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AM BEST'S MONTHLY INSURANCE MAGAZINE

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AM BEST'S MONTHLY INSURANCE MAGAZINE

'Change Is *Inevitable*'

Maurice R. "Hank" Greenberg has been transforming insurance companies for nearly seven decades. Along the way, he also has transformed the global insurance industry. **Page 36**

***Best's Review's* Online Archives**


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Making Change

Starr's Greenberg discusses the need to continuously evolve. Lloyd's of London goes through a self-imposed transformation. And two fraternal insurers join hands to overcome technology challenges.

"We lived on change."

Maurice R. "Hank" Greenberg has never been one to shy away from a challenge. As the former leader of AIG and current head of C.V. Starr, he's long been one of the driving forces in the insurance industry, challenging the status quo and seeking to expand opportunities.

Best's Review spoke with Greenberg at his office in New York City on a December day just before Christmas. In this conversation, Greenberg discussed the insurance industry's need to evolve and adapt to change. He spoke about his time in the Army and about carrying out orders, both in the military and on the corporate battlefront.

Over the course of his career, he's pioneered new lines of business and transformed the companies he's led.

"AIG had a culture of innovation in the insurance industry unlike anything the industry has ever seen," said Marsh & McLennan CEO Dan Glaser, who worked at AIG under Greenberg.

Read "Change Is Inevitable," for more about the discussion with Greenberg.

An ocean away, Lloyd's of London is undertaking a major transformation on several fronts. Its Future at Lloyd's initiative calls for more technology, closing unprofitable business lines and promoting diversity.

"The world around us is changing. The expectations of our own customers, the type and style of their business, the risks they present are very different to the risks that were presented even five and 10 years ago," Lloyd's CEO John Neal said at the AM Best Insurance Market Briefing-Europe in London.

In "The Choppy Seas of Change," *Best's Review* examined the pressures on Lloyd's and how it's responding.

Changes are taking place throughout the insurance industry, not just among the largest organizations.

In "Coming Together," *Best's Review* looks at an initiative by two fraternals, Catholic Financial Life and Catholic United Financial.

They launched a joint venture last year that allows them to develop and share state-of-the-art technology and helps them to compete against larger peers.

The ability to move quickly and adapt is a theme that runs throughout this month's issue of *Best's Review*. March is Programs and Wholesale Business Awareness Month. The wholesale business and specialty markets play a critical role for the insurance industry, helping the industry respond to changing customer needs.

The wholesale and specialty market trade group WSIA will hold its underwriting summit on March 1-4 in Palm Desert, Calif.

The March issue of *Best's Review* also offers a look at insurance asset management. Anthony Silverman, associate director, analytics, AM Best, spoke at AM Best's Insurance Market Briefing-Europe, held in London and discussed a recent AM Best survey about European insurers and illiquid assets. Go to "Building Assets" to read more.

Patricia Vowinkel
Executive Editor
patricia.vowinkel@ambest.com

The Question:

Is social inflation a widespread problem for insurers or are years of price-cutting taking their toll for some?

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

Reader responses will be published in a future issue.

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Cover photo by Frank Vowinkel.

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March 1 – 3: IRLS (Insurance & Risk Linked Securities) Conference, Securities Industry & Financial Markets Association (SIFMA), Miami Beach, Fla.

March 1 – 3: AIFA Conference 2020, Association of Insurance and Financial Analysts, Boca Raton, Fla.

March 2 – 6: Global InsurTech Summit, FinTech Global, London.

March 3 – 6: Valen Analytics Summit, Valen Analytics, Avon, Colo.

March 4 -5: Responsible Investment Forum New York 2020, New York.

March 4 -6: NAMIC Commercial Lines Seminar, Chicago.

March 6 – 8: NCOIL Spring Meeting, National Council of Insurance Legislators, Charlotte, N.C.

March 8 – 10: CICA International Conference, Captive Insurance Companies Association, Rancho Mirage, Calif.

March 8 – 11: PLRB Claims Conference & Insurance Services Expo, Property & Liability Resource Bureau, National Harbor, Md.

March 12: Insurance Market Briefing-Latin America, AM Best, Aventura, Fla.

March 12 – 13: Reinsurance Symposium, The Institutes CPCU Society, Philadelphia.

March 12 – 13: Saint Joseph's University Insurance and Reinsurance Symposium, Maguire Academy of Insurance and Risk Management, Philadelphia.

March 15 – 18: WSIA Insurtech Conference, Wholesale & Specialty Insurance Association, New Orleans.

March 16 – 18: Florida Summit 2020, Guy Carpenter, Orlando, Fla.

March 18 – 20: CLM Annual Conference, Claims and Litigation Management Alliance, Grapevine, Texas.

March 18 – 19: National Health Policy Conference, America's Health Insurance Plans (AHIP), Washington, D.C.

March 19 – 20: National Conference on the Individual and Small Group Markets, America's Health Insurance Plans (AHIP), Washington, D.C.

March 19: InsurTech NY Spring 2020 Conference, New York.

March 21 – 24: NAIC Spring National Meeting, National Association of Insurance Commissioners, Phoenix.

March 27: CAMIC Mid-Year Meeting, Toronto.

March 29 – April 1: 20th ILTCI Conference, Intercompany Long-Term Care Insurance, Denver.

March 30 – 31: Insurance Innovators USA 2020, Marketforce Business Media Ltd., Nashville, Tenn.

March 30 – April 1: Florida Insurance Market Summit, presented by Colodny Fass and Aon, Orlando, Fla.

March 31 – April 1: PIA Advocacy Day Association of Professional Insurance Agents, Arlington, Va.

March 30 – April 2: Envision 2020, AIR Worldwide, Miami Beach, Fla.

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

Attending Exhibiting Speaking
Hosting Sponsoring Video

March: Programs and Wholesale Business Awareness Month

The wholesale business and specialty markets play a critical role for the insurance industry, helping to lead the way with the development of new insurance coverages. Coverage begins on page 23.

Marsh Names Leader to the Newly Created Role of Head of Cyber, International

Also: Geico names successor to retiring CEO as do American Equity and Beta Healthcare Group; Philadelphia Insurance names chairman and president.

Marsh has named Sarah Stephens to the newly created role of head of cyber, international. Stephens is responsible for the strategic development and delivery of Marsh JLT Specialty's cyber insurance and placement capabilities across the business's international division, which includes all geographies outside North America. She will also work with Marsh's regional cyberrisk experts to develop integrated risk and advisory services. She will continue to be based in London and will report to Flavio Piccolomini, president of Marsh's International division and Paul Denny, CEO, UK Financial and Professional Practice, Marsh JLT Specialty.

Sarah Stephens

Stephens assumes her new responsibilities in addition to her role as cyber, media and technology leader within the UK FINPRO practice. Before joining JLT in 2015, Stephens spent 12 years with Aon in a variety of senior roles, most recently as head of cyber and commercial errors and omissions for Europe, the Middle East and Africa.

Commenting on the appointment, Piccolomini said: "Sarah is a true innovator and has led the development of many pioneering initiatives in the cyber insurance market. She will play a pivotal role in delivering the next generation of insurance solutions clients need to help mitigate cyberrisk and capitalize on the exciting opportunities new and emerging technologies present."

—Barbara Edwards

Beta Healthcare Group Names Successor to Retiring CEO

After conducting a nationwide search, Beta Healthcare Group's governing body, the Beta Council, has named Corey Grove, senior vice president of insurance operations, to succeed Tom Wander as chief executive officer.

Grove has been promoted to chief operating officer immediately and will transition to CEO March 31. He will begin working with Wander to ensure a smooth transition to CEO in March. Wander said he will retire May 31, after 27 years as CEO.

Grove joined Beta in 1995 as a professional liability representative in the claims department and then held senior management positions in both marketing and underwriting. In January 2004, he was promoted to vice president of underwriting and client services and in 2018 was named senior vice president of insurance operations at Beta, where he led all aspects of claims, underwriting, marketing and alternative risk and insurance services.

Philadelphia Insurance Names Chairman and President

Philadelphia Insurance Cos. has promoted Bob O'Leary, president and chief executive officer, to succeed Jamie Maguire as chairman.

Bob O'Leary

John Glomb, chief underwriting officer, was tapped to succeed O'Leary as president.

O'Leary has more than 35 years of experience at the company and has held several leadership positions, including chief marketing officer, before becoming president and CEO in 2013.

Glomb joined Philadelphia Insurance in 2007 as senior vice president of the management and professional liability division. He became chief underwriting officer in 2011.

Geico Names Successor to Retiring CEO

Geico has named Todd Combs to succeed Bill Roberts as chief executive officer.

Todd Combs

Combs transitioned into his new role on Jan. 1 and replaces Roberts, who will retire from Geico in December 2020. Roberts became vice chairman effective Jan. 1.

Roberts began his career at Geico in 1984 as an officer in the marketing department. Over his 35-year career, he has helped lead Geico to become the second-largest automobile insurance company in the United States.

Combs has been an investment manager at Berkshire Hathaway since 2010 and in addition to becoming Geico's CEO, he will continue to manage $14 billion of investments for Berkshire Hathaway. Prior to joining, he worked at Progressive Insurance Co.

Successor Named as American Equity CEO Retires

American Equity Investment Life Holding Co. has named Anant Bhalla chief executive officer effective March 1.

Bhalla was to begin his employment with American Equity on Jan. 27 as president and also be appointed to American Equity's board on that date.

John M. Matovina, who is retiring as CEO effective March 1, and retired as president, effective Jan. 27 remains on the board as nonexecutive chairman.

Bhalla has nearly 20 years of experience in publicly traded companies across insurance, asset management and wealth management sectors. From 2016 to 2019, he served as executive vice president and chief financial officer of Brighthouse Financial Inc. He joined MetLife in 2014 as chief financial officer of retail business. He played a broad role in MetLife's direction of that business and co-led the creation of Brighthouse Financial in 2016. Since leaving Brighthouse in the spring of 2019, Bhalla has been a partner of Bhalla Capital Partners.

Matovina became CEO and president in June 2012 and succeeded American Equity's founder, David J. Noble, as chairman of the board of directors in April 2017. He joined the board of directors in June 2000 and began his employment with the company in June 2003 as vice chairman. He served as chief financial officer and treasurer from January 2009 to June 2012.

Tahoe Life Names Chief Executive Officer

Tahoe Life Insurance Co. Ltd. named Allan Yu as chief executive officer.

Allan Yu

Yu has more than 45 years of experience in the general and life insurance industry including underwriting, pricing, reinsurance, claims and product development. Previously, he had various senior management roles in international and local insurance companies, including CEO of the Hong Kong branch of a Swiss international insurer. In 2016, he worked for Tahoe Investment Group Co. Ltd. on the acquisition of Dah Sing Life Assurance Co. Ltd. and Dah Sing Insurance Services Ltd.

In 2017, Yu became executive director of Tahoe Life following the completion of the acquisition. In October 2019, he rejoined the company. Past positions included chairman of the Motor Insurers' Bureau of Hong Kong, chairman of the Hong Kong Federation of Insurers, chairman of the HKFI's General Insurance Council and director of Employees' Compensation Insurance Residual Scheme Bureau Ltd.

SterlingRisk Promotes Senior Vice President to President of Programs

SterlingRisk, an independently owned insurance brokerage, has promoted Geraldine DelPrete to president of programs.

Geraldine DelPrete

DelPrete joined SterlingRisk in 2018 as director of programs, senior vice president. She held senior reinsurance and program development positions at some of the world's largest insurance brokers, including Aon Re.

DelPrete began her career at the investment banking firm, J. Henry Schroeder, before launching her reinsurance career at Guy Carpenter & Co. LLC, where she held several positions over a 12-year period. She later joined Aon Re, rising to senior vice president of the catastrophe management group, and after six years joined American Re, where she led national accounts. DelPrete went on to join Willis Re to assist in developing Willis Re's New York team/business unit and became one of Willis Group's leading producers. Prior to joining TigerRisk Partners in 2008, DelPrete was senior executive vice president for Gallagher Re.

QBE North America Names Two Executives

QBE North America has named Christopher Castaldo as chief financial officer, subject to the completion of regulatory requirements.

Christopher Castaldo

Castaldo will transition into his new role in March and will also serve as a member of the QBE North America executive committee. He will be based in New York and report to Todd Jones, chief executive officer, QBE North America.

Tom Fitzgerald

Castaldo has almost 20 years of experience in the financial services and property/casualty insurance field. He has been with QBE for eight years, most recently as group head of FP&A, based in Australia. Prior to joining QBE, Castaldo spent five years at American International Group in a series of roles.

Also, QBE North America named Tom Fitzgerald as president, specialty and commercial.

Fitzgerald was to begin his new role in February. One of the largest businesses within QBE North America, the specialty and commercial division consists of commercial property/casualty and specialty products and services.

Fitzgerald has almost 30 years of experience and most recently served as chief executive officer of Aon Risk Solutions' global broking operations. His other roles at Aon included CEO of retail operations, chief broking officer of U.S. commercial risk and president of private risk management. He also led Aon's entry into the technology industry with the creation of the Aon risk solutions technology practice.

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Ascot Names Head of Cyber And Commercial E&O

Ascot has named Drew Walter as executive vice president and head of cyber and commercial E&O. Tracy O'Hara, Abigail Oliver, Greg Garijanian, and Ben Mancuso will also join the team.

In his new role, Walter will build a business writing cyber alongside technology, media, and miscellaneous errors and omissions classes. The team will be based in New York.

Walter joins Ascot after almost 10 years with Axis Capital, where he was head of global cyber and technology underwriting delivery.

Hamilton's New US Reinsurance Platform Names Property Reinsurance Head

Hamilton Insurance Group has named Brad Sforza as senior vice president, head of property reinsurance, for its new U.S. reinsurance platform.

Sforza brings 20 years of industry experience to his new position. He joins Hamilton from PartnerRe, where he was vice president, property and multiline treaty. Prior to his role at PartnerRe, he spent over 14 years at Willis Re, most recently as executive vice president with responsibility for client management and business development.

He joins Steve Wilson, head of casualty and specialty insurance, in Hamilton's New York office.

W.R. Berkley Names President Of Preferred Employers Insurance

W.R. Berkley Corp. named Dennis J. Levesque to succeed Steven A. Gallacher as president of Preferred Employers Insurance.

Dennis J. Levesque

Gallacher was appointed chairman of Preferred Employers Insurance. He will be based in Connecticut.

Levesque has more than 30 years of experience in the property/casualty insurance business. He most recently served as the president of the regional insurance segment of Sentry. He also held roles at Liberty Mutual, Golden Eagle and Peerless Insurance.

Gallacher joined Preferred Employers Insurance as president in 2010. BR

Brand Builders

Gallagher's Chris Mead discusses effective branding strategies and harnessing the power of digital marketing.

by Lori Chordas

The value of branding and marketing isn't measured by how many times people open an email or how many people attend a webinar, but rather by the impact and overall value it has had on an organization, said Chris Mead, chief marketing officer at Gallagher. He participated in a Jan. 24 webinar sponsored by AM Best and the Insurance Marketing and Communications Association. Following is an edited transcript of the interview.

Chris Mead

What is Gallagher's approach to branding and marketing?

There are reflective ways and aspirational ways of building a brand. Aspiration can be fun, because it's the creativity behind what we're going to be and where we're going.

One of the hardest things to do is to be an aspirational brand in financial services or risk management. Customers, potential employees and partners don't want to know what you might become someday. Rather it's important to have vision and to say that this is who we are.

Everything that Gallagher, my predecessors and co-workers have done over the last 90 years is to look at one thing—The Gallagher Way and helping people face their future with confidence. They've always reflected the culture of this company. The Gallagher brand is so easy for me to articulate because they had articulated it well for so long.

What makes insurance marketing different from marketing for other industries?

As marketers, we're in a really great spot within financial services, and specifically in insurance. It's a more sophisticated way to market.

It's incredibly easy to build an end-cap display to sell more candy bars. But it's very difficult and much more rewarding to help somebody understand why they need cyber insurance or why they should better manage their D&O [directors and officers] risk.

It's harder to do, but once they get it, you're helping them not just manage their business and make sure it's successful, but ensuring that their employees are taken care of.

What's the rationale behind Gallagher's sports marketing partnerships?

The concept of partnerships isn't just some word that we throw around. Nor do we take our name and stick it up in left field at Wrigley or in a park at San Diego.

We really are partners. The people we're doing this with are our customers and we help them with their risk management.

We used to have very low brand recognition in the United Kingdom. But we found a good opportunity with Gallagher Premiership Rugby and created a partnership with its 12 teams.

We want to find organizations that we can learn from and that can learn from us, and that are community-focused and will help us articulate our brand in a positive way. BR

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

AMBestTV

Go to *bestreview.com* to watch the interview with Chris Mead.

Beyond Bias

Diversity is good for business and essential for the long-term health of the insurance industry.

By **Carly Burnham**

Last month, I wrote about bias in the insurance hiring process. Specifically, I told the story of a former boss who weeded out candidates based on tattoos and piercings, and expressed concern about managers only hiring people who look like them.

This month, I want to discuss why that matters.

Since we work in a relationship business, and our jobs are knowledge jobs, we must create environments where individuals can thrive. People do their best work on teams where they are supported and welcomed. And, individuals need role models who can inspire them to strive toward professional betterment. If no one above me looks like me, it is harder for me to picture myself in those roles. Yes, I can look to a man as a mentor or a model, but picturing myself in his shoes is harder, especially if I see other people who look more like me and who I admire as hard workers consistently passed over for promotions.

But first, why does it matter? To me, there are two reasons.

First, diversity improves business outcomes. We know diverse teams make better decisions and create products that are better suited to the customers they serve. The customers we serve are diverse, and they have needs that may not be thought of by professionals who are not walking in their shoes. People who have different backgrounds and experiences also approach problem-solving differently. A wider set of potential solutions to a given problem makes it more likely that the best solution will be the one that is pursued.

Second, the insurance industry is people-focused. Insurance has always been based on trust, and if your employees don't understand the customers they serve, trust is difficult to establish in either direction. We have seen companies make real efforts to represent diverse populations in their advertising and marketing. This effort must go beyond representation of the customers in ads. Employees and agents must also reflect the various communities the insurance industry serves. Relationships will be stronger and thus lead to better information exchange if customers feel like the insurance company understands their day-to-day life.

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*.

These two reasons are not new ideas. I would say they are even generally accepted by most managers. But, we still struggle with practicing a mindset that allows us to improve diversity of talent at insurance companies. We still encounter well-meaning managers and fellow employees who believe that people who look different from us may be sub-par employees. We are all subject to unconscious bias.

One of the best ways to overcome that bias is by spending more time with those outside our comfort zone. A friend of mine, Amy Waninger, recently published a book called *Network Beyond Bias* that helped me examine my personal network. If you're starting to think about how you can improve the diversity of your work teams and fight your own unconscious bias, this book is a great starting point with actual tools to help you improve on these metrics.

Overcoming bias is essential to the long-term health of the insurance industry. We are nothing without talent, and without talent that reflects and understands the populations we aim to serve, we will miss the mark on the products we build. Our industry continues to look for opportunities to attract and retain talent. Building teams that are diverse and show visible paths to professional development and improvement for all kinds of people is a simple (but not easy) change to make within our organizations.

For me, personally, seeking out mentors and role models who look more like me has made me believe that I can achieve goals I never thought possible. But, it sure would have been nice to not have to wait so long to find them. BR

Regulatory Update

Pennsylvania court orders long-term care insurer into rehabilitation, District of Columbia and Tennessee name new insurance department heads.

Long-Term-Care Insurance: A Pennsylvania court has approved the state insurance commissioner's request to place long-term care insurer Senior Health Insurance Co. of Pennsylvania in rehabilitation.

Commonwealth Court granted the petition filed by Insurance Commissioner Jessica Altman, which painted the company's financial position as "dire."

Based on actuarial projections of the long-tail claim exposures, SHIP's liabilities, plus its authorized and issued capital stock, exceeded its admitted assets by more than $474 million as of Dec. 31, 2018, it said.

SHIP, which was established to run off a closed block of long-term care insurance previously indirectly owned and administered by Conseco Inc., has about 51,000 policyholders and $2.2 billion in assets, the petition said. It has not written any new insurance business since at least 2003, it said.

The trustees who run SHIP said it may be possible to devise a plan for its rehabilitation that would produce for policyholders a result no less beneficial than would be produced by a liquidation, but success is not assured because of the gravity of its financial situation, the petition said.

