Digital Edition PDF

BEST'S REVIEW®

www.bestreview.com

AM BEST'S MONTHLY INSURANCE MAGAZINE

Thank you for downloading this month's Edition of *Best's Review.*

License Reminder

Your subscription to Best's Review allows you to download and print a copy for your personal non-commercial use only. The Licensed Information is the property of AM Best or its licensors and is protected by United States copyright laws and international treaty provisions. You may not reproduce, retransmit, disseminate, sell, sub-license, distribute, publish, broadcast, make available or circulate the Licensed Information to any third party.

For additional subscriptions or copies of this publication for distribution to your colleagues or clients, please contact Customer Service at
908-439-2200 ext. 5742 or email at customer_service@ambest.com.

To subscribe online visit http://www.ambest.com/sales/bestsreview

Regulation, New Technology
A Focus for Captives
Page 28

Inside the Remake
Of a Life Insurer
Page 31

ISSUES & ANSWERS
Captive Services & Domiciles
Pages 24-25

ISSUES & ANSWERS
Specialty Coverage
Pages 26-27

BEST'S REVIEW®

August 2019 • Volume 120 • Issue 8 www.bestreview.com

AM BEST'S MONTHLY INSURANCE MAGAZINE

After the Storm

A rainbow hovers over a Florida beach in recovery after being destroyed by Hurricane Irma in 2017.

Reinsurers reassess pricing and exposures after losses from Hurricane Irma in 2017 and Typhoon Jebi last year.

Pages 37-55

Momentum Change

Loss creep sneaks up on reinsurers, resulting in adverse loss development and a shift in pricing trends. Also, AMBestTV will cover the annual Vermont Captive Insurance Association conference, held each August in Burlington.

Reinsurers, fresh off of an upturn in pricing at the June and July renewals, are preparing for the January 2020 renewal season and heading to the Rendez-Vous conference in Monte Carlo next month.

The summer renewals were characterized as having "tangible pricing momentum," by Willis Re in its *1st View* renewals report. Most territories and classes saw price increases and some tightening in terms and conditions, the reinsurance intermediary reported.

In a June report on the Florida market, AM Best said the soft pricing to which many had become accustomed is shifting to a firmer market.

Reinsurers point to unexpected adverse loss development from both Hurricane Irma in Florida in 2017 and Typhoon Jebi in Japan last year as drivers of the momentum shift.

Be prepared to hear about loss creep, a term for losses that extend well beyond what the industry and modelers had expected for a catastrophe.

This shift in pricing dynamics raises questions about the upcoming renewals in January and whether increases will be sustained.

Increased reinsurance pricing could affect Florida insurers. Florida property writers spend a considerable amount on reinsurance, according to the AM Best report. Of the 25 Florida direct insurers listed in the report, unaffiliated ceded written premium constitutes at least 50% of policyholder surplus for all but one, and 21 have a ratio over 100. Unaffiliated ceded premium reflects dependence on private market reinsurance.

Other questions: Will losses continue to mount? What impact could that have on the retrocession market?

August is Reinsurance Awareness Month. Our August reinsurance special section looks at the developments in the Florida market, the impact of Typhoon Jebi and loss creep, and the dynamics of the ILS market and the problem of trapped capital.

In his At Large column, Stephen Catlin, founder of Convex Group and Catlin Group, considers the reinsurance market ahead of the Rendez-Vous gathering. In April, Catlin launched a new specialty insurer and reinsurer with capital from private equity of $1.8 billion.

In "Market Correction," *Best's Review* looks at the Florida market and the impact of Hurricane Irma. "That market had been relatively cat-free for a long time, so companies got more and more complacent, and it allowed the market to slide lower," said Scott Mangan, associate director of P/C reinsurance at AM Best.

A year after Hurricane Irma hit Florida, Typhoon Jebi struck Japan. The two have been poster children for loss creep. In "Winds of Change," *Best's Review* looks at the reinsurance impact of Typhoon Jebi and why the original loss estimates were too low.

Investors in insurance-linked securities also suffered losses from Irma, Jebi, as well as hurricanes Harvey, Maria, Michael and the California wildfires. "A Pause After the Storms" examines the issue of "trapped" investor capital, funds held against slow-developing 2017-2018 losses. That has contributed to a capacity crunch for the property cat retrocession segment.

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

Patricia Vowinkel
Executive Editor
patricia.vowinkel@ambest.com

The Question:

Where are you seeing tangible results from the insurtech movement?

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

Reader responses will be published in a future issue.

Contents

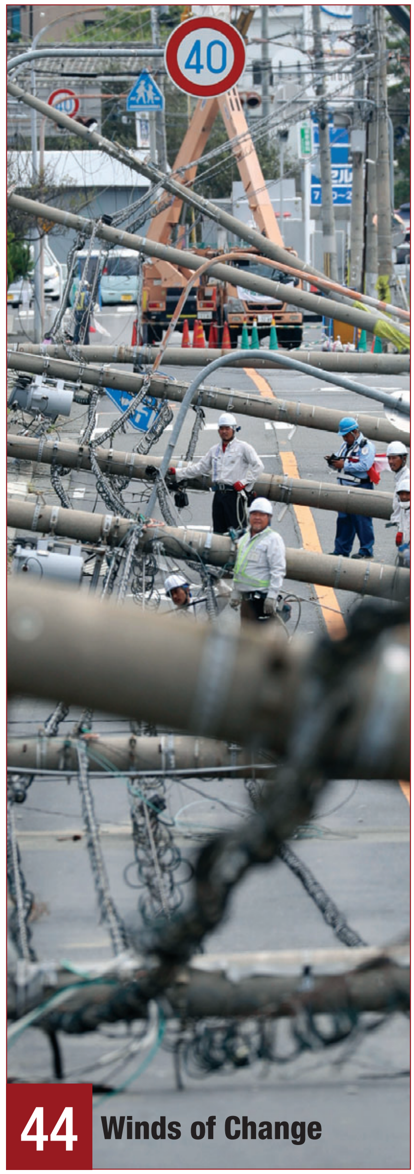
REINSURANCE

37-55 In this special section *Best's Review* examines the dynamics of the Florida property catastrophe reinsurance market, loss creep from Japan's Typhoon Jebi and how the ILS market has responded to back-to-back years of severe catastrophe losses.

38 Market Correction

48 A Pause After the Storms

53 Rating Collateralized Reinsurers



44 Winds of Change

Market Correction

38 Florida reinsurers raise rates and return to underwriting differentiation in response to lingering issues.

A Pause After the Storms

48 Following two years of painful catastrophes, ILS investors are waiting for claims to be paid so capital can be released. However, they remain committed to the market.

Winds of Change

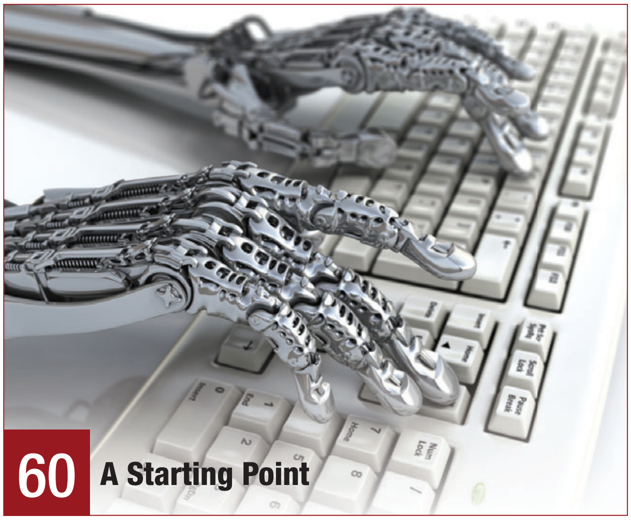
44 Losses from Typhoon Jebi caught reinsurers by surprise, resulting in increases in loss reserves and suppressed cat bond returns while laying the groundwork for higher rates.

Rating Collateralized Reinsurers

53 With $55 billion in capacity, collateralized reinsurance is the fastest-growing form of insurance-linked securities.

Contents

56 **Being Flexible**



60 **A Starting Point**

ISSUES & ANSWERS

25 **Captive Services & Domiciles**

27 **Specialty Coverage**

CAPTIVES

28 **The Next Stage**
Captives are experimenting with blockchain applications and see promise in handling claims.

29 **A Safe Space**
Bermuda regulators developed a sandbox environment where startups can experiment with new technology.

30 **Home Grown**
Economic substance regulations want to ensure that companies are generating profits in the domicile where they are incorporated.

LIFE INSURANCE

31 **The Reinvention of a Life Insurer**
Vantis Life is banking on a new accelerated underwriting platform, a distribution shift and a shrewd marketing strategy as it repositions itself.

WEBINAR EXCERPT

56 **Being Flexible**
A panel of insurance portfolio management experts examines the potential risk-adjusted return benefits of pairing fixed income securities with equity options within insurance portfolios.

TECHNOLOGY

60 **A Starting Point**
Robotic process automation can be a powerful tool to rein in costs. But it's really just the beginning of a broader automation journey that can help insurers get closer to customers.

BEST'S RANKINGS

63 **U.S. Property/Casualty – 2018 Direct Premiums Written by Line**

68 **Top 200 U.S. Combined Life & Health Insurers**
Ranked by 2018 admitted assets.

COLUMNS

17 Next Wave
20 At Large
21 Risk Adviser
22 Technology
23 Regulatory/Law

DEPARTMENTS

1 From the Editor's Desk
6 AMBest Webinars
7 AMBestTV / AMBestRadio
9 Best's Calendar
10 Executive Changes
14 Insurance Marketing
15 A Global Conversation
18 In the News
70 Best's Credit Rating Actions
77 Industry Updates
79 Advertisers Index
80 The Last Word

Cover design by Angel Negrón


FIFTH THIRD BANK
FIFTH THIRD
CORPORATE BANK
FINANCIAL INSTITUTIONS
WHERE
EXPERIENCE
AND
INNOVATION
INTERSECT.
Joshua H. Landau
SVP, Corporate Banking Group Head
Financial Institutions Group
Josh and the Financial Institutions Group experts at Fifth Third Corporate Bank do more than offer competitive capital solutions. They build personal relationships with clients and provide meaningful guidance through all economic cycles—resulting in a partnership that's truly strategic, flexible and efficient.
This is banking a Fifth Third better.®
53.com/CorporateBank
Member FDIC

Drones Changing Claims, State of the Cyber Market

AM Best Webinars

An AM Best webinar features experts discussing how aerial and satellite imaging is changing claims processes. Also, insurers are covering new risks.

On Demand

Heads Up: How Drones, Satellites and Aerial Data-Gathering Are Remaking Insurance Claims

Aerial and satellite imagery technology is improving speed and accuracy of property claims but these advances also raise issues around privacy, accuracy and compliance. A panel of claims and legal experts examines how aerial and satellite imaging is changing processes and opening new vistas for insurers. Hosted by *Best's Insurance Professionals & Claims Resource*. (Now available.)

State of the Cyber Insurance Market

AM Best analysts and market experts review a new AM Best report that examines the growth of the cyber insurance market, which companies are most active in that line of coverage, the development of cyber modeling and how the insurance industry is positioned to cover those risks. (Now available.)

State of the Caribbean Insurance Markets

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

Streaming Live

State of the Surplus Lines Market

A panel of industry leaders in the surplus lines sector of the U.S. insurance market will review the market and discuss the highlights of a new report on that sector.

Friday, Sept. 13, 2 p.m. ET

Webinar Highlights

Transforming Business Through Data, Machine Learning and AI

A panel of industry experts examine what the latest tech wave means for insurers and how they can keep pace. Sponsored by LexisNexis Risk Solutions.

View These and Other AM Best Webinars

- How MGAs are Leveraging Insurtech to Transform Operations and Drive Business
- Strength in Numbers: How Contributory Databases Are Driving Insurance Insight
- How Portfolio Managers Are Leveraging Equity Enhanced Fixed Income

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

Correction:

Because of delays in processing information, the following companies were omitted from the rankings of the Top 200 U.S. Life/Health Insurers published in the July 2019 edition of *Best's Review*: GCU, National Slovak Society of the United States, American Slovenian Catholic Union, Polish National Alliance of the U.S. of N.A., Pacific Century Life Insurance Corp. and Sons of Norway. An updated ranking will be available in the August online edition of *Best's Review.*

Best's Review delivers a comprehensive package of property/casualty and life/health insurance industry news, trends and analysis monthly. Find us on the internet at *www.bestreview.com.*

To order more copies of the 2018-2019 *Best's Guide to Understanding The Insurance Industry* go to *https://www.amazon.com/dp/1729526942*.

To Read the Magazine Online

Go to *www.bestreview.com.*

On Social Media

Go to *@AMBestCo* on Twitter and follow AM Best Information Services on LinkedIn.

For information about how to follow AM Best on social media, go to *www.ambest.com/socialmedia*.

AMBestTV

Bermuda Hosts Captive Conference

AMBestTV reports on the Bermuda Captive Conference, the IASA Conference in Phoenix, and the International Insurance Society Global Insurance Forum in Singapore. AMBestRadio presents discussions on growing diversity in insurance companies and meeting the needs of the cannabis industry.

On Demand

Bermuda Conference: 'Captives Don't Fly Under the Radar Anymore'

Attendees to the Bermuda Captive Conference, held in Southampton, Bermuda, said regulatory challenges and new risks change rapidly, with captive insurers becoming higher-profile organizations that are more closely scrutinized by global regulators. (June 11, 2019)

CICA President Outlines New Outreach to Next-Generation Captive Professionals

Dan Towle, president, Captive Insurance Companies Association, said the organization is launching NextGen, a task force for young and new captive insurance professionals. Towle spoke with AMBestTV at the Bermuda Captive Conference, held in Southampton, Bermuda. (June 12, 2019)


Dan Towle

Marsh's Boucher: Captives Under a Widening Range Of Regulatory Oversight

Julie Boucher, captive solutions practice leader, islands, Marsh, said captives in offshore domiciles not only must answer to the jurisdiction but must consider issues of economic substance and other new rules. Boucher spoke with AMBestTV at the Bermuda Captive Conference, held in Southampton, Bermuda. (June 12, 2019)


Julie Boucher

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

Panel: Competitive Insurance Industry Open, Generous to Startups

A panel of executives from the Global Insurance Accelerator (GIA) and from companies partnered with the accelerator say that despite the competitive nature of the insurance industry, they have found that established companies are open and generous with their time and knowledge. The participants spoke with AMBestTV at the IASA Conference in Phoenix. (June 5, 2019)

At the IASA Conference in Phoenix: Left to right, Nicole Cook, managing director, Global Insurance Accelerator; Jake Tamarkin, co-founder and chief executive officer, Everyday Life; Jim Gardner, co-founder and chief executive officer, ViewSpection and Brian Hemesath, entrepreneur in residence, GIA.

AM Best's Carter: Innovation Doesn't Have to Be a 'Big Bang Moment'

Greg Carter, managing director analytics, AM Best, said many insurers are innovating via an ongoing series of incremental improvements. Carter spoke with AMBestTV at the Global Insurance Forum, held in Singapore. (June 19, 2019)

Greg Carter

Retirement Wave and Diversity, Cannabis Growth

AMBestRadio presents discussions on diversity in the industry and the growth potential and challenges in offering insurance to the growing cannabis industry.

Farmers' Aldredge: Insurance Retirement Wave Creates Opportunities to Expand Diversity

Deborah Aldredge, chief administrative officer at Farmers Insurance, said the Insurance Industry Charitable Foundation and others have been developing networking and conference activities that are helping bring a wider range of people joining insurance, including from other industries.

Cannabis Insurance Growing Like a Weed

Erich Bublitz, vice president, cannabis underwriting, and chief regulatory compliance officer at Admiral Insurance, discusses the growth potential for cannabis insurance as well as the regulatory and underwriting challenges.

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

BEST'S REVIEW®

Editorial

Executive Editor: Patricia Vowinkel, 908-439-2200, ext.5540
Editor: Lynna Goch
Managing Editor: Kate Smith
Copy and Production Editor: Susan Hoogsteden

Senior Associate Editors: Lori Chordas, Jeff Roberts, Meg Green, John Weber
Associate Editors: Timothy Darragh, Renee Kiriluk-Hill
News Editor: David Pilla
Washington Correspondent: Frank Klimko

London News Editor: Robert O'Connor
Hong Kong Bureau Manager: Iris Lai
Hong Kong News Editor: Ernesto Calucag

Group Vice President, Publication and News Services: Lee McDonald

Circulation: Linda McEntee

Production Services

Senior Manager: Susan L. Browne
Designers: Andrew Crespo, Amy Herczeg, Barbara Marino, Angel Negrón, Laura-Ann Russello, Jenica Thomas

NASA Astronaut Among Speakers at VCIA, NAIC Summer National Meeting in New York

Aug. 3 – 6: NAIC Summer National Meeting, National Association of Insurance Commissioners, New York.

Aug. 4 – 7: ARIA Annual Meeting, American Risk and Insurance Association, San Francisco.

Aug. 4 – 7: Farm Bureau Actuarial Conference, American Agricultural Insurance Company (AAIC), Boyne Falls, Mich.

Aug. 5 – 7: 14th Annual Conference of African American Financial Professionals (CAAFP), American College of Financial Services, Atlanta.

Aug. 5 – 7: Advanced Sales Forum, Advanced Sales: Architects of the Future, Limra, Chicago.

Aug. 5 – 7: Supplemental Health, DI & LTC Conference: Working in Harmony, Limra, Nashville, Tenn.

Aug. 5 – 8: DMEC Annual Conference, Disability Management Employer Coalition, National Harbor, Md.

Aug. 6 – 8: VCIA Annual Conference, with Captive Immersion on Aug. 5, Vermont Captive Insurance Association, Burlington, Vt.

Aug. 8 – 13: ABA Annual Meeting, American Bar Association, San Francisco.

Aug. 11 – 14: WCI Conference, Workers' Compensation Institute, Orlando, Fla.

Aug. 12: FICP Canadian Seminar, Financial & Insurance Conference Professionals, Toronto.

Aug. 12 – 13: ALTA Innovation Boot Camp, American Land Title Association, Chicago.

Aug. 13: Women in Insurance Summit, Key Media, Sydney, Australia.

Aug. 13 – 14: Namic Leadership Development Workshop, National Association of Mutual Insurance Companies, Chicago.

Aug. 21 – 23: NCCIA Annual Conference, North Carolina Captive Insurance Association, Charlotte, N.C.

Sept. 4 – 6: LOMA Annual Conference & Conferment, LOMA, Boston.

Sept. 5 – 6: RAA Re Finance (New York), Reinsurance Association of America, New York.

Sept. 7 – 12: 63rd Edition Les Rendez-Vous de Septembre, Monte Carlo, Monaco.

Sept. 8: AM Best's Reinsurance Market Briefing - Rendez-Vous de Septembre, Monte Carlo, Monaco.

Sept. 8 – 10: APCIA Investment Conference, American Property Casualty Insurance Association, Napa, Calif.

Sept. 8 – 11: Annual RIMS Canada Conference, Risk and Insurance Management Society, Edmonton, Alberta.

Sept. 8 – 11: IASIU 35th Annual Seminar, International Association of Special Investigation Units, Phoenix.

Sept. 9 – 11: Vision: IRI Annual Meeting, Insured Retirement Institute, Charleston, S.C.

Sept. 10 – 12: Group & Worksite Benefits Conference, Limra, Newport, R.I.

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

Attending Exhibiting Speaking
Hosting Sponsoring Video

August: Reinsurance Awareness Month
Reinsurance executives are focusing on the state of the reinsurance market as the Rendez-Vous gathering in Monte Carlo quickly approaches. Our August reinsurance special section looks at the developments in the Florida market, the impact of Typhoon Jebi and loss creep, and the dynamics of the ILS market and the problem of trapped capital. Coverage begins on page 37.

Former Marsh Exec Schaper to Lead New AIG Re

Also: Liberty Mutual Re has a new operation under Lloyd's in Mexico, ProAssurance COO promoted to CEO, Axis Capital names chief information security officer, Geico Insurance Agency names president, officers.

American International Group Inc. said it is forming AIG Re, which consolidates the company's assumed reinsurance operations into one global business.

It has named Christopher Schaper chief executive officer of the new global business, which includes Validus Re, AlphaCat and Talbot Treaty. He brings 30 years industry experience, most recently as CEO of managing general agent business at Marsh. Earlier, he held leadership positions at Montpelier Re and Endurance Specialty.

Christopher Schaper

He is charged with developing and marketing fresh reinsurance and capital market plans globally, AIG said in a statement. He will report from Bermuda to General Insurance President and CEO and Global Chief Operating Officer Peter Zaffino.

Schaper will "lead AIG Re's delivery of differentiated value to our clients through the creation of new pools of risk and the deployment of alternative capital," Zaffino said.

During a first-quarter earnings conference call, Zaffino said reinsurance continues to play a critical role in AIG's overall strategy. He credited an ongoing shift in portfolio composition and a reinsurance strategy helped by acquisitions with the segment's profitable turnaround in the quarter.

AIG acquired Validus Holdings Ltd. in July 2018 in a $5.56 billion cash transaction. The deal included reinsurer Validus Re, insurance-linked securities asset manager AlphaCat, Lloyd's syndicate Talbot, small commercial excess and surplus specialist Western World and Crop Risk Services.

—Renée Kiriluk-Hill

Liberty Mutual Re Launches Operation Within Lloyd's Mexico

Liberty Mutual Reinsurance launched a reinsurance operation under Lloyd's registration in Mexico intended to serve clients in that country and Central America.

Rosa Flores

The Mexico reinsurance team, part of the reinsurance arm of Liberty Specialty Markets, will provide property, casualty and specialty treaty reinsurance solutions underwritten by Liberty Mutual Re in Europe.

The new operation will be led by Rosa Flores as general manager. Flores joins Liberty Mutual from agribusiness technical consultancy Green Mex, where she was chief executive officer. Prior to Green Mex, she was head of treaty for Mexico at Willis Towers Watson.

Flores reports to José Ernesto Ospina, Latam regional manager in Colombia, and will work closely with the underwriting team in Europe and Colombia.

Investors Heritage Appoints Chief Executive Officer and Co-Presidents

Investors Heritage Life Insurance Co. has named Robert Hardy as chief executive officer, as well as Raymond Carr and John Frye as co-presidents.

Hardy joined Investors Heritage in 1987 and has had responsibility for a number of the company's operations, including corporate strategy, legal and regulatory affairs. He takes the post of Harry Lee Waterfield II, who was to become vice chairman on June 1.

Carr and Frye as co-presidents are responsible for overseeing the growth of the company. Carr previously served as chief financial officer and vice president of administrative operations and computer services at Investors. Frye, an operating partner at Aquarian Holdings, previously served as chief strategy officer at Advisors Excel and as CFO, chief investment officer and chief risk officer at Security Benefit Life Insurance Company of Topeka, Kansas.

ProAssurance Promotes COO to Chief Executive

Edward L. Rand Jr.

Specialty insurer ProAssurance Corp. has promoted Edward L. Rand Jr., president and chief operating officer, to the chief executive officer post.

Rand, who was to take up his duties on July 1, succeeds W. Stancil Starnes, who becomes executive chairman after 12 years as CEO.

The company said its announcement was the culmination of a transition process begun by Starnes and the board more than 18 months ago. The changes, it said in a statement, will involve "leaders across the organization."

The group also appointed Thomas A.S. Wilson as the board's lead director.

American Integrity Appoints Chief Operating Officer

Jon Ritchie

American Integrity has named Jon Ritchie as chief operating officer.

In his new position, Ritchie will work closely with Chief Executive Officer Bob Ritchie, and the board of directors on the company's overall strategy and execution.

As COO, Jon Ritchie will ensure proper operational controls and administrative and reporting procedures. Additionally, he will be responsible for ensuring the financial strength of the company and operating efficiency.

A former executive vice president, Jon Ritchie has been with the company for 10 years and in that time worked in many departments.

Axis Capital Names Chief Information Security Officer

Kelly Isikoff

Axis Capital Holdings Ltd. has named Kelly Isikoff chief information security officer.

Isikoff will oversee enterprise-wide information security strategies and partner with the company's business segments and its global cyber and technology unit to provide strategic counsel to its clients and distribution partners.

She reports to Keith Schlosser, Axis Capital's global chief information officer, and will be based in the company's New York office.

Before joining Axis, Isikoff worked at RenaissanceRe, where she was chief information security officer. Previously, she was executive director, CISO, at JP Morgan Asset Management. Before that, she was with Citigroup for more than 10 years.

Aviva Canada Names Chief Executive Officer

Jason Storah

Jason Storah has been named chief executive officer of Aviva Canada.

Storah, who has been with Aviva Canada for more than 15 years, has most recently been chief distribution officer, with responsibility for such areas as partnerships, marketing and broker distribution.

Storah was to take up his post on July 1, succeeding Colm Holmes, who has been named CEO of general, or nonlife, insurance in the group's head office in London.

After Holmes' return to London, he will remain on the board of Aviva Canada. He became CEO of Aviva Canada in March of 2018.

Storah has also served as executive vice president for broker distribution for Aviva Canada, as chief risk officer and senior vice president for strategic development.

AIG Names Life and Retirement Funds CEO

Sharon French

American International Group Inc. named Sharon French as president and chief executive officer, life & retirement funds.

She succeeds Peter Harbeck, who announced his intention to retire late last year.

She will lead the life & retirement funds business, which AIG said comprises both AIG's retail mutual funds operation and SunAmerica Asset Management LLC, which manages and administers more than $85 billion in assets across multiple life and retirement business lines.

Having held a variety of senior roles in a 30-year financial services career, French was most recently executive vice president and head of beta solutions for OppenheimerFunds.

Royal London Mutual Insurance Society Names CEO

U.K. insurance industry veteran Barry O'Dwyer has been appointed chief executive officer of U.K. mutual life insurer and pensions provider Royal London Mutual Insurance Society Ltd.

O'Dwyer, most recently head of Standard Life Aberdeen's U.K. pensions and savings business, will assume his duties on June 28, subject to regulatory approval. He will succeed Phil Loney, who will remain available to the group for the rest of this year.

O'Dwyer has served in senior insurance industry posts in both the United Kingdom and Ireland. A trained actuary, he began his insurance career in 1988 at Standard Life when it was still a mutual. He has also been deputy chief executive for the U.K. and European business of Prudential plc.

AIG Makes Global P/C Underwriting Executive Changes

American International Group Inc. said it has strengthened its global chief underwriting office with the appointment of two executives to new roles.

Kean Driscoll was named global chief underwriting officer for property and agriculture, general insurance, and Alexander Baugh was appointed global chief underwriting officer for casualty and financial lines, general insurance. In connection with Driscoll's new role, Jeff Clements was appointed chief executive officer of Validus Re. Clements was previously chief underwriting officer of Validus Re. Driscoll and Baugh will report to Tom Bolt, global chief underwriting officer, AIG General Insurance, and will continue to serve on the General Insurance Executive Leadership Team.

Kean Driscoll

A founding member of Validus, Driscoll was most recently CEO of Validus Re.

Baugh, with a 35-year career at AIG, was most recently president and CEO of North America general insurance.

Alexander Baugh

The moves come a day after AIG promoted David McElroy to president and CEO of North America general insurance operations. In connection with his new role, AIG also named Lou Levinson as president and CEO of Lexington.

