 billion or less, that would be hugely significant for the market," Newman said.

"That said, I don't think within the industry there's any complacency at all. Sitting here in the heart of the cyber market, the market has never been more alive to the potential of significant large losses stemming from global malware outbreaks."

"Had [NotPetya] been leveled against a more developed market where cyber penetration was higher, we'd have seen greater economic loss but also much greater insured loss, which would have made it a defining event in that sense."

Graeme Newman
CFC Underwriting

Businesses are waking up to the potential losses, as well. The rise of malware reflects a shift in the nature of cyberattacks. Whereas hacking incidents once targeted sensitive information and gave rise to notification obligations, today's malware and ransomware attacks are aimed at disrupting business.

"It wasn't really until cyber extortion and other malware that caused lockups of networks, causing network business interruption loss, that things really escalated," said Willis Towers Watson's Dan Twersky, a claims advocate and global cyber claims leader, FINEX North America. "Not only did it escalate things from a damages standpoint, but it also really put cyber insurance on the map across the board. It wasn't just for companies that possessed a large amount of personal information or protected health information. Or even sensitive corporate information of others."

Twersky said the highly publicized WannaCry and NotPetya attacks brought new buyers into the cyber insurance market and prompted existing policyholders to increase their limits.

"Those events served as an abrupt wake-up call for risk managers and the C-suite of various companies that otherwise had no reason to believe that cyber insurance was for them," Twersky said. "Even those who perhaps haven't been sold yet on the concept, the staggering loss figures are at least causing them to consider the purchase of some of this from a risk transfer standpoint."

NotPetya also has raised concerns among businesses about whether they will be covered in the event of a cyberattack. Mondelez and Zurich currently are engaged in a legal battle over losses stemming from NotPetya.

After 1,700 servers and 24,000 laptops were corrupted in the attack, Mondelez filed a claim against its property policy. Zurich refused to pay, citing a war exclusion in the contract. Mondelez then sued the insurer for $100 million.

Observers are watching the case closely, but Twersky said the publicity alone has been bad for cyber insurance.

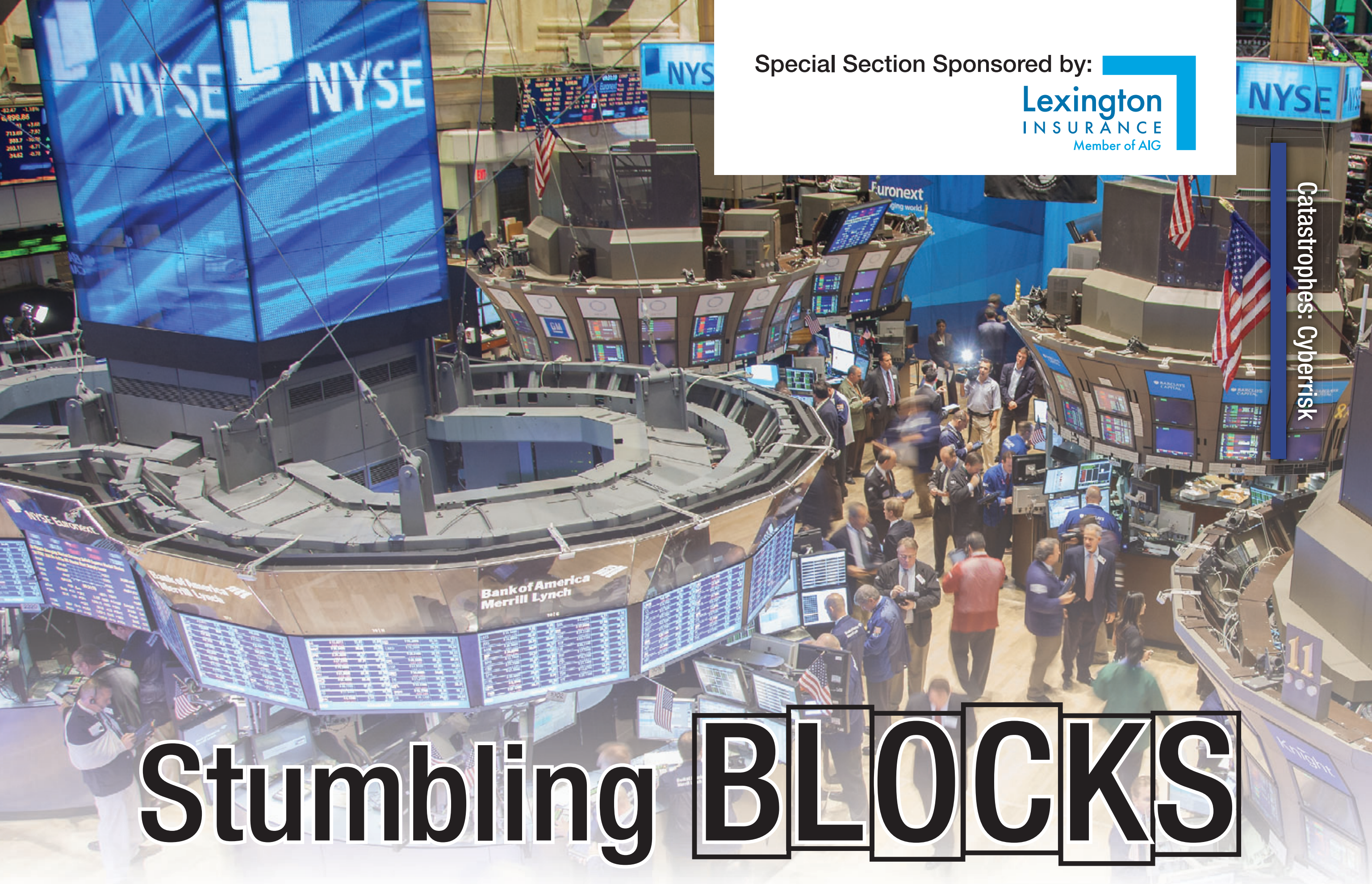
"A casual reader assumes since it's based on a cyberattack, it must be a cyber policy," he said. "But this was not about a cyber policy.

"A good cyber policy will have a carve-back on the war exclusion for cyber terrorism. Cyber terrorism is the premeditated use of disruptive activities against a computer system or network by any individual, organization or government, intending to cause harm and in furtherance of objectives—including political. That's not war, as we know it. And it's an important distinction, and certainly one that as brokers we're very conscious of when negotiating these policies. Because the war exclusion could be misconstrued or misapplied."

The growth of cyberrisk and the ambiguity around coverage demonstrate the need for affirmative cyber insurance, experts say. And cyber insurance uptake is, indeed, on the rise. For its 2019 Cyber Readiness Report, Hiscox surveyed 5,400 companies and found 41% had a dedicated cyber insurance policy, up from 33% in 2018. An additional 30% said they plan to purchase cyber insurance in the next 12 months.

Experts say the market will continue to grow. But in order to keep up with demand, more capital will be needed, particularly in the reinsurance and retrocession spaces.

"We're bumping into a scenario quite soon where people will be reaching the amount of exposure that they can take on the books," Page said. "New capital coming into the market and ways to write more limit for the capital that is in the market, those two things hand-in-hand have to come." BR



Stumbling BLOCKS

What's stopping the development of a cyber ILS market?

by Kate Smith

Jean-Louis Monnier hesitates to guess when an insurance-linked securities market for cyberrisk will develop.

Monnier, the global co-head of ILS at Swiss Re, did that once already.

"Two years ago I was interviewed and I said we'd see more deals within two years," Monnier said. "That hasn't happened."

For years, there's been an expectation that alternative capital would get involved with cyberrisk transfer deals. But despite the rapid growth of cyber as a peril, an ILS market for cyberrisk has been slow to take off.

For all the interest in a cyber ILS market—and there is indeed interest—experts say the market still has too many obstacles. From limited modeling to lack of loss history to its potential for a long tail, cyberrisk poses complex issues for investors.

"A lot of the investors who are active in ILS in whatever form—cat bonds, traditional reinsurance—are interested in trying to find ways to assume cyberrisk," Bill Dubinsky, managing director and head of ILS for Willis Towers Watson Securities, said. "The challenges for them are finding structures that actually work for them and risk-return profiles that make sense."

Michael Millette, founder and managing partner of Hudson Structured Capital Management, said cyber ILS transactions are very doable. But they require creativity.

"You have to approach the risk in a different way," Millette said. "It takes some thought and work to develop a different approach to deal design and risk analysis. You can't just take the existing catastrophe bond chassis, throw a new name on it and declare victory."

Indeed some work has been done in this space. In October, Singapore launched a cyberrisk pool, with capacity of $1 billion, backed by both traditional reinsurance and insurance-linked securities markets. And in 2016, investment bank Credit Suisse sponsored Operational Re, which used a catastrophe bond structure to transfer the bank's operational risks, including cyber, to the capital markets.

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But beyond those, the few transactions that have occurred have been private.

"We're already hearing of transactions in some more granular portfolios, probably relating to [small- and medium-size enterprises] risk, where the individual limits are not that high and where some ILS investors have been able to participate," Monnier said. "It is good news to hear that it's happening, even though it's not in public form."

To date, the lack of alternative capital in the cyber market hasn't posed a problem. Experts say additional capacity is on a "nice-to-have" basis rather than a "need-to-have." Therefore, there has not yet been widespread demand for ILS participation.

"Insurers are trying to grapple with how you manage systemic risk within cyber, and a critical part of that is availability of reinsurance to protect against outsized losses," Graeme Newman, chief innovation officer of CFC Underwriting, said. "And clearly any solutions that increase the availability of reinsurance, or more competitively priced reinsurance, are a good thing for this market.

"But have insurers been crying out for this? Well, remember, cyber is still an early-stage product in the affirmative market, and a relatively small line. So I'm not sure it's the No. 1 priority for exposure management, but 'silent cyber' might well be."

Many expect that to change as accumulation risk grows. That's why cyber ILS is such a hot topic, despite the fact that there's been very little ILS activity related to cyber.

"For cyber you have the potential for accumulation of risk, and this is part of the reason I believe the cyber ILS market will develop," Monnier said. "The reason there's a lot of talk around cyber is that it's not a matter of *if* it will happen, but a matter of when.

"If you consider nat cats, earthquake risk in the U.S. and Japan, hurricane risk and typhoon risk are not correlated. But when it comes to cyber, there is a point where you could have a bit of systemic risk in the case of a widespread attack. That means the reinsurers will need to syndicate the risk to capital market investors and spread the risk with capital market investors. The market is not there yet. But we know the demand for coverage is going to grow and the need to syndicate it will be there. It's just a matter of time."

Roadblocks

Monnier attributes the lack of ILS market development to three things—lack of a clearly defined risk, lack of adequate modeling and lack of adequate pricing.

Defining what types of attacks and losses would be covered, and for what duration, can be tricky.

"Typically cat bonds are on a loss occurring basis, which means you need to have an event and a loss during the risk period," Monnier said. "The issue with cyberrisk is that you could have something arising from an attack that took place some time ago but went unnoticed.

"These are aspects that need to be handled, in terms of defining what is covered and when, and ensuring it's clear with investors and ensuring that it's captured in the modeling."

For most alternative capital products, you need a contract that speaks for itself and doesn't require negotiations after the fact to deal with unforeseen circumstances, Dubinksy said.

"If you were to talk to lawyers, the fear around the wording in cyber insurance is a pretty significant problem," he said. "The challenge is, when you can't put two people across the table to say, 'I didn't think of that, but let's work it out,' you really are going to struggle to have a trade that makes sense. So the wording has to be tested and the kinks worked out before you can more or less have an auto pilot contract."

Another big stumbling block for the development of a cyber ILS market is the peril's tail. Most of the existing ILS participation is in short-tail risks, where losses are fairly quickly known.

"When you're dealing with the collateralized market, you need to have a definite time of coverage and a time at which you hand the collateral back to investors," Monnier said. "The moment you hand the collateral back to investors, whether it's bond redeeming or on a collateralized re structure, you hand the money back and you effectively commute the cover."

Such capital efficiency is key for capital market investors, who want to be able to recycle collateral back into new risks.

"ILS invests in insurance for differentiation and diversification. I think cyber can offer that on both sides," Devin Page, underwriter for Hiscox, said. "But a big necessity for ILS to enter the space is around capital efficiency. What works for ILS is, for the most part, a short-tail risk because it gives them the ability to know if they have or have not had a loss relatively quickly after the contract is done."

Investors know immediately if a hurricane hits Florida. With cyberrisk, incidents aren't always known in real time. That can be an issue.

"When you compare the traditional and the collateralized re markets on this product, the longer tail risks associated with a risk that may surface a few years after the cover had been purchased, may prove more problematic to hedge in collateralized form," Monnier said. "What would happen if you realized there was an event after the bond had matured?"