SHIP's risk-based capital

IRS Says It Puts an End To Misuse of Microcaptives

Crackdown on abusive microcaptives successful; 80% accept settlement offers.

by Frank Klimko

The Internal Revenue Service has triumphed in its crackdown on microcaptive insurance arrangements operating as illegal tax dodges, according to the agency, which said roughly 80% of the 200 companies under investigation have agreed to settlement offers.

"The overwhelming acceptance rate of the private settlement offer is a reflection of the success of the government's work to stop this abuse," IRS Commissioner Chuck Rettig said in a statement. "Taxpayers who elected to accept the IRS' terms have done the right thing by coming into compliance with their federal tax obligations and putting this behind them."

> "The overwhelming acceptance rate of the private settlement offer is a reflection of the success of the government's work to stop this abuse."
>
> **Chuck Rettig**
> Internal Revenue Service

Last fall, the IRS sent out letters offering agreements to 200 companies under agency investigation for allegedly using abusive microcaptive insurance arrangements.

The companies are accused of abusing the 831(b) captive rules. Abusive microcaptive transactions have appeared on the IRS "dirty dozen" list of taxation scams since 2014, the IRS said. The IRS is concerned some 831(b) captives are being marketed for abusive purposes in estate planning rather than risk mitigation.

Under the proposed settlement, companies would have to forgo their claimed tax benefits and agree to the imposition of some penalties, the IRS said. Those who reject the offer were warned they could not expect a better deal later on. Exact settlement terms would vary from company to company and the names of the companies were not released. The IRS launched the settlement initiative after three consecutive U.S. Tax Court wins in cases, which sought to overturn the IRS interpretation of the 831(b) captive rules.

For the approximately 40 firms that did not accept the offer, the IRS will deploy 12 new audit-examination teams.

"Potential civil outcomes can include full disallowance of claimed captive insurance deductions, inclusion of income by the captive entity and imposition of all applicable penalties," the agency said.

The 831(b) captives—also known as microcaptives or enterprise risk captives—emerged from tax law changes in 1986 as an effort to help farm mutuals and small- and medium-size businesses mitigate risks they couldn't necessarily do in the commercial market. Since then, the 831(b) captive space has grown beyond just the farm mutuals.

It's now used as a much larger risk mitigation tool for family-owned small businesses and medium-size businesses. BR

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

UK Motor Insurers' Bureau Launches Whiplash Portal

New program touted as a milestone in changing the way whiplash injury claims are filed and paid.

by Frank Klimko

The United Kingdom's Motor Insurers' Bureau has opened the registration window for organizations that intend to participate in the new whiplash reform program, which will change the way whiplash injuries are reported and compensated.

Claimant representatives and compensator organizations can register for the Official Injury Claim program in advance of its launch in April, according to a statement from the MIB.

The new claims process was authorized by the Civil Liability Act of 2018 in an attempt to reduce the costs of whiplash injuries. The law applies in England and Wales.

> The "launch is a significant milestone for the successful delivery of the new service to support the whiplash reforms."
>
> **Dominic Clayden**
> Motor Insurers' Bureau

The "launch is a significant milestone for the successful delivery of the new service to support the whiplash reforms," Dominic Clayden, MIB chief executive officer, said in a statement.

The Law Society, which represents solicitors in England and Wales, said under the new system claimants will be able to make a whiplash claim directly with insurers through an online portal; tariffs are imposed for some whiplash injuries from road traffic accidents; the small claims limit increases from £1,000 (US$1,311) to £5,000 for road traffic accidents not including pedestrians, cyclists, motorcyclists and horse riders and the limit increases from £1,000 to £2,000 for other claims.

Also, how the personal injury discount rate is set changes, with regular rate reviews and an expert panel advising the lord chancellor.

The rate is now determined with reference to expected returns on a low-risk diversified portfolio of investments rather than very low-risk investments and is to be reviewed every five years, according to the Best's Market Segment Report, *UK Non-Life Insurers Face Strong Competition and Claims Inflation*.

Last year, the outcome of the first review under the act was announced and the rate was revised from negative 0.75% to negative 0.25%, the report said.

"The change fell short of market expectations, as many participants had anticipated an increase into the 0% to 1% range, and a number of insurers announced a consequent strengthening of their motor and liability reserves," AM Best said.

Overall, the measures are expected to be a positive for insurers, the report said. "However, in such a competitive market, any savings are likely to be passed onto insureds in the form of premium reductions," it said.

The Law Society has criticized the measure, arguing increasing the small claims limits would drive unrepresented claimants to the courts where they will struggle to access justice. BR

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

Regulatory Update

report triggered a mandatory control level event, and SHIP's trustees have consented to the rehabilitation, it said.

Insurance Commissioner: District of Columbia Mayor Muriel Bowser has appointed Karima Woods as the acting commissioner of the Department of Insurance, Securities and Banking.

She succeeds Stephen Taylor, who had been commissioner since June 2015, according to his biography.

Woods has served as the director of business development and strategy in the Office of the Deputy Mayor for Planning and Economic Development since 2015, Bowser said in a statement.

There, she provided strategic leadership, stakeholder engagement and global outreach to the business community, it said.

Before that, Woods served as deputy director of business development, international business manager and senior business development specialist—roles in which she helped shape signature business development initiatives and establish new business relationships with international markets such as China, Qatar, Dubai, Canada, Cuba, and El Salvador, the statement said.

Tennessee Insurance Director: Bill Huddleston, most recently the Tennessee Insurance Division's director of receiverships, has been named director of the division.

Huddleston has served in the department since 2014 and has previous experience in banking and public accounting, according to a statement from the division.

He received a Governor's Excellence in Service Award in 2017, the insurance division said.

The division is one of eight under the Tennessee Department of Commerce and Insurance, which is headed by Hodgen Mainda.

At Large

Power to The People

Customer experience will continue to rule in 2020.

By Tony Kuczinski

As we begin a new decade, one trend that will continue to evolve and have an impact on the (re)insurance industry is the focus on customer experience. Customers increasingly expect the standards from us that they see in other industries: fast, simple and convenient. These priorities will take on even greater significance as (re)insurance companies look for ways to further distinguish themselves with customers who seemingly want it all.

To successfully compete in the new decade, insurance companies, for example, will need to provide customers with more than an insurance policy and the promise of a check if a loss occurs. The ability to provide a personalized and relevant customer experience has become a key differentiator between brands, including in the insurance space.

Eighty-seven percent of customers say that their claims experience influences how likely they are to stay with a carrier, according to EY's 2017 report, *Claims in a Digital Era*. Claims is a critical aspect of customer experience in our industry, and the ability to quickly and empathetically deliver on our promise to pay covered claims can be a tremendous differentiator.

Disasters are moments of truth in our business. In the aftermath of major natural catastrophes, people experience first-hand what it means to be insured, and rapid assistance from an insurer becomes invaluable. The use of new technologies can become a brand differentiator. For example, some insurance companies have integrated digital technology into the claims process to help customers, in many cases, resolve their claim in a week or less. The technology allows personal and commercial lines customers to use a mobile device to virtually connect with their claims adjuster to eliminate the need for a traditional onsite inspection or supplement an onsite inspection.

The live collaboration component of this technology also helps put the adjuster by the customer's side to foster a more personal connection during such an experience. Taking into account the emotional needs of its customers during what could be one of the most traumatic experiences of their lives, the video claims solution can be optional, and customers who do not have a mobile device or choose not to use the technology can receive a traditional onsite inspection by a claims adjuster.

Best's Review contributor **Tony Kuczinski** is president and CEO of Munich Re US Holding. He can be reached at *bestreviewcomment@ambest.com*.

(Re)insurance providers will need to continue to innovate in this key area but also further enhance and broaden the scope of new products, services, digital innovations, and distribution channels across the insurance value chain to ensure they are delivering a value-added customer experience.

In the previous decade, access to data was a stepping stone to personalizing the customer experience. Today, the ability to manage, analyze and take action on insights from that data is critical to the ongoing transformation of an industry that seeks to delight the customer. In addition to its own customer, financial, underwriting, and loss data, (re)insurance companies can utilize third-party data from government sources, social media, weather, and natural catastrophe-related organizations, to name a few. Technologies such as AI and machine learning can help accelerate how (re)insurance companies can use data to transform themselves into organizations focused on protecting families, businesses and communities in new ways.

The *2019 Accenture Global Financial Service Consumer Study: Discover the Patterns in Personality* concludes that "to stay relevant and win loyalty in a digital economy…insurers should harness consumer data to deliver a hyper-relevant, highly convenient and trustworthy customer experience." Clearly, technology combined with data can help (re)insurers provide faster transactions than any human being can do. But it will be those companies that can find a way to combine technology and the human touch that many policyholders still continue to seek that will provide a better and different user experience and ultimately find success in their market. BR

Clearing The Air

Opioid litigation is setting a precedent for future diesel fuel lawsuits.

By **Bob Reville**

The other day an underwriter asked us why we continue to list diesel exhaust as the top risk for a particular engine manufacturer. Back in 2012, a major insurer told us that diesel was their top emerging risk. The International Agency for Research on Cancer had just designated diesel as a Class 1 carcinogen, and there were concerns that litigation was imminent.

In the intervening years, with no real litigation emerging, diesel was becoming one of the dreaded false positives. In fact, over the past eight years, the risk has only grown for two reasons. The first reason is the science. Research over the past 30 years has identified particulate matter smaller than 2.5 microns (PM2.5) remaining after combustion of diesel fuel as the key culprit in cancer from diesel.

However, cancer is only the beginning. According to the World Health Organization's Global Burden of Disease study, air pollution (with PM2.5 from diesel perhaps the most critical component) is responsible for 21% of stroke deaths and 24% of ischemic heart disease deaths. Since 2012, new literature concerning diesel's effect on neurodevelopmental disorders in children has been accelerating.

A 2014 epidemiological study found that diesel exposure during pregnancy increased the risk of autism in offspring, and subsequent animal studies have illuminated the mechanism. The sweep of the science is increasingly revealing a broad public health catastrophe.

The hardest part of establishing liability is often not the science, but rather the need to prove a specific company caused a specific individual's harm. This leads to the second reason for diesel's growing risk: the precedents being set by opioid litigation.

Opioids manufacturers, distributors and retailers are being sued by state, local and tribal governments for collectively having caused the opioid crisis, leading to tens of thousands of annual deaths and billions of health care expenditures.

Recently, school districts became a new set of plaintiffs seeking reimbursement for special education and other expenses resulting from the

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opioid crisis. No specific causation for a specific individual's harm is needed.

Are there other commercially driven public health issues which could be argued have resulted in tens of thousands of deaths, and billions of public health and special education expenses for multiple years?

We simulated an opioids-like mass litigation scenario where state and local governments seek reimbursement for diesel's estimated share of their Medicaid and special education expenses. The defendants range from oil and gas, trucking and railroad industries to ports and warehouses. The total estimated litigation size in this scenario was $114 billion.

How much of this would be covered by insurance? While the commercial general liability pollution exclusion could significantly limit the industry's exposure, some losses could be covered as "product pollution." In addition, the exclusion has not been tested in some settings, such as liability for harm to children from occupationally-exposed parents.

Environmental liability insurance would likely provide coverage, but market penetration for this insurance remains limited. Therefore, the potential coverage gap is as much of a concern as the aggregation risk itself.

Someday we may conclude that diesel risk was a "false positive." In the meantime, insurers would do better to address diesel coverage directly with named exclusions, and then provide affirmative named peril coverage with appropriate aggregation controls. BR

Technology

Find True North

Three northeastern U.S. cities have been dominant forces of insurtech innovation.

By **Gates Ouimette**

Sitting here in the Boston area, it's easy to get desensitized to innovation. This is especially true for emerging technologies being applied in industries viewed as technology laggards—industries such as insurance.

Despite this perception, the emergence of the insurtech ecosystem in the northeastern part of the United States proves that in today's world of digital business transformation, insurers are no longer content with the status quo. Instead they're looking to innovate, whether it's in property/casualty, life or especially, health—an industry that's also moving from laggard to innovator.

One important and growing driver of this insurance movement to innovation is the insurtech ecosystem "triangle" between Hartford, Connecticut; Boston and New York City.

Originally started with Insurtech Boston, a city whose startup ecosystem enables rapid evolution of tech startups in any industry, the regional ecosystem triangle significantly accelerated with the launch of two entities in Hartford, which has long been dubbed the home of the insurance industry.

InsurTech Hartford started three years ago when its founder Stacey Brown saw what was happening in other geographies and realized Hartford had too much history to remain on the sidelines, especially given its already robust insurance ecosystem.

Around the same time, the Hartford InsurTech Hub was launched, funded by state government in collaboration with the University of Connecticut and Rainmaking, an international network of 26 industry-specific accelerators.

Separate from the Hartford InsurTech Hub is a local insurance-focused incubator, also based in Hartford and housed downtown at Nassau Re.

Along with this influx of state money came venture capitalists, private equity and education, namely insurtech classes launched at the University of Connecticut and the University of Hartford.

In the midst of all that activity was Brown, a vice president at a large insurance carrier, who suddenly found himself involved with both Hartford insurtech entities.

Brown's passion for insurance and technology led him to champion Hartford's insurtech cause. Suddenly, as he said, "it was cool to be in insurance,"

Best's Review columnist **Gates Ouimette** is founder and principal of ITconnecter. He can be reached at *gateso@itconnecter.com*.

and he wanted to be part of the future of insurance—"not just a part of maintaining the past."

Brown's vision for Hartford includes a pragmatic perspective.

With nearly 100,000 insurance industry-related jobs within 30 minutes of Hartford, along with a growing number of jobs in Boston and New York City, it's easy to see why the Northeast insurtech triangle has much to offer and benefit from.

Following in the footsteps of Boston and Hartford, New York City recently launched its first "real" hub—InsurTechNY.

While others have attempted to launch similar hubs in the city, InsurTechNY went the extra mile by investing time in learning the Hartford model (absent government funding). InsurTechNY offers insurtech-specific events, a spring conference and a $300,000 startup competition judged by representatives from Bain Capital, Amazon, Guardian Life, New York Life Ventures and others.

The Northeast insurtech triangle has been in place for slightly more than three years, and what it's already accomplished is exciting. Today, the insurtech phenomenon continues to expand nationally and internationally.

Collaboration across insurtech entities has been informal even from a regional perspective. However, collaboration between startups and legacy insurers is real and strengthening as both continue to benefit from this dynamic.

Based upon its promise, it's likely that insurtech will be here for the long run. BR

Litigation Uptick

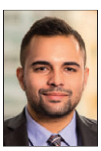
D&O insurers are seeing an increase in securities class action lawsuits.

By Rafael Rivera Jr.

Last year was the third consecutive year of elevated federal securities class action (SCA) lawsuits filed against publicly traded companies. In part, this was due to event-driven securities litigation, in which shareholders have alleged that directors and officers (D&Os) did not provide adequate disclosures about the possibility of an unexpected disaster, accident or event occurring, or did not put sufficient controls in place to prevent either from transpiring. SCA lawsuits arising from cyberattacks and the #MeToo movement are examples.

Another contributing factor was merger-objection litigation, in which shareholders alleged that D&Os failed to maximize shareholder value or failed to make adequate disclosures. Almost invariably, these lawsuits are settled after the target company agrees to make additional disclosures and cover the plaintiffs' legal fees.

The U.S. Supreme Court's ruling in *Cyan Inc. v. Beaver County Employees Retirement Fund* also played a role in increasing SCA lawsuits. There, the Supreme Court held that state courts have concurrent jurisdiction over actions filed under the Securities Act of 1933. As a result, state SCA lawsuits have been on the rise, sometimes being filed alongside a federal SCA lawsuit and thus unnecessarily increasing defense expenditures.



Best's Review contributor **Rafael Rivera Jr.** is an associate in Cozen O'Connor's Global Insurance Department (New York City office), and concentrates his practice in the areas of directors and officers, professional liability and commercial general liability insurance. He can be reached at *rafaelrivera@cozen.com*.

From the perspective of D&O insurers, the increase in claim filing and expanding inventory of unresolved matters appears to be the new norm. Reserves must be properly set because these matters may involve significant defense costs and potential settlements. This, in turn, could undermine underwriting profitability or results for a given year. Thus, until legal reforms are adopted to address the influx of SCA filings, insurers must respond accordingly to these new market conditions.

For starters, D&O insurers are addressing these developments by increasing premiums and self-insured retentions, while also lowering policy liability limits. In addition, D&O insurers might also consider amending policy forms. An exclusion could be added to

address an executive's settlement of sexual harassment or assault claims. Similarly, D&O insurers can enhance provisions to control or cap defense counsel rates in reimbursement policies, including preapproved panel counsel requirements, and can strengthen litigation management guidelines to minimize excessive fees and expenses.

Moreover, D&O insurers should effectively monitor such claims and consider evaluating claim and adjustment strategies. To that end, D&O insurers should consider retaining coverage counsel earlier in the life of a claim, coordinating more closely with defense counsel and pursing earlier resolution strategies to limit defense costs.

Such involvement can take the form of: regular status and strategy meetings with trusted coverage counsel, insureds and defense counsel; retaining separate experts to perform damages analysis; obtaining, reviewing and understanding key documents as soon as possible; and attending key depositions and mediations. Combined, these steps could help minimize claim-related costs.

Until legal reforms are adopted to address elevated SCA lawsuits, D&O insurers face new market challenges. To minimize underwriting losses, they should consider adopting pricing-related mechanisms, policy form amendments, and effective claim and adjustment strategies. Doing so may lower the ultimate cost of litigation and thus offset some of the expected costs associated with the increase in claim filing and the expanding inventory of unresolved matters. BR

Special Advertising Section

BEST'S REVIEW®
ISSUES & ANSWERS:

PROGRAMS & WHOLESALE BUSINESS

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

Interviewed Inside:

Jon Peeples
Philadelphia Insurance Companies

Bryan Sanders
Markel US Insurance
WSIA

View past Issues & Answers sections at
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Successful Environment

Jon Peeples, vice president of Environmental for PHLY Insurance, said that being very proactive when it comes to emerging risks helps make PHLY a leader when it comes to environmental insurance. “We’re always sharing with our agents claims trends, keeping them as informed and engaged as possible,” he said. Following are excerpts of an interview.

What are the emerging environmental risks?

We’re tracking one thing right now that is prevalent. It is called ethylene oxide, also known as EtO. It’s a gas that’s used for sterilizing medical equipment. The concern is that it’s unregulated, and has been found to be carcinogenic by the [U.S. Environmental Protection Agency]. This gas is both colorless and odorless, and it’s getting into air emissions. If you breathe it in over a long period of time, you can get cancer such as leukemia and lymphoma. There are only two facilities in America that manufacture this gas and both are being studied for a cancer risk to the surrounding population from air emissions. That is a controllable concern. The issue we face as an underwriter is that we write a lot of medical institutions that are using this type of process to sterilize their medical equipment. The major concern that we have is if it does get regulated, how does that impact hospitals for air emissions as well as possibly their workers?

What should insurance agents know about these risks?

They need to know that if they do have operations that have medical offices, medical emergency rooms, hospitals, and such, there should be some concerns about indoor air quality. It may not be just an environmental issue, but a workers’ compensation issue since it can cause cancer. That means OSHA, the Occupational Safety and Health Administration, will be involved as well as the EPA. From an environmental standpoint, it may impact the agents that are working on the two facilities. We know right now that both facilities that manufacture this gas have pollution legal liability policies. Considering that we may be seeing class action lawsuits coming back, those agents should be very concerned about that for their insureds.

Jon Peeples
Vice President of Environmental
Philadelphia Insurance Companies

“When it comes to environmental, PHLY is very accessible being that we have 24 underwriters throughout six different offices in the country.”

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

Where do you see the environmental market headed?

It’s stabilizing. We’ve had a lot of new entrants over the last few years. They’ve kept our market somewhat soft, but as the casualty market is hardening, it’s going to influence environmental. One area that will have an impact is that a lot of the environmental coverages we offer are optional and not required. As property and casualty rates go up, less money attributed to optional coverages could dip. That dip may impact some of our newer players and possibly harden our market a little bit.

Wholesale Growth

Bryan Sanders, WSIA president, said the surplus lines market has more than doubled in size during the last 20 years. "I think this demonstrates that the market serves a critical role in the insurance industry and overall economy," he said. The following are excerpts of an interview.

- A nonprofit association of insurance professionals and specialty market leaders dedicated to the wholesale distribution system.
- Serves more than 725 member firms representing approximately 1,700 offices and tens of thousands of industry professionals.
- Provides world-class member services including networking, education, talent development, legislative advocacy and promotion of the value of wholesale distribution.