McElroy, who has been president and CEO of AIG's Lexington affiliate, will continue to report to Peter Zaffino, CEO of general insurance and global chief operating officer at AIG, and will continue to serve as a member of the General Insurance Executive Leadership Team. McElroy's appointment is also effective immediately.

David McElroy

In this new role, McElroy will continue to oversee Lexington, as well as AIG Risk Management, financial lines, Validus Specialty, Western World, Glatfelter and programs. He will also oversee the U.S., Bermuda and Canada underwriting and field operations of general insurance.

Axa Hong Kong Appoints CEO

Axa Hong Kong has appointed Sally Wan as the new chief executive officer to succeed Etienne Bouas-Laurent, according to a statement from the French insurer.

Bouas-Laurent will become group chief financial officer on Jan. 1, 2020, when Gerald Harlin, deputy CEO, CFO and a member of Axa's management committee will retire. Wan is currently strategy officer of Axa Hong

Kong. She will report to Gordon Watson, CEO of Axa Asia and a member of Axa's management committee.

Prior to joining Axa Hong Kong in 2018 November, Wan was with AIA Group for more than 11 years in various positions including regional director in financial planning and management and regional business development director.

Sally Wan

Bouas-Laurent was named CEO of Axa Hong Kong in 2017, replacing Stuart Harrison, who was retired. Prior to that, he was Axa Asia Life CEO, focusing on expanding life and health business in the region. Bouas-Laurent joined Axa in 1997. He was chief financial offer at Axa Germany and had also led the wealth management business in France.

Geico Names GIA President, Adds Officers

Geico Insurance Agency has named Melissa Gallaro as president. She will succeed John Zinno, who will be retiring.

Melissa Gallaro

In addition, Denise O'Malley has been named GIA vice president and Pete Rizzo has been named assistant vice president. O'Malley will succeed Gallaro as she transitions into her role as GIA president. Rizzo is succeeding O'Malley as she transitions to her post of GIA vice president.

Currently, Gallaro is based at the company's Fredricksburg, Virginia, regional office. She first joined Geico in 2002 as a sales counselor and advanced through supervisory and management positions in several regional offices and was named Geico vice president in 2018.

O'Malley began her career with Geico in 2005 as a military sales associate at the Virginia Beach, Virginia, regional office. She held numerous positions in several offices and in 2015, returned to Virginia Beach as the service director and was later transferred to Buffalo a year later.

Rizzo's Geico career began as a customer service representative in Buffalo in 2005. Five years later, he was promoted to service manager. Since 2015, he has managed sales and service and directed operations at the North Liberty, Iowa, office. BR

Monthly Insurance Magazine
Published by AM Best

BEST'S REVIEW®

AM BEST COMPANY, INC.
Oldwick, NJ
CHAIRMAN & PRESIDENT **Arthur Snyder III**
SENIOR VICE PRESIDENTS **Alessandra L. Czarnecki, Thomas J. Plummer**
GROUP VICE PRESIDENTS **Shannon Laughlin, Lee McDonald**

AM BEST RATING SERVICES, INC.
Oldwick, NJ
EXECUTIVE DIRECTOR & CHAIRMAN **Larry G. Mayewski**
PRESIDENT & CEO **Matthew C. Mosher**
EXECUTIVE VICE PRESIDENT & COO **James Gillard**
SENIOR MANAGING DIRECTORS **Douglas A. Collett, Edward H. Easop, Stefan W. Holzberger, Andrea Keenan**
SENIOR VICE PRESIDENT **James F. Snee**

WORLD HEADQUARTERS
1 Ambest Road, Oldwick, NJ 08858
Phone: +1 908 439 2200

APAC REGION – HONG KONG OFFICE
Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Phone: +852 2827 3400

APAC REGION – SINGAPORE OFFICE
6 Battery Road, #39-04, Singapore
Phone: +65 6303 5000

EMEA REGION – AMSTERDAM OFFICE
NOMA House, Gustave Mahlerlaan 1212
1081 LA Amsterdam, Netherlands
Phone: +31 20 308 5420

EMEA REGION – LONDON OFFICE
12 Arthur Street, 6th Floor, London, UK EC4R 9AB
Phone: +44 20 7626 6264

LATAM REGION – MEXICO CITY OFFICE
Paseo de la Reforma 412 Piso 23
Mexico City, Mexico
Phone: +52 55 1102 2720

MENA REGION – DUBAI OFFICE*
Office 102, Tower 2, Currency House, DIFC
P.O. Box 506617, Dubai, UAE
Phone: +971 4375 2780
*Regulated by the DFSA as a Representative Office

Sales & Advertising
REGIONAL SALES MANAGERS
Christine Girandola: +1 609 223 0752
christine.girandola@ambest.com
Brian McGoldrick: +1 708 532 2668
brian.mcgoldrick@ambest.com
SALES INQUIRIES: **+1 908 439 2200, ext. 5399**
advertising_sales@ambest.com

NEWS INQUIRIES: ***news@ambest.com***

BPA WORLDWIDE BUSINESS

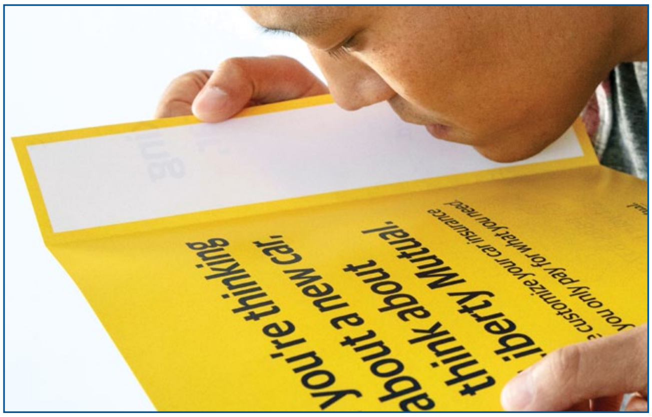
AM BEST®
The Insurance Information Source

BEST'S REVIEW, Issue 8, August 2019 (ISSN 1527-5914) is published monthly by A.M. Best Company, Inc. Editorial and executive offices: 1 Ambest Road, Oldwick, NJ 08858-9988. A one-year subscription is $70. A two-year subscription is $132. Telephone: +1 908 439 2200. Fax: +1 908 439 3971.

Appealing to the Senses

Liberty Mutual is experimenting with scent-based marketing and Sun Life Assurance is sponsoring a national stationary cycle event to fund diabetes research.

New Car Scent



LIBERTY MUTUAL INSURANCE has long relied on sight and sound in its ads, but recently it began experimenting with another one of the five senses to attract car buyers looking for auto insurance.

This spring, Liberty Mutual ran a car-scented ad in an issue of *The Chicago Sun-Times* to create a subconscious response in shoppers who are test-driving or buying a new car. The print ad included a peel-back fragrance strip that allowed readers to take a whiff of the new-car scent. It included the message: "If you're thinking about a new car, think about Liberty Mutual."

Research shows that most people wait until they're purchasing a car before they think about getting a car insurance quote, said Jenna Lebel, vice president of brand and integrated marketing at Liberty Mutual. "To engage with consumers during the specific moment when they are making a decision about their car insurance would be difficult—even if we put a large media spend behind it. So, we developed this print ad that would give people a Pavlovian response to catch car buyers at the moment that matters most," she said.

The sense of smell can largely affect individuals' daily emotions, moods and opinions. Eight out of 10 consumers say they're more likely to purchase if they can smell the product, and people recall 35% of what they smell compared to just 5% of what they see and 2% of what they hear, according to a Scent-It Palette white paper.

Ride for the Cure

SUN LIFE ASSURANCE COMPANY OF CANADA is once again sponsoring a stationary cycle event to support diabetes research. The insurer is the title sponsor of the newly named Sun Life Ride to Defeat Diabetes for JDRF. Formerly the Juvenile Diabetes Research Foundation, JDRF is a nonprofit that funds Type 1 diabetes research and education. This year's event, which is expected to attract more than 11,000 riders, will be held in 35 locations across Canada.

Last year's ride raised more than $3.5 million for Type 1 diabetes research. The disease affects more than 330,000 Canadians, according to the nonprofit group Beyond Type 1.

"At Sun Life, we see firsthand the physical, mental and financial impact diabetes can have on an individual and their family. That's a big part of why we announced our global support of the cause in 2012," said Sun Life Canada president Jacques Goulet. Since that time, Sun Life has committed more than $25 million in support of diabetes awareness, prevention, care and research initiatives.

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

Reinsurance Rundown

Insurance industry experts discuss the latest hot topics and challenges facing the reinsurance market with AMBestTV.

"The top global reinsurers are struggling to grow their top line. This could be partially attributed to direct carriers struggling to grow their top line. These larger carriers are operating in the mature U.S. and European markets, and it's difficult to grow at above average rates in a saturated marketplace. What we're seeing is these carriers moving to emerging markets where we're seeing pretty strong growth rates, particularly Asia Pacific, and China really has seen the strongest growth.

A lot of that Chinese growth is coming from Chinese domicile companies. With the explosion of the middle class in China expected to continue, we think that there's a lot of room there for global insurers to grow there which will help the global reinsurers. We're also seeing growth in the longevity space. Historically, the U.K. has been the place where we've seen the most growth for longevity and longevity transactions. However, we're seeing more transactions now in Europe and in North America. We do expect that trend to also continue as companies want to lay off their pension risks. If interest rates behave, we believe that trend will continue."

Michael Adams
Senior Financial Analyst
AM Best

"Beginning in mid-year 2019, we're going to compile a list of companies that are exposed to terrorism. Companies that have a material terrorism exposure and a significant reliance on the Terrorism Risk Insurance Program Reauthorization Act will be asked to come up with a plan to mitigate those risks, mitigate that exposure.

Though a lot of companies do rely on private reinsurers to cover terrorism risk, there's also the issue of whether that availability will be as present as it is currently.

Insurers that cannot come up with the plan to address these issues will be notified of a potential rating action, either a downgrade or an outlook, but they'll be notified ahead of time."

Edward Zonenberg
Senior Financial Analyst
AM Best

"This [regulators implementing preferential treatment for reinsurance business] could be an exciting opportunity for Hong Kong. Chinese insurers continue to enjoy double-digit domestic market growth. They're also looking to expand overseas. To support this growth insurers require more reinsurance support. In 2016 a new risk-oriented solvency system was introduced under which there was a high capital charge for overseas versus domestic reinsurers. Now, with this preferred treatment, approved Hong Kong domiciled reinsurers will be subject to the same capital charges as domestic reinsurers."

Ted Hodgkinson
Head of Corporate Risk & Broking,
Hong Kong, Macau
Willis Towers Watson

"U.S. inland marine actually has not really been subject to poor loss experiences. On the contrary, it's been very profitable. We've heard this week at the seminar that typically [inland marine insurers] have combined ratios 8 to 10 points lower than the P/C industry, generally.

That's attractive to a lot of reinsurance. The market has evolved with a lot more capacity for reinsurance. We see a product development. The ocean marine and the international construction markets are now supplying long-term policy products.

We're seeing a combination of risk and cat covers, which is a nice evolution for the local market.

The market has evolved with a plentiful supply of capacity, soft pricing and, particularly on the quota shares, you're seeing very high commission levels now on the quote share treaties, mid-to-high 30% commissions which, in the property/casualty world, is a very significant number."

Jonathan Conway
Head of Construction & Engineering
Aon Global Re Specialty

"You're going to see an expansion of the use of reinsurance. In Florida, we really have been ground zero for catastrophes. Our marketplace here is very unique, but it's also, believe it or not, become a mature marketplace where you have a certain amount of capital put up by the primary insurers, and then the worldwide reinsurance market covers the rest."

Fred Karlinsky
Attorney
Greenberg Traurig

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

Change Management

Navigating changes in corporate culture requires finesse.

As insurance companies move toward modernizing their cultures through implementing "Dress for Your Day" policies and "Bring Your Whole Self to Work" mindsets, these changes may present challenges that young professionals may not realize when they first hear the good news. Just as process and technology changes take time to be adopted, so do cultural changes implemented by HR. Navigating these types of changes can be even more difficult as they are often implemented quickly and without a change management process. Here are three suggestions for successfully handling these situations:

Carly Burnham

Just as **process and technology changes** take time to be adopted, so do **cultural changes** implemented by HR.

• **Read the room.** A large insurance carrier that I worked for introduced a "Dress for Your Day" policy. It announced on a Friday that the new policy would go into effect the next Monday. I have long believed this type of policy makes sense. However, I had observed that my department head and his direct reports were always relatively formal. He was a strong believer of the "Dress for the Job You Want" mantra. As such, that Monday, I showed up dressed as though there had been no policy change. I played off my manager and only relaxed my dress after she had. And, any time I was going to be in a meeting with our department head, I kicked it up a notch. Casual dress is more comfortable, but I felt it was more important to keep our leadership team's standards if they were not ready to relax them. I wanted to look like a part of their team.

• **Be open to hearing other perspectives.** For employees who have worked at the same place for years, a sudden cultural change can feel unnatural. Insurance is a relationship business, and relationships thrive on trust and stability in our industry. Particularly, if an employer is moving towards a "Bring Your Whole Self to Work" style, the transition can be uncomfortable if it is not the style that you are used to.

Evidence shows that being able to be open with your coworkers about your life outside of work is a positive for both the employee and the employer, but it is also important to respect your fellow employees' boundaries. They may not be comfortable sharing about their family, or they may find talking about colleagues' private lives to be a distraction. This is an acceptable viewpoint, and for those who are naturally more open, it is important to find a balance.

• **Be willing to share your perspective compassionately.** Another policy that can be challenging for traditional workplaces is a remote work policy. This is much more common now, but there are employers who still struggle to implement or understand their employees' desire for this flexibility. Presenting research to management teams can help move them toward such a policy, but advocating on a personal level by sharing your own experiences can be more effective. You can also socialize the idea with your teammates and learn about their comfort level with the idea.

With the relationship- and people-focused nature of the insurance industry, changes to cultures and norms at our offices can take their toll. Without the historical perspective, new employees can struggle to understand their fellow employees' frustrations. Using these three tactics and developing emotional intelligence can help you avoid alienating colleagues or management.

In my next few columns, I'll spend some time examining emotional intelligence as a career skill. What is it? How can we develop it? And, how can we encourage others in its pursuit? BR

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

In the News

Regulatory Update

RI governor nixes lawsuit bill, NAIC takes action and accounting standard delayed.

Auto Insurance: Rhode Island Gov. Gina Raimondo vetoed a bill that would have given motorists a right to sue automobile insurers and hit them with triple damages and attorneys' fees if they unfairly declared a vehicle a "total loss" instead of paying for repairs.

"If enacted, Rhode Island would be the first state in the nation where private individuals can sue their insurers for up to three times the amount of their damages if they feel their vehicle has been unfairly totaled," she said.

"Adding a private cause of action providing treble damages and attorneys' fees would be unprecedented nationally, could trigger a significant volume of potentially frivolous litigation and will ultimately drive insurance premiums—already among the highest in the nation—even higher for Rhode Island drivers."

Reinsurance: The National Association of Insurance Commissioners in a plenary meeting approved revisions to the Credit for Reinsurance Model Law and Regulation, it said in a statement.

The changes make the models consistent with provisions of covered agreements with the European Union and United Kingdom regarding reinsurance collateral requirements, it said.

In addition to conforming to the requirements in the covered agreements, the changes will provide reinsurers domiciled in NAIC-qualified jurisdictions other than the EU—Bermuda, Japan and Switzerland—with the possibility of similar

Quake Coverage Down To 14% in Parts of Missouri

Back in 2000, 60% of residences in the New Madrid area had earthquake insurance.

by Timothy Darragh

Just 14% of homeowners in the most earthquake-prone region of Missouri have earthquake insurance, the state insurance department said in a new report.

Insurers have continued to flee the marketplace and others have declined to write new policies, driving the average annual price of earthquake coverage in the highest-risk region to $452 in 2018, and over $500 in three counties, it said.

The rate of price increases in the highest-risk areas rose 700% since 2000—far faster than in low-risk areas, it said.

The report comes out as Southern California was rocked on July 4 by a magnitude 6.4 earthquake, followed by a magnitude 7.1 quake the following day.

California Earthquake Authority Chief Executive Officer Glenn Pomeroy said "insurance penetration throughout California is extremely low—dangerously low. You take that 7.1, and you slide it over 150 miles, and put that under the City of Los Angeles, or under the Bay Area, we would be looking at uninsured losses in the billions of dollars and thousands of homes probably destroyed. In economic loss, that would be hard to calculate."

> The chance of having a magnitude 6 or larger earthquake in 50 years is 25% to 40%. In such an event, roads, bridges, pipelines and levees would fail, and the million residents living in and around Memphis, Tennessee would be "severely impacted."
>
> **Missouri Department of Insurance**

The level of concern is high in Missouri because counties in the southeastern corner of the state sit atop the New Madrid Seismic Zone, where the United States Geological Survey estimates the chance of having a magnitude 7.7 earthquake similar to the series of quakes that shook the region in 1811-1812 in the next 50 years is about 7% to 10%. The chance of having a magnitude 6 or larger earthquake in 50 years is 25% to 40%, it said.

In such an event, roads, bridges, pipelines and levees would fail, and the million residents living in and around Memphis, Tennessee would be "severely impacted," it said.

If that were to happen, insured losses of $120 billion could be expected, according to the risk modeling firm AIR Worldwide, it said.

Back in 2000, the report said, 60% of residences in the New Madrid area had earthquake insurance.

The trend changed around 2006, it said, when Allstate announced it was ending earthquake coverage in all states. Insurers fled the marketplace, creating a "coverage crisis." BR

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

UK's Flood Re to Seek OK To Push Property Resilience

The strategy will lower the toll of future floods and foster the development of anti-flood products.

by Robert O'Connor

As part of its "build back better" post-flood strategy, U.K. residential mutual flood reinsurer Flood Re Ltd. said it is seeking government approval to offer financial incentives to homeowners who make their properties resilient against flooding.

Noting its own formation as a vehicle created to make it easier for homeowners in flood-prone areas to obtain affordable insurance, Flood Re in a statement cited its mandate to look closely at its mission at least every five years. This, the reinsurer said, is what is known as a "the quinquennial review."

> The build back better post-flood strategy is based on the idea that the repairs should enable a property to withstand a subsequent event.
>
> **Andy Bord**
> Flood Re

In addition to offering incentives to homeowners to protect their properties, Flood Re said, its latest moves will offer support to the primary insurance sector, lower the toll of future floods and foster the development of anti-flood products.

The proposals, which will require parliamentary approval, have been sent to Michael Gove, the government's secretary for environment, food and rural affairs.

In its recent annual report for 2018/19, Flood Re said it has benefited almost 250,000 properties in its three years of existence. Flood Re added that four-fifths of U.K. householders with previous flood claims had been able to obtain premiums reductions of over 50%. In the report, the reinsurer said 64 insurers, representing 94% of the U.K. insurance market, cede policies to Flood Re.

"The ultimate result that we're thinking to achieve is to make the U.K. housing stock more resilient to flooding," said Andy Bord, chief executive of Flood Re.

Build back better, Bord said, is based on the idea that the repairs should enable a property to withstand a subsequent event.

Emma Howard Boyd, chair of the U.K. Environment Agency, welcomed Flood Re's move. "This new initiative will help stimulate greater take-up of measures that help people recover more quickly after a flood," Boyd said in a statement.

The Association of British Insurers has estimated the creation of river barriers and flood defenses is saving the United Kingdom £1.1 billion (US$1.4 billion) annually in flood damage. The disclosure was made at an ABI conference in London in June 2019.

"The human cost of flooding is immeasurable, putting lives at risk, causing families great trauma and pushing some businesses to the brink," James Dalton, director of general, or nonlife, insurance policy at the ABI, said in a statement. BR

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

Regulatory Update

reinsurance collateral reductions, it said. Revisions to the model were considered by the membership and included input from stakeholders, companies and the federal government, it said.

Group Capital Calculation Tool: Testing of an analytical tool to better understand and quantify financial risks to insurance groups and improve policyholder protections is under way the National Association of Insurance Commissioners has announced.

Preliminary testing of the Group Capital Calculation tool began with 30 U.S.-based firms, including property/casualty, life, and health insurers, the NAIC said in a statement.

Results of the testing will inform the final calculation, an NAIC key priority expected to be adopted in 2020, it said.

International Accounting Standard: An international accounting standard for insurance contracts will be delayed another year to 2022 as the International Accounting Standards Board published a new exposure draft with proposed changes.

The IASB proposed amendments to the insurance contracts standard, IFRS 17, for public consultation.

"The aim of the amendments is to continue supporting implementation by reducing the costs of implementing the standard and making it easier for companies to explain their results when they apply the standard," the IASB said in a statement.

The IASB said its proposed amendments "are designed to minimize the risk of disruption to implementation already underway."

The proposals "do not change the fundamental principles of the standard or reduce the usefulness of information for investors," the board said.

Market in Flux

Loss creep, shrinking retrocession and deteriorating casualty results define the market as reinsurers head into the annual Rendez-Vous de Septembre.

By
Stephen Catlin

Industry analysts each year attempt to describe the state of the reinsurance marketplace ahead of the Rendez-Vous de Septembre, the annual gathering of global reinsurance leaders in Monte Carlo, Monaco. This year, "a market in flux" would be a fitting description. Some pundits, tongues firmly planted in cheek, could even go so far as to call the market "creepy."

I thought I would share my thoughts on the market as the 2019 Rendez-Vous approaches.

There is no surprise that "loss creep"—or deterioration in reinsurers' reserves arising from complex claims— is occurring today. Loss creep has always been present; it just seems to be more widely discussed today. When I started my career in the insurance industry in 1973, the market was still experiencing loss creep from Hurricane Betsy, which had occurred eight years earlier. As 2019 has progressed, many reinsurers have reported significant levels of loss creep from recent catastrophes such as typhoons Jebi and Trami, Hurricane Irma and other events.

Loss creep has had serious repercussions for insurance-linked securities. Due to the nature of collateralized products, loss creep causes capacity in the ILS market to decrease. Valid claims must be paid, so the party that is most hurt by this phenomenon is the ILS investor. It must be remembered that insurance-linked securities are fundamentally commodities, triggered by a parametric with a basis risk, whereas traditional reinsurance is built on relationships. As I have long maintained, many forms of alternative reinsurance capital are intrinsically opportunistic: If superior returns can be achieved elsewhere, the capital will disappear from the market, whereas traditional relationship-based reinsurance capacity remains available over the long term. I see this scenario playing out over the next two or three years.

What is scary is that we are just beginning to see the problems that could be caused by casualty business that was underpriced in recent years.

Adding further pressure to reinsurers' fortunes is the deterioration in the casualty market. Pricing casualty business correctly is never easy, and past mistakes can cost reinsurers dearly in the future. The fact that casualty business has been written at rock-bottom rates over the past several years raises the question of whether reserves for this business will prove to be woefully inadequate. Underpricing casualty business—especially at times when companies cut back on writing property business due to competition and add casualty business to their books—inevitably causes a lot of pain. What is scary is that we are just beginning to see the problems that could be caused by casualty business that was underpriced in recent years; the true cost may not be known for another five years or so.

Capacity in the retrocessional market is shrinking, which is probably good news in the long term. A shortage of retro cover means that insurers and reinsurers will have to take extra steps to ensure that coverage is priced appropriately.

Another challenge is the systemic nature of cyber and the broad coverage that is still being given to many clients for virtually nothing. This can only end in tears.

Finally, I believe there is now clear evidence that climate change is increasing both the frequency and severity of natural catastrophes.

The good news is that many major players in the insurance and reinsurance markets are now showing genuine resolve to adequately price their products, both property and casualty business. As usual, as problems in the market come to the surface, the winners—and losers—will quickly become apparent. BR

Best's Review contributor **Stephen Catlin** is the founder of Convex Group and Catlin Group and former executive deputy chairman of XL Catlin. He is a member of the International Insurance Society's Insurance Hall of Fame. He can be reached at *bestreviewcomment@ambest.com*.

Power to the People

Technological revolution is driven by demographic shift.

By
Mark Rieder

Innovation is infused in everything we do, and it's people who are driving it forward. It all starts with a demographic shift.

Insurance and health care traditionally have been seen as something private, and when technology and devices infringed on that privacy it was seen as invasive.

"Kids these days" don't see it that way. They've grown up posting their lives for the world to see. Why wouldn't they do the same with their health and insurance?

But it's not just the workforce. We're seeing a shift in the industry. Insurance and benefits professionals are noticing and retooling their business models. One thing all innovations tend to have in common is that they help us meet people where they are.

What that means is discovering peoples' values, style, needs, and emotions, then connecting in an effective, need-fulfilling, impactful way. Bluetooth technology, wearables and smart devices make sure that you never have to disconnect for too long.

Our industry sometimes puts innovation in a box and forgets that we operate in a business that serves people.

Simply adding in technology allows us to make old ideas better and there's no better example of this than looking at the world of chronic illness.

Let's take a look at the numbers:

Size of the Wearables Market

Roughly a quarter of U.S. adults, 56.7 million, will use a wearable device at least once a month in 2019.

Just over half of those will use a smartwatch.

An additional 3.8 million U.S. children and teens will have a wearable device.

Who's Buying Wearables?

Wearables have appealed mostly to younger people. In 2015, 24% of those ages 25 to 34 had a wearable device, while 6.5% of those ages 55 to 64 had one.

Best's Review contributor **Mark Rieder** is head of innovation at broker NFP. He can be reached at *mrieder@nfp.com*.

In 2019, young consumers will still be the largest group of wearable users, with penetration among the 25-to-34 cohort jumping to 38%. But user penetration for the older consumers will also increase substantially to 13.2%.

Clinicians tackling diabetes, cardiovascular problems, digestive issues, and more have long been present. But the ability to incorporate real-time, long-term, moment-to-moment data from wearables and the uploading of vitals and AI/machine learning are driving greater adoption by allowing interaction with the patient when symptoms emerge.

Connected to Consumers

Being constantly connected like this has changed the way insurance providers interact with their customers, allowing insurers to reduce loss, increase engagement, leverage data, maximize install rates, and increase loyalty.

For example, in-vehicle telecommunication devices—or telematics—are allowing for usage-based insurance (UBI), a type of auto insurance that tracks mileage and driving behaviors. UBI is powered by tech that is self-installed using a plug-in device, already installed by car manufacturers, or available through mobile applications.

The basic idea of UBI is that a driver's behavior is monitored directly while the person drives, allowing insurers to more closely align driving behaviors with premium rates.

The impacts include a major shift in how products and services are delivered and consumed, new levels of effectiveness and efficiency that increase value for creators and utilizers, and an expectation that the refinements will be continual.

Our industry sometimes puts innovation in a box and forgets that we operate in a business that serves people. This makes innovation challenging. But if the user, and the user's experience, is always at the forefront driving our efforts, meaningful and sustainable innovation will happen. BR

The Right Choice

Application programming interfaces, web services and microservices are aiding in customer service and back-office functionality in new ways.

By
Mike de Waal

As software becomes more complex, insurers should consider breaking it down into smaller, simpler components that they can gradually develop or deploy. Microservices are an ideal solution for that undertaking.

The digital revolution aims to transform customer service and make back-office processes radically more efficient. But to accomplish those goals, the right technology is needed for the job.

Application programming interfaces (APIs), web services and microservices can all play key roles.