The loss history for more extreme tail events also is limited.

"That's a significant issue," Dubinsky said. "The events so far, which have not been small at all but have been smaller than what people fear could happen, most of the money that's been paid out has been for first-party expenses. That is relatively short tail. The question will be: Do you have a situation that's maybe not as bad as asbestos but where instead of the tail being months or a year or two, it becomes a much longer tail of liability? And what would that mean? That's unclear too."

Making Progress

Progress is being made in the areas of modeling and loss estimates. PCS, a Verisk company, has started compiling cyberrisk loss estimates and cyber catastrophe loss estimates. The goal, according to Verisk Assistant Vice President Tom Johansmeyer, was to create a mechanism to improve how insurers manage risk to capital.

"When you look at risk and capital management in the face of a cyberthreat, there are a number of things going on that are interesting," Johansmeyer said. "First, you have the progression of how risk is managed in affirmative cyber over the last couple of years. It went from companies keeping their lines small and keeping their aggregates small, not betting more than they could afford to lose, to advancing to quota shares, where you're participating in the expertise of the underwriter you're supporting.

"Now we're seeing in affirmative cyber that some people are starting to realize how much premium is passing through their hands for quota shares, and they want to start looking at nonproportional covers so they can retain more of the premium rather than ship it out the door for a quota share. Industry loss index tools can help you understand the cyberrisk better and manage your risk to capital more effectively, rather than sticking strictly to a quota share structure."

Newman said loss estimates theoretically allow clients to buy event-based reinsurance.

"If your fear is a significant event—say, one piece of malware that causes a disproportionately large loss—you can buy reinsurance against that, knowing you have a trigger," Newman said. "That trigger is an estimate produced by a third party, which is essentially what they built in the property world. It facilitates risk transfer."

For its loss estimates, PCS has looked at incidents as far back as 2013. So far, it has identified only one cyber catastrophe—the NotPetya attacks of 2017.

Though it may seem that seven years of events wouldn't provide a large enough data set to create models and triggers, Johansmeyer said it's enough to create some sort of cat bond.

"In terms of industry loss for cyber cat, we've got the one," he said. "It's not a big data set, but based on that and things that we and other insurance industry stakeholders know about insurance, I actually do think there's enough

"A lot of the investors who are active in ILS in whatever form—cat bonds, traditional reinsurance—are interested in trying to find ways to assume cyberrisk. The challenges for them are finding structures that actually work for them and risk return profiles that make sense."

Bill Dubinsky
Willis Towers Watson Securities

out there to put some good triggers together. Absolutely.

“In my opinion, there’s certainly enough cyber insurance experience out there. We’re starting to form a picture as an industry that has a pretty good view of the risk related to cyber insurance.”

While PCS would love for its tools to become the foundation for ILS instruments, Johansmeyer said the company is keeping those ambitions contained at this point.

“I would love to see people going out and doing cat bonds right now,” Johansmeyer said. “And if somebody wants to, I’d help them make it happen. No question. But we’ve not been terribly aggressive in pushing that agenda. We want to make sure people can see the index, kick the tires and trust it. But more importantly, we want to help provide a common language for the industry to understand and talk about cyber losses.

“We’re more concerned with getting people to talk consistently than we are with seeing money fly around. We believe that, as the conversation begins to progress on this basis, companies will be in a position to trade more effectively. That’s what we’re looking forward to.”

Future Market

Monnier sees the development of a cyber ILS market as inevitable.

“The market will develop. The models will develop. The question is: What will be securitized first?” he said. “We feel there is a greater chance of some affirmative cyber coverage to be developed, because that’s where the definition is likely to be clearer regarding what is covered and what is not. Modeling is also likely to be easier to do, because you also have a grasp on what your exposures could be. Then it would become a question of price.

“The form is irrelevant. The size typically drives the form. To the extent that you have adequate modeling and the size is large enough, the benefit of doing a cat bond is that you can have a broader distribution and better price execution. But then you have higher costs. So I think the form will follow the need and the appetite from investors. And if we get indeed to a sizable market, it’s likely that a good chunk of it would be in cat bond form.”

“For cyber you have the potential for accumulation of risk, and this is part of the reason I believe the cyber ILS market will develop. The reason there’s a lot of talk around cyber is that it’s not a matter of *if* it will happen, but a matter of when.”

Jean-Louis Monnier
Swiss Re

While it will take time to develop a cyber ILS market, Johansmeyer said new capacity is needed to facilitate meaningful growth of cyber insurance.

“Everybody is on everything now in the reinsurance space and retro space. If I were a reinsurer out looking for retro protection, the biggest challenge I’m going to find is getting capacity that’s not already on the same risks I am,” Johansmeyer said. “So you need new sources to come in. That’s what the ILS space was made for—to transfer risk out of the traditional insurance system.

“The difficulty is, you need the data, the modeling capabilities, the understanding and the experience to make it easy to adopt these tools. All are in varying states of progress, and it’s all positive. But it’s going to take some time. I think the biggest issue right now is experience. There’s a lot of really interesting and innovative modeling activity going on. There’s a lot of desire to trade on this basis, both for traditional players and the ILS community. But I think losses define a market, and we’re still having the sorts of losses that will define this market.” BR

Waiting to Erupt

Hawaii's Mt. Kilauea was one of several major volcanic eruptions in 2018. Though insured losses from these events were low, insurers are creating new ways to assess and address volcano risk, including the development of parametric products and an exposure-based probabilistic volcano model.

by Lori Chordas

Ash, toxic gases and a river of lava flow spewed from Mt. Kilauea in Hawaii, swallowing up hundreds of homes.

One of the five volcanoes on Hawaii's Big Island, Mt. Kilauea has been erupting consistently since 1983 after sitting dormant for a number of years. On May 3, 2018, however, it reached its breaking point.

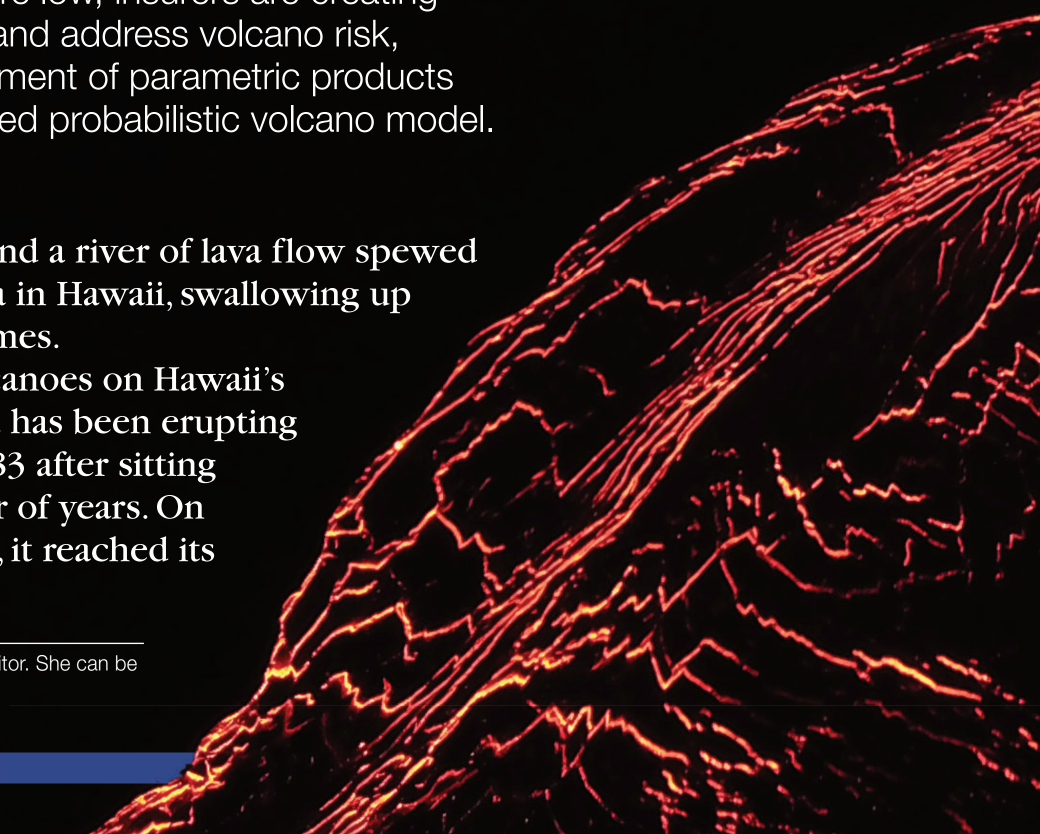

Photo by USGS Hawaiian Volcano Observatory

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Key Points

Ready to Blow:
Volcanic eruptions are low-frequency events but can have high-severity consequences.

Eruption of Claims:
The insurance industry was relatively unscathed by the 2018 eruption of Hawaii's Mt. Kilauea; however, the eruption did signal some coverage gaps in homeowners insurance policies.

Take Cover:
While insurers are delegating dollars and efforts to other natural catastrophes, experts say volcanic eruption is a real risk that the industry needs to be paying closer attention to.

For months, Kilauea erupted and overflowed, its lava lake spilling over the edge of the crater and snaking toward the Pacific like a molten river of orange and black.

Meanwhile, in Guatemala, Volcan de Fuego experienced its deadliest activity since 1929, with a series of eruptions and pyroclastic flows devastating the surrounding area. Shinmoedake peak in Japan, Anak Krakatau in Indonesia and Mount Etna in Italy also erupted in 2018.

Those are just a few of the 1,500 potentially active volcanoes worldwide, nearly 500 of which have erupted in historical time, according to the United States Geological Survey. A scientific agency of the U.S. government, USGS studies the nation's landscape and its natural resources and hazards. An active volcano is a volcano that has had at least one eruption during the past 10,000 years.

Today, nearly one billion people live within 93 miles of a volcano, and volcanic ash fall is a serious threat on global economies and infrastructure, according to a 2017 Swiss Re annual report.

Yet, despite those facts, volcanoes are an often-overlooked catastrophe risk.

"Many people fail to give much thought to volcanoes, especially in the U.S.," said Maiclaire Bolton Smith, a senior leader of research and content strategy at global property analytics solutions provider CoreLogic.

The United States is home to more than 160 active volcanoes, including 98 in Alaska, 21 in California and 16 in Hawaii, according to reports. And the USGS warns that volcanic eruption could be the next "big hazard" in California.

The agency predicts there's a 16% chance of a small- to moderate-size volcano erupting in California over the next 30 years. That's almost the same likelihood as a 6.7 magnitude earthquake hitting the Golden State in the next three decades, USGS reports.

The state has already been rocked by nearly a dozen volcanic eruptions over the past 1,000 years. In 1915, venting of Lassen Peak devastated areas in nearby Redding and rained volcanic ash as far away as Nevada.

Lassen Peak is one of seven active volcanoes in California that the USGS warns are at risk for future eruption.

Threats like those have long been on insurers' radars. However, the infrequency of those events has led insurers to instead focus on other recurrent natural perils such as hurricanes, earthquakes and floods, said Janet Ruiz, director of strategic communications at the Insurance Information Institute.

Last year's eruption of Mt. Kilauea shined a new spotlight on volcano risk.

Estimates of lost revenue from property taxes and reduced property values from the event vary; however, some reach as high as $6 million, according to news reports.

While Kilauea didn't have a major impact on the insurance industry, it did signal some gaps in insurance coverage and the potential threat of future losses generated from volcanoes.

Filling the Gaps

More than 700 homes were destroyed during Kilauea's eruption, leaving residents to scramble for answers as to whether their homeowners insurance would cover damage caused by residual risks such as lava and ash.

That answer, industry experts say, depends on the policy and how the home was damaged.

Losses caused by a volcano-produced fire or explosion are covered under most standard homeowners policies. But that's often not the case for damages caused by lava flow, dust and ash.

While most homeowners policies exclude the removal of ash from personal properties, some policies offer limited coverage if the ash first causes direct physical loss of the property, Ruiz said.

Also, volcanic effusion, such as volcanic water and mud, is generally excluded in policies but may be covered by flood insurance through the National Flood Insurance Program, she said.

After the recent eruption of Kilauea, some residents discovered their policies either had high deductibles for lava or excluded damage from lava.

Many of the homes in the path of the lava were in Leilani Estates. The residential subdivision is located in Lava Zone 1, which is one of two high-risk areas where property insurance is limited, said Hawaii Insurance Commissioner Colin M. Hayashida.

In 1974, USGS created nine lava flow hazard zones on the Big Island. Zone 1, which includes summits and rift zones of the Kilauea and Mauna Loa volcanoes, is the highest risk zone based on risk hazard, historical flows and geography. Zone 9 is the least hazardous and includes the Kohala volcano that last erupted more than 60,000 years ago.