Bryan Sanders
WSIA President
President, Markel US Insurance

"We continue to see the strong economy, increasing demand for solutions to emerging risks and product innovation as key drivers of growth."

How is WSIA serving the needs of program managers?

WSIA is the only trade association that serves the entirety of the wholesale, specialty and surplus lines insurance industry, with domestic and international wholesalers, wholesale-dedicated insurance markets and service-provider members comprising the U.S. wholesale insurance distribution system. Recognizing the importance of program specialists in the market, WSIA now offers dedicated business networking opportunities for program specialists at the Annual Marketplace and Underwriting Summit, to provide program specialists and program administrators open access to program carriers at these events.

What value does the wholesale distribution system bring to a transaction for an emerging risk?

The wholesale distribution system brings value to both retail agents and insurance consumers. WSIA members are technical experts who specialize in creating innovative coverage for complex risks. Retail agents can trust WSIA-member wholesalers to help them gain access to markets, coverages and options they might not be able to find in the standard market. A wholesaler's expertise can help agents tailor an option for their insured. It's also important for agents and insureds to know that there is never a cost associated with seeking a wholesale quote, so it's risk-free. A 2016 Conning Inc. analysis concluded that wholesale distribution does not increase the cost of the transaction to the insured, which makes consulting a wholesale expert a common-sense approach for insurance buyers.

What is the outlook for the wholesale market and WSIA members?

The wholesale, specialty and surplus lines segment continues to perform very strong. The market is at a record level of surplus lines premium, and surplus lines carriers continue to maintain a higher proportion of secure financial ratings than the overall property/casualty market. Best's Special Report, 2019, *U.S. Surplus Lines – Segment Review,* found growth of 11.2% in surplus lines direct written premium in 2018, with surplus lines premium totaling a record $49.9 billion. A recent report from the 15 states with surplus lines stamping offices also indicates that premium is continuing to grow, as is the number of filings with those stamping offices. Total surplus lines premium reported to those states in 2019 was $37.5 billion, which is a 19.3% increase over 2018, representing remarkable growth.

Specialty Talk

Industry professionals discuss the hot topics and challenges facing the program, wholesale, and excess and surplus industry with AMBestTV.

"Currently, the challenges we're facing are other underwriters and other companies. We're all concerned that somebody's going to fold up first, be the first one to give back on that rate, or be giving flat rates, and better terms and conditions.

As an entire marketplace—the retailers, the wholesalers, the underwriters—we want to make sure that nobody really folds up first, and we keep driving this market into the direction it needs to be going for the next three to five years."

Kyle Burnett
Head of E&S Property
Axa XL

"People today are much less general in nature, and they're focused much more on the specialties, where they have expertise, they have data, they have information, looking at industries that are, of course, evolving or growing, versus industries that might be shrinking or going the other direction.

It's just matching up the offerings of the insurance carrier partners with the wholesale brokers, MGAs, intermediaries, or program managers of the types of business that they're seeing, so that it becomes much more an efficient exchange of information and opportunities."

Joel Cavaness
President
Wholesale & Specialty Insurance Association

"The opportunity within insurance and reinsurance in more niche markets like specialty insurance is massive. I don't think the insurance is anywhere close to where the likes of retail banking, or wholesale banking, or otherwise have managed to embrace innovation.

That comes down to a nuance with who the customer is and that slight differentiation between banking and insurance, particularly in a brokered market. I think that insurance and reinsurance can learn from the banking sector, broader financial services, and also sectors that aren't financial services like retail, etc.

The key way to do that and embrace that comes down to data. At a fundamental level, that's understanding what data's available to help price, improve expenses, etc.

A broader, more macro level, how do we leverage something like open data and open data as a trend to bring ourselves and our market into the 21st century?"

James Birch
Head of Innovation
Brit Insurance

"Program business, in my view, denotes specialization. There's definitely been a move toward specialization, especially given the recent market shifts and the conditions that we face today. There's more and more business coming into the excess and surplus line sector, and as a result, increasingly businesses being handled by generalists.

What the retail broker was looking for, to solve problems effectively, is specialization. That's what program managers speak to.

There's a lot of growth and interest in programs. It comes from a number of different angles. One, there's a robust M&A environment for program administrators. Increasingly, you see sole proprietors, program managers that want to sell their firms, based on the valuations they perceive in the market. Sometimes it's driven by succession.

Also, there's an increased interest in the part of carriers to partner with program managers effectively, to drive costs down and be more efficient, when they run a business model.

The program and wholesale business is a very, very busy space. If we looked at six months of last year, double digits increases in most stamping offices for excess and surplus lines. By the time the bill is tallied, the excess and surplus lines market in the U.S. is north of $50 billion.

There's going to be increased scrutiny and focus on best in class distribution partners on the part of retailers in terms of wholesale. Wholesale is going to grow. It's going to be robust. This is a prolonged period of market disruption that we're facing, and so it's going to be quite important."

Matt Power
President
One80 Intermediaries

"Liberty purchased Ironshore two years ago and have put a specialty company into their family. That provided a tremendous opportunity for Liberty to grow in the wholesale market. We have worked through and driven and focused on getting organized and attacking that with as much product as the Liberty family can give the wholesale market and focusing teams of people on partnering with the wholesale community."

Ben Johnson
Wholesale Distribution Executive for North America
Liberty Mutual Insurance

"What we see is the market's certainly firming. It's firming in pockets, so it's not necessarily the same all around. But we are definitely seeing some movement.

Quite frankly, we're hearing a lot more buzz here at WSIA and as we talk with our wholesalers and clients about what they see. We're certainly feeling some positive movement and some firming in the market.

We think that's the right thing. We think the market needs it."

Eric Blecker
President, Northfield Insurance
Travelers

"There are many, many carriers in the marketplace. You see it, in particular, in the specialized lines.

There are many specialty carriers that focus on a set number of lines of business.

As you're thinking more account focused, you have to be prepared to differentiate yourself in a way that's more about what we're doing for the total customer, how we're working with the agent, as opposed to simply competing on price that I sometimes see some of the specialty carriers doing."

Bryan Salvatore
President of Specialty
Hanover Insurance Group

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

Asset Management

Building

European insurers are eyeing illiquid assets such as commercial real estate to boost investment returns.

by *Best's Review* Staff

Insurers are experiencing a range of influences that are raising the profile of illiquid assets in their balance sheets. In this context, AM Best conducted a survey of Europe-based insurers managing in the region of €4 trillion of financial investments, loans and real estate (€3 trillion, excluding assets held for unit-linked liabilities), according to a Best's Special Report *European Insurers and Illiquid Assets—an Upwards Trajectory*. The survey, conducted in 2019, focused on identifying what changes are ahead in the next five years and the current rationales for those changes. Anthony Silverman, associate director, analytics, AM Best, said insurers have been long-time investors in less-liquid assets such as commercial real estate, and are exploring other similar investment sectors. Silverman spoke with AMBestTV about the report's findings at AM Best's Insurance Market Briefing—Europe, held in London.

Following is an edited version of the interview.

Best's Review staff can be reached at *bestreviewcomment@ambest.com.*

The report refers to evidence of increases in insurance holdings of illiquid assets. What's been driving that trend?

There are some quite strong drivers which have got us into this position post the 2008 financial crisis, which had a lot of liquidity issues in there. Insurers are now looking to hold more illiquid assets than ever before. There are low interest rates, a defining influence.

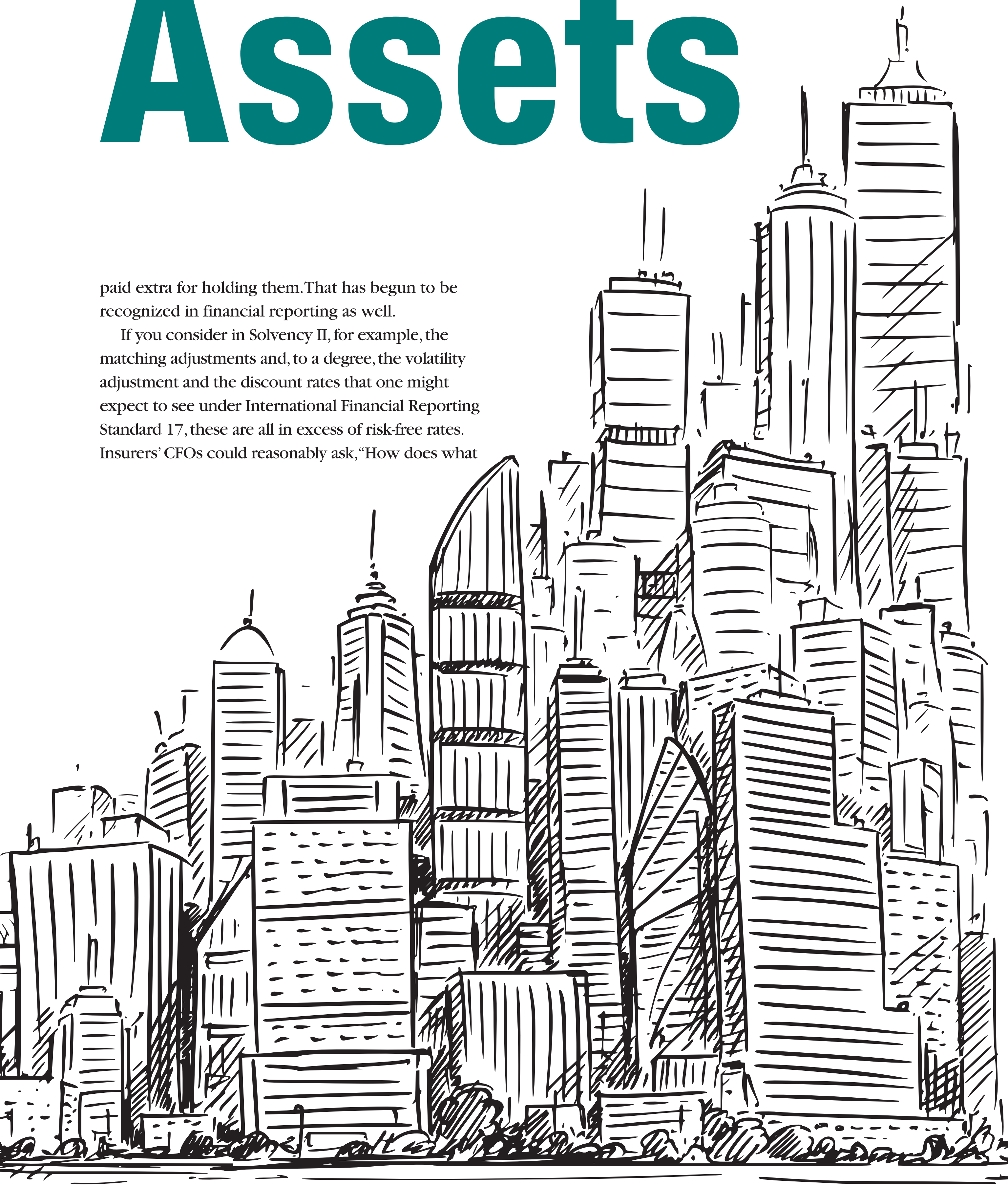
It can't just be that it's low interest rates because there are a variety of responses to that. There has to be an attraction in the illiquid assets space for insurers to react as they have been. There are various strands to that. I'll mention just a few.

There is an acceptance of the argument that, because the universe of investors is far more limited for illiquid assets, insurers can expect to get

Assets

paid extra for holding them. That has begun to be recognized in financial reporting as well.

If you consider in Solvency II, for example, the matching adjustments and, to a degree, the volatility adjustment and the discount rates that one might expect to see under International Financial Reporting Standard 17, these are all in excess of risk-free rates. Insurers' CFOs could reasonably ask, "How does what



“Fifty percent of insurers, representing over 90% of the assets of the sector, are looking to increase their holdings of illiquid assets as a percentage of their total funds, excluding unit-linked.”

Anthony Silverman
AM Best

we’re going to get, how does that compare to the return assumptions in the financial reporting?”

There’s a collection of other reasons as well. There was an expectation that underwriting profit would react directly to low interest rates, but it’s been squeezed. It moves around a bit and it may be moving around. It may be looking better going forward now, but it’s failed to react directly to low interest rates.

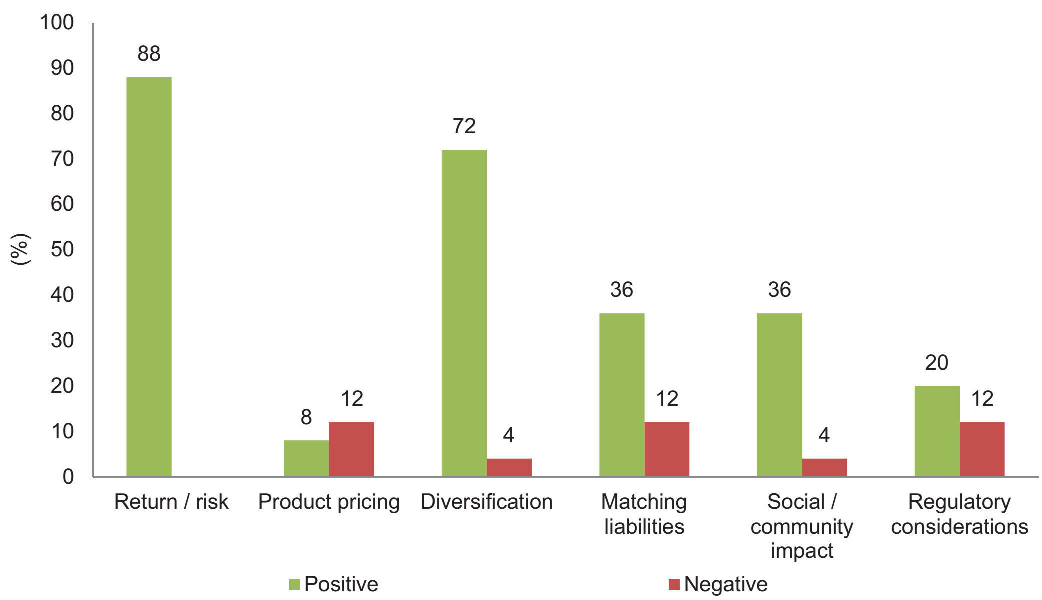
Then there’s the question that a lot of assets have moved from the public-listed markets that migrated to private markets. If you don’t follow them, then the nature of the assets you hold changes, by default.

Finally, insurers have been involved with illiquid type assets, for example, commercial property, for a long time. They have skill sets there. The question is trying to maximize or monetize, optimize the use of those skill sets. That’s something that this exercise also involved.

We’ve got a good idea and a good picture of where we are at the moment. How’s this going to play out over the next five years?

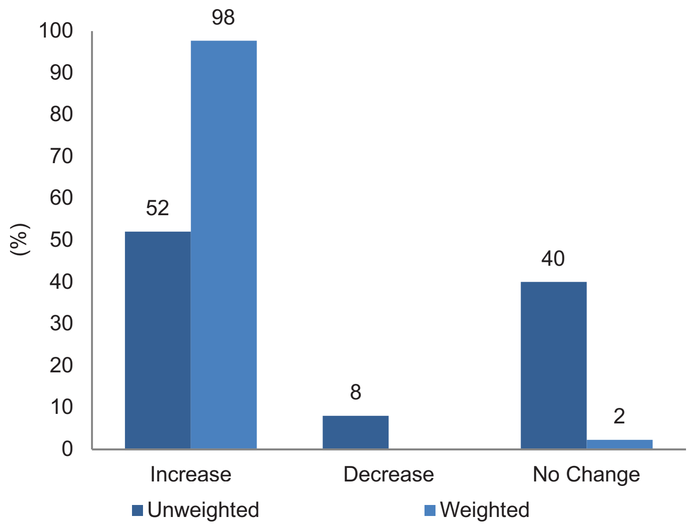
We were very interested in that. We have surveyed our clients. We got an excellent response. This is the survey of European-based insurers. The survey referenced over €3 trillion

Main Drivers of Change in Allocation to Illiquid Assets



Source: AM Best data and research

Anticipated Change in Allocation to Illiquid Assets Over Next Five Years



Source: AM Best data and research

of assets, excluding unit-linked. The answer was quite clear.

I'll put it this way, 50% of insurers, representing over 90% of the assets of the sector, are looking to increase their holdings of illiquid assets as a percentage of their total funds, excluding unit-linked. Twenty-five percent of those, representing 65% of the industry's assets, are looking to increase the allocation to illiquids by between 5% and 15%.

We're looking at a highly visible change, which will change the complexion of the investment process for the sector if it plays out as we're expecting.

As you say, that's a very large increase. How are insurers going to drive this? Are they going to do it themselves? Will they have to get a specialist in or use third parties?

Yes, we asked this question. This sort of change presents an implementation challenge on all sorts of levels. The responses, as you might expect, did vary between the unweighted sample—that's just one insurer, one vote—and the weighted sample, weighted by investment assets.

Whereas 50% of insurers said that they would expect the majority of their assets to be managed and sourced internally, the weighted sample was over 90% direct. That varies between segments. If you look at the different asset categories, then for the unweighted sample, they're mostly indirect across the categories.

That's infrastructure and commercial property, equity and debt-related for those two categories, equity-released mortgages, private debt, private equity. There is a single exception to that, which is commercial property equity, where the weighted sample was looking to manage that directly for the most part.

If you look at the weighted sample, weighted by investment assets, then it's all the other way around, certainly for the infrastructure and the commercial property categories. They're heavily represented by direct management. The larger insurers are looking to do that directly.

This does raise the question of whether an industrywide move to allocate a bit more, 5% to 15% more to illiquid assets, amounts to a challenge and a competitive disadvantage for smaller insurers.

I'll finally say that one interesting thing is that if you look at the weighted sample for the final three categories—private market debt, private equity and debtor assets, and equity-released mortgages, which is a specialist thing—then the weighted sample looks much more similar to the unweighted.

In fact, even for the weighted sample, in those categories, insurers are looking to do more in the indirect, third-party managed space than managing directly. It appears to be that, for those categories, it's really hard to replicate the expertise and the accumulated history of the third-party managers.

It also means that in those segments the smaller insurers would not be at any disadvantage compared to the major insurers. It may be that private market debt is something that smaller insurers [do], perhaps it's surprising they're not doing more of that. The implementation does vary across segments, with the larger insurers looking to do it directly. BR

AMBestTV

Go to *bestreview.com* to watch the interview with Anthony Silverman.

Transformation Imperative

There is no question the insurance industry is going through a period of transformation. But change comes in many forms.

At Lloyd's of London, social and financial pressures have spurred the Future at Lloyd's initiative, which calls for more technology, closing unprofitable business lines and promoting diversity. "The Choppy Seas of Change" details these ambitious modernization efforts.

Technology is also a well-known driver of change. Two Catholic fraternal organizations illustrated that when they joined forces on a groundbreaking tech initiative. Their story is told in "Coming Together."

And sometimes, it's people who bring about the most significant changes in the industry. Maurice R. "Hank" Greenberg, the legendary former CEO of AIG and current CEO of C.V. Starr, has been transforming insurance companies, as well as the industry, for nearly seven decades. Read about the enigmatic leader in "Change Is Inevitable."

In this special section, *Best's Review* explores transformation.

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Photo by Frank Vowinkel

‘Change Is *Inevitable*’

Maurice R. “Hank” Greenberg has been transforming insurance companies for nearly seven decades. Along the way, he also has transformed the global insurance industry.

by Kate Smith

Hank Greenberg landed at New Jersey’s Teterboro Airport and headed straight to the Marriott Marquis in Times Square. It was the night of the St. John’s University Insurance Leader of the Year Award Dinner—and part two of a marathon day that started at 4 a.m. for Greenberg.

It began with a trip to Washington, D.C., for the signing of the U.S.-China trade agreement. Nearly 15 hours later, the chairman and CEO of C.V. Starr was whisked to the seventh floor of the Marriott for a VIP reception in his honor.

Flashing cameras illuminated the corridor as Greenberg approached, a red carpet greeting for the man about to receive a Lifetime Leadership Award from St. John’s University. The honor was bestowed just hours after President Donald Trump recognized Greenberg during the signing of the trade deal.

It is perhaps fitting that the two events coincided. Greenberg’s insurance achievements, after all, are intertwined with the global relationships he has forged and international clout he has gained.

“When you think about Hank’s leadership record, it’s not just what he’s done in business at AIG and C.V. Starr, which is distinctive and something we all aspire to,” Greg Case, CEO of Aon, said. “It’s what he’s done in the community with the Starr Foundation, what he’s done in government, opening up China and Eastern Europe, what he’s done in service to the country.