API is the core of online connectivity. As the medium through which multiple applications, devices and data interact, API defines a set of rules and protocols that allow two or more systems to communicate with each other. Every API needs to have documentation specifying the information that gets transferred between systems.

Suppose you are building software that integrates with Facebook to help identify if your customers are breaching a policy term. A Facebook API can access data such as users, comments and posts.

Today's APIs are more flexible and powerful than ever, making them an essential building block.

Web services, too, play a vital role in the digital revolution and act as the software that implements an API.

The software can respond to requests coming from the web and automatically provide responses or services.

Web services can use text formats such as extensible markup language or JavaScript Object Notation, an open standard data exchange format based on a JavaScript syntax subset. They can also use transport channels such as hypertext transfer protocol with proper encryption for data exchange.

Microservices are responsible for breaking down software into smaller components, rather than having one large software application. Such modularity can make even sophisticated software easy to understand and/or develop. The success of a microservice implementation depends on how loosely coupled the components are. Ideally, each component should be deployed and scaled independently.

Microservices can aid employee benefits providers in automating the process of examining which policyholders paid their premiums and remind those who have failed to complete that task.

Insurers also offering voluntary benefits can use microservices to break down software into two loosely coupled components (one for group insurance and employee benefits and another for worksite and individual voluntary products) so that adding the new functionality will not affect the existing one.

Determining which of the three technologies is best for your project largely depends on your requirements.

Companies that want to delegate some of their software functionality to another party could have their application act as a web service consumer.

An online payment system is a complex system, subject to numerous regulations and security constraints. While an insurer may not be willing to expend the required effort to implement on the process, that functionality could be embedded in the insurer's software to connect and communicate with a third-party online payment system through web services that use a public API.

As software becomes more complex, insurers should consider breaking it down into smaller, simpler components that they can gradually develop or deploy. Microservices are an ideal solution for that undertaking. Software can use both web services and microservices simultaneously.

APIs, web services and microservices all have a vital role to play and can be used as part of the framework for digital transformation. BR

Best's Review contributor **Mike de Waal** is president and founder of Global IQX, a software company serving employee benefits insurers. He can be reached at *mike@globaliqx.com*.

Regulatory/Law

Scam Sophistication

The warnings about cybercrime need to be taken seriously. As scammers have become more cunning, vigilance is important.

By

Alan S. Rutkin

While some courts strain to find for policyholders, many courts are enforcing the clear coverage restrictions in the cyber area.

My wife and I received an email—our youngest son was asking us to wire money because he had been mugged. We threw it out because we recognized it as "spoofing." (Our son is too mean to be mugged.)

These scams, however, have preyed upon people with kindlier children, and now they're preying on corporations.

Scammers send emails to CFOs. The emails are made to appear to be from CEOs. The fake CEOs instruct real CFOs to make certain payments. And the payments go to the scammer.

Spoofing has now become an insurance coverage and underwriting issue.

Some insurers are writing exclusions for fraudulent transfer requests. A federal court recently addressed these provisions and found for the insurer. The case is worth noting—*Tidewater Holdings Inc. v. Westchester Fire Insurance*, from the Western District of Washington this past May.

The insured's accounts payable clerk received an email directing the clerk to make a payment. But, the writer was a scammer. The payment was stolen.

The insured sought coverage for its loss.

The insurer denied based on an exclusion: "[T]he Insurer shall not be liable for any loss resulting from any Fraudulent Transfer Request."

The policy defined fraudulent transfer request as "the intentional misleading of an Employee, through a misrepresentation of a material fact which is relied upon by an Employee, sent via an email…."

The policyholder challenged the exclusion as ambiguous.

But, the court found the language clear and enforced the exclusion.

Readers of this column know that I have suggested that the case law on cyber coverage issues falls into four categories: authorization, causation, act and injury. (The mnemonic is acai, like the berry.) Acai captures this case; it's a case about the "act." Acai also captures the other cases involved.

The insurer had cited two other insurance coverage decisions involving spoofing, and read both cases to establish a broad proposition that spoofing is simply not covered. The court, however, took an "acai-like" approach and read the cases more narrowly.

One case the insurer cited was *Taylor & Lieberman*, from the Ninth Circuit. The court saw the "C" in acai and read this as a causation case.

Another case the insurer cited was *Aqua Star*, from the Western District of Washington. There, the court saw the first "A" in acai and focused on the authorization issue.

What are the lessons drawn?

First, warnings on cybersecurity may be dire, but they are appropriate. Scammers have become clever and sophisticated. Vigilance is critical.

Second, while some courts strain to find for policyholders, many courts are enforcing the clear coverage restrictions in the cyber area.

Third, this area is complicated by the fact that we have many insurers writing policies, but the market has not yet landed on common terms. But, you can make sense of this area if you sort the cases into these four buckets: authorization, causation, act, and injury.

Keep acai in mind both at the breakfast table and at your desk. BR

Best's Review columnist **Alan Rutkin** is a partner at Rivkin Radler in Uniondale, N.Y. He can be reached at *alan.rutkin@rivkin.com*.

Captive Actuarial Value

Aaron Hillebrandt, director and consulting actuary with Pinnacle Actuarial Resources Inc., said he enjoys educating captive boards and owners about the actuarial process and core actuarial judgments. "The goal is to help create an environment between the actuary and the client where they understand some of our assumptions and they're comfortable asking questions and challenging some of the judgments that we've made," he said. The following are excerpts from an interview.

Aaron Hillebrandt
Director and Consulting Actuary
Pinnacle Actuarial Resources Inc.

"The actuary can help optimize [the reinsurance decision] processs, and help lead the captive to making better business decisions."

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

How well does the captive market understand actuarial capabilities?

Among captive owners and managers, there is a good understanding of basic actuarial services. For example, any prospective captive will need an actuarial funding analysis and pro forma financial statements to incorporate into the captives feasibility study. For an established captive, it will need an actuarial renewal funding analysis on an annual basis and a loss reserve analysis, at least on an annual basis.

Does the captive manager handle the pro forma portion of the feasibility study?

Oftentimes, they do. Sometimes, we are asked to help with the pro forma financial statements. Perhaps this is an area where the captive could get more value from their actuary. The captive may be considering multiple reinsurance options, and we can help optimize that process. If you think about projected loss ratios, surplus accumulation, leverage ratios, all those things are going to depend on the expected losses as modeled by the actuary under the various options. Our table (see graphic) shows various reinsurance scenarios as rows, and it shows different numerical values in the columns. Under the "no reinsurance" scenario, you see a net expected loss ratio of 55%. After the first year, you see accumulated surplus of $1.15 million and a premium to surplus ratio of 2.69. Now, in the subsequent rows, you see the effects of several reinsurance options (assuming no excess claims).

Does client level education ever go beyond actuarial assumptions?

Absolutely. Anytime that data's involved, the actuary can add value. For example, with presenting data graphically. There are a lot of defaults out there that can unintentionally muddy the story that the data is trying to tell.

SAMPLE NUMBERS

Reinsurance	Net Expected Loss Ratio	Surplus after 1 Year	Premium to Surplus Ratio after 1 Year
None	55%	$1,150,000	2.69
20% Quota Share	55%	$880,000	2.82
Excess of $1 million per occ.	59%	$940,000	3.07
Excess of $500,000 per occ.	64%	$720,000	3.68

FOR ILLUSTRATIVE PURPOSES ONLY

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

Pulling the Right Levers

John Simone, managing director and head of insurance solutions for Voya, said that given the economy, the biggest asset risk insurers face right now is a concern about downgrade risk of triple-B bonds. "We at Voya feel that that risk in the short term is pretty low, but long term, we definitely do have concerns," he said. The following are excerpts from an interview.

- 40-year history of investment management.
- $213 billion in assets under management.
- Customer solutions provider for insurance companies.

How should insurers be viewing their portfolios amid growing volatility?

Proceed with caution. I think one of the things that we've done is advise clients, as well as ourselves for our own general account, to really look at structured securities. Not only corporate bonds, but looking to diversify our portfolios. We're constantly looking at diversification as a way to stabilize a portfolio, given future market volatility. Also, looking to where there are aspects of the economy that are relatively strong, which is the U.S. consumer, who we feel is quite strong. Structured products around the U.S. consumer is an area that we've been increasing.

Voya has a five-lever strategy. Can you talk to us about that, and is it a one-size-fits-all strategy?

It's the levers that we feel that any insurance CIO can pull to generate returns in any type of environment. Those levers include using illiquid assets, going down in credit quality, extending duration, looking at structured securities, as I just mentioned, or increasing leverage, whether that's explicit or implicit leverage in a portfolio. There's actually one more—I call it the sixth lever—that is really adding alternatives to a portfolio as well, that provides a level of diversification around, let's say, interest rate movements or credit spreads.

John Simone

Managing Director and Head of Insurance Solutions
Voya

"Our view is that insurance companies should look to maximize the return on capital in their investment portfolios so that they're not taking away capital they can use to grow their business in other ways."

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

What should asset managers be thinking about as we move down the road?

They should be thinking about what levers they want to pull, based on their particular facts and circumstances, and what they feel comfortable with within the culture of their particular company. At Voya, we feel very comfortable in taking explicit leverage on very high quality, low volatility assets. Whether that's leveraging commercial mortgage loans that are floating rate, or using federal home loan bank borrowing to invest in floating rate structured securities, matching assets and liabilities, something that we feel very comfortable with, to generate returns. Or some might feel more comfortable taking implicit risk—implicit leverage, I should say—by going down a little bit in credit quality for a portion of their portfolio. It all depends on what you feel most comfortable with.

The Next Stage

Captives are experimenting with blockchain applications and see promise in handling claims.

Captives Coverage

Interviews from the Captive Insurance Companies Association's International Conference in Tucson, Arizona and Bermuda Captive Conference held in Southampton, Bermuda. Following are excerpts from AMBestTV coverage of the events. Interviews by Meg Green.

Blockchain is here to stay as a technology, according to Steve McElhiney, president, EWI Re, Inc. He was part of a panel that discussed the new technology's implications for captives, at the Captive Insurance Companies Association's International Conference in Tucson, Arizona. Joining him were Barbara Ingraham, managing director, excess & surplus, Verisk and Marcus Schmalbach, CEO of Ryskex.

How does blockchain work within a captive?

McElhiney: One example I like to point to is when you look at the whole issue around food safety and more so what's called food provenance and guaranteeing where food's coming from. The supply chain community is moving very aggressively in that regard. For insurance, it would be a way to much better analyze where contamination could be arising, who's responsible for that, and to put better risk management around that. I think that, to me, sings out as one of the key examples of where blockchain would be immediately embraced. The supply chain community's moving very aggressively with new technologies in that regard.

What obstacles do captives face when it comes to using blockchain?

Ingraham: Some of the biggest challenges that you have with blockchain have to do with the fact that the technology is still relatively young. With young technology, then the business models are not necessarily established yet.

The uses of blockchain are still being understood. The actual insurance use cases, there's a lot of experimentation going on, but nobody has actually settled on anything like the killer app for blockchain for insurance yet. Those are some of the challenges that you have.

Barbara Ingraham

How do you see blockchain expanding in captives?

Schmalbach: There are some piloting cases around, especially alongside the supply chain. This will definitely be the driver for the next years. Especially when we look at the claim adjustments. Blockchain has its benefit in parametric solutions areas. From our point of view, what we are doing on piloting cases around Europe with captives is looking for the whole value chain and where perhaps the technology can help creating something brand new or driving a new solution for the captive itself, not just as a technology, but also driving the possibility of handling emerging risk throughout parametric solutions. The corporate and the captives are interested in that topic. This will bring a better understanding to the whole industry.

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

Bermuda regulators developed a sandbox environment where startups can experiment with new technology.

The Bermuda Monetary Authority has recently introduced a regulatory sandbox in Bermuda which is aimed at new, fledgling companies that want to test out new technology on a limited group of policyholders within a confined space under guidance from the organization, said Becky Vernon, senior counsel at ASW Law. She spoke with AMBest TV at the Bermuda Captive Conference.

What is the BMA doing in terms of innovation today?

The idea is that the [tech companies] enter the regulatory sandbox for a period of 6 to 12 months, and during that time they work through their proof of concept. If everything goes according to plan at the end of that period, they will be able to apply for a full insurance license.

That insurance license could be in either one of the captive classes that we currently have, or in the commercial classes, or in fact in one of the new innovative insure classes that the BMA is currently considering introducing.

Can you tell us a little bit about those new classes and how they might work?

The IGB and ILT insurance licenses are the sandbox licenses. The IGB is the general business license and the ILT is the long-term business license.

The companies that apply for this sandbox entry can at the time of their application seek certain regulatory exemptions from provisions of the Insurance Act. They will operate in the sandbox under a less stringent regulation than they would if they had applied for a full license.

The purpose of this is to try and encourage innovation. It may be that the capital requirements are reduced for the sandbox period, but the BMA also makes it clear that there are other provisions of the legislation they won't be exempted from.

For example, anti-money laundering provisions, anti-terrorist finance provisions, they will still have to comply with those. It's really aimed at reducing capital costs for these entities while they're operating within the sandbox.

The new innovative insurer class is an interesting one. This is really going to be focused on companies that are graduating from the sandbox, or new insurers that want to incorporate digital assets into their business model.

This class is intended to operate very similar in terms of regulation to a Class 3A in a commercial insurer. It will be subject to a head office requirement. It will have to prepare a risk base capital model that's very similar to the BSCR.

That's currently under consultation with the BMA. It hasn't yet been introduced but we're watching this space and looking forward to seeing how that develops.

Home Grown

Economic substance regulations want to ensure that companies are generating profits in the domicile where they are incorporated.

The Economic Substance Act and the Economic Substance Regulations were hot topics at the Bermuda Captive Conference. Becky Vernon, senior counsel at ASW Law discussed the details of the regulations with AMBestTV.

Becky Vernon

Why is economic substance important in regulatory terms?

Economic substance is a big change that we've seen introduced. It was introduced at the end of last year. [with the] Economic Substance Act and the Economic Substance Regulations. They are not just affecting Bermuda, they are affecting a lot of other global, other offshore jurisdictions.

The aim of the legislation is for companies to demonstrate that where they're incorporated is where they actually are generating their profits and that they actually have an economic substance on the island where they say that they're incorporated.

It's been an EU-driven initiative. A lot of companies have implemented new legislation to do this. The insurance sector is affected in the sense that insurance is a regulated activity for the purposes of the legislation.

We're hoping that for a majority of the companies, it's not going to result in too many changes that they'll need to make, particularly because the Insurance Act, some of the provisions there are drafted in such a way that companies here have to already have economic substance for the purposes of that legislation.

The period for implementing any changes for existing entities was the 30th of June. A lot of people are now working to analyze whether they do need to make any changes and obviously put those in place if necessary.

Will captives be more impacted than regular commercial insurers?

I think it could potentially affect them more because captives aren't subject to the head office requirement of the Insurance Act which the commercial insurers are. Captives can demonstrate substance in various other ways.

Pretty much most of the captives will have a Bermuda-based insurance manager. They'll have a Bermuda-based corporate services provider. They will have Bermuda resident directors.

From that perspective, they are demonstrating that they have substance here. They travel to Bermuda. They hold their board meetings.

One of the key factors in demonstrating economic substance is that the company is managed and directed from Bermuda. It's important that the key decisions are taking place here, the underwriting is taking place here.

I think although captives face a greater challenge than the commercial insurers, it's not going to be a huge mountain for them to climb in order to comply. BR

AMBestTV

Go to *www.bestreview.com* to watch these interviews.

The Reinvention of a Life Insurer

Vantis Life is banking on a new accelerated underwriting platform, a distribution shift and a shrewd marketing strategy as it repositions itself.

by Jeff Roberts

The crumbling, old road meanders through the Connecticut River Valley, carving a boundary between the remains of a tobacco farm and the Vantis Life building.

Beyond the pitted stretch of blacktop, fields of rye roll along the contours of the land to a distant tree line. Two timeworn tobacco sheds stand in disrepair not far away.

Vantis executives watch the vanishing tableau each day from their third-floor offices in Windsor, Connecticut. The surrounding farms of Tobacco Valley continue to be sold and developed, a graphic reminder that change is inevitable and those who don't adapt are left behind.

But on Vantis' side of Old Day Hill Road, a different sort of transformation is unfolding.

An old life insurer is plotting a new course, shifting to a direct-to-consumer digital strategy as the financial institution channels it depends on come under pressure. It is built on an accelerated underwriting platform and enhanced customer service.

The foundation is supported by predictive analytics, experimentation and a cagey marketing strategy casting middle-income parents with life insurance as real-life superheroes.

This is the reinvention of Vantis Life.

"We've been hearing about the great untapped middle market for 30 years," said chairman and CEO Ray Caucci, who came from Vantis' parent, Penn Mutual, to replace retired chief executive Peter Tedone in January. "Now the technology has matured to the point where it's possible to hit this underserved market.

"The integration of frictionless underwriting with fully underwritten rates without sticking people with a needle makes life insurance more accessible."

The strategic repositioning is emblematic of the entire U.S. life industry, which continues to remake itself amid stagnant individual sales, rising consumer expectations and a prolonged low rate environment hindering investment returns.

Vantis stands as a case study for how some companies are evolving to meet the market's growing challenges.

Vantis' focus remains on the financial protection of middle-market families (with annual household incomes of $250,000 or less) through simple products. But how it is reaching those customers and serving them is changing radically.

The long-term vision, Caucci said, is for the Penn Mutual subsidiary "to be the leading provider of direct-to-consumer life insurance for the middle market with a high-touch, Amazon-like experience for our customers."

Key Points

A New Path: Vantis, like many other life insurers, is transforming itself amid stagnant industry sales, rising consumer expectations and a prolonged low rate environment hindering investment returns.

Startup Mentality: Vantis sees itself as somewhat of an insurtech startup and views Ladder, Haven Life and Ethos as its competition.

Superheroes: Marketing is crucial, and Vantis is casting those who buy life insurance as heroes because they're protecting their families when a death occurs.

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

> "You've got to be able to deliver a world-class experience to consumers or they're going to find somebody who will. If your experience isn't good, you have no shot."

Ray Caucci
Vantis Life

To realize that, the insurer is reshaping itself largely as an insurtech startup. It views Ladder, Haven Life, Ethos and Fabric (whose policies Vantis issues) as its competition.

"We're becoming more of a data company than an old-fashioned underwriting company," said Craig Simms, Vantis' senior vice president and chief marketing officer.

Velocity, the accelerated underwriting platform that launched in January, is the linchpin. The engine, built by reinsurance partner Hannover Re, is the centerpiece of a new omnichannel distribution strategy and customer-centric approach offering fully underwritten term and whole life.

"Velocity was the key, because you've got to be able to deliver a world-class experience to consumers or they're going to find somebody who will," Caucci said. "If your experience isn't good, you have no shot."

Vantis is betting on a new vision. A new leader. A new distribution strategy. And new products tailored to its new underwriting platform.

The transformation has reinvigorated the life insurer, based in the suburbs north of Hartford. However, time-tested blueprints are rare in operating direct-to-consumer distribution.

Relatively few insurers have successfully implemented the strategy, and there is a limited track record and little historical data for accelerated platforms, according to the Best's Special Report, *DTC: Expanding Distribution and Seeking Opportunities*, released in June.

"There haven't been a whole lot of truly successful direct-to-consumer companies," said Michael Adams, senior financial analyst, AM Best.

Although direct channel market share has grown from 11% of policies written in 2000 to 23% in 2017, it accounts for only 7% of premium dollars. And just 44% of U.S. households own individual life coverage, tying a historic low, according to Limra.

"There are several of us out there, and we're all in the great unknown," said Gail Lataille, Vantis' senior vice president, treasurer and chief financial officer. "What we don't know, we don't know. But we're learning."

Penn Mutual is supportive of the pivot, Vantis executives say. But they realize they must deliver results.

"We have an urgency around what we're doing," said Bruce Friedland, its senior vice president, chief actuary and chief product officer. "There's a lot of pressure to perform.

"We think we have a better opportunity because there aren't many companies doing this."

The New Boss

Caucci had two weeks to decide his future.

He needed less than 30 minutes.

Penn Mutual had approached him last summer after Tedone announced his retirement, offering the chance to run Vantis. It gave him some time to consider it.

It wasn't necessary.

"The opportunity was a no-brainer for me," said Caucci, who served 32 years with Penn Mutual, most recently as a senior vice president of product management, underwriting and advanced sales.

The upstate New York native arrived in Windsor in July 2018 and took over as CEO on Jan. 2.

Over the past seven months, Caucci has accelerated Vantis' evolution. He views direct-to-consumer distribution, ease of use and a clear message of what it and life insurance do for middle-market families as differentiators.

Vantis' small stature—$120.7 million in net premiums written in 2018, according to AM Best—may be an advantage in its transformation.

There's no agency force conflict. No massive legacy system issues. No battleship-sized operation to steer in a new direction.

"We're small enough and nimble enough that there's not as much baggage to overcome," Caucci said.

Vantis' shift began under Tedone, who was CEO for 18 years. Then Penn Mutual acquired it in 2016 for $73.3 million, aiming to expand and diversify its affluent domestic life footprint into the middle market.

"The company had been thinking about what it was going to be," said Lataille, in her 20th year with Vantis. "Changes were necessary. The Penn Mutual acquisition opened the door for us."

Insurers have long focused on the affluent, whose needs are profitable enough to support an agency force. As a result, the middle market gets underserved.

Vantis offers simple products well-suited for the demographic and digital sales. And it is among the few insurers offering fully underwritten accelerated products, not just simplified issue policies.

"I haven't seen a whole lot of fully underwritten products yet," Adams said. "A lot of companies are

New Platform Accelerates Vantis' Distribution Shift

The list of insurers that have abandoned the U.S. individual life market seems to grow each year.

MetLife. Hartford. Voya. TIAA. And Axa is in the process of gradually divesting itself.

The insurers that remain in the capital-intensive industry are evolving, betting on data analytics, customer service and automated platforms offering coverage without invasive medical exams.

"Accelerated underwriting is the buzzword in all the conversations that we have with life insurance companies," said Kate Steffanelli, senior financial analyst for AM Best, "whether it's something they're implementing or it's on their radar as far as, 'We need to get there.'"

Vantis Life has joined the small but burgeoning group, repositioning itself with the development of its own accelerated engine, Velocity.

It sees a direct-to-consumer distribution strategy as an effective match for its middle-market customer base.

"Having Velocity in place eliminates two of the biggest obstacles that prevent people from buying life insurance: the invasiveness and the length of the underwriting process," said Vantis chairman and CEO Ray Caucci. "The experience has to be great or folks won't come to you because there are enough things preventing them from buying life insurance."

Consumers of all ages have long grown comfortable with buying products and services online—even insurance. Limra found 42% of millennials, 46% of Gen Xers and 41% of baby boomers research life insurance online and then purchase it digitally or via phone or mail.

Velocity harnesses consumer data through LexisNexis credit-based insurance scoring, Milliman's IntelliScript prescription database and motor vehicle records to underwrite in lieu of a medical exam and lab tests.

Eventually, electronic health records—which Caucci regards as still in their infancy as underwriting factors—and recent medical lab testing could become useable data points.

Unlike many direct-to-consumer insurers, Vantis issues whole life with face values up to $1 million for those age 55 and younger, as well as term and final expense coverage.

An upgraded website features tools such as a customer dashboard, a needs calculator and a chat box for those seeking additional information. And its new online portal and mobile app, Life Hero, offer policy information and status updates as well as provide financial, health and fitness content and resources.

In the fourth quarter, customers will be able to make payments, update beneficiaries and connect their mobile devices, track their fitness data, compete in wellness challenges and earn points and rewards.

"We're trying to meet the need of that individual using hand-held devices as part of the Velocity experience," said Scott Smith, Vantis' president and chief operating officer.

Many applicants can receive an offer in a few minutes. For those with only minor health issues, it might take a few days. The industry average for approval is three to five weeks.

Vantis will introduce a direct-to-consumer, single-premium deferred annuity with a five- or seven-year interest rate guarantee in the third quarter. It can be purchased with a return of premium or market value adjustment feature.

And a direct-to-consumer whole life product will be offered on the Velocity platform later this year. Additional riders include return of premium, terminal/critical/chronic illness, charitable giving and spousal and children riders.

Velocity has been a success, Vantis says. But the company continues to work to drive people to it—and to complete the application process.

"The key is we're going to get data on why people stopped," Caucci said. "And then we're going to figure out how to make the process better."

"I haven't seen a whole lot of fully-underwritten products yet. A lot of companies are mentioning that they're looking into it or they're starting it. And they need to do that now in order to remain competitive."

Michael Adams
AM Best

mentioning that they're looking into it or they're starting it.

"And they need to do that now in order to remain competitive."

Vantis' access points include the web, a mobile application, a small team of licensed agents and an on-site call center—"the tools to meet the need of every customer," said Scott Smith, its president and chief operating officer.

It is adding a whole life product and a single-premium deferred annuity, both designed for direct-to-consumer distribution.

"The products have to be simple and the process easier," said Caucci, whose late father, Ray, was a minor-league baseball catcher in the Detroit Tigers organization for three seasons before becoming a chemical engineer.

"And if we can tell our story and not have people dread buying life insurance, that's going to be a game-changer for our industry."

Vantis remains reliant on its bank distribution channel, making about 63% of its life sales through 150 financial institution partners such as TD Bank and Citizens Bank. It sells all of its annuity and single-pay life sales through them.

But banks have prioritized the sale of accumulation products over life insurance, and branch foot traffic has declined precipitously.

Just two more reasons to shift strategies. But its evolution extends beyond distribution.

The insurer is bolstering its talent with expertise in data analysis and digital marketing. It is encouraging experimentation, including frequently recalibrating its underwriting algorithm.

It is using data analytics to target consumers reaching trigger points, those life milestones such as a wedding, the birth of a child, a job change or a home purchase. Those periods are often when people think about protection for their families.

And Vantis' seasoned staff of about 85 employees now focuses on customers—both external and internal—not operations. Vantis has formed a Customer Experience Group that will monitor and guide consumers through the approval process and then continue meaningful engagement with them after a purchase.

The 77-year-old insurer, which earned upgrades from AM Best in April to its Financial Strength Rating (A+ (Superior)) and the Long-Term ICRs (aa-), is tracking how people are progressing through the process, including where they stop and what devices they use.

Of Death and Superheroes

The Grim Reaper sits on the table, scythe in hand, next to Simms.

"He is always the villain," the chief marketing officer said.

The six-inch tall Grim Reaper doll is a menacing little metaphor. The company's new branding campaign frames those who buy life insurance as heroes—leveraging the superhero movie phenomenon—because they're protecting their families when a death occurs.

Vantis has featured the campaign on its website, social media and even on the Pandora streaming music service.

"In our advertising, we're saying in every story there's a hero, a villain and a guide," said Simms, who has been with the insurer about 18 years. "Vantis is the guide. The person who buys is the hero.

"And you can become a real-life hero by buying life insurance because you're defeating one of the impacts that the Grim Reaper has—the financial impact on your household."

Marketing is a crucial part of the new Vantis.

On a macro level, the life industry needs to tell its story. Stories of how coverage helped a family stay in its home when the primary earner passed away or how it helped fund a college education.

And Vantis needs to drive consumers to Velocity.

"We've got to build our brand," Smith said. "The platform is there. The experience is built. Our product mix is well-positioned. The opportunity is laid out. But like any other new initiative, we need volume. We need word of mouth."