"Residents living in zones one and two are challenged to find coverage," Hayashida said. "Few insurers will issue homeowners policies there."

Instead, homeowners in those areas can

turn to the surplus lines market or the Hawaii Property Insurance Association, which offers coverage up to $350,000.

HPIA is a nonprofit collection of insurers created by state legislators in 1991 to provide basic property insurance for residents unable to buy coverage in the private market.

After the May 3 eruption, HPIA announced it would issue policies to uninsured residents in affected areas with a six-month waiting period.

Several months after Kilauea's eruption, Hawaii homeowners filed a class-action lawsuit against Lloyd's and its agent-brokers for allegedly steering them away from comprehensive state-endorsed home insurance coverage to surplus lines policies that turned out to be "essentially worthless," according to attorneys. The lawsuit is pending before the U.S. District Court for the District of Hawaii.

Kilauea also signaled another gap in homeowners coverage. Earthquakes, land tremors, landslides and mudflow caused by a volcano are typically excluded from standard policies, said Cody Webb, a consulting actuary at Milliman.

Kilauea triggered countless earthquakes, including several reaching magnitudes of 5.5 or more and a 6.9 tremor located about 10 miles outside of Leilani Estates.

"The good news is that earthquake endorsements to homeowners policies often cover those types of losses," said Webb. However, earthquake policies sold in California by the California Earthquake Authority and many private insurers do not provide such cover, he said.

"Future eruptions may reveal even more coverage gaps that need to be filled."

Janet Ruiz
Insurance Information Institute

Interruption of Services

Homeowners insurance isn't the only line of business to feel the heat of a volcanic eruption. Personal insurers also received some auto claims from Kilauea.

Damage to vehicles caused by lava flow is typically covered under auto policies with comprehensive coverage, III's Ruiz said. Direct, sudden damage to engines from volcanic ash or dust is also covered under most policies.

Kilauea reminded business owners of their vulnerability to Mother Nature's wrath, too.

Last year, farmers suffered nearly $28 million in damages, according to a survey by the University of Hawaii's College of Tropical Agriculture and Human Resources. Of those losses, nearly two-thirds was damage to crops and the remaining to destroyed land, buildings and inventory.

Tourism, one of Hawaii's biggest industries and a significant part of the local economy, lost millions of dollars in revenue. Lodging and tour bookings declined 50% between May to July, airline sales plummeted and cruise ships canceled port calls.

The months-long eruption also forced the closure of the Hawaii Volcano National Park, which attracts 2 million visitors annually and generates more than $16 million in economic benefits.

Most business interruption policies cover property loss for damages caused by a volcanic explosion, shockwaves, ash, dust or lava flow, according to III. However, special endorsements to the policies are needed for direct physical damage resulting in suspended operations or for when the government shuts down the area, preventing customers or employees from gaining access to the premises.

The eruption of Iceland's Eyjafjallajokull in 2010 was a wake-up call for the aviation sector, said Alexander Allmann, a geophysicist and head of section, property at Munich Re.

During the week following the eruption, the European aviation industry grounded more than

If insurers "don't feel comfortable with their estimation of the overall risk associated with a peril, they'll be reluctant to insure it. Volcanoes fall into that category as a nat-cat that some insurers could be uniquely exposed to if their risk is concentrated in volcano-exposed areas."

Cody Webb
Milliman

100,000 flights across Europe in fear that ash released into the air could damage jet engines and cause mid-air collisions. The closure of airspace resulted in nearly $7.3 billion in lost revenue, according to reports.

Events like that have over the years spurred industry discussions about the development of special interruption-type coverages. Yet, only a handful exist.

Last year, Munich Re, in collaboration with easyJet, launched a coverage for airline flight cancellations. The policy provides financial protection against various large shock events, such as volcanic ash clouds and the grounding of the fleet on safety grounds, that lead to business interruption losses in aviation.

In 2016, Japanese insurer Sompo Japan Nipponkoa Insurance launched a parametric insurance product that covers losses from volcanic activity and offers businesses an extra expense caused by evacuations as a result of volcanic alerts issued by the Japan Meteorological Agency.

Parametric insurance does not indemnify a pure loss but rather makes a payment upon the occurrence of a triggering event, such as a natural catastrophe.

Guy Carpenter recently announced its specialist teams have developed a catastrophe risk model for six Japanese volcanoes, including Mt. Fuji. The model estimates losses arising from volcanic ash load on building structures in the densely populated and industrialized prefectures of Tokyo and Kanagawa.

Ongoing work entails an exploration into the potential usage of the risk model to structure parametric solutions, according to Guy Carpenter. The company said the conceptual design of a parametric risk transfer mechanism is intended to offset losses to building structures or other types of losses arising from eruptions producing ash fall. Other volcano-related risk offerings previously developed by Guy Carpenter include exposure accumulation methodologies for volcanoes worldwide.

Lessons Learned

"If there's one thing we always learn from events like volcanoes, it's to expect the unexpected," CoreLogic's Bolton Smith said.

The good news, she said, is that a volcanic eruption often comes with a warning, "unlike earthquakes and flash floods that can happen instantaneously."

The challenge for the industry is that volcanoes remain a largely unmodeled peril.

"That's largely because demand for the risk isn't that extensive," said Munich Re's Allmann.

"Also, there is no modeling because loss potentials in the range of tens to hundreds of years is significantly smaller than other perils like earthquake and storm," he said.

Last year, Swiss Re developed the industry's first exposure-based, global probabilistic volcano model that focuses on property loss from volcanic eruptions and ash flow. The model assesses the risks of more than 500 active global volcanoes based on hazard, vulnerability, value distribution and insurance conditions.

The model is used by Swiss Re underwriters to price reinsurance treaties and single risks. It also offers a snapshot of global areas at risk of volcanic ash fall. Some of those cities include Managua, Nicaragua; Manila, Philippines; and Naples and Catania in Italy.

The model, however, has a few limitations. Its ash thickness calculation concentrates on a distance of only 93 miles from a volcano, thereby making it unable to model widespread ash distribution in the atmosphere that could impact air traffic or global climate.

Also, the model's only volcanic hazard is ash fall, so it doesn't take into account other volcanic perils such as pyroclastic flows or lava flows.

Often insurers are challenged to quantify risk, including the threat of natural catastrophes, Milliman's Webb said.

"If they don't feel comfortable with their estimation of the overall risk associated with a peril, they'll be reluctant to insure it. Volcanoes fall into that category as a nat-cat that some insurers could be uniquely exposed to if their risk is concentrated in volcano-exposed areas," he said.

Webb suggests insurers and homeowners "pick their battles" and manage the natural perils they are most exposed to versus those with fewer vulnerabilities.

"Insurers need to understand what's covered in policies, the risks associated with an event and where their insured exposures lie in relation to a volcano. That can help lower the risk," Bolton Smith said.

Reinsurers, too, have an important role to play.

"Risk is diversifiable and even big risks in high-risk regions can be diversified by reinsurance. Volcano risk is very high with global implications, and global risk can't be diversified in the same way as risks that only affect particular regions. For insurers, it doesn't typically impact annual operating results because of its low frequency compared to events like hurricanes," Webb said.

"Insurers need to understand hurricanes if they're going to sell homeowners insurance in the southeastern U.S. But volcano isn't the type of risk that's going to prevent sales of homeowners insurance in the Pacific Northwest. However, if a major eruption occurs it could have big implications," he said.

On Alert

Kilauea tops USGS's recent list of the 18 "very high threat volcanoes" in the world.

Eruption of the volcano in 1955 destroyed 3,000 acres of land and cost the state of Hawaii more than $1.8 million, according to reports.

Last year's venting threatened an estimated total insured value of more than $171 million for standard market insurers in Leilani Estates, Lanipuna Gardens, Kapoho and Vacationland, according to the Hawaii Insurance Division.

Commercial insurers in those areas had total insured value of $344,600 and more than $17 million fell under "other" coverages, according to the department, which added that the figures do not include the surplus market and uninsured.

Insurers and reinsurers have remained relatively unscathed by volcanic eruptions throughout the centuries.

The biggest blow came in 1980 with the eruption of Mount St. Helens in Washington State. The colossal eruption caused 57 deaths and an estimated $31 million in insured losses, according to Munich Re.

The historic event also demonstrated that volcano eruptions can be more than just a local problem. Traces of ash from Mount St. Helens were found all over the world and some ash-particle remnants remained in the Earth's atmosphere for several years.

Future eruptions similar to that of Yellowstone that occurred 630,000 years ago could have global catastrophic effects and potentially exceed the limits of insurability, Munich Re warns.

A volcanic eruption of any size can potentially impact natural resources and infrastructure, along with possibly leading to social unrest and climate shifts that generate population die-off.

In 1815, a two-week eruption of Indonesia's Mount Tambora ejected billions of tons of debris and ash into the atmosphere, creating a volcanic winter that lowered global temperatures by 0.4 to 0.7 degrees Celsius.

"Every catastrophe teaches us something, and one of the biggest things we're now seeing is the high demand surge for rebuilding after an event," III's Ruiz said.

While recent volcanic eruptions have so far not caused any changes in insurance or pricing, "future eruptions may reveal even more coverage gaps that need to be filled," Ruiz said.

"The good thing is we have a lot of new companies and insurtechs creating new products like parametric insurance to help people with deductibles and to help them quickly get back on their feet. They'll also help everyone more easily adapt to things like volcanoes," she said.

As homeowners policies improve to cover more risks, and insurers are able to retain those exposures or obtain necessary reinsurance to write those risks, "we could start to see some coverage gaps for catastrophic risks like volcanoes begin to close," Milliman's Webb said. BR

Learn More

Swiss Reinsurance Company Ltd. (AM Best # 085009)

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

Best's Calendar: Trade Shows/Conferences

AGENTS AND BROKERS

Event	Date	Location	Venue
Les Rendez-Vous de Septembre	Sept. 7-12	Monte Carlo, Monaco	Fairmont Monte-Carlo
WSIA Annual Marketplace	Sept. 22-25	San Diego	Manchester Grand Hyatt, Marriott Marquis San Diego Marina
American Agents Alliance Conference & Expo	Sept. 26-29	Palm Desert, Calif.	JW Marriott Desert Springs Resort & Spa
CIAB Insurance Leadership Forum	Oct. 4-8	Colorado Springs, Colo.	The Broadmoor
TMPAA Annual Summit	Oct. 21-23	Scottsdale, Ariz.	Westin Kierland Resort

CAPTIVES AND ALTERNATIVE RISK

Event	Date	Location	Venue
Bermuda Captive Conference	June 10-12	Southampton, Bermuda	Fairmont Southampton Resort
VCIA Annual Conference	Aug. 5-8	Burlington, Vt.	DoubleTree by Hilton Burlington
NRRA National Conference	Oct. 2-4	Chicago	Sofitel Chicago Magnificent Mile
IMAC Cayman Captive Forum	Dec. 3-5	Grand Cayman	The Ritz-Carlton

Photo by Kim Bjorheim

INSURANCE

Event	Date	Location	Venue
IASA Annual Educational Conference and Business Show	June 2-5	Phoenix	Phoenix Convention Center
IAIP Annual Convention	June 6-8	Reno, Nev.	Nugget Casino Resort
ACE America's Claims Executive	June 24-26	Las Vegas	Red Rock Casino Resort & Hotel
AM Best's 2019 Reinsurance Market Briefing - Les Rendez-Vous de Septembre	Sept. 8	Monte Carlo, Monaco	Hermitage Hotel
AM Best's Insurance Market Briefing - Canada	Sept. 13	Toronto	Sheraton Centre Toronto
CPCU Society Annual Meeting	Sept. 21-24	New Orleans	Hilton New Orleans Riverside
National Insurance Conference of Canada	Sept. 22-24	Montreal	La Centre Sheraton Montreal
NAMIC Annual Convention	Sept. 22-25	National Harbor, Md.	Gaylord National Resort and Convention Center
InsureTech Connect	Sept. 23-25	Las Vegas	MGM Grand
American Property Casualty Insurance Association	Oct. 20-22	Boston	Marriott Copley Place
ACORD Connect 2019	Oct. 29-30	Boston	Renaissance Boston Waterfront Hotel
Singapore International Reinsurance Conference	Oct. 29-Nov. 1	Singapore	Sands Expo & Conference Center, Marina Bay Sands Singapore
AM Best's 2019 Insurance Market Briefing - Europe & Methodology Review Seminar	Nov. 12	London	etc.venues St Paul's