“Hank has not been singularly excellent in what he’s done; he’s been truly collectively great.”

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

Over the course of nearly seven decades, Greenberg has become a business icon. He has opened new markets, pioneered new lines of insurance and built AIG into what was once the world's largest insurance company ... a feat he's striving to match at Starr.

He has transformed the companies he has led, and in the process he has also transformed the insurance industry.

"To me he would be in the pantheon of the greatest executives of all time," Dan Glaser, chief executive officer of Marsh & McLennan, said.

Greenberg didn't get there by shying away from change. Yes, his success has always been predicated on strong underwriting. Yes, he consistently surrounds himself with world-class executives, at least a dozen of whom have gone on to become prominent CEOs. But he has built cultures that strive to be first, thrive on creativity and embrace transformation.

"Change is inevitable," he said.

And Greenberg's genius lies in finding ways to make money in the margins of it.

Constant Evolution

Four weeks before the St. John's dinner, Greenberg is sitting in his 17th floor office overlooking Manhattan's Park Avenue. He's talking about the need to continuously evolve.

"Look," he said, "not just the insurance industry but virtually every industry is undergoing change, all over the world. There's a new generation of people who recognize the necessity for change.

"Look at a company like Amazon, for example,

"Hank was really instrumental in opening up new markets for the entire industry—places like the Soviet Union, Eastern Europe, China."

Dan Glaser
Marsh & McLennan

which offers online buying of almost every product you could think of. In many countries, China for example, you don't need cash anymore. That wasn't true a few years ago. The entire world of business and the way people buy are changing."

Greenberg is invigorated by the prospect. He always has been. Adapting to change—not to mention capitalizing on it—has been a hallmark of his career.

"When I was running a different company, we lived on change," he said, referring to AIG. "We're doing that here, too."

C.V. Starr's history is complex. It is 101 years old, but has radically transformed in the last 15 years. Greenberg is wholly responsible for that.

After being forced to accelerate his retirement from AIG in 2005 amid allegations of accounting fraud at the company brought by former New York Attorney General Eliot Spitzer—a case that ultimately ended with a defamation lawsuit against Spitzer and no admission of wrongdoing by Greenberg—Greenberg promptly decoupled C.V. Starr from AIG and began building his second empire. Since then, he has transformed C.V. Starr from a company that operated managing general agencies to a global insurance carrier operating on five continents. Starr's total gross written premiums have grown every year since 2009. And not just by a little.

Between 2009 and 2019, Starr's GWP jumped from $737.2 million to $5.4 billion, according to the company. And there is no resting on those laurels.

"We're trying to find ways to write new coverages by recognizing that what was true 10 years ago is not true today," Greenberg said. "You have to adapt."

He offers no hint of what new coverages are in the works. "It's hard to say anything without alerting our competitors," he added.

It's easy, however, to find examples of innovation throughout Greenberg's career.

On his watch, AIG pioneered insurance coverage for armies, kidnapping, oil pipelines and rigs, satellites, and airline passengers. As the airline industry took off in the early 1970s, insurance companies focused on aviation coverage for planes. AIG, however, developed coverage for passengers as well.

Asked how he spots such opportunities, Greenberg shrugs as though there's no secret to innovation.

"If you understand your business, it comes naturally because you're looking for ways to expand opportunities," he said. "But many times, the people running a business don't see the forest for the trees."

In terms of innovative products, Greenberg is perhaps best known for launching directors and officers insurance in the U.S. He didn't create the first coverage for corporate directors—that was done by Lloyd's in the 1930s—but he scaled it.

The Lloyd's coverage never took off. By the time Greenberg flew to London in 1968 to learn about it, the product was offered by just one syndicate.

Greenberg spent a week studying the coverage and building a strategy to bring it to the United States.

"I went to London, and I lined up not only reinsurers but underwriters," he said. "I spent about a week and came away with what I needed."

Today, the global D&O insurance market collects an estimated $15 billion in premiums each year.

Greenberg also was instrumental in globalizing the insurance industry. He took AIG behind the Iron Curtain when no other U.S. insurers were allowed there. He operated in Mao's China three years before the formal reopening of diplomatic relations between the United States and China in 1978.

In 1975, Greenberg flew to Beijing and proposed a reinsurance deal with the state-owned People's Insurance Company of China. It was a foot in the door of the world's most populous country. Seventeen years later, in 1992, AIG became the first wholly foreign-owned insurance company to be licensed in China.

During the Cold War, Greenberg cultivated relationships with Eastern European government leaders, forming reinsurance partnerships in Romania, Poland and Hungary. Before the U.S. decided to boycott the 1980 Summer Olympics in Moscow, AIG had made a deal to jointly underwrite the event. When the Iron Curtain fell, AIG received a license to operate a full-scale insurance company in Russia.

It wasn't only AIG that benefited from those events. It was the industry as a whole.

"Look at the juggernaut that was created within AIG," Glaser, who worked at AIG under Greenberg, said. "AIG had a culture of innovation in the insurance industry unlike anything the industry has ever seen. Hank was really instrumental in opening up new markets for the entire industry—places like the Soviet Union, Eastern Europe, China."

Portrait of a Leader

Greenberg's interest in foreign affairs stems from his days in the military. As does his leadership style.

"It had a major impact on my life," he said.

Greenberg's assistant enters his office with a stack of photo albums and lays them on a coffee table. They are meticulously composed.

Black and white images of a fresh-faced soldier in Army fatigues stare up from the pages. It's a teenage Hank Greenberg, not even out of high school and yet already serving his country.

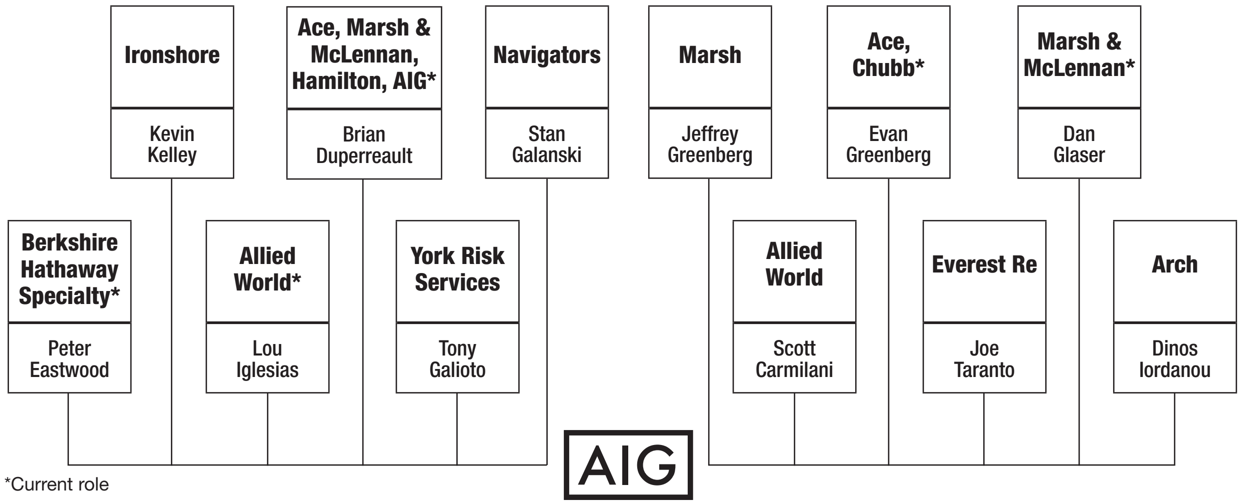
Greenberg lied about his age and forged his mother's signature to enlist in the Army at age 17. "The country was at war. I didn't want to stay home," he said by way of explanation.

He was still a kid when he landed in Normandy during World War II. He was just 18 when he helped liberate Dachau concentration camp.

Flipping through images, some of which look straight out of the television show *M*A*S*H*, Greenberg shares snippets of memories. After World War II, he completed college and reenlisted for the Korean War, where he commanded a company.

Family Tree

Here are some of the executives who trained under Greenberg at AIG before moving on to become CEOs of other companies.



*Current role

He remembers the cold. It was brutal, and his men didn't have winter uniforms. They stuck newspaper in their boots for warmth. He talks about flying missions. He'd accompany the pilots from his unit when they flew into enemy territory.

"I wouldn't ask anyone to do anything I wouldn't do myself," he said, echoing what has become his mantra as a leader.

Closing the photo albums, Greenberg continues to speak of carrying out orders. Only now, he's talking about corporate culture rather than global warfare.

"They have to believe in the strategy and they have to carry it out," Greenberg said when asked who fits into his company's culture.

"I don't think it's a tough environment," he added. "It's an environment that doesn't suit everybody. Period."

He makes no apologies for that. Greenberg's style is not for everybody. He is tough. He is demanding. His temper can be fiery and his wrath is well known. In his own book, *The AIG Story,* he talks about "chewing out" employees in front of their peers. He's never been known to back down from a confrontation (just ask Spitzer). His insurance career even began with one.

Fresh out of Korea, he stopped by the Continental Casualty Company to inquire about job openings. When the personnel manager treated him rudely, he stormed into a vice president's office to complain.

"I said, 'You've got a jerk for an HR guy,'" Greenberg recalled. "He told me to please sit down. We started talking. About an hour later, I had a job.

"I was about two or three days out of Korea when I came back to New York. I was not very tame by then."

Asked if he'd react the same way today, Greenberg doesn't hesitate. "Absolutely," he said with a sly smile.

Greenberg is an enigma. He is known as much for his feistiness as his generosity, as much for his sharp tongue as his diplomacy. Above all, he is known for being one of the most innovative and successful executives of all time.

"He is the greatest leader the industry has ever had," former Ironshore CEO Kevin Kelley said.

Kelley trained under Greenberg before going on to become CEO of Ironshore and vice chairman of Liberty Mutual. He is among the long list of AIG alumni who have gone on to become prominent CEOs.

On an unseasonably warm January evening, several of those protégés, Kelley included, made their way to the Marriott Marquis to honor Greenberg for his impact on the insurance industry.

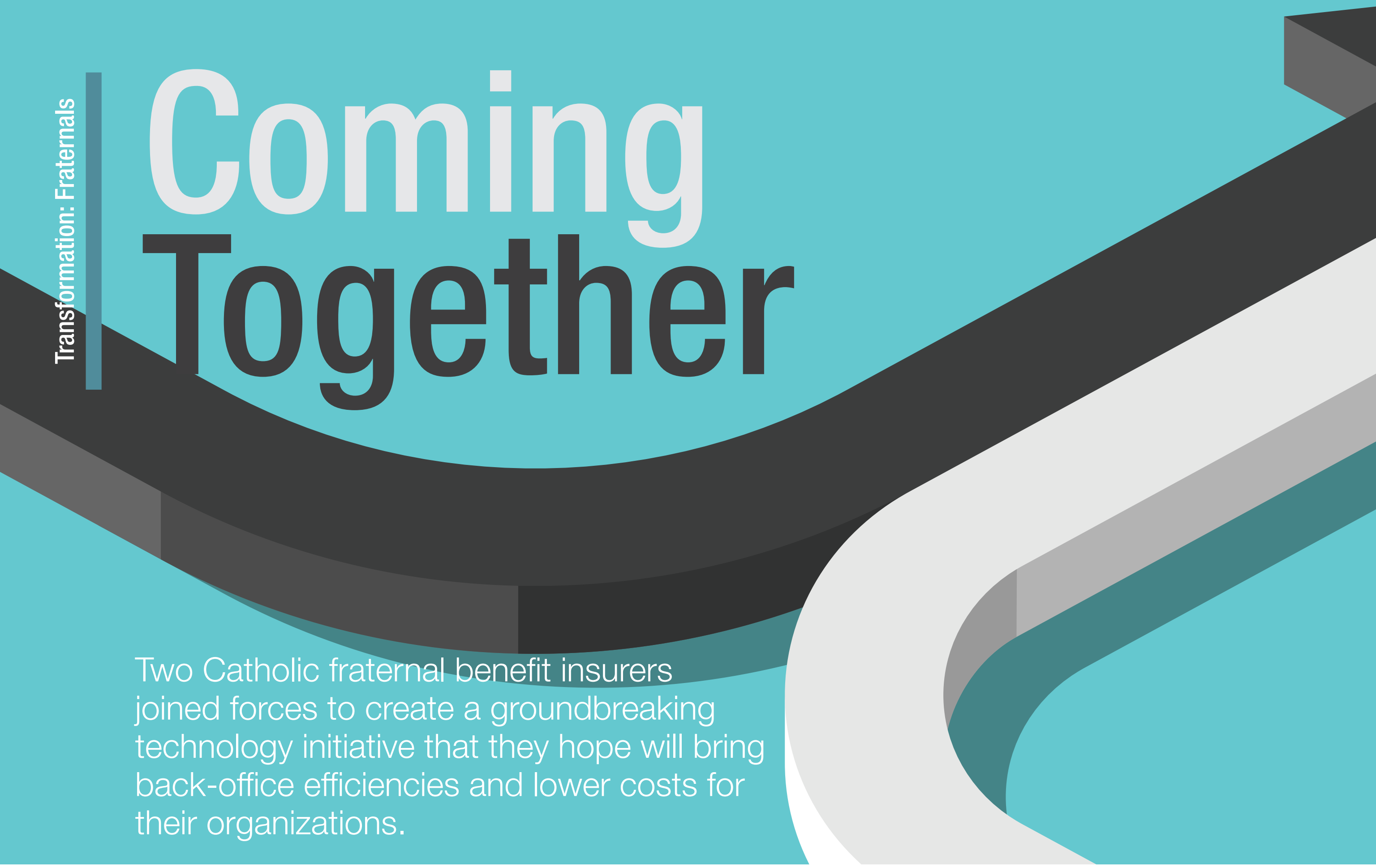
Greenberg, for his part, is not done yet. As the world rapidly transforms, Greenberg is right in his sweet spot, looking to find growth in the margins of change.

"We're still growing and we're still building," he said. "We have a long ways to go." BR

Learn More

Starr International Group (AM Best # 018756)

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



Coming Together

Two Catholic fraternal benefit insurers joined forces to create a groundbreaking technology initiative that they hope will bring back-office efficiencies and lower costs for their organizations.

by Lori Chordas

American author F. Scott Fitzgerald wrote in *The Last Tycoon*: "No brilliant idea was ever born in a conference room."

But Timothy Kuzma, chairman of the American Fraternal Alliance, begs to differ. Last year, two members of the alliance joined forces to create a groundbreaking technology initiative that Kuzma hopes will drive more innovation and collaboration in the fraternal market.

In August 2019, Catholic Financial Life and Catholic United Financial launched Conventus Now, a first-of-its-kind wholly owned initiative that will allow the two organizations to develop and share state-of-the-art technologies, placing them on a level playing field with their larger peers.

The idea for the joint venture was born out of a discussion at a 2017 investment conference—something Kuzma calls "a revolutionary meeting of the minds."

As the leaders of the two fraternal organizations sat across the table from each other discussing the opportunities and struggles their companies faced, "it became evident pretty quickly that the biggest challenge we share is technology," said Harald Borrmann, CEO, president and board chairman of Catholic United Financial.

Like many fraternals, his company struggled to keep up with the big guys when it came to technology.

For years the Arden Hills, Minnesota-based fraternal benefit society, often feeling disadvantaged by its size, made do with tools such as a 20-year-old policy administration system and other antiquated technologies.

But when it became evident those tools were no longer sufficient, Borrmann and his management team knew they needed to devise a way to develop and fund the use of new technologies for their life insurance and annuity products to remain competitive with their peers.

Three hundred miles away in Milwaukee, another Catholic-focused fraternal, Catholic Financial Life, faced similar struggles.

"We also had a legacy platform and a two-decade-old policy administration system in constant need of

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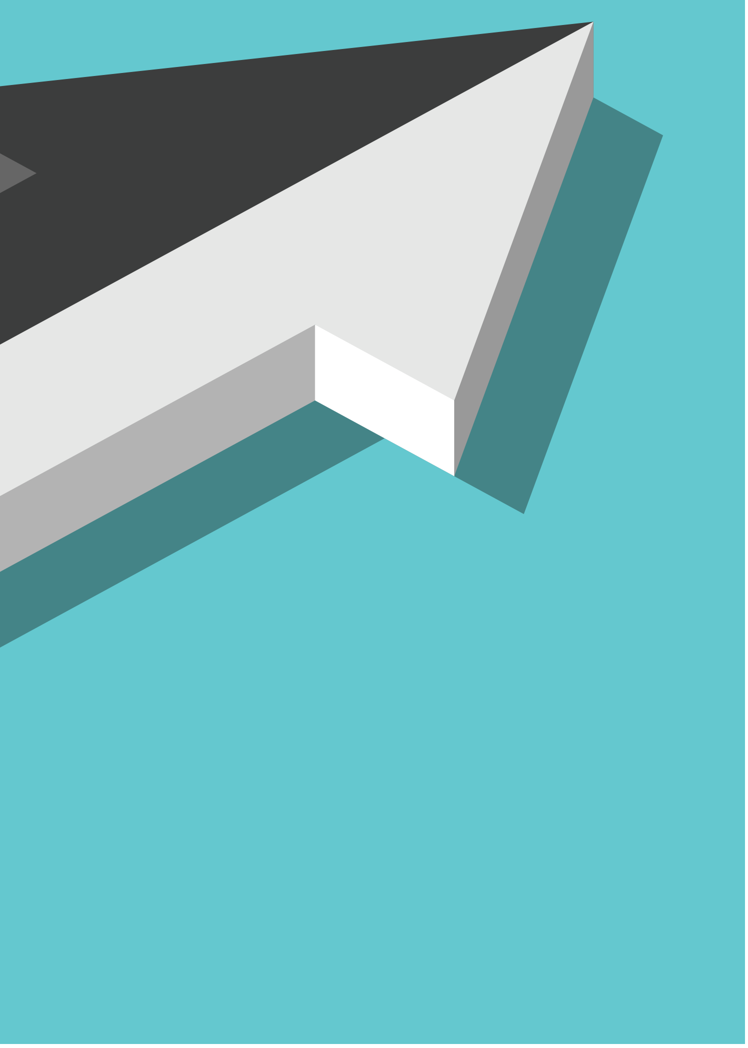


updating that was limiting our ability to improve the service experience for our members and advisers," said William O'Toole, CEO and president of the fraternal founded in 1868.

Fraternals have long been challenged by technology and the limited budgets and resources needed to fund those tools.

High initial implementation costs and the rapid pace of technological change can be particularly daunting for small and midsized fraternals.

And fraternal societies of all sizes often struggle to keep up with larger traditional insurers who can easily manage long-term road maps with ongoing innovation and implementation and upgrade processes connecting their direct-to-consumer channels and portals to their back offices, according to the October 2019 Best's Market Segment Report, *U.S. Fraternals Face a Difficult Growth Environment*.

As a result, fraternals left searching for other options to compete are often forced to outsource technology and back-office services to control and shrink expenses.

Key Points

Tech Challenges: Fraternal insurers Catholic United Financial and Catholic Financial Life share a similar mission, philosophy and geography, but they also face similar limitations posed by their legacy platforms and outdated policy administration systems.

Partnership in Innovation: In a breakthrough in collaboration, the two fraternals launched a joint venture that will build next-generation technology to serve their members.

Wider Implications: The companies hope the technologies they develop may eventually be used by other fraternal insurers.

Fulfilling a Need

Outsourcing back-office functions was an idea Borrmann and O'Toole quickly tossed aside.

Instead, they wanted to keep those services in-house and create a vehicle through which their companies can develop and operate technology solutions.

The goal of their novel joint initiative, Borrmann said, is to modernize new business and in-force operations with next-generation technologies to lower customer acquisition costs and achieve economies of scale to benefit members.

"During our initial conversation three years ago, it became very clear that we have many similarities, including a shared philosophy, products and geography," he said.

"But we also share the same struggles with our back-office systems and proposed time frame to find something new to improve our tech needs. So we knew we needed to work together to come up with a collaborative way to approach technology," Borrmann said.

The first step in that process was devising an end-to-end solution where sales reps can sit down with prospective members to fill out applications, underwrite them, administer policies and pay claims.

"We also want to give our members things that we might not otherwise be able to afford to give them on our own, and create the look and feel of a much larger organization in terms of quality and depth of what members can get from the experience without losing the personal touch," Borrmann said.