Vantis' annual ad budget is "significantly less than a million dollars," Simms said.

So it has to be creative. Hence the hero theme. And hence a few consumer surveys they conducted to ramp up mass media interest, such as the recent "What Would You Give Up For 10 Years More?"

NBC and CBS affiliates were among the outlets that picked it up. (Smokers, drinkers and fast-food eaters overwhelmingly stuck with their vices, by the way.)

"We have to do something different," Simms said. "We have to stand out in the sea of life insurers who are primarily agent-based.

"On our website, we're trying to make life insurance easy and almost fun."

Vantis has rolled out a number of marketing pathways to reach consumers. They range from partnerships with influential bloggers and podcast hosts to old-school direct mail.

It is monitoring which channels best drive traffic to the website, and ultimately, sales. It will continue to test those pathways through the summer.

Vantis has posted its hero campaign on Facebook and Instagram. It is using Google Ads, the tech giant's advertising platform, buying certain keywords and combinations so it gains prominent positions in search results.

"Those seem to be some of the most prolific and beneficial leads for us," Simms said.

One of the more unique avenues is partnering with influencers—specifically parenting, personal finance and college finance blogs and podcasts. They personalize Vantis' products and services for their audiences.

Another vehicle is advertising on Pandora. The streaming service analyzes its audience, breaking down listeners into detailed profiles based on what genre they listen to, when they listen and other differentiators.

Vantis is even moving back into direct mail because consumers receive little of it now, and their email and social media accounts are inundated with pitches.

"You don't just want clicks and impressions," Simms said. "You want sources of marketing that are leading to people moving through the application funnel."

Evolve or Die

The framed, color photo hangs on the wall to the right of Smith's desk.

In it, farmers tend to tobacco plants growing under a white tent, also known as shade tobacco.

"Tobacco's in my blood," he said. "My father grew up on a farm growing tobacco. I started working at 14 in the tobacco fields. All the kids growing up did that."

Tucked along the Connecticut River, Tobacco Valley's rich soil has long been famous for producing the wrappers for some of the world's best cigars.

Raised in nearby Enfield, Smith has watched the industry decline. Only a few pockets of farms remain.

He realizes that could happen to Vantis, and even much of the life industry. Many consumers will no longer wait five weeks for an underwriting decision, undergo an invasive exam or tolerate aloof customer service.

Eliminating those obstacles is crucial to filling "a gaping hole" for middle-income families not served by advisers, Simms said.

"I cringe when I see articles about people who pass away, and their family sets up a GoFundMe," Caucci said. "To me, that's a failure of our industry.

"These are the folks that need life insurance and are not really being served. That's who we're targeting."

McKinsey & Company recently pegged the mass and middle markets as a $10 billion opportunity in new annual premiums. Insurers have been talking about making an aggressive push for years.

"They keep saying it, but the bottom line is it's not easy to do," AM Best's Adams said. "It's expensive. The middle market has smaller face amount policies, and you're just not making the premiums to cover the cost of going in."

Vantis says the answer is direct-to-consumer digital platforms and accelerated underwriting. The easier the buying experience gets, the better the odds of tapping that market.

"We think we can sell a meaningful amount, and we can make inroads with a fairly significant portion of the population that is either underinsured or uninsured," Friedland said.

The company is adapting in an evolving market. The executive team knows what can happen to businesses that do not.

All they have to do is look across Old Day Hill Road.

"In its heyday, these were the richest tobacco fields in all of the U.S.," Smith said. "Now a lot of it is sold off. There's not as much money to be made." BR

AFTER THE STORM

The reinsurance industry is no stranger to natural catastrophes, but nat cat losses from 2017 and 2018 caught reinsurers by surprise.

On the heels of hurricanes Harvey, Irma and Maria in 2017 came 2018's Hurricane Michael, Typhoon Jebi and the California wildfires. Aon pegged the aggregate losses from those two years at $240 billion.

It wasn't the hard numbers that caught the industry off guard, though; it was how far off the loss estimates were. Claims development from 2017's Hurricane Irma was 26% higher than expected, according to JLT Re, and insured losses from 2018's Typhoon Jebi were triple the initial estimate of $5 billion.

The large loss creep has trapped alternative capital, caused traditional reinsurers to increase reserves and impacted rates. Not surprisingly, it also has left ILS investors cautious.

In this special section, *Best's Review* takes a deeper look at a reinsurance market in flux.

CONTENTS

Market Correction 38

Winds of Change 44

A Pause After the Storms 48

Rating Collateralized Reinsurers 53

MARKET CORRECT

Florida reinsurers raise rates and return to underwriting differentiation in response to lingering issues.

by Kate Smith

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

CLEANUP IN PROGRESS: A rainbow hovers over a Florida beach in recovery after being destroyed by Hurricane Irma in 2017.

Key Points

Lingering Losses: Claims development from Hurricane Irma was 26% higher than estimated, according to JLT Re, and claims are still rolling in.

Reevaluating Risk: Reinsurers took a close look at loss drivers in 2017 and 2018 and revamped their pricing models to reflect those. The result, for many, was a new view of risk.

Return to Roots: The June renewals saw a return to differentiated underwriting, with some insurers seeing their reinsurance rates rise by as much as 30%.

Kevin O'Donnell minced no words. With losses from 2017's Hurricane Irma still mounting nearly two years after the fact, the CEO of RenaissanceRe questioned the long-term health of the Florida property catastrophe market ... and his company's involvement in it.

"Absent some large-scale changes to this market," O'Donnell wrote in an April letter to shareholders, "I anticipate its role in our portfolio will continue to diminish."

The Florida market has been rife with issues—assignment of benefits (AOB) fraud, one-way attorney fees, social inflation and a long statute of limitations among them. But after two bad hurricane seasons, it has added another problem to the list—loss creep.

By early 2019, claims development from Irma was 26% higher than estimated, according to JLT Re, and claims were continuing to roll in. As late as May, FedNat Holding Co., a Florida homeowners insurer, said it was still receiving 90 new hurricane-related claims per week, many of them driven by attorneys eager to outrun AOB reform.

For reinsurers, frustration was mounting. O'Donnell's remark was evidence of that.

"It was a shot over the bow," Scott Mangan, associate director of P/C reinsurance at AM Best, said.

Leading up to renewals, reinsurers made clear that they were willing to withdraw capacity from the troubled market—or, more specifically, from troubled accounts—if pricing did not match the risk.

And they held the line.

"Reinsurers indicated the need for adequate pricing to reflect adjusted risk views throughout the renewal process and had management support to withdraw capacity where pricing did not meet their requirements," said Lara Mowery, managing director and head of global property specialty for Guy Carpenter.

With losses increasing and retrocession capacity decreasing, reinsurers finally got some relief at the June renewals. Perhaps not as much as they wanted, but enough.

"The market had higher expectations than what was achieved," Josh Knapp, director of carrier relations for Willis Re, said. "But this stopped the bleeding."

Experts say rate increases ranged from the mid-single digits up to 30% for loss-affected accounts. But the renewals were about more than just raising rates. They showed an underwriting correction, as well.

"The rate increases seen at the June and July renewals are an important pricing correction that was needed," said Mike Quigley, head of property underwriting, reinsurance division, Munich Reinsurance America. "Perhaps more importantly, there was a return of underwriting differentiation by cedent as demonstrated by the range of market pricing across individual carrier renewals."

Guy Carpenter said price differentiation was among the broadest it has seen.

"Reinsurers established a new view of risk that focused on the wide-ranging impacts of factors such as social inflation (assignment of benefits, public adjusters and litigation), variability of loss adjustment expense, development of 2017 and 2018 losses, experience and other account-specific factors when assessing appropriate pricing for June 2019 renewals," George Carse, managing director at Guy Carpenter, said. "Differentiation between accounts was significant and produced one of the broadest ranges of price change that Guy Carpenter has tracked for a single region."

Mangan said it was good to see a return to the cycle.

"We doubted the traditional underwriting cycle for a while there," he said. "It has changed, but at least there are still cycles, rather than perpetual downward pressure."

"I think of it in terms of: Are they getting enough rate? That market had been relatively cat free for a long time, so companies got more and more complacent, and it allowed the market to slide lower."

Scott Mangan
AM Best

Downward Pressure

The downward pressure was driven by alternative capital. Between 2012 and 2018, alternative capital in the market increased 150%, according to Guy Carpenter. Rates, simultaneously, fell by more than 40%.

"As with any supply/demand scenario, when there is an overabundance of supply, in this case capital interested in supporting the reinsurance market, pricing tends to the level companies calculate as adequate for the risk," Mowery said.

"As an example, the United States has been the largest consumer of catastrophe reinsurance worldwide, with Florida as a significant driver," she said "Pricing was impacted by this as demand was historically on the edge of outstripping supply in many instances. With the significant influx of new capital, U.S. catastrophe reinsurance pricing moderated to a technical rate the market was willing to support."

Because third-party capital providers have a lower cost of capital, their return hurdles are correspondingly lower. To remain competitive, traditional reinsurers lowered rates and took out more retrocession to balance out their exposure.

"Since 2011, we have seen the reinsurance pricing in the Florida property cat market drop significantly," Quigley said. "This drop was driven by a couple of factors; namely, many years without land-falling hurricanes in Florida and new capital entering the market that drove rates down. These phenomena created a more commoditized reinsurance market with little price differentiation across Florida insurer portfolios."

The commoditization of the reinsurance market was a nonissue during benign catastrophe years.

"I think of it in terms of: Are they getting enough rate?" Mangan said. "That market had been relatively cat-free for a long time, so companies got more and more complacent, and it allowed the market to slide lower."

But after back-to-back seasons with major wind storms—coupled with large losses from California wildfires and Typhoon Jebi—reinsurers started to feel the squeeze.

"I think the hurricanes of the last couple of years and the development of the associated losses have been a wake-up call for some market participants and a reminder for others of the need to properly underwrite the wind risk and the individual insurance carrier portfolios being considered," Quigley said.

Perfect Storm

The losses also amplified some of Florida's other troubles—most notably, its high levels of fraud and litigation and its long statute of limitations, which gives policyholders three years to file hurricane claims.

"The civil justice system in Florida promotes an abusive litigation environment that causes Florida to be listed, on a regular basis, as one of the 'U.S. judicial hellholes' by the American Tort Reform Foundation," Quigley said. "Fraudulent actors, especially those related to assignment of benefits abuse, have helped drive up insurance costs in the state, making it exceedingly difficult for insurers to effectively compete in specific regions of the state such as South Florida."

Florida's assignment of benefits provision allows a third party, such as a contractor, to stand in place of an insured party and seek direct payment from the insurance company.

"Assignment of benefits by itself is not necessarily an issue but the components of the practice that fostered an environment of inflated and litigious claims, which was damaging to all in the state, including policyholders who bore the brunt of increasing claim costs," Guy Carpenter's Carse said.

According to the Insurance Information Institute, homeowner AOB lawsuits increased to 19,200 in 2018 from 2,800 in 2013.

Abuse of AOB has ticked up considerably in the last five years, Quigley said. It stems from the state's one-way attorney fee provision, which requires insurers pay the legal fees for successful claim award challenges. The plaintiff owes nothing if the insurer wins.

"The abusive practices of some unscrupulous service providers and plaintiff's attorneys originated in the tri-county region of Miami-Dade, Broward and Palm Beach counties but has been expanding to other parts of the state since," Quigley explained.

"For those reinsurers that did not understand the dynamics of the Florida property market and the associated potential loss trends, they likely underpriced their products or were adversely selected against over the last several years," he said.

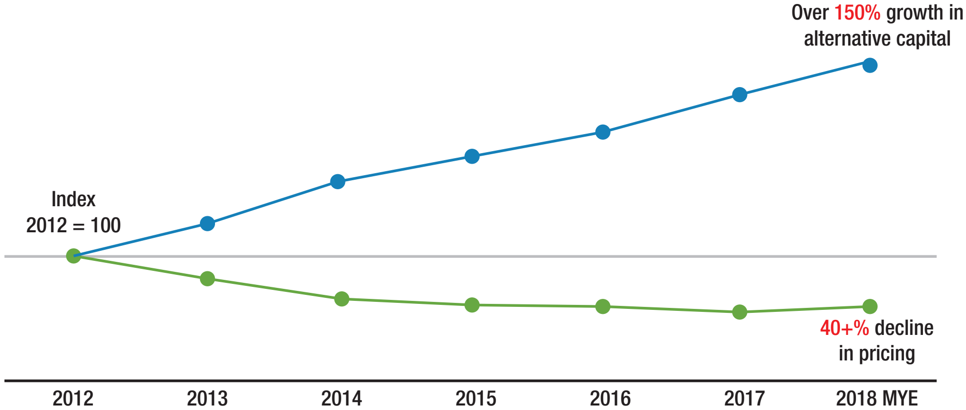
"In addition, those reinsurers that did not differentiate their underwriting and pricing of property cat business in Florida to reflect operational and portfolio differences by insurer, most likely suffered some larger than anticipated losses from the recent hurricanes."

Knapp said it got to the point where many reinsurers were pricing deals purely based on modeled expected loss. Traditional vendor models, however, do not explicitly include provisions for the Florida market's nuances.

"Generally speaking, there were no loads for loss adjustment expenses," Knapp said. "There were no loads for AOB. There was very little differentiation going on in the market in terms of pricing one deal to the next."

Supply and Demand

Reinsurance rates in the Florida property cat market dropped in response to an influx of alternative capital.



Source: Guy Carpenter

“At the end of the day, what we saw at renewals was a rational market that dealt with having back-to-back loss years.”

Josh Knapp
Willis Re

Reformation

That changed this year. Carse said many reinsurers spent a lot of time reviewing the 2017 and 2018 loss drivers and altering their pricing models in response.

“Some of these analyses were at a very detailed level, contributing to the significant differentiation in renewal pricing between accounts,” he said. “Reinsurers were focused on achieving pricing reflective of their new view of risk.”

The same scrutiny was applied at the retrocession level, where rates also increased. The retro market also saw a decrease in capacity, in part because one of the largest providers, Markel’s CATCo, went into runoff.

“Many reinsurers that depend on third-party capital for retrocession protection found that their cost of capital increased as the retro market supply decreased and pricing increased,” Quigley said. “This reduction in retro capacity was partly driven by the collateral trapped in prior-year structures due to buffer loss reserve requirements and perhaps also by a changed view of risk on the part of ILS investors.”

The increase in retro rates helped propel the increase in June reinsurance rates.

“If the retro rates are going up, then the reinsurers that are buying the retro will generally try to keep up with that,” AM Best’s Mangan said. “That’s where holding the line starts—in the retro pricing. We saw earlier in the year that retro pricing was up, which was a good sign. I think it was 10 to 20 percent, at least.”

The other good sign in the market came from AOB reform. In response to mounting pressure, Florida Gov. Ron DeSantis signed into law an AOB reform bill that took effect July 1. The bill specifically targeted the one-way attorney fee provision and established a payment scale to determine who is responsible for what fees. It also gave insurers the ability to offer policies, at a reduced rate, that restrict the use of AOBs in whole or in part.

Whether AOB reform proves a game-changer, though, remains to be seen.

“There’s a fair amount of excitement,” Chris Draghi, senior financial analyst at AM Best, said. “Whether it dynamically changes the market remains to be seen. Do fraudsters get more clever? Do they try to find new holes? While signs point toward effective change, I think some people are cautiously optimistic.”

For direct writers, the reinsurance rate increases could negate any benefits from AOB.

“An issue to watch in Florida is the potential political pressure on insurers to drop rates in the short term in reaction to the assignment of benefits reform,” Quigley said. “Given rising reinsurance costs and other factors driving up noncatastrophe losses, insurers need to make sure they are collecting sufficient premiums for the risks assumed. If the political pressure results in too great a rate drop, some Florida carriers may find it impossible to operate.”

Overall, however, experts say the Florida market, particularly the reinsurance market, has gotten stronger as a result of the renewals.

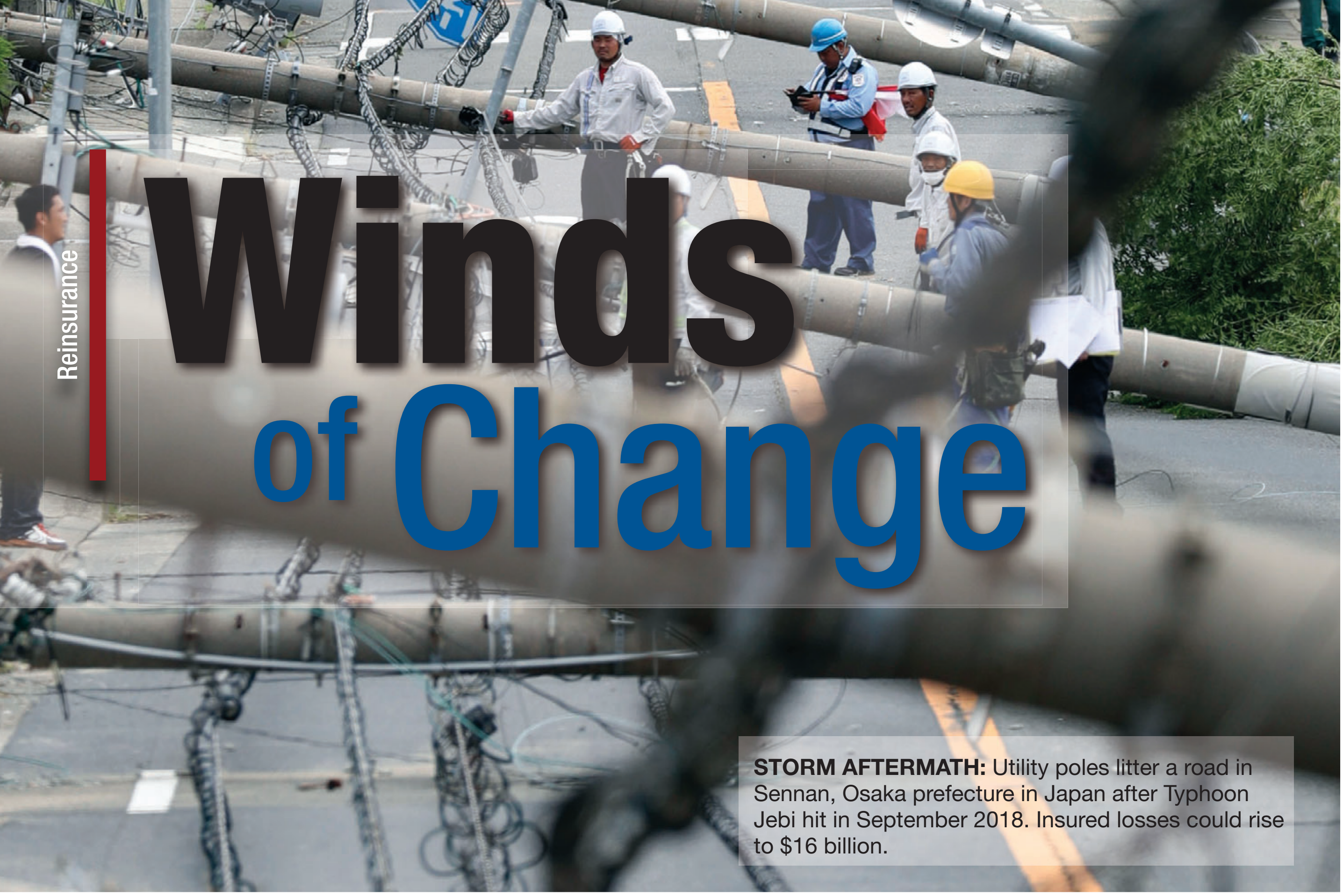
Willis Re’s Knapp is often asked how today’s market compares to the markets of 2004-05, the last major hurricane seasons.

“It’s much more healthy today from a cost of capital perspective than it was then,” he said. “When we dealt with those two wind seasons, we had a situation where reinsurers were primarily writing business based on their balance sheet and their capital. Third-party capital was not available back then, so the cost of capital was a lot higher than it is today.

“Big-picture-wise, we have a healthy market. At the end of the day, what we saw at renewals was a rational market that dealt with having back-to-back loss years.” BR

Reinsurance

Winds of Change



STORM AFTERMATH: Utility poles litter a road in Sennan, Osaka prefecture in Japan after Typhoon Jebi hit in September 2018. Insured losses could rise to $16 billion.

Losses from Typhoon Jebi caught reinsurers by surprise, resulting in increases in loss reserves and suppressed cat bond returns while laying the groundwork for higher rates.

by Lori Chordas

The warnings blew in like fierce winds.

Japan was in the direct path of what forecasters feared was quickly forming into one of the planet's most powerful storms.

When the Category 5 storm made landfall in western Japan on Sept. 4, 2018, it became the strongest typhoon to hit the country in 25 years. As the storm approached land, sustained winds—clocked at more than 170 miles per hour at one point—slowed to around 85 mph.

But tide levels surged to a record high and destruction spread across Japan's south-central Kansai region.

Mother Nature's powerful force collapsed buildings, toppled power lines and overturned trucks. Violent winds also untethered a 2,591-ton tanker from its anchorage, sending it crashing repeatedly into the Kansai International Airport Bridge and forcing the shutdown of the major international airport.

Initial insured loss estimates from the deadly storm hovered around $5 billion.

Photo Credit: AP Images\Kyodo

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

Key Points

Rising Waters: Unexpected claims from Typhoon Jebi resulted in one of the industry's most significant loss creeps.

Making Landfall: Cat bonds, collateralized reinsurance vehicles and ILS funds were impacted by the historic storm.

A Flood of Changes: Experts anticipate a continued rise in reinsurance rates and a possible hardening of the market.

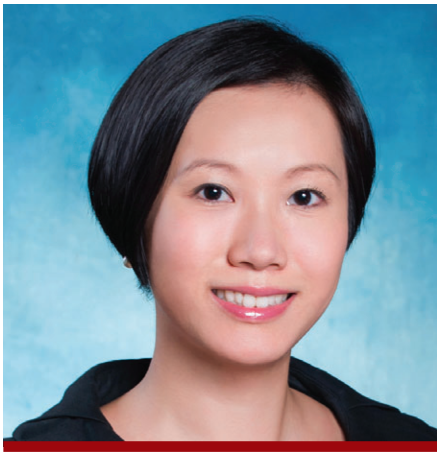
But in the months to follow, those estimates climbed. By May, industrywide Jebi-related losses were pegged at $12 billion and rising.

Even today claims continue to roll in, and analysts project the final loss tally could eventually settle at nearly $16 billion to create one of the largest loss creeps the industry has ever seen, said Steve Evans, owner of Artemis.

A Rising Tide

Higher average claims costs and business interruption exposures largely caused the rising tide of losses.

"What was missed by our ceding company, not only by the reinsurance community, was the business interruption and contingent BI loss exposures that



Typhoons Jebi and Trami drove some relatively steep price hikes in this year's April 1 renewals, particularly in excess-of-loss covers for Japanese wind exposures.

Christie Lee
AM Best

were inherent in exactly the location where Jebi hit, and a lot of it had to do with semiconductors," Arch Capital Group CEO Marc Grandisson said in a 2019 first-quarter earnings call.

Those exposures, he said, were not properly reflected by the models. "It was not fully appreciated by most people, by the whole market, frankly," Grandisson said.

Also, rising repair costs and a limited supply of surveyors in the nation from ongoing construction activity for the 2020 Olympic Games in Tokyo contributed to the loss creep.

Catastrophe models, which initially projected Jebi losses at around $3 billion, focused on property exposures.

However, the models' initial loss estimates failed to take into account business interruption losses, marine hull and cargo exposures and potential higher repair costs caused by other recent natural disasters, said Josh Darr, a meteorologist and a senior vice president at Guy Carpenter.

In the weeks just before Jebi hit, Japan had been besieged by deadly flooding, landslides and heat waves. A 6.1 earthquake shook the nation's northern Osaka prefecture in June.

Just weeks after Jebi moved across Japan, the country's western region was hit by Typhoon Trami, a Category 2 storm at the time of landfall.

The combination of these various events took a toll on insurers and reinsurers.

Early this June, Jebi's claims-paid total had reached nearly 1.1 trillion yen, equivalent to about US$9.9 billion, according to the General Insurance Association of Japan (GIAJ). That number comes on the back of more than 857,200 claims payments made, the majority of which were for property fire insurance policies, according to the GIAJ.

While insurers had to dig deep into their pockets to cover those and other Jebi- and Trami-related losses, reinsurers were ultimately left footing much of the bill.

Many were forced to increase loss reserves in last year's fourth quarter and the 2019 first quarter from Jebi, now the most costly typhoon to ever hit Japan, Evans said.

Arch Capital Group's first quarter results included an increase in reserves of $16 million.

Swiss Re and Sirius International Insurance Group increased reserves for the storm in the final quarter of 2018. Munich Re saw a nearly 60% climb in initial reserve estimates for Jebi.

Those losses have been the catalyst for some rate increases.

Typhoons Jebi and Trami drove some relatively steep price hikes in this year's April 1 renewals, particularly in excess-of-loss covers for Japanese wind exposures, said Christie Lee, senior director, analytics, at AM Best Asia-Pacific Ltd.

Industry experts said Japanese reinsurance rates increased up to 25% on loss-affected property catastrophe layers at this year's reinsurance renewals. Layers unaffected by catastrophes saw renewal rate changes ranging from flat to more than 5%.

Several insurers' lower wind/flood catastrophe covers were exhausted by last year's storms.

"That's fairly unusual given that earthquake is typically the peril in Japan that erodes reinsurance rather than wind and water," Evans said.

After Trami's strike on Japan's Wakayama prefecture last September, some insurers purchased back-up cover to recover the excess-of-loss layer to reinforce their lower-layer protection and cover additional losses from potential events such as snowstorms, according to AM Best's *Japan Non-Life Insurers Focus on Profitability* report.

Lee, a co-author of the report, believes that contributed to a reinsurance rate hike in the April 1 renewal season and that hike might continue further on loss-impacted layers in the near future.

"Because last year was a major eventful year in Japan and lower layers were hit, if reinsurance layers are hit with loss impact, reinsurers would expect a

Jebi is expected to trigger payouts of certain industry loss warranty contracts, "and payouts could eventually top $100 million."

Steve Evans
Artemis

payback or increase in reinsurance rates at the next renewal," she said.

Despite a year laden with high-dollar catastrophe losses, the global reinsurance market remains well capitalized at nearly $585 billion, said Steve Bowen, meteorologist and head of catastrophe insight at Aon.

The Japanese market is one of the largest buyers of catastrophe capacity outside of the United States, according to Willis Re's *1st View: Rational Markets* report.

Direct Hit

Jebi created a flood of challenges for traditional reinsurers and the alternative capital market.

Not only did the storm place pressure on insurance-linked securities fund managers, but Jebi's rising loss toll also impacted other collateralized reinsurance vehicles and suppressed the returns of catastrophe bonds and reinsurance-linked investment funds.

One cat bond was tagged for potential loss due to rising Jebi-related reinsurance claims.

Mitsui Sumitomo Insurance's Akibare Re Ltd. (Series 2016-1) cat bond is "destined for a total loss" after exceeding its exhaustion point, said Emmanuel Modu, managing director, analytics, at AM Best.

The $200 million cat bond, the first in the industry to provide protection against typhoon events in Japan on an annual aggregate basis, provides Mitsui Sumitomo with a source of collateralized annual aggregate reinsurance backed by the capital markets and covers certain losses including some flood and wind risks, Artemis' Evans said.