LIFE/HEALTH

Event	Date	Location	Venue
AHIP Institute & Expo 2019	June 19-21	Nashville, Tenn.	Music City Center
HFMA Annual Conference 2019	June 23-26	Orlando, Fla.	Orange County Convention Center
SOA 2019 Health Meeting	June 24-26	Phoenix	JW Marriott Desert Ridge Resort & Spa
NAHU 2019 Annual Convention	June 29-July 2	San Diego	Sheraton San Diego Hotel and Marina
NALC 2019 National Conference	Aug. 9-11	Denver	Hyatt Regency Denver at Colorado Convention Center
LOMA Annual Conference & Conferment	Sept. 4-6	Boston	Sheraton Boston Hotel
NAIFA Performance and Purpose 2019 Annual Conference	Sept. 11-14	Lake Buena Vista, Fla.	Walt Disney World Dolphin Resort
NOLHGA Annual Meeting	Oct. 10-11	Austin, Tex.	Fairmont Austin
ACLI Annual Conference	Oct. 13-15	Boston	Sheraton Boston Hotel
LIMRA Annual Conference	Oct. 27-29	Boston	Sheraton Boston Hotel
SOA Annual Meeting & Exhibit	Oct. 27-30	Toronto	Metro Toronto Convention Centre
NAILBA Annual Meeting	Nov. 7-9	Dallas	Gaylord Texan Resort and Convention Center

RISK MANAGEMENT

Event	Date	Location	Venue
AIRMIC Annual Conference 2019	June 3-5	Harrogate, England	Harrogate Convention Centre
PRIMA 2019 Annual Conference	June 9-12	Orlando, Fla.	Gaylord Palms Resort and Conference Center
ARIA Annual Meeting	Aug. 4-7	San Francisco	Parc 55 San Francisco
RIMS Canada Conference	Sept. 8-11	Edmonton, Alberta	Shaw Conference Centre
URMIA Annual Conference	Sept. 16-19	Boston	Sheraton Boston Hotel
ASHRM Annual Conference	Oct. 13-16	Baltimore	The Baltimore Convention Center
IRMI Construction Risk Conference	Nov. 10-13	Seattle	TBA

WORKERS' COMPENSATION

Event	Date	Location	Venue
ASSP Safety 2019 Professional Development Conference & Exposition	June 9-12	New Orleans	Ernest N. Morial New Orleans Convention Center
WCCP Claims Management and Leadership Conference	June 9-12	Bonita Springs, Fla.	Hyatt Regency Coconut Point Resort and Spa
SHRM Annual Conference & Exposition	June 23-26	Las Vegas	Las Vegas Convention Center
DMEC Annual Conference	Aug. 5-8	National Harbor, Md.	Gaylord National Resort and Convention Center
WCI Annual Workers' Compensation Educational Conference & Annual Safety & Health Conference	Aug. 11-14	Orlando, Fla.	Orlando World Center Marriott
SIIA National Educational Conference & Expo	Sept. 30-Oct. 2	San Francisco	San Francisco Marriott Marquis
IAIABC Convention	Oct. 21-24	Pittsburgh	The Westin Convention Center Pittsburgh
National Workers' Compensation & Disability Conference & Expo	Nov. 6-8	Las Vegas	Mandalay Bay Resort & Casino

Annual Corporate Changes 2018

All companies listed are life/health or property/casualty insurers in the United States.

Life/Health

NEW COMPANIES

Ambetter of North Carolina Inc. (AMB# 062301), incorporated April 2, 2018 in North Carolina.

Bright Health Insurance Company of Tennessee (AMB# 062287), incorporated Jan. 8, 2018 in Tennessee.

Devoted Health Insurance Co. (AMB# 062279), incorporated March 13, 2018 in Florida.

Experience Health Inc. (AMB# 062264), incorporated Feb. 9, 2018 in North Carolina.

Imperial Insurance Company of Texas Inc. (AMB# 062297), incorporated March 15, 2018 in Texas.

Longevity Health Plan of Illinois Inc. (AMB# 062288), incorporated Jan. 26, 2018 in Illinois.

Longevity Health Plan of New Jersey Insurance Co. (AMB# 062289), incorporated Jan. 21, 2018 in New Jersey.

Longevity Health Plan of New York Inc. (AMB# 062290), incorporated Feb. 13, 2018 in New York.

Lumico Life Insurance Company of New York (AMB# 062252), incorporated March 27, 2018 in New York.

Old Surety Insurance Company (AMB# 062304), incorporated June 20, 2018 in Oklahoma.

Oscar Buckeye State Insurance Corp. (AMB# 062302), incorporated April 18, 2018 in Ohio.

Oscar Health Plan Inc. (AMB# 062284), incorporated March 13, 2018 in Arizona.

Oscar Insurance Company of Florida (AMB# 062285), incorporated May 4, 2018 in Florida.

PruittHealth Premier North Carolina LLC (AMB# 062278), incorporated Jan. 1, 2018 in North Carolina.

WellCare Health Insurance Company of America (AMB# 062268), incorporated Jan. 23, 2018 in Arkansas.

WellCare National Health Insurance Co. (AMB# 062280), incorporated April 6, 2018 in Texas.

MERGERS

Aflac Reinsurance Co. (AMB# 062242), Omaha, Neb. Effective April 1, 2018, American Family Life Assurance Company of Columbus changed its name and merged into Nebraska Life Assurance Co. Aflac Reinsurance Co. then merged into Nebraska Life Assurance Co., and the latter changed its name to American Family Life Assurance Company of Columbus.

AlphaCare of New York Inc. (AMB# 061780), Brooklyn, N.Y. This company merged into Senior Whole Health of New York Inc. on Jan. 1, 2018.

American Modern Life Insurance Co. (AMB# 006680), Cleveland. This company merged into Securian Life Insurance Co. on Dec. 31, 2018.

American National Life Insurance Company of New York (AMB# 060708), Glenmont, N.Y. This company merged into Farm Family Life Insurance Co. on Jan. 1, 2018.

Athene Life Insurance Co. (AMB# 060733), Wilmington, Del. This company merged into Athene Annuity & Life Assurance Co. on Dec. 31, 2018.

Blue Care of Michigan, Inc. (AMB# 064870), Southfield, Mich. This company merged into Blue Care Network of Michigan on July 1, 2018.

Firebird Re Corp. (AMB# 062165), Phoenix. This company merged into Transamerica Life Insurance Co. on Oct. 1, 2018.

General American Life Insurance Co. (AMB# 006439), St. Louis. This company merged into Metropolitan Tower Life Insurance Co. on April 27, 2018.

Harbor View Re Corp. (AMB# 062163), Honolulu. This company merged into Ironwood Re Corp. on Dec. 28, 2018.

Health First Commercial Plans Inc. (AMB# 062058), Rockledge, Fla. This company merged into NewCo Health First Commercial Plans Inc. on Jan. 1, 2018.

HealthSpring of Alabama Inc. (AMB# 068784), Birmingham, Ala. This company merged into HealthSpring Life & Health Insurance Co. on Jan. 31, 2018.

HealthSpring of Tennessee Inc. (AMB# 064300), Nashville, Tenn. This company merged into HealthSpring Life & Health Insurance Co. on Feb. 28, 2018.

Kanawha Insurance Co. (AMB# 006604), Austin, Texas. This company merged into Continental General Insurance Co. on Aug. 9, 2018.

Nebraska Life Assurance Co. (AMB# 062194), Nebraska. American Family Life Assurance Company of Columbus changed its name and merged into Nebraska Life Assurance Co. on April 1, 2018. Aflac Reinsurance Co. then merged into Nebraska Life Assurance Co. and the latter changed its name to American Family Life Assurance Company of Columbus.

Paragon Life Insurance Company of Indiana (AMB# 061066), Indianapolis. This company merged into Guggenheim Life and Annuity Co. on Feb. 28, 2018.

Southern Pioneer Life Insurance Co. (AMB# 007521), Little Rock, Ark. This company merged into Securian Life Insurance Co. on Dec. 31, 2018.

NAME CHANGES

AMERIGROUP Nevada, Inc. (AMB# 064896), Las Vegas. On Feb. 1, 2018, this company changed its name to Community Care Health Plan of Nevada Inc. and became an independent licensee of the Blue Cross Blue Shield Association doing business as Anthem Blue Cross and Blue Shield Healthcare Solutions.

AmeriHealth Caritas Georgia Inc. (AMB# 061783), Macon, Ga. This company changed its name to Navicent Health Plan Inc. on June 28, 2018.

Capital Reserve Life Insurance Co. (AMB# 060739), Jefferson City, Mo. This company changed its name to Royalty Capital Life Insurance Co. on May 9, 2018.

Central Reserve Life Insurance Co. (AMB# 006203), Cleveland. This company changed its name to Cigna National Health Insurance Co. on April 9, 2018.

Farm Family Life Insurance Co. (AMB# 006365), Glenmont, N.Y. This company changed its name to American National Life Insurance Co. on Jan. 1, 2018.

Hartford International Life Reassurance Corp. (AMB# 009117), Hartford, Conn. This company changed its name to Talcott Resolution International Life Reassurance Corp. on June 12, 2018.

Hartford Life and Annuity Insurance Co. (AMB# 007325), Hartford, Conn. This company changed its name to Talcott Resolution Life and Annuity Insurance Co. on June 1, 2018.

Hartford Life Insurance Co. (AMB# 006518), Hartford, Conn. This company changed its name to Talcott Resolution Life Insurance Co. on June 1, 2018.

Health Advantage Florida Inc. (AMB# 062211), Coral Gables, Fla. This company changed its name to MMM of Florida Inc. on May 8, 2018.

Health Choice Utah Inc. (AMB# 065139), South Jordan, Utah. This company changed its name to Steward Health Choice Utah Inc. on July 1, 2018.

MAPFRE Life Insurance Co. (AMB# 008618), Dover, Del. This company changed its name to Elips Life Insurance Co. on Nov. 30, 2018.

MG Re Inc. (AMB# 062259), Scottsdale, Ariz. This company changed its name to MG Insurance Co. and converted from a pure captive reinsurer to a licensed insurance company on Jan. 26, 2018.

NewCo Health First Commercial Plans Inc. (AMB# 062253), Rockledge, Fla. The for-profit Health First Commercial Plans Inc. merged with and into this not-for-profit entity and the company changed its name to Health First Commercial Plans Inc. on Jan. 1, 2018.

Oscar Insurance Company of Texas (AMB# 061921), Dallas. This company changed its name to Oscar Insurance Co. on April 13, 2018.

Phoenix Life and Annuity Co. (AMB# 009072), Hartford, Conn. This company changed its name to Nassau Life and Annuity Co. on Aug. 2, 2018.

Phoenix Life Insurance Co. (AMB# 006922), East Greenbush, N.Y. This company changed its name to Nassau Life Insurance Co. on Oct. 10, 2018.

Port-O-Call Life Insurance Co. (AMB# 007929), Dallas. This company changed its name to Lasso Healthcare Insurance Co. on June 14, 2018.

Smart Insurance Co. (AMB# 062272), Scottsdale, Ariz. This company changed its name to Greenhouse Life Insurance Co. on April 23, 2018.

Time Insurance Co. (AMB# 007126), San Juan, Puerto Rico. This company changed its name to Time Insurance Company II on Dec. 5, 2018.

Universal Prudential Arizona Reinsurance Co. (AMB# 060647), Phoenix. The name of this company was changed from Universal Prudential Arizona Reinsurance Co. to Dryden Arizona Reinsurance Co. then to Dryden Arizona Reinsurance Term Co., all on Jan. 4, 2018.

Zale Life Insurance Co. (AMB# 007349), Phoenix. This company changed its name to Langhorne Reinsurance (Arizona) Ltd on Sept. 11, 2018.

ACQUISITIONS & OWNERSHIP CHANGES

America's 1st Choice of South Carolina Inc. (AMB# 061892), Columbia, S.C. This company was acquired by ATH Holding Co., a subsidiary of Anthem Inc., on Feb. 15, 2018.

Financial Assurance Life Insurance Co. (AMB# 008094), Dallas. This company was acquired by an unrelated third party by Americo Financial Life and Annuity Insurance Co. on Oct. 5, 2018.

Freedom Health Inc. (AMB# 064910), Tampa, Fla. This company was acquired by ATH Holding Co., a subsidiary of Anthem Inc., on Feb. 15, 2018.

Gerber Life Insurance Co. (AMB# 007299), White Plains, N.Y. This company was acquired by Western and Southern Life Insurance Co. on Dec. 31, 2018.

Grange Life Insurance Co. (AMB# 007332), Columbus, Ohio. This company was acquired by Kansas City Life Insurance Co. on Oct. 1, 2018.

Great Western Insurance Co. (AMB# 009362), Ogden, Utah. This company was acquired by American Republic Insurance Co. on Jan. 31, 2018.

Great Western Life Insurance Co. (AMB# 006458), Bozeman, Mont. This company was acquired by USAlliance Life and Security Co. on Dec. 14, 2018.

Liberty Life Assurance Company of Boston (AMB# 006627), Dover, N.H. This company was acquired by Lincoln National Life Insurance Co. on May 1, 2018.