Catholic United and Catholic Financial Life then searched for a technology partner that could join in the Conventus Now initiative to help streamline the servicing of members' needs, open new sales channels and lower ownership costs, O'Toole said.

Last summer they selected cloud-based software provider iPipeline. The two fraternals plan to use

"Don't count out fraternals. We're here to stay, and we hope collaborations like Conventus Now will bring even more attention to the fraternal market and drive more innovation in our sector."

William O'Toole
Catholic Financial Life

iPipeline's omnichannel SSG Digital Platform with a next-generation policy administration system to automate and simplify new and existing individual life and annuity business, plus drive digital transformation and collaboration within their organizations.

Joining Forces

Collaboration was the impetus behind Conventus Now and its name.

The word "conventus" means "coming together" in Latin. "We added the word 'now" to emphasize that the project is here and now is the time," Catholic United Financial's Borrmann said.

For years the American Fraternal Alliance has been trying to drive greater collaboration among fraternals.

"One of the biggest benefits of the fraternal model is the nature of fraternals' mission of social good that can lead to collaboration," Kuzma said.

Fraternal benefit societies were created in the 1800s to assist immigrants coming to America. Since then, they've developed into nonprofit, mutual aid organizations that insure members and their families against death, disease and disability.

"Conventus Now is the kind of collaborative breakthrough we've been looking for, and it's a perfect example of what fraternals can do when they put their minds together," said Kuzma, who along with leading the alliance's board is the president and CEO of Polish Falcons of America, a fraternal provider of life insurance and financial services to members of the nation's Polish community.

Edward Kohlberg, a director at AM Best, credits the mission and goals shared by Catholic Financial Life and Catholic United Financial as laying the foundation for what he hopes will drive down costs for the companies and become a quantum leap in innovation in the fraternal market.

"They're both Catholic fraternal organizations dedicated to providing financial stability to their members, and that will help with shared costs for services, software, marketing and other needs," he said.

The two fraternals have been serving U.S. Catholics and their families since the latter half of the 19th century.

Today, Catholic Financial Life, the second largest Catholic not-for-profit financial services organization in the nation, serves nearly 140,000 members in 28 states. Fraternal benefit association Catholic United Financial offers life insurance, annuities and retirement products to more than 75,000 members in Minnesota, North Dakota, South Dakota, Wisconsin and Iowa.

Both companies have more than $1 billion in assets. Catholic Financial Life's total assets now surpass $1.6 billion, and last year Catholic United Financial celebrated a milestone when its assets hit the $1-billion mark. Assets have grown as the amount of insurance in-force, both life and annuities, have grown. The fraternals return revenues each year to members and communities through dividends, charitable contributions and fraternal benefits after operating expenses are paid and conservative reserves are set aside to recognize future liabilities.

The Road Ahead

The goal of Conventus Now is to shed member costs and technology expenses. But Borrmann and O'Toole hope the joint venture will also help grow membership for their organizations.

"We share the same struggles with our back-office systems and proposed time frame to find something new to improve our tech needs. So we knew we needed to work together to come up with a collaborative way to approach technology."

Harald Borrmann
Catholic United Financial

Membership in fraternal societies has been on a downward trajectory in recent years, largely driven by a shrinking middle market and less focus on the fraternal community, said David Marek, a financial analyst at AM Best.

"Today younger generations prefer to socialize online rather than socializing at a fraternal chapter or lodge," he said.

Over the years, many fraternals have loosened their requirements in an effort to expand membership, broadening their target market to include more religious affiliations or demographic groups, according to AM Best's fraternal market report.

Also in recent years, relatively flat premium growth, limited financial resources, a changing landscape and size have made it difficult for many fraternals to become first movers on innovation and stay relevant in the market—a market Marek characterizes as "challenged."

But he's hopeful that collaborative efforts like Conventus Now will drive innovation back into the fraternal market and become a model other fraternals can follow.

"They may look at it and ask, 'What can we do to partner with other fraternals to create something similar or other kinds of breakthroughs,'" American Fraternal Alliance's Kuzma said.

He's also bullish on the idea that Conventus Now could one day be used by other fraternals.

"But we don't want to put the cart before the horse," Catholic United Financial's Borrmann said.

"First we have the responsibility to benefit our members and our two societies. Then after passing that litmus test, the technology we develop could possibly be shared with other fraternals in the future," he said.

Last year, Catholic Financial Life and Catholic United Financial spent much time strategizing and building Conventus Now.

This year is all about execution and implementation, Borrmann said.

"Our goal in 2020 is to create a plan, work that plan and test how it works. Then later in the year, we'll begin to roll out and implement aspects of Conventus in our companies and hopefully drive more appeal to the fraternal market, which is well-poised for growth," he said.

Catholic Financial Life's O'Toole offers his own take on the future of the market and Conventus Now with an analogy synonymous to the city in which he works.

"Sitting here in Milwaukee, there was a period of time when the major breweries were dominant players in their market. Today, you have microbreweries in just about every city or town in the country."

He compares fraternals to those specialized breweries. "Twenty years ago people discounted the rise of microbreweries and said they'd only drink major brand beers. But the world has changed, and there's now a taste for both types of beers. I think there's also still a taste of what fraternals' missions are all about and where profits are directed toward our missions and members and not to enrich directors and shareholders.

"We believe our taste still matters to people and will resonate with them, especially millennials. So don't count out fraternals. We're here to stay, and we hope collaborations like Conventus Now will bring even more attention to the fraternal market and drive more innovation in our sector," O'Toole said. BR

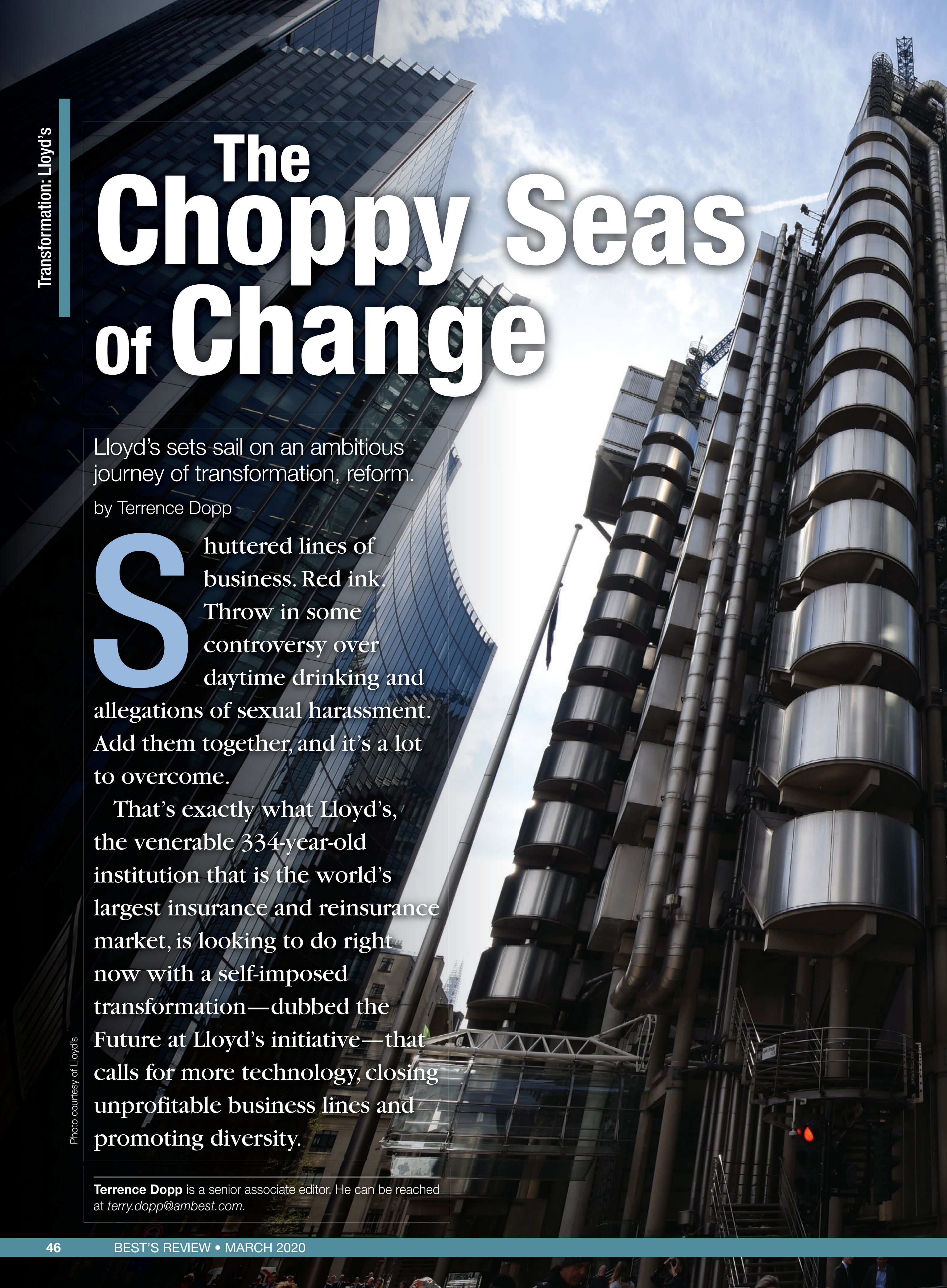


Photo courtesy of Lloyd's

The Choppy Seas of Change

Lloyd's sets sail on an ambitious journey of transformation, reform.

by Terrence Dopp

Shuttered lines of business. Red ink. Throw in some controversy over daytime drinking and allegations of sexual harassment. Add them together, and it's a lot to overcome.

That's exactly what Lloyd's, the venerable 334-year-old institution that is the world's largest insurance and reinsurance market, is looking to do right now with a self-imposed transformation—dubbed the Future at Lloyd's initiative—that calls for more technology, closing unprofitable business lines and promoting diversity.

Terrence Dopp is a senior associate editor. He can be reached at *terry.dopp@ambest.com.*

Key Points

Issues: Venerable 334-year-old institution faces existential challenges amid financial, cultural difficulties.

Performance: While the market's performance had shown weakness in recent years, it's trajectory is climbing and long-term remains stable.

Looking Ahead: The Future at Lloyd's initiative aims to expand technology, close syndicates and boost profitability.

"Should Lloyd's be unsuccessful in its modernization project and peers are able to widen the gap in both efficiency and the ease of doing business, it may struggle to remain competitive."

Jessica Botelho-Young
AM Best

Change can be a tough order at any organization. Add a history as storied as that of Lloyd's—coupled with a recent history of profit-making—and it can be like trying to pull off a three-point turn behind the wheel of a semi-truck in a driveway. The best-case scenario: Expect a few divots.

"The Future at Lloyd's is a bold and ambitious strategy, which inevitably presents a challenge for the market but the opportunities are immense," a Lloyd's spokesman said in an email. "Of course, we need the support of all market participants to make this a success and achieve our vision to build the most advanced insurance marketplace in the world."

As part of this internal stock-taking, Chief Executive John Neal said in November Lloyd's needs to look closely at the quality, type and style of products and services offered. It also needs to tackle the cost of doing business there in order to reassure members, he said.

"The world around us is changing. The expectations of our own customers, the type and style of their business, the risks they present are very different to the risks that were presented even five and 10 years ago," Neal said at the AM Best Insurance Market Briefing-Europe in London.

London's got a reputation as an expensive place to do business.

Jessica Botelho-Young, a senior financial analyst at AM Best, said this well-documented issue, and the expense ratio of Lloyd's, over the past five years compares unfavorably to that of European, U.S., and Bermudian reinsurers.

"Inefficiencies associated with placing business, the length of the distribution chain and growing acquisition costs play a significant role in the disparity," she said. "Should Lloyd's be unsuccessful in its modernization project and peers are able to widen the gap in both efficiency and the ease of doing business, it may struggle to remain competitive."

The challenges have so far come on two main fronts. First, there were the operations matters: Natural disasters in 2017 proved harmful to the bottom line, and the company faced mounting pressure to modernize the way it transacts business. At the same time came the internal failings: Being outed as a bastion of a long-gone workplace that smacked of *Mad Men*'s day-drinking harassers took a bite out of its social currency.

Financial institutions around the world and across sectors are confronting the need to bring their operations into the current age if they hope to prosper, said Robert Hartwig, director of the Center for Risk and Uncertainty Management at the University of South Carolina's Darla Moore School of Business.

While corrections to workplace culture can be undertaken immediately, it's on the business side that changes can take years to draft, implement and show results, he said.

"You can see that this is their absolute priority and they understand that, if Lloyd's is to make it to midcentury," Hartwig said. "They're going to need to make these changes and make them in the next few years. So this is their existential challenge, and the existential challenge being faced by large institutions everywhere."

The exchange was forced to turn a critical eye on itself after a March 2019 *Bloomberg Businessweek* article that detailed complaints of alcohol-fueled misbehavior and sexual harassment within Lloyd's.

This introspective streak prompted the largest-ever survey of the market's internal culture. A report issued in September found 8% of people there reported witnessing sexual harassment in the previous year. Less than half, 45% said they'd be confident in raising concerns about sexual harassment, and 22% who said they've seen people in their organization turn a blind eye.

U.K.'s Financial Conduct Authority on Jan. 6 prodded insurers to clean up bad behavior and boost diversity or risk consequences. Jonathan Davidson, the FCA's executive director of supervision, retail and authorizations, said how firms handle discrimination, harassment, victimization and bullying are indicators of internal culture.

But while issues of gender-based harassment and misbehavior took a toll from the perspective of headline risk, the numbers had their own tale to tell.

Lloyd's was in a strong position with a combined ratio that averaged 96.9 over the previous decade and a return on equity rate of 7.1%, according to BestLink. However, BestLink also cited the market's slow adoption of technology and warned of "high degree of execution risk" due to substantial investment and cultural change it entails.

Lloyd's pretax gain fell from £3.86 billion (US$5 billion) in 2009, to a £1 billion loss in 2018, according to more than a decade of results provided by Lloyd's. There is a silver lining to the numbers however: The £1 billion figure in 2018 was half of the loss in 2017, and it registered losses in only three of those 10 years. Also, the preliminary 2019 report shows a profit of £2.3 billion.

Easing both the cost and practice of doing business at Lloyd's has been a central focus of the Future program. The effort began in 2018 when Lloyd's ordered syndicates with three consecutive years of underwriting losses to craft a plan to stanch red ink.

And there seems to be some movement. There were 80 syndicates and 13 deal-specific special-purpose arrangements at the midpoint of 2019, according to data supplied by Lloyd's. This was down from 84 and 15, respectively, the previous year and marked a retreat to 2014 numbers.

"The world around us is changing. The expectations of our own customers, the type and style of their business, the risks they present are very different to the risks that were presented even five and 10 years ago."

John Neal
Lloyd's

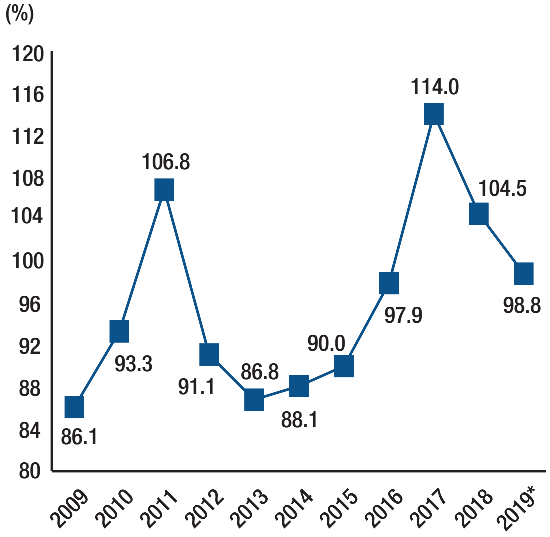
Lloyd's said in January that it had selected marine hull and international casualty binders as the first two test classes in its modernized syndicates program, creating leader and followers standards to improve performance and eliminate duplication. The pilot program, which will be used to shape future standards across lines, is set to begin late in the first quarter or early in the second, the market said in announcing the plan.

Lloyd's announced in December it had secured a loan of £300 million to fund its Future at Lloyd's Blueprint One program, a plan to boost profitability and technology on an exchange known as a last redoubt of handshake business deals. That plan ranges from improving working practices and making the most of digital technology to encouraging more flexible use of capital.

It faced another major change in January when Jon Hancock, the performance management director who played a lead role in executing on

Measuring Lloyd's Profitability

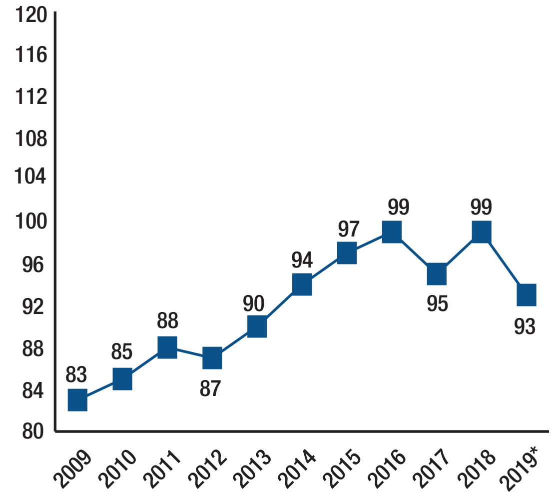
Combined ratio, 2009-2019.*



* Half year
Source: Lloyd's

Lloyd's Entities

Number of syndicates and special purpose arrangements, 2009-2019.



*Half year
Source: Lloyd's

the Blueprint One initiative, announced he'd be stepping down at some point in 2020. Neal deemed his sponsorship of the program "critical" to the future strategy for the exchange.

"So, while we continue to monitor the drivers of underperformance, we are also looking for syndicates to manage and develop their best performing classes. And we are empowering them to do this with a new light-touch oversight approach for selected high-performing syndicates," the Lloyd's spokesman said. American Financial Group said Jan. 6 it plans to leave the Lloyd's insurance market in 2020 and has placed its Neon Underwriting Ltd. Subsidiary into run-off.

"We've got a vision that people have bought into. I'm quite relaxed we've got a plan we can execute. But I think it's the cultural change that the market's got to go through that's probably the hardest to achieve," Neal said in November.

Hartwig said any doubt on the part of the broader insurance market would be felt in terms of shakiness or a fall-off in business.

"We don't see that. The markets are operating smoothly without disruptions," he said, citing the inevitability of yearly fluctuations. "There seems to be no material concern in the marketplace that Lloyd's is going to be a diminished player anytime soon." It is not the first time Lloyd's has weathered a crisis and responded with a strategy to right the ship.

The market was wracked by huge asbestos and pollution losses in the United States in the '90s, leading to litigation from individual members, or Names, who were once the backbone of the Lloyd's market. For their acceptance of unlimited liability, the Names stood to make large profits.

In 2002, Lloyd's underwent a radical overhaul to modernize the market and boost its performance. One provision favored corporate capital providers, which have since displaced the Names as the source of most of Lloyd's capacity. The market was reorganized under a single franchise board with broad powers to develop and enforce standards of performance and service by the managing agencies that operate Lloyd's underwriting syndicates. It also moved to annual accounting from a three-year system, and banned new Names joining the market on the traditional basis of unlimited liability. BR

Checking the Answers

Information technology security audits can ensure an insurer's data is safe while avoiding reputationally damaging breaches and expensive regulatory fines.

by Alex Beeler

Insurers are in the business of uncertainty. However, the uncertainty of information technology security is a relatively new concern for the industry. Every insurer faces possible cyberthreats and a regulatory landscape that can seem insurmountable, all while on a limited IT and IT security budget. To combat these threats and comply with regulations, insurers implement safeguards, or controls, assuming those controls actually work. But how can the insurer know those controls work, and what is the executive leadership's role in achieving peace of mind?

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Key Points

The Issue: Insurers continually face cyberthreats and regulatory changes that necessitate a secure information technology environment.

The Problem: Insurers cannot assume their IT safeguards are impenetrable.

The Solution: To maintain IT security insurers should implement an audit process to ensure the protection of their data and ensure their security controls function.

Administrative, technical and physical controls are often implemented and assumed to function in perpetuity, and never validated. When insurers apply controls and assume they function, they risk expensive and reputationally damaging breaches and regulatory fines, and costly reimplementations of those same controls. Mitigating these risks is the objective of an IT security audit, which validates the controls meet their purpose.

Building an IT security audit process is challenging for all insurers, but especially for those without internal audit and specialized processes. The primary obstacles when building a best practices IT security audit process generally include IT security governance, establishing a standard for reasonable assurance and achieving cost effective audit processes. The following explains how leadership can support the insurer overcoming each of these obstacles.