Jebi-related loss creep also created a lack of supply in the global retrocession market.

"It remains to be seen how that will play out and whether it will drive any further hardening of renewals rates later this year," Evans said.

He expects growing Jebi losses could also trigger payouts of certain industry loss warranty contracts.

"If final loss estimates reach the $15 billion to $16 billion mark then some ILWs could be exposed at that level, and payouts could eventually top $100 million," he said.

Despite challenges in the market, "the good news is that Jebi losses were spread among participants across the marketplace so no single player was significantly impacted," said Guy Carpenter's Darr.

"Also, Japan's ILS market remains relatively underweight so the impact wasn't as significant as other events such as Hurricane Irma. But that being said, the loss deterioration associated with Jebi has affected some collateralized reinsurance and retrocessional vehicles," he added.

Over the last two years, insured natural catastrophe losses have aggregated to more than $240 billion, according to a report from Aon. The broker noted that while traditional reinsurers have managed to trade through the events without capital impairment, the impact has been more significant for alternative capital. "This time the ILS market took a particularly big hit, but next time it could be traditional reinsurers," Evans said.

Despite the recent slew of loss-producing natural disasters in Japan and across the globe, alternative reinsurance capital grew 9% last year, according to Aon.

Stem the Tide

Industry experts fear events like Jebi and Trami could become the new normal in Japan and globally.

Already this year, the Pacific basin was hit by Typhoon Wutip, a Category 5 storm that has entered the history books as the most powerful February typhoon on record, surpassing Typhoon Higos in 2015.

"Events like those reiterate the need for the reinsurance products that companies need to protect against peak peril risks," Artemis' Evans said.

Rising typhoon activity is also expected to awaken interest in modeling Japanese typhoon risk to help companies better understand their occurrence and aggregate loss potential, said Milan Simic, executive vice president at data analytics and risk assessment firm Verisk.

Models like AIR's basinwide models allow global insurers and reinsurers to assess typhoon risk to portfolios and policies that span multiple countries while also allowing local direct insurers to analyze region-specific risk, he said.

The models capture the effects of tropical storm and typhoon winds, storm surge and precipitation-induced flooding on insured properties.

"Insurers and reinsurers use AIR's catastrophe risk models to find the probability of occurrence of the similar aggregate loss (occurrence of two consecutive years), but they do not have a predictive component," Simic said.

Going forward, Artemis' Evans expects companies to begin securing even more cat bond coverage for typhoon risk.

"And given the concentration of catastrophes in the retrocession market, it will also be interesting to see if any of the big global insurers will look at cat bonds or other ILS solutions as a way to secure more reinsurance for Japan as well," he said.

Despite recent events, Japan remains a profitable market for both insurers and reinsurers, said Jean-Paul Conoscente, CEO of Scor Global P&C.

"The Japanese client mentality is to build long-term partnerships and to provide payback over time when large cat events occur. We've seen this after 2011 events and we expect this to continue following last year's events," he said.

Also likely to continue are premium rate increases by Japanese nonlife insurers looking to increase the expected profitability for the fire line, which will help offset higher reinsurance costs after last year's catastrophe-related losses, said Jason Shum, associate director, analytics, at AM Best Asia-Pacific Ltd.

Earlier this summer, MS&AD Insurance Group Holdings said it expects to raise rates by around 7%. Tokio Marine Holdings reported its domestic nonlife unit will increase fire insurance rates, which will generate 15 billion yen in profitability improvement. Due to the long-term nature of the fire policy segment in Japan, 10%, 50% and 80% of the benefit will materialize during the current fiscal year, 2020 and 2023, respectively, Shum said.

The impact on profitability from rising reinsurance costs will be partially offset by the rate hikes, he said.

"For the 2019 fiscal year ended March 31, 2020, some insurers might have to reduce dividends and improve their underwriting profitability to restore their catastrophe loss reserve balance," Shum added. However, barring any further loss developments from last year's catastrophes, he doesn't expect insurers' balance sheets strength to suffer any additional impacts this year. BR

Storm Warning

One of the biggest lessons to come from Typhoon Jebi is the possibility of multiple cat events impacting an area in a single year, said Christie Lee, senior director, analytics, at AM Best Asia-Pacific Ltd.

"What that signals to insurers is the need for sufficient coverage in aggregate insurance. So whether they are protecting the capital or surplus really depends on the adequacy of the aggregate coverage," she said.

Last year some areas of Japan were reeling from four separate events that struck within a matter of weeks. "That created a challenge for the industry to assess what damage was caused by which event and allocate losses to individual events," Steve Bowen, meteorologist and head of catastrophe insight at Aon, said.

Also challenging for the industry was the significant number of wind and flood claims to come from typhoons Jebi and Trami.

"Typically tropical cyclones lose some of their tropical characteristics by the time they make landfall in Japan given the higher latitude, but last year's storms maintained their tropical state and produced widespread wind and water-driven damage," Bowen said.

Flood-related losses were covered by cat bonds, said Steve Evans, owner of Artemis.

"One of the things I hope Japanese insurers learned from Jebi is that now, for the first time, typhoon cat bonds in the country also cover their losses for related flood risks," he said.

He added that ILS contracts also now include more coverage for elements like business interruption.

"Now that claims have come in and things are starting to settle down, one of the things that will be interesting to see going forward is how communities hard-hit by Jebi will rebuild and whether building code standards will be upgraded to make structures more modern and resilient to higher wind speeds," Aon's Bowen said.

He said the industry will continue to keep a close watch on what mitigation steps will be taken to ensure that future catastrophes from a residential and commercial perspective are protected.

A Pause After the Storms

Following two years of painful catastrophes, ILS investors are waiting for claims to be paid so capital can be released. However, they remain committed to the market.

by Jeff Roberts

The flood of capital rose year after year, pouring into insurance-linked securities.

More than $93 billion had flowed into the ILS market by the end of 2018, an exponential surge from $18 billion in 2009, according to Willis Towers Watson. It recently broke the $100 billion barrier.

Besides the massive in-flow, ILS funds delivered dependable returns, averaging nearly 5% annually for more than a decade.

But then came 2017 and hurricanes Harvey, Irma and Maria. And then came 2018, and Hurricane Michael, Typhoon Jebi and particularly the California wildfires.

Those events left billions in trapped capital waiting for the losses to be tallied and the claims paid. After two straight difficult years, investors have grown cautious.

"Investors' confidence in the market was clearly shaken over the course of the past two years," Rick Pagnani, executive vice president and head of Pimco's ILS business, said. "While the asset class still represents an attractive alternative investment, ILS investors have learned a hard lesson on the importance of manager selection."

As a result, many fund managers struggled to attract new investors and retain existing ones to replenish the Jan. 1 renewals and reinstate their positions.

The 2018 losses and a capacity crunch in the collateralized property cat retrocession space—precipitated by investors seeking higher returns and tightening terms—drove up pricing, according to the February Best's Market Segment Report, *Reinsurance: Will Investor Losses Lead to a Rising Tide for Pricing?*

"A lot of these funds were deploying capital in risks that they did not understand or risks they were not aware they were writing—like the California wildfires," said Mariza Costa, senior financial analyst, AM Best. "These investors were taken aback by the amount of capital that they lost."

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

However, despite the pullback, observers expect capacity to return in 2020—provided rates continue to rise and a third straight year of extreme natural catastrophe losses does not unfold.

Insurers and reinsurers themselves certainly aren't abandoning the market. They are betting on ILS as well, with some acquiring third-party fund managers over the past few years or even launching their own ILS businesses.

They view ILS as a new revenue stream amid the

Key Points

Flood of Capital: ILS in-flows have surpassed $100 billion from just $18 billion in 2009.

Lean Years: But ILS investors have grown cautious after losses in 2017 (-5.60%) and 2018 (-3.58%) due to a series of natural catastrophes.

ILS Investment: (Re)insurers are betting on ILS, as AIG, Markel and Scor recently acquired fund managers, and Allianz subsidiary Pimco launched its own ILS business.

prolonged low rate environment, earning potential profits by charging fees for underwriting and structuring risk.

"We've seen that everybody wants to have a piece of it," Costa said. "Insurers see that it helps their own profitability, their relationships, their relevancy in the market. It lowers their cost of capital.

"It frees up their balance sheet because they're not writing it on their own—they're writing it through these vehicles. And it allows them to diversify and write risks that they otherwise would not be able to."

AIG acquired Validus Holdings, which controls ILS asset manager AlphaCat, in 2018 for $5.6 billion.

Markel acquired CATCo Investment Management in 2015 and Nephila Holdings in August 2018. Scor Investment Partners acquired Coriolis Capital in May.

And earlier this year, Allianz subsidiary Pimco launched its own ILS business.

"We saw an opportunity to create a differentiated ILS platform in the market, with a value proposition based on direct access to distinctive risk, high quality underwriting and independence," Pagnani said.

The "distinctive risk" he referred to is Allianz's global books of business, which are largely unavailable to the open market. Pimco can also source risk from third parties.

But it's hardly alone.

"ILS funds are a permanent fixture in our (re)insurance market," Jean-Paul Conoscente, CEO of Scor Global P&C, said. "Their different capital basis makes them a good complement to traditional reinsurance in a number of segments. However, they do not have a fundamental impact on how reinsurers make money."

Wind & Fire

ILS funds reported profitable years from 2012 to 2016, according to Eurekahedge ILS Advisers Index, which tracks the aggregate performance of the funds. They produced an aggregate cumulative return of nearly 80% from 2006 to 2018, corresponding to annualized aggregate returns of about 4.5%, according to the index.

AM Best, in conjunction with Guy Carpenter, estimates that third-party capital increased from $87 billion in 2017 to about $95 billion in 2018, while traditional reinsurance capital largely remained flat.

About $220 billion of notional exposure is traded each year in the catastrophe reinsurance market, according to Nephila.

"In the past few years, there's been a rush of investors to create these alternative capital funds," Costa said.

But then came the nat cat events of the past two years.

Insured 2018 catastrophe losses amounted to more than $70 billion, according to AM Best. Nearly $200 billion in losses accumulated in the final six months of 2017 through 2018.

About 20% of the 2018 total third-party capital was trapped in the funds as of February, according to the Best's Market Segment Report.

As of June, assets under management remained trapped in collateral trusts to pay potential losses from 2017's Hurricane Irma, 2018's Hurricane Michael, the devastating Camp wildfire in California and Typhoon Jebi, whose estimated insured losses have risen from $5 billion initially to more than $15 billion.

"No investor wants their cash trapped that they're not making money on," Costa said. "Some of it will be released, and some of it will be lost. Either way, they're not making money on it."

The events hit in rapid succession, placing intense pressure on the claims settlement process and inflicting significant business interruption losses.

The Eurekahedge ILS Advisers Index saw annualized returns of -5.60% in 2017 and -3.58% in 2018, including consecutive monthly losses from September through December. November produced the worst performance ever (-3.68%).

"I think the hardening of the ILS market in 2019 had less to do with trapped capital than with a lack of return for several years in a row," Conoscente said. "This pushed ILS managers to demand larger returns for their capital than in prior years."

Meanwhile, the sell-off of catastrophe bonds exacerbated the losses. Fund managers were freeing up capital to renew other collateralized reinsurance deals.

Several trades "were precipitously executed below par, which impaired the ILS funds' returns at a time when both fund managers and investors were chasing better earnings," according to the Best's Market Segment report.

For instance, investors in a $200 million cat bond issued in 2018 covering wildfire risk face a total loss. The issuer? Pacific Gas & Electric, the now-bankrupt Californian power supplier, which anticipates $30 billion in liabilities from wildfires blamed on its equipment.

ILS funds were able to replenish the majority of capital in 2018, even after some of it was trapped after the 2017 HIM hurricanes.

But after two straight years of losses, investors grew more selective when renewing 2019 investments.

"When these fund managers or carriers went back to them and asked to make the fund whole again without the trapped capital, many said no," Costa said.

And pricing started to rise. January renewals saw some increases, but were deemed disappointing by many. Then the April renewals—mostly for Japanese earthquake—saw double-digit improvement. And the June renewals for Florida and some wildfire witnessed additional increases, especially for loss areas.

Meanwhile, ILS investors learned their lesson.

They held out for tighter terms and grew more cautious of certain risks, especially unpredictable and difficult to model nat cats such as wildfire.

"After all those events of the past two years, they're demanding better returns and higher pricing," Costa said. "They're going to continue to invest. But now they're not going to embrace it with open arms or as open-ended as they did before."

"We've seen that everybody wants to have a piece of it. Insurers see that it helps their own profitability, their relationships, their relevancy in the market. It lowers their cost of capital. It frees up their balance sheet because they're not writing it on their own—they're writing it through these vehicles."

Mariza Costa
AM Best

Alternative capital also shifted its focused to who was doing the underwriting.

"Going forward, the educated investor will stress the importance of high-resolution exposure management, underwriting and technical pricing of both modeled and nonmodeled risks, access to high quality books of global business and most importantly, transparency," Pagnani said.

"The managers that can deliver this will be the winners of the reshuffling that is taking place with current investors, and will be well-positioned to secure the new capital that is currently on the sidelines," he said.

Working Together

The alignment between third-party and traditional capital will endure, despite the recent volatility, analysts say.

Reinsurance investments constitute a minor portion in the portfolios of institutional investors and pension funds, so the past two years did not have major impact on their overall performance. And finding capital solutions with minimum correlation to capital markets is difficult.

It becomes even more important with downturns forecasted throughout the globe in 2020 and 2021.

Another result of the recent losses is the trend of alternative capital seeking rated paper from companies such as RenaissanceRe and Validus.

"It reinforced that rated carriers and rated paper aren't going anywhere," Costa said. "There's always going to be a need in the market for them."

Alternative capital isn't going anywhere either. (Re)insurers and ILS managers have developed a symbiotic relationship.

Most traditional reinsurers view fund managers not as competitors, despite years of falling rates. They raise capital for the P/C industry and help diversify exposure in a world with increasing perils thanks to global warming and intensifying events.

"Rather than a threat, ILS should be viewed as a complementary tool in insurers' or reinsurers' tool kits in the quest to optimize capital, net profitability and consistent offerings to clients," Scor's Conoscente said.

Pimco's Pagnani agrees. He views (re)insurers and ILS managers as allies more than competitors, joined by an "alignment of interests between the parties," he said.

They sometimes rise to the level of partnerships.

An example of that collaboration is RenaissanceRe's Vermeer Reinsurance vehicle with a single investor, Dutch pension fund manager PGGM. It launched in December to write top-layer U.S. property cat risks. RenRe provides the underwriting. PGGM supplies the capital.

"Investors' confidence in the market was clearly shaken over the course of the past two years. While the asset class still represents an attractive alternative investment, ILS investors have learned a hard lesson on the importance of manager selection."

Rick Pagnani
Pimco

In typical ILS transactions there are 15 or so investors. The efficiency of this arrangement has piqued the interest of others in the space.

"It was something new: A particular company getting a particular investor big enough to fund it solely," Costa said. "Companies are looking into this. You'll probably see more partnerships."

But Albert Benchimol, president and chief executive officer of Axis Capital Holdings, told AMBestTV in June that insurance pricing will need to show sustainability before those investors regain confidence.

"There is a lot of capital still sitting in the sidelines, anxious to participate in our industry," he said at the IIS Global Insurance Forum in Singapore. "However, as appropriate as it is to get diversification for those investors, they also need adequate returns."

Pricing did rise between 10% and 20%—and as much as 35% on loss-affected accounts—in the January property cat retrocession renewals, according to AM Best.

Reinsurers need retro coverage to protect their books, and many ILS funds provide retro cover, according to Costa.

"They're really helping the traditional reinsurers get the pricing that they really need," she said. "They're not working against each other. They're working together.

"The threat is eliminated if you combine the two. It's a different way to make money."

Different Paths

Scor sought to grow its ILS platform.

Then it saw an opportunity in Coriolis Capital to increase scale and appeal to very large investors who prefer a bigger ILS manager.

"Coriolis Capital is one of the most established preeminent independent players in the ILS space," said François de Varenne, CEO of Scor Investment Partners, "with one of the longest track records in the market."

Scor has been a cat bond issuer through Scor Global P&C since 2000 and an asset manager through Scor Investment Partners since 2011.

Its ILS business amounted to more than $1.34 billion at the end of February. In March, Scor sponsored a four-year cat bond with a capacity of $250 million to protect itself against named storms in the United States, earthquakes in the U.S. and Canada, and windstorms in Europe.

"The broader reinsurance industry is experiencing a structural shift with the increased importance of alternative sources of capital," de Varenne said.

Pimco launched its own platform earlier this year.

It had been evaluating a move into the ILS market for some time, Pagnani said. But first, it needed to build a foundation given the specialized nature of the asset class.

"Over the past several months we hand-selected a veteran ILS portfolio management team, and built out the technical systems, analytics and operational infrastructure," he said.

It now includes four senior dedicated ILS specialists, leveraging support from across Pimco, including risk management, hedging and portfolio construction, tax, legal and compliance, and operations and finance support.

Besides its partnership with Allianz and Allianz Re, Pimco's ILS business also will reinsure third-party business.

Pagnani sees insurers continuing to acquire ILS businesses, or like Pimco, launch their own—"but not in large quantity," he said. BR

WEBINAR REVIEW: Dr. Wai Tang, left, director, AM Best and Emmanuel (Manny) Modu, managing director, AM Best, discuss how insurance-linked securities-affiliated collateralized reinsurers are rated.

Rating Collateralized Reinsurers

With $55 billion in capacity, collateralized reinsurance is the fastest-growing form of insurance-linked securities.

by John Weber

Insurance linked securities-affiliated collateralized reinsurers are relatively new, but are expected to become a larger share of the reinsurance sector as they seek greater operational efficiency, elimination of fronting fees, and more flexibility in tailoring their offerings to cedents.

In the webinar "Rating ILS Affiliated Collateralized Reinsurers," AM Best analysts examined how they rate ILS affiliated collateralized reinsurers.

Taking part in the webinar were Emmanuel (Manny) Modu, managing director of AM Best, and Dr. Wai Tang, director at AM Best.

Following is an excerpt from the webinar.

The ILS Universe

Modu: The capacity provided by the ILS market is currently at about $98 billion, which consists of four components. The fastest-growing component is collateralized reinsurers, which is approximately $55 billion worth of capacity.

John Weber is a senior associate editor, AMBestTV. He can be reached at *john.weber@ambest.com*.

The next biggest is the cat bonds, which offer about $30 billion worth of capacity, and sidecars and ILWs round it out with $13 billion worth of capacity.

If you compare the numbers in July 2018 and March 2019, there's a diminution in AUM [assets under management] of about $2 billion or so. That's an indication that some investments have pulled out of the market due to a cat event over the past couple of years.

Strengths and Weaknesses of the ILS Market Post Catastrophes

Modu: On the strength side, you had orderly payments of losses by the ILS market and without any hitches because the collateral, obviously, is there to make the payments.

The events also exposed loss creep issues and exposed the fact that CRs, collateralized reinsurers, are not exactly equivalent to traditional reinsurers from a cedent's perspective. That's because of a limited claims development period for CRs versus traditional reinsurers. So what you have is tail risk that goes back to the cedents based on the limited claims development period.

Collateralized Reinsurer Ratings

Modu: We call the rated CR a Newco Re. There are several motivating factors for a rated CR. The first factor is the elimination of fronting costs. Fronting fees can range from between five and 15% of premiums, depending on how much leverage the investment manager is seeking in the transactions.

The rating can also eliminate dependence on fronting companies, and thereby avoiding some of the fronting dislocations in the fronting market at this point. Right now, there are three major fronting companies. You have Hannover Re, Allianz, and TMR. TMR has announced recently that it will no longer be in the fronting business due to its acquisition by RenRe.

Therefore, you've got elimination of one of the major fronters, which is a problem for some of the investment managers in the ILS space. Therefore, they want to eliminate that dislocation. Starting their own Newco Re, which is effectively a fronter, is their solution.

The ILS managers want to reduce inefficiencies associated with having many trusts and letters of credit (LOCs). You could have scores of trust and many LOCs, and it's an operation nightmare for these investment managers.

In addition, a rated entity helps create some leverage because with a rated entity, you don't need to hold 100% collateral. Most of the risk will be ceded to the transformer. The risk that's retained by the Newco Re is now fully collateralized. That provides some leverage.

Also, what we have with a rated CR, Newco Re, is increased flexibility to provide reinsurance solutions. These solutions could be solutions related to reinstatements, aggregate transactions, and other forms of reinsurance that are not readily available through the unrated CRs.

Another motivation is that some cedents can only transact with rated entities. Having a rated entity opens up the collateral manager to soliciting business from cedents that will not otherwise be interested in their business.

ILS-Affiliated Collateralized Reinsurers

Modu: AM Best classifies three companies as ILS affiliated collateralized reinsurers. The first one is Kelvin Re Limited. We rated Kelvin Re September 2014. The capital for Kelvin Re was provided by Middle Eastern Sovereign Wealth Fund. The source of the business is primarily through Credit Suisse Insurance Linked Strategies.

Kelvin Re has alternative asset investment strategy and its leverage as measured by net written premiums over surplus is moderate.

The second reinsurer in this space that we rated was Humboldt Re in October 2015. The capital for Humboldt Re was provided by a Swiss pension fund. Once again, the business here is sourced through Credit Suisse Insurance Linked Strategies.

Humboldt Re has a low risk investment asset strategy and its leverage is also quite low as measured by NWP over surplus.

Lumen Re was first rated in December 2017. The capital was provided by one of the LGT funds. The source of business is LGT ILS Partners. Lumen Re has a low risk asset investment strategy and extremely low leverage whether measured by NWP over surplus or limit over surplus.

Kelvin, Humboldt, and Lumen are rated A, A and A respectively.

Ratings Criteria

Tang: First, as usual, the main methodology for rating our reinsurance companies is the Best's Credit Rating Methodology, BCRM. Other than that, there are several very important criteria that actually have to be included in this rating process.

The first two criteria listed here discuss BCAR, that is, the Best's Capital Adequacy Ratio, which is a quantitative measuring of the risk of the company relative to its available capital.

The third criteria here talks about cat stress, which is second event cat stress where the loss is applied directly to the capital rather than appear in the net required capital formula. The fourth criteria is the calculation of equity credit for different types of capitals, such as common stock or hybrid like preferred stocks.

The fifth criteria, rating new company formation, here we are basing on this criteria to classify if the entity seeking rating is a new company or not. If the company is classified as a new company, there are certain constraints on some of the building block assessment.

The last two criteria discuss tail risk back to the Newco from the transformer and the treatment of that.

Differences Between Rating Collateralized Reinsurers and Rating Insurers

Tang: Our approach for rating an insurance company is building block approach. Total, there are six blocks. In general, only the first four blocks are applicable to CR. The last two blocks usually are not applicable.

Balance sheet strength is the first block. It usually is viewed as the foundation of the financial security. One of the components of balance sheet strength is BCAR. Other than BCAR, there are other quantitative and qualitative factors in the assessment of the balance sheet strength of the entity.

The second and third blocks, operating performance and business profile, concern the well being of the balance sheet strength of the entity in the future. Without solid operating performance and business profile, a company's balance sheet strength will erode over time. Operating performance is a leading indicator of future balance sheet strength and long-term financial stability. After the operating performance review, we will assess the company's business profile, like the nature of the business itself, the market position, the distribution channels. Favorable business profile will typically translate into defensible competitive advantages. Enterprise risk management, ERM, is the fourth block. We will want to understand the development and the implementation of the insurer's risk management framework and understanding of the insurer's risk management capability relative to its own risk profile.

Important Rating Considerations

Modu: The concept of permanent capital is absolutely important at AM Best. For us, the most permanent capital is common equity, and that receives full equity credit in our analysis.

When we are presented with hybrid capital such as preferred stock or trust preferred, we do apply haircuts based on certain features. Maturity features, of course, the longer the maturity, the less the haircut. Call features, debt service features such as mandatory payments. If the payments are mandatory, it probably gets more of a haircut. Subordination level to policyholders, treatment by regulators, and management intent. If we substantially haircut or cap our capital, it can affect greatly available capital, and then affect greatly the BCAR scores, which ultimately would make balance sheet strength somewhat inadequate. So the idea of permanent capital is of absolute importance on rating analysis. We don't have any guideline as to what kind of capital you ought to have, but just know that any hybrid capital would suffer severe haircuts. BR

AMBestTV

Go to *www.bestreview.com* to watch the webinar.

INVESTMENT DISCUSSION: Invesco executives (from left) Chris Marx, managing director and head of institutional insurance; Pete Miller, an insurance research strategist and part of Invesco Global Solutions and Rob Young, portfolio manager and head of institutional convertibles, participated in the AM Best webinar "How Insurance Portfolio Managers Are Leveraging Equity Enhanced Fixed Income."

Being Flexible

A panel of insurance portfolio management experts examines the potential risk-adjusted return benefits of pairing fixed income securities with equity options within insurance portfolios.

by John Weber

Portfolio managers are leveraging equity enhanced fixed income. It's a new way to look at convertible bonds. A panel of experts examined the potential risk-adjusted return benefits of pairing fixed income securities with equity options within insurance portfolios, during the AM Best webinar, "How Insurance Portfolio Managers Are Leveraging Equity Enhanced Fixed Income," sponsored by Invesco.

Participating in the webinar from Invesco were Chris Marx, managing director and head of institutional insurance; Pete Miller, an insurance research strategist and part of Invesco Global Solutions and Rob Young, portfolio manager and head of institutional convertibles.

Following is an excerpt from the webinar.

How has the convertible bond market changed over the past several years?

Young: The convertible market has changed dramatically over the past decade. First, the size of the market is only $190 billion, which is very small for an actual asset class, and it's down about 50% in size since 2008.

In addition, the credit quality profile of the asset class has changed. Fifteen years ago, investment grade securities were 40% to 45% of the market, and nonrated securities were only 15% of the market. Now, that's completely changed. It's reversed.

Investment grade is only 15% of the market, and nonrated securities have surged to over 60% of the market, and because of that, it's been very difficult for insurance companies and other institutional investors to invest in the asset class.

Why has this market become smaller?

Young: The main reason is the low interest rate environment that we've been in for the past decade. Convertibles are a submarket rate coupon instrument by design, by nature and so they already have a very low coupon, a low yield.

Companies don't need to use them, because they can use the traditional bond markets to raise capital, and don't have to give up an equity option like they would in a traditional convertible.

As bonds have been maturing and are being called or put, or bought back from the market, there hasn't been a lot to replace them.

How have the insurance companies approached the convertible market?

Marx: If you look back over an extended period of time—let's say 20 years—you'll find that insurance companies have been active in the convert space.

Post a global financial crisis, the converts market has shrunk dramatically, particularly in the investment grade convert space.

Along with that, you saw allocations to converts within insurance general account portfolios shrink as well. They rolled off, and for the most part, over the last three to five years, converts have generally been an overlooked asset class.

However, that's changing, and there's an emerging interest in the convert space, particularly with a little bit of an uptick in converts allocation.

One of the drivers of the interest in converts is where we are in the economic cycle, where we

John Weber is a senior associate editor, AMBestTV. He can be reached at *john.weber@ambest.com*.

are relative to a long-in-the-tooth bull market, with investment decision-makers thinking about, how should their equity allocation or equity-like allocation look? Should there be a downside protection component, or a derisking profile put into in an allocation?