Life Assurance Co. (AMB# 008635), Edmond, Okla. This company was acquired by Individual Assurance Company, Life, Health & Accident on Dec. 4, 2018.

MAPFRE Life Insurance Co. (AMB# 008618), Dover, Del. This company was acquired by MAPFRE U.S.A. Corp. to Elips Life Americas Inc., a subsidiary of Swiss Re Ltd., on May 1, 2018.

MDwise Inc. (AMB# 064386), Indianapolis. This company was purchased by McLaren Health Care Corp. from Indiana University Health Inc. on Jan. 1, 2018.

Mountain Life Insurance Co. (AMB# 008354), Alcoa, Tenn. This company was acquired by Mountain Services Corp. on Jan. 1, 2018.

New Hampshire Vision Service Corp. (AMB# 050934) New Hampshire. This company was dissolved on June 18, 2018.

Optimum HealthCare Inc. (AMB# 064911), Tampa, Fla. This company was acquired by ATH Holding Co., a subsidiary of Anthem Inc., on Feb. 15, 2018.

Smart Insurance Co. (AMB# 062272), Scottsdale, Ariz. This company was acquired by Reinsurance Company of Missouri Inc., a subsidiary of Reinsurance Group of America Inc. on April 2, 2018.

Time Insurance Co. (AMB# 007126), San Juan, Puerto Rico. This company was acquired by Haven Holdings Inc. on Dec. 3, 2018.

United Life Insurance Co. (AMB# 007178), Cedar Rapids, Iowa. This company was acquired by Kuvare US Holdings Inc. on March 30, 2018.

Voya Insurance and Annuity Co. (AMB# 008388), Des Moines, Iowa. This company and Voya Financial, Inc.'s closed block variable annuity business was acquired by Venerable Holdings Inc., a subsidiary of VA Capital Co., on June 1, 2018.

Zale Life Insurance Co. (AMB# 007349), Phoenix. This company was sold by Zale Indemnity Co. on July 2, 2018.

STATE ACTIONS

Cuatro LLC (AMB# 065107), Jackson Heights, N.Y. This company was placed into insolvent liquidation on Aug. 3, 2018.

Minuteman Health Inc. (AMB# 065188), Boston. This company was placed into insolvent liquidation on April 25, 2018.

DOMICILIARY CHANGES

Greenfields Life Insurance Co. (AMB# 061746), West Des Moines, Iowa. This company redomesticated from Iowa to Colorado on June 25, 2018.

Guaranty Income Life Insurance Co. (AMB# 006504), Baton Rouge, La. This company redomesticated from Louisiana to Iowa on Nov. 8, 2018.

Kanawha Insurance Co. (AMB# 006604), Austin, Texas. This company redomesticated from Texas to South Carolina on Aug. 1, 2018.

MAPFRE Life Insurance Co. (AMB# 008618), Dover, Del. This company redomesticated from Delaware to Missouri on Nov. 30, 2018.

Metropolitan Tower Life Insurance Co. (AMB# 009165), Lincoln, Neb. This company redomesticated from Nebraska to Delaware immediately prior to the merger of General American Life Insurance Co. with and into the company on April 27, 2018.

Starmount Life Insurance Co. (AMB# 009370), Baton Rouge, La. This company redomesticated from Louisiana to Maine on Dec. 20, 2018.

Time Insurance Co. (AMB# 007126), Milwaukee. This company redomesticated from Wisconsin to Puerto Rico on Dec. 3, 2018.

PROPERTY/CASUALTY

NEW COMPANIES

AmFed Advantage Insurance Co. (AMB# 023415), incorporated Oct. 17, 2018 in Mississippi.

Ategrity Specialty Insurance Co. (AMB# 020603), incorporated March 16, 2018 in Delaware.

Brooklyn Specialty Insurance Co., a Risk Retention Group Inc. (AMB# 023407), incorporated Aug. 2, 2018 in North Carolina.

Graph Insurance Co., a Risk Retention Group LLC (AMB# 023408), incorporated Aug. 31, 2018 in Vermont.

Healthcare Professional Risk Retention Group Inc. (AMB# 023359), incorporated May 3, 2018 in North Carolina.

Jet Insurance Co. (AMB# 023354), incorporated June 7, 2018 in North Carolina.

Journey Insurance Co. (AMB# 020596), incorporated Aug. 30, 2018 in Florida.

Mobilitas Insurance Co. (AMB# 020628), incorporated June 21, 2018 in Arizona.

Philadelphia Academic Risk Retention Group LLC (AMB# 023358), incorporated Jan. 2, 2018 in Vermont.

Smart MD Risk Retention Group Inc. (AMB# 023324), incorporated Jan. 29, 2018 in Vermont.

MERGERS

Delhaize Insurance Co. (AMB# 075158), Vermont. This company merged into the MollyAnna Co. on Dec. 29, 2018.

Dentists Benefits Insurance Co. (AMB# 010690), Milwaukie, Ore. This company merged into Dentists Insurance Co. on Dec. 31, 2018.

Direct General Insurance Company of Louisiana (AMB# 011947), Baton Rouge, La. This company merged into Imperial Fire and Casualty Insurance Co. on July 3, 2018.

Falls Lake General Insurance Co. (AMB# 014312), Columbus, Ohio. This company merged into Falls Lake National Insurance Co. on Nov. 15, 2018.

Fireman's Fund Insurance Company of Hawaii Inc. (AMB# 002717), Honolulu. This company merged into its parent, Fireman's Fund Insurance Co., on Dec. 31, 2018.

First Jersey Casualty Insurance Co. (AMB# 000329), Clifton, N.J. Effective April 16, 2018, Allstate New Jersey Property and Casualty Insurance Co. was merged into the company with First Jersey being designated as the surviving entity. Simultaneous with the merger, the company was renamed Allstate New Jersey Property and Casualty Insurance Co.

GoldStreet Insurance Co. (AMB# 012017), New York. This company merged into Accredited Surety and Casualty Co. in August 2018.

Hamilton Mutual Insurance Co. (AMB# 000448), Des Moines, Iowa. This company merged into Employers Mutual Casualty Co. on Jan. 1, 2018.

Hillstar Insurance Co. (AMB# 011334), Indianapolis. This company merged into Infinity Insurance Co. on Jan. 1, 2018.

Little Black Mutual Insurance Co. (AMB# 010286), Medford, Wis. This company merged into Farmington Mutual Insurance Co. on Dec. 31, 2018.

Modern USA Insurance Co. (AMB# 013831), Pinellas Park, Fla. This company merged into American Traditions Insurance Co. on June 1, 2018.

New Jersey Skylands Insurance Co. (AMB# 012540), Jersey City, N.J. This company merged into New Jersey Skylands Insurance Association on Dec. 31, 2018.

Northwest Dentists Insurance Co. (AMB# 010802), Bothell, Wash. This company merged into Dentists Insurance Co. on Dec. 31, 2018.

Physicians Re Inc. (AMB# 020606), Salt Lake City, Utah. This company merged into Physicians Standard Insurance Co. on March 10, 2018.

The Premier Insurance Company of Massachusetts (AMB# 011421), Hartford, Conn. This company merged into the Travelers Indemnity Co. on Jan. 1, 2018.

Tift Area Captive Insurance Co. (AMB# 074366), Tennessee. This company merged into MAG Mutual Insurance Co. on June 5, 2018.

TPA Captive Insurance Co. (AMB# 011828), Thomasville, Ga. This company merged into MAG Mutual Insurance Co. on June 5, 2018.

United Guaranty Mortgage Indemnity Co. (AMB# 003587), Greensboro, N.C. This company merged into United Guaranty Residential Insurance Co. on Sept. 30, 2018.

Victoria Automobile Insurance Co. (AMB# 011688), Highland Hills, Ohio. This company merged into Victoria Fire & Casualty Co. on Oct. 1, 2018.

Victoria Specialty Insurance Co. (AMB# 012058), Highland Hills, Ohio. This company merged into Victoria Fire & Casualty Co. on Oct. 1, 2018.

Western Heritage Insurance Co. (AMB# 000601), Scottsdale, Ariz. This company merged into Scottsdale Insurance Co. on Oct. 1, 2018.

NAME CHANGES

American Healthcare Indemnity Co. (AMB# 020601), Oklahoma City. This company changed its name to Service American Indemnity Co. on April 24, 2018.

American Transport Group Insurance Co. RRG (AMB# 020620), Raleigh, N.C. This company changed its name to American Transportation Group Insurance Risk Retention Group on May 21, 2018.

Aviation Alliance Insurance Risk Retention Group (AMB# 014177), Missoula, Mont. This company surrendered its risk retention group status and changed its name to Aviation Alliance Insurance Co. on May 16, 2018.

Berkley Regional Specialty Insurance Co. (AMB# 011296), Wilmington, Del. This company changed its name to Berkley Specialty Insurance Co. on July 1, 2018.

Clearwater Select Insurance Co. (AMB# 055027), Stamford, Conn. This company changed its name to Greystone Insurance Co. on Dec. 21, 2018.

Computer Insurance Co. (AMB# 010753), Providence, R.I. This company changed its name to Digital Advantage Insurance Co. on July 5, 2018.

Dongbu Insurance Co. (United States Branch) (AMB# 013784), Honolulu. This company changed its name to DB Insurance Co. (United States Branch) on Jan. 5, 2018.

Federated National Insurance Co. (AMB# 000711), Sunrise, Fla. This company changed its name to FedNat Insurance Co. on June 7, 2018.

Greyhawk Insurance Co. (AMB# 020561), Parker, Colo. This company changed its name to Ascot Insurance Co. on Oct. 31, 2018.

Greyhawk Specialty Insurance Co. (AMB# 011545), Warwick, R.I. This company changed its name to Ascot Specialty Insurance Co. on Oct. 8, 2018.

Hamilton Insurance Co. (AMB# 022238), Wilmington, Del. This company changed its name to Blackboard Insurance Co. on Feb. 1, 2018.

Hamilton Specialty Insurance Co. (AMB# 022237), Wilmington, Del. This company changed its name to Blackboard Specialty Insurance Co. on Feb. 1, 2018.

HM Casualty Insurance Co. (AMB# 013871), Harrisburg, Pa. This company changed its name to AlleghenyPoint Insurance Co. on Jan. 1, 2018.

Lakeview Insurance Co. (AMB# 013984), Bonita Springs, Fla. This company changed its name to Florida Family Home Insurance Co. on July 31, 2018.

MyCompass Inc. (AMB# 022611), Grinnell, Iowa. This company changed its name to Grinnell Compass Inc. on March 31, 2018.

OptiCare Vision Insurance Co. (AMB# 075925), Mount Pleasant, S.C. This company changed its name to Envolve Captive Insurance Co.

PMC Quality Commitment Inc. (AMB# 020616), Algona, Iowa. This company changed its name to Chiron Insurance Co. on March 2, 2018.

Property and Casualty Company of Omaha (AMB# 060695), Omaha, Neb. This company changed its name to Medicare Advantage Insurance Company of Omaha on Oct. 17, 2018.

ProSelect National Insurance Co. (AMB# 012205), Scottsdale, Ariz. This company changed its name to Cimarron Insurance Co. on Feb. 12, 2018.

San Francisco Reinsurance Co. (AMB# 002181), Petaluma, Calif. This company changed its name to Allianz Reinsurance America Inc. on Sept. 20, 2018.

Saucon Mutual Insurance Co. (AMB# 003235), Bethlehem, Pa. This company demutualized and changed its name to Saucon Insurance Co. on Jan. 1, 2018.

SeaBright Insurance Co. (AMB# 011755), Dallas. This company changed its name to Clear Spring Property and Casualty Co. on March 12, 2018.

Security America Risk Retention Group Inc. (AMB# 076142), Burlington, Vt. This company changed to a fronted program as an association captive and changed its name to Security America Reassurance Group Inc. on Feb. 23, 2018.

21st Century National Insurance Co. (AMB# 003786), Hicksville, N.Y. This company changed its name to Plymouth Rock Assurance Preferred Corp. on Dec. 7, 2018.

21st Century Security Insurance Co. (AMB# 000577), Harrisburg, Pa. This company changed its name to @Home Insurance Co. on Dec. 06, 2018.

Workers Compensation Fund (AMB# 003482), Sandy, Utah. This company converted to a for-profit mutual insurance company and changed its name to WCF Mutual Insurance Co. (WCF) on Jan. 1, 2018.

ACQUISITIONS & OWNERSHIP CHANGES

American Country Insurance Co. (AMB# 002735), Elk Grove Village, Ill. Effective March 14, 2018, this company was contributed by American Insurance Acquisition Inc. to an affiliated company, American Service Insurance Co.