When insurers apply controls and assume they function, they risk expensive and reputationally damaging breaches and regulatory fines, and costly reimplementations of those same controls.

Governance

Effective IT security governance begins with defining an insurer's risk appetite, such as dollars lost or days of downtime. Achieving a quantifiable risk appetite requires classifying sensitive information, such as customers' financial information and the cost involved if it is compromised. If the compromise relates to confidentiality, the cost is likely to be a calculation of regulatory fines or reputational impact. If the compromise relates to integrity, the cost is likely to be a calculation of the price of repairing or reacquiring the data via process; and if it involves availability, the cost is likely to be expressed in days of downtime, with an implicit or explicit financial cost.

Next, the insurer should adopt an information security standard. Rather than chasing individual regulatory requirements, the adoption of a standard like NIST (National Institute of Standards and Technology) or ISO (International Organization for Standardization) empowers an insurer to use a widely accepted framework to conduct an audit, which can be cross-mapped to new and evolving regulatory requirements. With the adoption of a standard, insurer leadership doesn't need to worry about what regulation is coming tomorrow.

Finally, one of the greatest obstacles facing existing IT security audit processes is that the function is often carried out by IT. Not only does this constitute a conflict of interest, where IT personnel audit their own escalated privilege use and their own technical control implementations, but IT personnel are often not trained in audit best practices. This leads to an audit process that takes a backseat to operational firefighting, and costs more, often without producing valuable output for leadership.

The best practices approach is to designate and authorize an information security auditor or officer with the appropriate audit skill set, who is separate from IT, and who reports directly to the company's executive leadership. This person should carry out the objectives set by an information security committee, comprised of board members, executive leadership and stakeholders from every business unit that has a critical role in managing sensitive information.

Reasonable Assurance

Assurance is difficult in the world of information security. In a financial audit, mathematical operations tell the auditor whether the books balance or not. However when auditing information security, it's difficult to achieve assurance that a firewall will always block the most dangerous malicious traffic, that a user's training will always be effective in stopping them from clicking a link in a phishing email, or even that a threat is controlled against at all.

Reasonable assurance in an IT security audit begins with an information security risk assessment. Through risk assessment, the IT security audit process can focus on controls safeguarding systems and processes that store, process and manage the most sensitive information. An effective assessment should account for reasonably foreseeable threats, document their inherent risks, account for existing controls mitigating them and arrive at a residual risk for each threat. Through risk assessment, additional controls can be prioritized, and the controls mitigating the highest and most numerous risks can be prioritized in the IT security audit process.

Once prioritized, the IT security audit process can monitor controls to the standard authorized by stakeholders. Generally, for critical controls, the insurer's executive leadership should seek positive assurance over negative assurance. It's easy to fall into the trap of accepting a lack of incidents or discovered vulnerabilities as assurance, but this assurance is negative assurance. Instead, audits of critical controls should seek positive assurance: The firewall is blocking organizationally defined malicious traffic that's deemed to be high risk, or ongoing phishing testing reveals that an acceptable ratio of users consistently do not click links when tested. These methods of positive assurance aren't an indication of risk being completely eliminated, but do indicate risk being acceptable.

Cost-Effectiveness

Insurers both big and small struggle to achieve best practices IT security audit processes that are cost-effective. Of course, the cost of not having such a process may lead to a higher likelihood of expensive breaches and regulatory fines, followed by the cost of still having to implement an IT security audit process after the cost of the compromise. But organizing a cost-effective IT security audit process even without a breach or fine is still difficult.

The first concern an insurer's board and executive leadership should have regarding cost-effectiveness is whether the IT security audit process is providing meaningful reporting. Reporting should answer whether an insurer's overall IT security objectives are being met and whether they will continue to be met. Too often, leadership demands to see better results, whatever the measure of those results might be. In response, IT security auditors are pressured to maintain the same level of assurance and consider only previously considered threats, for fear of downward audit trends. This results in insurers committing resources to a process that doesn't serve to improve the IT security posture, which is the least cost-effective IT security audit process of all. Instead, leadership should expect to see reporting that reflects the current threat landscape, and how well those threats are being mitigated by current and planned controls, so resources can be effectively allocated.

Additionally, third-party vendors can be contracted to supplement the IT security audit process, especially when insurers have limited personnel. Third-party assurance activities achieve independence, and are often more cost-effective at answering IT security audit concerns due to specialized personnel and tools.

Assurance activities can be broadly scoped, to assist the audit process to focus on problem areas, or narrowly scoped, to help to find answers to challenging concerns for which the insurer might not have the expertise. Furthermore, activities can range in levels of assurance—from vulnerability-based exercises, like penetration tests where the third-party acts as an attacker and looks for vulnerabilities to exploit and demonstrate impact, to control-based exercises like general controls audits, where the third-party rigorously audits specified controls to a specified standard. However, leadership should remember that while third-party vendors are an excellent supplement to an existing IT security audit process, they can never replace personnel who know the insurer inside and out.

Less Worry

Information security is an ongoing process, as threats continue to emerge and evolve. Without effective controls, insurers face expensive breaches and regulatory fines, and without an IT security audit process, controls cannot be validated as effective.

Rather than risk costly outcomes and the inefficiencies of reimplementing controls, leadership should understand the value of investing in a sound IT security audit process, including a supporting IT security governance structure, a standard for determining reasonable assurance and cost-effective reporting and process augmentation. And in the end, through best practices IT security audit, the insurer's leadership can spend less time worrying about what might go wrong, because the answers are already there and there's assurance the answers will actually work. BR

Life Insurance

Stepping It Up

John Hancock's Vitality program transforms the traditional static relationship of life insurance ownership into an interactive experience with their policyholders.

by Kate Smith

Brooks Tingle, president and chief executive officer, John Hancock Insurance, said the organization wants to promote engagement with insureds by partnering with a growing range of tech and service providers. Tingle spoke with AM BestTV at InsureTech Connect 2019, held in Las Vegas.

Following is an edited transcript of the interview.

Innovation in life insurance has occurred at a measured pace. How can you accelerate that?

It really starts with the recognition of the absolute imperative to innovate and change. It occurred to us four or five years ago that we were selling a product that no one really wanted to own. Most people buy life insurance out of some sense of obligation or commitment but no one got any joy whatsoever out of it.

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

Owning life insurance isn't a particularly pleasant experience. I joke I have some policies where my ownership experience is paying a bill and then dying. Not very engaging or meaningful.

We're selling a product that is very boring to own. No one really wanted to buy it. Combine that with the fact that it's incredibly hard to buy. I often joke that I don't think there's a product in the modern economy today more difficult to buy than life insurance.

We always say that buying a home is difficult but your realtor doesn't ask you for your blood and urine, at least I'd hope not.

Selling a product that no one really wants to own, no one really gets any joy out of owning, and is incredibly hard to buy is hardly a winning formula in the modern digital economy.

First, it starts with that absolute imperative that if we don't change and change radically our business is going to decline and lose its relevance to today's consumer. Then, there are a whole bunch of things once you realize that, but that's the catalyst, is understanding that and understanding the urgency of it.

Then, once you're on that journey, a whole bunch of other things we could talk about. How you need to move faster. Not always easy in companies that are often 100, 150 years old. We like to think that we've shown that you can do it.

How do you change that formula? How do you make people want to buy life insurance?

We think you have to make it more meaningful to own, make it as much about living as dying. With our Vitality solution, some people may know that it's a program that rewards people for taking steps to live a longer, healthier life. You go for a walk, you get some points. You go see your doctor, you get some points. You buy healthy foods, you get points.

These points accumulate. You earn a status level. You get different discounts and different rewards.

Through that program, a couple things have happened. One, we've totally transformed that ownership experience of life insurance. Instead of buying a policy, tucking it on a shelf somewhere, and maybe thinking about it once a year when you pay a bill or maybe twice a year when you get a privacy notice, we're interacting with our Vitality customers about 40 times a month now. That's through the app. They're earning points. They're claiming rewards. They're consuming educational content. That's part of it, transforming that interaction model, the engagement model.

People are thinking about their life insurance almost every day when they're at the grocery store or they're checking into a hotel that they got a discount on their hotel stay through our program.

The second part, though, is picking really good partners. I'm very proud of our company. If we were to do or try to do all these things ourselves, we would fail miserably.

Picking partners like Vitality for the core program, but then we work with Apple. We have a wonderful Apple Watch part of our program. Amazon's on our platform now. People that maintain the highest status level in our program for three years get a free Amazon Prime membership.

You bring all these very relevant brands and companies that people are used to working with every day into the life insurance ownership experience, and suddenly it feels like something very different than something I think about once a year until I die.

How do you choose partners? What's a criteria you look for in a partner?

There are two types of partners we work with. First of all, our primary ambition is to help customers live longer, healthier lives. At the end of the day, we think it's eminently rational that a life insurer should want to help their customers live longer, right? Good for the customer, good for us.

We work with a lot of people in the scientific realm about what are things we can encourage our customers to do that will help them live a longer, healthier life. Other sets of partners are more around: Is this an appealing solution, an appealing brand, an appealing offer?

What American these days doesn't want an Amazon Prime membership for free? Something like the Apple Watch is quite interesting and compelling because it serves a great purpose as it relates to helping people live longer, healthier lives.

Rand did a study that shows that people that use the Apple Watch in our program are significantly more physically active than regular consumers. The new Apple Watches have wonderful features around heart monitoring and things like that. What company should want their customers carrying around a hospital-quality heart monitor on their wrist more than their life insurance company, right?

It has tremendous consumer appeal, as well. A lot of people want an Apple Watch. It's a mix of those types of features.

You bring up Apple, which has a cult-like following among its users. Same with Amazon. Is there a rub-off effect to that brand affinity?

If you had said to me five years ago we would be regularly working with companies like that in the life insurance business, I'd say you're crazy. How and why?

It works, though. That's true. We're proud to associate with companies like that. I think we do nice things for them, too. In the case of the Apple Watch, it's a wonderful use case for the Apple Watch. It truly is helping people live longer, healthier lives.

At the end of the day, it's not just about branding. At the end of the day it's really about, are we helping customers take steps to live a longer, healthier life? It certainly helps making it more relevant.

There are other brands, by the way, maybe not quite the household names, that play a very important part of our ecosystem.

A lot of our customers are clamoring for meditation solutions. Last year, we added Headspace [a meditation app] to the program. Our customers can now get a free subscription there. People can get points for meditating. We now have a sleep component to the program. It's an ever-expanding list of partners. Sometimes, maybe a little lesser known, but a really cool solution that actually helps customers live better.

It's wonderful when the solution combines both a big, wonderful brand name that everybody admires and really powerful technology.

What's the regulatory environment like when you're trying to do some of these innovative partnerships or innovate in general?

Regulators and regulation get blamed too much for a lack of innovation in our industry. I hear a lot of my peers say, "It's hard to change this because the regulators won't like it."

The regulators play an important role in our business. It is inherently complicated. As a life insurer, we're dealing with 50 states and a number of territories. I can say I have found, through the process of getting Vitality to market and some other things we are doing, that typically the regulators are quite open to innovation.

"People are thinking about their life insurance almost every day when they're at the grocery store or they're checking into a hotel that they got a discount on their hotel stay through our program."

Brooks Tingle
John Hancock

You need to be proactive and engage them and explain what you're doing. More importantly, why you are doing it. We want to help customers live a longer, healthier life. No one could particularly be against that.

Now, how we do it is subject to regulation. We work closely with the regulators.

The regulatory environment is evolving, too. Many states have innovation sandboxes now. There's an innovation committee within the NAIC. I don't think we should point to regulation as a reason that we can't innovate. BR

Insurtech Focus

Health care insurtech carriers reported losses in the first nine months of 2019. Oscar's loss, however, was a sharp improvement over the loss from the same period a year ago.

by Lori Chordas

Four health care insurtech carriers reported net losses totaling $46.2 million in the first nine months of 2019, compared with net losses of $25.4 million in the same period a year earlier, according to the most recent financial statements from BestLink.

While losses worsened at Clover, Devoted Health and Bright Health, Oscar reported a substantially smaller net loss in the nine-month period, the statements showed.

The four insurtech carriers posted an increase in net premiums earned, totaling about $888.1 million in the first nine months, compared with $799.3 million in the same period a year earlier.

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Healthcare Form
General Questions
Proposed Insured's Name:
(Please use capital letters)
Birth Date:
01
January
2016
Gender:
Male
Female
Passport no:
Address:
Phone Number:
ID Number:
Email Address:
Status:
Single
Married
Devorced
Social Security Number:
Occupation:
Others
Are you a retiree?
Yes
No

"As with any startup, it takes time to build scale, and that's especially important in health insurance where scale is key for provider negotiations and administrative costs."

Sally Rosen
AM Best

"As with any startup, it takes time to build scale, and that's especially important in health insurance where scale is key for provider negotiations and administrative costs," said Sally Rosen, a senior director at AM Best.

Startups also often have to weather periods of losses before arriving at the point of profitability, she said.

Oscar

When Oscar launched in 2012, many in the industry looked at it with "acute curiosity and incumbents didn't know whether they should take us seriously or not," said co-founder Mario Schlosser.

"By 2016-2017, we moved into a phase of ridicule with high medical loss ratios and uncertainty in the individual market," he said. After Oscar began stabilizing its medical loss ratio and became a market innovator of technological member engagement tools "their view of us began to change, and now I think we're seen more as a collaborator where we can learn from incumbents and vice versa," Schlosser said.

Oscar Insurance Group reported a net loss of $754,000 in the first nine months of 2019, but that was an improvement over the same period a year before, when the company reported a loss of $2.4 million.

Oscar's net loss for the full year 2018 totaled $39.3 million, down sharply from a net loss of $111 million in 2017 and a loss of $184 million in 2016.

Net premiums earned for the first nine months of 2019 totaled $345.3 million, compared with $484.6 million in the same period of 2018. For the full year 2018, net premiums earned totaled $647.6 million, up from $203.5 million the year before.

Oscar Insurance Group is currently made up of 11 group members.

Broken down by state, Oscar's biggest market in 2018 was Texas, with $383.6 million in direct premiums written, followed by New York, with $298.8 million in direct premiums written. In Tennessee, the company reported direct premiums written of $93.3 million, in Ohio $87 million and in New Jersey $38.6 million.

The insurtech got its start after former President Barack Obama signed the Patient Protection and Affordable Care Act into law on March 23, 2010. The New York-based company uses technology and data to sell individual health insurance plans directly and through health insurance marketplaces.

It was the brainchild of three Harvard Business School classmates. Schlosser, Kevin Nazemi and Joshua Kushner recognized the struggles individuals and families face with complicated hospital billing systems.

When Schlosser's wife became pregnant with their first child, they had a difficult time navigating the health care system and became frustrated with the lack of data in the industry. So he and his partners decided to create a technology-driven health plan focused on redesigning insurance geared toward the user experience.

"We set our sights on the individual market, which at the time was plagued with much uncertainty," Schlosser said. "But we knew the individual market would allow us to go directly to the end user, attract members, generate word of mouth and get more engagement."

Schlosser points to two things that differentiate Oscar from traditional health plans. "Our technology that's used to drive member engagement and the fact that we build all of that technology in-house," he said.

The company has one of the highest member engagement numbers in the industry. About 41% of members' first visits to a health care provider are routed through Oscar Health's mobile app, website or concierge team, Schlosser said.

Through its relationship with Cigna, Oscar will now also focus on providing commercial health solutions to small businesses the companies announced in January.

They said they plan to share risk equally under a reinsurance agreement for solutions offered through this strategic partnership. Pending regulatory approvals, the companies will launch in select markets in 2020 and plan to expand the partnership over time.

Last year, Oscar announced plans to return to North Texas to sell individual and family plans on the Affordable Care Act exchange, grow its membership in the individual and small group markets, and expand into 12 new geographic markets and six states—its largest expansion since its founding.

"That will bring us into 26 markets in 15 states," Schlosser said. Last year, Oscar began selling Medicare Advantage in Houston and New York City.

Clover

Clover Insurance Group reported a net loss of $26.5 million in the first nine months of 2019, compared with a net loss of $18.7 million in the same period of 2018. The company reported a net loss of $40.9 million in 2018 and $21.5 million in 2017.

Net premiums earned totaled $347.6 million through the first nine months of 2019, up from $223.4 million a year earlier. For the full year 2018, net premiums earned totaled $290 million, up from $267.2 million in 2017.

Clover Insurance Group has two members: Clover HMO of New Jersey and Clover Insurance Co.

The bulk of Clover's business is in New Jersey, where it wrote $356.5 million in direct premiums written in 2018, up from $267.6 million in 2017. It also reported direct premiums written in Texas, Georgia, Illinois, Pennsylvania, Hawaii, Ohio, California, Missouri and Maryland.

Clover Health, created by former CarePoint Health founder Vivek Garipalli in 2014, uses data analytics and preventive care to improve health insurance for seniors while offering a less expensive alternative to Medicare.

The founder and his team created proprietary software that makes business rules and machine learning built on large datasets directly actionable at the point of primary care, said Andrew Toy, president and chief technology officer.

He said the San Francisco-based Medicare Advantage startup uses a proprietary technology platform that collects and analyzes health and behavioral data to recognize patients' needs and then surfaces those needs to doctors at the point of care.

"Our members have deep relationships with their primary care physicians, so that's a great place to continuously deliver preventative, personalized and data-driven care," Toy said. "That's why we're so focused on our Clover Assistant software platform, designed to help physicians provide the absolute best primary care."

He said tools like that allow Clover to coordinate and prioritize clinical care, reduce hospital admissions and improve members' health.

Clover Health said in January membership grew by 37% in 2019, outpacing the five-year Medicare Advantage industry average of 7% year-over-year growth. Clover said much of the growth in membership comes from New Jersey.

Toy said Clover plans to continue expanding its Medicare Advantage membership—a market that, according to reports, is projected to grow to more than $500 billion in annual revenue by 2025.

The Medicare Advantage insurer recently broke new ground by launching Clover Therapeutics, a research subsidiary dedicated to developing treatments for elderly patients with chronic diseases. The subsidiary is currently partnering with biotechnology company Genentech to study the genomic factors of eye diseases including macular degeneration.

Devoted Health

Devoted Health Group reported a net loss of $9.7 million in the first nine months of 2019, compared with a loss of $125,000 in the same

"We set our sights on the individual market, which at the time was plagued with much uncertainty. But we knew the individual market would allow us to go directly to the end user, attract members, generate word of mouth and get more engagement."

Mario Schlosser
Oscar

period of 2018. For the full year 2018, the net loss totaled $1 million. Net premiums earned totaled $30.9 million in the first nine months of 2019, compared with nil in the same period a year prior.

Devoted Health Group, based in Waltham, Mass., was founded in 2017 and began enrolling seniors in Florida in 2018. The company is made up of three group members, Devoted Health Insurance Co., Devoted Health Plan of Florida and Devoted Health Plan of Texas.

Devoted Health, a "payvidor" that integrates being both a payer and care provider, was the brainchild of Ed and Todd Park.

Ed Park is the former chief technology officer and chief operating officer of Athenahealth. Todd Park co-founded Athenahealth and Castlight Health and served as Obama's chief technology officer.

Bright Health

Bright Health Insurance Group reported a net loss of $9.3 million in the first nine months of 2019, compared with a net loss of $4.2 million in the same period in 2018. For the full year 2018, the company reported a net loss of $19.5 million, compared with $17.5 million in 2017.

Bright Health reported net premiums earned of $164.3 million in the 2019 nine-month period, compared with $91.3 million in the same period of 2018.

For the full year 2018, Bright Health reported net premiums earned of $117 million, up from $36.2 million in 2017.

Minneapolis-based Bright Health's biggest market was Colorado, where the company reported direct premiums written of $104.2 million in 2018.

Other markets include Arizona with direct premiums written of $11.6 million and Alabama with direct premiums written of $5 million.

Bright Health Insurance Group consists of 11 group members.

Bright Health in January said it had signed an agreement to acquire California-based Universal Care health plan, which does business as Brand New Day.

Bright Health said the transaction will combine Brand New Day's local expertise and specialized clinical programs with Bright Health's nationally recognized leadership, next-generation technology and intelligence platform, and innovative personalized approach to health care. The transaction is subject to regulatory approval and expected to close in 2020.

The company said in July 2019 that it would begin offering its Health Plan Care Partner Model in 13 new markets across seven states in 2020, plus expanded product offerings in every existing market. The company said this expansion brings Bright Health Plan's footprint to a total of 22 markets in 12 states.