Can you address the topic of interest rates? What's a new way to look at convertibles, and how might insurers assess this asset class?

Young: We have a very interesting strategy called equity enhanced fixed income. When you think about a traditional convertible bond, it's essentially just a bond and an equity option stapled together as one security.

We view that as very rigid and inefficient, because you can't separate the components and make a different investment decision on each one. You might like the credit, or you might like the equity of the issuer of the convertible, but you might not like the bond exposure or the equity exposure that's in the convertible.

We take a totally different approach, and we source our convertible exposures from the broader equity and fixed income markets, and we put them together in a way that replicates a traditional convertible profile. In this way, we can customize the individual components.

For the fixed income component, we can buy fixed rate versus floating rate bonds. We can buy short-dated versus long-dated bonds, or senior versus subordinated. And we can attach to that, equity options that are either in the money, at the money, or out of the money, depending on our views.

Is there a benefit to this bond structure?

Young: There's basically three main benefits to the structure. One is a broader investment universe, the second is liquidity and the third is customization. From an expansion of the universe, most S&P 500 companies don't issue convertibles because they don't have a reason to do so.

We can create custom convertible profiles for them as if they did. We can use those in our portfolio, and that really broadens our universe.

From a liquidity standpoint, we're buying and selling our exposures from the natural buyers and sellers of those exposures, and so we don't have to package them up like a convertible and transact as a package. That really improves our liquidity profile.

Lastly, customization. We can customize individual securities. We can also customize how we use those securities in a portfolio. Some clients have a higher level of equity sensitivity need, and some have a lower equity sensitivity need, and we can customize and build portfolios for them without effecting our portfolio construction process.

How's this strategy treated for accounting purposes?

Miller: It is important to recognize that historically, a lot of companies may have shied away from convertibles for a couple of reasons on the accounting front.

One is a bit of concern around income statement volatility coming from the equity component, and the other is the complexity that's inherent in accounting for the bond and the equity components separately.

We think that with this strategy that we're discussing today, you'd still have a similar accounting treatment where, for GAAP accounting, you'd look at the bond piece and the equity option piece separately.

You have to recognize that the income statement volatility is lower than if you were just investing in equities directly. You get that participation, but the income statement volatility would be less than if you were just buying stocks directly.

The other thing to keep in mind with this strategy is the transparency. We're putting bonds and equity options together, and by virtue of that structure, we can easily point to the components distinctly and work with insurers to account for those. It's a very straightforward exercise to do that.

How would you use such a structure in a portfolio context?

Young: Convertibles have a very interesting risk return profile. They tend to act like stocks when the stocks are rising, and they tend to act like bonds when stocks are falling, so they fit very naturally and attractively into a larger portfolio between traditional fixed income allocation and a traditional equity allocation.

Miller: The work that our group has done, and the solutions team, a lot of times we're looking at multiasset portfolios that might have a fair amount of equity exposure as well.

We've seen this dynamic, where when you look at a convertible strategy or a convertible replication strategy alongside equities and fixed income, you do see that the strategy will give you that equity upside performance in rising markets. On the downside, when stocks are doing poorly, you do see that the left tail, if you will, the downside risk, is diminished, because it really does behave a lot more like fixed income in that environment.

That's something that really resonates and is attractive with a lot of institutional investors, and particularly insurance companies.

How do you think different types of insurance companies view this strategy?

Miller: Insurance companies of all types could find this compelling, but actually, perhaps, for different reasons.

Life companies tend to be significantly oriented toward fixed income. It's largely a function of their liability structure, the nature of their business.

For those types of companies that are starting from a very high fixed income allocation to begin with, this type of strategy could be a nice, modest step, if you will, in the direction of higher return risk asset allocation, rather than going all the way to a full on equity allocation. This is kind of a bridge to that destination.

On the other side, think about P/C and reinsurance companies, those companies that tend to have a bit of a higher equity allocation to begin with. They may look at it from a different perspective, and say, "I don't want to necessarily completely get out of equities or undo that allocation."

This expansion has been a little bit long in the tooth. We're now 10 years on in the bull market. Folks are starting to think about when the next recession might hit, when risk assets might take a bit of a turn.

I think for those insurance companies that do have that equity allocation to begin with, this type of strategy could be a nice complement, where they get that downside buffer if we do get a risk-off type of market.

What do you see as the implications to risk-based capital?

Miller: We think that's probably, if not the biggest, one of the biggest strengths of this type of strategy. It's very similar to what we've seen in the traditional convertible market, where by virtue of looking at a package of fixed income investment with equity option investment, for RBC purposes, it's really getting a fixed income capital charge. It's a great way to get some equity upside participation via that option piece, but the RBC treatment looks like any other bond. Since we tend to look at investment grade as the basis of a lot of this strategy, that could be a really compelling reason for companies to look at this, where they can get that upside performance with a very modest RBC charge. BR

AMBestTV

Go to *www.bestreview.com* to watch this webinar.

A Starting Point

Robotic process automation can be a powerful tool to rein in costs. But it's really just the beginning of a broader automation journey that can help insurers get closer to customers.

by Ben Bengtson

For insurers operating in an environment of low interest rates, market overcapacity and ever-growing competition, maintaining profitability means constantly looking for ways to drive down costs. That imperative has led many insurers to adopt robotic process automation (RPA).

RPA uses software bots to perform work, and this can result in substantial savings. As powerful as this technology is, however, insurers should see the implementation of RPA as less an ultimate goal and more a starting point on a comprehensive automation journey—one that leads to a significantly improved customer experience.

By augmenting RPA with increasingly sophisticated cognitive technologies—often based on artificial intelligence (AI)—insurers can take the next step to intelligent process automation (IPA). IPA greatly expands the potential of automation, allowing insurers to automate not only mundane activities, but also more complex work and end-to-end business operations. As a result, it opens the door to using automation to not only increase internal efficiency, but to deliver a superior customer experience, which is essential to driving growth.

Best's Review contributor **Ben Bengtson** is senior vice president, Global Leader Insurance Industry Markets at Cognizant Technology Solutions. He can be reached at *bengt.bengtson@cognizant.com*.

IPA and the Customer Experience

Although cost control is critical in the industry, it is only part of the competitive equation. Delivering a superior customer experience is just as vital, because consumers today expect seamless and fast interactions with providers. The customer experience has become key to customer retention, the expansion of sales among both existing and new customers, and ultimately, improved profitability and growth.

To understand how IPA can help drive an enhanced customer experience, it is useful to know what it brings to the table. IPA can complement RPA software bots with cognitive technologies that mimic human perception and judgment. For example, RPA could be used to eliminate the manual performance of some tasks to increase efficiency. But that automation can be enhanced with the addition of an AI engine that identifies and flags claims for potential fraud, and an automated case management system that then instructs bots to act in order to ensure that those potentially fraudulent claims are managed effectively to closure—quickly and efficiently.

A variety of cognitive technologies enable IPA, from chatbots and machine learning to natural language processing and computer vision. This array can be confusing, but the technologies fall into three categories, based on the human-like capabilities they offer—the ability to perceive, the ability to decide and the ability to act. These three capabilities are fundamental to creating automated systems that can deal effectively with customers. In the near future, we can expect individual cognitive technologies and tools to merge into offerings that provide integrated sets of the three capabilities.

With IPA and cognitive technologies, insurers can broaden the scope of automation significantly, going beyond cost-cutting initiatives to enhance the customer experience. When well-designed and implemented, IPA can provide greater convenience and faster service—witness the growing use of always-available chatbots based on text and, soon, voice technology. Automation can also help improve the quality of customer interactions by minimizing errors and human bias.

IPA has the potential to shorten traditional insurance-industry cycles to benefit customers. Today's customers are accustomed to instant online purchasing, and they often don't understand why buying an insurance product can take days or weeks. IPA will speed up underwriting to stay in step with those expectations. For example, machine learning applied to customer profiles can automatically recommend the right product to the right customer at the right time. And the AI-based analysis of customer profiles and relevant third-party data will enable consumers and small-to-midsize businesses to purchase most insurance products online in minutes. One insurer has offered life insurance quotes to customers based on submitted selfies, which are analyzed to estimate age, gender and body mass index.

Innovative tools are now accelerating the claims process, as well. An AI system was launched by an insurer to analyze medical documents to quickly calculate payouts for policy claims. In addition, a range of newer technologies, such as home sensors, drones and smart devices, can be used to investigate property claims in inaccessible locations and feed that data to IPA-based systems.

As IPA finds its way into more customer-facing processes, human-based service will continue to be important to insurance customers. Here, the technology can work hand in hand with customer service agents to improve interactions. IPA can provide agents with timely information, recommendations and insights that help streamline and personalize service for customers. For example, a U.S.-based P/C insurer's call center is using the IBM Watson AI tool to analyze incoming calls and gauge caller sentiment in near real time. A dashboard lets agents know how to proceed through a conversation, with speech analytics being applied to calls as they happen in order to automatically update the dashboard. Overall, the system is designed to provide agents with guidance on responding with empathy, asking relevant questions and providing the information the caller needs.

Key Points

What's Happening: Insurers are challenged to maintain profitability because of having to deal with low interest rates, increasing competition and market overcapacity.

A Solution: Many carriers are turning to artificial intelligence and intelligent process automation to not only handle mundane tasks but also complex business operations.

A Caveat: Automation represents an enormous transformational shift for insurance companies and their employees—and success will require end-to-end change management efforts involving leadership engagement, communications and training.

Doing IPA Right

When automation projects are focused on customers, it is especially important that they not be done on a one-off or isolated basis. Instead, they should be part of an integrated strategy supported by both the business and the IT function, and viewed through a customer-centric lens. Otherwise, companies are likely to miss opportunities to provide the kind of customer experience that will help them increase revenues and grow.

As companies consider the automation of a process, they should keep several key practices in mind.

- **Analyze the process holistically.**

IPA enables more extensive automation than RPA, so companies should work with a deep understanding of the process from end to end, with the customer being the focal point of improvements. Cognitive technologies are capable of integrating data with insights derived from behavioral sciences to help companies anticipate and fulfill a customer's needs. For example, customers interested in self-service can be routed to an online portal, aided by a chatbot powered by machine learning and natural language processing, while other clients are sent to human agents coached by AI tools.

• Determine how various technologies can enhance the process.

Executives should take time to understand the capabilities of the automation tools that are on the market. When considering RPA, be sure to evaluate whether it might be enhanced with more sophisticated cognitive tools such as AI or automated case management. The possibilities are numerous and broad. Advanced cognitive agents, for example, can now resolve problems, upsell customers and learn automatically on the job to keep improving their performance. Computer vision and machine learning can be used to train software to assess automobile damage using images, thereby reducing the need to have adjusters inspect vehicles in person. These types of approaches ultimately make it easier for customers to work with the insurer.

• Optimize the process before automating it.

Automating a poorly designed, fragmented process will lead to disappointing results and, often, the kind of internal inefficiencies and disconnects that can frustrate customers. Experience indicates that roughly one-third of the processes that are reviewed for automation require changes beforehand. This might include system changes, standardization and consolidation of processes, technology interventions, and implementation of lean strategies. Whenever possible, eliminate unnecessary work and/or participants from the process. Often, the optimization of processes will contribute to a smoother customer experience.

• Integrate front- and back-office processes.

A holistic approach to automation integrates the customer-facing portion of a process with the back office. Automating a back-office process may reduce costs or ease workloads, but how the back office works can affect the customer experience—so it's important to consider the impact it will have on the customer. Integrating front- and back-office processes can help keep the two areas in sync, and remove friction from processes to both cut costs and enhance service.

• Prioritize processes in alignment with business priorities.

Start by focusing on processes that are pain points for the company and its customers. Once business objectives such as cost control or growth are defined, an insurer can evaluate which processes are limiting its ability to meet those objectives. For property/casualty insurers, it might be claims; for life/annuity companies, business intake might be the most important process to tackle first. Today, some AI tools can actually help companies determine which processes offer the most potential for generating value through automation.

• Establish an automation center of excellence.

An automation center of excellence (CoE) will help ensure that automation is part of an overall continuous improvement strategy. A CoE can help an insurer coordinate its efforts and apply learnings from one initiative to the next—and ultimately, successfully scale up automation, rather than run into roadblocks after automating a few processes, while keeping automation efforts firmly focused on the customer experience.

Addressing the Human Element

Automation will have an impact on employees. Much has been said about automation replacing workers, and that will certainly happen in some cases. But the reality is more nuanced.

For example, while some employees will lose their jobs to automation, others will find that their jobs are changing—often, to more value-adding and customer-focused work. Agents freed from data entry and documentation tasks will be able to deliver hyper-personalized, higher-quality customer service. New roles will also include overseeing IPA systems, which will need to be managed both technically and operationally, and maintained and updated as processes and applications evolve.

Many employees will find themselves working in concert with IPA systems—like the agents getting recommendations from Watson. When it comes to this kind of collaboration, companies can create an environment where business rules are automated, and humans resolve the exceptions and add value for the customer. In general, IPA can help employees make better decisions, provide enhanced customer service, analyze claims for fraud and assess risk—all of which contribute to a better customer experience.

In any case, automation represents an enormous transformational shift for insurance companies and their employees—and success will require end-to-end change management efforts involving leadership engagement, communications and training. Developing a change strategy at the start of any project will greatly increase the odds of success.

Automation is not going to be easy, but a business-focused IPA strategy is rapidly becoming critical for insurers. Those that develop a holistic IPA approach that combines RPA with advanced cognitive technologies will be in position to cut costs now and build the kind of customer experience that will position them for growth and success in the years ahead. BR

Best's Rankings

U.S. Property/Casualty — 2018 Direct Premiums Written by Line

($ Thousands)

Business Line	Direct Premiums Written	% of Total	% Chg	Adjusted Loss Ratio 2018	Adjusted Loss Ratio 2017	Leading Writer	AMB #	% Market Share	% of Writer Total DPW	Second Leading Writer	AMB #	% Market Share	% of Writer's Total DPW
Private Passenger Auto Liability	$148,058,299	21.9	6.7	66.6	70.8	State Farm Group	000088	17.0	38.2	Berkshire Hathaway Ins	000811	13.7	46.2
No-Fault	17,221,278	2.5	5.0	76.5	78.0	Berkshire Hathaway Ins	000811	17.4	6.8	State Farm Group	000088	15.9	4.2
Other Liability	130,837,021	19.3	6.9	65.3	69.8	State Farm Group	000088	17.1	34	Berkshire Hathaway Ins	000811	13.2	39.4
Homeowners Multiple Peril	98,839,810	14.6	4.8	72.7	74.6	State Farm Group	000088	18.4	27.6	Allstate Ins Group	000008	8.4	24.8
Private Passenger Auto Physical Damage	98,438,855	14.5	6.1	61.8	66.4	State Farm Group	000088	17.1	25.6	Berkshire Hathaway Ins	000811	13.0	29.2
Other Liability	70,853,181	10.5	6.9	59.7	53.6	Chubb INA Group	018498	8.9	28.6	Amer Intl Group	018540	6.1	29.2
Occurrence	46,205,660	6.8	6.6	64.2	55.8	Chubb INA Group	018498	8.4	17.5	Assurant US PC Companies	018924	7.3	46.6
Claims -Made	23,364,427	3.4	7.7	50.1	48.9	Chubb INA Group	018498	9.9	10.5	Amer Intl Group	018540	9.9	15.6
Excess Workers' Compensation	1,283,095	0.2	1.4	68.5	60.1	Tokio Marine US PC Group	018733	38.7	6.8	W. R. Berkley Ins Group	018252	13.1	2.8
Workers' Compensation	58,003,305	8.6	-0.4	46.8	51.5	Travelers Group	018674	7.4	16.3	Hartford Ins Group	000048	5.8	30.6
Commercial Multiple Peril	41,998,912	6.2	2.8	60.6	67.0	Travelers Group	018674	8.2	13.1	Nationwide Group	005987	5.6	12.8
Non-Liability	26,469,599	3.9	2.7	67.3	78.1	Travelers Group	018674	7.7	7.8	Chubb INA Group	018498	5.8	7.0
Liability	15,529,314	2.3	2.9	49.2	48.1	Travelers Group	018674	9.0	5.3	Liberty Mutual Ins Cos	000060	6.7	3.0
Commercial Auto Liability	30,906,653	4.6	12.8	71.7	71.1	Progressive Ins Group	000780	11.2	10.3	Travelers Group	018674	6.5	7.6
No-Fault	850,838	0.1	1.2	62.7	76.8	Amer Transit Ins Co	004660	10.4	27.0	Progressive Ins Group	000780	10.3	0.3
Other Liability	30,055,815	4.4	13.1	71.9	71.0	Progressive Ins Group	000780	11.3	10.0	Travelers Group	018674	6.5	7.5
Inland Marine	24,613,555	3.6	8.3	47.3	54.0	CNA Ins Cos	018313	15.1	34.8	Liberty Mutual Ins Cos	000060	14.4	10.2
Fire	13,257,085	2.0	7.0	70.0	67.3	Amer Intl Group	018540	7.2	6.4	FM Global Group	018502	5.8	19.7
Allied	12,322,165	1.8	9.3	87.7	169.8	FM Global Group	018502	7.9	24.9	Assurant US PC Companies	018924	5.8	9.8
Mult Peril Crop	10,114,234	1.5	-0.1	67.6	57.4	Chubb INA Group	018498	17.7	8.1	Zurich Finl Svcs NA Group	018549	14.8	12.1
Comm Auto Phys Damage	9,698,953	1.4	10.8	60.9	67.3	Progressive Ins Group	000780	9.6	2.8	Travelers Group	018674	5.8	2.2
Medical Professional Liability	9,266,602	1.4	0.5	49.3	50.9	Berkshire Hathaway Ins	000811	16.9	3.6	Doctors Co Ins Group	018083	7.4	93.3
Surety	6,586,152	1.0	5.7	13.0	15.7	Travelers Group	018674	13.5	3.4	Liberty Mutual Ins Cos	000060	12.4	2.4
Mortgage Guaranty	5,208,943	0.8	4.0	3.9	12.2	Arch Ins Group	018484	21.3	30.2	Mortgage Guar Group	003014	21.2	100.0
Grp A&H	4,894,687	0.7	-4.8	61.6	63.1	Chubb INA Group	018498	14.7	3.3	Amer Intl Group	018540	12.8	4.2
Farmowners Mult Peril	4,449,322	0.7	3.7	60.0	73.2	Nationwide Group	005987	11.9	2.9	Farm Bureau P&C Group	004233	7.7	22.4
Products Liab	3,675,739	0.5	0.5	61.6	36.9	Chubb INA Group	018498	10.5	1.7	Allianz of America Companies	018429	6.1	4.8
Ocean Marine	3,508,806	0.5	6.3	52.6	64.6	Amer Intl Group	018540	16.1	3.8	Berkshire Hathaway Ins	000811	8.3	0.7
Earthquake	3,273,932	0.5	9.4	5.8	4.5	CA Earthquake Authority	012534	23.7	100.0	State Farm Group	000088	8.2	0.4
Warranty	3,240,521	0.5	5.6	61.1	56.8	AmTrust Group	018533	25.2	13.8	Ally Ins Group	018431	12.6	60.4
Federal Flood	2,844,192	0.4	-0.5	51.5	301.1	Wright National Flood Insurance Company	012582	21.7	99.7	Assurant US PC Companies	018924	18.0	7.1
All Individual A&H	2,375,627	0.4	14.1	96.1	105.4	State Farm Group	000088	30.8	1.1	CNA Ins Cos	018313	12.0	2.7
Credit	2,150,378	0.3	7.6	44.7	48.2	Allianz of America Companies	018429	16.9	7.8	Great Amer P & C Ins Grp	004835	16.4	5.9
Boiler & Machinery	1,826,212	0.3	8.1	46.7	43.8	FM Global Group	018502	35.8	16.7	Amer Intl Group	018540	9.6	1.2
Aircraft(all perils)	1,659,075	0.2	3.3	54.2	55.7	Starr Intl Group	018756	15.8	9.6	Amer Intl Group	018540	14.8	1.7
Fidelity	1,261,659	0.2	2.8	38.4	39.9	Chubb INA Group	018498	19.5	1.1	Travelers Group	018674	16.2	0.8
Private Crop	1,048,732	0.2	2.6	99.9	96.2	Zurich Finl Svcs NA Group	018549	15.9	1.3	FMH Ins Group	018171	13.5	17.6
Private Flood	701,803	0.1	9.3	35.4	165.0	FM Global Group	018502	42.7	7.6	Assurant US PC Companies	018924	11.8	1.2
Financial Guaranty	417,534	0.1	-7.4	7.9	175.8	Assured Guar Group	004017	60.1	100.0	MBIA Group	003166	16.4	100.0
Burglary and Theft	351,729	0.1	5.7	31.2	10.7	Travelers Group	018674	24.4	0.3	Chubb INA Group	018498	12.9	0.2
Aggregate Write-ins	1,567,877	0.2	5.4	45.9	29.2	AXA U.S. Group	018557	23.8	7.1	Fairfax Financial (USA) Group	003116	9.6	2.5
Total U.S. P/C Industry	**$677,414,529**	**100.0**	**5.5**	**61.9**	**67.0**	**State Farm Group**	**000088**	**9.7**	**100.0**	**Berkshire Hathaway Ins**	**000811**	**6.5**	**100.0**

Data for some companies in this report has been received from the NAIC.
Reflects Grand Total (includes Canada and U.S. Territories)
Source: BESTLINK — State/Line (P/C Lines)-P/C, US; Data as of: June 18, 2019

U.S. Commercial Multi Peril – 2018 Direct Premiums Written

($ Thousands)

2018 Rank	2017 Rank	Company/Group	AMB#	2018 Direct Premiums Written	% Change in Premiums	Market Share (%) 2018	Market Share (%) 2017	Market Share (%) 2016	Adjusted Loss Ratios 2018	Adjusted Loss Ratios 2017	Adjusted Loss Ratios 2016	% of Company Premiums
1	1	Travelers Group	018674	$3,448,384	5.3	8.2	8.0	8.1	54.3	45.9	44.5	13.1
2	2	Nationwide Group	005987	2,348,349	-7.1	5.6	6.2	6.4	61.8	72.1	53.5	12.8
3	3	Liberty Mutual Ins Cos	000060	2,348,059	-0.5	5.6	5.8	5.7	59.2	64.3	44.8	6.8
4	4	Chubb INA Group	018498	2,108,901	6.8	5.0	4.8	5.1	66.8	92.3	49.5	9.5
5	5	Tokio Marine US PC Group	018733	1,973,972	6.1	4.7	4.6	4.5	55.1	54.2	45.6	26.9
6	6	Hartford Ins Group	000048	1,916,664	4.3	4.6	4.5	4.5	48.4	53.2	54.3	17.3
7	8	State Farm Group	000088	1,583,455	3.1	3.8	3.8	3.9	55.5	58.6	53.1	2.4
8	7	Farmers Ins Group	000032	1,555,005	-3.0	3.7	3.9	4.0	75.5	63.8	50.6	7.7
9	9	Cincinnati Ins Cos	004294	1,216,300	0.0	2.9	3.0	3.0	54.8	50.7	55.5	24.2
10	10	The Hanover Ins Grp Prop & Cas Cos	004861	1,098,406	4.7	2.6	2.6	2.5	50.9	51.0	50.1	22.8
11	11	CNA Ins Cos	018313	1,041,585	2.7	2.5	2.5	2.5	61.3	55.1	41.1	9.7
12	12	Auto-Owners Ins Group	004354	989,766	5.2	2.4	2.3	2.3	52.0	46.3	47.0	12.5
13	13	Erie Ins Group	004283	906,953	5.5	2.2	2.1	2.1	49.8	40.8	41.4	12.7
14	14	Amer Family/Main Street America Grp	018928	762,762	-1.7	1.8	1.9	2.0	87.3	82.7	67.1	7.6
15	15	W. R. Berkley Ins Group	018252	738,457	2.4	1.8	1.8	1.8	53.1	43.9	51.8	12.5
16	19	Markel Corp Group	018468	731,437	17.3	1.7	1.5	1.3	75.3	80.5	51.0	13.9
17	16	Amer Intl Group	018540	674,039	-4.2	1.6	1.7	1.8	63.5	81.4	58.6	4.5
18	20	Allianz of America Companies	018429	649,465	9.1	1.6	1.5	1.4	25.7	80.5	125.1	14.0
19	17	Allstate Ins Group	000008	645,175	0.3	1.5	1.6	1.7	61.6	52.4	55.7	1.9
20	18	Zurich Finl Svcs NA Group	018549	599,048	-5.2	1.4	1.6	1.6	66.6	107.9	55.1	4.8
21	21	AmTrust Group	018533	562,317	5.8	1.3	1.3	0.7	62.5	53.3	57.4	9.5
22	24	Berkshire Hathaway Ins	000811	509,670	31.3	1.2	1.0	0.8	64.2	58.4	102.2	1.2
23	22	Church Mutual Ins Group	018887	489,612	10.3	1.2	1.1	1.1	90.7	57.3	46.6	58.1
24	25	Munich-Amer Hldg Corp Cos	018753	476,090	23.7	1.1	0.9	0.7	53.3	56.4	38.4	19.2
25	26	Fairfax Financial (USA) Group	003116	417,397	10.8	1.0	0.9	0.9	50.2	75.3	55.4	6.9
		Top 25 Writers		**$29,791,268**	**3.1**	**70.9**	**70.7**	**71.4**	**59.1**	**61.8**	**51.5**	**7.7**
		Total U.S. P/C Industry		**$41,998,912**	**2.8**	**100.0**	**100.0**	**100.0**	**60.6**	**67.0**	**50.7**	**6.2**

Reflects Grand Total (includes Canada and U.S. Territories).
Source: BESTLINK — State/Line (P/C Lines)-P/C, US; Data as of: June 17, 2019

U.S. Homeowners Multiple Peril – 2018 Direct Premiums Written

($ Thousands)