American Healthcare Indemnity Co. (AMB# 011856), Oklahoma City. This company was sold as a shell to Service Insurance Holdings Inc., a new intermediate holding company associated with Service Lloyds Insurance Co., on March 20, 2018.

American Sentinel Insurance Co. (AMB# 004740), Harrisburg, Pa. This company was acquired by LD Investments LLC on Aug. 31, 2018.

American Sterling Insurance Co. (AMB# 023399), Costa Mesa, Calif. This company was acquired by Church Mutual Insurance Co. on Sept. 14, 2018. The company had gone through bankruptcy proceeding in the state of California and had no assets or liabilities prior to the acquisition.

AXA Art Insurance Corp. (AMB# 010599), New York, N.Y. This company was sold as a shell to Munich Re Digital Partners US Holding Corp. on July 31, 2018.

Boston Indemnity Co. Inc. (AMB# 004657), Sioux Falls, S.D. This company was acquired by Houston International Insurance Group Ltd. on Oct. 10, 2018.

Capitol Insurance Co. (AMB# 004033), Lafayette Hill, Pa. This company was acquired by Glacier Capital Holdings on April 1, 2018. Susquehanna Capital Corp. holds 51% of the issued and outstanding stock of Glacier Capital Holdings. Tuscarora Wayne Mutual Group, holds 99.811% of the issued and outstanding stock of Susquehanna Capital Corp.

Computer Insurance Co. (AMB# 010753), Providence, R.I. This company was acquired by Munich Re Digital Partners US Holding Corp. on April 26, 2018.

Electric Insurance Co. (AMB# 002146), Beverly, Mass. This company was acquired by General Electric Co. through GE Capital US Holdings Inc. on March 13, 2018. All outstanding shares of the company were held in trust by Wilmington Trust Co. General Electric Co. was the beneficiary of the trust. As part of the transaction, Wilmington Trust Co. was dissolved.

Empire Insurance Co. (AMB# 002150), New York. This company was acquired by Sirius America Insurance Co. on June 20, 2018.

First Jersey Casualty Insurance Co. (AMB# 000329), Clifton, N.J. This company was acquired by Allstate New Jersey Property and Casualty Co. on April 2, 2018.

Maiden Reinsurance North America Inc. (AMB# 013979), Jefferson City, Mo. This company was acquired by Maiden Holdings North America Ltd. on Dec. 27, 2018.

Mendota Insurance Co. (AMB# 010737), Eagan, Minn. This company was acquired by Premier Holdings, LLC on Oct. 18, 2018.

National Building Material Assurance Co. (AMB# 012474), Indianapolis. This company was sold as a shell to Clear Blue Specialty Insurance Co. on July 23, 2018.

National Building Material Assurance Co. (AMB# 020623), North Danville, Ind. This company was sold as a shell to Indiana Lumbermens Mutual Insurance Co. on July 23, 2018.

Oakwood Insurance Co. (AMB# 002103), Nashville, Tenn. Effective June 6, 2018, this company was acquired by Sirius America Insurance Co. on June 6, 2018.

Physicians Standard Insurance Co. (AMB# 014204), Topeka, Kan. This company purchased as treasury stock its shares owned by Missouri Professionals Mutual-Physicians Professional Indemnity Association for $1 million on March 10, 2018.

Savers Property and Casualty Insurance Co. (AMB# 000524), Clayton, Mo. This company was acquired by State National Insurance Co. on Nov. 2, 2018.

Stonetrust Commercial Insurance Co. (AMB# 012429), Lincoln, Neb. This company was acquired by Wintaai Holdings Ltd. on Jan. 1, 2018.

21st Century National Insurance Co. (AMB# 003786), Hicksville, N.Y. This company was acquired by Plymouth Rock Assurance Corp. on April 1, 2018.

21st Century Security Insurance Co. (AMB# 000577), Harrisburg, Pa. This company was acquired by High Point Preferred Insurance Co., a subsidiary of Palisades Safety and Insurance Association, on Aug. 1, 2018.

Unigard Indemnity Co. (AMB# 004278), Sun Prairie, Wis. This company was sold as a shell to Sutton National Insurance Holdings LLC on Dec. 31, 2018.

WRM America Indemnity Co. (AMB# 013912), Uniondale, N.Y. This company was acquired by Sirius America Insurance Co. on Aug. 16, 2018.

Yosemite Insurance Co. (AMB# 003222), Evansville, Ind. This company was acquired by Enstar Group Limited on Sept. 30, 2018.

STATE ACTIONS

Access Insurance Co. (AMB# 011651), Dallas. This company was placed into insolvent liquidation on March 13, 2018.

Elite Transportation Risk Retention Group Inc. (AMB# 071146), Barre, Vt. This company was placed into insolvent liquidation on May 15, 2018.

Geneva Insurance Co. (AMB# 011847), Indianapolis. This company was placed in rehabilitation on Oct. 2, 2018.

Healthcare Providers Insurance Exchange (AMB# 012594), Philadelphia. This company was placed into insolvent liquidation on Jan. 12, 2018.

Insurance Company of the Americas (AMB# 003657), Lake Mary, Fla. This company was placed into insolvent liquidation on Jan. 24, 2018.

Merced Property & Casualty Co. (AMB# 004360), Atwater, Calif. This company was placed into insolvent liquidation on Dec. 3, 2018.

Paramount Insurance Co. (AMB# 004700), Pikesville, Md. This company was ordered into rehabilitation on Sept. 13, 2018.

Real Legacy Assurance Co. (AMB# 003828), Guaynabo, Puerto Rico. This company was placed in rehabilitation on Sept. 28, 2018.

ReliaMax Surety Co. (AMB# 013805), Sioux Falls, S.D. This company was placed into insolvent liquidation on June 27, 2018.

Sawgrass Mutual Insurance Co. (AMB# 014033), Sunrise, Fla. This company was placed into insolvent liquidation on Oct. 1, 2018.

DOMICILIARY CHANGES

Blue Ridge Indemnity Co. (AMB# 020578), Wilmington, Del. This company redomesticated from Delaware to Wisconsin on June 1, 2018.

BlueShore Insurance Co. (AMB# 000381), Denver. This company redomesticated from Colorado to Texas on Nov. 30, 2018.

Haulers Insurance Co. Inc. (AMB# 010743), Columbia, Tenn. This company redomesticated from Tennessee to Missouri on July 20, 2018.

InsureMax Insurance Co. (AMB# 012263), Omaha, Neb. This company redomesticated from Nebraska to Indiana on May 15, 2018.

Integrity Mutual Insurance Co. (AMB# 000516), Appleton, Wis. This company redomesticated from Wisconsin to Ohio on Feb. 27, 2018.

Integrity Property and Casualty Insurance Co. (AMB# 013841), Appleton, Wis. This company redomesticated from Wisconsin to Ohio on Feb. 27, 2018.

NORCAL Specialty Insurance Co. (AMB# 003744), Mechanicsburg, Pa. This company redomesticated from Pennsylvania to Texas on April 25, 2018.

Starr Surplus Lines Insurance Co. (AMB# 013977), Chicago. This company redomesticated from Illinois to Texas on Jan. 1, 2018.

Transamerica Casualty Insurance Co. (AMB# 000323), Columbus, Ohio. This company redomesticated from Ohio to Iowa on Sept. 30, 2018.

21st Century Security Insurance Co. (AMB# 000577), Harrisburg, Pa. This company redomesticated from Pennsylvania to New Jersey on Dec. 6, 2018.

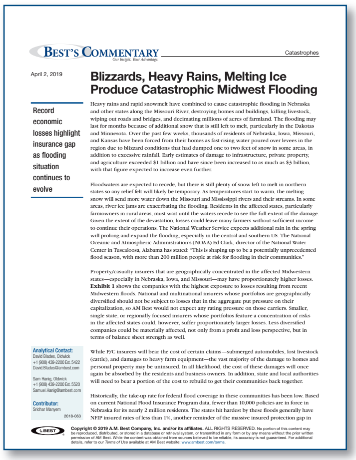
United Casualty and Surety Insurance Co. (AMB# 011063), Boston. This company redomesticated from Massachusetts to Nebraska on Dec. 31, 2018.

Yosemite Insurance Co. (AMB# 003222), Evansville, Ind. This company redomesticated from Indiana to Oklahoma on Oct. 1, 2018.

Record Economic Losses Highlight Insurance Gap

Best's Commentary (Excerpt): Blizzards, Heavy Rains, Melting Ice Produce Catastrophic Midwest Flooding (April 2, 2019)

Heavy rains and rapid snowmelt have combined to cause catastrophic flooding in Nebraska and other states along the Missouri River, destroying homes and buildings, killing livestock, wiping out roads and bridges, and decimating millions of acres of farmland. The flooding may last for months because of additional snow that is still left to melt, particularly in the Dakotas and Minnesota. Over the past few weeks, thousands of residents of Nebraska, Iowa, Missouri, and Kansas have been forced from their homes as fast-rising water poured over levees in the region due to blizzard conditions that had dumped one to two feet of snow in some areas, in addition to excessive rainfall. Early estimates of damage to infrastructure, private property, and agriculture exceeded $1 billion and have since been increased to as much as $3 billion, with that figure expected to increase even further.


BEST'S COMMENTARY
Our Insight, Your Advantage.
Catastrophes

April 2, 2019

Blizzards, Heavy Rains, Melting Ice Produce Catastrophic Midwest Flooding

Record economic losses highlight insurance gap as flooding situation continues to evolve

Heavy rains and rapid snowmelt have combined to cause catastrophic flooding in Nebraska and other states along the Missouri River, destroying homes and buildings, killing livestock, wiping out roads and bridges, and decimating millions of acres of farmland. The flooding may last for months because of additional snow that is still left to melt, particularly in the Dakotas and Minnesota. Over the past few weeks, thousands of residents of Nebraska, Iowa, Missouri, and Kansas have been forced from their homes as fast-rising water poured over levees in the region due to blizzard conditions that had dumped one to two feet of snow in some areas, in addition to excessive rainfall. Early estimates of damage to infrastructure, private property, and agriculture exceeded $1 billion and have since been increased to as much as $3 billion, with that figure expected to increase even further.

Floodwaters are expected to recede, but there is still plenty of snow left to melt in northern states so any relief felt will likely be temporary. As temperatures start to warm, the melting snow will send more water down the Missouri and Mississippi rivers and their streams. In some areas, river ice jams are exacerbating the flooding. Residents in the affected states, particularly farmowners in rural areas, must wait until the waters recede to see the full extent of the damage. Given the extent of the devastation, losses could leave many farmers without sufficient income to continue their operations. The National Weather Service expects additional rain in the spring will prolong and expand the flooding, especially in the central and southern US. The National Oceanic and Atmospheric Administration's (NOAA) Ed Clark, director of the National Water Center in Tuscaloosa, Alabama has stated: "This is shaping up to be a potentially unprecedented flood season, with more than 200 million people at risk for flooding in their communities."

Property/casualty insurers that are geographically concentrated in the affected Midwestern states—especially in Nebraska, Iowa, and Missouri—may have proportionately higher losses. **Exhibit 1** shows the companies with the highest exposure to losses resulting from recent Midwestern floods. National and multinational insurers whose portfolios are geographically diversified should not be subject to losses that in the aggregate put pressure on their capitalization, so AM Best would not expect any rating pressure on those carriers. Smaller, single state, or regionally focused insurers whose portfolios feature a concentration of risks in the affected states could, however, suffer proportionately larger losses. Less diversified companies could be materially affected, not only from a profit and loss perspective, but in terms of balance sheet strength as well.

While P/C insurers will bear the cost of certain claims—submerged automobiles, lost livestock (cattle), and damages to heavy farm equipment—the vast majority of the damage to homes and personal property may be uninsured. In all likelihood, the cost of these damages will once again be absorbed by the residents and business owners. In addition, state and local authorities will need to bear a portion of the cost to rebuild to get their communities back together.

Historically, the take-up rate for federal flood coverage in these communities has been low. Based on current National Flood Insurance Program data, fewer than 10,000 policies are in force in Nebraska for its nearly 2 million residents. The states hit hardest by these floods generally have NFIP insured rates of less than 1%, another reminder of the massive insured protection gap in

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2018-063

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Property/casualty insurers that are geographically concentrated in the affected Midwestern states—especially in Nebraska, Iowa, and Missouri—are more susceptible to flood and other weather-related losses. However, residential flood is usually provided by the NFIP and is excluded from standard homeowners' policies. In addition, most companies have reinsurance strategies that help manage their exposures. Most insurers do not have significant exposure to the flood peril, so we do not expect any rating pressure on these carriers.

Historically, the take-up rate for federal flood coverage in these communities has been low. Based on current National Flood Insurance Program data, fewer than 10,000 policies are in force in Nebraska for its nearly 2 million residents. The states hit hardest by these floods generally have NFIP insured rates of less than 1%, another reminder of the massive insured protection gap in the U.S. and the ineffectiveness of the current flood program. Federal flood maps are outdated in many cases, so it is likely that prospective insureds did not have a true idea of their susceptibility to potential flood losses.