"In just four years, we've grown from serving consumers in our pilot market of Colorado to serving tens of thousands of members across six states.

This substantial growth shows that consumers are hungry for a new health care model that is simple, personal and more affordable," Bright Health CEO Bob Sheehy said in a statement at the time.

"We've been able to meet this demand because our Health Plan Care Partner Model allows us to scale quickly and effectively, and our significant expansion in 2020 is further validation of that." BR

Looking Ahead

AM Best analyst explains how IFRS 17 will give a clearer view of insurers' financials after it is implemented in 2022.

by John Weber

The International Financial Accounting Standard 17 or, IFRS 17, is scheduled to replace IFRS 4 in just a little less than two years. A Best's Special Report, *IFRS—A Welcome Advance. Value Measures in Primary Accounts. Delay Was a Necessity*, details what's in store for insurers come January 1, 2022.

The author of the report, Anthony Silverman, associate director, criteria and research discussed these changes with AMBestTV.

The change to IFRS 17 from IFRS 4 accounting standards is not expected to have a near-term impact on insurers' credit ratings, he said.

Silverman also highlighted how IFRS 17 improves upon current standards.

Following is an edited transcript of the interview.

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

What exactly is IFRS 17?

IFRS 17 is an accounting standard promulgated by the International Accounting Standards Board, which is a global body based in London, and it's a new accounting standard for insurance contracts. It replaces IFRS 4, which was the previous one, and I'm putting it that way because it applies to insurance contracts rather than insurers.

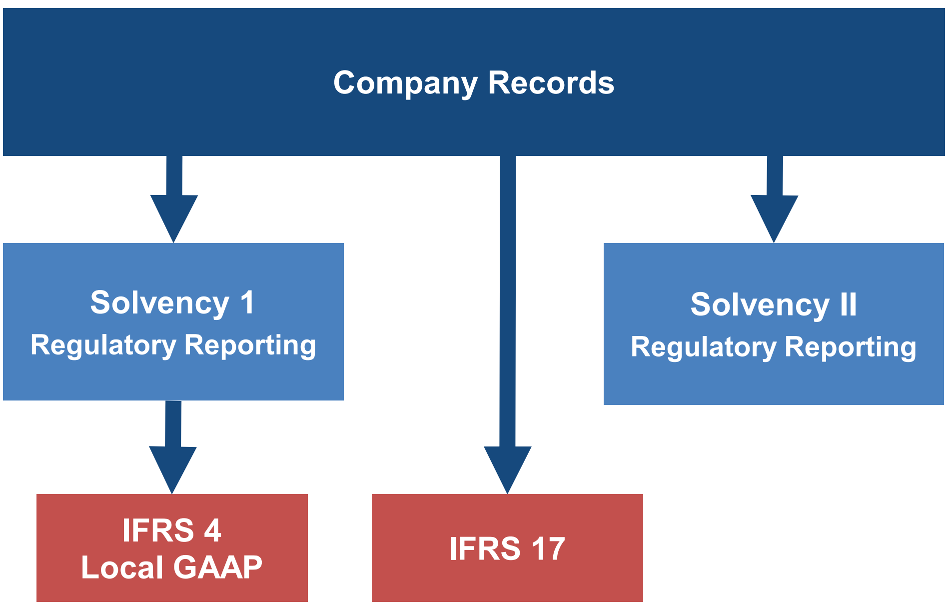
It's the insurance liability number that it focuses on, and insurers remain subject, as they are now, and as they will continue to be, to all the other accounting standards for the other parts of their reporting.

What problems is IFRS 17 meant to solve?

It is there actually for some very good reasons, and there to deal with the problems around previous reporting for insurers. There are three categories that I'll put that under.

The first is that the previous reporting was

IFRS 17 – Regulatory and Financial Reporting



Source: AM Best data and research.

> "Consistency is something which users of financial reporting value, and IFRS 17 is there to do a bit more of that."
>
> **Anthony Silverman**
> AM Best

inconsistent. IFRS 4, which I mentioned before, grandfathered previous practice, so the reporting does things in a different way in different countries.

It does it in different ways for different products, some of which there may be good reasons, but for some of which there may be bad reasons, and for some of which there's really no reason at all.

It's inconsistent, not necessarily for good reasons, and often not for good reasons. Consistency is something which users of financial reporting value, and IFRS 17 is there to do a bit more of that. That's one reason.

The other one, and this is crucial for all users of financial reporting, the numbers that are there in the existing reporting, and as I've said, they vary in how it's done, so inevitably, they all have equally varying relationships to the market values of the items that are being reported. That's quite deeply problematic for all users of financial reporting.

It's not just that. It's not just that it varies. What it means is, it differs. In fact, often, it can actually be unclear, but what it does mean is that it's also very complex.

The motivating factors, in effect, the all-encompassing motivating factor for IFRS 17 was that the previous reporting was felt to be bad for the public image of the insurance sector in financial markets because you have to be too much, arguably, of a specialist to get a reasonable picture of an insurer's performance and circumstances. That's not sufficiently communicated by previous financial reporting.

These are the issues that IFRS 17 is there to attempt to solve.

If the changes are so necessary, why do insurers seem to be so happy that the implementation is being delayed for as long as it is?

That is a very, very good question. The answer revolves around the difficulties of implementation. Parts of the reason for the way financial reporting has previously been done is that the framework was part of a system which was for the convenience of the companies.

A lot of these companies started out as mutuals. The reporting has evolved over a long period of time, and it doesn't really serve the purpose for companies which have significant external financial stakeholders, whether that's credit investors, or commercial counterparties or indeed investors.

Though IFRS 17, in meeting the challenges that it sets out to do, it does involve new records, new data, new systems, and the implementation amounts to quite a chasm for the companies to cross, so this is a big deal in that sense.

It's implementation, the issues around implementation that drive all the separate reasons that companies are perhaps happy that it's being delayed.

Could the new standard have any impact on a company's rating?

The short answer is, we don't expect any near-term impact on ratings. We'll be taking a different route to the same destination. We're going to be starting with different numbers, often not just the same quantities calculated differently, but new quantities in many cases, with different qualities.

We'll be identifying the underlying economics, as we do now, and it's not expected there'll be any near-term impacts on ratings.

What remains the case is that there may be second-order behavioral effects, if I can put it that way, because companies may behave differently. The old adage, what gets measured gets managed will probably feed through.

Companies will, to some degree, change what they do and maybe even the products to suit the reporting. Some way down the road, that may have an effect which is, we might want ratings monitored continuously. A fresh look some way down the road may have some effects in that way. BR

AMBestTV

Go to *bestreview.com* to watch the interview with Anthony Silverman.

Top Performers

AM Best's Molineux says rated captives in Cayman, Bermuda and Barbados outpace the U.S. commercial market.

by Meg Green

AM Best-rated captives domiciled in Cayman, Bermuda and Barbados consistently post operating and combined ratios 20 points lower than the U.S. commercial insurance market, said Susan Molineux, director, AM Best.

Molineux discussed the Best's Market Segment Report, *Rated Bermuda, Cayman Island and Barbados Captives Steadily Navigate Market Cycles*, with AMBestTV.

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

Following is an edited transcript of the interview.

What did AM Best analysis of these captives' performance show?

The headline of our report states the remarkable consistent performance of the market. We often will compare the captive market to the U.S. commercial casualty sector.

In both our U.S. captive report that was issued earlier last year and also the Bermuda, Cayman Islands, and Barbados report, shows the captive

market continues to outperform the U.S. commercial casualty market.

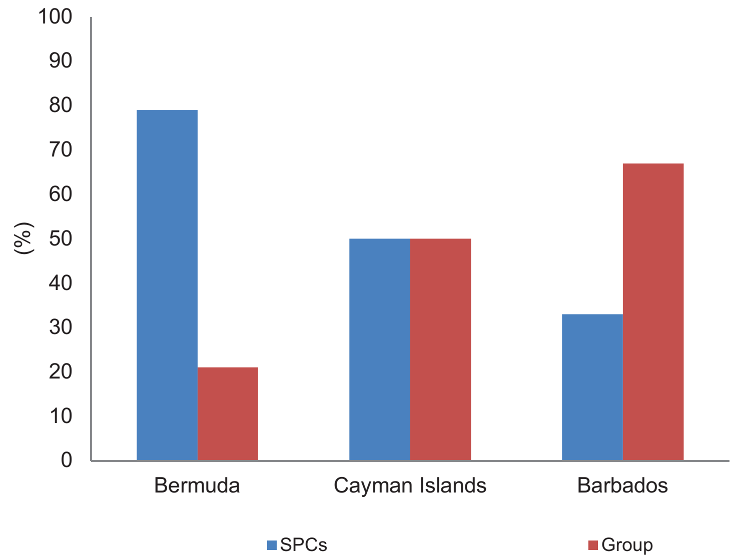
Can you tell us about the underwriting performance?

We put some statistics in our report, and were also looking at it on a five-year average basis. We do note that both on an operating ratio and a combined ratio basis that the ratios of the captive sector are outperforming the commercial market by 20 points.

If you were to view that remaining analysis through AM Best building blocks, how would that break down?

Our building blocks are based on balance sheet strength, operating performance, business profile, and enterprise risk management. When we

AM Best Rated Captives – Percentage of Single-Parent Captives and Group Captives



Source: AM Best data and research

"When we look at balance sheet strength, 90% of this market is considered either very strong or strongest."
Susan Molineux
AM Best

look at balance sheet strength, 90% of this market is considered either very strong or strongest. We talked about operating performance before and that was 40% where we would consider them strong.

Business profile is 70% neutral. I'd like to explain that a little bit, because most of our captives are either considered neutral business profile or limited business profile. There are a lot of single purpose captives.

By saying that, I mean that they are in place to write a very limited line of business or they are in place for a specific purpose or writing in a very narrow region of the country or the world. Those are considered limited.

However, when we're looking at captives and, in this case, calling 70% of them neutral, some of our market is group captives and also some very big single-parent captives, where they are writing multiple lines of business, multiple domiciles throughout the world.

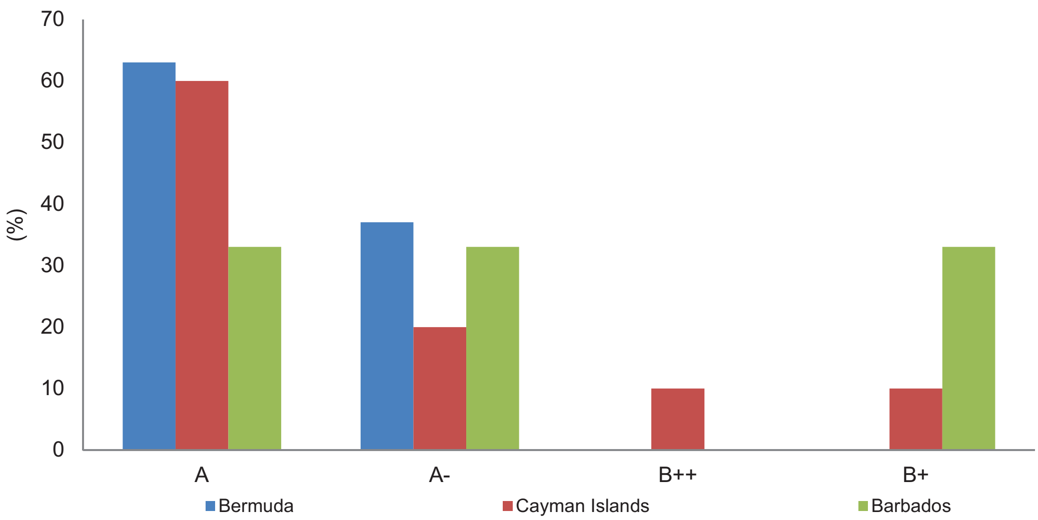
For that reason, we do have 70% of them considered neutral, and also last but not least, ERM, 90% approximately are considered appropriate, and I think that lends itself to the integration with the parent or the sponsor's risk management programs.

When you look at the single-parent captive, they have the benefit of the parent and intimate knowledge with their risks, but then also on the group captive side, you have a lot of different sponsors and you get to benefit over multiple organizations, ERM programs. You kind of get the best of the best in those organizations.

What are you seeing in terms of emerging risks?

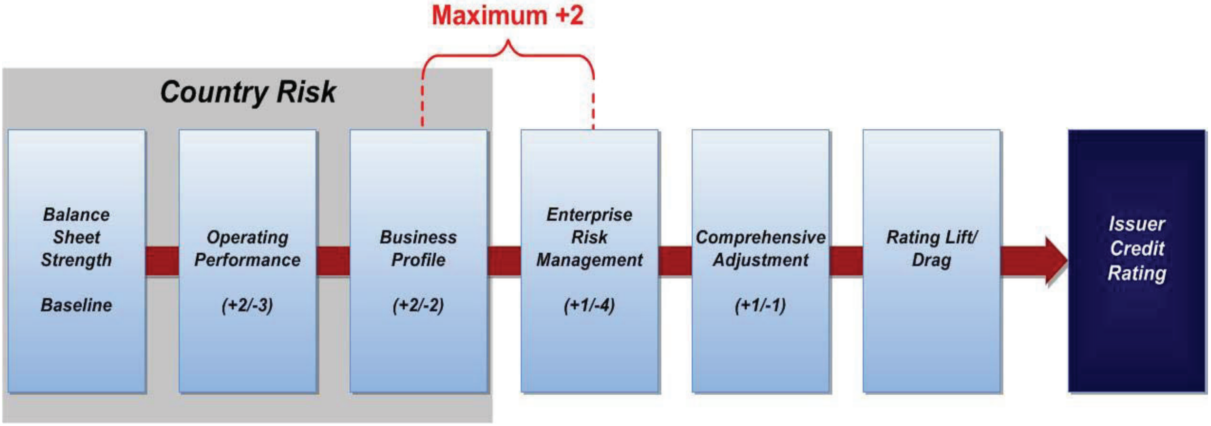
In our report we focus in two areas. One is self-funded employee health insurance programs,

AM Best Ratings on Bermuda, Cayman Islands, and Barbados Captives



Source: AM Best data and research

AM Best's Credit Rating Methodology Building Blocks



Source: Best's Credit Rating Methodology

which is really covered through captives through medical stop loss and also cyber. When we're looking at medical stop loss, it's really speaking to the spiraling costs of health care and that captives have opted to take on some of the risks, the employee benefit risks, through medical stop loss.

Also, when you are looking at cyber, the headlines continue to come out that cyberbreaches are happening every day. There's probably some people attempting them as we speak now. Captives are taking not a material slice of it, but they are taking a piece of the risks through the captives. BR

AMBestTV

Go to *bestreview.com* to watch the interview with Susan Molineux.

The Evolving Capabilities Of AI, Developing Issues In the ILS Market

AM BestWebinars

An AM Best webinar examines how artificial intelligence and machine learning are helping underwriters assess risk. Also, a look at the ILS market.

On Demand

Current Trends in the ILS Market

A panel of AM Best analysts examines developing issues in the ILS market, including the impact of multiple years of elevated catastrophic events, adverse loss development, and the role of collateralized reinsurance. (Now available.)

The Unseen Passenger: How Telematics Data Is Reshaping Private Passenger Auto Insurance

A panel of insurance and technology experts discusses the use of telematics in private passenger auto insurance and how it is impacting underwriting, claims and even driver behavior. (Now available.)

How Life Insurers Are Using Innovative And Compliant Predictive Models

Recent regulatory inquiries are impacting how insurers across the country are utilizing advanced analytics. Topics include predictive modeling and compliance implications and how regulatory changes can be an opportunity for innovation. (Now available.)

Municipal Bonds: The Evolution of an Important Asset Class for Insurers

Asset managers examine the state of the current municipal bond market, the impact of tax reform and where insurers are discovering opportunities in this large but shifting sector. (Now available.)

Streaming Live

Digital Intelligence in Underwriting

A panel of life insurance underwriting experts examines the evolving capabilities of artificial intelligence, machine learning and how they are helping underwriting professionals assess risk with greater speed and accuracy, drawing on a wider range of data and tools. Sponsored by EXL Service.

Wednesday, March 18, 2 p.m. ET

Webinar Highlights

Developing Innovative Solutions: Addressing Trends of Tomorrow Today

A panel of insurance experts explore why developing innovative products and solutions now to address tomorrow's trends can be a smart business strategy. Sponsored by Munich Reinsurance America, Inc. (Now available)

View These and Other AM Best Webinars

- Homeowners Insurance Carriers Can Make Better Decisions Through Data
- Driving Assistance Systems Will Revolutionize Auto Insurance Market

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

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.*

The latest edition of *Best's Guide to Understanding The Insurance Industry* is available on Amazon.

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Joint Industry Forum, Leader Of the Year and Coronavirus

AMBestTV reports on two major gatherings of insurance luminaries: the annual Property/Casualty Insurance Joint Industry Forum and St. John's University's 25th annual Insurance Leader of the Year Awards Dinner. Video news also includes coverage of Pennsylvania Lumbermens Mutual's 125th anniversary, the possible insurance impact of the coronavirus, and an update on the Vermont captive insurance market.

On Demand

Climate Change, Interest Rates, Social Inflation Challenge Insurers

Executives attending the annual Joint Industry Forum, including David Sampson, president and CEO of the American Property Casualty Insurance Association, said the insurance industry faces a myriad of challenges this year, including impact from rising jury verdicts, acquiring talent and closing the insurance protection gap. (Jan. 16, 2020)

David Sampson

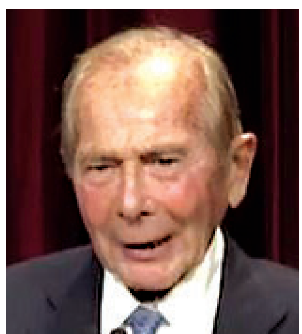
Information Institute's Kevelighan: 2020 Is the Year of Resilience

Sean Kevelighan, chief executive officer, Insurance Information Institute, said the organization is kicking off an effort to highlight factors important in overcoming the impacts of natural catastrophes. (Jan. 16, 2020)

Sean Kevelighan

Insurance Leaders Acclaim Starr's Greenberg, St. John's Risk Program

Attendees to St. John's University's 25th annual Insurance Leader of the Year awards dinner learned that the school's risk and insurance program will be renamed to honor award winner Maurice R. "Hank" Greenberg, chief executive of C.V. Starr & Co. (Jan. 16, 2020)



Maurice R. "Hank" Greenberg

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

AM Best: Coronavirus, Pandemics Test Insurers' Enterprise Risk Preparedness

Insurers' strategies could be tested if a pandemic emerges from the coronavirus, first identified in Wuhan, China, said AM Best analysts George Hansen and Bruno Caron. (Jan. 28, 2020)

George Hansen and Bruno Caron

Pennsylvania Lumbermens Mutual CEO: You Make Money in Business You Know

John K. Smith

Celebrating the company's 125th anniversary, John K. Smith, president and CEO of Pennsylvania Lumbermens Mutual, said the insurer has been successful by focusing on its niche: lumber-related companies. (Jan. 31, 2020)

Vermont's Provost: Retreats By Reinsurers Drive Captive Advances

David Provost

David Provost, Vermont's deputy commissioner for captives, said the state experienced another year of captive growth, both in number and premiums. Catastrophes and litigation costs are causing reinsurers to reduce coverage and raise rates. (Feb. 5, 2020)

Insurers Are Paying Claims Faster and Seeing E&S Premiums Rise

Industry experts talk with AMBestRadio about how insurers are trying to speed up the claims process. Also, what is driving the growth in E&S?

The Need for Speed

Ryan McMahon, vice president of insurance and government affairs at Cambridge Mobile Telematics, said the insurance industry has done a great job making the claims process as fast as possible over the years.

Excess and Surplus Premiums Rise

Brady Kelley, executive director of the Wholesale & Specialty Insurance Association, discusses 2019 growth in E&S and what's driving the trend.

Go to your favorite podcast player and subscribe to AMBest Radio.

BEST'S REVIEW®

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Best's Credit Rating Actions

This edition lists all Credit Rating actions that occurred between Jan. 1 and Jan. 31, 2020. For the Credit Rating of any company rated by AM Best and basic company information, visit the AM Best website at *www.ambest.com/ratings/access.html* or download the ratings app at *www.ambest.com/sales/ambmobileapp*.