2018 Rank	2017 Rank	Company/Group	AMB#	2018 Direct Premiums Written	% Change in Premiums	Market Share (%) 2018	Market Share (%) 2017	Market Share (%) 2016	Adjusted Loss Ratios 2018	Adjusted Loss Ratios 2017	Adjusted Loss Ratios 2016	% of Company Premiums
1	1	State Farm Group	000088	$18,177,462	3.5	18.4	18.6	19.2	61.9	80.9	54.2	27.6
2	2	Allstate Ins Group	000008	8,262,445	3.8	8.4	8.4	8.6	65.6	55.6	50.0	24.8
3	3	Liberty Mutual Ins Cos	000060	6,655,452	2.8	6.7	6.9	6.8	51.3	65.1	51.4	19.2
4	4	USAA Group	004080	6,170,558	8.2	6.2	6.1	5.8	83.4	83.4	72.9	28.1
5	5	Farmers Ins Group	000032	5,795,044	3.2	5.9	6.0	6.0	78.8	77.5	53.8	28.5
6	6	Travelers Group	018674	3,766,277	6.2	3.8	3.8	3.7	69.3	65.1	45.7	14.4
7	8	Amer Family/Main Street America Grp	018928	3,399,406	7.5	3.4	3.4	3.2	63.7	61.8	47.9	34.0
8	7	Nationwide Group	005987	3,184,627	-3.2	3.2	3.5	3.6	76.8	99.2	57.6	17.3
9	9	Chubb INA Group	018498	2,832,082	2.0	2.9	2.9	3.0	91.9	87.4	53.2	12.8
10	10	Erie Ins Group	004283	1,675,976	5.0	1.7	1.7	1.7	66.0	53.3	46.5	23.5
11	11	Auto-Owners Ins Group	004354	1,571,704	10.9	1.6	1.5	1.4	55.3	55.8	47.4	19.8
12	14	Progressive Ins Group	000780	1,403,095	28.5	1.4	1.2	1.0	66.7	58.8	49.8	4.2
13	12	Amer Intl Group	018540	1,153,299	2.3	1.2	1.2	1.2	219.0	107.2	52.4	7.8
14	16	Universal Ins Hldgs Group	018752	1,116,377	13.6	1.1	1.0	1.0	100.6	67.0	28.8	93.7
15	13	MetLife Auto & Home Group	003933	1,102,128	-0.3	1.1	1.2	1.2	58.3	62.6	60.6	29.1
16	15	Hartford Ins Group	000048	983,754	-5.2	1.0	1.1	1.2	88.1	77.1	54.5	8.9
17	17	CSAA Ins Group	018460	924,000	2.8	0.9	1.0	1.0	164.3	163.5	50.4	22.7
18	18	Amica Mutual Group	018522	909,196	7.3	0.9	0.9	0.9	65.5	74.4	64.7	37.6
19	19	Auto Club Enterprises Ins Group	018515	827,909	4.8	0.8	0.8	0.8	48.3	70.8	60.3	19.4
20	24	Natl Gen Companies	018863	792,392	21.1	0.8	0.7	0.6	98.1	76.8	52.6	16.6
21	21	United Ins Group	018881	786,377	10.5	0.8	0.8	0.7	102.4	72.1	47.5	67.7
22	20	Heritage Ins Hldgs Group	018891	783,541	-0.2	0.8	0.8	0.8	70.2	86.8	36.1	84.2
23	22	COUNTRY Financial PC Group	000302	698,990	3.8	0.7	0.7	0.7	60.5	69.1	56.7	27.9
24	23	Auto Club Group	000312	684,538	3.8	0.7	0.7	0.7	54.5	61.8	42.9	24.5
25	26	Assurant US PC Companies	018924	672,055	10.3	0.7	0.7	0.6	52.2	46.9	51.8	9.3
		Top 25 Writers		**$74,328,684**	**4.6**	**75.2**	**75.3**	**75.6**	**71.9**	**75.0**	**53.3**	**20.5**
		Total U.S. P/C Industry		**$98,839,810**	**4.8**	**100.0**	**100.0**	**100.0**	**72.7**	**74.6**	**52.8**	**14.6**

Reflects Grand Total (includes Canada and U.S. Territories).
Source: BESTLINK — State/Line (P/C Lines)-P/C, US; Data as of: June 18, 2019

U.S. Medical Professional Liability – 2018 Direct Premiums Written

($ Thousands)

2018 Rank	2017 Rank	Company/Group	AMB#	2018 Direct Premiums Written	% Change in Premiums	Market Share (%) 2018	2017	2016	Adjusted Loss Ratios 2018	2017	2016	% of Company Premiums
1	1	Berkshire Hathaway Ins	000811	$1,564,100	4.4	16.9	16.3	15.4	54.2	44.2	37.1	3.6
2	2	Doctors Co Ins Group	018083	690,014	1.4	7.5	7.4	7.2	46.6	38.0	31.4	93.3
3	3	CNA Ins Cos	018313	528,730	7.6	5.7	5.3	5.0	52.6	50.8	26.1	4.9
4	4	ProAssurance Group	018559	474,838	-0.2	5.1	5.2	4.9	46.6	36.3	27.2	57.2
5	5	Coverys Companies	018359	446,227	7.7	4.8	4.5	4.3	47.7	54.2	59.1	91.7
6	7	Norcal Group	018539	341,515	2.8	3.7	3.6	3.5	54.1	43.7	44.7	100.0
7	6	MCIC Vermont (A RRRG)	012014	339,917	1.6	3.7	3.6	3.1	86.2	78.1	72.2	96.0
8	8	Mag Mutual Group	018635	286,705	7.6	3.1	2.9	2.6	56.2	71.5	55.4	86.5
9	10	Hospitals Ins Co, Inc.	000157	219,061	25.8	2.4	1.9	2.0	24.0	47.1	41.8	93.4
10	9	Physicians' Reciprocal Insurers	002888	174,149	-6.4	1.9	2.0	3.1	10.1	42.2	104.5	99.3
11	11	Liberty Mutual Ins Cos	000060	172,308	3.5	1.9	1.8	1.7	50.1	95.4	40.6	0.5
12	16	Constellation Ins Group	018840	166,377	15.2	1.8	1.6	1.7	52.6	50.2	41.4	94.9
13	14	Controlled Risk Ins Co of VT, Inc	011814	158,678	5.0	1.7	1.6	1.6	56.1	60.6	47.4	93.9
14	13	ISMIE Mutual Group	018644	153,115	-3.1	1.7	1.7	1.9	43.1	42.3	32.0	100.0
15	15	Chubb INA Group	018498	152,454	5.2	1.7	1.6	1.6	76.3	72.9	51.4	0.7
16	21	Alleghany Ins Holdings Group	018640	128,039	10.0	1.4	1.3	1.2	40.1	32.2	25.2	8.5
17	17	Medical Mutual Group (NC)	018072	125,833	-9.4	1.4	1.5	1.6	30.7	28.6	13.8	100.0
18	19	State Volunteer Mutual Ins Co	003706	119,977	-4.6	1.3	1.4	1.4	28.0	17.7	19.5	99.9
19	23	W. R. Berkley Ins Group	018252	105,500	12.1	1.1	1.0	1.1	36.4	61.3	54.2	1.8
20	20	Medical Mutual Group (MD)	005006	100,195	-15.0	1.1	1.3	1.3	25.2	44.6	43.9	99.7
21	22	Mutual Ins of Arizona Group	018867	97,390	-6.2	1.1	1.1	1.2	38.0	43.7	37.8	100.0
22	12	Amer Intl Group	018540	96,347	-41.8	1.0	1.8	2.4	-61.1	33.7	173.9	0.7
23	18	Fairfax Financial (USA) Group	003116	96,051	-24.9	1.0	1.4	1.4	50.5	51.7	49.0	1.6
24	25	NCMIC Group	018579	94,596	1.0	1.0	1.0	1.0	22.2	20.0	21.1	88.5
25	24	Natl Group	018249	94,270	0.4	1.0	1.0	1.0	41.2	28.1	28.7	100.0
		Top 25 Writers		**$6,926,386**	**1.9**	**74.7**	**73.7**	**73.1**	**47.3**	**47.7**	**49.3**	**4.8**
		Total U.S. P/C Industry		**$9,266,602**	**0.5**	**100.0**	**100.0**	**100.0**	**49.2**	**50.9**	**50.3**	**1.4**

Note: Data for some companies in this report has been received from the NAIC.
Reflects Grand Total (includes Canada and U.S. Territories).
Source: BESTLINK — State/Line (P/C Lines)-P/C, US; Data as of: June 17, 2019

U.S. Total Auto – 2018 Direct Premiums Written

($ Thousands)

2018 Rank	2017 Rank	Company/Group	AMB#	2018 Direct Premiums Written	% Change in Premiums	Market Share (%) 2018	2017	2016	Adjusted Loss Ratios 2018	2017	2016	% of Company Premiums
1	1	State Farm Group	000088	$42,635,947	0.5	14.9	15.9	16.0	62.8	68.9	77.2	64.7
2	2	Berkshire Hathaway Ins	000811	34,589,646	12.4	12.1	11.5	10.7	70.3	76.4	73.9	78.8
3	3	Progressive Ins Group	000780	31,464,084	21.2	11.0	9.7	9.0	61.3	63.4	66.5	93.2
4	4	Allstate Ins Group	000008	23,262,060	6.7	8.1	8.2	8.6	56.9	59.6	65.0	70.0
5	6	USAA Group	004080	14,467,931	10.0	5.0	4.9	4.7	81.3	83.2	90.0	65.8
6	5	Liberty Mutual Ins Cos	000060	13,575,141	1.9	4.7	5.0	5.0	64.1	70.5	67.4	39.2
7	7	Farmers Ins Group	000032	11,013,308	2.8	3.8	4.0	4.3	61.3	65.6	68.5	54.2
8	8	Nationwide Group	005987	8,361,029	-7.3	2.9	3.4	3.8	61.1	68.4	75.4	45.4
9	9	Travelers Group	018674	7,262,429	9.0	2.5	2.5	2.4	64.6	66.2	62.5	27.7
10	10	Amer Family/Main Street America Grp	018928	5,214,032	7.5	1.8	1.8	1.8	69.2	70.1	64.8	52.1
11	12	Auto-Owners Ins Group	004354	3,937,481	16.6	1.4	1.3	1.2	65.8	73.2	71.9	49.7
12	11	Erie Ins Group	004283	3,787,830	8.5	1.3	1.3	1.3	72.6	68.5	68.4	53.2
13	14	Auto Club Enterprises Ins Group	018515	3,394,875	13.5	1.2	1.1	1.1	69.2	72.9	76.2	79.5
14	13	Natl Gen Companies	018863	3,369,566	11.6	1.2	1.1	1.0	61.5	68.7	68.1	70.5
15	16	Kemper PC Companies	018908	3,322,620	16.6	1.2	1.1	1.1	62.3	66.4	68.4	89.9
16	17	CSAA Ins Group	018460	3,002,971	7.0	1.1	1.1	1.0	63.3	66.2	70.5	73.6
17	18	Mercury Gen Group	004524	2,874,694	9.3	1.0	1.0	1.0	65.4	63.5	65.6	81.8
18	15	Hartford Ins Group	000048	2,707,298	-5.7	0.9	1.1	1.3	63.9	69.4	78.6	24.5
19	19	MetLife Auto & Home Group	003933	2,519,692	4.2	0.9	0.9	0.9	58.4	61.6	65.4	66.6
20	20	Auto Club Group	000312	2,029,113	6.4	0.7	0.7	0.7	85.1	99.1	76.6	72.7
21	21	MAPFRE North America Group	018801	1,868,927	-1.1	0.7	0.7	0.8	66.6	69.7	68.4	69.2
22	24	The Hanover Ins Grp Prop & Cas Cos	004861	1,567,959	8.2	0.6	0.5	0.5	67.7	62.7	67.2	32.5
23	25	Sentry Ins Group	000086	1,543,893	12.6	0.5	0.5	0.5	65.3	64.5	64.4	63.5
24	23	Chubb INA Group	018498	1,527,651	-2.9	0.5	0.6	0.6	69.4	63.2	60.7	6.9
25	27	Old Republic Ins Group	000734	1,439,950	12.7	0.5	0.5	0.5	66.8	69.7	68.2	33.6
		Top 25 Writers		**$230,740,127**	**7.3**	**80.4**	**80.3**	**79.9**	**65.0**	**69.2**	**72.0**	**58.0**
		Total U.S. P/C Industry		**$287,102,760**	**7.3**	**100.0**	**100.0**	**100.0**	**65.3**	**69.2**	**71.7**	**42.4**

Reflects Grand Total (includes Canada and U.S. Territories).
Source: BESTLINK — State/Line (P/C Lines)-P/C, US; Data as of: June 18, 2019

U.S. Workers' Compensation – 2018 Direct Premiums Written

($ Thousands)

2018 Rank	2017 Rank	Company/Group	AMB#	2018 Direct Premiums Written	% Change in Premiums	Market Share (%) 2018	Market Share (%) 2017	Market Share (%) 2016	Adjusted Loss Ratios 2018	Adjusted Loss Ratios 2017	Adjusted Loss Ratios 2016	% of Company Premiums
1	1	Travelers Group	018674	$4,280,547	-1.7	7.4	7.5	7.6	48.4	54.3	54.6	16.3
2	2	Hartford Ins Group	000048	3,382,972	-0.7	5.8	5.9	5.7	46.7	50.9	48.3	30.6
3	5	Berkshire Hathaway Ins	000811	2,750,360	-1.9	4.7	4.8	4.6	46.4	48.3	49.9	6.3
4	3	Zurich Finl Svcs NA Group	018549	2,694,390	-7.8	4.7	5.0	4.9	46.6	50.8	64.6	21.7
5	4	AmTrust Group	018533	2,635,106	-9.8	4.5	5.0	5.3	44.1	56.4	51.3	44.5
6	6	Chubb INA Group	018498	2,479,397	0.8	4.3	4.2	4.4	25.0	47.4	47.5	11.2
7	7	Liberty Mutual Ins Cos	000060	2,473,669	1.1	4.3	4.2	4.1	13.6	60.4	60.3	7.1
8	8	State Ins Fund WC Fund	004029	2,256,138	-1.0	3.9	3.9	4.2	68.8	63.5	64.3	100.0
9	9	Amer Intl Group	018540	1,690,380	-3.9	2.9	3.0	3.7	65.3	78.3	106.5	11.4
10	14	AF Group	018680	1,566,915	17.1	2.7	2.3	2.2	46.0	48.2	51.4	95.5
11	10	Old Republic Ins Group	000734	1,466,819	0.6	2.5	2.5	2.5	54.4	64.8	63.5	34.2
12	11	W. R. Berkley Ins Group	018252	1,360,656	-3.7	2.4	2.4	2.5	44.9	38.4	50.0	22.9
13	13	State Compensation Ins Fund	004028	1,338,989	-1.6	2.3	2.3	2.8	71.6	39.2	73.7	100.0
14	12	Great Amer P & C Ins Grp	004835	1,328,345	-2.8	2.3	2.4	2.2	45.7	47.8	48.5	22.1
15	15	TX Mutual Ins Co	011453	1,097,244	10.6	1.9	1.7	1.6	58.8	50.7	38.9	100.0
16	17	ICW Pool	002967	958,240	3.0	1.7	1.6	1.6	50.4	52.5	56.3	93.8
17	16	Fairfax Financial (USA) Group	003116	928,499	-2.4	1.6	1.6	1.6	30.3	32.1	24.9	15.3
18	18	CNA Ins Cos	018313	800,609	8.5	1.4	1.3	1.3	54.9	50.9	71.2	7.5
19	19	Employers Ins Group	018602	739,056	2.7	1.3	1.2	1.2	42.8	47.2	47.1	100.0
20	21	Starr Intl Group	018756	649,470	4.9	1.1	1.1	0.8	50.2	58.8	57.0	23.8
21	20	Pinnacol Assur	003471	623,848	0.5	1.1	1.1	1.1	54.4	53.1	54.8	100.0
22	22	Arch Ins Group	018484	581,504	3.8	1.0	1.0	0.9	47.6	59.4	61.4	15.8
23	24	Markel Corp Group	018468	530,230	3.3	0.9	0.9	0.6	36.3	39.3	43.1	10.1
24	23	NJM Ins Group	003985	519,827	-1.2	0.9	0.9	0.9	59.6	54.0	56.5	26.1
25	26	Everest Re US Group	005696	512,191	7.3	0.9	0.8	0.7	39.5	40.9	49.0	25.6
		Top 25 Writers		**$39,645,401**	**-0.8**	**68.4**	**68.6**	**69.2**	**46.4**	**53.0**	**57.7**	**17.4**
		Total U.S. P/C Industry		**$58,003,305**	**-0.4**	**100.0**	**100.0**	**100.0**	**46.8**	**51.5**	**55.9**	**8.6**

Reflects Grand Total (includes Canada and U.S. Territories).
Source: BESTLINK — State/Line (P/C Lines)-P/C, US; Data as of: June 17, 2019

Best's Rankings

Top 200 U.S. Combined Life & Health Insurers

Ranked by 2018 admitted assets.
($ Thousands)

2018 Rank	2017 Rank	Company/Group	AMB#	Admitted Assets	% Change
1	1	Prudential of America Group	070189	$577,911,428	-3.0
2	2	Metropolitan Life & Affiliated Cos Group	069169	409,746,263	-4.2
3	3	New York Life Group	069714	324,970,928	1.4
4	4	TIAA Group*	070362	316,052,536	2.9
5	5	AIG Life & Retirement Group	070342	283,717,128	-2.2
6	8	Northwestern Mutual Group	069515	272,266,151	2.7
7	6	Lincoln Finl Group	070351	255,810,967	-6.6
8	9	Massachusetts Mutual Life Group	069702	254,871,959	1.2
9	7	John Hancock Life Insurance Group	069542	247,572,469	-9.0
10	10	Jackson Natl Group	069578	236,988,672	-1.9
11	11	Aegon USA Group	069707	201,204,255	-7.5
12	12	AXA Equitable Group	070194	194,728,959	-2.4
13	14	Principal Finl Group Inc.	020516	185,009,820	-2.3
14	13	Brighthouse Ins Group	070516	179,295,297	-7.5
15	15	Nationwide Mutual Life Group	070822	170,430,331	-0.5
16	18	Allianz Life Ins Group	070187	145,153,116	2.7
17	17	Voya Finl Group	070153	138,557,098	-2.3
18	19	Pacific Life Group	069720	135,579,228	0.3
19	16	Talcott Resolution Group	070116	117,925,796	-18.5
20	21	Ameriprise Finl Group	069689	104,154,839	-8.4
21	22	Sammons Enterprises Group	070533	99,242,227	2.0
22	23	Thrivent Finl for Lutherans Group	069600	94,070,577	-0.6
23	27	Athene Life Group	070478	83,772,782	16.1
24	24	Kaiser Fndn Group of Health Plans	070936	82,065,647	3.1
25	26	State Farm Life Group	070126	78,026,036	2.7
26	25	Guardian Life & Health Group	020389	75,603,061	-1.5
27	30	Protective Life Group	069728	74,220,795	21.2
28	28	Genworth Finl Companies	070527	67,534,913	-2.1
29	29	Great-West Life Group	070366	62,690,577	-3.6
30	32	Global Atlantic Group	069786	60,219,577	14.2
31	33	Amer Equity Investment Group	070406	54,832,732	4.0
32	31	Voya Ins & Annuity Co	008388	50,810,613	-13.5
33	36	UnitedHealth Group	020442	48,794,933	4.9
34	35	Securian Finl Ins Group	069565	47,253,522	0.7
35	34	Western & Southern Finl Group	069754	47,103,394	-1.1
36	37	Unum Life & Health Group	070556	41,417,215	2.2
37	42	RGA Group	069611	40,422,092	9.9
38	40	Symetra Life Group	070123	39,974,623	4.7
39	46	Great Amer Life Group	069545	38,763,528	8.8
40	39	Allstate Life Group	070106	38,330,485	-3.9
41	43	Cigna Group	069194	37,663,656	2.4
42	41	Oneamerica Group	070399	36,997,409	-0.4
43	47	ERAC Group	070421	35,576,676	2.5
44	44	Anthem Health Networks Group	069158	34,936,146	-4.0
45	48	Security Benefit Group	069882	34,072,139	0.9
46	45	OH Natl Life Group	069717	33,259,419	-7.2
47	50	CVS Health Corp Group	070080	31,668,328	-1.3
48	51	Mutual of Omaha L&H Group	070532	30,756,356	1.8
49	49	Fidelity Investments Group	070020	30,512,256	-5.8
50	58	Health Care Service Corp Group	069154	28,817,948	19.7
51	52	Natl Life Group	069953	28,037,352	3.7
52	53	Penn Mutual Group	069722	27,278,038	4.7
53	54	USAA Life Group	070364	26,088,459	2.9
54	56	Knights of Columbus	006616	25,428,135	1.9
55	63	Wilton Re Group	070435	25,331,358	15.6
56	61	Fidelity & Guaranty Life Group	070403	25,161,453	10.2
57	57	Meiji Yasuda US Life Group	070499	24,722,541	-0.3
58	64	Ameritas Life Group	069790	23,290,757	9.6
59	62	Amer Natl Group	070166	22,972,375	2.2
60	60	Sun Life US L&H Companies	070497	22,945,805	-0.9
61	59	Berkshire Hathaway Group	070158	22,686,170	-5.1
62	55	CNO Group	069862	22,343,522	-10.7
63	65	Mutual of America Life Ins Co	008851	20,380,809	-3.8
64	69	Torchmark Life Group	070443	18,811,616	4.2
65	68	EquiTrust Life Ins Co	060315	18,595,267	2.3
66	67	CMFG Life Group	070262	18,417,369	1.3
67	66	Nassau Ins Companies	070510	18,374,108	-4.8
68	72	Hannover Life Reassur America	068031	16,953,365	9.8
69	71	Modern Woodmen of America	006737	16,475,930	1.9
70	74	Swiss Re Life Group	070469	16,039,423	12.9
71	70	Humana Group	020169	15,565,974	-7.2
72	20	Aflac U.S. Group	069824	15,323,283	-86.6
73	77	Tokio Marine US Life Group	069195	15,143,841	13.6
74	76	Centene Group	069166	14,640,528	9.4
75	75	Southern Farm Bureau Life Ins Co	007053	14,285,839	0.7
76	73	Zurich Amer Life Group	070470	14,104,873	-1.2
77	78	Hartford Life & Accident Ins Co	007285	12,909,480	-0.2
78	79	Natl Western Life Group	070553	11,829,411	-1.2
79	81	Woodmen of World Life Ins Soc	007259	10,949,511	-0.2
80	80	Lincoln Benefit Life Co	006657	10,462,538	-6.8
81	83	BC/BS of MI Group	069165	10,162,245	6.4
82	82	COUNTRY Financial Life Group	070142	10,041,767	2.0
83	84	Horace Mann Life Group	069919	9,307,511	0.3
84	85	Farm Bureau Life Group	070472	9,121,880	0.5
85	86	Blue Shield of CA Group	020415	9,060,549	1.8
86	87	Highmark Inc Group	069155	8,960,406	1.4
87	88	BCBS of FL Group	070909	8,516,745	8.8
88	89	Munich Amer Group	069170	8,148,719	6.7
89	90	Sentry Life Ins Group	070125	7,218,121	0.9
90	92	Lombard Life Group	070450	6,784,155	3.6
91	91	Wellcare Group of Companies	070528	6,539,566	-1.1
92	93	Assurant Inc Group	070135	6,432,863	-1.7
93	95	Amer Fidelity Group	069640	6,202,032	3.4
94	97	Horizon Healthcare Svcs Cos	070932	5,826,602	-1.6
95	94	Molina Healthcare Group	069161	5,814,508	-3.1
96	100	BCBS of NC Group	070914	5,707,644	9.5
97	99	Americo Life Group	069676	5,678,093	0.5
98	101	Lifetime Healthcare Group	069168	5,560,177	8.3
99	104	Legal & Gen America Group	069539	5,476,789	11.3
100	98	Amer Family Life Ins Co	006052	5,274,056	-7.1

2018 Rank	2017 Rank	Company/Group	AMB#	Admitted Assets	% Change
101	103	Independence Blue Cross Group	070982	5,185,060	2.3
102	106	CareFirst Group	070916	5,062,309	10.7
103	102	Farmers New World Life Ins Co	006373	5,046,710	-1.6
104	109	BCBS of SC Group	069149	4,790,654	10.0
105	107	Cincinnati Life Ins Co	006568	4,532,899	2.9
106	126	Global Bankers Ins Group	070491	4,511,634	51.0
107	111	NGL Ins Group	070358	4,509,602	4.8
108	117	BCBS of TN Group	070915	4,460,877	17.9
109	108	Kemper Life & Health Group	070340	4,446,450	1.7
110	105	BCBS of MA Group	020455	4,371,842	-6.5
111	116	BCBS of Minnesota Gr	070913	4,294,563	7.9
112	110	Kansas City Life Group	069692	4,273,230	-1.8
113	118	Continental Gen Ins Co	007360	4,206,872	11.5
114	96	Local Initiative Health Authority of LA	064652	4,123,276	-30.8
115	115	Cambia Health Group	020223	4,053,036	1.3
116	114	BCBS of AL Group	069177	4,038,597	0.8
117	112	Auto-Owners Life Ins Co	006140	3,997,129	-5.1
118	113	Heritage Life Ins Group	070530	3,916,204	-6.7
119	120	Union Labor Life Ins Co	007152	3,892,637	7.7
120	119	Physicians Mutual Group	069724	3,875,902	2.7
121	121	Advantage Capital Life Group	070486	3,769,802	14.5
122	124	AAA Life Group	070388	3,477,244	9.3
123	122	Independent Order of Foresters USB	006551	3,355,744	3.0
124	123	Pan-Amer Life Ins Group	069617	3,260,041	0.4
125	129	Premera Group	020411	3,202,141	10.7
126	127	Delta Dental of CA Group	070892	3,117,915	6.6
127	128	Homesteaders Life Co	006534	3,068,849	5.0
128	125	Savings Bank Mutual Life Ins Co of MA	006696	3,066,542	1.1
129	156	Combined A&H Group	070178	2,783,738	47.1
130	130	Security Mutual Life Ins Co of NY	007034	2,767,386	0.6
131	139	GBU Finl Life	008161	2,754,647	12.1
132	132	Wellmark Group	064437	2,728,126	0.7
133	134	Assurity Life Ins Group	070511	2,627,978	-0.2
134	143	Medical Mutual of OH LH Group	069185	2,617,427	11.1
135	137	Amer Enterprise Group	070369	2,590,257	4.5
136	135	Prosperity Life Group	070471	2,558,133	1.8
137	140	LifeCare Assur Co	009200	2,544,592	4.4
138	148	Manhattan Ins Group	070357	2,543,703	17.4
139	141	Erie Family Life Ins Co	007276	2,498,593	2.7
140	136	Michigan Farm Bureau Life Group	070514	2,493,681	0.0
141	138	Foresters Life Ins & Annuity Co	006413	2,468,155	0.2
142	144	LA Health Svcs & Life Group	069179	2,442,697	5.6
143	142	IN Farm Bureau Group	070368	2,436,969	1.5
144	149	Kuvare US Group	070534	2,411,740	11.5
145	145	TN Farmers Life Ins Co	008443	2,299,817	1.0
146	152	Liberty Bankers Group	070410	2,276,668	7.1
147	153	Blue Cross Blue Shield of AZ Inc	064465	2,268,147	7.8
148	151	CareSource Group	070853	2,257,676	6.2
149	155	Oxford Group	070367	2,250,372	12.9
150	154	UPMC Health Ins Group	070898	2,239,465	8.8
151	133	Senior Health Ins Co of Pennsylvania	007910	2,186,058	-18.7
152	147	Scor Life US Group	070253	2,148,253	-2.7
153	150	EmblemHealth Group	020434	2,139,900	-0.3
154	146	Beneficial Life Ins Co	006162	2,132,394	-5.3
155	158	Primerica Group	070183	2,008,406	6.9
156	159	Federated Life Ins Co	006381	2,007,384	6.9
157	161	Trustmark Ins Group	069845	1,915,693	3.0
158	166	Vision Service Plan Group	070966	1,913,965	8.8
159	131	Orange Prevention & Trtmt Int Med Assist	064713	1,876,276	-31.5
160	164	Arkansas Blue Cross/Blue Shield Group	070971	1,841,566	4.6

2018 Rank	2017 Rank	Company/Group	AMB#	Admitted Assets	% Change
161	168	Tufts Associated Health Plans Group	070875	1,831,007	5.4
162	157	BC BS Kansas Health Group	081067	1,830,725	-2.8
163	172	Triple-S Mgmt Group	020218	1,786,179	9.6
164	165	Columbian Finl Group	069961	1,762,611	0.2
165	167	Capital Blue Cross Companies	020393	1,751,119	0.4
166	162	Centre Life Ins Co	007367	1,680,204	-6.2
167	171	Catholic Finl Life	008188	1,653,316	0.7
168	173	Boston Mutual Group	069993	1,592,860	2.7
169	177	Universal Life Ins Co	060097	1,591,110	13.4
170	198	Sagicor Life Ins Co	006057	1,582,992	42.0
171	178	Medica Hldg Companies	070902	1,541,897	12.8
172	174	Pekin Life Ins Group	070155	1,504,221	2.0
173	176	Alfa Life Ins Corp	006293	1,462,114	2.2
174	175	IL Mutual Life Ins Co	006542	1,460,460	1.3
175	160	Inland Empire Health Plan	064578	1,450,462	-22.4
176	179	Funeral Directors Group	070016	1,426,949	6.8
177	181	OneMain Hldgs Life Group	070506	1,389,536	4.8
178	163	Partnership HealthPlan of California	064877	1,379,048	-21.7
179	187	Priority Health Group	020366	1,370,972	6.8
180	182	Renaissance Health Service Group	020410	1,323,427	1.1
181	186	Amica Life Ins Co	007464	1,322,424	3.0
182	180	BCBS of KC Group	070910	1,304,603	-2.3
183	188	Baltimore Life Ins Co	006143	1,296,486	2.2
184	196	HI Medical Service Assn	064035	1,295,164	10.4
185	191	Shelter Life Ins Co	006675	1,273,923	3.0
186	185	Gleaner Life Ins Society	006459	1,242,963	-3.3
187	194	Harvard Pilgrim Health Care Group	070985	1,225,938	3.6
188	192	Catholic Order of Foresters	006191	1,202,048	0.5
189	195	Catholic Life Ins	008827	1,191,991	1.2
190	199	IHC Inc Companies	070933	1,134,651	3.0
191	200	HealthNow NY Inc	064602	1,113,326	3.8
192	201	Royal Neighbors of America	007010	1,067,888	5.9
193	202	Blue Cross of ID Health Group	070085	1,053,372	5.4
194	203	Fidelity Security Life Ins Group	069812	1,034,047	5.3
195	204	Lincoln Heritage Life Ins Co	006694	1,033,901	6.6
196	205	BCBS of MS Group	020263	1,003,878	3.9
197	208	Providence Health Group	070078	996,206	4.2
198	206	First Catholic Slovak Ladies USA	009869	990,544	2.8
199	209	IA Amer Life Group	070453	978,273	2.3
200	207	GPM Life Group	070452	954,509	-0.4
		Top 200 Insurers		**$7,275,765,427**	**-3.0**
		Total U.S. Life, Health and HMO		**$7,345,975,178**	**-3.1**

* TIAA's assets are significantly understated. Most of its separate account assets are in its affiliate, CREF.