The more common problem is that, unless the home is financed with a government-backed loan, the property owner is never made aware of the risk and the property's susceptibility to flood. Both of these points likely factored into the low take-up rate in Nebraska and Iowa, highlighting the importance of improved flood mapping and greater public awareness. (See chart on page 71.) These floods also remind us of the need to find a public and private solution to a program that is still more than $20 billion in debt—and growing.

With the current crop surplus and the U.S. trade war with China, low commodity prices have led many farmers to keep crops such as soybean and corn in silos in the hope that commodity prices would rise. Unfortunately, those farmers were largely unable to save those crops. Much of the product lost by these farmers is uninsured. However, private crop insurance and multiperil crop insurance (MPCI) may provide some farmers with coverage for lost revenue resulting from the inability to plant crops this year because of flooded land. Crop insurers may be on the hook to pay out because farmers may not be able to plant crops before the designated final planting date. Acres planted before the final planting date are entitled to a full yield guarantee. If crops are planted after this date, the guarantee is reduced. However, if farmers are not able to plant because of disasters, they may be entitled to compensation from crop insurance.

The United States Department of Agriculture's Risk Management Agency (RMA) manages the federal crop insurance program that provides a backstop to the MPCI. The contractual coverage is for a percentage of covered revenue for corn and soybean crops—for example, not 100%. Lost revenue from ruined crops that were in storage, however, is not covered by crop insurance.

Farm bankruptcies were already on the rise in the upper Midwest, including North Dakota. That number will now increase as farming communities deal with the extreme level of flooding. With climate change representing an ongoing threat, extreme weather events are increasingly common. For some, the extent of the flooding that has occurred and which still may occur could imperil not only their existing, grown crops but their upcoming crops as well, because the lingering water will strip topsoil and leave behind sand that could delay planting. In many cases, farmers were planning to plant seed within the next few weeks.

Flood losses to business and vehicles, including business interruption claims, will likely generate the lion's share of the insurable losses from the storms. Losses to onshore commercial and industrial properties and their contents, along with insured commercial automobiles, are expected to be substantial, especially for companies with geographic concentrations in the affected states. Business interruption claims for commercial enterprises and, to a lesser extent, additional living expenses for covered residential property owners could also drive up the loss total for which primary insurance companies, and their reinsurers, will be on the hook.

President Donald Trump has approved disaster relief for Nebraska and Iowa, making federal funds available to homeowners, renters, businesses, public entities, and select nonprofit organizations in affected counties. Missouri Governor Mike Parson declared a state of emergency, paving the way for similar actions in his state. The Midwest flooding has reached or approached a number of polluted sites in the region, including identified Superfund locations. While the spread of contaminated water is a threat, at the moment there are no related insurer liability concerns. AM Best will continue its ongoing dialogue with rated insurers and monitor developments as the situation evolves. BR

This *Best's Commentary* is available at *www.ambest.com.*

Best's Credit Rating Actions

This edition lists all Credit Rating actions that occurred between April 1 and April 30, 2019. For the Credit Rating of any company rated by AM Best and basic company information, visit the AM Best website at *www.ambest.com/ratings/access.html* or download the ratings app at *www.ambest.com/sales/ambmobileapp*.

Operating Companies

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
U.S., CANADA AND BERMUDA LIFE/HEALTH								
—	L	Alfa Life Insurance Corporation *Alfa Mutual Insurance Company*	006293	A a	Stable Stable	A a+	Stable Stable	Alabama
⇅	H	American Republic Corp Insurance Company *American Enterprise Mutual Holding Co*	006906	A- a-	Positive Positive	A- a-	Stable Stable	Iowa
⇅	H	American Republic Insurance Company *American Enterprise Mutual Holding Co*	006096	A- a-	Positive Positive	A- a-	Stable Stable	Iowa
⚑	L	Bankers Life Insurance Company *Greg E. Lindberg*	008448	B u bb+ u	Negative Negative	B bb+	Stable Stable	North Carolina
⚑	L	Colorado Bankers Life Insurance Company *Greg E. Lindberg*	008502	B++ u bbb+ u	Negative Negative	B++ bbb+	Stable Stable	North Carolina
⇅	L	Great Western Insurance Company *American Enterprise Mutual Holding Co*	009362	A- a-	Positive Positive	A- a-	Stable Stable	Utah
⊕	L	Landmark Life Insurance Company *Jarvis Family Limited Partnership*	068055	B bb+	Stable Stable	B bb	Stable Positive	Texas
⇅	H	Liberty Union Life Assurance Company	006799	B bb	Stable Positive	B bb	Stable Stable	Michigan
⇅	L	Life Insurance Company of the Southwest *National Life Holding Company*	006647	A a+	Positive Positive	A a+	Stable Stable	Texas
⇅	H	Medico Corp Life Insurance Company *American Enterprise Mutual Holding Co*	008350	A- a-	Positive Positive	A- a-	Stable Stable	Iowa
⇅	L	Medico Insurance Company *American Enterprise Mutual Holding Co*	003150	A- a-	Positive Positive	A- a-	Stable Stable	Iowa
⇅	L	Medico Life and Health Insurance Company *American Enterprise Mutual Holding Co*	006662	A- a-	Positive Positive	A- a-	Stable Stable	Iowa
⇥	L	Midwestern United Life Insurance Company *Voya Financial Inc.*	006718	NR nr		A a+	Stable Stable	Indiana
⊕	H	Moda Health Plan Inc *Oregon Dental Service*	011437	B bb	Stable Stable	B- u bb- u	Developing Developing	Oregon
⇅	L	Mountain Life Insurance Company *Kentucky National Ins Grp, LLC*	008354	B+ bbb-	Stable Stable	B+ bbb-	Negative Negative	Tennessee
⇅	L	National Life Insurance Company *National Life Holding Company*	006790	A a+	Positive Positive	A a+	Stable Stable	Vermont
⊕	L	National Security Insurance Company *National Security Group, Inc.*	006802	B++ bbb	Stable Stable	B+ bbb-	Positive Positive	Alabama
⇅	L	New Era Life Insurance Co of the Midwest *New Era Enterprises Inc*	007148	B++ bbb	Stable Positive	B++ bbb	Stable Stable	Texas
⇅	L	New Era Life Insurance Company *New Era Enterprises Inc*	007087	B++ bbb	Stable Positive	B++ bbb	Stable Stable	Texas
☑	H	Oregon Dental Service *Oregon Dental Service*	064364	B bb	Stable Positive	B u bb u	Developing Developing	Oregon
⇅	L	Philadelphia American Life Insurance Co *New Era Enterprises Inc*	009166	B++ bbb	Stable Positive	B++ bbb	Stable Stable	Texas
⇥	L	ReliaStar Life Insurance Co of NY *Voya Financial Inc.*	006157	NR nr		A a+	Stable Stable	New York
⇥	L	ReliaStar Life Insurance Company *Voya Financial Inc.*	006846	NR nr		A a+	Stable Stable	Minnesota
⇥	L	Security Life of Denver Insurance Co *Voya Financial Inc.*	007029	NR nr		A a+	Stable Stable	Colorado
⇥	L	State Mutual Insurance Company	007085	NR nr		B bb+	Stable Stable	Georgia
⊕	L	Vantis Life Insurance Company *Penn Mutual Life Insurance Company*	007021	A+ aa-	Stable Stable	A a	Stable Positive	Connecticut
⊕	L	Vantis Life Insurance Company New York *Penn Mutual Life Insurance Company*	060691	A+ aa-	Stable Stable	A a	Stable Positive	New York

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

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
U.S., CANADA AND BERMUDA LIFE/HEALTH (CONTINUED)								
⇥	L	Voya Retirement Insurance and Annuity Co *Voya Financial Inc.*	006895	NR nr		A a+	Stable Stable	Connecticut
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY								
☑	P	@Home Insurance Company *Palisades Safety and Insurance Assn*	000577	A- a-	Stable Stable	A- u a- u	Negative Negative	New Jersey
—	P	Alfa Alliance Insurance Corporation *Alfa Mutual Insurance Company*	000954	A a	Stable Stable	A a+	Stable Stable	Virginia
—	P	Alfa General Insurance Corporation *Alfa Mutual Insurance Company*	001724	A a	Stable Stable	A a+	Stable Stable	Alabama
—	P	Alfa Insurance Corporation *Alfa Mutual Insurance Company*	002227	A a	Stable Stable	A a+	Stable Stable	Alabama
—	P	Alfa Mutual Fire Insurance Company *Alfa Mutual Insurance Company*	002006	A a	Stable Stable	A a+	Stable Stable	Alabama
—	P	Alfa Mutual General Insurance Company *Alfa Mutual Insurance Company*	003314	A a	Stable Stable	A a+	Stable Stable	Alabama
—	P	Alfa Mutual Insurance Company *Alfa Mutual Insurance Company*	002005	A a	Stable Stable	A a+	Stable Stable	Alabama
⇅	P	American Surety Company *Eighth Amendment Holdings, Inc.*	002557	A- a-	Negative Negative	A- a-	Stable Stable	Indiana
⚑	P	Ameriprise Insurance Company *Ameriprise Financial Inc*	013104	A u a+ u	Developing Developing	A a+	Stable Stable	Wisconsin
New	P	AzGUARD Insurance Company *Berkshire Hathaway Inc.*	020650	A+ aa-	Stable Stable			Nebraska
⇅	P	Bay State Insurance Company *Andover Companies Pool*	002053	A+ aa-	Negative Negative	A+ aa-	Stable Stable	Massachusetts
⇅	P	Cambridge Mutual Fire Insurance Company *Andover Companies Pool*	002054	A+ aa-	Negative Negative	A+ aa-	Stable Stable	Massachusetts
⇅	P	Chesapeake Employers' Insurance Company	012335	A- a-	Positive Positive	A- a-	Stable Stable	Maryland
New	P	Chiron Insurance Company *Pharmacists Mutual Insurance Company*	020616	A a	Stable Stable	NR nr		Iowa
New	P	Convex Re Limited *Convex Group Limited*	071498	A- a-	Stable Stable			Bermuda
⚑	P	IDS Property Casualty Insurance Company *Ameriprise Financial Inc*	003563	A u a+ u	Developing Developing	A a+	Stable Stable	Wisconsin
⇅	P	Kentucky Growers Insurance Company	003146	B++ bbb+	Positive Positive	B++ bbb+	Stable Stable	Kentucky
⇅	P	Merrimack Mutual Fire Insurance Company *Andover Companies Pool*	002055	A+ aa-	Negative Negative	A+ aa-	Stable Stable	Massachusetts
—	P	Mountain West FB Mutual Ins Co *Mountain West FB Mutual Ins Co*	000986	B++ bbb+	Stable Negative	A- a-	Negative Negative	Wyoming
⊕	P	Stonetrust Commercial Insurance Company *Chou Associates Management Inc.*	012429	B++ bbb+	Stable Stable	B++ bbb	Stable Stable	Nebraska
—	P	Tokio Marine GRV Re, Inc. *Tokio Marine Holdings, Inc.*	012531	A a	Stable Stable	A++ aa+	Stable Stable	Oklahoma
—	P	Trexis Insurance Corporation *Alfa Mutual Insurance Company*	010042	A a	Stable Stable	A a+	Stable Stable	Virginia
—	P	Trexis One Insurance Corporation *Alfa Mutual Insurance Company*	012333	A a	Stable Stable	A a+	Stable Stable	Virginia
☑	P	Tri-State Consumer Insurance Company *WT Holdings, Inc.*	001971	A- a-	Negative Negative	A- u a- u	Negative Negative	New York
⇅	P	Utica First Insurance Company	000944	A a	Stable Stable	A a	Stable Positive	New York
EUROPE, MIDDLE EAST AND AFRICA								
New	P	Convex Group UK Limited *Convex Group Limited*	071499	A- a-	Stable Stable			United Kingdom
⇅	P	Insurance Company London-Almaty JSC *Dostyk Leasing LLP*	090887	C++ b+	Positive Positive	C++ b+	Stable Stable	Kazakhstan
—	L	Life Insurance Corp (Intl) B.S.C. (c) *Life Insurance Corporation of India*	077623	B u bb u	Negative Negative	B++ bbb	Negative Negative	Bahrain
New	P	Newline Europe Versicherung AG *Fairfax Financial Holdings Limited*	071351	A a+	Stable Stable			Germany
⇅	P	PASHA Insurance OJSC *PASHA Holding LLC*	095015	B+ bbb-	Negative Negative	B+ bbb-	Stable Stable	Azerbaijan

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	SCOR Global Life SE *SCOR SE*	077365	NR nr		A+ aa-	Stable Stable	France
⇥	P	SCOR Global P&C SE *SCOR SE*	078344	NR nr		A+ aa-	Stable Stable	France
		ASIA PACIFIC						
↓↑	P	Malayan Insurance Co., Inc. *Pan Malayan Mgmt & Investment Corp*	077617	B++ bbb+	Stable Negative	B++ bbb+	Stable Stable	Philippines
⚑	P	Pacific International Insurance Pty Ltd *Badger International (NZ) LP*	078302	B++ u bbb u	Developing Developing	B++ bbb	Stable Stable	Australia
		CARIBBEAN AND LATIN AMERICA						
⇥	L	CIBC Reinsurance Company Limited *Canadian Imperial Bank of Commerce*	072561	NR nr		A a+	Stable Stable	Barbados
⚑	P	Nationale Borg Reinsurance N.V. *AmTrust Financial Services, Inc*	092564	A- u a- u	Positive Positive	A- a-	Stable Stable	Curaçao

Holding Companies

Rating Action	Company Name	AMB#	Current ICR	Current Outlook/ Implications	Previous ICR	Previous Outlook/ Implications	Domicile
↓↑	NLV Financial Corporation	051127	bbb+	Positive	bbb+	Stable	Vermont
New	Palomar Holdings, Inc.	033566	bbb-	Stable			Delaware
⇥	Voya Financial Inc.	050817	nr		bbb+	Stable	Delaware

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

BEST'S FINANCIAL STRENGTH RATING GUIDE – (FSR)

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

Best's Financial Strength Rating (FSR) Scale

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

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

Financial Strength Non-Rating Designations

Designation Symbols	Designation Definitions
E	Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
F	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
S	Status assigned to rated insurance companies to suspend the outstanding FSR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
NR	Status assigned to insurance companies that are not rated; may include previously rated insurance companies or insurance companies that have never been rated by AM Best.