Operating Companies

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
U.S., CANADA AND BERMUDA LIFE/HEALTH								
⇥	L	Canada Life Assurance Company	006183	NR nr		A+ aa	Stable Stable	Ontario
⊕	L	Cincinnati Life Insurance Company *Cincinnati Financial Corporation*	006568	A+ aa-	Stable Stable	A a+	Positive Positive	Ohio
⇥	L	London Life Insurance Company	006667	NR nr		A+ aa	Stable Stable	Ontario
⇅	L	Mutual of America Life Insurance Company	008851	A+ aa-	Negative Negative	A+ aa-	Stable Stable	New York
⇅	L	Mutual Savings Life Insurance Company *Kemper Corporation*	006753	A- a-	Positive Positive	A- a-	Stable Stable	Alabama
⇅	L	Reliable Life Insurance Company *Kemper Corporation*	006986	A- a-	Positive Positive	A- a-	Stable Stable	Missouri
⇅	H	Reserve National Insurance Company *Kemper Corporation*	006998	A- a-	Positive Positive	A- a-	Stable Stable	Oklahoma
New	H	Symphonix Health Insurance, Inc. *UnitedHealth Group Incorporated*	008549	A a+	Positive Positive	NR nr		Illinois
⇅	L	Union National Life Insurance Company *Kemper Corporation*	007155	A- a-	Positive Positive	A- a-	Stable Stable	Louisiana
⇅	L	United Insurance Company of America *Kemper Corporation*	007174	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY								
New	P	Alestri Insurance Company	012240	A- a-	Stable Stable	NR nr		Washington
⇅	P	Alpha Property & Casualty Insurance Co *Kemper Corporation*	002634	A- a-	Positive Positive	A- a-	Stable Stable	Wisconsin
⇅	P	Amerisure Insurance Company *Amerisure Mutual Holdings Inc*	004032	A a	Negative Negative	A a	Stable Stable	Michigan
⇅	P	Amerisure Mutual Insurance Company *Amerisure Mutual Holdings Inc*	000604	A a	Negative Negative	A a	Stable Stable	Michigan
⇅	P	Amerisure Partners Insurance Company *Amerisure Mutual Holdings Inc*	012412	A a	Negative Negative	A a	Stable Stable	Michigan
⇅	P	Capitol County Mutual Fire Insurance Co *Kemper Corporation*	003829	A- a-	Positive Positive	A- a-	Stable Stable	Texas
⇥	P	Catlin Insurance Company Ltd. *AXA S.A.*	084805	NR nr		A+ aa-	Stable Stable	Bermuda
⇅	P	Charter Indemnity Company *Kemper Corporation*	010419	A- a-	Positive Positive	A- a-	Stable Stable	Texas
⊕	P	Cincinnati Casualty Company *Cincinnati Financial Corporation*	004289	A+ aa	Stable Stable	A+ aa-	Stable Positive	Ohio
⊕	P	Cincinnati Indemnity Company *Cincinnati Financial Corporation*	010650	A+ aa	Stable Stable	A+ aa-	Stable Positive	Ohio
⊕	P	Cincinnati Insurance Company *Cincinnati Financial Corporation*	000258	A+ aa	Stable Stable	A+ aa-	Stable Positive	Ohio
⊕	P	Cincinnati Specialty Underwriters Ins Co *Cincinnati Financial Corporation*	013843	A+ aa	Stable Stable	A+ aa-	Stable Positive	Delaware
—	P	Crusader Insurance Company *Unico American Corporation*	001889	B++ bbb	Stable Stable	B++ bbb+	Stable Negative	California
New	P	Danielson National Insurance Company *Merfax Financial Group, LLC*	011351	A- a-	Stable Stable	NR nr		California
⇅	P	Financial Indemnity Company *Kemper Corporation*	000391	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⊕	P	First Acceptance Ins Co of Tennessee *First Acceptance Corporation*	013595	B- bb-	Stable Stable	C++ b	Stable Stable	Tennessee
⊕	P	First Acceptance Insurance Co of GA *First Acceptance Corporation*	012544	B- bb-	Stable Stable	C++ b	Stable Stable	Georgia

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	First Acceptance Insurance Company, Inc. *First Acceptance Corporation*	011832	B- bb-	Stable Stable	C++ b	Stable Stable	Texas
—	P	Florida Family Home Insurance Company *Barrington Capital, LLC*	013984	B++ bbb+	Stable Negative	A- a-	Negative Negative	Florida
—	P	Florida Family Insurance Company *Barrington Capital, LLC*	011975	B++ bbb+	Stable Negative	A- a-	Negative Negative	Florida
New	P	Genesee Patrons Cooperative Insurance Co	010562	B++ bbb	Stable Stable	NR nr		New York
⇅	P	Infinity Assurance Insurance Company *Kemper Corporation*	002515	A- a-	Positive Positive	A- a-	Stable Stable	Ohio
⇅	P	Infinity Auto Insurance Company *Kemper Corporation*	000555	A- a-	Positive Positive	A- a-	Stable Stable	Ohio
⇅	P	Infinity Casualty Insurance Company *Kemper Corporation*	004661	A- a-	Positive Positive	A- a-	Stable Stable	Ohio
⇅	P	Infinity County Mutual Insurance Co *Kemper Corporation*	003572	A- a-	Positive Positive	A- a-	Stable Stable	Texas
⇅	P	Infinity Indemnity Insurance Company *Kemper Corporation*	011669	A- a-	Positive Positive	A- a-	Stable Stable	Indiana
⇅	P	Infinity Insurance Company *Kemper Corporation*	002217	A- a-	Positive Positive	A- a-	Stable Stable	Indiana
⇅	P	Infinity Preferred Insurance Company *Kemper Corporation*	011745	A- a-	Positive Positive	A- a-	Stable Stable	Ohio
⇅	P	Infinity Safeguard Insurance Company *Kemper Corporation*	004941	A- a-	Positive Positive	A- a-	Stable Stable	Ohio
⇅	P	Infinity Security Insurance Company *Kemper Corporation*	002710	A- a-	Positive Positive	A- a-	Stable Stable	Indiana
⇅	P	Infinity Select Insurance Company *Kemper Corporation*	011252	A- a-	Positive Positive	A- a-	Stable Stable	Indiana
⇅	P	Infinity Standard Insurance Company *Kemper Corporation*	000843	A- a-	Positive Positive	A- a-	Stable Stable	Indiana
⇅	P	Kemper Financial Indemnity Company *Kemper Corporation*	002701	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⇅	P	Kemper Independence Insurance Company *Kemper Corporation*	012213	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⇅	P	Merastar Insurance Company *Kemper Corporation*	003596	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⇅	P	Missouri Valley Mutual Insurance Company	004197	B+ bbb-	Stable Stable	B+ bbb-	Positive Positive	South Dakota
⇅	P	Mutual Savings Fire Insurance Company *Kemper Corporation*	003655	A- a-	Positive Positive	A- a-	Stable Stable	Alabama
⇅	P	Old Reliable Casualty Company *Kemper Corporation*	003807	A- a-	Positive Positive	A- a-	Stable Stable	Missouri
⇅	P	Oregon Mutual Insurance Company *Oregon Mutual Insurance Company*	000738	A- a-	Stable Stable	A- a-	Negative Negative	Oregon
⇅	P	Oswego County Mutual Insurance Company	011194	A- a-	Positive Positive	A- a-	Stable Stable	New York
⇅	P	Response Insurance Company *Kemper Corporation*	011946	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⇅	P	Response Worldwide Direct Auto Insurance *Kemper Corporation*	003045	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⇅	P	Response Worldwide Insurance Company *Kemper Corporation*	000609	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⇥	P	Saucon Insurance Company *Saucon Holding Company*	003235	NR nr		B++ bbb+	Stable Stable	Pennsylvania
⇅	P	Trinity Universal Insurance Company *Kemper Corporation*	002523	A- a-	Positive Positive	A- a-	Stable Stable	Texas
⇅	P	Union National Fire Insurance Company *Kemper Corporation*	003199	A- a-	Positive Positive	A- a-	Stable Stable	Louisiana
⇅	P	United Casualty Insurance Co of America *Kemper Corporation*	002533	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⇅	P	Unitrin Advantage Insurance Company *Kemper Corporation*	012163	A- a-	Positive Positive	A- a-	Stable Stable	New York
⇅	P	Unitrin Auto and Home Insurance Company *Kemper Corporation*	012560	A- a-	Positive Positive	A- a-	Stable Stable	New York
⇅	P	Unitrin County Mutual Insurance Company *Kemper Corporation*	011055	A- a-	Positive Positive	A- a-	Stable Stable	Texas

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	Unitrin Direct Insurance Company *Kemper Corporation*	011762	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⇅	P	Unitrin Direct Property & Casualty Co *Kemper Corporation*	012212	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⇅	P	Unitrin Preferred Insurance Company *Kemper Corporation*	012561	A- a-	Positive Positive	A- a-	Stable Stable	New York
⇅	P	Unitrin Safeguard Insurance Company *Kemper Corporation*	003289	A- a-	Positive Positive	A- a-	Stable Stable	Wisconsin
⇅	P	Valley Property & Casualty Insurance Co *Kemper Corporation*	011979	A- a-	Positive Positive	A- a-	Stable Stable	Oregon
⇅	P	Warner Insurance Company *Kemper Corporation*	002028	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⇅	P	Western Protectors Insurance Company *Oregon Mutual Insurance Company*	000105	A- a-	Stable Stable	A- a-	Negative Negative	Oregon
EUROPE, MIDDLE EAST AND AFRICA								
⇥	P	AachenMünchener Versicherung AG	085302	NR nr		A a+	Stable Stable	Germany
⇅	C	AXA Mansard Insurance Plc *AXA S.A.*	090312	B+ bbb-	Stable Stable	B+ bbb-	Negative Negative	Nigeria
⊕	C	First Insurance Co *Ithmaar Holding B.S.C.*	091584	B++ bbb+	Stable Stable	B++ bbb	Stable Positive	Jordan
⊕	C	iptiQ Life S.A. *Swiss Re Ltd*	093825	A+ aa	Stable Stable	A a+	Stable Stable	Luxembourg
⇥	P	Nomad Insurance Company JSC* *Nomad Insurance Group Limited*	092524	NR nr		B- bb-	Stable Stable	Kazakhstan
⇅	C	Noor Takaful Family PJSC *Noor Investment Group LLC*	090644	B bb	Stable Positive	B bb	Stable Stable	United Arab Emirates
⇅	P	Noor Takaful General PJSC *Noor Investment Group LLC*	090591	B bb	Stable Positive	B bb	Stable Stable	United Arab Emirates
⊕	C	Solidarity Bahrain B.S.C. *Ithmaar Holding B.S.C.*	088717	B++ bbb+	Stable Stable	B++ bbb	Stable Positive	Bahrain
⇥	P	Travelers Cas & Sur Co of Europe Ltd	087376	NR nr		A++ aa+	Stable Stable	United Kingdom
ASIA PACIFIC								
⇥	P	PASHA Insurance OJSC *PASHA Holding LLC*	095015	NR nr		B+ bbb-	Stable Stable	Azerbaijan
New	P	Post-Telecommunication Joint Stock Ins	092452	B++ bbb	Stable Stable	NR nr		Vietnam
⇥	P	Youi NZ Pty Limited *Rand Merchant Investment Holdings Ltd*	093397	NR nr		B++ bbb	Stable Stable	New Zealand
CARIBBEAN AND LATIN AMERICA								
☑	C	Acerta Compañía de Seguros, S.A. *Grupo Prival, S.A.*	092691	B+ bbb-	Stable Stable	B+ u bbb- u	Negative Negative	Panama
⇥	P	Energy Risk Indemnity Reinsurance Inc. *MLCT Invest Limited*	095287	NR nr		B+ bbb-	Stable Stable	Barbados
⊕	L	Multinational Life Insurance Company *Ancon Investment Corporation*	007447	B++ bbb+	Stable Stable	B++ bbb	Stable Stable	Puerto Rico

Holding Companies

Rating Action	Company Name	AMB#	Current ICR	Current Outlook/ Implications	Previous ICR	Previous Outlook/ Implications	Domicile
⊕	Cincinnati Financial Corporation	058704	a	Stable	a-	Positive	Ohio
⊕	First Acceptance Corporation	051487	ccc+	Stable	cc	Stable	Delaware
⇅	Infinity Property and Casualty Corp	051078	bbb-	Positive	bbb-	Stable	Ohio
⇅	Kemper Corporation	058711	bbb-	Positive	bbb-	Stable	Delaware
—	Unico American Corporation	058482	bb	Stable	bb+	Negative	California

* Ratings were upgraded to B-/bb- from C++/b+ on January 30, 2020. Ratings were withdrawn on January 30, 2020.

Rating Action: (⊕) Upgrade; (—) Downgrade; (New) Initial Rating; (⚑) Under Review; (⇅) Change in Outlook; (⇥) Rating Withdrawal; (☑) Rating Affirmation.
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BEST'S FINANCIAL STRENGTH RATING GUIDE – (FSR)

A Best's Financial Strength Rating (FSR) is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In addition, an FSR may be displayed with a rating identifier, modifier or affiliation code that denotes a unique aspect of the opinion.

Best's Financial Strength Rating (FSR) Scale

Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Superior	A+	A++	Assigned to insurance companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations.
Excellent	A	A-	Assigned to insurance companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations.
Good	B+	B++	Assigned to insurance companies that have, in our opinion, a good ability to meet their ongoing insurance obligations.
Fair	B	B-	Assigned to insurance companies that have, in our opinion, a fair ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Marginal	C+	C++	Assigned to insurance companies that have, in our opinion, a marginal ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Weak	C	C-	Assigned to insurance companies that have, in our opinion, a weak ability to meet their ongoing insurance obligations. Financial strength is very vulnerable to adverse changes in underwriting and economic conditions.
Poor	D	-	Assigned to insurance companies that have, in our opinion, a poor ability to meet their ongoing insurance obligations. Financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions.

* Each Best's Financial Strength Rating Category from "A+" to "C" includes a Rating Notch to reflect a gradation of financial strength within the category. A Rating Notch is expressed with either a second plus "+" or a minus "-".

Financial Strength Non-Rating Designations

Designation Symbols	Designation Definitions
E	Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
F	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
S	Status assigned to rated insurance companies to suspend the outstanding FSR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
NR	Status assigned to insurance companies that are not rated; may include previously rated insurance companies or insurance companies that have never been rated by AM Best.

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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

For the most current version, visit www.ambest.com/ratings/index.html. 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 "Guide to Best's Credit Ratings" available at no charge on the AM Best website. BCRs are proprietary and may not be reproduced without permission.

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GUIDE TO BEST'S ISSUER CREDIT RATINGS – (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 (Long-Term 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 (Short-Term 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.
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Setting a Record

Willis Towers Watson reports insurtech funding volume increased 25% in fourth quarter 2019 compared to the same period in 2018.

Insurtech funding worldwide in the fourth quarter of 2019 reached $1.99 billion, a new record as 75 projects attracted investment in the quarter, according to Willis Towers Watson.

This was a 10% decrease in the number of deals but a 32% increase in funding total from the third quarter, WTW and its affiliate Willis Re said in a quarterly insurtech briefing.

The report said the growth was driven by four mega-rounds (over US$100 million) benefiting Bright Health, Next Insurance, Duck Creek Technologies and WeFox Group, and an additional seven deals over $40 million.

Compared with the fourth quarter of 2018, the deal count in the 2019 quarter rose 17%, and funding volume increased 25%.

In the fourth quarter, the rest of the world "marginally outpaced the U.S., receiving 51% of all investment," the report said. "The 49% of deals that took place in the U.S. marks a four-percentage-point increase from Q3 2019."

> In 2019, "insurtechs began to come to the fore to lead in specific parts of the market, whether in certain lines of business or in the use of particular technologies."
>
> **Andrew Johnston**
> Willis Re

WTW said the United States is still the dominant insurtech market, responsible for 54% of all deals and 67% of all funding since 2012.

"Insurtechs have, however, faced increased competition for funding as foreign competition continues to ramp up," the report said. "China, Germany, the U.K. and France each have 4% or more of deal volume in Q4 2019."

WTW noted Myanmar received its first public deal since the insurtech publication started recording, with an investment into KBZ MS by Mitsui Sumitomo Insurance.

"Russia also received its first public deal this quarter," the report said.

In 2019, "insurtechs began to come to the fore to lead in specific parts of the market, whether in certain lines of business or in the use of particular technologies," said Andrew Johnston, global head of insurtech at Willis Re, in a statement. Johnston said U.K.-based Concirrus for example, "is now clearly the forerunner in behavioral-based analytics for the specialty markets."

"But while insurtech news is awash with the huge valuations and postulations of the art of the possible, there is also a very real story that is not so positive—individual insurtech cessations," said Johnston. "The number is very difficult to calculate, but our data indicates that during the past three years, approximately 184 funded insurtechs might have closed their doors."

Distribution and managing general agents represented 57% of deals in the fourth quarter, WTW said.

"Since 2014, distribution and MGAs have represented over half of all insurtech deals globally," the report said. "B2B companies represented approximately 39% of deals, and less than 7% were full-stack insurers. However, in this latest quarter, we see a slight uptick in deals involving fullstack insurers to 10.7% with B2B deals falling to 32%."

Of total insurtech investments since 2012 by deal count, the United States still dominates with 706, but the the next four countries have "participated significantly," the report said. The United Kingdom has had 118 investment rounds, followed by China with 89, Germany with 59 and India with 47.

Total new worldwide funding commitments to insurtech in 2019 were $6.35 billion, said WTW. The broker's report breaks that total down to $3.52 billion for property/casualty and $2.83 billion for life/health insurtechs.

For the year, early-stage rounds recorded an 8% increase in deals but an 11% decrease in funding, compared with 2018, WTW said. "Mid-stage funding rounds saw a 61% increase in the number of deals and a 57% increase in funding. Late-stage rounds saw a 47% deal increase and a 226% increase in the amount of funding.

Of the 10 insurtech unicorns—privately held insurtech start-ups valued at over $1 billion—five were created in 2019: Wefox, Lemonade, Hippo, Next and Bright Health, said WTW.

—David Pilla

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A Tall Tale

After holding the unofficial title of the world's first skyscraper for more than four decades, the Home Insurance Building that once stood in Chicago may soon be dethroned of that designation.

by Lori Chordas

In the 1950s, author and historian Carl Condit proclaimed in one of his books about American architecture that the Home Insurance Building in Chicago was the world's first predominantly metal-framed skyscraper. For more than 45 years, the iconic building, built in 1885, graced the city's skyline until it was demolished in 1931 to make way for what is today known as the LaSalle National Bank Building.

Now the unofficial title the building once held could soon come crumbling down also.


Photo by Chicago Architectural Photographing Company

Architect William LeBaron Jenney built the Home Insurance Company's headquarters building with what at the time was a revolutionary idea, to use a metal skeleton frame rather than masonry to allow for more durability, stability and a greater height. "Prior to that, most buildings were built with load-bearing construction that placed one stone on top of another and had floors that were supported by these walls and internal columns," said Antony Wood, CEO of the Council on Tall Buildings and Urban Habitat. The council is the same group that several years ago demoted the Willis Tower in Chicago as America's tallest building in favor of New York City's 1,776-foot-high One World Trade Center built in 2014.

Last year, members of the council's network refuted claims that the 12-story Home Insurance Building was the first tall, steel-framed building in the industrial era.

Numerous experts contend that other steel, high-rise buildings in Chicago and New York were built before the mid-1880s. For nearly 40 years, Condit's claims went undisputed, Wood said. "But in the last 20 years there's been a pretty strong backlash by academic professionals who say the building wasn't the first metal-frame skyscraper. In fact, as documentary evidence shows, it wasn't even fully metal-framed but was built with a hybrid construction with other materials such as bricks," he said.

Wood said the decision to potentially strip the Home Insurance Building of its title hinges on the creation of criteria to determine what building meets the architectural specifications of the first skyscraper. Last year during the council's 50th anniversary, Wood and his team put together a symposium of architecture professors and historians to debate their claims and develop benchmarks and standards by which buildings are measured.

"We haven't yet reached a decision but we continue to debate the different criteria upon which to determine the first skyscraper. It may well be the first fully metal-framed building or the first tall building with an elevator," he said.

During the mid-1880s, Home Insurance, which was founded in 1853, hired Jenney to build a lofty, fireproof building for its Chicago headquarters. Prior to its construction, many of the city's wooden structures were destroyed in the 1871 Great Chicago Fire. Jenney's innovative structural engineering design of a steel skeleton building paved the way for how today's skyscrapers are constructed. Today, the only remnant left behind of what was once unofficially the first global skyscraper is a plaque marking the spot where the iconic building once stood. BR

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