Note: Data for some companies in this report has been received from the NAIC.

Source: BESTLINK – Combined Life and Health , US; Data as of: June 11, 2019

Best's Credit Rating Actions

This edition lists all Credit Rating actions that occurred between June 1 and June 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								
Upgrade	H	AvMed, Inc. *SantaFe HealthCare, Inc.*	064074	C++ b	Stable Stable	C+ b-	Stable Stable	Florida
Rating Withdrawal	H	Blue Cross and Blue Shield of Georgia *Anthem, Inc.*	060075	NR nr		A a+	Stable Stable	Georgia
Change in Outlook	H	Christian Fidelity Life Insurance Co *AMERCO*	006217	A- a-	Positive Positive	A- a-	Stable Stable	Texas
Rating Withdrawal	L	Cotton States Life Insurance Company *Illinois Agricultural Association*	006292	NR nr		A- a-	Stable Stable	Georgia
Upgrade	L	Fidelity Security Life Insurance Co NY *Jones Family Trusts*	006864	A a	Stable Stable	A- a-	Stable Stable	New York
Upgrade	L	Fidelity Security Life Insurance Company *Jones Family Trusts*	007426	A a	Stable Stable	A- a-	Stable Stable	Missouri
Upgrade	H	Friday Health Plans of Colorado, Inc. *Friday Health Plans, Inc.*	068945	C- ccc-	Stable Stable	C- cc	Negative Negative	Colorado
Under Review	L	Individual Assur Co, Life, Health & Acc *Bramante Investments, LLC*	008437	B+ u bbb- u	Developing Developing	B+ bbb-	Stable Stable	Oklahoma
Under Review	L	LifeShield National Insurance Co *Homeshield Capital Co.*	009458	B++ u bbb u	Developing Developing	B++ bbb	Stable Positive	Oklahoma
Under Review	L	Merit Life Insurance Co. *OneMain Holdings, Inc.*	006703	B+ u bbb- u	Developing Developing	B+ bbb-	Stable Stable	Texas
Change in Outlook	L	Oxford Life Insurance Company *AMERCO*	007890	A- a-	Positive Positive	A- a-	Stable Stable	Arizona
Upgrade	H	Physicians Health Plan of Northern IN *Physicians Health Plan of Northern IN*	068743	B++ bbb	Stable Stable	B+ bbb-	Stable Stable	Indiana
Change in Outlook	L	SPJST	009606	B bb	Negative Negative	B bb	Stable Stable	Texas
Upgrade	L	SWBC Life Insurance Company *Southwest Business Corporation*	009027	B++ bbb+	Stable Stable	B++ bbb	Stable Positive	Texas
Downgrade	L	Union Security Insurance Company *Assurant, Inc.*	007232	B++ bbb+	Stable Stable	A- a-	Negative Negative	Kansas
Downgrade	L	Union Security Life Ins Co of New York *Assurant, Inc.*	008533	B++ bbb+	Stable Stable	A- a-	Negative Negative	New York
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY								
Upgrade	P	AIX Specialty Insurance Company *The Hanover Insurance Group, Inc.*	013763	A a+	Stable Stable	A a	Stable Stable	Delaware
Upgrade	P	Allmerica Financial Alliance Ins Co *The Hanover Insurance Group, Inc.*	011746	A a+	Stable Stable	A a	Stable Stable	New Hampshire
Upgrade	P	Allmerica Financial Benefit Insurance Co *The Hanover Insurance Group, Inc.*	011212	A a+	Stable Stable	A a	Stable Stable	Michigan
New	P	Beazley America Insurance Company, Inc. *Beazley plc*	020651	A a	Stable Stable	NR nr		Connecticut
Upgrade	P	Boston Indemnity Company, Inc. *Westaim HIIG L. P.*	004657	A- a-	Negative Negative	B+ u bbb- u	Developing Developing	South Dakota
Downgrade	P	California Casualty & Fire Insurance Co *California Casualty Indemnity Exch*	003576	B++ bbb	Negative Negative	B++ bbb+	Stable Negative	California
Downgrade	P	California Casualty General Ins Co of OR *California Casualty Indemnity Exch*	003809	B++ bbb	Negative Negative	B++ bbb+	Stable Negative	Oregon
Downgrade	P	California Casualty Indemnity Exch *California Casualty Indemnity Exch*	000222	B++ bbb	Negative Negative	B++ bbb+	Stable Negative	California
Downgrade	P	California Casualty Insurance Company *California Casualty Indemnity Exch*	003336	B++ bbb	Negative Negative	B++ bbb+	Stable Negative	Oregon
Upgrade	P	Campmed C & I Company, Inc *The Hanover Insurance Group, Inc.*	011428	A a+	Stable Stable	A a	Stable Stable	New Hampshire
Upgrade	P	Citizens Insurance Company of America *The Hanover Insurance Group, Inc.*	000264	A a+	Stable Stable	A a	Stable Stable	Michigan

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

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY (CONTINUED)								
⊕	P	Citizens Insurance Company of Illinois *The Hanover Insurance Group, Inc.*	012023	A a+	Stable Stable	A a	Stable Stable	Illinois
⊕	P	Citizens Insurance Company of MidW *The Hanover Insurance Group, Inc.*	011747	A a+	Stable Stable	A a	Stable Stable	Indiana
⊕	P	Citizens Insurance Company of Ohio *The Hanover Insurance Group, Inc.*	011679	A a+	Stable Stable	A a	Stable Stable	Ohio
⚑	P	CMIC Risk Retention Group *Connecticut Medical Insurance Company*	014143	A- u a- u	Negative Negative	A- a-	Negative Negative	District Of Columbia
⚑	P	Connecticut Medical Insurance Company *Connecticut Medical Insurance Company*	010085	A- u a- u	Negative Negative	A- a-	Negative Negative	Connecticut
⊕	P	FDM Preferred Insurance Company, Inc. *Fire Districts of NY Mutual Ins Co, Inc*	014022	B++ bbb+	Stable Stable	B++ bbb	Stable Stable	New York
⊕	P	Federated Rural Electric Insurance Exch	000385	A a+	Stable Stable	A a	Stable Stable	Kansas
—	P	FHM Insurance Company	012015	B+ bbb-	Stable Stable	B++ bbb	Negative Negative	Florida
⊕	P	Fire Districts Insurance Company, Inc. *Fire Districts of NY Mutual Ins Co, Inc*	014023	B++ bbb+	Stable Stable	B++ bbb	Stable Stable	New York
⊕	P	Fire Districts of NY Mutual Ins Co, Inc *Fire Districts of NY Mutual Ins Co, Inc*	003788	B++ bbb+	Stable Stable	B++ bbb	Stable Stable	New York
—	P	Great Midwest Insurance Company *Westaim HIIG L. P.*	000737	A- a-	Negative Negative	A u a u	Developing Developing	Texas
☑	P	Houston Specialty Insurance Company *Westaim HIIG L. P.*	013825	A- a-	Negative Negative	A- u a- u	Developing Developing	Texas
☑	P	Imperium Insurance Company *Westaim HIIG L. P.*	003758	A- a-	Negative Negative	A- u a- u	Developing Developing	Texas
⇥	P	Insurance Company of Prince Edward Is* *Echelon Financial Holdings Inc.*	087054	NR nr		B+ bbb-	Stable Stable	Prince Edward Island
⇅	P	Kingstone Insurance Company *Kingstone Companies Inc.*	003230	A- a-	Negative Negative	A- a-	Stable Stable	New York
⊕	P	Massachusetts Bay Insurance Company *The Hanover Insurance Group, Inc.*	002226	A a+	Stable Stable	A a	Stable Stable	New Hampshire
⇅	P	Michigan Millers Mutual Insurance Co *Western National Mutual Insurance Co*	000600	A- a-	Positive Positive	A- a-	Stable Stable	Michigan
New	P	Mutual Insurance Company Limited	056077	A- a-	Stable Stable	NR nr		Bermuda
⇥	P	MutualAid eXchange	003165	NR nr		B+ bbb-	Stable Stable	Kansas
⇅	P	Nations Insurance Company *Nations Holding Company*	013874	B bb	Stable Positive	B bb	Stable Stable	California
—	P	New York Schools Insurance Reciprocal	010807	A a	Negative Negative	A a+	Stable Stable	New York
⊕	P	NOVA Casualty Company *The Hanover Insurance Group, Inc.*	002708	A a+	Stable Stable	A a	Stable Stable	New York
☑	P	Oklahoma Specialty Insurance Company *Westaim HIIG L. P.*	014363	A- a-	Negative Negative	A- u a- u	Developing Developing	Oklahoma
⊕	P	Superior Specialty Insurance Company *Markel Corporation*	000524	A a+	Stable Stable	B++ u bbb+ u	Positive Positive	Delaware
New	P	Synergy Comp Insurance Company *Synergy Holdings, Inc.*	013809	A- a-	Stable Stable	NR nr		Pennsylvania
⊕	P	The Hanover American Insurance Company *The Hanover Insurance Group, Inc.*	010784	A a+	Stable Stable	A a	Stable Stable	New Hampshire
⊕	P	The Hanover Atlantic Insurance Co Ltd. *The Hanover Insurance Group, Inc.*	094923	A a+	Stable Stable	A a	Stable Stable	Bermuda
⊕	P	The Hanover Casualty Company *The Hanover Insurance Group, Inc.*	001734	A a+	Stable Stable	A a	Stable Stable	Texas
⊕	P	The Hanover Insurance Company *The Hanover Insurance Group, Inc.*	002225	A a+	Stable Stable	A a	Stable Stable	New Hampshire
⊕	P	The Hanover New Jersey Insurance Company *The Hanover Insurance Group, Inc.*	012626	A a+	Stable Stable	A a	Stable Stable	New Hampshire
⊕	P	Verlan Fire Insurance Company *The Hanover Insurance Group, Inc.*	011576	A a+	Stable Stable	A a	Stable Stable	New Hampshire

* Ratings were downgraded to B+/bbb- from B++/bbb on June 11, 2019. The ratings were withdrawn on June 11, 2019.

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

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						
—	C	Arabia Insurance Company - Jordan *Arabia Insurance Company s.a.l.*	091740	B bb+	Stable Negative	B+ bbb-	Negative Negative	Jordan
⇅	C	Arabia Insurance Company s.a.l. *Arabia Insurance Company s.a.l.*	091312	B++ bbb	Negative Negative	B++ bbb	Stable Stable	Lebanon
⇥	P	Doha Insurance Group Q.P.S.C.	078636	NR nr		A- a-	Negative Negative	Qatar
☑	P	INSURANCE COMPANY OF GAZ INDUSTRY SOGAZ *INSURANCE COMPANY OF GAZ INDUSTRY SOGAZ*	078919	B++ bbb	Stable Stable	B++ u bbb u	Developing Developing	Russia
⇥	P	Lloyd's Synd 510 Tokio Marine Kiln Synd *Tokio Marine Holdings, Inc.*	047972	NR nr		A a+	Stable Stable	United Kingdom
⊕	C	Orient Insurance PJSC *Al Futtaim Private Company LLC*	078593	A a+	Stable Stable	A a	Stable Positive	United Arab Emirates
New	P	Orient Takaful Insurance Company SAE *Al Futtaim Private Company LLC*	094093	A a+	Stable Stable	NR nr		Egypt
⊕	P	Samsung Fire & Marine Ins of Europe, Ltd *Samsung Fire & Marine Insurance Co, Ltd*	091214	A a+	Stable Stable	A a	Stable Stable	United Kingdom
		ASIA PACIFIC						
New	P	PGA Sompo Insurance Corporation	089331	B+ bbb-	Stable Stable	NR nr		Philippines
		CARIBBEAN AND LATIN AMERICA						
☑	C	ASSA Compañía de Seguros S.A. *Grupo ASSA, S.A.*	086937	A a	Stable Stable	A u a u	Developing Developing	Panama
⚑	C	Austral Resseguradora S.A. *Austral Participações S.A.*	092459	B++ u bbb+ u	Developing Developing	B++ bbb+	Stable Stable	Brazil
⚑	P	Austral Seguradora S.A. *Austral Participações S.A.*	092493	B++ u bbb+ u	Developing Developing	B++ bbb+	Stable Stable	Brazil
⇥	P	Eastern Re Ltd., S.P.C. *ProAssurance Corporation*	072142	NR nr		A a	Stable Stable	Cayman Islands
—	P	One Alliance Insurance Corporation *Oswaldo Karam*	022389	B bb	Negative Negative	B bb+	Stable Stable	Puerto Rico
⚑	P	Terra Brasis Resseguros *Brasil Plural*	092722	B++ u bbb u	Developing Developing	B++ bbb	Stable Stable	Brazil

Holding Companies

Rating Action	Company Name	AMB#	Current ICR	Current Outlook/ Implications	Previous ICR	Previous Outlook/ Implications	Domicile
⇥	Echelon Financial Holdings Inc.**	051849	nr		bb-	Stable	Ontario
⇅	Kingstone Companies Inc.	052715	bbb-	Negative	bbb-	Stable	Delaware
⊕	The Hanover Insurance Group, Inc.	058505	bbb+	Stable	bbb	Stable	Delaware

**Ratings were downgraded to bb- from bb+ on June 11, 2019. The ratings were withdrawn on June 11, 2019.

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

BEST'S FINANCIAL STRENGTH RATING GUIDE – (FSR)

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

BCRs are distributed via the AM Best website at *www.ambest.com*. For additional information regarding the development of a BCR and other rating-related information and definitions, including outlooks, modifiers, identifiers and affiliation codes, please refer to the report titled "Understanding Best's Credit Ratings" available at no charge on the AM Best website. BCRs are proprietary and may not be reproduced without permission.

 Version 010219

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.

BCRs are distributed via the AM Best website at *www.ambest.com*. For additional information regarding the development of a BCR and other rating-related information and definitions, including outlooks, modifiers, identifiers and affiliation codes, please refer to the report titled "Understanding Best's Credit Ratings" available at no charge on the AM Best website. BCRs are proprietary and may not be reproduced without permission.

 Version 010219

Outside Interest

India allows 100% foreign direct investment for intermediaries.

India plans to permit 100% foreign direct investment for insurance intermediaries, according to the Union Budget 2019-20 presented by Finance Minister Nirmala Sitharaman recently in the Parliament.

The proposal aims "to make India a more attractive FDI destination." Sitharaman said "time has come that India not only gets integrated into the global value chain of production of goods and services, but also becomes part of the global financial system to mobilize global savings, mostly institutionalized in pension, insurance and sovereign wealth funds."

> "Considering the current level of underpenetration, increased FDI limits will help deepening of the sector and also provide for growth capital for the sector."
>
> **Monish Shah**
> Deloitte India

This "is a positive move that will provide a holistic development of the insurance industry in the long term," said Rohit Jain, head of India at Willis Towers Watson. The rise in FDI would bring in more capital, enable company expansion, attract new players and create a more competitive environment.

This proposal will create more direct and indirect jobs, along with bringing in global best practices, strengthening distribution networks and improving insurance penetration. In an era of disrupting technology, Jain said "the hike in FDI will allow companies to bring in the latest technology and digital solutions, which in turn will improve efficiency, services standards and ultimately, benefit policyholders interest."

"Increased competition, leveraging digital financial services and improved coverage by intermediaries will help fundamental growth in the sector. Considering the current level of underpenetration, increased FDI limits will help deepening of the sector and also provide for growth capital for the sector," said Monish Shah, partner at Deloitte India.

However, domestic insurance brokers have opposed this proposed policy. The 100% FDI for insurance intermediaries "is not going to increase insurance penetration in India as they will not be focusing on microinsurance or broking in smaller cities and towns," said Supriya Rathi, director at Anand Rathi Insurance Brokers Pvt Ltd. Rather, they would focus on serving large business or reinsurance.

FDI inflows into India have remained robust despite global headwinds, said Sitharaman. India's FDI inflows saw a 6% growth to US$64.4 billion in 2018-19. Global FDI declined 13% to US$1.3 trillion in 2018.

However, Rathi said "proposing 100% FDI in insurance intermediaries with a view to open up investment across sectors will not likely have much impact on FDI inflows." When the FDI limit was previously raised from 26% to 49%, only two foreign players increased their stakes in their broking ventures.

"This move will likely benefit just the top two to three global insurance brokers already present in the country and will increase foreign dominance in the insurance intermediary space. Moreover, it may increase outflows from the country as foreign players tend to repatriate their profits," said Rathi.

The 2019-20 budget focuses on growth-related measures around investments. The insurance intermediary sector "is nascent and its further opening up will help drive maturity in the sector," said Deloitte in its Union Budget report. This budget comes amidst low growth cycle and subdued investment growth both in the world economy and India.

There were 426 registered brokers in India as of March 31, 2018, according to the Insurance Regulatory and Development Authority of India's annual report. The registered brokers included 363 direct brokers, 58 composite brokers and five reinsurance brokers, according to the IRDAI. Foreign insurance brokers are operating in India through joint ventures formed with local partners. Marsh, Willis Towers Watson, Howden, UIB, Arthur J. Gallagher and Toyota Tsusho Insurance Broker have operations in India.

Earlier this year, Marsh increased its shareholding in its joint venture in India from 26% to 49%, the maximum allowed foreign direct investment for India-based insurance broking firms. Marsh India was one of the first foreign insurance brokers to be registered as a composite broker in the country. Currently, it has more than 600 professionals from its 17 branches across India..

In May, Arthur J. Gallagher & Co. acquired a minority stake in Indian broker Edelweiss Insurance Brokers Ltd. as part of the company's continued geographic expansion.

—Iris Lai

'A Safe Environment'

Bermuda sandbox ideal for fintech innovation.

Henri Winand

Bermuda has set up a new sandbox for insurtech experimentation. The chief executive officer of AkinovA Ltd., the first company to get a license, welcomes the opportunity.

"We have been awarded a license to operate. The plan is that by the time we get out of the sandbox there are regulations that are specific to the infrastructure that we are developing," said co-founder and CEO Henri Winand. "It's a safe environment for us, the regulator and our market participants because we have a license that states what we can do. The sandbox allows both the regulator and ourselves and the market participants to be protected while making sure there's a high degree of oversight, which we welcome."

AkinovA is an electronic marketplace for the transfer and trading of insurance and reinsurance risks, Winand said.

"It's a marketplace where you can transfer risks and you can also do some trading," he said. "We act as the marketplace at the confluence between insurance/reinsurance and the capital markets."

In May, the Bermuda Monetary Authority granted its first insurance regulatory sandbox license to AkinovA (Bermuda) Ltd. The BMA last year launched the sandbox regime, which provides companies with a way to test new technologies and offer innovative products in a controlled environment.

The license will enable AkinovA to transfer risk using an electronic trading platform, Winand said.

The authorization permits AkinovA to enable cedents and intermediaries acting on their behalf to transfer risk to investors using its electronic platform. AkinovA is also permitted to provide integrated news, data, analytics and communications to marketplace participants, the company said in a statement at the time.

AkinovA is the wholly owned Bermuda trading subsidiary of AkinovA Ltd.

Last October, Bermuda Premier David Burt outlined the strategy behind the regulatory sandbox and how Bermuda was making regulatory changes to enhance its attraction to companies focusing on insurance innovation, insurance-linked securities, insurtech and fintech. Burt spoke with AMBestTV during the ILS Bermuda Convergence 2018 conference in Hamilton, Bermuda.

Winand said the regulatory oversight AkinovA gets from Bermuda is an important part of the company's innovation strategy. "We want to be regulated without a shadow of a doubt," he said. "When you do anything with financial or insurance markets it has to be regulated."

The company takes the view that because it has to be regulated, it can gather as much information as possible about the markets it seeks and use that information with maximum effect.

"We did a global survey of regulatory frameworks, and where the capital is flowing, and after a lot of work we landed on Bermuda as the place where we will start, even though we are a U.K.-registered company," said Winand.

He said AkinovA incorporated a subsidiary in Bermuda, and describes it as "essentially a piece of infrastructure" rather than a broker or insurer. "There is no class for that," he said.

The BMA makes sense as a regulator for a cross-discipline company like AkinovA, Winand said.

"It must be a regulator that knows both the capital markets and insurance and reinsurance," he said. "It has to be an environment where the local geography has access to insurance and reinsurance markets—actuaries, lawyers, accountants."

He noted the size of the capital flow through the domicile needs to be big enough, and "the size of the reinsurance and insurance-linked securities funds makes Bermuda one of the top" domiciles.

Another selling point for Bermuda: "As a company we wanted to be sure we could satisfy our clients as soon as possible so the speed and ability to engage rapidly with regulators was very important," said Winand.

"Finally we had to be in an environment where the rule of law and proximity to the U.S. and U.K. capital markets was there," he said.

—David Pilla

Advertisers Index

ADVERTISER	PAGE
AM Best's Information Services	76
Applied Underwriters	BC
Best's Capital Adequacy Ratio Model	73
Best's Financial Suite	65
Best's Ratings	59
Delaware Department of Insurance	16
Fifth Third Bank	5
Munich Re	36 & 43
Philadelphia Insurance Cos.	IFC
Pinnacle Actuarial Resources	24
Regions Bank	3
SCOR Global Life America	IBC
Voya Financial	26

Notice: While AM Best confirms the accuracy of Best's Ratings of insurers referenced in advertisements published in this magazine, these ratings are subject to change after publication. The current ratings of insurance companies are available free on the web at *www.ambest.com/ratings*. Further, we can't warrant the Best's Ratings claimed by brokers advertising coverages from unrated insurers. In addition, some of the insurance policies, products and services advertised may not be available, licensed or legal in all jurisdictions.

White Lies

Millions of Americans lie on their insurance applications, but technology is helping insurers identify mistruths and curb insurance fraud.

by Lori Chordas

Nearly 35 million Americans admit to having lied on insurance applications, according to a study by personal finance website www.finder.com.

The study, which examined the behaviors of more than 2,000 respondents, found that 10.2 million Americans have lied when applying for auto insurance. Another 7.5 million consumers have been dishonest on their health insurance applications and 7.3 million Americans admit to lying when applying for a life insurance policy.

Men are more likely than women to deviate from the truth when applying for auto and life insurance coverages, the survey showed. Females, however, are more apt to lie on their health, travel and pet insurance applications, and they're three times more likely to provide mistruths in auto insurance forms than homeowners' applications, said Finder US CEO Jon Brodsky.

"We were surprised to discover that renters have a higher likelihood than homeowners to lie on their auto, life and pet insurance applications," he said.

"Also surprising is that states with a large population of retirees, such as Texas and Florida, tend to have a higher pool of applicants who lie on their insurance applications," Brodsky said.

One-quarter of Arizona residents admit to lying or omitting information on insurance applications, followed by 22% of Californians and 20% of residents in Ohio, he said.

Finder didn't survey respondents about the types of lies they tell on their applications so not to bias the results. "Anecdotally, I can tell you that some of the questions we receive from customers include whether they should disclose information about having a disease such as diabetes or participating in risky activities such as scuba diving or skydiving," Brodsky said.

$40 Billion

Annual cost of non-health-related insurance fraud

Insurance fraud, including lying on insurance applications and failing to report an auto accident to an insurer, is on the rise. The annual cost of non-health-related insurance fraud now tops $40 billion, leaving American families to shoulder anywhere from $400 to $700 in annual increased premiums, according to the FBI.

Fraud accounts for 5% to 20% of insurers' claims costs in the United States and Canada, according to predictive analytics and decision management software company FICO.

Insurance fraud is a specific crime in 48 states, along with the District of Columbia. Virginia and Oregon are the only states without an insurance fraud law.

Insurers are using advanced analytics tools to combat this growing problem.

More than 60% of insurers expect to earmark funds for predictive analytics tools, 43% have planned investments in link and social media analysis, and 21% will invest in artificial intelligence in the next 24 months, according to the Coalition Against Insurance Fraud, a national alliance of organizations dedicated to combating insurance fraud through advocacy, outreach and research.

"Liars will get caught," Brodsky said. "And even if they don't the first time, they will someday. Everything eventually comes home to roost."

While fraudsters will continue to prey on insurers, Brodsky is hopeful the problem will soon improve.

"As insurers adopt technologies like blockchain, machine learning and decentralized databases, those capabilities will provide much deeper insights and a better view of risks and allow insurers to share that information with others in the industry to help drive out fraud," he said. BR

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


SCOR
The Art & Science of Risk
Partners in Innovation
SCOR is forming partnerships around the world to advance next generation underwriting and health & wellness programs. Our pilot programs and R&D efforts are connecting our reinsurance clients to new players from outside the industry. It's important for us to be at the forefront of change… to tap into innovation taking place outside the industry and make its value available to our clients.
www.scor.com
rawpixel.com / Shutterstock