Rating Disclosure – Use and Limitations

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.

Financial Size Category

To enhance the usefulness of ratings, AM Best assigns each rated (A++ through D) insurance company a Financial Size Category (FSC). The FSC is based on adjusted policyholders' surplus (PHS) in U.S. dollars and may be impacted by foreign currency fluctuations. The FSC is designed to provide a convenient indicator of the size of a company in terms of its statutory surplus and related accounts.

Many insurance buyers only want to consider buying insurance coverage from companies that they believe have sufficient financial capacity to provide the necessary policy limits to insure their risks. Although companies utilize reinsurance to reduce their net retention on the policy limits they underwrite, many buyers still feel more comfortable buying from companies perceived to have greater financial capacity.

Class	Adj. PHS ($ Millions)
I	Less than 1
II	1 to 2
III	2 to 5
IV	5 to 10
V	10 to 25
VI	25 to 50
VII	50 to 100
VIII	100 to 250

Class	Adj. PHS ($ Millions)
IX	250 to 500
X	500 to 750
XI	750 to 1,000
XII	1,000 to 1,250
XIII	1,250 to 1,500
XIV	1,500 to 2,000
XV	2,000 or greater

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BEST'S ISSUER CREDIT RATING GUIDE – (ICR)

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

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

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

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

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

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

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

Designation Symbols	Designation Definitions
d	Status assigned to entities (excluding insurers) that are in default or when a bankruptcy petition or similar action has been filed and made public.
e	Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
f	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
s	Status assigned to rated entities to suspend the outstanding ICR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
nr	Status assigned to entities that are not rated; may include previously rated entities or entities that have never been rated by AM Best.

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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Back in Business

Industry Updates

Stephen Catlin has teamed with Paul Brand to launch Convex Group, the "largest ever" insurance startup with $1.8 billion in initial capital.


Stephen Catlin

Stephen Catlin may have officially "retired" from XL Group in December 2017, but he had no plans to stop working.

"I never really retired," he said. "I had no intention of retiring."

Catlin made that point crystal clear on April 30, when he launched what's being hailed as the largest ever insurance startup, Bermuda-based Convex Group Ltd., with $1.8 billion in initial capital.

Convex, an international specialty insurance and reinsurance company, will focus on complex specialty risks across a diversified range of business lines in London and Bermuda.

"I'm excited for the opportunity to do things differently and better," Catlin said. "We're not going to build a global footprint. We're just going to do London and Bermuda. We might have a presence in the U.S. I don't know yet, but don't need to straightaway."

AM Best assigned a Financial Strength Rating of A- (Excellent) to Convex Re Ltd. (Bermuda) and Convex Group UK Ltd. The rating agency also gave the entities a Long-Term Issuer Credit Rating of "a-."

Convex UK will be the group's London-based specialty insurer and will be the principal contributor of premium income. Convex Re is the group's Bermuda-based reinsurer. In addition to writing third-party reinsurance, it will provide reinsurance protection to Convex UK.

In issuing its ratings, AM Best said Convex Group has a senior management and underwriting team in place that has extensive experience in its targeted classes of business, which, in AM Best's view, "increases the likelihood of market acceptance and successful execution of the group's business plan."

Catlin teamed with Paul Brand, a former senior executive at Catlin Insurance, on the venture. Catlin will serve as chairman and chief executive officer of Convex, while Brand will be deputy CEO.

Convex is funded by capital from its own management, as well as Toronto-based private equity firm Onex Partners, Montreal-based PSP Investments, and a consortium of other investors.

Catlin said this is the first close, and he will continue raising capital.

"The banks say to me, 'Once you're up and running; it will be easy to get people to join the party. People don't like joining things that haven't started,'" Catlin said. "We'll find out whether or not that is true. But $1.8 billion is still the largest ever startup in the insurance sector."

Convex has drawn attention not only because of Catlin—an Insurance Hall of Famer and founder of Catlin Group Ltd.—but also for its massive funding. While Bermuda has seen waves of startups over the decades, no company from its venerable classes of 2001 or 2005 launched with as much capital as Convex.

Axis Capital Holdings, formed in the wake of 9/11, comes closest with initial capitalization of $1.7 billion. Harbor Point (2005) and Allied World (2001) each started with $1.5 billion, and Arch Capital (2001) began with $1.4 billion.

Catlin said Convex benefits from being

unencumbered by legacy systems, and the company intends to stay lean through outsourcing.

"We're going to do a horizontal outsource. Anything that is back office and doesn't require human intervention will be outsourced. That will save us about 3% on expenses," Catlin said. "And we have the opportunity, because we don't have the legacy, to think through how we use technology in terms of the actual art of underwriting, using AI and big data.

"We will still do our own claims adjustment; we'd never subcontract that. But the process post claim being adjusted will be outsourced."

Convex is the second insurance company founded by Catlin. In 1984, he started Catlin Group Ltd., which he built into the largest Lloyd's insurer. XL Group acquired Catlin Group for $4.1 billion in January 2015, leading to the creation of XL Catlin. Catlin served as the executive deputy chairman of XL Group.

While Catlin officially retired from XL in December 2017, he said he never planned to stand still.

"I'm not the sort who could sit on a beach all day," he said. "I'd go mad."

He didn't leave XL with the intention of starting Convex, though. That plan developed over the course of 2018. The notion of starting a venture with Brand, however, goes back even further.

Catlin and Brand had worked together for more than three decades. And when the former colleagues got together for a beer two and half years ago, they tossed about the idea of doing so once again.

"It was almost a de-facto statement that went along the lines of: Wouldn't it be fun to work together again?" Catlin recalled. "There was no more or less commitment than that at the time.

"We worked together for 32 years. We're very different in personality. We have different skill sets. And it's proven to be a very successful partnership between the two of us. There's complete trust between the two of us, which in this day and age is not that common. So it was almost inevitable that would end up doing something together."

Last March, they got together again, and this time the timing was right. A few months earlier, Catlin had bumped into Stuart Britton, an investment banker who had been an adviser on the XL-Catlin deal, at a Christmas party. Britton, Catlin said, suggested he start a new venture.

Catlin wasn't interested. That is, until a Sunday afternoon call in early March from Mike McGavick changed his mind. McGavick, who was the CEO of XL Group, rang to tell Catlin the company was being acquired by Axa.

For Catlin, that changed everything.

"After the call, my wife said, 'There seems to be a bounce in the air. Stephen, what's going on?' I said, 'I just realized I've been freed,'" Catlin said. "I could never have competed against XL Catlin. It's not within me. But now that it was bought by Axa, I was free."

Two days after McGavick's call, Lloyd's released its losses, Catlin said, with just about every product line losing money. Later in the week, Amlin announced £500 million (US$652 million) in losses. "The timing of all those things made me think maybe there is an opportunity, and maybe the timing could be right," Catlin said. "So Paul Brand and I got together and started talking again."

By May, Brand and Catlin had a business plan, and by June Catlin was seeking investors. But he only wanted partners who would commit their money for 10 years, not the typical five.

By September, they found one such partner in Onex, which agreed to invest $750 million.

Catlin and Brand had hoped to launch Convex on April 1, but couldn't make that deadline.

"There were too many details—minutia-type details—surrounding the regulators," Catlin said. "We actually got the PRA (Prudential Regulatory Authority) to give us authorization in four and a half months, which for them is breakneck speed. I don't think they've done one in less than 12 months in the last 10 years. There's a lot of background work that had to be done to get these through."

While Catlin may be the marquee name on this venture, Brand is as much in control of the business.

"This is definitely an equal partnership between the two of us," Catlin said. "I'm not going to be running the show forever and a day, and a lot of the running of the show is being done by Paul anyway."

AM Best said it expects Convex to face strong competition from well-established peers in its target markets and be highly reliant on brokers to access business.

When entering a competitive market, as Convex is, it's important to focus on a few particular areas, Thomas Buberl, CEO of Axa Group, said.

"If you find the right niche, there's always space," Buberl said.

Eamonn Flanagan, an adviser at Shore Capital in Liverpool, England, said there are no doubts about the strength of Catlin's background.

"He has and he will continue to attract a lot of interest because of that track record," Flanagan said. "And he obviously feels there is room for another carrier."

—Kate Smith and Robert O'Connor

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Read All About It

A travel insurance aggregator awarded a Georgia teacher with $10,000 for reading the fine print in her insurance contract.

by Lori Chordas

Home economics and family consumer science teacher Donelan Andrews has a word of advice for her students: Always read everything that you sign your name on.

The 59-year-old teacher from Thomaston, Georgia practices what she preaches, and "it really paid off for me this time," Andrews said.

Andrews was the winner of a secret contest by Squaremouth, a travel insurance comparison site based in St. Petersburg, Florida. The company's "Pays to Read" contest was created to award $10,000 to the first consumer who read through the fine print of his or her travel insurance contract.

"We realize that most travelers don't read their policies from start to finish. Therefore, they often don't have a full understanding of what is covered and what's excluded in their policy," said Jenna Hummer, director of public relations for Squaremouth. "We launched the 'Pays to Read' contest to remind people to read their policy summary so they can ensure they are getting the exact policy they want, and to show it really can pay to read," she said.

Beginning on Feb. 11, the company added secret wording at the end of every policy documentation issued by Tin Leg, Squaremouth's travel insurance subsidiary. Tin Leg's policies are underwritten by Berkshire Hathaway Specialty Insurance Company.

The secret policy wording buried deep in Andrews' seven-page policy summary said: "If you've read this far, then you are one of the very few Tin Leg customers to review all of their policy documentation ... we estimate that less than 1% of travelers that purchase a travel insurance policy actually read all of their policy information ... and we're working to change that." The policy went on to say that the first person to read that statement should contact Squaremouth so they "may be awarded the 'Pays to Read' contest Grand Prize of ten thousand dollars." After emailing the company, Andrews received a call the next day telling her she had won.

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

Photo Credit: Squaremouth

Squaremouth sold 65 policies after the campaign launched before Andrews purchased her policy. Eight more policies were sold before Andrews contacted the company, said Hummer.

The contest was slated to last 12 months. However, within only 23 hours Andrews read her entire policy summary and claimed the $10,000 prize.

In addition to the prize, Squaremouth donated $10,000 to Reading is Fundamental, the largest U.S. nonprofit organization for children's literacy. The charity has provided more than 400 million books and literacy resources to kids across the country.

Squaremouth was so impressed by Andrews' commitment to her schools that the company also donated $5,000 each to the two Georgia schools where Andrews teaches—Upson-Lee High School and Lamar County High School. The schools plan to use the money to purchase new textbooks and other learning-program supplies.

Reading the fine print in all documents has been a message that Andrews has tried to convey to her students over her 25-year teaching career.

"The contest reminded me of a test question I often used midway through an exam, saying 'If you're reading this, skip the next question,'" she said.

Andrews plans to use her winnings for a trip to Scotland with her husband to celebrate their 35th wedding anniversary and her upcoming retirement. BR